NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTES TO THE BASIC FINANCIAL STATEMENTS

September 30, 2012

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF THE GOVERNMENTAL UNIT

General Operations

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

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

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

B. FINANCIAL REPORTING ENTITY

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

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

Based on the application of the aforementioned criteria, the District's financial statements include five discretely presented component units: Water and Sewer Authority, Washington Convention and Sports Authority, Not-for-Profit Hospital Corporation (d/b/a United Medical Center), Housing Finance Agency, and the University of the District of Columbia.

The Not-for-Profit Hospital Corporation, a legally separate entity, is a discretely presented component unit because the Mayor and Council appoint a voting majority of its governing board and the District must approve its annual operating budgets.

The Mayor, with the consent of the Council, also appoints the governing bodies of the Water and Sewer Authority, Washington Convention and Sports Authority, Housing Finance Agency, and the University of the District of Columbia. In addition, the District has an obligation to provide financial support to the Housing Finance Agency, the Washington Convention and Sports Authority, and the University of the District of Columbia, and must approve certain transactions of, and certain tax revenues dedicated to the Washington Convention and Sports Authority. The Water and Sewer Authority is responsible for the payment of 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

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its enabling legislation, this entity is included as a component unit of the District of Columbia.

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

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

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

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

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

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

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

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

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

C. RELATED ORGANIZATIONS

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

D. JOINT VENTURE

The District participates with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit zone, which includes the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas, and Manassas Park and the counties of Arlington, Fairfax, Loudoun, and Prince William in Virginia; and Montgomery, Anne Arundel, and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 to fulfill the purposes of the joint venture.

Pursuant to P.L. 111-62, which revised the WMATA compact agreement, WMATA is governed by an eight-member Board and eight alternates, comprised of two Directors and two alternates for Maryland, Virginia, the District of Columbia, and the federal government. The Directors and alternates for Maryland are appointed by the Washington Suburban Transit Commission from among its members; for Virginia, by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for the federal government, by the Administrator for General Services. The District does not have explicit measurable equity interest in the joint venture; accordingly, the District does not include the financial activities of the joint venture in its financial statements. Further information regarding this joint venture is discussed in Note 12 on page 125.

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E. BASIS OF PRESENTATION

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

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District's governmental and business-type activities and its discretely presented component units. The District reports all debts and capital assets, including infrastructure, in the government-wide Statement of Net Assets. The District reports net assets in three distinct categories: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

Nonmajor Governmental Funds include four Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund; (2) Tobacco Settlement Financing Corporation (TSFC) Fund; (3) PILOT Special Revenue Fund; and (4) Baseball Project Fund. Other Nonmajor Governmental Funds include the Highway Trust Fund, and the Baseball Debt Service Fund.

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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 mostly 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 which are discussed below:

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

- *Unemployment Compensation Fund* - used to account for the accumulation of financial resources to be used for benefit payments to unemployed former employees of the District and federal governments and of private employers in the District. Resources are contributed by private employers at rates fixed by law, and by the federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.

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

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

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations or 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 Benefits (OPEB) Trust Fund – used to report assets that are accumulated and benefits that are paid for postemployment healthcare and life insurance.

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

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

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

Prior Year Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include sufficient details 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, 2011, from which such summarized information was derived.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Government-Wide Financial Statements

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

Fund Financial Statements

Governmental Funds

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

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

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

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

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

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

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

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follow only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB), issued prior to December 1, 1989.

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

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

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

Revenue Recognition (by Type or Source)

Property Taxes

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

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

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

Other Taxes and Revenues

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

Intergovernmental Revenues

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

Supplemental Nutrition Assistance Program (SNAP)

The District participates in the federal government's Supplemental Nutrition Assistance Program (SNAP) (food stamp program), which is designed to increase the food purchasing power of economically disadvantaged residents. The District mainly uses the electronic benefits transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Revenues and expenditures are reported in the federal and private resources fund when the underlying transaction (the food purchase) occurs. SNAP expenditures totaled $234,768 and $227,783 in fiscal years 2012 and 2011, respectively.

Revenues Susceptible To Accrual

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

Revenues Not Susceptible To Accrual

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

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

On or about March 20 of each year, at the direction of the Council, the Mayor submits to the Council an annual budget for the District of Columbia government, which includes: (1) the budget for the forthcoming fiscal year, commencing October 1, specifying the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Appropriations Act

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

Pursuant to Home Rule Act § 446 and the Reprogramming Policy Act (D. C. Official Code §47-363 (2001), as amended), the District may reallocate budget amounts. The appropriated budget amounts in the Budgetary Comparison Statement (Exhibit 2-d) include all approved reallocations and other budget changes. This statement reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown in this statement. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the federal Anti-Deficiency Act (31 U.S.C. §§1341, 1342, 1349, 1351, 1511-1519 (2008)); the District of Columbia Anti-Deficiency Act (D.C. Official Code §§47-355.01-355.08, (2001)); and Section 446 of the Home Rule Act, (D.C. Official Code § 1-204.46). In addition, a negative expenditure variance for a particular agency within an appropriation is also a violation of the D.C. Anti-Deficiency Act.

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

By law, for budgeting purposes, the general fund includes the federal and private resources fund as presented in the Budgetary Comparison Statement in Exhibit 2-d. The budgetary basis of accounting used to prepare this statement differs from the GAAP basis used to prepare the general fund and federal and private resources fund statements presented in Exhibit 2-b due to the following differences:

- *Basis Differences* – which arise because the basis of budgeting differs from the basis of accounting prescribed by GAAP as indicated in Note 1X on page 77.
- *Entity Differences* – which result from the inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis as indicated in Note 1X on page 77.

Budgetary Controls

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

Encumbrances

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

Encumbered amounts at year-end have been included within the restricted, committed, or assigned fund balance, as appropriate, in **Table N55a** – Schedule of FY 2012 Fund Balance found on page 124.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

H. CASH AND INVESTMENTS

Cash

Cash from the governmental and proprietary funds is pooled unless prohibited by law. The cash management pool is used as a demand deposit account by each participating fund. If a fund overdraws its share of the pooled cash, that fund reports a liability (Due To) to the General Fund, which is deemed to have loaned the cash to the overdrawn fund. The General Fund reports a receivable (Due From) from the overdrawn fund.

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

Investments

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56, D.C. Official Code §47-351.01, et seq.), which became effective March 18, 1998, and the District's Investment Policy, adopted November 2008. At September 30, 2012, the District invested primarily in securities backed by U.S. government agencies with the implicit guarantee of the federal government. Such investments are considered to be cash equivalents if they mature within 90 days after the date of purchase. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced funds, and fixed income securities.

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

I. INVENTORY

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

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

J. RESTRICTED ASSETS

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

K. PREPAID ITEMS AND DEFERRED CHARGES

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. RECEIVABLES AND PAYABLES

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

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

M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

Interfund transactions are categorized as: (a) 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 Other Funds" or "Due From Other Funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal Balances." Short-term amounts owed between the primary government and a discretely presented component unit is classified as "Due To/From Primary Government" and "Due To/From Component Unit" on the Statement of Net Assets.

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

N. CAPITAL ASSETS

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

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

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

Capitalization and Depreciation Policies

Capitalized assets have an original cost of $5 (five thousand) or more per unit. Depreciation is calculated on each class of depreciable property using the straight-line method. Estimated useful lives for capital assets are shown in **Table N1** by class.

Table N1 – Estimated Useful Lives (by Asset Class)

	Useful life
Storm Drains	45 years
Infrastructure	20-40 years
Buildings	50 years
Equipment and Machinery	5-10 years
Furniture and Fixtures	5 years
Vehicles (and Other Mobile Equipment)	5-12 years
Library Books	5 years
Leasehold Improvements	10 years, not to exceed term of lease

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O. CAPITAL LEASES

In general, a lease is considered to be a capital lease if it meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term.
- The lease contains an option to purchase the leased property at a bargain price.
- The lease term is equal to or greater than 75% of the estimated life of the leased property.
- The present value of rental and other minimum lease payments equals or exceeds 90% of the fair value of the leased property less any investment tax credit retained by the lessor.

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

P. COMPENSATED ABSENCES

Benefit Accumulation Policies

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

Accrual

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

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

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

Q. LONG-TERM LIABILITIES

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

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

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

The District began 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

R. NEW ACCOUNTING STANDARDS ADOPTED

During the fiscal year ended September 30, 2012, the District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

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

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

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

Implementation of this statement had no material impact on the District's fiscal year 2012 financial statements.

S. NEW ACCOUNTING PRONOUNCEMENTS TO BE IMPLEMENTED IN THE FUTURE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Issued in June 2011, this statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

the required components of the residual measure, and by renaming that measure "net position," rather than net assets.

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

Statement No. 65, Items Previously Reported as Assets and Liabilities

Issued in March 2012, this statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

The requirements of this statement are effective for periods beginning after December 15, 2012, the District's fiscal year 2014.

Statement No. 66, Technical Corrections – 2012—an Amendment of GASB Statements No. 10 and No. 62

Issued in March 2012, the objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

This statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits funds-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases,* and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* respectively.

The requirements of this statement are effective for periods beginning after December 15, 2012, the District's fiscal year 2014.

Statement No. 67, Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25

Issued in June 2012, this statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

This Statement, along with Statement No. 68, Accounting and Financial Reporting for Pensions, establishes a definition of a pension that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The scope of this Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts that have the following characteristics:

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- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered, as follows:

- Single-employer pension plans - those in which pensions are provided to the employees of only one employer (as defined in this Statement)
- Agent multiple-employer pension plans (agent pension plans) - those in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees
- Cost-sharing multiple-employer pension plans (cost-sharing pension plans) - those in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria.

The requirements of this statement are effective for fiscal years beginning after June 15, 2013, the District's fiscal year 2014.

Statement No. 68, Accounting and Financial Reporting for Pensions –an amendment of GASB Statement No. 27

Issued in June 2012, this Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and related expenses/ expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

The requirements of this statement are effective for fiscal years beginning after June 15, 2014, the District's fiscal year 2015.

T. NET ASSETS AND FUND BALANCE

The difference between assets and liabilities is "Net Assets" in the government-wide, proprietary, and fiduciary fund statements and "Fund Balance" in governmental fund statements. In the government-wide and proprietary fund financial statements, "Net Assets" is further categorized as:

- *Invested In Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category. Restricted cash balances from debt issuances not yet spent increase the balance in this category.

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

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

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

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

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

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

- *Assigned* – resources neither restricted nor committed for which the District has a stated intended use as established by the Mayor, Council, or a body or official to which the Mayor or Council has delegated the authority to assign amounts for

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

specific purposes. These are resources where the constraints/restrictions are less binding than that for committed resources.

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

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

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

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

As of September 30, 2012, the District's fund balance included the following categories (see **Table N55a** on page 124.)

Nonspendable Fund Balance

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

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

Restricted Fund Balance

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

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

Budget – This portion of fund balance represents unused FY 2012 budget reserve amounts that are restricted for specific purposes and available for such purposes until expended.

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

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

Tobacco Settlement – This portion of fund balance is restricted to pay future debt service and related expenses associated with the Tobacco Corporation's issuance of Tobacco Settlement Asset-Backed Bonds in fiscal years 2001 and 2006.

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

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

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

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

Committed Fund Balance

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

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

Integrated Service Fund– This portion of fund balance is committed to fund interdisciplinary programs and services designed to meet the needs of at-risk children, youth and their families.

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

Fixed Cost Commodity Reserve – This portion of fund balance represents unexpended funds which were appropriated for fixed costs at the end of the fiscal year pursuant to the Commodities Cost Reserve Fund Act of 2005.

Youth Jobs Fund – This portion of fund balance is committed for programs to provide in-school, out-of-school, and year-round employment programs for youth to work at least ten hours per week

Healthcare Forfeiture - This portion of fund balance represents 401(a) Defined Contribution Pension Plan contribution amounts which have been forfeited by former employees who have separated from District service before the vesting period expires. Such forfeited contributions may be used to reduce the aggregate amount of plan contributions or fund retirees' health and life insurance benefits.

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

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

Assigned Fund Balance

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

Subsequent Years' Expenditures – This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives and other expenditures included in the FY 2013 budget approved by the District Council.

Unassigned Fund Balance

Capital Projects – This portion of fund balance is restricted for the purpose of executing capital projects. The capital projects fund reported a negative unassigned fund balance at September 30, 2012 because expenditures were made in the Capital Projects Fund from resources that were advanced from the General Fund in anticipation of bond proceeds that will be restricted to the purpose for which those expenditures were made.

Minimum Fund Balance Policies

Restricted Fund Balances

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

Contingency Reserve

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

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budget proposed by the District for the fiscal year.

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

Emergency Reserve

The emergency reserve fund may be used to provide for unanticipated and nonrecurring extraordinary needs of an emergency nature, including a natural disaster or calamity or unexpected obligations by federal law. The emergency reserve fund may also be used in the event that a State of Emergency is declared by the Mayor. However, the emergency reserve fund may not be used to fund: (a) any department, agency, or office of the District government which is administered by a receiver or other official appointed by a court; (b) shortfalls in any projected reductions which are included in the budget proposed by the District for the fiscal year; or (c) settlements and judgments made by or against the District government.

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

<u>Committed Fund Balances</u>

Fiscal Stabilization Reserve

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

Cash Flow Reserve

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

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

U. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

The District utilizes a graded contribution schedule whereby District contributions to the plan are based on the employee's years of creditable District service. District contributions are limited such that the District pays no more than 72% of the cost of health insurance, and 33% of the cost of life insurance for eligible retirees. The District also pays no more than 60% of the premium for a retiree's spouse and dependent health insurance coverage. More information regarding the OPEB contribution policy is presented in Note 10 on page 121.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

began funding the OPEB plan on an actuarial basis in fiscal year 2008.

As of September 30, 2012, there were 595 OPEB Plan participants receiving such benefits. The participants were comprised of 458 teachers, police, and firefighters, and 137 general District retirees. During fiscal year 2012, $4.2 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 $89,833 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 2012. The accrual basis of accounting is used to record revenues in the government-wide financial statements.

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

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

The details of the $609,648 difference related to capital outlay are as follows:

Capital outlay capitalized	$	879,416
Less:		
Depreciation expense		(385,230)
Capital asset additions		120,189
Transfer and dispositions		(4,727)
Net Adjustment	$	**609,648**

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 $10,285 more in the statement of activities than in the statement of revenues, expenditures and changes in fund balances.

The details of the ($406,731) difference related to long-term liabilities are as follows:

Bonds issued	$	(1,047,580)
Equipment financing program		(49,463)
Premium on long-term debt		(124,679)
Loan payable		(101,640)
Capital lease		(3,401)
Less:		
Bonds current refunding		623,535
Principal payments on G.O. bonds		63,583
Principal payments on other long-term debt		210,516
Amortization of premium		45,740
Fiscal charges -net		(23,342)
Net Adjustment	$	**(406,731)**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The details of the ($60,889) difference related to the change in accrued liabilities are as follows:

Annual leave	$ 4,304
Accreted interest	(7,390)
Accrued interest	(3,796)
Claims and judgments	(86,307)
Accrued disability compensation	16,291
Unfunded pension expenses	2,609
Net OPEB liability	13,400
Net Adjustment	**$ (60,889)**

X. RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS

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

	GENERAL FUND	FEDERAL AND PRIVATE RESOURCES
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS	$ 416,727	$ 11,174
Basis differences:		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	1,687	6,693
Transfers/Reclassifications	(6,000)	-
Debt related adjustments	(12,659)	-
Fund balance released from restrictions - a funding source for budgetary purposes but not revenue on a GAAP basis	(5,769)	(25,306)
Change in fair value of investments	7,641	-
State education loan program	-	4,750
Federal pass-through contribution	-	717,458
Federal pass-through expenditures	-	(717,458)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES - GAAP BASIS	**$ 401,627**	**$ (2,689)**

The offsetting federal pass through contribution/expenditures are comprised of: On behalf payment to D.C. Federal Pension Fund ($482,400) and payments to eligible low income families under the Supplemental Nutrition Assistance Program (SNAP) ($235,058).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Y. RESTATEMENT

Component Unit

Housing Finance Agency

Change in Accounting Policy, Net Assets and Escrow Liability Accounts for Multifamily Funds - In order to achieve greater consistency in presenting conduit multifamily transactions on the face of the financial statements, the Housing Finance Agency has changed the way it accounts for pre-2009 multi-family projects by reclassifying a portion of the Multifamily (Conduit Bond) Program net assets attributable to the accounts funded with project owner contributions into escrow liabilities included in the "Project funds held for borrower and other liabilities" account.

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

October 1, 2011, as previously reported	$ 1,713,626
DCHFA Accounting Policy Change	(31,630)
October 1, 2011, restated	**$ 1,681,996**

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 $2,816,787 within the custody of the District, in accordance with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56), which became effective on March 18, 1998, and other District policies, substantially all deposits as of September 30, 2012, were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2012, the carrying amount of cash for the primary government and fiduciary funds was $2,369,369 and the bank balance was $2,136,710. The carrying amount of cash (deposits) for the component units was $447,418 and the bank balance was $754,757.

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) and the District's Cash and Investment Management Policy, adopted November 2008. The District's investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments (other than those held by the Retirement Board) consisted primarily of money market funds and/or obligations backed by the United States government or its agencies. See **Table N5a** on page 82 for details.

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

The fair values of the investments held in the control of the Retirement Board as of September 30, 2012 are presented in **Table N2.**

NOTE 2. CASH AND INVESTMENTS

Table N2 – Fair Values of Investments: Retirement Board

	2012	2011
Cash and short-term investments	$ 74,516	$ 149,759
Investments at fair value:		
Domestic equity	1,256,317	1,127,083
International equity	1,572,788	1,104,957
Fixed income	1,399,703	1,339,980
Real estate	253,621	203,157
Private equity	682,583	716,486
Total cash and investments at fair value	$ 5,239,528	$ 4,641,422

Table N3 presents the debt instruments which were held by the Retirement Board's Investment Pool as of September 30, 2012.

Table N3 – Debt Instruments Held by the Retirement Board Investment Pool at September 30, 2012

Investment Type	Fair Value	% of Segment	Duration	Rating
US Agency	$ 10,294	0.74%	5.72	AA+
Asset Backed	16,307	1.17%	1.42	AA
CMBS	7,023	0.50%	2.32	A+
CMO	16,227	1.16%	3.48	AA+
Corporate	187,318	13.38%	3.55	BB
Foreign	12,454	0.89%	5.78	CCC
Mortgage Pass-Through	65,738	4.70%	1.75	AA+
Municipal	9,421	0.67%	10.22	AA+
US Treasury	113,794	8.13%	8.38	AA+
Yankee	37,958	2.71%	4.71	A
High Yield/Emerging Debt	62,950	4.50%	N/A	NR
Infrastructure Funds	101,300	7.24%	N/A	NR
US Tips Index Fund	165,149	11.80%	N/A	NR
US Debt Index Fund	587,320	41.95%	N/A	NR
Other	6,450	0.46%	N/A	NR
Total Fixed Income	$ 1,399,703	100.00%		

N/A - Not Available

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

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

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

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

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

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

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

NOTE 2. CASH AND INVESTMENTS

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 as bonds, notes, and other evidences of indebtedness be rated in either of the two highest rating categories by a credit rating agency, without regard to gradation; and (d) money market mutual funds, the fund be rated AAAm or AAAm-G or the equivalent by a credit rating agency.

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

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

  Custodial credit risk occurs when investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such cases, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial credit risk exposure during the fiscal year. All District investments in fiscal year 2012 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.

  The Retirement Board had no custodial credit risk exposure during the fiscal year. All Retirement Board investments in fiscal year 2012 were collateralized. Investments held by the custodian on behalf of the Retirement Board were held in an account in the Retirement Board's name. Any funds not invested at the end of the day are placed in overnight investments in the Retirement Board'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, 2012, the District was in compliance with this policy.

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

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

  At September 30, 2012, other than the Retirement Board, the District had no exposure to foreign currency risk. At the end of fiscal year 2012, the Retirement Board held investments that were denominated in a currency other than the United States dollar, as presented in **Table N4**.

NOTE 2. CASH AND INVESTMENTS

Table N4 – Retirement Board Investments Denominated in Foreign Currency

	Asset Class (in $000s)					
			Fixed	Private		
	Cash	Equities	Income	Equity	Swaps	Total
Australian Dollar	$ 334	$ -	$ -	$ -	$ 125	$ 459
Canadian Dollar	(36)	8	4,105	-	66	4,143
Swiss Franc	-	7,851	-	-	-	7,851
Euro	216	45,323	14,723	23,882	223	84,367
Pound Sterling	1	4,865	5,491	-	-	10,357
Hong Kong Dollar	-	6,763	-	-	-	6,763
Japanese Yen	-	21,188	-	-	-	21,188
South Korean Won	-	2,595	-	-	-	2,595
Swedish Krona	-	5,015	-	-	-	5,015
Singapore Dollar	1,319	-	-	-	-	1,319
Total Foreign Currency	$ 1,834	$ 93,608	$ 24,319	$ 23,882	$ 414	$ 144,057

NOTE 2. CASH AND INVESTMENTS

Table N5a – Cash and Investments Detail

			Total Carrying Value
INVESTMENTS			
Primary Government:			
U. S. government securities	$ 16,381		
Mutual funds	388,255		
Total Primary Government		$	404,636
Fiduciary Funds:			
Pension trust funds investments held by Board's agent in Board's name and Private Purpose Trust Fund:			
Equity securities	3,546,066		
Fixed income securities	1,473,964		
Real estate	253,621		
Private equity	682,583		
Total Fiduciary Funds			5,956,234
Component Units:			
U. S. government securities	438,181		
Corporate securities	16,727		
Investment contracts	438,327		
Mutual funds	86,870		
Total Component Units			980,105
Total reporting entity investments		$	7,340,975
CASH BALANCES			
Primary government		$	2,111,911
Fiduciary Funds			257,458
Component units			447,418
Total cash balances		**$**	**2,816,787**

NOTE 2. CASH AND INVESTMENTS

Table N5b – Reconciliation of the District's Deposit and Investment Balances

Total investments per Table N5a	$	7,340,975
Total cash balances		2,816,787
Total	$	**10,157,762**

	Exhibit 1-a			Exhibit 4-a				
	Primary Government	**Component Units**	**Total (Exhibit 1-a)**	**Pension/OPEB Trust Funds**	**Private Purpose Trust Fund**	**Agency Funds**	**Total (Exhibit 4-a)**	**Total Deposit and Investment Balances**
Cash and cash equivalents	$ 989,418	$ 159,366	$ 1,148,784	$ -	$ -	$ -	$ -	$ 1,148,784
Investments	-	196,572	196,572	-	-	-	-	196,572
Cash and cash equivalents (restricted)	1,122,493	288,052	1,410,545	203,819	-	53,639	257,458	1,668,003
Investments (restricted)	404,636	783,533	1,188,169	5,732,647	223,587	-	5,956,234	7,144,403
Total	$ **2,516,547**	**1,427,523**	$ **3,944,070**	$ **5,936,466**	$ **223,587**	$ **53,639**	$ **6,213,692**	$ **10,157,762**

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 N6 presents the fair value balances and notional amounts of the District's derivative instruments outstanding at September 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the fiscal year 2012 financial statements.

Table N6 - Derivative Instruments Outstanding at September 30, 2012

	Changes in Fair Value		Fair Value at September 30, 2012		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Governmental Activities:					
Cash flow hedges:					
Floating to fixed interest rate swaps:					
2008C Swap	Deferred outflow	($4,265)	Debt	($58,610)	$224,300
2007 AWC Swap	Deferred outflow	($925)	Debt	(13,298)	$84,085
2004B Swap	Deferred inflow	$679	Debt	(1,689)	$38,250
Deferred outflow of resources				($73,597)	
Floating to floating interest rate swaps:					
2001C/D Basis Swap	Investment Revenue	$216	Investment	$549	$194,850
Derivative instrument liabilities				($73,048)	

NOTE 2. CASH AND INVESTMENTS

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

Objective and Terms of Hedging Derivative Instruments

Table N7 presents the objective and terms of the District's hedging derivative instruments outstanding at September 30, 2012, along with the credit rating of the associated counterparty.

Table N7 – Objectives and Terms of Hedging Derivative Instruments Outstanding at September 30, 2012

Type	Objective	Notional Amount		Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swaps:							
2008 C Swap	Hedge of changes in cash flows on the Series 2008C Bonds (formerly 2002 A/B Bonds)	$	224,300	10/15/02	06/01/27	Pay fixed rate of 3.615%; receive 67% of 1-month LIBOR	Baa1/A-/A
2007 AWC Swap	Hedge of changes in cash flows on the Series 2007 AWC PILOT Revenue Bonds	$	84,085	09/20/07	12/01/21	Pay fixed rate of 4.463%; receive the rate that matches the rate paid on the underlying bonds	Aa3/AA/AA-
2004 B Swap	Hedge of changes in cash flows on the Series 2004B General Obligation Bonds	$	38,250	12/03/04	06/01/20	Pay fixed rates of 4.598%, 4.701%, 4.794% and 5.121%; receive the rate that matches the rate on the underlying bonds	Aa3/A+/A+
Pay Floating Basis Swaps:							
2001 C/D Basis Swap	Reduces basis risk by providing for a closer match between the underlying variable rate bonds and the variable rate swap receipts from the counterparty	$	194,850	06/02/03	06/01/29	Pay 67% of LIBOR; receive variable rate as a percentage of the actual LIBOR reset each month ranging from 60% to 90% of LIBOR	A2/A/A+

NOTE 2. CASH AND INVESTMENTS

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, 2012 were as presented in **Table N7**.

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, 2012, was $549. 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 the obligations within each swap. As such, if the District is owed any payment due to an event of default by the counterparty that payment can be netted against any outstanding obligations within that specific swap agreement.

Interest Rate Risk

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

As of September 30, 2012, the District had investments in derivative instruments with the following maturities:

Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More than 10
Investment in derivative instruments	$ 549	$ -	$ -	$ -	$ 549

The District invested in a floating-to-fixed rate swap in connection with its $214,155 Multimodal General Obligation Bonds, Series 2001C and its $69,715 Multimodal General Obligation Refunding Bonds, Series 2001D (2001C/D Swap). At September 30, 2012, the notional amount of the 2001C/D Swap was $194,850. The District pays the counterparty 67% of LIBOR and the counterparty pays the District a variable rate as a percentage of the actual LIBOR reset each month. The original swap agreement was executed on December 6, 2001 and the District entered into an enhanced swap agreement on June 2, 2003. The 2001C/D swap matures in June 2029. At September 30, 2012, this interest rate swap had a fair value of $549.

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, 2012, the weighted-average interest rate on the District's hedged variable–rate debt was approximately 0.19%, while the SIFMA swap index rate was 0.18% and 67% of LIBOR was 0.14%.

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.

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

NOTE 2. CASH AND INVESTMENTS

swap with the maturity date of the underlying bonds. The District was not exposed to rollover risk during fiscal year 2012.

Retirement Board Derivatives

During fiscal year 2012, the District Retirement Funds, in accordance with the policies of the Retirement Board, and through the District Retirement Funds' investment managers who have full discretion over investment decisions, invested in various derivative instruments either to increase potential earnings or to hedge against potential losses.

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

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

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

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

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

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

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

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

NOTE 2. CASH AND INVESTMENTS

Table N8 presents a list of the District Retirement Funds' derivatives aggregated by type as of September 30, 2012.

Table N8 – Retirement Board Derivative Investments Aggregated by Type

	Changes in Fair Value (4)		Fair Value at September 30, 2012		
Type of Derivative	**Classification**	**Amount (1)**	**Classification**	**Amount (2)**	**Notional (3)**
Credit Default Swaps Bought	Investment Income	$ (1,736)	Swaps	$ 1,462	$ 39,777
Credit Defaut Swaps Written	Investment Income	(31)	Swaps	716	39,982
Fixed Income Futures Long	Investment Income	1,482	Futures	-	26,800
Fixed Income Futures Short	Investment Income	(1,965)	Futures	-	(16,968)
Fixed Income Options Bought	Investment Income	71	Options	356	19,700
Fixed Income Options Written	Investment Income	1,627	Options	(897)	(70,300)
Foreign Currency Futures Long	Investment Income	(8)	Futures	-	-
Foreign Currency Futures Short	Investment Income	(3)	Futures	-	-
Foreign Currency Options Bought	Investment Income	104	Options	96	6,047
Foreign Currency Options Written	Investment Income	14	Options	-	-
Futures Options Bought	Investment Income	(80)	Options	2	3
Futures Options Written	Investment Income	234	Options	-	-
FX Forwards	Investment Income	792	LT Instruments	(560)	53,614
Pay Fixed Interest Rate Swaps	Investment Income	(2,843)	Swaps	(497)	23,100
Received Fixed Interest Rate Swaps	Investment Income	1,660	Swaps	385	16,455
Rights	Investment Income	(2)	Common Stock	-	-
Warrants	Investment Income	2	Common Stock	-	67
Grand Totals		$ (682)		$ 1,063	$ 138,277

C. SECURITIES LENDING

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

During fiscal year 2012, the master custodian, at the direction of the Retirement Board, loaned a portion of the District Retirement Funds' equity and fixed income securities secured by collateral in the form of United States and foreign currency cash, securities issued or guaranteed by the United States government, the sovereign debt of foreign countries and irrevocable bank letters of credit. This collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers were required to deliver and maintain collateral for each loan in an amount equal to (i) at least 102% of the market value of the loaned securities in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

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

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

NOTE 2. CASH AND INVESTMENTS

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

There was no involuntary participation in an external investment pool by the Quality D Fund and there was no income from one fund that was assigned to another fund by the master custodian during fiscal year 2012.

During fiscal year 2012, the Retirement Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2012.

The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in the Quality D Fund which is comprised of a liquidity pool and a duration pool. As of September 30, 2012, the liquidity pool had an average duration of 45.54 days and an average weighted final maturity of 71.41 days for USD collateral. As of this date, the duration pool had an average duration of 42.22 days and an average weighted final maturity of 1,793.71 days for USD collateral. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower.

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

On September 30, 2012, the Retirement Board had no credit risk exposure to borrowers.

As of September 30, 2012, the fair value of securities on loan was $95,058. Associated collateral totaling $97,797 was comprised of cash which was invested in the Quality D Fund. As of September 30, 2012, the invested cash collateral had a fair value of $96,652.

During the fiscal year ended September 30, 2012, 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 $1,145.

The collateral held is included in cash and investments shown in Table N5a and Exhibit 4-a, and the securities on loan are reported at their carrying amounts also in Table N5a 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 2012 was recorded on a cash basis which approximated the accrual basis. For the year ending September 30, 2012, securities lending income was $2,128 and securities lending expense was $570, resulting in net securities lending income of $1,558.

NOTE 3. RESTRICTED ASSETS

At September 30, 2012, restricted assets of the primary government, component units, and fiduciary funds totaled $8,812,406 as summarized in **Table N9**.

Table N9 – Summary of Restricted Assets

	Governmental Funds/Governmental Activities					
	General	Federal & Private Resources	Housing Production Trust Fund	General Capital Improvements	Non-Major	Total
Bond Escrow Accounts	$ 388,255	$ -	$ -	$ -	$ -	$ 388,255
Public Transportation	-	-	-	51,269	55,639	106,908
Emergency Cash Reserves	339,103	-	-	-	-	339,103
Others	-	79,497	67,509	-	219,674	366,680
Total	$ 727,358	$ 79,497	$ 67,509	$ 51,269	$ 275,313	$ 1,200,946

	Proprietary Funds/Business-Type Activities				
	Lottery & Games	Unemployment Compensation	Total	Fiduciary Funds	Component Units
Bond Escrow Accounts	$ -	$ -	$ -	$ -	$ 1,061,631
Unpaid Prizes	16,381	-	16,381	-	-
University Endowment	-	-	-	-	8,250
Benefits	-	309,802	309,802	6,213,692	-
Other	-	-	-	-	1,704
Total	$ 16,381	$ 309,802	$ 326,183	$ 6,213,692	$ 1,071,585

The bond escrow accounts include bond escrow for capital lease payment of $11,375.

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 N10.**

Table N10 – Receivables

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Lottery & Games	Unemployment Compensation	Fiduciary Funds
Gross Receivables:							
Taxes	$ 591,415	$ -	$ -	$ 3,626	$ -	$ -	$ -
Accounts and other	386,632	414,179	9,234	28,202	6,282	32,562	12,642
Federal	24	457,905	68,568	-	-	324	1,606
Total gross receivables	978,071	872,084	77,802	31,828	6,282	32,886	14,248
Less-allowance for uncollectibles	363,765	119,875	6,136	-	-	14,874	-
Total net receivables	**$ 614,306**	**$ 752,209**	**$ 71,666**	**$ 31,828**	**$ 6,282**	**$ 18,012**	**$ 14,248**

NOTE 4. RECEIVABLES, INTERFUND TRANSFERS/BALANCES

B. INTERFUND TRANSFERS

Table N11 shows a summary of interfund transfers for the fiscal year ended September 30, 2012.

Table N11– 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	$	22,778
General Fund	Highway Trust Fund	Taxes imposed for Capital Projects - Parking and Storage		16,654
Lottery and Games	General Fund	DC Lottery excess revenues, after operating cost		66,404
General Fund	Capital Improvements Fund	PAYGO - Projects financed by the General Fund		44,089
General Fund	Capital Improvements Fund	PAYGO - Projects financed by the Local Roads Const Maintenance Fund		36,789
Capital Improvements Fund	General Fund	Capital Improvements Fund financing to help address potential budget shortfa		5,196
Tax Increment Financing Fund	General Fund	Tax imposed to pay debt service on economic development projects		3,551
PILOT Special Revenue Fund	Capital Improvements Fund	Funds for DDOT PILOT projects		104,677
Federal and Private Resources Fund	General Fund	Revenues generated from indirect cost recovery		1,478
Baseball Special Revenue Fund	Baseball Debt Service Fund	Funds for baseball debt service payments		31,264
Capital Improvements Fund	General Fund	Community Healthcare financing to help address potential budget shortfall		5,126
Baseball Special Revenue Fund	General Fund	Baseball Fund financing to help address potential budget shortfall		10,636
General Fund	Housing Production Trust Fund	Funds for housing projects and services		1,850
General Fund	Tax Increment Financing Fund	TIF revenues transfer		2,595
		TOTAL INTERFUND TRANSFERS	$	353,087

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, 2012, are shown in **Table N12**.

Table N12 – Summary of Due To /Due From and Interfund Balances

	Primary Government/ Component Units		Interfund	
Fund or Component Unit	**Receivables**	**Payables**	**Receivables**	**Payables**
General	$ 33,616	$ 13,288	$ 187,901	$ 17,011
Federal & Private Resources	-	634	33,626	128,607
Housing Production Trust	-	-	6,870	-
General Capital Improvements	-	3,905	-	40,983
Nonmajor-Highway Trust	-	-	171	5,141
Nonmajor-Baseball Special Revenue	666	5,000	2,659	10,636
Nonmajor-PILOT Special Revenue	-	-	1,155	-
Nonmajor - Tax Increment Financing	-	-	6,292	-
Unemployment Compensation	-	-	-	34,117
Pension Trust	-	-	-	2,054
Agency	-	-	35	160
Water and Sewer Authority	3,155	1,664	-	-
Washington Convention and Sports Authorit	12,611	5,666	-	-
University of the District of Columbia	7,061	26,952	-	-
Total	$ **57,109**	$ **57,109**	$ **238,709**	$ **238,709**

The above balances represent the impact of transactions among the funds and component units which will be settled during fiscal year 2013.

NOTE 5. CAPITAL ASSETS

Capital Outlays

Capital outlays reported in the General Capital Improvements and Highway Trust Funds totaled $1,152,943 during the fiscal year ended September 30, 2012. As construction progresses, capital expenditures which meet the criteria to be capitalized as set forth in Note 1N, are capitalized as Construction in Progress (CIP) in the governmental activities column of the government-wide financial statements. Upon completion of the project, all project costs are transferred from CIP into the appropriate "in-service" depreciable capital asset account.

A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS

Table N13 presents the changes in the governmental activities capital assets by class for the primary government:

Table N13 - Changes in the Governmental Activities Capital Assets by Asset Class

Asset Class	Balance October 1, 2011	Additions	Transfers/ Dispositions	Transfers from CIP	Balance September 30, 2012
Non-depreciable:					
Land	$ 919,558	$ -	$ -	$ 16,676	$ 936,234
Construction in progress	1,913,782	879,416	-	(1,583,825)	1,209,373
Total non-depreciable	**2,833,340**	**879,416**	**-**	**(1,567,149)**	**2,145,607**
Depreciable:					
Infrastructure	4,430,688	-	-	385,971	4,816,659
Buildings	5,364,335	104,433	(5,293)	1,051,290	6,514,765
Equipment	1,382,521	15,756	(15,900)	129,888	1,512,265
Total depreciable	**11,177,544**	**120,189**	**(21,193)**	**1,567,149**	**12,843,689**
Less accumulated depreciation for:					
Infrastructure	(1,964,745)	(120,464)	-	-	(2,085,209)
Buildings	(1,252,742)	(138,905)	2,028	-	(1,389,619)
Equipment	(978,085)	(125,861)	14,437	-	(1,089,509)
Total accumulated depreciation	**(4,195,572)**	**(385,230)**	**16,465**	**-**	**(4,564,337)**
Total depreciable, net	**6,981,972**	**(265,041)**	**(4,728)**	**1,567,149**	**8,279,352**
Net governmental activities capital assets	**$ 9,815,312**	**$ 614,375**	**$ (4,728)**	**$ -**	**$ 10,424,959**

NOTE 5. CAPITAL ASSETS

B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS

Table N14 presents the changes in the governmental activities capital assets by function for the primary government:

Table N14- Governmental Activities Capital Assets by Function

Function	Balance October 1, 2011	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2012
Governmental direction and support	$ 2,201,712	$ 101,877	$ (122)	$ 62,905	$ 2,366,372
Economic development and regulation	424,415	325	-	89,702	514,442
Public safety and justice	752,998	10,474	(2,981)	53,290	813,781
Public education system	2,568,015	4,581	(12,359)	530,651	3,090,888
Human support services	965,189	2,134	-	418,378	1,385,701
Public works	5,184,773	798	(5,731)	428,899	5,608,739
Construction in progress (CIP)	1,913,782	879,416	-	(1,583,825)	1,209,373
Total	**$ 14,010,884**	**$ 999,605**	**$ (21,193)**	**$ -**	**$ 14,989,296**

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 N15**.

Table N15 – Governmental Activities Capital Assets Accumulated Depreciation by Function

Function	Balance October 1, 2011	Additions	Transfers/ Dispositions	Balance September 30, 2012
Governmental direction and support	$ 651,143	$ 93,086	$ (142)	$ 744,087
Economic development and regulation	38,964	3,577	-	42,541
Public safety and justice	354,355	34,504	(2,838)	386,021
Public education system	576,342	74,750	(10,488)	640,604
Human support services	331,133	39,651	-	370,784
Public works	2,243,635	139,662	(2,997)	2,380,300
Total	**$ 4,195,572**	**$ 385,230**	**$ (16,465)**	**$ 4,564,337**

NOTE 5. CAPITAL ASSETS

D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS

Business-Type Activities Capital Assets are presented in **Table N16**.

Table N16 - Business-Type Activities Capital Assets

Asset Class	Balance October 1, 2011	Additions	Dispositions/ Adjustments	Balance September 30, 2012
Lottery:				
Depreciable:				
Equipment	$ 3,461	$ 198	$ -	$ 3,659
Total	**3,461**	**198**	-	**3,659**
Total Business-Type	**3,461**	**198**	-	**3,659**
Less: accumulated depreciation for:				
Equipment	(2,983)	(196)	-	(3,179)
Total accumulated depreciation	(2,983)	(196)	-	(3,179)
Net capital assets	**$ 478**	**$ 2**	**$ -**	**$ 480**

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

A summary of capital assets by class for the discretely presented component units is shown in **Tables N17 and N18**.

Table N17 - Capital Assets by Class for the Discretely Presented Component Units

Asset Class	Balance October 1, 2011	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2012
Non-depreciable:					
Land	$ 20,989	$ -	$ -	$ -	$ 20,989
Artwork	2,741	-	-	-	2,741
Construction in progress	536,277	495,193	-	(168,424)	863,046
Total non-depreciable	**560,007**	**495,193**	-	**(168,424)**	**886,776**
Depreciable:					
Utility plant	3,715,914	12,247	(629)	155,598	3,883,130
Buildings and improvements	1,083,432	29,665	-	-	1,113,097
Equipment	236,490	3,911	(568)	12,826	252,659
Total depreciable	**5,035,836**	**45,823**	**(1,197)**	**168,424**	**5,248,886**
Less accumulated depreciation for:					
Utility plant	(919,324)	(63,572)	629	-	(982,267)
Buildings and improvements	(378,194)	(47,365)	-	-	(425,559)
Equipment	(184,979)	(5,718)	568	-	(190,129)
Total accumulated depreciation	**(1,482,497)**	**(116,655)**	**1,197**	-	**(1,597,955)**
Total depreciable, net	3,553,339	(70,832)	-	168,424	3,650,931
Net Capital Assets	**$ 4,113,346**	**$ 424,361**	**$ -**	**$ -**	**$ 4,537,707**

NOTE 5. CAPITAL ASSETS

Table N18 - Capital Assets by Component Unit

Component Units	Capital Assets: Balance October 1, 2011	Capital Assets: Additions	Capital Assets: Transfers/ Dispositions	Capital Assets: Balance September 30, 2012	Accumulated Depreciation: Balance October 1, 2011	Accumulated Depreciation: Additions	Accumulated Depreciation: Transfers/ Dispositions	Accumulated Depreciation: Balance September 30, 2012	Net Capital Assets: October 1, 2011	Net Capital Assets: September 30, 2012
University of the District of Columbia	$ 228,929	$ 27,195	$ (45)	$ 256,079	$ (131,109)	$ (4,325)	$ 45	$ (135,389)	$ 97,820	$ 120,690
Washington Convention and Sports Authority	951,363	18,341	-	969,704	(299,311)	(31,441)	-	(330,752)	652,052	638,952
Water and Sewer Authority	4,340,919	493,857	(1,152)	4,833,624	(1,041,573)	(74,960)	1,152	(1,115,381)	3,299,346	3,718,243
Housing Finance Agency	5,854	361	-	6,215	(3,350)	(228)	-	(3,578)	2,504	2,637
Not-for-Profit Hospital Corporation	68,778	1,262	-	70,040	(7,154)	(5,701)	-	(12,855)	61,624	57,185
Total	$ 5,595,843	$ 541,016	$ (1,197)	$ 6,135,662	$ (1,482,497)	$ (116,655)	$ 1,197	$ (1,597,955)	$ 4,113,346	$ 4,537,707

NOTE 5. CAPITAL ASSETS

F. CONSTRUCTION IN PROGRESS

Construction in progress by function for governmental activities capital assets is shown in **Table N19.**

Table N19 – Construction in Progress by Function

Function and Subfunction	Balance October 1, 2011	Additions	Transfers from CIP/Disposition	Balance September 30, 2012
PRIMARY GOVERNMENT				
Governmental Direction and Support				
Finance	$ 9,689	$ 4,686	$ -	$ 14,375
Legislative	562	692	-	1,254
Administrative	66,865	71,856	(101,111)	37,610
Total	77,116	77,234	(101,111)	53,239
Public Safety and Justice				
Police	133,312	55,339	(6,442)	182,209
Fire	58,228	3,211	(14,830)	46,609
Corrections	-	6,940	(6,940)	-
Total	191,540	65,490	(28,212)	228,818
Economic Development and Regulation				
Community Development	127,459	28,903	(89,702)	66,660
Total	127,459	28,903	(89,702)	66,660
Public Education System				
Schools	303,347	270,961	(485,101)	89,207
Culture	23,800	22,353	(45,137)	1,016
Total	327,147	293,314	(530,238)	90,223
Human Support Services				
Health and Welfare	333,341	18,828	(309,879)	42,290
Human Relations	-	1,347	(1,347)	-
Recreation	118,297	30,724	(105,541)	43,480
Total	451,638	50,899	(416,767)	85,770
Public Works				
Environmental	738,882	363,576	(417,795)	684,663
Total	738,882	363,576	(417,795)	684,663
Totals	$ 1,913,782	$ 879,416	$ (1,583,825)	$ 1,209,373

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, 2012, the aggregate outstanding principal amount for these conduit debt obligations was approximately $5.3 billion.

Such amounts are not reflected as liabilities of the District in the accompanying government-wide statement of net assets as of September 30, 2012.

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, 2012, the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was $82 million.

Such amounts are not reflected as liabilities of the District in the accompanying government-wide statement of net assets as of September 30, 2012.

NOTE 7. SHORT TERM LIABILITIES

TAX REVENUE ANTICIPATION NOTES

The District issued $820,000 in Tax Revenue Anticipation Notes (TRANs) on October 6, 2011. 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 an ensuing fiscal year. Operational and other costs are covered by the proceeds from the TRANs until periodic taxes, grants, and other revenues are received. These notes, which were issued as fixed-rate notes with an interest rate of 2.00%, matured on September 28, 2012. The District paid the notes in their entirety by the statutorily required deadline of September 30, 2012.

Table N20- Changes in Short-Term Liabilities

Account	Balance October 1, 2011	Additions	Deductions	Balance September 30, 2012
Governmental Activities				
Tax Revenue Anticipation Notes	$ -	$ 820,000	$ 820,000	$ -

NOTE 8. LONG-TERM LIABILITIES

LONG-TERM DEBT

In the government-wide and proprietary funds financial statements, 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 costs for long term debt are reported as deferred charges.

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 $7,909,076 is shown in **Table N21**.

NOTE 8. LONG – TERM LIABILITIES

Table N21 – Changes in Governmental Activities Long Term Debt of the Primary Government

	General Obligation Bonds	QZAB	Income Tax Secured Bonds	Tobacco Bonds	TIF Bonds	Ballpark Bonds	GARVEE	Housing Production Trust	NCRC Revenue Bonds	AWC PILOT Revenue Bonds	CAPPER PILOT BANs	COPs	Total
Debt Payable at September 30, 2011	$ 2,829,598	$ 8,573	$ 3,029,100	$ 690,289	$ 87,484	$ 512,850	$ 82,610	$ 84,335	$ 22,715	$ 90,660	$ 29,000	$ 230,335	**$ 7,697,549**
Bond and Notes Issued:													
Inc. Tax 2011B	-	-	95,720	-	-	-	-	-	-	-	-	-	**95,720**
Inc. Tax 2011C	-	-	3,415	-	-	-	-	-	-	-	-	-	**3,415**
Inc. Tax 2011D	-	-	29,550	-	-	-	-	-	-	-	-	-	**29,550**
Inc. Tax 2011E	-	-	113,050	-	-	-	-	-	-	-	-	-	**113,050**
Inc. Tax 2011F	-	-	177,300	-	-	-	-	-	-	-	-	-	**177,300**
Inc. Tax 2011G	-	-	223,420	-	-	-	-	-	-	-	-	-	**223,420**
Inc. Tax 2012A	-	-	258,110	-	-	-	-	-	-	-	-	-	**258,110**
Inc. Tax 2012B	-	-	56,000	-	-	-	-	-	-	-	-	-	**56,000**
TIF-2011	-	-	-	-	38,650	-	-	-	-	-	-	-	**38,650**
TIF-2012	-	-	-	-	52,365	-	-	-	-	-	-	-	**52,365**
Bonds and Notes Issued in FY 2012	-	-	**956,565**	-	**91,015**	-	-	-	-	-	-	-	**1,047,580**
Less:													
Debt Payments:													
Principal Paid	63,583	945	90,755	13,070	8,034	4,915	3,835	1,530	7,876	6,575	-	11,400	**212,518**
Principal Defeased	470,790	-	95,265	-	57,480	-	-	-	-	-	-	-	**623,535**
Debt Payable at September 30, 2012	**$ 2,295,225**	**$ 7,628**	**$ 3,799,645**	**$ 677,219**	**$ 112,985**	**$507,935**	**$ 78,775**	**$ 82,805**	**$ 14,839**	**$ 84,085**	**$ 29,000**	**$ 218,935**	**$ 7,909,076**

NOTE 8. LONG-TERM LIABILITIES

A. GENERAL OBLIGATION BONDS

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

A summary of debt service requirements to maturity for the District's outstanding general obligation bonds is shown in **Table N22.**

Table N22 - Summary of Debt Service Requirements for General Obligation Bonds

Year Ending	General Obligation Bonds		
September 30	Principal	Interest	Total
2013	$ 50,040	$ 118,841	$ 168,881
2014	49,675	110,492	160,167
2015	89,880	93,767	183,647
2016	119,630	95,996	215,626
2017	105,265	90,408	195,673
2018 - 2022	535,885	377,478	913,363
2023 - 2027	421,965	261,796	683,761
2028 - 2032	416,675	180,328	597,003
2033 - 2037	506,210	68,837	575,047
Total	**$ 2,295,225**	**$ 1,397,943**	**$ 3,693,168**

Qualified Zone Academy Bonds

Since fiscal year 2002, the District has issued Qualified Zone Academy Bonds (QZABs) as taxable general obligation bonds without incurring explicit interest costs. **Table N23** presents a summary of the District's outstanding QZAB at September 30, 2012.

Table N23 – Outstanding Qualified Zone Academy Bonds

Date of Issuance	Terms	Total Sinking Fund Payments at September 30, 2012
	(Dollars in $000s)	
December 21, 2001	Received $4,665 and obligated to deposit a total amount of $3,584 into a sinking fund in 14 equal annual amounts of $256 beginning December 1, 2002	$2,560
December 28, 2005	Received $3,191 and obligated to deposit a total amount of $2,655 into a sinking fund in 15 equal annual amounts of $177 beginning December 1, 2006	$1,062
May 29, 2008	Received $2,360 and obligated to deposit a total amount of $2,360 into a sinking fund in 10 equal annual amounts of $236 beginning December 1, 2008	$944
June 30, 2010	Received $4,140 and obligated to deposit a total amount of $4,140 into a sinking fund in 15 equal annual amounts of $276 beginning December 1, 2010	$552

A summary of debt service requirements to maturity for QZAB is shown in **Table N24.**

Table N24 - Summary of Debt Service Requirements for QZAB

Year Ending September 30	QZAB Principal
2013	$ 945
2014	946
2015	946
2016	946
2017	690
2018-2022	2,326
2023-2027	829
Total	**$ 7,628**

NOTE 8. LONG – TERM LIABILITIES

B. INCOME TAX SECURED REVENUE BONDS

Under the authority granted by the Income Tax Secured Bond Authorization Act of 2008 (the Act) (D.C. Official Code §47-340.26 – 47-340.36), the District's Income Tax Secured Revenue Bonds are issued to fund Council-approved District capital projects and to refund outstanding debt, as an alternative to the issuance of general obligation bonds. 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. In October 2008, the District established the Income Tax Secured Revenue Bond Escrow Fund that is maintained within the General Fund. The Income Tax Secured Bonds issued pursuant to the Act are special obligations of the District payable solely from the specific tax revenues deposited and held in the Fund.

Pursuant to the Act, amounts deposited in the Escrow Fund and all investment earnings on these funds are irrevocably dedicated and pledged to the payment of the principal of, and interest on, all outstanding Income Tax Secured Revenue Bonds and related costs (i.e., costs of the collection agent and trustee and debt service). All income tax and business franchise tax revenues are deposited into the Escrow Account by the Fund's fiduciary before receipt by the District. Beginning on April 1 in each year, the District holds all receipts in the Escrow Fund until the amount held equals one-third of all principal and interest payments on all outstanding Income Tax Secured Revenue Bonds which will be due in the next fiscal year. Amounts held in escrow are released to the District only after the one-third amount is reached. That process is repeated on May 1 and June 1 until the amounts in the Escrow Fund equal 100% of the next year's required debt service on all Income Tax Secured Revenue Bonds.

Series 2011B-C-D-E

In November 2011, the District issued $95,720 in Income Tax Secured Revenue Refunding Bonds, Series 2011B (Adjusted SIFMA Rate); $3,415 in Income Tax Secured Revenue Refunding Bonds, Series 2011C (Adjusted SIFMA Rate); $29,550 in Income Tax Secured Revenue Refunding Bonds, Series 2011D (Adjusted SIFMA Rate); and $113,050 in Income Tax Secured Revenue Refunding Bonds, Series 2011E (Adjusted SIFMA Rate) (together, $241,735 in Income Tax Secured Revenue Refunding Bonds, Series 2011B-C-D-E Bonds).

The proceeds of the Series 2011B Bonds were used, together with certain other funds of the District, to currently refund $63,335 of the outstanding principal amount of the District's Income Tax Secured Revenue Refunding Bonds, Series 2010C (Adjusted SIFMA Rate) and $31,930 of the District's Income Tax Secured Revenue Refunding Bonds, Series 2010E (Adjusted SIFMA Rate) that matured on December 1, 2011, and pay the costs and expenses of issuing and delivering the Series 2011B Bonds. The proceeds of the Series 2011C Bonds, Series 2011D Bonds and Series 2011E Bonds were used, together with certain other funds of the District, to advance refund to the earliest call date the District's General Obligation Bonds, Series 2003A, principal amount of $110,290, maturing on June 1 in the years 2015 and 2023 through 2027, inclusive, and the District's General Obligation Bonds, Series 2003B, principal amount of $25,545, maturing on June 1 in the years 2015 and 2019 and pay the costs and expenses of issuing and delivering the Series 2011C Bonds, Series 2011D Bonds and Series 2011E Bonds.

Series 2011F-G Bonds

In December 2011, the District issued $177,300 in Income Tax Secured Revenue Bonds, Series 2011F (Negotiated) and $223,420 in Income Tax Secured Revenue Bonds, Series 2011G (Competitive) (together, the Series 2011F-G Bonds) as senior bonds. The issuance of the Series F-G Bonds was subject to the Council's adoption of the Fiscal Year 2012 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Approval Resolution of 2011, which occurred in December 2011.

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

Series 2012A-B Bonds

In May 2012, the District issued $258,110 in Income Tax Secured Revenue Refunding Bonds, Series 2012A and $56,000 in Income Tax Secured Revenue Bonds, Series 2012B (together, the Series 2012 A-B Bonds) as senior bonds. The issuance of the Series A-B Bonds was also subject to the Council's adoption of the Fiscal Year 2012 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Approval Resolution of 2011, which occurred in December 2011.

The proceeds of the Series 2012A-B Bonds, together with other funds of the District, were used to: current or advance refund, as applicable, a portion of the District's outstanding General Obligation Bonds, including Series 2002C, principal amount of $14,025; Series 2004A, principal amount of $140,090; and Series 2005A, principal amount of $180,840, pay the costs and expenses of issuing and delivering the Series 2012A-B Bonds.

NOTE 8. LONG-TERM LIABILITIES

A summary of the debt service requirements to maturity for principal and interest for the District's Income Tax Secured Revenue Bonds is shown in **Table N25**.

Table N25 – Summary of Debt Service Requirements for Income Tax Secured Revenue Bonds

Year Ending	INCOME TAX SECURED REVENUE BONDS		
September 30	Principal	Interest	Total
2013	$ 117,740	$ 177,864	$ 295,604
2014	131,245	172,287	303,532
2015	103,620	167,791	271,411
2016	69,840	167,948	237,788
2017	84,120	164,624	248,744
2018 - 2022	707,145	736,759	1,443,904
2023 - 2027	1,123,010	525,513	1,648,523
2028 - 2032	956,155	250,018	1,206,173
2033 - 2037	506,770	52,639	559,409
Total	$ 3,799,645	$ 2,415,443	$ 6,215,088

Pledged Tax Revenues for Debt Service on Income Tax Secured Revenue Bonds

During fiscal year 2012, the District collected $1,956,590 in Income and Business Franchise Taxes. Of this amount, $298,367, or 15.2%, was held in the Fund for the payment of debt service on outstanding Income Tax Secured Revenue Bonds in fiscal year 2013. The anticipated debt service amount for fiscal year 2013 is $295,604. Therefore, total available tax revenues collected and set aside in the Fund in fiscal year 2012 covers the total amount of anticipated debt service for fiscal year 2013 as presented below:

Available Tax Revenues Collected in FY 2012					
Individual Income	Business Franchise	Total	Amount Held in Escrow for FY 2013 Debt Service	FY 2013 Debt Service Amount	Rate of Coverage
			(a)	(b)	(c) = (a)/(b)
$1,490,694	$465,896	$1,956,590	$298,367	$295,604	100.9%

In fiscal year 2012, debt service on the Income Tax Secured Revenue Bonds totaled $224,845. The debt service coverage ratio was 8.70 to 1: Total available taxes of $1,956,590, divided by FY 2012 debt service of $234,224..

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 was 5.023% in fiscal year 2012. The weighted average interest rate on the District's variable rate bonds for fiscal year 2012 is 0.335%.

C. TOBACCO BONDS

In November 1998, the District (along with a number of states and various jurisdictions) signed a Master Settlement Agreement (MSA) 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, 2012, $428,955 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 2012, the amount outstanding as of September 30, 2012, was $248,264. Payments received by the Tobacco Corporation under the MSA in excess of the annual debt

NOTE 8. LONG – TERM LIABILITIES

service requirements for the Tobacco Bonds may revert to the General Fund.

As of September 30, 2012, the total outstanding balance for all Tobacco Bonds as shown in **Table N26** was $677,219.

Table N26 - Summary of Debt Service Requirements for Tobacco Bonds

Year Ending	Tobacco Bonds		
September 30	Principal	Interest	Total
2013	$ 29,760	$ 28,103	$ 57,863
2014	19,060	26,279	45,339
2015	18,980	25,119	44,099
2016	20,765	23,933	44,698
2017	22,740	22,594	45,334
2018 - 2022	139,180	88,789	227,969
2023 - 2027	178,470	34,815	213,285
2043 - 2047	159,733	1,697,592	1,857,325
2053 - 2057	88,531	2,478,469	2,567,000
Total	**$ 677,219**	**$ 4,425,693**	**$ 5,102,912**

D. TAX INCREMENT FINANCING (TIF)

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.

TIF Notes

The sole source of repayment of many of the TIF Notes is the incremental sales and/or real property tax revenues from the Project, and the District has no obligation to make any payments on the TIF Notes other than through the remittance of the incremental revenues to the Paying Agent. TIF Notes are not obligations of the District. For this reason, TIF Notes are not included in **Table N21** as long-term debt of the District.

Fort Lincoln Retail Project

In November 2011, the District issued the Fort Lincoln Retail Project TIF Notes, in the total amount of $10,000. The TIF Notes remain in escrow pending the completion of Phase I and Phase II of the retail project. The Notes are to be repaid from project incremental sales and property tax revenues. If such revenues are insufficient to pay the principal and interest due on the notes when payable, the payment shortfall will not constitute a default. If the incremental revenues are sufficient, the District will pay the principal and interest due, and the amount of previous shortfall(s) to the Development Sponsor without any penalty interest or premium thereon.

Downtown Retail Priority Area: Zara, National Crime and Punishment Museum, Madame Tussauds, Forever 21, and Clyde's

Since March 2006, the Mayor has executed several TIF Notes under the Downtown Retail Priority Area Program. **Table N27** presents a summary of the original loan amounts of the Downtown Retail Priority Area TIF Notes.

Table N27 – Downtown Retail Priority Area TIF Notes

Issuance Date	Description	Dollar Value/ Amount (in $000s)	Terms/Other Comments
May 2008	Zara TIF Note	$1,750	Matures on June 1, 2018 or upon payment in full; Interest Rate: 5.50%
September 2008	National Crime and Punishment Museum TIF Note	$3,000	Matures on October 1, 2018; Interest Rate: 5.50%
December 2008	Madame Tussauds TIF Note	$1,300	Matures on December 1, 2018; Interest Rate: 4.50%
February 2011	Forever 21 TIF Note	$4,985	Matures on February 1, 2021; Interest Rate: 6.00%
May 2011	Clyde's TIF Note	$4,472	Matures on December 1, 2021; Interest Rate: 5.50%

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

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

NOTE 8. LONG-TERM LIABILITIES

at a fixed interest rate of 6.584% with a maturity date of August 15, 2027. These notes are a special limited obligation of the District and are secured by a portion of the taxes on certain on-site personal property, services and public ticket sales at the Verizon Center. In the event such taxes are not sufficient, the notes are further secured by incremental tax revenues from the Downtown TIF Area, which are subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance the Mandarin Oriental Hotel.

Waterfront Arts Project

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

Great Streets Retail Priority Areas

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

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

TIF Bonds

The District also uses the issuance of TIF Bonds as an economic development financing tool. Unlike the transactions associated with TIF Notes, the District receives cash consideration for TIF Bonds when issued. For this reason, TIF Bonds are reported as long-term liabilities of the District and are included in **Table N21**.

Gallery Place Project Series 2012

In June 2012, the District issued Tax Increment Revenue Refunding Bonds (Gallery Place Project, Series 2012) in the amount of $52,365. These bonds were issued pursuant to: (1) the District of Columbia Home Rule Act, approved December 24, 1973, as amended (P.L. 93-198; 87 Stat. 774; D.C. Official Code, §§ 1-201.01 et seq.); (2) the "Tax Increment Financing Authorization Act of 1998" and the acts amendatory and supplemental thereto, (3)the Gallery Place Resolutions, and (4) the Indenture of Trust between the District of Columbia and U.S. Bank National Association, as trustee, dated June 1, 2012.

The proceeds of the Series 2012 Bonds were used to: (1) current refund, on July 1, 2012, the District of Columbia Gallery Place Project Tax Increment Revenue Bonds, Series 2002, and (2) pay the costs and expenses of issuing and delivering the Series 2012 Bonds.

The Series 2012 Bonds are special obligations of the District, secured by a lien on and pledge of: (1) the available tax increment, which means, collectively, 100% of the real property tax increment and 100% of the sales tax increment attributable to the Gallery Place Project TIF Area, and (2) the monies and investments on deposit in certain funds and accounts established under the Indenture. To the extent the available tax increment (from the Gallery Place project) is insufficient to pay principal and interest when due on the Series 2012 Bonds, the District will allocate incremental tax revenues from the Downtown TIF Area to such payment. Such allocation of Downtown TIF revenues is subordinate to the pledge to secure the Mandarin Oriental Bonds, and on parity with the pledge to secure bonds issued to finance other projects, both within and outside the Downtown TIF Area.

The Series 2012 Bonds were issued with interest rates ranging from 3.00% to 5.00% with yields ranging from 0.75% to 3.96%.

City Market at O Street

In November 2011, the District issued the City Market at O Street TIF Bonds in the amount of $38,650. The bonds are secured by the incremental real property and incremental sales taxes to be generated from the City Market at O Street mixed-use project. In the event that such taxes are not sufficient, the bonds are further secured by incremental tax revenues from the Downtown TIF Area. Such allocation of Downtown TIF revenues is subordinate to the pledge to secure the Mandarin Oriental Bonds, and on parity with the pledge to secure bonds issued to finance other projects, both within and outside the Downtown TIF Area.

NOTE 8. LONG – TERM LIABILITIES

Mandarin Oriental Hotel

In 2002, the District promised to pay an aggregate principal amount of $45,995 to the Mandarin Hotel Development Sponsor. The District issued 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. At issuance, interest rate yields on the Mandarin Hotel TIF Bonds ranged from 4.26% to 5.48%. The bonds are secured by the incremental real property and incremental sales taxes generated from the Mandarin Hotel project. In the event such taxes are not sufficient, the bonds are further secured by incremental tax revenues from the Downtown TIF Area.

Tables N28 through N30 show the summary of debt service requirements for *Gallery Place, City Market at O Street* and *Mandarin Oriental Hotel.*

Table N28 - Summary of Debt Service Requirements for Gallery Place Refunding TIF Bond

Year Ending	Gallery Place		
September 30	Principal	Interest	Total
2013	$ 1,910	$ 2,402	$ 4,312
2014	1,825	2,486	4,311
2015	1,900	2,413	4,313
2016	1,975	2,337	4,312
2017	2,075	2,238	4,313
2018-2022	12,035	9,525	21,560
2023-2027	15,360	6,200	21,560
2028-2032	15,285	1,957	17,242
Total	**$ 52,365**	**$ 29,558**	**$ 81,923**

Table N29 – Summary of Debt Service Requirements for City Market at O Street

Year Ending	City Market at O Street		
September 30	Principal	Interest	Total
2013	$ -	$ 1,877	$ 1,877
2014	-	1,877	1,877
2015	-	1,877	1,877
2016	220	1,877	2,097
2017	300	1,871	2,171
2018-2022	2,700	9,158	11,858
2023-2027	6,115	8,308	14,423
2028-2032	8,265	6,620	14,885
2033-2037	10,530	4,353	14,883
2038-2041	10,520	1,382	11,902
Total	**$ 38,650**	**$ 39,200**	**$ 77,850**

Table N30 - Summary of Debt Service Requirements for Mandarin Oriental Hotel TIF Bond

Year Ending	Mandarin Oriental Hotel		
September 30	Principal	Interest	Total
2013	$ 2,292	$ 2,217	$ 4,509
2014	2,148	2,356	4,504
2015	2,014	2,495	4,509
2016	1,878	2,626	4,504
2017	1,761	2,744	4,505
2018-2022	11,877	10,655	22,532
Total	**$ 21,970**	**$ 23,093**	**$ 45,063**

E. OTHER REVENUE BONDS

Ballpark Revenue Bonds

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

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

NOTE 8. LONG-TERM LIABILITIES

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.

The proceeds of the Series 2006 Ballpark Revenue Bonds were used to finance a portion of the cost of construction of the District's baseball stadium.

Table N31 shows the summary of debt service requirements to maturity for principal and interest for the Ballpark Revenue Bonds. It assumes an interest rate of 4.89% for the Series 2006B-2 Bonds.

Table N31 - Summary of Debt Service Requirements for Ballpark Revenue Bonds

Year Ending	Ballpark Bonds		
September 30	Principal	Interest	Total
2013	$ 5,680	$ 26,204	$ 31,884
2014	6,835	25,899	32,734
2015	7,685	25,531	33,216
2016	8,550	25,418	33,968
2017	9,525	24,952	34,477
2018-2022	64,040	115,943	179,983
2023-2027	98,690	94,991	193,681
2028-2032	145,730	63,041	208,771
2033-2036	161,200	17,641	178,841
Total	**$ 507,935**	**$ 419,620**	**$ 927,555**

Federal Highway Bonds (GARVEE)

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

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

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

The Series 2011 Bonds are special obligations of the District, payable solely from the pledged revenues specifically pledged to the payment thereof and other amounts specifically pledged under the Trust Indenture. The Series 2011 Bonds are without recourse to the District, are not a pledge of, and do not involve, the full faith and credit, or the taxing power of the District. The Bonds do not constitute a debt of the District, and do not constitute lending of public credit for private undertakings as prohibited in the Home Rule Act. The Bonds are payable from the pledged revenues, and shall be a valid claim of the respective owners thereof only against the Trust Estate, which is pledged, assigned, and otherwise secured for the equal and ratable payment of the Bonds and shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, except as may be otherwise expressly authorized in the Master Indenture.

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

A summary of the debt service requirements to maturity for principal and interest for the Federal Highway Grant Anticipation Revenue Bonds, Series 2011, is shown in **Table N32.**

Table N32 - Summary of Debt Service Requirements for Federal Highway Grant Anticipation Bonds

Year Ending	Federal Highway Grant Anticipation Revenue Bonds		
September 30	Principal	Interest	Total
2013	$ 4,140	$ 3,640	$ 7,780
2014	4,330	3,449	7,779
2015	4,525	3,253	7,778
2016	4,710	3,068	7,778
2017	4,900	2,883	7,783
2018-2022	28,095	10,804	38,899
2023-2027	28,075	3,045	31,120
Total	**$ 78,775**	**$ 30,142**	**$ 108,917**

NOTE 8. LONG – TERM LIABILITIES

Housing Production Trust Fund Program

On March 16, 1989, the Council enacted the Housing Production Trust Fund Act of 1988, D.C. Law 7-202, which was subsequently amended on May 7, 2003, with administration authority for the Trust Fund vested in the D.C. Department of Housing and Community Development (DHCD). The purpose of the Trust Fund is to provide financial assistance to non-profit and for-profit developers for the planning and production of low, very low, and extremely low income housing and related facilities. In fiscal year 2007, budget authority was established for $150 million for the New Communities Projects (which the District planned to finance with bond proceeds). To pay the debt service on these bonds, the Council authorized up to $16 million annually to be transferred from the allocated fund of the Housing Production Trust Fund (HPTF), which was funded by dedicated revenue from deed recordation and transfer taxes. The District issued approximately $34.1 million of revenue bonds in 2007 for a major investment in the "Northwest One New Communities Project Area." The bonds were issued with an average interest rate of 4.82%.

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

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

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

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

Table N33 details the annual funding requirements necessary to repay the outstanding bonds.

Table N33 - Summary of Debt Service Requirements for Housing Production Trust Fund Revenue Bonds

Year Ending	Housing Production Trust		
September 30	Principal	Interest	Total
2013	$ 1,585	$ 3,988	$ 5,573
2014	1,650	3,924	5,574
2015	1,720	3,857	5,577
2016	1,805	3,771	5,576
2017	1,895	3,681	5,576
2018-2022	10,955	16,924	27,879
2023-2027	13,895	13,969	27,864
2028-2032	17,655	10,223	27,878
2033-2037	22,305	5,563	27,868
2038-2042	9,340	949	10,289
Total	**$ 82,805**	**$ 66,849**	**$ 149,654**

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 2012, in addition to mandatory sinking fund payments, the District paid $6,785 of bond redemptions.

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

A summary of the debt service requirements to maturity for principal and interest for the NCRC revenue bonds is shown in **Table N34** and has been calculated, for illustration purposes, with a 2.55% interest rate through fiscal year 2015 and 3.6% thereafter.

NOTE 8. LONG-TERM LIABILITIES

Table N34 - National Capital Revitalization Corporation Revenue Bonds Debt Service Requirements to Maturity

Year Ending September 30	National Capital Revitalization Corporation Principal	Interest	Total
2013	$ 2,982	$ 304	$ 3,286
2014	1,205	288	1,493
2015	1,267	257	1,524
2016	1,332	316	1,648
2017	1,400	267	1,667
2018-2022	6,653	526	7,179
Total	**$ 14,839**	**$ 1,958**	**$ 16,797**

PILOT Revenue Bonds and Notes

The District uses payment in lieu of taxes financing to reimburse developers for certain development costs associated with projects to be constructed on real property located in the District.

PILOT Revenue Bonds

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

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

A summary of the debt service requirements to maturity for principal and interest for the AWC PILOT Revenue Bonds is shown in **Table N35.**

Table N35 - Anacostia Waterfront Corporation PILOT Revenue Bonds Debt Service Requirements to Maturity

Year Ending September 30	Anacostia Waterfront Corporation Principal	Interest	Total
2013	$ 6,875	$ 3,678	$ 10,553
2014	7,180	3,368	10,548
2015	7,510	3,044	10,554
2016	7,845	2,705	10,550
2017	8,200	2,350	10,550
2018-2022	46,475	5,752	52,227
Total	**$ 84,085**	**$ 20,897**	**$ 104,982**

Capper PILOT Revenue Bond Anticipation Notes

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

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

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

A summary of the debt service requirements to maturity for principal and interest for the Capper PILOT Revenue Bond Anticipation Notes is shown in **Table N36.**

NOTE 8. LONG – TERM LIABILITIES

Table N36 - Capper PILOT Revenue Bond Anticipation Notes Debt Service Requirements to Maturity

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

PILOT Revenue Notes

PILOT Revenue Notes are special obligations of the District and are non-recourse to the District. Such notes are not a pledge of, and do not involve the faith and credit or the taxing power of the District. Accordingly, PILOT Revenue Notes are not obligations of the District. For this reason, PILOT Revenue Notes are not included in **Table N21** as long-term debt of the District.

Table N37 presents a summary of the outstanding PILOT Revenue Notes at September 30, 2012.

Table N37 – PILOT Revenue Notes

Issuance Date	Description	Dollar Value Amount (in $000s)	Terms/Other Comments
August 2011	PILOT Revenue Note Rhode Island Metro Plaza Project, Series 2010	$ 7,200	Matures on September 30, 2032; Interest Rate: 5.78%
August 2010	PILOT Revenue Note Foundry Lofts Project Series 2010	$ 5,660	Matures on January 1, 2038; Interest Rate: 5.16% per annum

Rhode Island PILOT Note

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

Southeast Federal Center PILOT Program (Foundry Lofts Project)

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

F. REFUNDINGS AND BOND DEFEASANCES

Current and Advance Refunding

The District used the proceeds of its Series 2011B Income Tax Secured Revenue Refunding Bonds (Adjusted SIFMA Rate) to currently refund $95,265 of the District's Series 2010C and 2010E Income Tax Secured Revenue Bonds (Adjusted SIFMA Rate) on November 30, 2011. The District completed the refunding to maintain the planned amortization schedule of the Series 2010C and 2010E Bonds by extending the stated maturities to December 1, 2013, and December 1, 2015. The result of the current refunding, refinancing one variable-rate issue with another to roll the maturity forward and effectively maintain the amortization schedule, produced no economic gain or loss.

The District used the proceeds of its Series 2011C, 2011D, and 2011E Income Tax Secured Revenue Refunding Bonds (Adjusted SIFMA Rate) to advance refund $135,835 of its Series 2003A and 2003B General Obligation Bonds on November 30, 2011. The refunding provided the District with $23,810 of present value (PV) savings or 17.53% of par refunded.

The District used the proceeds of its Series 2012A and 2012B Income Tax Secured Revenue Refunding Bonds to currently refund $14,025 of its Series 2002C General Obligation Bonds, and advance refund $320,930 of its Series 2004A and 2005A General Obligation Bonds on

NOTE 8. LONG-TERM LIABILITIES

May 16, 2012. The refunding provided the District with $35,120 of present value savings or 10.48% of par refunded.

The District used the proceeds of its Series 2012 Tax Increment Revenue Refunding Bonds (Gallery Place Project) to refund $57,480 of its Series 2002 Gallery Place Project Tax Increment Revenue Bonds on June 21, 2012. The refunding provided the District with $8,570 of PV savings or 14% of par refunded.

Variable Rate Demand Bond Program

As of September 30, 2012, the District had four outstanding series of General Obligation Variable Rate Demand Obligations (VRDO) (which for reporting purposes, are included as part of the District's general obligation bonds) with an aggregate principal amount of $397,880. While all of the outstanding VRDO series are currently in a weekly interest rate reset mode, each series is a long-term obligation with final maturities ranging from 2027 to 2034. Each of the outstanding VRDO series is secured by a direct pay letter of credit (LOC) issued by a banking institution to provide both credit enhancement and liquidity support for the "demand" feature of the securities whereby, pursuant to the provisions of the authorizing documents for each of the VRDO series, bondholders have the right to tender their bonds to the District at any time for repurchase at 100% of the face value of the bonds (plus accrued interest). Pursuant to the terms of each LOC, each time bonds are tendered for purchase and at each principal and/or interest payment date, the LOC is drawn upon to make such payments. Following the draw on the LOC, the LOC provider is reimbursed by the trustee/tender agent from remarketing proceeds and/or Special Real Property Tax Revenue held in escrow by the trustee. To the extent that a LOC provider is not immediately reimbursed for a draw on its LOC, the terms and conditions of future repayment are set forth in the reimbursement agreement between the District and the LOC provider.

Table N38 summarizes each of the outstanding VRDO series and certain of the terms and conditions of each supporting LOC and reimbursement agreement.

Table N38 – Outstanding Variable Rate Demand Obligations

Series	Par Outstanding	Final Maturity	Reset Mode/ Payment Frequency	LOC Provider	LOC Issue Date	LOC Expiration Date
2008A	$ 59,950	6/1/2034	7-Day Reset / Monthly Pay	Bank of America	3/26/2010	3/26/2013
2008C-1	$ 67,195	6/1/2027	7-Day Reset / Monthly Pay	TD Bank	11/19/2009	11/19/2012
2008C-2	$ 157,105	6/1/2027	7-Day Reset / Monthly Pay	JP Morgan	11/19/2009	11/19/2012
2008D	$ 113,620	6/1/2034	7-Day Reset / Monthly Pay	Wells Fargo	3/26/2010	3/26/2013
Total	$ 397,870					

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

Defeased Bonds

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

As of September 30, 2012, the total amount of defeased debt outstanding held by the escrow agent was $860,460. This amount has been removed from the government-wide financial statements. As presented in **Table N39,** the amount of bonds defeased through fiscal year 2012 refundings was $623,535.

NOTE 8. LONG – TERM LIABILITIES

Table N39 - Summary of Defeased Bonds in FY 2012

SUMMARY OF DISTRICT BONDS IN FY 2012
Defeased by Income Tax Secured Revenue Bonds,
Series 2011B-C-D-E, 2012A-B and Gallery Place Project
Series 2012

Bond Series Refunded	Interest Rate	Refunded Amount
2010C ITSBs (SIFMA)	3.00%	$ 63,335
2010E ITSBs (SIFMA)	3.00%	31,930
2003A GO	4.75% to 5.00%	110,290
2003B GO	4.375% to 5.00%	25,545
2002C GO	5.25%	14,025
2004A GO	4.75% to 5.00%	140,090
2005A GO	5.00%	180,840
Gallery Place TIF Series 2002	5.125% to 5.50%	57,480
		$ 623,535

G. HEDGING DERIVATIVE INSTRUMENT PAYMENTS AND HEDGED DEBT

Table N40 presents aggregate debt service requirements of the District's debt and net receipts/payments on associated hedging derivative instruments as of September 30, 2012. 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 N40 – Aggregate Debt Service Requirements and Net Receipts/Payments On Hedging Derivative Instruments

Fiscal Year Ending September 30	Principal	Interest	Hedging Derivatives, Net	Total
2013	$ 6,875	$ 2,427	$ 11,296	$ 20,598
2014	16,315	2,369	11,045	29,729
2015	17,100	2,005	10,665	29,770
2016	17,910	1,620	10,260	29,790
2017	8,200	1,205	9,837	19,242
2018-2022	132,060	4,041	41,458	177,559
2023-2027	148,175	795	15,819	164,789
Total	**$ 346,635**	**$ 14,462**	**$ 110,380**	**$ 471,477**

H. OTHER LONG-TERM LIABILITIES

Equipment Financing Program

The District began its Master Equipment Lease Purchase Program (the Program) in 1998 to provide tax-exempt financing for assets with short-term to intermediate-term useful lives. Equipment procured under this program includes such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances); trucks and cranes used by the Department of Public Works; vehicles used by the Metropolitan Police Department; and other heavy equipment items.

As of September 30, 2012, the District financed approximately $428 million of its capital equipment needs through the program, and had approximately $120 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 1.93%. Payments on the liability are made on a quarterly basis.

Table N41 shows the schedule of equipment financing program payments.

(Dollars in Thousands) Notes to the Basic Financial Statements

NOTE 8. LONG-TERM LIABILITIES

Table N41 – Schedule of Equipment Financing Program Payments

Year Ending September 30	Principal	Interest	Total
2013	$ 43,166	$ 2,783	$ 45,949
2014	32,717	1,562	34,279
2015	24,119	777	24,896
2016	15,262	262	15,524
2017	4,259	29	4,288
Total	**$ 119,523**	**$ 5,413**	**$ 124,936**

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 $7,720 of outstanding 2002 COPs 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, 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 $48,885 of outstanding 2003 COPs with a final maturity of 2023, as shown in **Table N42a**. 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 4.76%.

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 N42b**. The COPs' proceeds were used to fund a portion of the cost of the design and construction of the hospital, which totaled approximately $208 million. Of this amount, $184,200 was financed with COP proceeds and interest earnings thereon. In addition, COP proceeds were used to fund the purchase of the DMV building from its current owner for $15,300 and $3,100 of improvements to include: parking enhancements, window replacement, elevators, a loading dock, and access to the adjacent inspection facility. The District has $170,050 of outstanding 2006 COPs with a final maturity of 2026. The weighted average interest rate yield on these COPs is 4.54%.

Table N42a - 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
2013	$ 3,405	$ 2,395	$ 5,800
2014	3,545	2,256	5,801
2015	3,720	2,082	5,802
2016	3,930	1,872	5,802
2017	4,150	1,650	5,800
2018-2022	24,470	4,533	29,003
2023-2027	5,665	134	5,799
Total	**$ 48,885**	**$ 14,922**	**$ 63,807**

Table N42b - Summary of Debt Service Requirements for COP- St Elizabeth/DMV Building

Year Ending September 30	St Elizabeth/DMV Building COP		
	Principal	Interest	Total
2013	$ 8,565	$ 8,254	$ 16,819
2014	9,015	7,804	16,819
2015	9,500	7,318	16,818
2016	10,015	6,805	16,820
2017	10,555	6,265	16,820
2018-2022	61,410	22,691	84,101
2023-2027	60,990	6,290	67,280
Total	**$ 170,050**	**$ 65,427**	**$ 235,477**

225 Virginia Avenue, LLC Loan

On May 14, 2010, the District entered into a 20-year agreement with S/C 225 Virginia Avenue, LLC (the Developer). Under this agreement, the Developer financed excess costs for the construction of the improvements to the building located on the site at 225 Virginia Avenue. The District began repayment of the loan on June 30, 2012 with annual payments of $9,274.

NOTE 8. LONG - TERM LIABILITIES

A summary of debt service requirements to maturity for principal and interest is shown in **Table 43**.

Table 43 - Summary of Debt Service Requirements for 225 Virginia Avenue, LLC Loan

Year Ending	225 Virginia Avenue, LLC		
September 30	Principal	Interest	Total
2013	$ 2,546	$ 6,728	$ 9,274
2014	2,723	6,551	9,274
2015	2,913	6,361	9,274
2016	3,116	6,158	9,274
2017	3,333	5,941	9,274
2018-2022	20,484	25,884	46,368
2023-2027	28,679	17,689	46,368
2028-2032	37,035	6,240	43,275
Total	**$ 100,829**	**$ 81,552**	**$ 182,381**

A summary of changes in other long-term liabilities for governmental activities is shown in **Table N44**.

Table N44 - Changes in Other Long-Term Liabilities

Account	Balance October 1, 2011	Additions	Deductions	Balance September 30, 2012
Governmental Activities:				
Accrued disability compensation (Note 15)	$ 151,337	$ 9,769	$ (26,060)	$ 135,046
Accumulated annual leave	152,682	8,897	(13,201)	148,378
Grant disallowances	70,000	-	-	70,000
Claims & judgments (Note 15)	48,777	91,440	(5,133)	135,084
Equipment financing program	115,846	49,463	(45,786)	119,523
Accreted interest	157,674	7,390	-	165,064
Premium on long-term debt	240,429	124,679	(45,739)	319,369
Capital leases payable (Note 14)	27,433	3,401	(11,862)	18,972
Loans payable	-	101,640	(811)	100,829
Parks and recreation notes	9,375	-	(3,125)	6,250
Verizon	4,494	-	-	4,494
Unfunded pension expenses	2,609	-	(2,609)	-
OPEB liability	45,606	-	(13,400)	32,206
Total	**$ 1,026,262**	**$ 396,679**	**$ (167,726)**	**$ 1,255,215**
Business-Type Activities:				
Obligation for unpaid prizes	**$ 22,912**	**$ 300**	**$ (6,831)**	**$ 16,381**

NOTE 8. LONG-TERM LIABILITIES

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

Table N45 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 N45 – Current & Long-Term Portions of Long-Term Liabilities

Type of Liability	Current Portion	Long-Term Portion	Total
Governmental Activities:			
General obligation bonds	$ 50,040	$ 2,245,185	$ 2,295,225
QZAB	945	6,683	7,628
Income tax secured revenue bonds	117,740	3,681,905	3,799,645
Tobacco bonds	29,760	647,459	677,219
TIF bonds	4,202	108,783	112,985
Ballpark bonds	5,680	502,255	507,935
GARVEE	4,140	74,635	78,775
Housing production trust fund	1,585	81,220	82,805
PILOT revenue bonds (AWC and NCRC)	9,857	89,067	98,924
PILOT revenue bond anticipation notes (CAPPER)	29,000	-	29,000
COPs	11,970	206,965	218,935
Premium on long-term debt	20,461	298,908	319,369
Equipment financing program	43,166	76,357	119,523
Loans payable	2,546	98,283	100,829
Accreted interest	-	165,064	165,064
Parks and Recreation notes	3,125	3,125	6,250
Capital leases	10,346	8,626	18,972
Annual leave	133,228	15,150	148,378
Disability compensation	-	135,046	135,046
Grant disallowances	-	70,000	70,000
Claims and judgments	-	135,084	135,084
Verizon	-	4,494	4,494
OPEB liability	-	32,206	32,206
Total	**$ 477,791**	**$ 8,686,500**	**$ 9,164,291**
Business-Type Activities:			
Obligation for unpaid prizes	**$ 7,306**	**$ 9,075**	**$ 16,381**

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, 2012, MUSL purchased for the Lottery, U.S. government securities totaling $16,779 to fund future installment payments to winners.

The market value of these securities at September 30, 2012, was $16,381. 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.

J. COMPONENT UNITS

Water and Sewer Authority

Prior to the creation of the Water and Sewer Authority (WASA) as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. Although WASA was not directly liable for these general obligation bonds, WASA was required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. At the end of fiscal year 2011, the

NOTE 8. LONG – TERM LIABILITIES

amount of District general obligation bonds which were reflected in WASA's financial statements totaled $245. By September 30, 2012, all such outstanding general obligation bonds had been retired. Accordingly, no District general obligation bonds are reflected in WASA's financial statements for the year ended September 30, 2012.

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

Bond Issuances in Fiscal Year 2012

In March 2012, WASA issued subordinate lien revenue bonds with a face value of $440,645. The bonds were structured in three Series: Series 2012A consisted of $177,430 with interest rates ranging from 2.0% to 5.0% maturing in 2037; Series 2012B consisting of $100,000 with interest rate at 2.26% maturing in 2044; and Series 2012C consisting of $163,215 with interest rates ranging from 4.0% to 5.0% maturing in 2033. Gross proceeds from the 2012 Bonds totaled $493,934, including $53,289 of the original issue premium. Approximately $302,413 was used to fund various capital projects; $188,688 was used to advance-refund Series 2003 Bonds, and $2,833 was used to pay the underwriter's discount and cost of issuance.

WASA completed its advance-refunding of the Series 2003 Bonds by using $188,688 of bond proceeds from Series 2012C to purchase securities that were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. This refunding decreases total debt service payments by approximately $25,478 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $17,843.

Debt outstanding at September 30, 2012, totaling $1,833,659 included net unamortized bond premiums of $64,988 and a remaining principal balance of $1,768,671.

Table N46 presents the debt service requirements to maturity for principal and interest for WASA's outstanding bonds.

Table N46 – Water and Sewer Authority Debt Service Requirements to Maturity

	Water and Sewer Authority		
Year Ending September 30	**Principal**	**Interest**	**Total**
2013	$ 19,692	$ 73,696	$ 93,388
2014	25,189	81,559	106,748
2015	26,473	80,229	106,702
2016	27,870	78,785	106,655
2017	29,317	77,340	106,657
2018 - 2022	178,210	361,332	539,542
2023 - 2027	239,470	311,004	550,474
2028 - 2032	303,669	245,479	549,148
2033 - 2037	390,602	158,211	548,813
2038 - 2042	446,282	50,758	497,040
2043 - 2047	81,897	3,361	85,258
Subtotal	**1,768,671**	**1,521,754**	**3,290,425**
Add: Unamortized Bond Premium-Net	64,988	-	64,988
Total	**$ 1,833,659**	**$ 1,521,754**	**$ 3,355,413**

NOTE 8. LONG-TERM LIABILITIES

Commercial Paper Note Payable

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

In June 2010, WASA closed on its $225 million commercial paper program. Three series of notes have been issued under the commercial paper program: (1) the tax-exempt Series A CP Notes in an aggregate principal amount not to exceed 100 million; (2) the tax-exempt 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 $41.2 million in outstanding taxable commercial paper at the end of fiscal year 2012. **Table N47** presents a schedule of commercial paper activity for the year ended September 30, 2012.

Table N47 – FY 2012 Commercial Paper Activity

Description	Balance at October 1, 2011	Addition	Deduction	Balance at September 30, 2012
Series C, (taxable), interest ranges from .15% to .28%	$ 29,200	$ -	$ -	$ 29,200
Series B, (tax-exempt), interest ranges from .08% to.22%	6,000	7,500	(1,500)	12,000
Total Commercial Paper	**$ 35,200**	**$ 7,500**	**$ (1,500)**	**$ 41,200**

Washington Convention and Sports Authority

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

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

In October 2010, WCSA issued senior lien dedicated tax revenue bonds (Series 2010 Bonds) with face value of $249,200, with maturities ranging from October 2015 to October 2040, at interest rates ranging from 3.1% to 7.0%. The proceeds are to be used to (a) make funds available to the developer to pay a portion of the costs of acquiring, developing, constructing, and equipping the Convention Center Hotel project to be constructed on the Hotel Site adjacent to the Walter E. Washington Convention Center; (b) fund capitalized interest for a portion of the Series 2010 Bonds during the construction phase of the Convention Center Hotel Project; (c) fund

NOTE 8. LONG – TERM LIABILITIES

the Debt Service Reserve Account Requirement for each series of Series 2010 Bonds; (d) defease to the earliest optional redemption date that portion of WCSA's outstanding senior lien dedicated tax Revenue and Refunding Bonds, Series 2007A maturing on December 1, 2036 in the aggregate principal amount of $25,400; (e) make $2,000 available to WCSA for the establishment of the D.C. Citizen's Job Program created pursuant to the Hotel Act; and (f) pay the Cost of Issuance for the Series 2010 Bonds.

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

As of September 30, 2012, WCSA's bond liability totaled $659,164. A summary of WCSA's debt service requirements to maturity for principal and interest is shown in **Table N48**.

Table N48 – Washington Convention and Sports Authority Debt Service Requirements To Maturity

	Washington Convention and Sports Authority		
Year Ending September 30	**Principal**	**Interest**	**Total**
2013	$ 13,865	$ 34,073	$ 47,938
2014	15,625	33,385	49,010
2015	18,200	32,652	50,852
2016	18,970	31,769	50,739
2017	19,835	30,838	50,673
2018 - 2022	117,410	137,696	255,106
2023 - 2027	156,220	104,081	260,301
2028 - 2032	176,340	59,899	236,239
2033 - 2037	76,885	31,685	108,570
2038 - 2040	53,175	6,335	59,510
Subtotal	**666,525**	**502,413**	**1,168,938**
Less: Unamortized Bond Discount - Net	(7,361)	-	(7,361)
Total	**$ 659,164**	**$ 502,413**	**$1,161,577**

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

NOTE 8. LONG-TERM LIABILITIES

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

A summary of HFA's debt service requirements to maturity for principal and interest is shown in **Table N49.**

Table N49 - Housing Finance Agency Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2013	$ 25,876	$ 39,865	$ 65,741
2014	32,626	38,739	71,365
2015	16,436	37,870	54,306
2016	15,519	37,129	52,648
2017	16,151	36,365	52,516
2018-2022	100,357	168,973	269,330
2023-2027	136,046	137,530	273,576
2028-2032	104,549	105,755	210,304
2033-2037	131,271	76,702	207,973
2038-2042	161,989	44,024	206,013
2043-2047	97,347	16,448	113,795
2048-2052	29,164	3,087	32,251
2053-2057	1,826	194	2,020
Subtotal	**869,157**	**742,681**	**1,611,838**
Add: Unamortized Bond Premium, net	3,179	-	3,179
Total	**$ 872,336**	**$ 742,681**	**$ 1,615,017**

During fiscal year 2010, HFA secured two committed lines of credit with PNC Bank, N.A. in the total amount of $53,000: (1) one line of credit for $3,000 to be used to acquire ownership of and make improvements to HFA's headquarters building; and (2) another line of credit for $50,000 to be used to provide interim financing for the costs of extending multi-family and single-family mortgages and/or mortgage-backed securities under the United States Treasury New Issue Bond Program or any subsequent bond program of HFA as approved by PNC Bank. During fiscal year 2011, HFA and PNC Bank modified the $50,000 line of credit by reducing it to $25,000, extending its term until the end of calendar year 2011. As of September 30, 2011, HFA requested and received a $5,000 advance under the $25,000 line of credit. The $5,000 draw was used to provide additional funding for the acquisition of single family mortgage-backed securities and was fully repaid during the year ended September 30, 2012, from the proceeds of long-term single family mortgage revenue bonds issued under the Single Family NIBP in December 2011.

NOTE 9. RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

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

Civil Service Retirement System

Plan Description

The District contributes to the CSRS, a cost-sharing multiple-employer public employee retirement system, administered by the federal government's Office of Personnel Management (OPM). Permanent full-time District employees hired before October 1, 1987, except those covered by the District Retirement Program, are covered by CSRS, which provides retirement and

NOTE 9. RETIREMENT PROGRAMS

disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. In fiscal year 2012, there were 2,498 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, 2012, 2011, and 2010, were $12,319, $14,554, and $15,076, respectively.

Social Security System

Plan Description

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

Funding Policy

Consistent with the Federal Insurance Contributions Act (FICA), a 6.20% Social Security tax is to be withheld from the gross salary/wages of District employees, up to but not exceeding the applicable social security wage base, which was $110,100 (not in thousands) for 2012. In addition, the District also pays a 1.45% payroll tax for Medicare with an additional 1.45% being withheld from each employee's salary/wages.

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

District contributions to the Social Security System for FICA, for the years ended September 30, 2012 and 2011, were $66,261 and $70,475, respectively. In addition, District contributions for Medicare for fiscal years 2012 and 2011 were $27,065 and $28,991, respectively.

District Retirement Programs

Plan Descriptions

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

Each plan provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Retirement and disability benefit provisions for police and firefighters are established by the Policemen and Firemen's Retirement and Disability Act (D.C. Code §5-701 et seq. (2001 ed.)). For the Teachers Plan, Title 38, Chapter 20 of the D.C. Code (D.C. Code § 38-2001, et seq. (2001 ed.)) assigns the authority to establish and amend benefit provisions to the Council. The Retirement Board issues a publicly available financial report which includes financial statements and required supplementary information for the plans. This report can be obtained from the Executive Director, District of Columbia Retirement Board, 900 7th Street, N.W., 2nd Floor, Washington, D.C. 20001.

Funding Policy

Police and firefighter member contribution requirements are established by D.C. Code § 5-706 and requirements for District contributions are established by D.C. Code § 1-907.02 (2001 ed.), which may be amended by the Council. Administrative costs are paid from investment earnings.

Teachers contribute by salary deductions on the basis of a normal rate of contributions, which is assigned by the Program upon membership. Members contribute 7% (or 8% for teachers hired on or after November 16, 1996) of annual gross salary, including any differential for special assignment and longevity, but excluding overtime, holiday, or military pay.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The Replacement Act defines the eligibility and the calculation of the amount of the benefit payment for covered District employees for service accrued after June 30, 1997. The District's contributions for fiscal years 2012, 2011 and 2010, 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

NOTE 9: RETIREMENT PROGRAMS

the year ended September 30, 2012, and have been reported as intergovernmental revenue. Related expenditures of $381,096 and $101,304 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 2012. However, the District made its actuarially required contribution of $116,664 to the Police and Firefighters Pension Plan.

The District's annual pension cost and net pension obligation to these plans for fiscal year 2012 are presented in **Table N50.**

Table N51 presents three-year trend information regarding annual pension cost, percentage of annual pension cost contributed, and net pension obligation.

Table N50 - Annual Pension Cost and Net Pension Obligation

	Teachers	Police and Firefighters
Annual required contribution (ARC)	$0	$116,664
Interest on net pension obligation	$0	$0
Adjustment to ARC	$0	$0
Annual pension cost	$0	$116,664
Contributions made	$0	$116,664
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 N51 - Three Year Trend Information

Teachers				Police and firefighters		
Fiscal Year Ending	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/12	$0	N/A	$0	$116.4	100%	$0
09/30/11	$0	N/A	$0	$127.2	100%	$0
09/30/10	$0	N/A	$0	$132.3	100%	$0

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.

NOTE 9. RETIREMENT PROGRAMS

Additional information regarding the plans as of the latest actuarial valuation date is presented in **Table N52**:

Table N52 – Additional Actuarial Information (District Retirement Funds)

Fiscal Year 2012	
Valuation date	October 1, 2011
Actuarial cost method for contributions	Aggregate
Actuarial cost method for accrued liabilities	Entry Age Normal
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	7-year smoothed market return
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases:	
Police officers and fire fighters	5.25% - 9.75%
Teachers	4.95% - 8.75%
Includes inflation at	4.25%
Cost of living adjustments (COLAs)	4.25%
COLAs (for post November 10, 1996 hires)	Limited to 3.00%

Funded Status and Funding Progress

As of October 1, 2011, the most recent actuarial valuation date, the Teachers', Police Officers' and Firefighters' Pension Plan was 106.4% funded. The actuarial accrued liability for benefits was $4,854,689 and the actuarial value of assets was $5,167,370 resulting in a negative unfunded actuarial accrued liability (UAAL), or funding excess, of ($312,681). The covered payroll (annual payroll of active employees covered by the plan) was $805,676 and the ratio of the UAAL to the covered payroll was -38.8%.

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

B. DEFINED CONTRIBUTION PENSION PLAN

Plan Description

Under the provisions of D C. Code §1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code (IRC) Section 401(a) for permanent full-time employees covered under the Social Security System. In fiscal year 2012, there were 14,741 employees participating in the Section 401(a) plan. New hires do not contribute to the plan and are eligible to participate after one year of service.

The District contributes 5% of base salaries for eligible employees each pay period. This contribution rate is 5.5% of base salaries for detention officers. Contributions and earnings vest incrementally beginning after two years of service, including a one-year waiting period, and vest fully after five years of service including the one-year waiting period. Contributions and earnings are forfeited for the period of service during which the employee does not achieve incremental vesting, if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan.

For the fiscal years ended September 30, 2012, 2011, and 2010, District contributions to the plan were $44,195, $46,955, and $43,167, respectively.

This plan also covers employees of the D.C. Housing Authority and the Water and Sewer Authority, while the employees of the Housing Finance Agency, Washington Convention and Sports Authority, the University of the District of Columbia, and the Not-for-Profit Hospital Corporation are covered under 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 2012. 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 2012. District employees contributed $16,782 to this annuity plan in fiscal year 2012. Contributions vest immediately and are not assets of the District.

NOTE 9. RETIREMENT PROGRAMS

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D.C. Code §47-3601) created in accordance with IRC Section 457. Employees, including teachers, were able to defer the lesser of $16.5 ($16.5 thousand) or 100% of includable compensation in calendar year 2012. 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 income earned are taxable when paid, or made available to the participant or beneficiary, upon retirement, death, termination, or unforeseeable emergency. District employees contributed $34,933 to this plan in fiscal year 2012. Contributions are not assets of the District, and the District has no further liability to the plan.

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

a) Plan Description:

The District of Columbia Postretirement Health and Life Insurance Benefit Plan (the Plan) is a single-employer defined benefit healthcare and life insurance plan administered jointly by the Department of Human Resources and the Office of Finance and Treasury. The Plan is administered as an irrevocable trust through which assets are accumulated and benefits are paid as they become due in accordance with the substantive plan. All employees hired after September 30, 1987, and employees who retire under the Teachers Retirement System and Police and Firefighters Retirement System or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Plan. The Plan provides medical care and life insurance benefits to eligible employees. D.C. Code §1-621.09 authorizes the Mayor to determine the amount of District contribution for enrollments before the beginning of each contract period. In addition, the Mayor may propose amendments to establish and/or revise benefit provisions and the Council may elect to pass the appropriate legislation. The Plan's administrators issue a publicly available financial report that includes financial statements and required supplemental information for the Plan. This report may be obtained from the following location:

Office of Finance and Treasury
D.C. Treasurer
1101 4th Street, S.W., Suite 800
Washington, D.C. 20024

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

b) Summary of Significant Accounting Policies

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

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

c) Funding Policy

The contribution requirements of plan members and the District are established by the Mayor and the Council of the District of Columbia. The Mayor and Council may also amend contribution requirements. The first actuarial valuation of the

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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 2012, the District contributed $109.8 million to the plan and retiree contributions totaled $280,752 ($280.8 thousand). Employee contributions are not required prior to retirement to fund the plan.

Annuitants with at least 10 years of creditable District service but less than 30 years of creditable District service pay 75% of their health insurance premiums and the District pays the remaining 25%, plus an additional 2.5% for each year of creditable service over 10 years, provided that the District's contribution shall not exceed 72% of the cost of the selected health benefit plan. For annuitants with 30 or more years of creditable District service or police officer or firefighter annuitants who are injured in the line of duty, the District pays 72% of the cost of the selected health benefit plan and the annuitant pays 28% of the cost of the selected health benefit plan.

Covered family members of an annuitant with at least 10 years of creditable District service but less than 30 years of creditable District service pay 80% of their health insurance premiums and the District pays the remaining 20%, plus an additional 2.5% for each year of creditable District service over 10 years, provided that the District's contribution shall not exceed 60% of the cost for the covered family member of the annuitant. The District pays 60% of the cost of the selected health benefit plan for covered family members of an annuitant with 30 or more years of creditable District service and the family member pays 40% of the cost of the selected health benefit plan. The District pays 60% of the cost of the selected health benefit plan and the family member pays 40% of the cost of the selected health benefit plan for covered family members of police officer or firefighter annuitants who are injured or killed in the line of duty.

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

d) Annual OPEB Cost and Net OPEB Obligation

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

Table N53 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 N53 – Annual OPEB Cost, Actual Plan Contributions, and Changes in Net OPEB Obligations

	FY 2012	FY 2011	FY 2010
Annual required contribution	$95,500	$94,165	$92,193
Interest on net OPEB obligation	$3,192	$3,129	$3,052
Adjustment to annual required contribution	($2,252)	($2,191)	($1,943)
Annual OPEB cost (expense)	$96,440	$95,103	$93,302
Contributions made	$109,840	$94,200	$90,700
Net OPEB asset/(obligation)	$13,400	($903)	($2,602)
Net OPEB asset (obligation) – beginning of year	($45,606)	($44,703)	($42,101)
Net OPEB asset (obligation) – end of year	($32,206)	($45,606))	($44,703)

NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years are shown in **Table N54.**

Table N54 - Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, Net OPEB Obligation (Fiscal Years 2010 through 2012)

Fiscal Year Ended	Annual OPEB Cost (millions)	% Of Annual OPEB Cost Contributed	Net OPEB Obligation (millions)
09/30/12	$96.4	114%	$32.2
09/30/11	$95.1	99%	$45.6
09/30/10	$93.3	97%	$44.7

e) Funded Status and Funding Progress

As of September 30, 2011, the most recent actuarial valuation date, the Plan was 59% funded. The actuarial accrued liability for benefits was $866,600 and the actuarial value of assets was $511,500, resulting in an unfunded actuarial accrued liability (UAAL) of $355,100. The covered payroll (annual payroll of active employees covered by the plan) was $1,559,800 and the ratio of the UAAL to the covered payroll was 22.8%.

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, 2011 actuarial valuation results, the September 30, 2012 estimated actuarial liability is $1,002,000 and the estimated actuarial value of the assets is $640,000 resulting in an estimated unfunded actuarial accrued liability (UAAL) of $362,000. The estimated covered payroll (annual payroll of active employees covered by the Plan) is $1,601,000 and the estimated ratio of the UAAL to the covered payroll is 22.6%.

f) Actuarial Methods and Assumptions

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

The Entry Age Normal Actuarial cost method was used to prepare the September 30, 2011 actuarial valuation. The actuarial assumptions included a 7.00% investment rate of return, a discount rate of 7.00%; a 4.25% inflation rate and a medical trend rate ranging between 9.5% (pre-Medicare) and 8.5% (post-Medicare) grading to 5.25% over 15 years. Fixed dollar amounts in the health care benefits (deductibles, co-pays, benefit maximums, etc.) are assumed to increase periodically to keep pace with the medical trend. The amortization method applied was the Level Percent Open Method. The remaining amortization period at September 30, 2011, was 30 years.

NOTE 11. FUND BALANCE/NET ASSETS

Fund balances at September 30, 2012, are shown in **Table N55a**.

Table N55a - Schedule of FY 2012 Fund Balance

	General Fund	Federal & Private Resources	Housing Production Trust	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balances:						
Nonspendable						
Long-Term Assets	$ 8,162	$ -	$ -	$ -	$ -	$ 8,162
Inventory	12,195	-	-	-	-	12,195
Total Nonspendable Fund Balance	20,357	-	-	-	-	20,357
Restricted for:			-			
Emergency and Contingency Cash Reserve	339,103	-	-	-	-	339,103
Debt Service - Bond Escrow	388,255	-	-	-	-	388,255
Budget	29,847	-	-	-	-	29,847
Purpose Restrictions	99,072	180,921	-	-	-	279,993
Payment in Lieu of Taxes (PILOT)	-	-	-	-	45,143	45,143
Tobacco Settlement	-	-	-	-	83,143	83,143
Tax Increment Financing Program	-	-	-	-	46,453	46,453
Housing Production Trust Fund	-	-	74,379	-	-	74,379
Highway Projects	-	-	-	-	44,469	44,469
Baseball Special Revenue	-	-	-	-	67,134	67,134
Total Restricted Fund Balance	856,277	180,921	74,379	-	286,342	1,397,919
Committed to:						
Fiscal Stabilization Reserve	95,551	-	-	-	-	95,551
Cash Flow Reserve	346,378	-	-	-	-	346,378
Integrated Service Fund	4,577	-	-	-	-	4,577
Budget Support Act	11,237	-	-	-	-	11,237
Fixed Cost Commodity Reserve	9,928	-	-	-	-	9,928
Youth Jobs Fund	4,368	-	-	-	-	4,368
Healthcare Forfeiture	615	-	-	-	-	615
Dedicated Taxes	26,759	-	-	-	-	26,759
Other Special Purposes	95,595	-	-	-	-	95,595
Total Committed Fund Balance	595,008	-	-	-	-	595,008
Assigned to:						
Contractual obligations	3,775	-	-	-	-	3,775
Subsequent Years' Expenditures	31,104	-	-	-	-	31,104
Total Assigned Fund Balance	34,879	-	-	-	-	34,879
Unassigned	-	-	-	(116,269)	-	(116,269)
Total Fund Balance	**$ 1,506,521**	**$ 180,921**	**$ 74,379**	**$ (116,269)**	**$ 286,342**	**$ 1,931,894**

NOTE 11. FUND BALANCE/NET ASSETS

Net assets at September 30, 2012, are shown in **Table N55b**.

Table N55b - Schedule of FY 2012 Net Assets, Proprietary and Fiduciary Funds

	Lottery & Games	Unemployment Compensation Fund	Fiduciary Funds
Net Assets			
Invested in capital assets	$ 480	$ -	$ -
Restricted for future benefits	-	229,930	6,102,249
Unrestricted	3,607	-	-
Total Net Assets	**$ 4,087**	**$ 229,930**	**$ 6,102,249**

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 non-operating 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, 2012, is shown in **Table N56a.**

Table N56a - Summary of Grants Provided to WMATA

Type	Local	Capital
Operating grants	$ 215,008	$ -
School Transit Subsidy	6,331	-
Capital grants	-	110,379
Total	**$ 221,339**	**$ 110,379**

WMATA issues separate audited financial statements which can be requested from the General Manager, Washington Metropolitan Area Transit Authority, 600 5th Street, N.W., Washington, D.C. 20001. **Table N56b** 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 N56b - Summary of Financial Statements for WMATA as of and for the year ended June 30, 2012

Financial Position	
Total assets	$ 10,260,834
Total liabilities	(1,995,594)
Net assets	**$ 8,265,240**
Operating Results	
Operating revenues	$ 816,670
Operating expenses	(2,134,668)
Nonoperating revenues, net	700,506
Revenue from capital contributions	505,167
Change in net assets	**$ (112,325)**
Change in Net Assets	
Net assets, beginning of year, restated	$ 8,377,565
Change in net assets	(112,325)
Net assets, end of year	**$ 8,265,240**

NOTE 13. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

A. FEDERAL CONTRIBUTION

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment was repealed and replaced by a federal contribution to cover special purpose and other unusual costs imposed on the District by the federal government. Federal contributions to the District for the year ended September 30, 2012, totaled $554,979.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. In fiscal year 2002, the District received $155,900 in federal funding for emergency preparedness. This funding was provided by the federal government to assist the District in preparing for response to potential terrorist threats or other attacks. By the end of fiscal year 2008, the District had expended $151,659, or 97.3%, of the $155,900 received in fiscal year 2002. Since that time, the District did not expend any of the remaining emergency preparedness funds until the fiscal year 2012, when the District expended $603 ($603 thousand) for purposes of emergency preparedness. Therefore, by the end of fiscal year 2012, the District had used $152,262, or 97.7% of the federal funding received for this purpose.

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. 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 $12,247 for the fiscal year ended September 30, 2012.

NOTE 14. LEASES

A. CAPITAL LEASES

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

Capital lease payments are classified as debt service expenditures in the governmental funds. Such expenditures totaled $9,464 in fiscal year 2012.

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 $120,619 in fiscal year 2012.

NOTE 14. LEASES

C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS

Table N57 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, 2012.

Table N57 - Schedule of Future Minimum Lease Payments

	Primary Government		
	Capital	Operating Leases	
Year Ending September 30	**Leases**	**Facilities**	**Equipment**
2013	$ 10,346	$ 87,028	$ 1,237
2014	2,862	122,246	344
2015	3,057	70,640	199
2016	3,268	68,676	199
2017	1,837	64,008	-
2018-2022	-	192,725	-
2023-2027	-	71,154	-
2028-2032	-	523	-
2033-2037	-	536	-
2038-2042	-	549	-
2043-2047	-	563	-
2048-2052	-	365	-
Minimum lease payments	**21,370**	**$ 679,013**	**$ 1,979**
Less - imputed interest	(2,398)		
Present value of payments	**$ 18,972**		

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, 2012. 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, 2012, probable cumulative expenditures that may be disallowed by grantor agencies totaled $70,000. There were no additional accruals recorded during fiscal year 2012. Accordingly, an accrual for such expenditures has been recorded 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, $491 ($491 thousand) has been included as part of the accrued liability to reflect these known grant disallowances.

NOTE 15. COMMITMENTS AND CONTINGENCIES

C. CONTINGENCIES RELATED TO DERIVATIVE INSTRUMENTS

All of the District's derivative instruments, except the rate cap, include provisions that require the District to post collateral in the event its credit rating falls below AA as issued by Fitch Ratings and Standard and Poor's or Aa as issued by Moody's Investors Service. The collateral posted is to be in the form of U.S. treasury securities in the amount of the fair value of hedging derivative instruments in liability positions net of the effect of applicable netting arrangements. If the District does not post collateral, the hedging derivative instrument may be terminated by the counterparty. At September 30, 2012, the aggregate fair value of all hedging derivative instruments with these collateral posting provisions was $549 ($549 thousand). If the collateral posting requirements were triggered at September 30, 2012, the District would have been required to post $0 in collateral to counterparties. The District's general obligation credit rating is A2/A/A+; therefore, no collateral had been posted at September 30, 2012.

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, 2012.

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 $89,775.

In addition to the accruals related to pending claims and judgments, the District accrued $57,886 for pending or unresolved property tax appeals made by District property owners in fiscal year 2012.

A summary of the changes in the accrued liability for claims and judgments reported in the government-wide financial statements is shown in **Table N58.**

Table N58 - Summary of Changes in Claims and Judgments Accrual

Description	Fiscal Year 2012	Fiscal Year 2011
Liability at October 1	**$ 48,777**	**$ 70,435**
Claims incurred		
Lawsuits	33,554	12,752
Property tax appeals	57,886	-
Less:		
Claims payments/adjustments	(5,133)	(34,410)
Liability at September 30	**$ 135,084**	**$ 48,777**

E. DISABILITY COMPENSATION

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

A summary of changes in this accrual is shown in **Table N59.**

Table N59 – Summary of Changes in Disability Compensation Accrual

Description	Fiscal Year 2012	Fiscal Year 2011
Liability at October 1	**$ 151,337**	**$ 160,513**
Claims incurred	9,769	17,224
Less-benefit payments/adjustments	(26,060)	(26,400)
Liability at September 30	**$ 135,046**	**$ 151,337**

NOTE. 15. COMMITMENTS AND CONTINGENCIES

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, 2012, unearned revenue of $373 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 $675,000 in General Obligation Tax Revenue Anticipation Notes (TRANs) on October 23, 2012. 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 2013.

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, 2013	20% of the outstanding principal amount
September 20, 2013	60% of the outstanding principal amount
September 27, 2013	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, 2013.

B. INCOME TAX SECURED REVENUE BONDS

On November 28, 2012, the District issued $750,765 in Income Tax Secured Revenue Bonds, Series 2012C and $25,005 in Income Tax Secured Revenue Refunding Bonds, Series 2012D, together the Series 2012C-D Bonds. These bonds were issued as Senior Bonds pursuant to the Income Tax Secured Bond Authorization Act of 2008, effective October 22, 2008 (D.C. Law 17-254; D.C. Official Code §§ 47-340.26-36, as amended by the Income Tax Secured Bond Authorization Act of 2011, effective November 16, 2011 (together with the Income Tax Secured Bond Authorization Act of 2008, the "Act".)

The Series 2012C-D Bonds were issued pursuant to: (i) the Act and proceedings under the Act, including the Fiscal Year 2013 Income Tax Secured Revenue Bond and General Obligation Bond Issuance Approval Resolution of 2012, effective October 16, 2012 (D.C. Resolution 19-635), (ii) a Master Indenture of Trust between the District of Columbia and Wells Fargo Bank, N.A., as trustee, dated March 1, 2009, as amended and supplemented (the Master Indenture), and (iii) a Sixteenth Supplemental Indenture of Trust between the same parties dated November 1, 2012.

The proceeds of the Series 2012C Bonds were used to: (i) pay and/or reimburse the District for costs of capital projects and (ii) pay the costs and expenses of issuing and delivering the Series 2012C Bonds.

The proceeds of the Series 2012D Bonds were used, together with other District funds, to: (i) currently refund the District's outstanding 4.00% PILOT Revenue Bond Anticipation Notes (Arthur Capper/Carrollsburg Public Improvement Issue), Series 2010 and (ii) pay the costs and expenses of issuing and delivering the Series 2012D Bonds.

The Series 2012C-D Bonds, the Outstanding Bonds, and

NOTE 16. SUBSEQUENT EVENTS

any additional bonds issued under the terms of the Indenture, will be payable from and equally and ratably secured by a security interest in and a statutory lien on the Trust Estate, consisting primarily of the revenues (including available tax revenues) received or to be received by the collection agent, as agent for the trustee, 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 2012C-D Bonds were issued with interest rates ranging from 2.50% to 5.00%, and are payable semi-annually on June 1 and December 1, commencing on June 1, 2013.

Pursuant to the Act, the Bonds are special obligations of the District payable solely from the Trust Estate pledged under the Indenture. The Bonds are without recourse to the District, and are not a pledge of, and do not involve, the faith and credit or the taxing power of the District (other than the pledge of revenues made by the Indenture and the Act), do not constitute a debt of the District, and do not constitute lending of the public credit for private undertakings as prohibited by District law.

C. FEDERAL HIGHWAY GRANT ANTICIPATION REVENUE BONDS (GARVEE)

On October 10, 2012, the District issued $42,935 in Federal Highway Grant Anticipation Revenue Bonds, Series 2012. The Series 2012 Bonds were issued under and secured by the Master Trust Indenture dated February 1, 2011, as supplemented and amended , including by a First Supplemental Trust Indenture dated February 1, 2011, and a Second Supplemental Trust Indenture dated October 1, 2012, each by and between the District and U.S. Bank, N.A. as Trustee. The Series 2012 Bonds was the second series of bonds issued under the Master Indenture and these bonds were secured on parity with bonds previously issued in 2011, and any additional bonds issued by the District under the Master Indenture.

The Series 2012 Bonds were issued pursuant to the Transportation Infrastructure Improvements GARVEE Bond Financing Act of 2009, effective September 23, 2009 (D.C. Law 18-54; D.C. Official Code §§ 9-107.51-62) to finance Phase II of the Project. The Project meets the eligibility requirements of the Federal Highway Administration as a Federal Project.

The Series 2012 Bonds were issued to: (i) provide funds to finance a portion of the costs of Phase II of the project to replace the twin 11th Street Bridges over the Anacostia River and to improve the interchanges at either end, including adding missing movements to and from the north onto the Anacostia Freeway, and (ii) pay certain costs of issuing the Series 2012 Bonds.

The Series 2012 Bonds were issued with interest rates ranging from 2.00% to 5.00%, and are payable semi-annually on June 1 and December 1, commencing on June 1, 2013.

The Bonds are special obligations of the District, payable solely from pledged revenues specifically pledged under the Indenture. The District has neither pledged nor agreed to use any District revenues, taxes, or other monies to repay the Bonds other than federal transportation funds. The Bonds are without recourse to the District, are not a pledge of, and do not involve the faith and credit or the taxing power of the District. In addition, the Bonds do not constitute a debt of the District, and do not constitute lending of public credit for private undertakings as prohibited in the Home Rule Act. The Bonds are payable solely from the pledged revenues, and the bonds will be a valid claim of the respective owners thereof only against the trust estate, which is pledged, assigned and otherwise secured for equal and ratable payment of the Bonds and shall be used for no other purpose than to pay the principal of and premium, if any, and interest on the Bonds, except as may be otherwise expressly authorized in the Master Indenture.

D. DEED TAX REVENUE BONDS

On December 6, 2012, the District issued $22,395 in Deed Tax Revenue Bonds, Series 2012A and $17,190 in Deed Tax Revenue Bonds, Series 2012B (together the Series 2012 Bonds). The Series 2012 Bonds were issued as additional bonds pursuant to: (i) the Amended and Restated Indenture of Trust dated August 1, 2010, and (ii) the Second Supplemental Indenture of Trust dated December 1, 2012, each by and between the District and The Bank of New York Mellon, f/k/a The Bank of New York, as trustee.

The Series 2012 Bonds were issued to: (i) provide funds to assist in the financing, refinancing, or reimbursing the costs of undertakings by the District to accomplish the purposes of the New Communities Initiative, including the New Communities Projects; (ii) fund a deposit to the Debt Service Reserve Fund; and (iii) pay certain costs of issuance associated with the Series 2012 Bonds.

The Series 2012 Bonds, the Series 2010 Bonds, the Series 2007A Bonds, and any additional bonds issued under the terms of the Amended Indenture are payable from and secured by a Pledge of the Trust Estate, which includes pledged revenues. Pledged revenues include the amounts of the Allocated Fund that are received by the trustee and

NOTE 16. SUBSEQUENT EVENTS

any other monies transferred by the District to the trustee and deposited in the Revenue Fund held by the trustee under the terms of the Indenture. The Allocated Fund is the segregated sub-account of the Housing Production Trust Fund established by the Housing Production Trust Fund Act of 1988 (D.C. Law 7-202; D.C. Official Code § 42-2801 et seq.) as amended, that collects and holds the following deposits received each fiscal year: (i) 15% of the Real Property Transfer Tax imposed by D.C. Official Code; and (ii) 15% of the Deed Recordation Tax imposed by D.C. Official Code § 42-1103.

The Series 2012 Bonds were issued with interest rates ranging from 3.00% to 5.00%, payable semi-annually on June 1 and December 1, commencing on June 1, 2013.

The Series 2012 Bonds are special obligations of the District. The Bonds are without recourse to the District, are not a pledge of, and do not involve the faith and credit or the taxing power of the District other than real property transfer and taxes and deed recordation taxes allocated to the Allocated Fund and deposited with the trustee. The Bonds do not constitute a debt of the District, nor do they constitute lending of the public credit for private undertakings as prohibited by the Home Rule Act. The Bonds are payable from and secured by a pledge of the Trust Estate, all of which shall be used for no purpose other than to pay the principal of, premium, if any, and interest on the Bonds.

E. DIRECT PURCHASES

On October 25, 2012, the District converted its outstanding Series 2008 General Obligation Variable Rate Demand Obligations (VRDO), substituting the direct-pay letters of credit with direct purchase obligations. The bonds remain in variable rate mode with the Series 2008A and Series 2008D Bonds issued in SIFMA Index mode and the Series 2008C Bonds in LIBOR Index mode as authorized under the Sixth and Seventh Supplemental Trust Indentures, respectively. The Sixth and Seventh Supplemental Indentures are by and between the District of Columbia and Wells Fargo Bank, N.A., as trustee, dated October 1, 2012. Each series has an initial put date by the purchaser of October 26, 2015, as well as additional term out provisions. The following provides an overview for each of the Series 2008 direct purchase obligation refunding(s):

Series	Par	Maturity	Put Date	Purchaser
2008A	$59,950	June 1, 2034	10/26/2015	Citibank, NA
2008C	$224,300	June 1, 2027	10/26/2015	Wells Fargo Bank, NA
2008D	$113,620	June 1, 2034	10/26/2015	Citibank, NA

F. COMPONENT UNITS

Housing Finance Agency Bond Activity

Subsequent to the end of fiscal year 2012, the following events occurred at the Housing Finance Agency (HFA):

Multifamily (Conduit Bond) Program, New Issuances:

- On October 12, 2012, $8,500 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2012 were issued to finance the Yards/D Building project.
- On November 19, 2012, $2,350 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2012A were issued in a draw down mode to finance the Whitelaw Apartments project.
- On November 19, 2012, $2,110 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2012B were issued in a draw down mode to finance the Whitelaw Apartments project.
- On December 20, 2012, $11,610 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2012 were issued in a draw down mode to finance the Bass Circle Apartments project.
- On December 21, 2012, $17,600 of District of Columbia Housing Finance Agency Multifamily Housing Revenue Bonds, Series 2012 were issued in a draw down mode to finance the SeVerna Phase II project.
- Between October 1, 2012 and December 31, 2012, the following multifamily mortgage revenue bonds were issued through draws on the draw down bonds:

NOTE 16. SUBSEQUENT EVENTS

Series	Project Name	Draw Date(s)	New Issue Draw Amount
Series 2010	Arthur Capper	12/04/2012	$2
Series 2011A-1	Victory Square	10/02/2012–12/21/2012	1,007
Series 2011 A	The Heights	10/18/2012 01/03/2013	2,985
Series 2012	Fairway Park	10/12/2012–01/23/2013	3,055
Series 2012	Whitelaw Apartments	11/20/2012	50
Series 2012	Bass Circle	12/20/2012	1,510
Series 2012	SeVerna II	12/21/2012	1,768
Total			**$10,377**

Single Family Issue Bond Program Redemptions and Maturities:

- On November 1, 2012, $1,420 in District of Columbia Housing Finance Agency Single Family Housing Revenue Bonds Series 2009A-1 were redeemed from unused bond proceeds.

- On December 1, 2012, $440 in District of Columbia Housing Finance Agency Single Family Housing Revenue Bonds Series 2009 A-1 were redeemed through sinking fund maturity and from prepayments.

- On December 1, 2012, the following 1996 Single Family Mortgage Revenue Bonds were redeemed:

Series	Maturing Principal	Principal Redemptions	Total
2005 Series A		$245	$245
2005 Series B		555	555
2006 Series A	$30	65	95
2006 Series B		890	890
2006 Series D		20	20
2006 Series E		2,530	2,530
2007 Series A		2,125	2,125
Total	**$30**	**$6,430**	**$6,460**

- On December 1, 2012, $235 in District of Columbia Housing Finance Agency Collateralized Single Family Housing Revenue Bonds 1988 Series E-4 were redeemed from prepayments.

Multifamily New Issue Bond Program, New Issuances:

Series	Project Name	Redemption / Maturity Date	Principal Redeemed
2011 Series	Dahlgreen Courts	11/06/2012 & 12/18/2012	$1,500
2011 Series	Mayfair Mansions III	10/17/2012 – 11/29/2012	$3,750
2011 Series B	Nannie Helen	111/20/2012 & 01/18/20132	$1,368
2012 Series	House of Lebanon	10/12/2012	100
Total			**$6,718**

Multifamily (Conduit Bond) Program, Redemptions and Maturities:

- On November 30, 2012, $32,225 in District of Columbia Housing Finance Agency Housing Revenue Bonds 2001 Series A and B were fully redeemed due to the loan payoff.

- Between October 1, 2012 and January 25, 2013, $6,832 in multifamily mortgage revenue bonds were redeemed or matured.

Multifamily New Bond Program Redemptions and Maturities:

Series	Project Name	Redemption/ Maturity Date	Principal Redeemed
Series 2009A-1	Villages of Chesapeake	10/01/2012	$60
Series 2011A	Samuel Kelsey Apartments	12/01/2012	240
Series 2011	Capitol Hill Towers	12/01/2012	200
Total			**$500**