

NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTES TO THE BASIC FINANCIAL STATEMENTS

September 30, 2010

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

General Operations

The District of Columbia (the District) was created on March 30, 1791, 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 these provisions of the Constitution, 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's 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 (dba United Medical Center), Housing Finance Agency, and the University of the District of Columbia.

Creation of the Washington Convention and Sports Authority

Effective October 1, 2009, the Sports and Entertainment Commission (SEC) was abolished and the Washington Convention and Sports Authority (WCSA) was created pursuant to section 2081(d) of the fiscal year 2010 Budget Support Act of 2009. Upon creation of WCSA, the authorities, functions, assets, rights and obligations of SEC were transferred to WCSA. This combination of governmental entities is recorded as a contribution of net assets in WCSA's fiscal year 2010 statement of revenues, expenses, and changes in net assets.

Purchase of the United Medical Center

The United Medical Center (UMC) is a 184-bed facility that serves as the primary community health care provider to the southeast area of the District of Columbia and adjacent communities.

Between November 2007 and July 2010, the District provided approximately \$95.9 million in direct and indirect funding to UMC in the form of loans and grants. Despite significant financial support provided by the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

District, UMC’s financial position and operational stability continued to deteriorate. The hospital was unable to pay its liabilities as they came due and lagged behind in servicing its loan payments to the District.

Consequently, the District foreclosed on UMC’s assets pursuant to the Deed of Trust, Security Agreement, Fixture Filing and Restrictive Covenants securing the District loans. The foreclosure auction occurred on July 9, 2010, and the District was the sole bidder, paying \$20 million to acquire the land, buildings, equipment, furnishings, and accounts of UMC. The consideration given by the District was in the form of forgiveness of a portion of the outstanding working capital and acquisition loans owed to the District. Because the remaining outstanding loan balance of \$26,759 is non-recourse debt, the District assumes that collection is doubtful.

Subsequent to the purchase of UMC, the District created the Not-for-Profit Hospital Corporation (the Hospital Corporation) as an independent instrumentality of the District government. The primary purposes of the Hospital Corporation are to receive the land, improvements on the land, equipment, and other assets of UMC; to operate and take all actions necessary to ensure the continued operations of the hospital; and to sell or otherwise transfer all or part of the hospital and site, when a buyer is identified.

Upon foreclosure, the District obtained approximately \$79,290 in cash and investments, receivables, and tangible and intangible assets. Additionally, the District assumed approximately \$3,222 in Internal Revenue Service (IRS) tax liens owed by UMC. Finally, in order to ensure the continued operations of the hospital, the District assumed that it may have to pay a portion of approximately \$27,940 of outstanding liabilities owed by UMC to critical vendors. Simultaneously with the foreclosure, the District made a capital contribution of these net assets to the newly established Hospital Corporation.

The fair value of identifiable net assets acquired and transferred by the District to the Not-for-Profit Hospital Corporation is presented below:

Transfer of UMC’s Assets to Not-For-Profit Hospital Corporation

Identifiable net assets transferred:

Assets	\$ 79,290
Liabilities	<u>31,162</u>
Net assets transferred/ Capital contribution	<u>\$ 48,128</u>

Rationale for Discretely Presenting Entities as Component Units of the District of Columbia

The Hospital Corporation, a legally separate entity, is a discretely presented component unit because the Mayor and Council appoint a voting majority of the Hospital Corporation’s governing board. In addition, the District is able to impose its will on the 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 the Hospital Corporation’s annual operating budgets. Moreover, the Hospital Corporation operates as the United Medical Center, providing healthcare services to District residents and the general public, and thus, does not provide services entirely or almost entirely to the District government.

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 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

dba 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. The District also appoints all members of the governing body of the Tobacco Corporation. Its members are authorized to modify or approve the Tobacco Corporation's budget, and appoint, hire, reassign, or dismiss those persons responsible for the organization's day-to-day operations. In addition, the District is able to impose its will on this organization.

Separate audited financial statements for the Tobacco Corporation are available at the Office of the Chief Financial Officer, 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 of Columbia Housing Authority and the District of Columbia Courts are treated by the District as related organizations because the District is not financially accountable for them. Although the Mayor appoints a voting majority of the Housing Authority's governing board, the District's accountability for this organization does not extend beyond such appointments. The Mayor does not appoint the members of the Courts' Joint Committee on Judicial Administration; however, the courts are considered related organizations because they provide the District with judicial services normally associated with state and local governments.

D. JOINT VENTURE

The District 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. Further information regarding this joint venture is discussed in Note 12 on page 114.

E. BASIS OF PRESENTATION

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

- *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 capital assets, including infrastructure, in the government-wide Statement of Net Assets. The

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

In previous fiscal years, the District also reported the Baseball Capital Projects Fund as a major governmental fund. This fund was used to account for the construction of the new baseball stadium. Construction of the stadium was completed and the facility was placed in service in fiscal year 2008. Since that time, additional costs were incurred and other transactions were entered into to close-out the construction of the stadium. During fiscal year 2010, the miscellaneous expenditures and other remaining account balances of the Baseball Capital Project Fund, all of which were immaterial and non-capital in nature, were transferred to the baseball special revenue fund.

Nonmajor Governmental Funds include six Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund; (2) Tobacco Settlement Financing Corporation (TSFC) Fund; (3) Community Health Care Financing Fund; (4) Housing Production Trust Fund; (5) PILOT Special Revenue Fund, and (6) Baseball Project Fund. Other Nonmajor Governmental Funds include the Highway Trust Fund, a Capital Project Fund; and a debt service fund.

Proprietary Funds are used to account for activities similar to those found in the private sector. The 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- *Nonmajor Proprietary Fund* - used to account for the operations of the JB Johnson Nursing Center.

In previous years, the District also included the operations of the Washington Center for Aging Services (WCAS) and the Washington Center for Aging Services Center Care (WCASCC) in the nonmajor proprietary fund. Although the District retains ownership of the WCAS/WCASCC facility, during fiscal year 2010, the District discontinued its responsibility for operating these entities. On June 30, 2010, the District entered into a long-term ground lease agreement with Stoddard Baptist Home Foundation, Inc. (Stoddard). Through this agreement, Stoddard leased the WCAS/WCASCC facility which is to be used for the operation of a long-term care nursing home and for related nursing home services, adult day care services, dialysis services, and elderly/handicapped transportation services. The lease commitment date was July 21, 2010, and the lease agreement is effective for a term of 30 lease years. The lease was classified as a direct financing lease.

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 the amounts held in its tax-advantaged 529 College Savings Investment Plan, which was established to help families save for the higher education expenses of designated beneficiaries.

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

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

Prior Year Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with 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, 2009, 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 (e.g., 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) governmental activities expenses, (b) business-type activities expenses, and (c) the expenses of component units. Governmental activities expenses 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**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. Unreserved fund balance represents a measure of available, spendable resources.

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

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

The Pension Trust Funds and OPEB Trust Fund 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 an enforceable lien on property as of October 1 of the year after levy.

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 and ending June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

tangible personal property as of July 1 that is taxable in the District of Columbia. Property taxes are levied after the returns are filed. However, if a taxpayer fails to pay property taxes when due, the District does not have a legal claim to the taxpayer's property until after July 31. Failure to pay the levied taxes may result in the District's eventual seizure of the taxpayer's property. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

Other 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.

Food Stamps

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

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

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES**Process**

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

Appropriations Act

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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). Also, a violation of the D.C. Anti-Deficiency Act exists if there is a negative expenditure variance for a particular agency within an appropriation.

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* – these are differences that arise because the basis of budgeting differs from the basis of accounting prescribed by GAAP as indicated in Note 1X on page 72.
- *Entity Differences* – these differences 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 72.

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 (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within the general fund.

Encumbrances

Encumbrance accounting is 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-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 Amendment 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, 2010, the District invested primarily in securities backed by U.S. government agencies with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced 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 remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 "reserved" fund balance in the governmental fund financial statements, to indicate the portion of the net assets or fund balance that is available for restricted purposes only. Restricted assets also 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.

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

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Due To 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**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 asset 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.

Capitalization and Depreciation Policies

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

Table 1 – Estimated Useful Lives (by Asset Class)

	<u>Useful life</u>
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 minimum lease payments payable during the remaining term of the leases, are also recorded in these financial statements.

P. COMPENSATED ABSENCES**Benefit Accumulation Policies**

The District's policy allows employees to accumulate unused sick leave, with no maximum limitation. 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

The District will begin paying principal on its 1994B Capital Appreciation Bonds (CABs) in June 2012, and will make such payments annually through June 2014. There are no periodic interest payments due. The CABs

accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging from 6.00% to 6.65%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

The District 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 4.26% to 5.91%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

The District will pay 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, 2010, the District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

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

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

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

The statement further provides that recognition of intangible assets is only appropriate when they are either separable (e.g. can be sold, transferred, or licensed) or represent contractual or other legal rights regardless of transferability or separability. Implementation of this statement had no material

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

impact on the District's fiscal year 2010 financial statements.

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

Issued in June 2008, this statement requires governments to measure most derivative instruments at fair value in financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. This statement provides specific criteria to be used by governments to determine whether a derivative instrument results in an effective hedge. Changes in fair value for effective hedges that are achieved with derivative instruments are to be recognized in the reporting period to which they relate. Changes in the fair value of these hedging derivative instruments do not affect current investment revenue, but are reported as deferrals in the statement of net assets or the balance sheet. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments for financial reporting purposes. Changes in fair value of those derivative instruments are reported as part of investment revenue in the current reporting period. Implementation of this statement had no material impact on the District's fiscal year 2010 financial statements.

Certain new accounting standards issued by the GASB were not applicable to the District and therefore, were not adopted. Such standards include the following:

Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

Issued in December 2009, this statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. In addition, this statement clarifies the requirements of Statements 43 and 45 related to the coordination of the timing and frequency of OPEB measurements by agent employers and the agent multiple-employer OPEB plans in which they participate.

The District is fully aware of this statement's requirements; however, the provisions of Statement No. 57 are not applicable to the District because the District's plan is a single-employer defined benefit plan administered jointly by the Department of

Human Resources and the Office of Finance and Treasury.

Statement No. 58, Accounting and Financial Reporting for Chapter 9 Bankruptcies

Issued in December 2009, this statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court approves a new payment plan.

The District is fully aware of this statement's requirements; however, the provisions of Statement No. 58 are not applicable to the District because the District government has not petitioned for bankruptcy protection.

S. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

The initial distinction that is being made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This statement also 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, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified in this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement No. 54 is effective for financial statements for periods beginning after June 15, 2010, the District's fiscal year 2011.

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 for the following amendments:

- National Council on Governmental Accounting Statement 4, *Accounting And Financial Reporting Principles For Claims and Judgments And Compensated Absences*, is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting And Financial Reporting For Derivative Instruments*, regarding certain financial guarantees.
- Statement No. 25, *Financial Reporting For Defined Benefit Pension Plans And Note Disclosures For Defined Contribution Plans*, And No. 43, *Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans*, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.
- Statement No. 31 is clarified to indicate that a 2a7-like pool, as described in Statement No. 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.
- Statement No. 40, *Deposit And Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool.

- Statement No. 53 is amended to:
 - Clarify that the net settlement characteristic of Statement No. 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance;
 - Provide that financial guarantee contracts included in the scope of Statement No. 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit;
 - Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement No. 53; and
 - Provide that one of the "leveraged yield" criteria of Statement No. 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield.

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

T. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

assets represent the portion of net assets that must be held in perpetuity in accordance with donor stipulations.

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

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

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

As of September 30, 2010, the District had established the following fund balance reservations and restricted net assets (see **Tables 43a and 43b** on pages 113 and 114).

Reservations

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

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

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

Reserve for Subsequent Year's Expenditures - This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives and other expenditures included in the FY 2011 budget approved by the District Council and Congress.

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

Reserve for Budget - This portion of fund balance represents unused FY 2010 budget reserve amounts that are available until expended.

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

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

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

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Designation

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

Restricted Net Assets

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

U. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

In addition to the pension benefits described in Note 9 and pursuant to D.C. Code §1-621.13, 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 transitioned to a graded contribution schedule in fiscal year 2010. Under the revised schedule, District contributions to the plan are based on the employee's years of creditable District service; however, the District pays no more than 75% 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 110.

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, 2010, there were 506 OPEB Plan participants receiving such benefits, including 358 teachers, police, and firefighters, and 148 general District retirees. During fiscal year 2010, \$5.4 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.

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 \$76,602 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 2010. 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 versus total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The details of the \$1,113,713 difference related to capital outlay are as follows:

Capital outlay capitalized	\$	1,150,971
Less:		
Depreciation expense		(314,938)
Capital asset additions		37,743
Transfer and dispositions		(27,005)
Special Item - Gain from land swap		266,942
Net Adjustment	\$	<u>1,113,713</u>

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 \$449 more in the statement of activities than in the Statement of Revenues, Expenditures and Changes in Fund Balances.

The details of the \$553,215 difference related to long-term liabilities are as follows:

Bonds issued	\$	(1,585,198)
Equipment financing program		(34,162)
Premium on long-term debt		(89,506)
Parks and Recreation notes		(12,500)
Less:		
G.O. Bonds current and advance refunding		828,735
Principal payments on G.O. bonds		156,840
Principal payments on other long-term debt		93,653
Amortization of premium		20,626
Fiscal charges -net		68,297
Net Adjustment	\$	<u>(553,215)</u>

The details of the \$25,979 difference related to the change in accrued liabilities are as follows:

Annual leave	\$	32,940
Future disability benefits		(18,197)
CAB interest accretion		(25,598)
Grant disallowances		(200)
Accrued interest		(19,224)
Claims and judgments		(11,598)
Unfunded pension expenses		2,673
Net OPEB liability		(2,602)
Severance pay		15,827
Net Adjustment	\$	<u>(25,979)</u>

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**X. BUDGETARY COMPARISON STATEMENT – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS**

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

	<u>GENERAL FUND</u>	<u>FEDERAL AND PRIVATE RESOURCES</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS	\$ 58,129	\$ 59,965
Basis differences:		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	(606)	2,930
Transfers - other financing sources/uses	24,640	-
Unclaimed Property adjustment	(8,647)	-
Debt related adjustments	(774)	(282)
Fund balance released from restrictions - a funding source for budgetary purposes but not revenue on a GAAP basis	(138,421)	(14,156)
Loan to Not-for-Profit Hospital Corporation	26,000	-
State education loan program	11,383	-
Other	<u>(2,061)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES - GAAP BASIS	<u>\$ (30,357)</u>	<u>\$ 48,457</u>

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 \$2,767,009 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2010, were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2010, the carrying amount of cash for the primary government and fiduciary funds was \$2,251,525 and the bank balance was \$2,920,282. The carrying

amount of cash (deposits) for the component units was \$515,484 and the bank balance was \$490,640.

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.

NOTE 2. CASH AND INVESTMENTS

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.

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

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

- *Interest Rate Risk* – 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:

<u>Type of investment</u>	<u>Maturity</u>	<u>Maximum investment</u>
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 Federally Insured or Collateralized	Five years	20%
Certificates of Deposit		30%
Money Market Mutual Funds		100%

- *Credit Risk* – 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.
- *Custodial Credit Risk* – custodial credit risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial credit risk exposure during the fiscal year. All District investments in fiscal year 2010 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, 2010, the District was in compliance with this policy.
- *Foreign Currency Risk* – as a general policy of the Retirement Board, investment managers with authority to invest in securities denominated in a foreign currency may reduce exposure to currency risk by systematically hedging foreign currency positions back to U.S. dollars through the foreign currency markets. Because the forward exchange rate is seldom equal to the spot exchange rate, forward hedging gains and losses may arise.

NOTE 2. CASH AND INVESTMENTS

At September 30, 2010, other than the Retirement Board, the District had no exposure to foreign currency risk. At the end of fiscal year 2010, the

Retirement Board held investments that were denominated in a currency other than the United States dollar, as follows:

	Asset Class (in \$000s)					Total
	Cash	Equities	Fixed Income	Private Equity	Swaps	
Australian Dollar	\$ 453	\$ 28,453	\$ 1,342	\$ -	\$ (104)	\$ 30,144
Canadian Dollar	177	19,790	5,372	-	-	25,339
Swiss Franc	181	33,173	-	-	-	33,354
Danish Krone	130	3,088	-	-	-	3,218
Euro	1,359	240,615	18,714	12,524	-	273,212
Pound Sterling	574	78,055	4,779	-	-	83,408
Hong Kong Dollar	76	39,345	-	-	-	39,421
Israeli Shekel	50	2,847	-	-	-	2,897
Japanese Yen	478	126,885	3,466	-	-	130,829
South Korean Won	-	4,054	-	-	-	4,054
Norwegian Krone	134	5,572	-	-	-	5,706
New Zealand Dollar	47	97	-	-	-	144
Swedish Krona	98	23,833	-	-	-	23,931
Singapore Dollar	191	6,663	-	-	-	6,854
Mexican Peso	25	-	-	-	123	148
Brazilian Real	-	-	-	-	656	656
Total Foreign Currency	\$ 3,973	\$ 612,470	\$ 33,673	\$ 12,524	\$ 675	\$ 663,315

Asset Impairment

At September 30, 2010, the District recognized an impairment loss totaling \$56 (\$56 thousand) related to its investment in certain mortgage-backed securities (MBS), in the aggregate.

The purchase cost and market value of these securities, in the aggregate, were \$26,203 and \$17,083, respectively. The total value of the MBS is less than 1% of the total investment holdings. Market values for the MBS are based on pricing provided by an independent valuation service. The District has determined this impairment to be other than temporary because the decline in value has existed for an extended period of time, and is directly related to adverse conditions that are specific to these securities. Various dynamics in the credit-market environment and the illiquidity of some MBS have resulted in declines in the market values of these securities. The District has no current plans to sell these securities. The District expects to continue to receive timely principal and interest payments on these securities, and most of them are rated in the highest rating category

(AAA). As such, the District may recoup some or all of the impairment amount. Mortgage-Backed Securities are prohibited by the District's current investment policy; however, all existing MBS positions were "grandfathered" into the overall investment portfolio.

NOTE 2. CASH AND INVESTMENTS**Table 2a – Cash and Investments Detail**

	<u>Total Carrying Value</u>
INVESTMENTS	
Primary Government:	
U. S. government securities	\$ 177,683
Corporate securities	29,218
Mutual funds	<u>142,550</u>
Total Primary Government	\$ 349,451
Fiduciary Funds:	
Pension trust funds investments held by Board's agent in Board's name:	
Equity securities	2,736,517
Fixed income securities	966,605
Real estate	188,543
Private equity	614,419
Private purpose trust funds investments	<u>146,026</u>
Total Fiduciary Funds	4,652,110
Component Units:	
U. S. government securities	419,267
Corporate securities	56,760
Investment contracts	65,685
Mutual funds	<u>83,137</u>
Total Component Units	624,849
Total reporting entity investments	\$ 5,626,410
CASH BALANCES	
Primary government	\$ 1,856,619
Fiduciary Funds	394,906
Component units	<u>515,484</u>
Total cash balances	\$ 2,767,009

Table 2b – Reconciliation of the District's Deposit and Investment Balances

Total investments per Table 2a	\$ 5,626,410
Total cash balances	<u>2,767,009</u>
Total	\$ 8,393,419

	<u>Exhibit 1-a</u>	<u>Exhibit 4-a</u>	<u>Total</u>
Cash and cash equivalents	\$ 238,349	\$ -	\$ 238,349
Investments	161,159	-	161,159
Cash and cash equivalents (restricted)	2,133,754	394,906	2,528,660
Investments (restricted)	813,141	4,652,110	5,465,251
Total	\$ 3,346,403	\$ 5,047,016	\$ 8,393,419

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 3 presents the fair value balances and notional amounts of the District’s derivative instruments outstanding at September 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the fiscal year 2010 financial statements.

Table 3 - derivative instruments outstanding at September 30, 2010

	Changes in Fair Value		Fair Value at		Notional
	Classification	Amount	Classification	September 30, 2010 Amount	
Governmental Activities:					
Cash flow hedges:					
Floating to fixed interest rate swaps					
2008C Swap	Deferred outflow	\$ (11,972)	Debt	\$ (46,565)	\$ 224,300
2007 A W C Swap	Deferred outflow	\$ (3,625)	Debt	\$ (12,183)	\$ 96,950
2004B Swap	Deferred outflow	\$ (624)	Debt	\$ (3,117)	\$ 38,250
Floating to floating interest rate swaps					
2001C/D Basis Swap	Deferred inflow	\$ 23,151	Debt	\$ 169	\$ 230,455
Interest rate cap					
2006 NCRC Swap	Deferred outflow	\$ -	Debt	\$ -	\$ 45,346

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, Phoenix Capital Partners, LLP. The fair value takes 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 4 presents the objective and terms of the District’s hedging derivative instruments outstanding at September 30, 2010, along with the credit rating of the associated counterparty.

NOTE 2. CASH AND INVESTMENTS**Table 4 – objectives and terms of hedging derivative instruments outstanding at September 30, 2010**

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	12/08/04	06/01/20	Pay fixed rates of 4.598%, 4.701%, 4.794% and 5.121%; receive variable rate payments equivalent to the CPI	Aa2/A+/A
2008 C Swap	Hedge of changes in cash flows on the 2002B Multimodal General Obligation Bonds	\$ 224,300	10/15/02	06/01/27	Pay fixed rate of 3.615%; receive variable rate payments equivalent to BMA Swap Index until 12/01/2004 and at 67% of LIBOR thereafter	A2/A/A
2001 C/D Basis Swap	Reduce basis risk; provide a closer match between the underlying variable rate bonds and variable rate swap receipts from the counterparty	\$ 230,455	06/02/03	06/01/29	Pay 67% of LIBOR; receive variable rate as a percentage of the actual LIBOR reset each month, based on 60% to 90% of LIBOR (Only the net difference in interest payments actually exchanged between counterparties)	Aa1/AA-/AA-
2007 AWC Swap	Hedge of changes in cash flows on the 2007 AWC PILOT Revenue Bonds	\$ 96,950	09/20/07	12/01/21	Pay fixed rate of 4.46%; receive a variable rate that matches the rate on the bond purchased by Wachovia	Aa2/AA/AA-
Rate cap:						
2006 NCRC Swap	Hedge of changes in cash flows on the 2006 NCRC Revenue Bonds	\$ 45,346	02/06/06	02/01/12	Pay premium on bonds; receive payments in an amount by which the interest rate on the bonds exceeds 8.57%	Aa3/A+/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, 2010 were as presented in **Table 4**.

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, 2010, was \$169. 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 BMA swap index decreases, the District's net payment on its pay-fixed, receive variable interest rate swaps increases.

NOTE 2. CASH AND INVESTMENTS*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, 2010, the weighted-average interest rate on the District's hedged variable-rate debt was approximately 0.26%, while the BMA swap index (SIFMA) rate was 0.27% and 67% of LIBOR was 0.17%.

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 is exposed to termination risk on its rate cap because the current mark to market value of the swap is \$32 and as such, the District would be due this amount from the counterparty and 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 2010.

Retirement Board Derivatives

During fiscal year 2010, 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.

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

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

NOTE 2. CASH AND INVESTMENTS

risk is managed by limiting transactions to counterparties with short-term credit ratings of A1 or P1 or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment-grade ratings or by trading on organized exchanges.

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. Market risk is limited to the purchase cost. Credit risk 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 5 presents a list of the District Retirement Funds' derivatives aggregated by type as of September 30, 2010.

Table 5 – Retirement Board Derivative Investments Aggregated by Type

Type of Derivative	Classification	Amount		Notional (3)
		(1)	(2)	
Credit Default Swaps	Investment Income	\$ 772	Swaps \$ 2,640	\$ 95,278
Fixed Income Futures Long	Investment Income	3,676	Futures -	54,600
Fixed Income Futures Short	Investment Income	(4,132)	Futures -	(27,200)
Fixed Income Options Written	Investment Income	2,118	Options (723)	(184,100)
Foreign Currency Options Bought	Investment Income	(573)	Options -	-
Foreign Currency Options Written	Investment Income	93	Options -	-
Futures Options Written	Investment Income	486	Options -	-
FX Forwards	Investment Income	(719)	LT Instruments (1,745)	66,644
Index Futures Long	Investment Income	2,179	Futures -	20,455
Interest Rate Swaps	Investment Income	(523)	Swaps 675	79,060
Rights	Investment Income	(3,053)	Common Stock -	-
TBA Transactions Long	Investment Income	6,625	LT Instruments (345)	153,800
TBA Transactions Short	Investment Income	38	LT Instruments -	-
Warrants	Investment Income	(64)	Common Stock 88	-
Grand Totals		<u>\$ 6,923</u>	<u>\$ 590</u>	

(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

During fiscal year 2010, 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.

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 2010.

During fiscal year 2010, 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

NOTE 2. CASH AND INVESTMENTS

thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2010.

The Quality D Fund invests cash collateral from loans of U.S. and non-U.S. equities, U.S. corporate fixed income securities, U.S. Government securities and sovereign debt. It had a weighted average maturity of 44.24 days and an average expected maturity of 216.27 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

Investments are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. The Quality D Fund may invest in other investment vehicles managed by the master custodian provided they conform to fund guidelines.

As of September 30, 2010, the fair value of securities on loan was \$505,146. Associated collateral totaling \$519,562 was comprised of cash which was invested in the Quality D Fund. As of September 30, 2010, the invested cash collateral had a fair value of \$515,203.

During the fiscal year ended September 30, 2010, 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 \$4,359.

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 2010 was recorded on a cash basis which approximated the accrual basis. For the year ending September 30, 2010, securities lending income was \$3,238 and securities lending expense was \$1,193, resulting in net securities lending income of \$2,045.

NOTE 3. RESTRICTED ASSETS

At September 30, 2010, restricted assets of the primary government, component units, and fiduciary funds totaled \$7,993,911 as summarized in **Table 6**.

Table 6 – Summary of Restricted Assets

	Governmental Funds/Governmental Activities				
	General	Federal & Private Resources	General Capital Improvements	Non-Major	Total
Bond Escrow Accounts	\$ 288,336	\$ -	\$ -	\$ -	\$ 288,336
Public Transportation	-	-	565,523	13,920	579,443
Emergency Cash Reserves	337,945	-	-	-	337,945
Others	5,609	195,297	-	356,734	557,640
Total	\$ 631,890	\$ 195,297	\$ 565,523	\$ 370,654	\$ 1,763,364

	Proprietary Funds/Business-Type Activities			Fiduciary Funds	Component Units
	Lottery & Games	Unemployment Compensation	Total		
Bond Escrow Accounts	\$ -	\$ -	\$ -	\$ -	\$ 776,187
Unpaid Prizes	29,218	-	29,218	-	-
University Endowment	-	-	-	-	34,855
Benefits	-	322,826	322,826	5,047,016	-
Other	-	-	-	-	20,445
Total	\$ 29,218	\$ 322,826	\$ 352,044	\$ 5,047,016	\$ 831,487

The bond escrow accounts include bond escrow for capital lease payment of \$10,715.

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 7.

Table 7 – Receivables

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Lottery & Games	Unemployment Compensation	Nonmajor J.B. Johnson Nursing Center	Fiduciary Funds
Gross Receivable:								
Taxes	\$ 497,872	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-	-	-	-
Accounts and other	306,873	331,492	9,833	30,486	4,969	16,006	2,755	26,757
Federal	25,910	496,130	63,423	-	-	5,505	-	1,321
Total gross receivable	830,655	827,622	73,256	30,486	4,969	21,511	2,755	28,078
Less-allowance for uncollectibles	349,354	250,464	6,137	-	-	-	-	-
Total net receivable	\$ 481,301	\$ 577,158	\$ 67,119	\$ 30,486	\$ 4,969	\$ 21,511	\$ 2,755	\$ 28,078

B. INTERFUND TRANSFERS

Table 8 shows a summary of interfund transfers for the fiscal year ended September 30, 2010.

Table 8 – Summary of Interfund Transfers

TRANSFER FROM (Out)	TRANSFER TO (In)	PURPOSE	AMOUNT
General Fund	Highway Trust Fund	Motor fuel Taxes dedicated to the Highway Trust Fund	\$ 23,278
General Fund	Highway Trust Fund	Taxes imposed for Capital Projects - DDOT	1,691
General Fund	Highway Trust Fund	PAYGO - Capital projects financed by operating funds	4,842
General Fund	Highway Trust Fund	Taxes imposed for Capital Projects - Parking and Storage	9,476
General Fund	Highway Trust Fund	Taxes imposed for Capital Projects - Public Space	3,094
Lottery and Games	General Fund	DC Lottery excess revenues, after operating cost, to the General Fund	66,750
Washington Ctr for Aging Svcs	General Fund	Closeout of Washington Center for Aging Operations	29,874
General Fund	Capital Improvements Fund	PAYGO - Capital projects financed by the General Fund	14,933
General Fund	Capital Improvements Fund	PAYGO - Capital proj financed by the Local Roads Const Maint Fund	30,000
Capital Improvements Fund	Community Healthcare Fund	Tobacco monies for School Modernization Projects	55,933
General Fund	Baseball Special Revenue Fund	Taxes imposed for the Baseball Stadium Project	25,490
General Fund	Tax Increment Financing Fund	Tax imposed to pay debt service on economic development projects	28,599
Federal and Private Resources Fund	General Fund	Revenues generated from the indirect cost recovery assessment	1,589
Capital Improvements Fund	General Fund	Funds for Housing Production debt service payments	2,149
Baseball Special Revenue Fund	Baseball Debt Service Fund	Funds for baseball debt service payments	30,944
Baseball Capital Projects Fund	Baseball Special Revenue Fund	Closeout of the Baseball Capital Projects Fund	3,549
Community Healthcare Fund	General Fund	Community Healthcare financing to assist with gap closing	14,840
General Fund	Federal & Private Resources Fund	Local funds used to satisfy federal grant accounts receivable	259
General Fund	PILOT Special Revenue Fund	Payment in lieu of taxes	5,541
General Fund	Housing Production Trust	Dedicated taxes for Housing Production Trust Fund	30,158
Tax Increment Financing Fund	General Fund	Tax Increment Financing Program to assist with gap closing	9,800
Community Healthcare Fund	Capital Improvements Fund	PAYGO-Capital Projects financed by Community Healthcare	36,244
TOTAL INTERFUND TRANSFERS			\$ 429,033

NOTE 4. RECEIVABLES, INTERFUND TRANSFERS/BALANCES**C. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS**

Due to/due from and interfund receivable and payable balances for each fund and individual component unit at September 30, 2010, are shown in **Table 9**.

Table 9 – Summary of Due To /Due From and Interfund Balances

Fund or Component Unit	Primary Government/ Component Units		Interfund	
	Receivables	Payables	Receivables	Payables
General	\$ 59,873	\$ 12,050	\$ 593,501	\$ 24,051
Federal & Private Resources	-	3,285	37,131	268,790
General Capital Improvements	-	178	73	302,210
Nonmajor-Highway Trust Fund	-	-	3,845	138
Nonmajor-Baseball Special Revenue	1,141	-	1,285	22,689
Nonmajor-Housing Production Trust Fund	-	-	9,306	-
Nonmajor-Tax Increment Financing Fund	-	-	3,837	-
Unemployment Compensation	-	-	5,621	37,131
Agency Fund	-	-	2,292	-
Pension Trust Funds	-	-	-	1,882
Water and Sewer Authority	1,996	2,510	-	-
United Medical Center	-	26,000	-	-
Washington Convention and Sports Authority	8,487	2,422	-	-
University of the District of Columbia	5,030	30,082	-	-
Total	\$ 76,527	\$ 76,527	\$ 656,891	\$ 656,891

The above balances represent the impact of transactions among the funds and component units which will be settled during fiscal year 2011.

NOTE 5. CAPITAL ASSETS**Capital outlays**

Capital outlays reported in the General Capital Improvements and Highway Trust Fund totaled \$1,359,488 for the fiscal year ended September 30, 2010. 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.

District Land Swaps with the Federal Government

Pursuant to the Federal and District of Columbia Government Real Property Act of 2005, Congress authorized the exchange of 29 parcels of land between the federal government and the District. The District will receive title to nine National Park Service (NPS) and two General Services Administration (GSA) properties, including 66 acres around the site of the former D.C. General Hospital, Poplar Point (approximately 100 acres

on the east side of the Anacostia River adjacent to the 11th Street Bridge), 15 acres of the Robert F. Kennedy Stadium parking lot, and four other small Potomac Avenue parcels. The District will also gain administrative jurisdiction (which includes administration and maintenance, but not title) over seven smaller NPS properties.

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

The following properties were transferred to the District during fiscal year 2010: Reservation 13 (lots 801 through 804) and the Old Naval Hospital (located at 921

NOTE 5. CAPITAL ASSETS

Pennsylvania Avenue, S.E.) Consequently, the conveyance of these properties to the District resulted in a total gain of \$266,942 (\$215,157 related to Reservation 13 and \$51,785 related to the Old Naval Hospital), which represents the fair market value of the properties received. These transactions, recorded at fair market value, comprise the special item reported in the statement of activities in the government-wide financial statements.

Pollution Remediation Outlays

Consistent with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, pollution remediation outlays include all direct outlays which may be attributed to pollution remediation activities (e.g., payroll and benefits, equipment and facilities, materials, and legal and other professional services) and may also include estimated indirect outlays (e.g., general overhead). Pollution remediation activities include: (a) pre-clean-up activities (site assessment, site investigation, corrective measures feasibility study, and the design of a remediation plan); (b) clean-up activities; (c) external government oversight and enforcement-related activities; and (d) operation and maintenance of the remedy (post-remediation monitoring).

During fiscal year 2010, the Office of Public Education and Facilities Modernization (OPEFM), which is responsible for the modernization, renovation, and repair of the District of Columbia Public Schools (DCPS), engaged in remediation activities to address immediate public safety concerns arising from pollution. Whenever pollution is found during the course of completing a project at a DCPS facility, OPEFM incorporates the necessary pollution remediation into the work required to comply with relevant building codes and other applicable laws and regulations. During fiscal year 2010, OPEFM's pollution remediation outlays were approximately \$10,295 for asbestos abatement and related air quality monitoring.

Because OPEFM's remediation activities were started and completed during fiscal year 2010, the District had no further associated liability (or material pollution remediation obligation) at September 30, 2010.

A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS

Table 10 presents the changes in the governmental activities capital assets by class for the primary government:

Table 10 - Changes in the Governmental Activities Capital Assets by Asset Class

Asset Class	Balance October 1, 2009	Additions	Transfers/ Dispositions	Transfers from CIP	Balance September 30, 2010
Non-depreciable:					
Land	\$ 594,593	\$ 230,390	\$ 24,937	\$ 66,801	\$ 916,721
Construction in progress	1,860,984	1,150,971	-	(836,765)	2,175,190
Total non-depreciable	2,455,577	1,381,361	24,937	(769,964)	3,091,911
Depreciable:					
Infrastructure	3,872,952	-	-	260,854	4,133,806
Buildings	4,127,147	59,249	(52,360)	456,454	4,590,490
Equipment	1,271,434	15,045	(26,950)	52,656	1,312,185
Total depreciable	9,271,533	74,294	(79,310)	769,964	10,036,481
Less accumulated depreciation for:					
Infrastructure	(1,751,857)	(102,359)	-	-	(1,854,216)
Buildings	(1,091,961)	(74,840)	5,365	-	(1,161,436)
Equipment	(768,473)	(137,739)	22,003	-	(884,209)
Total accumulated depreciation	(3,612,291)	(314,938)	27,368	-	(3,899,861)
Total depreciable, net	5,659,242	(240,644)	(51,942)	769,964	6,136,620
Net governmental activities capital assets	\$ 8,114,819	\$ 1,140,717	\$ (27,005)	\$ -	\$ 9,228,531

NOTE 5. CAPITAL ASSETS**B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS**

Table 11 presents the changes in the governmental activities capital assets by function for the primary government:

Table 11- Governmental Activities Capital Assets by Function

Function	Balance October 1, 2009	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2010
Governmental direction and support	\$ 1,693,367	\$ 216,239	\$ (90,454)	\$ 151,641	\$ 1,970,793
Economic development and regulation	387,936	10,425	22,267	5,012	425,640
Public safety and justice	712,385	6,462	(2,873)	9,860	725,834
Public education system	1,778,517	4,390	(20,572)	260,783	2,023,118
Human support services	764,324	12,830	52,069	97,360	926,583
Public works	4,529,597	54,338	(14,810)	312,109	4,881,234
Construction in progress (CIP)	1,860,984	1,150,971	-	(836,765)	2,175,190
Total	\$ 11,727,110	\$ 1,455,655	\$ (54,373)	\$ -	\$ 13,128,392

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 12.

Table 12 – Governmental Activities Capital Assets Accumulated Depreciation by Function

Function	Balance October 1, 2009	Additions	Transfers/ Dispositions	Balance September 30, 2010
Governmental direction and support	\$ 453,110	\$ 103,768	\$ (1,282)	\$ 555,596
Economic development and regulation	33,447	3,860	(1,285)	36,022
Public safety and justice	325,374	30,082	(7,881)	347,575
Public education system	501,220	38,930	(6,577)	533,573
Human support services	297,782	16,386	(382)	313,786
Public works	2,001,358	121,912	(9,961)	2,113,309
Total	\$ 3,612,291	\$ 314,938	\$ (27,368)	\$ 3,899,861

NOTE 5. CAPITAL ASSETS**D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS**

Business-Type Activities Capital Assets are presented in **Table 13**.

Table 13 - Business-Type Activities Capital Assets

Asset Class	Balance October 1, 2009	Additions	Dispositions/ Adjustments	Balance September 30, 2010
Lottery:				
Depreciable:				
Equipment	\$ 3,251	\$ 250	\$ (109)	\$ 3,392
Total	3,251	250	(109)	3,392
Nonmajor business-type				
Non-depreciable:				
Land	1,264	-	(1,264)	-
Depreciable:				
Building	48,361	-	(36,622)	11,739
Equipment	6,211	12	(4,498)	1,725
Total Depreciable, nonmajor business-type	54,572	12	(41,120)	13,464
Total Business-Type	59,087	262	(42,493)	16,856
Less: accumulated depreciation for:				
Building	(36,361)	(290)	27,843	(8,808)
Equipment	(6,714)	(287)	3,780	(3,221)
Total accumulated depreciation	(43,075)	(577)	31,623	(12,029)
Net capital assets	\$ 16,012	\$ (315)	\$ (10,870)	\$ 4,827

NOTE 5. CAPITAL ASSETS**E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS**

A summary of capital assets by class for the discretely presented component units is shown in **Tables 14 and 15**.

Table 14 - Capital Assets by Class for the Discretely Presented Component Units

Asset Class	Balance October 1, 2009	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2010
Land	\$ 12,889	\$ 8,100	\$ -	\$ -	\$ 20,989
Utility plant	3,157,325	38,817	-	320,983	3,517,125
Buildings and improvements	998,179	61,247	(2)	-	1,059,424
Equipment	190,696	20,467	(4,889)	8,602	214,876
Artwork	2,741	-	-	-	2,741
Construction in progress	438,174	266,907	-	(329,585)	375,496
Total	4,800,004	395,538	(4,891)	-	5,190,651
Less: accumulated depreciation for:					
Utility plant	(805,072)	(54,758)	-	-	(859,830)
Buildings and improvements	(306,788)	(34,598)	-	-	(341,386)
Equipment	(159,082)	(14,333)	4,828	-	(168,587)
Total accumulated depreciation	(1,270,942)	(103,689)	4,828	-	(1,369,803)
Net Capital Assets	\$ 3,529,062	\$ 291,849	\$ (63)	\$ -	\$ 3,820,848

Table 15 - Capital Assets by Component Unit

Component Units	Balance October 1, 2009	Additions	Transfers/ Dispositions	Balance September 30, 2010
University of the District of Columbia	\$ 191,541	\$ 19,840	\$ (105)	\$ 211,276
Washington Convention and Sports Authority	861,149	17,380	59,124	937,653
Water and Sewer Authority	3,680,094	295,315	(2,501)	3,972,908
Sports and Entertainment Commission	61,409	-	(61,409)	-
Housing Finance Agency	5,811	17	-	5,828
Not-for-Profit Hospital Corporation	-	62,986	-	62,986
Total capital assets	4,800,004	395,538	(4,891)	5,190,651
Less-accumulated depreciation for:				
University of the District of Columbia	(121,549)	(5,144)	44	(126,649)
Washington Convention and Sports Authority	(186,979)	(32,405)	(46,710)	(266,094)
Water and Sewer Authority	(910,163)	(64,425)	2,492	(972,096)
Sports and Entertainment Commission	(49,002)	-	49,002	-
Housing Finance Agency	(3,249)	(199)	-	(3,448)
Not-for-Profit Hospital Corporation	-	(1,516)	-	(1,516)
Total accumulated depreciation	(1,270,942)	(103,689)	4,828	(1,369,803)
Net component units capital assets	\$ 3,529,062	\$ 291,849	\$ (63)	\$ 3,820,848

NOTE 5. CAPITAL ASSETS**F. CONSTRUCTION IN PROGRESS**

Construction in progress by function for governmental activities capital assets is shown in **Table 16**.

Table 16- Construction in Progress by Function

Function and Subfunction	Number of Projects	Authorizations	Expenditures			Unexpended Balance	
			Prior Year	Current Year	Transfers from CIP/Disposition		
PRIMARY GOVERNMENT							
Governmental Direction and Support							
Finance	5	\$ 103,930	\$ 5,178	2,722	\$ 3,404	\$ 4,496	\$ 99,434
Executive	3	11,985	6,030	213	-	6,243	5,742
Administrative	122	712,969	148,018	212,085	159,325	200,778	512,191
Total	130	828,884	159,226	215,020	162,729	211,517	617,367
Public Safety and Justice							
Police	10	470,115	18,592	42,880	1,319	60,153	409,962
Fire	31	156,982	40,285	13,172	1,899	51,558	105,424
Corrections	5	35,524	238	3,594	44	3,788	31,736
Total	46	662,621	59,115	59,646	3,262	115,499	547,122
Economic Development and Regulation							
Community Development	30	210,351	30,042	71,445	5,606	95,881	114,470
Total	30	210,351	30,042	71,445	5,606	95,881	114,470
Public Education System							
Schools	136	2,273,847	515,393	268,869	216,484	567,778	1,706,069
Culture	30	100,672	30,574	46,152	44,258	32,468	68,204
Total	166	2,374,519	545,967	315,021	260,742	600,246	1,774,273
Human Support Services							
Health and Welfare	38	478,345	301,050	19,996	1,496	319,550	158,795
Human Relations	3	24,581	5,331	7,491	-	12,822	11,759
Recreation	53	372,886	163,991	45,942	95,804	114,129	258,757
Total	94	875,812	470,372	73,429	97,300	446,501	429,311
Public Works							
Environmental	94	742,006	596,262	416,410	307,126	705,546	36,460
Total	94	742,006	596,262	416,410	307,126	705,546	36,460
Totals	560	\$ 5,694,193	\$ 1,860,984	\$ 1,150,971	\$ 836,765	\$ 2,175,190	\$ 3,519,003

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, 2010, the aggregate outstanding principal amount for these conduit debt obligations was approximately \$4.8 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, 2010, the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was \$89.1 million.

NOTE 7. SHORT-TERM LIABILITIES**TAX REVENUE ANTICIPATION NOTES**

The District issued \$500,000 in Tax Revenue Anticipation Notes (TRANs) on October 30, 2009. 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 2010. 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 2.50%, and matured on September 30, 2010.

Table 17- Changes in Short-Term Liabilities

Account	Balance October 1, 2009	Additions	Deductions	Balance September 30, 2010
Governmental Activities				
Tax Revenue Anticipation Notes	\$ -	\$ 500,000	\$ 500,000	\$ -

NOTE 8. LONG-TERM LIABILITIES**A. LONG-TERM DEBT**

In the government-wide financial statements and proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable 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 \$7,153,618 is shown in **Table 18**.

NOTE 8. LONG – TERM LIABILITIES**Table 18- Changes in Governmental Activities Long-Term Debt of Primary Government**

	General Obligation Bonds	Income Tax Secured Bonds	TIF Bonds	Tobacco Bonds	Ballpark Bonds	COPs	Housing Production Trust	QZAB	NCRC Revenue Bonds	AWC PILOT Revenue Bonds	CAPPER PILOT BANs	Total
Debt Payable at September 30, 2009	\$ 3,766,628	\$ 1,071,785	\$ 96,197	\$ 711,239	\$ 521,750	\$ 251,515	\$ 33,010	\$ 6,044	\$ 39,168	\$ 102,970	\$ -	\$ 6,600,306
Bond and Notes Issued:												
2009D	-	129,620	-	-	-	-	-	-	-	-	-	129,620
2009E	-	501,290	-	-	-	-	-	-	-	-	-	501,290
2010A	-	694,300	-	-	-	-	-	-	-	-	-	694,300
2010B	-	14,040	-	-	-	-	-	-	-	-	-	14,040
2010C	-	126,670	-	-	-	-	-	-	-	-	-	126,670
2010D	-	32,945	-	-	-	-	-	-	-	-	-	32,945
HPTF 2010A	-	-	-	-	-	-	23,190	-	-	-	-	23,190
HPTF 2010B	-	-	-	-	-	-	26,540	-	-	-	-	26,540
HPTF 2010C	-	-	-	-	-	-	3,460	-	-	-	-	3,460
QZAB 2010	-	-	-	-	-	-	-	4,143	-	-	-	4,143
CAPPER Pilot Note	-	-	-	-	-	-	-	-	-	-	29,000	29,000
Total	3,766,628	2,570,650	96,197	711,239	521,750	251,515	86,200	10,187	39,168	102,970	29,000	8,185,504
Debt Payments:												
Principal Matured	156,840	-	4,390	11,460	4,360	10,330	585	669	8,497	6,020	-	203,151
Principal Defeased	828,735	-	-	-	-	-	-	-	-	-	-	828,735
Debt Payable at September 30, 2010	\$ 2,781,053	\$ 2,570,650	\$ 91,807	\$ 699,779	\$ 517,390	\$ 241,185	\$ 85,615	\$ 9,518	\$ 30,671	\$ 96,950	\$ 29,000	\$ 7,153,618

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.

Income Tax Secured Revenue Bonds

The District's Income Tax Secured Revenue Bonds are also 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 in an aggregate amount not to exceed \$2,918,815 to fund the costs of the District's capital projects and to refund outstanding debt. Bonds, as defined in the Act, 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.

NOTE 8. LONG-TERM LIABILITIES**Series 2009D and 2009E**

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

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

Series 2010A and 2010B

On March 25, 2010, the District issued \$694,300 in Income Tax Secured Revenue Refunding Bonds, Series 2010A (Tax-Exempt) and \$14,040 in Income Tax Secured Revenue Bonds, Series 2010B (Federally Taxable), as Senior Bonds pursuant to: (a) the Income Tax Secured Bond Authorization Act of 2008, effective October 22, 2008 (D.C. Law 17-254; D.C. Code §§47-340.26-36) (the Act); (b) a Master Indenture of Trust between the District and Wells Fargo Bank, N.A., as trustee, dated March 1, 2009, as amended and supplemented (the “Master Indenture”) and (c) a Seventh Supplemental Indenture of Trust dated March 1, 2010 (the Seventh Supplemental Indenture), and together with the Master Indenture (the Indenture), executed pursuant to the Act and the “Fiscal Year 2010 Income Tax Secured Revenue Refunding Bond

Issuance Approval Resolution of 2010” relating to the Series 2010A-B Bonds adopted by the Council of the District of Columbia.

The proceeds of the Series 2010A Bonds were used to refund the following outstanding general obligation bonds of the District: Series 1998B, Series 1999A, Series 2001B, Series 2001C, Series 2001D, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2005A, Series 2007C, Series 2008E, and Series 2008F and pay for financing costs of the Series 2010A Bonds, including fees associated with termination of certain interest rate swap agreements related to a portion of the refunded bonds and costs of issuance. The proceeds of the Series 2010B Bonds were used to terminate an interest rate swap agreement related to the Series 2002D General Obligation Bonds, which were refunded by the issuance of the Series 2010A Bonds, and to pay costs of issuance associated with the Series 2010B Bonds.

The Series 2010A and Series 2010B Bonds, the outstanding bonds, and any additional bonds issued under the terms of the indenture will be payable from and secured by a security interest in and a statutory lien on the Trust Estate, consisting primarily of the revenues (including all 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. The Series 2010A Bonds were issued with interest rates ranging from 3.00% to 5.00% with a yield rate ranging from 2.50% to 4.270%. The Series 2010B Bonds were issued with an interest rate of 4.053% with a yield rate of 4.053%.

Series 2010C

On April 1, 2010, the District issued \$126,670 in Income Tax Secured Revenue Refunding Bonds, Series 2010C as Senior Bonds pursuant to: (a) the Income Tax Secured Bond Authorization Act of 2008, effective October 22, 2008 (D.C. Law 17-254; D.C. Code §§47-340.26-36) (the Act), (b) a Master Indenture of Trust between the District and Wells Fargo Bank, N.A., as trustee, dated March 1, 2009, as amended and supplemented (the “Master Indenture”) and (c) an Eighth Supplemental Indenture of Trust dated March 1, 2010 (the Eighth Supplemental Indenture), and together with the Master Indenture, (the Indenture), executed pursuant to the Act and the “Fiscal Year 2010 Income Tax Secured Revenue Refunding Bond Issuance Approval Resolution of 2010” relating to the Series 2010C Bonds adopted by the Council of the District of Columbia.

NOTE 8. LONG – TERM LIABILITIES

The proceeds of the Series 2010C Bonds were used, together with other funds of the District, to: (a) currently refund the outstanding principal amount of the District’s Multimodal General Obligation Refunding Bonds, Series 2008B (Variable Rate Demand Obligations) maturing on June 1, 2034, and (b) pay for financing costs, including financing costs in connection with the substitution on March 26, 2010, of letters of credit in connection with the District’s Series 2008A and 2008D general obligation bonds.

The Series 2010C Bonds, the outstanding bonds and any additional bonds issued under the terms of the indenture will be payable from and secured by a security interest in and a statutory lien on the trust estate, consisting primarily of the revenues (including all 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.

The Series 2010C bonds were issued with an adjusted Securities Industry and Financial Markets Association (SIFMA) rate. The applicable interest rates for the Series 2010C Bonds are SIFMA rate plus 0.02% in 2010 and SIFMA rate plus 0.18% in 2011, making the initial interest rates on the bonds -.31% and -.47%.

Series 2010D

On June 3, 2010, the District issued \$32,945 in Income Tax Secured Revenue Bonds, Series 2010D (Federally Taxable – Qualified School Construction Bonds – Direct Pay to Issuer.) The Series 2010D Bonds were issued as Senior Bonds pursuant to: (a) the Income Tax Secured Bond Authorization Act of 2008, effective October 22, 2008 (D.C. Law 17-254; D.C. Code §§47-340.26-36)(the Act); (b) a Master Indenture of Trust between the District and Wells Fargo Bank, N.A., as trustee, dated March 1, 2009, as amended and supplemented (the “Master Indenture”); and (c) a Ninth Supplemental Indenture of Trust between the District and the Trustee dated June 1, 2010 (the Ninth Supplemental Indenture), and together with the Master Indenture (the Indenture), executed pursuant to the Act and the “Fiscal Year 2010 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Temporary Approval Act of 2009” relating to the Series 2010D Bonds enacted by the Council of the District of Columbia.

The Series 2010D Bonds were issued as Qualified School Construction Bonds as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the Code), and as specified tax credit bonds as defined in Section 6431(f)(3) of the Code. The Series 2010D bonds were also issued under the provisions of the American Recovery and Reinvestment Act of 2009 and the Hiring Incentives to Restore Employment Act of 2010. Interest on the Series 2010D Bonds is not excluded from gross income for purposes of federal income taxation. The District expects to irrevocably elect to receive Qualified School Construction Bonds direct subsidy payments, which are direct cash subsidy payments from the U.S. Treasury relating to the interest payable by the District on the Series 2010D Bonds on each interest payment date. Owners of the Series 2010D Bonds are not entitled to receive a credit against tax imposed by the Code with respect to Series 2010D Bonds. The proceeds of the Series 2010D bonds were used to (a) pay and/or reimburse the District for the costs of Qualified School Construction Projects and (b) pay for financing costs.

The Series 2010D Bonds, the outstanding bonds, and any additional bonds issued under the terms of the Indenture will be payable from and secured by a security interest in and a statutory lien on the Trust Estate, consisting primarily of the revenues (including all 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. The Series 2010D Bonds were issued with an interest rate of 4.996% and will mature on December 1, 2026.

A summary of the debt service requirements to maturity for principal and interest for the Income Tax Secured Revenue Bonds is shown in **Table 19**.

Table 19 – Income Tax Secured Revenue Bonds

Year Ending September 30	INCOME TAX SECURED REVENUE BONDS		
	Principal	Interest	Total
2011	\$ 86,495	\$ 127,424	\$ 213,919
2012	154,090	118,602	272,692
2013	88,025	114,627	202,652
2014	103,030	110,301	213,331
2015	52,265	106,769	159,034
2016 - 2020	336,300	494,628	830,928
2021 - 2025	574,675	382,966	957,641
2026 - 2030	751,020	211,020	962,040
2031 - 2035	424,750	51,487	476,237
Total	\$ 2,570,650	\$ 1,717,824	\$ 4,288,474

NOTE 8. LONG-TERM LIABILITIES**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 4.668%. The weighted average interest rate on the District's variable rate bonds for fiscal year 2010 is 0.264%.

Current and Advance Refunding

The District used the proceeds of the Series 2010A and Series 2010B Income Tax Secured Revenue Refunding Bonds (discussed above), plus original issue premium, to advance refund \$703,080 of outstanding general obligation bonds with fixed and variable interest rates. The refunding, also considered a debt restructuring because it changed the amortization structure of the District's debt portfolio, reduced the District's debt service payments in fiscal year 2010 and other years without extending the final maturity of any particular bond issue. The primary reason for doing this refunding/restructuring transaction was that the substantial reduction in revenues caused by the economic recession pushed the District's debt cap close to its limit, and this transaction allowed the District to continue making important long-term investments in its infrastructure with on-going financing of its Capital Improvements Program, including Schools Modernization. The result of the Series 2010A and Series 2010B Income Tax Secured Revenue Refunding Bonds issuance produced an increase of \$271,068 in future debt service with a minimal economic loss of \$513, given the low interest rates at which the Refunding Bonds were able to be issued.

In addition, the District used the proceeds of its Series 2010C Income Tax Secured Revenue Refunding Bonds (discussed above) to currently refund \$125,655 of outstanding series 2008B General Obligation Bonds with a variable interest rate. The net proceeds from the issuance of the Series 2010C Bonds were used to redeem the Series 2008B General Obligation Bonds on April 1, 2010. The District completed the refunding to reduce the present value of its total debt service payments over the next 19 years. The result of the Series 2010C Income Tax Secured Revenue Refunding Bonds produced a reduction of \$28,428 of future debt service with an economic gain of \$22,187.

Variable Rate Demand Bond Program

As of September 30, 2010, the District had three outstanding series of General Obligation Variable Rate Demand Obligations (VRDO) with an aggregate principal amount of \$398,155. 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.

NOTE 8. LONG – TERM LIABILITIES

Table 20 summarizes each of the outstanding VRDO series and certain of the terms and conditions of each supporting LOC and reimbursement agreement.

Table 20 – Outstanding Variable Rate Demand Obligations

Series	Par Outstanding	Final Maturity	Reset Mode / Payment Frequency	LOC Provider	LOC Issue Date	LOC Expiration Date
2008A	\$59,970	06/01/26	7-Day Reset Monthly Pay	Bank of America	03/26/10	03/26/13
2008C-1	\$67,195	06/01/29	7-Day Reset Monthly Pay	TD Bank	11/19/09	11/19/12
2008C-2	\$157,105	06/01/31	7-Day Reset Monthly Pay	JP Morgan	11/19/09	09/03/11
2008D	\$113,885	06/01/34	7-Day Reset Monthly Pay	Wells Fargo Bank	03/26/10	03/26/13

Note: The Annual Letter of Credit Fees range from 107 basis points to 145 basis points per annum based on outstanding principal.

Hedging Derivative Instrument Payments and Hedged Debt

Table 21 presents aggregate debt service requirements of the District's debt and net receipts/payments on associated hedging derivative instruments as of September 30, 2010. 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 21 – Aggregate Debt Service Requirements and Net Receipts/Payments On Hedging Derivative Instruments

Fiscal Year Ending September 30	Hedging			Total
	Principal	Interest	Derivatives, Net	
2011	\$ -	\$ 1,495	\$ 8,649	\$ 10,144
2012	-	1,495	8,649	10,144
2013	-	1,495	8,650	10,145
2014	9,135	1,495	8,650	19,280
2015	9,590	1,286	8,438	19,314
2016-2020	43,975	4,357	40,080	88,412
2021-2025	137,125	1,913	25,334	164,372
2026-2030	62,725	246	3,262	66,233
Total	\$ 262,550	\$ 13,782	\$ 111,712	\$ 388,044

TIF Notes and Bonds

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

Table 18 as long-term debt of the District.

Embassy Suites Hotel

In 2004, the District issued TIF Notes to finance the Embassy Suites Hotel. The \$11,000 Embassy Suites Hotel TIF Note, which had an interest rate of 5.00%, was paid in full on November 16, 2009.

NOTE 8. LONG-TERM LIABILITIES

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

In March 2006, the Mayor executed the first Downtown Retail Priority Area TIF Note. The H & M TIF Note, which matures on March 1, 2016, or upon payment in full, is for approximately \$2,996 with an 8.00% interest rate. In May 2008, the Mayor executed two additional notes, one for Zara, which matures on June 1, 2018, or upon payment in full, for \$1,750 at a 5.50% interest rate, and one for West Elm, which was to also mature on June 1, 2018, or upon payment in full, for \$5,000 at a 5.50% interest rate. Because the West Elm store, which was the subject of the development agreement, closed for business on March 23, 2010, the development agreement was terminated and the associated TIF note was cancelled during fiscal year 2010. In September 2008, the Mayor executed the fourth Downtown Retail Priority Area TIF Note for the National Crime and Punishment Museum for \$3,000, also at a 5.50% interest rate. This TIF Note matures on October 1, 2018. In December 2008, the Mayor also executed the Madame Tussauds TIF Note under the Downtown Retail Priority TIF Program, for \$1,300 at a 4.50% interest rate. This TIF Note matures on December 1, 2018.

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. However, if the incremental revenues are sufficient to pay the principal and interest expense on the TIF Notes when due, the District must pay the amount of any previous shortfall(s) to the Development Sponsor without any penalty interest or premium thereon.

Capitol Hill Towers

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

Verizon Center

In December 2007, the District issued \$50,000 in taxable financing notes to finance upgrades at the Verizon Center. The 2007A Note was issued in the amount of \$43,570 at a fixed interest rate of 6.734% and matures on August 15, 2047. The 2007B note was issued in the amount of \$6,430 at a fixed interest rate of 6.584% with a maturity date of August 15, 2027. These notes are a special limited obligation of the District and are secured by a portion of the taxes on certain on-site personal property, services

and public ticket sales at the Verizon Center. In the event such taxes are not sufficient, the notes are further secured by incremental increases in the Downtown TIF Area, which are subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance Gallery Place and the Mandarin Oriental Hotel.

Shakespeare Theatre

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

Waterfront Arts Project

The Waterfront Arts Project TIF Note was issued in May 2009 for \$10,000 to help finance the expansion of the Arena Stage. The TIF Note is held in escrow pending the completion of the project. The TIF Note is to be paid in a lump sum on May 8, 2014, from available incremental revenues from the Downtown TIF Area. The interest rate on this Note is 4.66%.

Great Streets Retail Priority Areas

In September 2009, the Mayor executed the first Great Streets TIF, the Georgia Avenue Retail Project Great Streets TIF Note in the amount of approximately \$1,935. The 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.

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

NOTE 8. LONG-TERM LIABILITIES

sales and real property tax revenues from the respective projects and secondarily by incremental tax revenues from a Downtown TIF Area.

Tables 22 and 23 show the summary of debt service requirements for *Gallery Place and Mandarin Oriental Hotel*.

Table 22 - Summary of Debt Service Requirements for Gallery Place TIF Bond

Year Ending September 30	GALLERY PLACE		
	Principal	Interest	Total
2011	\$ 1,740	\$ 3,464	\$ 5,204
2012	1,835	3,370	5,205
2013	1,930	3,272	5,202
2014	2,035	3,165	5,200
2015	2,150	3,054	5,204
2016-2020	12,665	13,358	26,023
2021-2025	16,375	9,640	26,015
2026-2030	21,156	4,861	26,017
2031-2035	4,935	266	5,201
Total	\$ 64,821	\$ 44,450	\$ 109,271

Table 23 - Summary of Debt Service Requirements for Mandarin Oriental Hotel TIF Bond

Year Ending September 30	MANDARIN ORIENTAL HOTEL		
	Principal	Interest	Total
2011	\$ 2,583	\$ 1,921	\$ 4,504
2012	2,434	2,070	4,504
2013	2,292	2,217	4,509
2014	2,148	2,356	4,504
2015	2,014	2,495	4,509
2016-2020	8,281	14,245	22,526
2021-2025	7,234	1,780	9,014
Total	\$ 26,986	\$ 27,084	\$ 54,070

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, 2010, \$451,515 remained outstanding.

In 2006, the Tobacco Corporation issued its Tobacco Settlement Asset-Backed Bonds, Series 2006, the principal amount of which was \$248,264. Bond proceeds were used to pay: (i) the cash portion of the purchase price for the Residual Tobacco Assets; and (ii) certain costs of issuance related to the Series 2006 Bonds. The payment of these bonds is secured by the District's distribution under the November 1998 Master Settlement Agreement (MSA). As such, the Series 2006 Bonds are secured and payable solely from: (i) the residual annual and strategic contribution fund payments (TSRs) and all future aid, rents, fees, charges, payments, investment earnings and other income and receipts with respect to the pledged TSRs; (ii) all rights to receive revenues and 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 2010, the amount outstanding as of September 30, 2010, 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, 2010, the total outstanding balance for all Tobacco Bonds as shown in **Table 24** was \$699,779.

NOTE 8. LONG-TERM LIABILITIES

Summary of debt service requirements for general obligation and tobacco bonds to maturity is shown in **Table 24**.

Table 24 - Summary of Debt Service Requirements for General Obligation and Tobacco Bonds to Maturity

Year Ending September 30	General Obligation Bonds		Tobacco Bonds		Total
	Principal	Interest	Principal	Interest	
2011	\$ 132,785	\$ 127,379	\$ 18,295	\$ 29,456	\$ 307,915
2012	49,223	140,489	16,515	28,330	234,557
2013	48,075	140,529	17,510	27,337	233,451
2014	36,350	132,179	19,060	26,279	213,868
2015	98,425	115,552	18,980	25,119	258,076
2016 - 2020	543,580	505,243	120,930	105,133	1,274,886
2021 - 2025	648,705	366,412	161,760	59,702	1,236,579
2026 - 2030	490,975	222,907	78,465	5,296	797,643
2031 - 2035	528,945	117,126	-	-	646,071
2036 - 2040	203,990	14,125	-	-	218,115
2046 - 2050	-	-	159,733	1,697,592	1,857,325
2056 - 2060	-	-	88,531	2,478,469	2,567,000
Total	\$ 2,781,053	\$ 1,881,941	\$ 699,779	\$ 4,482,713	\$ 9,845,486

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, 2010, the total amount of defeased debt outstanding held by the escrow agent was \$536,735. This amount has been removed from the government-wide financial statements. As presented in **Table 25**, the amount of bonds defeased through fiscal year 2010 refundings was \$828,735.

Table 25- Summary of Defeased Bonds in FY 2010

**GENERAL OBLIGATION BONDS IN FY2010
Defeased by Income Tax Secured Revenue Bonds,
Series 2010A and 2010 B and 2010C
SIFMA Notes**

Bond Series Refunded	Interest Rate	Refunded Amount
1998B	5.75%	\$ 31,860
1999A	5.50%	7,810
2001B	5.50%	1,510
2003A	5.00% - 5.50%	51,875
2003B	5.00%	40,875
2004A	3.25% - 5.25%	32,095
2005A	5.00%	76,580
2007C	4.00% - 5.00%	38,410
2008E	4.00% - 5.00%	53,670
2008F	4.00% - 4.50%	5,310
2001C	Various	170,895
2001D	Various	67,195
2002D	Various	124,995
2008B	Various	125,655
		\$ 828,735

NOTE 8. LONG - TERM LIABILITIES

Ballpark Revenue Bonds

On May 15, 2006, the District issued Ballpark Revenue Bonds in the principal amount of \$534,800. This offering includes the issuance of Taxable Series 2006A-1 bonds in the principal amount of \$78,425 and the issuance of Taxable Series 2006A-2 bonds in the principal amount of \$76,410 (the Series 2006A-1 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 26** 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 26 - Summary of Debt Service Requirements for Ballpark Revenue Bonds

Year Ending September 30	BALLPARK BONDS		
	Principal	Interest	Total
2011	\$ 4,540	\$ 27,012	\$ 31,552
2012	4,915	26,788	31,703
2013	5,680	26,533	32,213
2014	6,835	26,218	33,053
2015	7,685	25,841	33,526
2016-2020	52,940	121,941	174,881
2021-2025	83,500	104,508	188,008
2026-2030	125,225	77,364	202,589
2031-2035	181,430	37,029	218,459
2036-2040	44,640	1,144	45,784
Total	\$ 517,390	\$ 474,378	\$ 991,768

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 3.387%.

The District intends to issue additional HPTF revenue bonds in future years to fund other New Communities projects.

NOTE 8. LONG-TERM LIABILITIES

Table 27 details the annual funding requirements necessary to repay the outstanding bonds.

Table 27 - Summary of Debt Service Requirements for Housing Production Trust Fund

Year Ending September 30	HOUSING PRODUCTION TRUST FUND		
	Principal	Interest	Total
2011	\$ 1,280	\$ 3,502	\$ 4,782
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
2016-2020	9,970	17,907	27,877
2021-2025	12,615	15,258	27,873
2026-2030	16,050	11,820	27,870
2031-2035	20,340	7,538	27,878
2036-2040	18,875	2,558	21,433
Total	\$ 85,615	\$ 74,396	\$ 160,011

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 \$3,583 into a sinking fund in fourteen equal annual amounts of \$256 beginning December 1, 2002. At September 30, 2010, the District had deposited \$2,047 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 \$2,662 into a sinking fund in fifteen equal annual amounts of \$177 beginning December 1, 2006. At September 30, 2010, the District had deposited \$710 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, 2010, the District had deposited \$472 into the required sinking fund.

- On June 30, 2010, the District issued QZAB Series 2010 as a taxable general obligation bond. The District received \$4,143 and is obligated to deposit a total amount of \$4,143 into a sinking fund in fifteen equal annual amounts of \$276 beginning December 1, 2010.

A summary of debt service requirements to maturity for QZAB is shown in **Table 28**.

Table 28 - Summary of Debt Service Requirements for QZAB

Year Ending September 30	QZAB Principal
2011	\$ 945
2012	946
2013	946
2014	945
2015	945
2016-2020	3,232
2021-2025	1,559
Total	\$ 9,518

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 2010, in addition to mandatory sinking fund payments, the District paid \$7,510 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.

NOTE 8. LONG - TERM LIABILITIES

A summary of the debt service requirements to maturity for principal and interest for the NCRC revenue bonds is shown in **Table 29** and has been calculated with a 4.949% interest rate for illustration purposes.

Table 29 - National Capital Revitalization Corporation Revenue Bonds Debt Service Requirements to Maturity

Year Ending September 30	National Capital Revitalization Corporation		
	Principal	Interest	Total
2011	\$ 1,038	\$ 1,327	\$ 2,365
2012	1,091	1,446	2,537
2013	1,147	1,387	2,534
2014	1,205	1,329	2,534
2015	1,267	1,268	2,535
2016-2020	7,377	5,313	12,690
2021-2025	17,546	2,422	19,968
Total	\$ 30,671	\$ 14,492	\$ 45,163

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

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

A summary of the debt service requirements to maturity for principal and interest for the AWC PILOT Revenue Bonds is shown in **Table 30**.

Table 30 - Anacostia Waterfront Corporation PILOT Revenue Bonds Debt Service Requirements to Maturity

Year Ending September 30	Anacostia Waterfront Corporation		
	Principal	Interest	Total
2011	\$ 6,290	\$ 4,258	\$ 10,548
2012	6,575	3,974	10,549
2013	6,875	3,678	10,553
2014	7,180	3,367	10,547
2015	7,510	3,044	10,554
2016-2020	42,935	9,820	52,755
2021-2025	19,585	988	20,573
Total	\$ 96,950	\$ 29,129	\$ 126,079

Capper PILOT Revenue Bond Anticipation Notes

On March 22, 2010, the District issued \$29,000 in PILOT Revenue Bond Anticipation Notes (Arthur Capper/Carrollsborg 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 be 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/Carrollsborg public improvements, (b) provide funding for the construction of additional Capper/Carrollsborg 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/Carrollsborg PILOT Area; (b) to the extent the pledged pilot payments are insufficient to pay principal and interest when due on the notes, available increment from the Downtown TIF Area; 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.

NOTE 8. LONG-TERM LIABILITIES

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 31**.

Table 31 - Capper PILOT Revenue Bond Anticipation Notes Debt Service Requirements to Maturity

Year Ending September 30	Capper PILOT Revenue Bond Anticipation Notes		
	Principal	Interest	Total
2011	\$ -	\$ 1,357	\$ 1,357
2012	-	1,160	1,160
2013	29,000	580	29,580
Total	\$ 29,000	\$ 3,097	\$ 32,097

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, District general obligation bonds totaling \$1,490 are reflected in WASA's financial statements.

WASA derives part of its funding for future capital projects from the issuance of revenue bonds, District general obligation bonds, notes payable to the federal government and various other non-debt sources of financing. The public utility revenue bonds and notes payable to the federal government for the Washington Aqueduct are considered senior debt. Notes payable to the federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. There were no outstanding notes to the federal government for the Washington Aqueduct at the end of fiscal year 2010. Debt outstanding at September 30, 2010, totaling \$1,252,519 included net unamortized bond premiums of \$11,759 and a remaining principal balance of \$1,240,760.

Table 32 presents the debt service requirements to maturity for principal and interest for WASA's outstanding bonds.

Table 32 – Water and Sewer Authority Debt Service Requirements to Maturity

Year Ending September 30	Water and Sewer Authority		
	Principal	Interest	Total
2011	\$ 17,793	\$ 64,063	\$ 81,856
2012	18,721	63,087	81,808
2013	19,692	62,064	81,756
2014	20,749	60,966	81,715
2015	21,888	59,781	81,669
2016 - 2020	128,822	279,086	407,908
2021 - 2025	167,430	239,514	406,944
2026 - 2030	205,838	189,948	395,786
2031 - 2035	247,256	131,981	379,237
2036 - 2040	321,343	55,730	377,073
2041 - 2045	71,228	2,014	73,242
Subtotal	1,240,760	1,208,234	2,448,994
Add: Unamortized Bond Premium-Net	11,759	-	11,759
Total	\$ 1,252,519	\$ 1,208,234	\$ 2,460,753

Commercial Paper Note Payable

NOTE 8. LONG – TERM LIABILITIES

In November 2001, WASA closed on its \$100 million commercial paper program. This program provides 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.

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 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 \$29.2 million in outstanding taxable commercial paper at the end of fiscal year 2010. **Table 33** presents a schedule of commercial paper activity for the year ended September 30, 2010.

Table 33 – FY 2010 Commercial Paper Activity

Description	Balance at October 1, 2009	Addition	Deduction	Balance at September 30, 2010
Series C, (taxable), interest ranges from 2% to 28%	\$ 29,200	\$ -	\$ -	\$ 29,200
Total Commercial Paper	\$ 29,200	\$ -	\$ -	\$ 29,200

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.

A summary of WCSA’s debt service requirements to maturity for principal and interest is shown in **Table 34**.

NOTE 8. LONG-TERM LIABILITIES**Table 34 – Washington Convention and Sports Authority Debt Service Requirements To Maturity**

Year Ending September 30	Washington Convention and Sports Authority		
	Principal	Interest	Total
2011	\$ 12,700	\$ 21,655	\$ 34,355
2012	13,265	21,055	34,320
2013	13,865	20,376	34,241
2014	14,545	19,686	34,231
2015	15,235	18,988	34,223
2016 - 2020	87,955	82,282	170,237
2021 - 2025	111,860	57,355	169,215
2026 - 2030	141,520	26,451	167,971
2031 - 2035	48,505	3,936	52,441
2036 - 2040	9,225	212	9,437
Subtotal	468,675	271,996	740,671
Less: Unamortized Bond Discount - Net	(2,677)	-	(2,677)
Total	\$ 465,998	\$ 271,996	\$ 737,994

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 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 35**.

NOTE 8. LONG – TERM LIABILITIES**Table 35- Housing Finance Agency Debt Service Requirements to Maturity**

Year Ending September 30	Principal	Interest	Total
2011	\$ 32,673	\$ 42,847	\$ 75,520
2012	31,016	41,406	72,422
2013	19,728	40,373	60,101
2014	14,008	39,666	53,674
2015	17,130	38,850	55,980
2016-2020	91,730	180,450	272,180
2021-2025	146,176	152,056	298,232
2026-2030	104,106	113,025	217,131
2031-2035	117,820	83,263	201,083
2036-2040	131,382	50,981	182,363
2041-2045	117,304	22,497	139,801
2046-2050	37,468	6,693	44,161
2051-2055	87,698	494	88,192
2056-2060	567	366	933
Subtotal	948,806	812,967	1,761,773
Add: Unamortized Bond Premium, net	6,959	-	6,959
Total	\$ 955,765	\$ 812,967	\$ 1,768,732

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. As of September 30, 2010, HFA did not request and receive any advances under either of these lines of credit with PNC Bank.

B. OTHER LONG-TERM LIABILITIES**Certificates of Participation**

In 2002, Certificates of Participation (COPs) were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District agreed in the lease agreement to make lease payments (the "lease payments"), which are expected to be sufficient to pay the principal of and interest on the COPs. The District has \$21,990 of outstanding COPs issued by a trust in 2002 with a final maturity of 2013. The 2002 COPs were used to finance the acquisition of certain real property located in the District at 441 Fourth Street, N.W. the debt service requirements on these COPs are included in capital leases payable (see Note 14C).

In 2003, Certificates of Participation (COPs) were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District has \$55,240 of outstanding COPs issued by a trust in 2003 with a final maturity of 2023, as shown in **Table 36a**. 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 4.71%.

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 36b**. The COPs' proceeds are being used to fund a portion of the cost of the design and construction of the hospital, which is estimated to cost approximately \$208 million. Of this amount, \$184,200 will be financed with COP proceeds and interest earnings thereon. In addition, COP proceeds are being used to fund the purchase of the DMV building from its current owner for \$15,300 and \$3,100 of improvements to include: parking enhancements, window

NOTE 8. LONG-TERM LIABILITIES

replacement, elevators, a loading dock, and access to the adjacent inspection facility. The District has \$185,945 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 4.51%.

Table 36a - Summary of Debt Service Requirements for COP- Public Safety Communications Center

Year Ending September 30	Emergency Preparedness Communications Center & Related Technology (COP)		
	Principal	Interest	Total
2011	\$ 3,100	\$ 2,703	\$ 5,803
2012	3,255	2,544	5,799
2013	3,405	2,395	5,800
2014	3,545	2,256	5,801
2015	3,720	2,082	5,802
2016-2020	21,995	7,009	29,004
2021-2024	16,220	1,180	17,400
Total	\$ 55,240	\$ 20,169	\$ 75,409

Table 36b - Summary of Debt Service Requirements for COP- St Elizabeth/DMV Building

Year Ending September 30	St Elizabeth/DMV Building (COP)		
	Principal	Interest	Total
2011	\$ 7,750	\$ 9,069	\$ 16,819
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
2016-2020	55,640	28,464	84,104
2021-2025	70,920	13,177	84,097
2026	16,410	410	16,820
Total	\$ 185,945	\$ 83,168	\$ 269,113

A summary of changes in other long-term liabilities for governmental activities is shown in **Table 37**.

Table 37 - Changes in Other Long-Term Liabilities

Account	Balance October 1, 2009	Additions	Deductions	Balance September 30, 2010
Governmental Activities:				
Accrued disability compensation (Note 15)	\$ 142,316	\$ 45,268	\$ (27,071)	\$ 160,513
Accumulated annual leave	179,552	2,704	(35,644)	146,612
Grant disallowances	69,610	200	-	69,810
Claims & judgments (Note 15)	58,837	35,310	(23,712)	70,435
Equipment financing program (Note 14)	118,515	34,162	(38,957)	113,720
Accreted interest	107,444	25,597	-	133,041
Capital leases payable (Note 14)	44,492	-	(8,384)	36,108
Total	\$ 720,766	\$ 143,241	\$ (133,768)	\$ 730,239
Business-Type Activities:				
Obligation for unpaid prizes	\$ 35,153	\$ 1,471	\$ (7,406)	\$ 29,218

NOTE 8. LONG – TERM LIABILITIES**C. CURRENT & LONG-TERM PORTIONS OF LONG-TERM LIABILITIES**

Table 38 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 38 – Current & Long-Term Portions of Long-Term Liabilities

Type of Liability	Current Portion	Long-Term Portion	Total
Governmental Activities:			
General obligation bonds	\$ 132,785	\$ 2,648,268	\$ 2,781,053
Income tax secured revenue bonds	86,495	2,484,155	2,570,650
Premium on long-term debt	7,212	215,730	222,942
TIF bonds	4,323	87,484	91,807
QZAB	945	8,573	9,518
Capital leases	8,675	27,433	36,108
Tobacco bonds	18,295	681,484	699,779
Ballpark bonds	4,540	512,850	517,390
Annual leave	95,884	50,728	146,612
Disability compensation	-	160,513	160,513
Equipment financing program	39,574	74,146	113,720
Accreted interest	-	133,041	133,041
Grant disallowances	-	69,810	69,810
Claims and judgments	-	70,435	70,435
Housing production trust fund	1,280	84,335	85,615
Verizon	-	4,494	4,494
Unfunded pension expenses	-	5,609	5,609
COPs	10,850	230,335	241,185
PILOT revenue bonds (AWC & NCRC)	7,328	120,293	127,621
CAPPER PILOT bond anticipation notes	-	29,000	29,000
OPEB liability	-	44,703	44,703
Parks and Recreation notes	3,125	9,375	12,500
Total	\$ 421,311	\$ 7,752,794	\$ 8,174,105
Business-Type Activities:			
Obligation for unpaid prizes	\$ 6,873	\$ 22,345	\$ 29,218

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, 2010, MUSL purchased, for the Lottery, U.S. government securities totaling \$30,526 to fund future installment payments to winners.

The market value of these securities at September 30, 2010, was \$29,218. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statement of net assets.

NOTE 9. RETIREMENT PROGRAMS**A. DEFINED BENEFIT PENSION PLANS**

District full-time employees receive pension benefits 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 Civil Service Retirement System (CSRS), a cost-sharing multiple-employer public employee retirement system, administered by the federal government's Office of Personnel Management (OPM). Permanent full-time District employees hired before October 1, 1987, except those covered by the District Retirement Program, are covered by CSRS, which provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. In fiscal year 2010, there were 3,008 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, 2010, 2009, and 2008, were \$15,076, \$17,513 and \$20,388, respectively.

*Social Security System***Plan Description**

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

Funding Policy

Consistent with the Federal Insurance Contributions Act (FICA), a 6.20% Social Security tax is withheld from the

gross salary/wage amount of District employees, up to but not exceeding the applicable social security wage base, which was \$106,800 (not in thousands) for 2010. In addition, the District also pays a 1.45% payroll tax for Medicare with an additional 1.45% being withheld from each employee's salary/wages. District contributions to the Social Security System for FICA, for the years ended September 30, 2010 and 2009, were \$67,815 and \$65,653, respectively. In addition, District contributions for Medicare for fiscal years 2010 and 2009 were \$27,340 and \$26,101, respectively.

*District Retirement Programs***Plan Description**

The Retirement Board administers the District's Retirement Programs (D.C. Code §4-601, 11-1561, 31-120), which 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

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.

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

The District is required to contribute the remaining amounts necessary to finance the coverage of its

NOTE 9. RETIREMENT PROGRAMS

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 2010, 2009 and 2008, 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 \$519,000 for the year ended September 30, 2010, and have been reported as intergovernmental revenue. Related

expenditures of \$410,010 and \$108,990 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 2010. However, in that year, the District made its actuarially required contribution of \$132,300 to the Police and Firefighters Pension Plan.

The District's annual pension cost and net pension obligation to these plans for fiscal year 2010 are presented in **Table 39**.

Table 39 - Annual Pension Cost and Net Pension Obligation

	Teachers	Police and Firefighters
Annual required contribution (ARC)	\$0	\$132,300
Interest on net pension obligation	\$0	\$0
Adjustment to ARC	\$0	\$0
Annual pension cost	\$0	\$132,300
Contributions made	\$0	\$132,300
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 40 presents three-year trend information regarding annual pension cost, percentage of annual pension cost contributed, and net pension obligation.

Table 40 - Three Year Trend Information

Fiscal Year Ending	Teachers			Police and firefighters		
	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/10	\$0	N/A	\$0	\$132.3	100%	\$0
09/30/09	\$0	N/A	\$0	\$106.0	100%	\$0
09/30/08	\$6.0	100%	\$0	\$137.0	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 includes the following:

Fiscal Year 2010	
Valuation date	October 1, 2009
Actuarial cost method for contributions	Aggregate
Actuarial cost method for accrued liabilities	Entry Age Normal
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Actuarial value: 1/7 excess earnings subtracted from expected actuarial value
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases:	
Police officers and fire fighters	5.30% - 10.00%
Teachers	5.00% - 8.90%
Includes inflation at	4.25%
Cost of living adjustments (COLAs)	4.25%
COLAs	Limited to
(for post November 10, 1996 hires)	3.00%

Funded Status and Funding Progress

As of October 1, 2009, the most recent actuarial valuation date, the Teachers', Police Officers' and Firefighters' Pension Plan was 103.74% funded. The actuarial accrued liability for benefits was \$4,332 and the actuarial value of assets was \$4,493 resulting in a negative unfunded actuarial accrued liability (UAAL), or funding excess, of (\$161). The covered payroll (annual payroll of active employees covered by the plan) was \$773 and the ratio of the UAAL to the covered payroll was -20.8%. (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.

Contribution Receivable

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

The actuary used the Entry Age Normal method to estimate the amount receivable from the District of Columbia. The total actuarial impact including interest through October 1, 2011, is estimated to be approximately \$9,000 (9 million). The District accrued this amount in its government-wide financial statements as of September 30, 2009. As of September 30, 2010, the remaining balance was \$5,609.

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 2010, there were 14,923 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 year ended September 30, 2010,

NOTE 9. RETIREMENT PROGRAMS

District contributions to the plan were \$43,167.

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, and the Not-for-Profit Hospital Corporation are covered under their own separate defined contribution plans.

C. DEFERRED COMPENSATION PLANS**Internal Revenue Code Section 403 Plan**

The District sponsors an annuity purchase plan (D.C. Code §31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees were able to defer up to \$16.5 (\$16.5 thousand) of their annual compensation for calendar year 2010. 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 2010. District employees contributed \$14,852 to this annuity plan in fiscal year 2010. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D.C. Code §47-3601) created in accordance with IRC Section 457. Employees, including teachers, are able to defer the lesser of \$16.5 (\$16.5 thousand) or 100% of includable compensation in calendar year 2010. 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 \$33 (\$33 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 incomes earned are taxable when paid, or made available to the participant or beneficiary, upon retirement, death, termination, or unforeseeable emergency. District employees contributed \$34,526 to this plan in fiscal year 2010. Contributions are not assets of the District, and the District has no further liability to the plan.

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

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

on an actuarially determined valuation in fiscal year 2008.

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

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

Plan administrators signed a contract with a Master Custodian on September 24, 2009. The District established a Master Custodian for the Plan to reduce the risk of loss and to improve security. The Master Custodian provides information on investment transactions from an independent source which allows additional tracking of information provided by the investment managers. State Street serves as the Master Custodian for the Trust Fund. The assets held in Bernstein Strategic Value and Strategic Growth Investments that were individually managed by Bernstein were transferred to State Street on September 28, 2009, with the exception of a cash balance of approximately \$9 (\$9 thousand) and \$2 (\$2 thousand), respectively.

b) Summary of Significant Accounting Policies

The Plan's financial statements are prepared using 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 employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. 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 2010, the District contributed \$90.7 million to the plan and retiree contributions totaled \$803 (\$803 thousand). Employee contributions are not required prior to retirement to fund the plan.

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

Covered family members of an annuitant with at least 10 years of creditable District service but less than 30 years of creditable District service pay 80% of their health insurance premiums and the District pays the remaining 20%, plus an additional 2% for each year of creditable District service over 10 years, provided that the District's contribution shall not exceed 60% of the cost for the covered family member of the annuitant. The District pays 60% of the cost of the selected health benefit plan for covered family members of an annuitant with 30 or more years of creditable District service and the family member pays 40% of the cost of the selected health benefit plan. The

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

District pays 60% of the cost of the selected health benefit plan and the family member pays 40% of the cost of the selected health benefit plan for covered family members of annuitants who are injured or killed in the line of duty. The impact this change will have on the District's portion of future OPEB costs has not been determined.

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

Table 41 – Annual OPEB Cost, Actual Plan Contributions, and Changes in Net OPEB Obligations

	FY 2010	FY 2009	FY 2008
Annual required contribution	\$92,193	\$130,882	\$103,400
Interest on net OPEB obligation	\$3,052	(\$488)	\$0
Adjustment to annual required contribution	(\$1,943)	\$314	\$0
Annual OPEB cost (expense)	\$93,302	\$130,708	\$103,400
Contributions made	\$90,700	\$81,100	\$110,907
Net OPEB asset/(obligation)	(\$2,602)	(\$49,608)	\$7,507
Net OPEB asset (obligation) – beginning of year	(\$42,101)	\$7,507	\$0
Net OPEB asset (obligation) – end of year	(\$44,703)	(\$42,101)	\$7,507

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the two preceding years are shown in **Table 42**.

Table 42 - Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, Net OPEB Obligation (Fiscal Years 2008 through 2010)

Fiscal Year Ended	Annual OPEB Cost (millions)	% Of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/10	\$93.3	97%	\$44.7
09/30/09	\$130.7	62%	\$42.1
09/30/08	\$103.4	107.3%	(\$7.5)

e) Funded Status and Funding Progress

As of September 30, 2009, the most recent actuarial valuation date, the Plan was 49.4% funded. The actuarial accrued liability for benefits was \$625,900 and the actuarial value of assets was \$309,100, resulting in an unfunded actuarial accrued liability (UAAL) of \$316,800. The covered payroll (annual payroll of active employees covered by the plan) was \$1,579,900 and the ratio of the UAAL to the covered payroll was 20.1%.

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, 2009, actuarial valuation results, the September 30, 2010, estimated actuarial liability is \$745,900 and the actuarial value of the assets is \$424,200 resulting in an estimated unfunded actuarial accrued liability (UAAL) of \$321,700. The estimated covered payroll (annual payroll of active employees covered by the Plan) is \$1,692,100 and the estimated ratio of the UAAL to the covered payroll is 19%.

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

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

historical pattern of sharing of benefit costs between the District and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Entry Age Actuarial cost method was used to prepare the September 30, 2009 actuarial valuation. The actuarial assumptions included a 7.25% investment rate of return, a discount rate of 7.25%; a 5.0% salary increase rate (plus merit scale); and a medical inflation rate ranging between 10% (pre-Medicare) and 9% (post-Medicare) grading to 5.25% over 14 years. The amortization method applied was the Level Percent Open Method. The remaining amortization period at September 30, 2009, was 30 years.

NOTE 11. FUND BALANCE/NET ASSETS

Reserved and unreserved fund balances at September 30, 2010, are shown in **Table 43a**.

Table 43a - Schedule of FY 2010 Reserved and Unreserved Fund Balance

	General Fund	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds
Reserved				
Long term assets	\$ 4,020	\$ -	\$ -	\$ -
Emergency/contingency cash	337,945	-	-	-
Bond escrow	288,336	-	-	-
Subsequent years' expenditure	37,173	-	-	-
Inventory	9,614	-	-	-
Budget	37,274	-	-	-
Purpose restrictions	118,143	191,023	-	-
Student enrollment fund	3,676	-	-	-
Capital improvements	-	-	133,438	-
PILOT	-	-	-	138,638
Tobacco settlement	-	-	-	84,611
Tax increment financing	-	-	-	12,537
Housing production	-	-	-	40,315
Community healthcare	-	-	-	42,795
Baseball special revenue	-	-	-	45,557
Highway trust	-	-	-	4,484
Total Reserved Fund Balances	836,181	191,023	133,438	368,937
Unreserved				
Designated Unreserved Fund Balances	53,945	-	-	-
Total Fund Balances	\$ 890,126	\$ 191,023	\$ 133,438	\$ 368,937

NOTE 11. FUND BALANCE/NET ASSETS

Net assets at September 30, 2010, are shown in **Table 43b**.

Table 43b - Schedule of FY 2010 Net Assets, Proprietary and Fiduciary Funds

	Lottery & Games	Unemployment Compensation Fund	Nonmajor J.B. Johnson Nursing	Fiduciary Funds
Net Assets				
Invested in capital assets, net of related debt	\$ 579	\$ -	\$ 4,248	\$ -
Restricted for future benefits	-	233,296	-	4,813,484
Unrestricted	3,332	-	5,296	-
Total Net Assets	\$ 3,911	\$ 233,296	\$ 9,544	\$ 4,813,484

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, 2010, is shown in **Table 44a**.

Table 44a - Summary of Grants Provided to WMATA

Type	Amount
Operating grants	\$ 233,337
Debt service grants	10,331
Capital grants	72,726
Total	\$ 316,394

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 44b** 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 44b - Summary of Financial Statements for WMATA as of and for the year ended June 30, 2010

Financial Position	
Total assets	\$ 9,935,128
Total liabilities	(1,865,175)
Net assets	\$ 8,069,953
Operating Results	
Operating revenues	\$ 727,832
Operating expenses	(2,004,945)
Nonoperating revenues, net	718,444
Revenue from capital contributions	680,227
Change in net assets	\$ 121,558
Change in Net Assets	
Net assets, beginning of year, restated	\$ 7,948,395
Change in net assets	121,558
Net assets, end of year	\$ 8,069,953

NOTE 13. TRANSACTIONS WITH THE FEDERAL GOVERNMENT**A. FEDERAL CONTRIBUTION**

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment was repealed and replaced with a federal contribution to cover special purpose and other unusual costs imposed on the District by the federal government. Federal contributions to the District for the year ended September 30, 2010, totaled \$670,186.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. The District did not receive federal funding for emergency preparedness in fiscal year 2010. However, 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. As of September 30, 2008, the District had spent \$151,659, or 97.3%, of the \$155,900 received in fiscal year 2002. None of the remaining \$4,241 was expended during fiscal year 2010.

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 \$38,818 for the fiscal year ended September 30, 2010.

NOTE 14. LEASES**A. CAPITAL LEASES**

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

Capital lease payments are classified as debt service expenditures in the governmental funds. Such expenditures totaled \$8,384 in fiscal year 2010.

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.

NOTE 14. LEASES

As of September 30, 2010, the District financed approximately \$332 million of its capital equipment needs through the program, and had approximately \$114 million in principal outstanding. During the year, the average interest rate used to finance equipment through the

Program was 3.06%. Payments on the liability are made on a quarterly basis.

Table 45 shows the schedule of equipment financing program payments.

Table 45-- Schedule of Equipment Financing Program Payments

Year Ending September 30	Principal	Interest	Total
2011	\$ 39,574	\$ 3,764	\$ 43,338
2012	31,471	2,260	33,731
2013	24,517	1,143	25,660
2014	13,612	380	13,992
2015	4,546	63	4,609
Total	\$ 113,720	\$ 7,610	\$ 121,330

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 \$130,929 in fiscal year 2010.

C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS

Table 46 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, 2010.

Table 46 - Schedule of Future Minimum Lease Payments

Year Ending September 30	Primary Government		
	Capital Leases	Operating Leases	
		Facilities	Equipment
2011	\$ 10,715	\$ 96,266	\$ 1,298
2012	10,710	79,629	1,212
2013	10,715	78,897	1,118
2014	2,792	68,904	1,053
2015	2,792	63,760	1,029
2016-2020	4,189	302,557	72
2021-2025	-	197,871	-
2026-2030	-	41,067	-
2031-2035	-	16,729	-
2036-2040	-	508	-
2041-2045	-	518	-
2046-2050	-	423	-
Minimum lease payments	41,913	\$ 947,129	\$ 5,782
Less - imputed interest	(5,805)		
Present value of payments	\$ 36,108		

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, 2010. 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, 2010, 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, \$102 (\$102 thousand) has been included as part of the accrued liability to reflect these known grant disallowances.

C. CONTINGENCIES RELATED TO DERIVATIVE INSTRUMENTS

All of the District's derivative instruments, except for 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, 2010, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions was \$168,690. If the collateral posting requirements were triggered at September 30, 2010, 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, 2010.

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, 2010.

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 \$41,292.

A summary of the changes in the accrued liability for claims and judgments reported in the government-wide financial statements is shown in **Table 47**.

Table 47 - Summary of Changes in Claims and Judgments Accrual

Description	2010	2009
Liability at October 1	\$ 58,837	\$ 55,902
Incurring claims	35,310	32,410
Less:		
claims payments/adjustments	(23,712)	(29,475)
Liability at September 30	<u>\$ 70,435</u>	<u>\$ 58,837</u>

NOTE 15. COMMITMENTS AND CONTINGENCIES**E. DISABILITY COMPENSATION**

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

A summary of changes in this accrual is shown in **Table 48**.

Table 48 – Summary of Changes in Disability Compensation Accrual

Description	2010	2009
Liability at October 1	\$ 142,316	\$ 105,751
Claims incurred	45,268	65,939
Less-benefit payments/adjustments	(27,071)	(29,374)
Liability at September 30	\$ 160,513	\$ 142,316

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 termination, a termination amount may be owed by the District. At September 30, 2010, unearned revenue of \$762 related to debt service deposit agreements was recorded in the government-wide financial statements.

NOTE 16. SUBSEQUENT EVENTS**A. TAX REVENUE ANTICIPATION NOTES**

The District issued \$700,000 in Tax Revenue Anticipation Notes (TRANS) on October 25, 2010. 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 2011.

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 1, 2011	20% of the outstanding principal amount
September 20, 2011	60% of the outstanding principal amount
September 28, 2010	20% of the outstanding principal amount, plus 100% of accrued interest to maturity

The TRANS were issued as fixed rate notes with an interest rate of 2.00%, and will mature on September 30, 2011.

B. INCOME TAX SECURED REVENUE BONDS

On November 22, 2010, the District issued \$63,860 in Income Tax Secured Revenue Refunding Bonds, Series 2010E 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

NOTE. 16. SUBSEQUENT EVENTS

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 will be 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 will be 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 rate spread is as follows: (a) maturity date December 1, 2011, SIFMA rate, plus 0.03%; and (b) maturity date December 1, 2013, SIFMA rate, plus 0.35%.

C. COMPONENT UNITS

Housing Finance Agency Bond Activity

Subsequent to the end of fiscal year 2010, the Housing Finance Agency (HFA), issued new bonds, as follows: (a) on December 16, 2010, \$5,040 of District of Columbia Housing Finance Agency Multifamily Revenue Bonds, Series 2009 A-7 (NIB Program) to finance the Avalon Courts Project; (b) on December 16, 2010, \$13,000 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2009 A-8 (NIB Program) to finance the Samuel J. Simmons Estates Project; (c) on December 16, 2010, \$8,000 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2010, to finance the Samuel J. Simmons Estates Project; (d) on December 16, 2010, \$5,000 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2010 A to finance the Samuel J. Simmons Estates Project; (e) on December 16, 2010, \$3,640 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2009 A-9 (NIB Program), to finance the Avenue Project; and (f) on October 22, 2010, \$5,700 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2010, in a draw down mode to finance the Arthur Capper II project.

In addition, between October 1, 2010, and December 31, 2010, the following Multifamily Mortgage Revenue Bonds were issued through draw down bonds.

<u>Series</u>	<u>Project name</u>	<u>Draw date</u>	<u>New issue draw amount</u>
2008 Series A	St. Martin's Apartments	10/28/2010	\$386
2010 Series A	Sheridan Station	11/01/2010	855
2010 Series B	Matthews Memorial	12/08/2010	300
2010 Series	Arthur Capper II Project	10/22/2010	<u>500</u>
Total			<u>\$2,041</u>

Subsequent to September 30, 2010, certain outstanding bonds matured and/or were redeemed. Maturities and redemptions were as follows: (a) 1996 Single Family Mortgage Revenue Bonds, \$1,525 principal matured and \$7,185 principal redeemed on October 1, 2010; (b) 1996 Single Family Mortgage Revenue Bonds, \$1,925 principal redeemed on December 1, 2010; and (c) Multifamily Housing Revenue Bonds, Series 2009 A-1, \$50 redeemed through a sinking fund maturity, on October 1, 2010; and (d) Multifamily Mortgage Revenue Bonds, \$1,841 principal redeemed between October 1, 2010, and December 31, 2010.

Washington Convention and Sports Authority

Between June 2006 and July 2009, the Council passed a series of legislative acts (collectively, the Hotel Acts) which authorized the financing, construction and development of a privately owned and operated Headquarters Hotel for the Convention Center. Together, the Hotel Acts: (a) created a Tax Increment Financing Area (the Hotel TIF District), the revenues from which will be used to secure Authority bonds to partially finance the costs of the Headquarters Hotel; (b) authorized the Authority to issue TIF bonds in a net amount up to \$206 million to partially finance the development and construction of the hotel; (c) established a \$2 million Headquarters Hotel jobs training program; (d) authorized the Authority and the District to acquire and lease land for the hotel to the developer; and, (e) approved the Headquarters Hotel Development Funding Agreement, ground lease and related project documents.

Before the TIF Bonds could be issued, an administrative appeal and two (2) civil actions were filed to challenge the development of the hotel. By October, 2010, all matters had either been dismissed or settled without payment by the Authority.

NOTE. 16. SUBSEQUENT EVENTS

On October 26, 2010, the Authority concluded the sale of its Series 2010 Bonds in the gross amount of approximately \$250 million. The bonds yielded \$206 million in net revenue, after cost of issuance, capitalized interest and reserve requirements. They are secured by specified revenue sources, carry an interest rate of approximately 5%, and reach final maturity in 2040. The bonds bear interest from the date of delivery, payable semiannually each April 1 and October 1, commencing on April 1, 2011.