

# CAFR 2006



YEAR ENDED SEPTEMBER 30, 2006

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



ADRIAN M. FENTY  
MAYOR

NATWAR M. GANDHI  
CHIEF FINANCIAL OFFICER

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER





**ADRIAN M. FENTY**  
MAYOR

January 30, 2007

Dear Citizens of the District of Columbia:

I am pleased to present the District of Columbia's Fiscal Year 2006 Comprehensive Annual Financial Report (CAFR). The audit opinion is unqualified for the tenth consecutive year. We completed Fiscal Year 2006 with a General Fund balance of \$1.4 billion.

The District continues to be an attractive place to live and to work with growing investment in residential and commercial projects throughout the city. The District's own investments are supported by strong ratings from the bond market, "A+" by Standard and Poor's, "A" by Fitch Ratings with a Positive Outlook, and "A2" by Moody's Investors Service with a Positive Outlook. Through hard work and fiscal discipline, the District of Columbia has earned another budget surplus, and enjoys the respect of Wall Street and the rest of the nation. The District's fiscal strength enables us to invest more resources in residents' policy priorities.

To build on the progress that the District has made, we know it is essential to improve the quality of the public education system. It is time for the District to adopt new thinking, streamline accountability, and implement the best practices of successful reform efforts in other urban school systems. If we are successful, we can honor the promise of opportunity made to every young person and we can make the District a better place to live. Nothing less than the future of our city is at stake.

I am very proud to be your Mayor, and I look forward to working together with you to make the District of Columbia a world-class city.

Sincerely,



Adrian M. Fenty  
Mayor

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**Government of the District of Columbia  
Comprehensive Annual Financial Report  
Year Ended September 30, 2006**

**Adrian M. Fenty  
Mayor**

**Natwar M. Gandhi  
Chief Financial Officer**

**John A. Wilson Building  
1350 Pennsylvania Avenue, NW  
Washington, DC 20004**

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**DISTRICT OF COLUMBIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
Year Ended September 30, 2006**

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# CAFR 2006



YEAR ENDED SEPTEMBER 30, 2006

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



### INTRODUCTORY SECTION

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER





**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
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January 26, 2007

Dr. Natwar M. Gandhi  
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2006, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District. This report includes all disclosures necessary for readers to gain a useful understanding of the District's financial activities. The city of Washington, D.C. is referred to in this CAFR as Washington, also as D.C., and as the city. This Transmittal Letter does not discuss the District's financial operations and results. To obtain a better understanding of the District's financial condition, refer to the Management's Discussion & Analysis (MD&A), which begins on page 19 of this CAFR.

**Report Sections**

The CAFR is presented in three sections: introductory, financial, and statistical.

***Introductory Section***

The introductory section includes this letter of transmittal, the District's organizational chart, a list of principal officials and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting.

***Financial Section***

The financial section includes the independent auditors' report, Management's Discussion & Analysis (MD&A), the basic financial statements, the notes to the basic financial statements, required supplementary information, and other supplementary information which includes

combining and individual fund statements and schedules. The MD&A is an analysis of the financial condition and operating results of the District and is intended to introduce the basic financial statements and notes. The MD&A must be presented as required supplementary information in every financial report that includes basic financial statements presented in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America.

***Statistical Section***

The statistical section presents detailed information that assists readers of the CAFR in assessing the overall economic condition of the District. The tables in the statistical section differ from the financial statements, because they usually cover more than two fiscal years and may present non accounting data.

**Financial Reporting Entity**

The financial reporting entity consists of the primary government and its component units. The primary government is the District, which consists of all the agencies that make up its legal entity. Component units are legally separate organizations for which the primary government is financially accountable.

The District currently has six component units: (1) Anacostia Waterfront Corporation; (2) Housing Finance Agency; (3) Sports and Entertainment Commission; (4) University of the District of Columbia; (5) Washington Convention Center Authority; and (6) Water and Sewer Authority. The financial data for these discretely presented component units are reported separately from the financial data of the primary government.

The Tobacco Settlement Financing Corporation is presented as a blended component unit, as required by



GAAP for state and local governments. The District of Columbia Housing Authority, The National Capital Revitalization Corporation, and the District of Columbia Courts are related organizations, because the District is not financially accountable for their operations.

**Current Economic Condition and Outlook**

**Washington, D.C. Attractions and Tourism**

Millions of visitors are attracted to the more than 400 museums and historical landmarks in Washington, D.C. each year. Tourists also visit other popular attractions located within the Washington Metropolitan area. Citizens of the United States and international visitors enjoy the many popular attractions along the National Mall as well as the monuments to U.S. presidents and the war memorials. Tourists also discover reminders of their American heritage at the National Arboretum and the Kenilworth Aquatic Gardens in Northeast Washington, at Fort Stevens and at the National Museum of Health and Medicine at the Walter Reed Army Medical Center.

Washington, D.C. hosts, on a permanent basis, more than 170 foreign embassies and recognized diplomatic missions. In addition, a number of international organizations such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States call the District home.

In calendar year 2005, approximately 14.1 million U.S. citizens visited Washington D.C., an increase of about 2.2% from the revised 2004 figure of 13.8 million. An estimated 1.3 million international visitors traveled to Washington, D.C. in 2005, an increase of about 8.3% from the 2004 revised figure of 1.2 million. Overall, visitors to Washington, D.C., both foreign and domestic, increased from the revised figure of 15.0 million in 2004 to 15.4 million in 2005, or about 2.7%. The 2006 calendar year visitor figures are not yet available. Hotel occupancy has increased from 73% in 2004 to 75% in 2005. The city’s tourism industry generated more than \$5.1 billion in direct spending in 2005 and directly supports 59,397 jobs. This direct visitor spending continues to generate additional business activity in related industries and is boosting local as well as regional economic growth. This trend is expected to continue.

**Income Trends**

In a report prepared by the Center on Budget and Policy Priorities and the Economic Policy Institute issued in early 2006, “Pulling Apart: A State-by-State Analysis of Income Trends,” it was concluded that the gap between the highest and lowest income families in the city grew substantially between the early 1980s and the early 2000s. Middle-income families experienced only modest growth in salaries. These findings demonstrate that increasing economic growth will not, by itself, reduce economic inequality. The District continues to request that the

federal government address the District’s revenue limitations. The District must target and manage programs and services directed at the poorest and at-risk families more effectively, while also making it more attractive for middle-income families to remain in the city.

**Employment**

Total employment in the Washington metropolitan area increased to approximately 3,006,400 in FY2006 from the revised 2,934,200 for FY2005, representing a slight increase. However, these numbers exclude the self-employed, domestic workers, and military and foreign government personnel, which represent a significant portion of the actual work force of the region. The employment of Washington, D.C. residents has remained at approximately 23% of the metropolitan area’s total during the past three years. The seasonally adjusted September 2006 unemployment rate in Washington, D.C. was 5.9%, compared to the September 2005 rate of 6.1%. Total employment within Washington, D.C. increased to 687,900 in September 2006 from 680,700 in September 2005. Some of the references to the 2005 employment numbers may be different from those shown in the FY2005 CAFR because of updates and revisions.

As the nation’s capital, Washington, D.C. is the seat of the three branches of the federal government and headquarters for most federal departments and agencies. The total September 2006 federal work force in the Washington metropolitan area totaled 338,400; with approximately 192,000 federal employees located in Washington, D.C. and 146,400 additional federal employees who worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer employees than in the past, new business operations, especially in the service industry, continue to fill the void and are strengthening the local economy. The increased spending by the Department of Homeland Security is helping to stabilize federal employment in the region.

**Labor Market ('000s): September 2006**

	D.C.		Metro area	
	Level	1 yr. ch.	Level	1 yr. ch.
Employed residents	271.1	-5.9	2,858.8	66.3
Labor force	288.3	-5.8	2,947.6	61.3
Total wage and salary employment	687.9	9.4	3,006.4	72.2
Federal government	192.0	-1.1	338.4	-2.0
Local government	37.3	-0.2	292.2	3.4
Leisure & hospitality	58.5	1.5	261.2	7.1
Trade	22.6	0.6	348.1	9.3
Services	303.7	5.1	1,174.2	47.4
Other private	75.8	3.5	592.3	7.0
Unemployed	17.2	0.1	88.7	-5.1
New unempl. claims (state program)	1.2	-0.1		

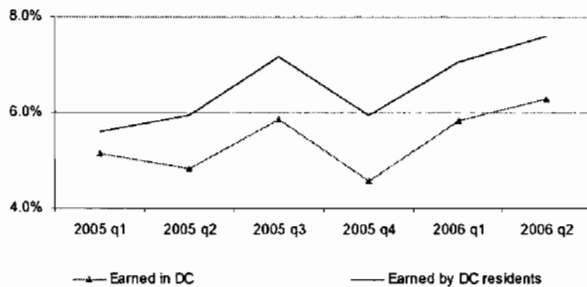
Sources: U.S. Bureau of Labor Statistics (BLS) & D.C. Dept. of Employment Services (DOES)

**Minimum Wage**

Effective January 1, 2006, the standard minimum wage for employees in Washington, D.C. increased from \$6.60 to \$7.00 per hour. District law requires that the minimum wage rate for Washington, D.C. employees be at least \$1.00 per hour greater than the minimum wage set by the federal government. The federal minimum wage rate is currently \$5.15 per hour, and it has been at that rate since September 1, 1997. The House of Representatives approved legislation on January 10, 2007 to increase the federal minimum wage from \$5.15 per hour to \$7.25 per hour, to take effect over a period of two-years. This legislation is pending approval by the U.S. Senate and the President of the United States before it becomes law.

**Wages and Salary:**

Earned in the District and Earned by D.C. Residents  
(% Change from Same Period of the Previous Year)



**U.S. Census Bureau**

The U.S. Census Bureau estimated that in July 2005 there were 550,521 permanent residents in Washington, D.C. It later revised this estimate upwards to 582,048. The U.S. Census Bureau has estimated that in July 2006 there were 581,530 permanent residents in Washington, D.C., a very slight decrease of 518 from the revised July 1, 2005 estimate of 582,048. The annual Census estimates are based on birth and death records, changes in tax return filings and estimates of the number of immigrants who move into Washington, D.C. each year. District officials have consistently disagreed with the Census Bureau because these estimates do not take fully into account the effect of increased residential construction, property transfers and undocumented individuals.

There is very credible evidence that the U.S. Census Bureau has been historically low in its estimates of Washington, D.C.'s population. These estimates can seriously affect the amount of Federal dollars that the District receives, which is based on the Census Bureau's total population reports. As a result of the District's challenge to the July 2005 estimate, the U.S. Census Bureau increased its estimate of D.C.'s population for July 1, 2005 from 550,521 to 582,048, an increase of 31,527, or 5.7%.

**Factors Affecting the District's Financial Condition**

**Structural Imbalance**

In May 2003, the United States Government Accountability Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*" to address the District's known structural imbalance. Structural imbalance is defined as the fiscal and economic imbalance caused by being required to fund the services of both a state and city. The District also provides, without any tax benefit, for the presence of the Federal government and numerous non-profit organizations. The inability to tax revenue earned by non-residents, and the inability to tax Federal properties, tax-exempt properties, and non-profit international entities put a severe strain on the District's limited resources.

The following bullets provide highlights from the report:

- The cost of delivering an average level of services per capita in Washington, D.C. far exceeds that of the average state fiscal system due to factors such as high poverty, crime, and the high cost of living.
- The District's per capita total revenue capacity is higher than all other state fiscal systems but not to the same extent that its costs are higher. Revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax federal property or the income of nonresidents.
- The District faces a substantial structural deficit because the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. The District's structural deficit is estimated to range from \$470 million to \$1.143 billion annually.
- Even though the District's tax burden is among the highest in the nation, the resulting revenues plus federal grants are only sufficient to fund an average level of public services, if those services were delivered with average efficiency.
- The District's underlying structural imbalance is determined by factors beyond the District's direct control.

Please visit GAO at <http://www.gao.gov/index.html> to view the full report or contact GAO on (202) 512-3000 to request a copy of GAO-03-666 report.

## Major Projects and Initiatives

### *The New "Washington Nationals"*

#### *Baseball Stadium*

On May 4, 2006, the District broke ground for the construction of a new baseball stadium to house the Washington Nationals Baseball Team. The team, formerly known as the Montreal Expos, was relocated to the District through an agreement made with Major League Baseball (MLB) on September 29, 2004. Under the agreement, the District must totally finance and construct a new baseball stadium by the start of the 2008 season. The Washington Nationals are currently playing their baseball games at the renovated Robert F. Kennedy (RFK) Stadium until the new stadium is completed.

The construction of the stadium, plus land acquisition and infrastructure, were estimated to cost \$534.8 million. On May 15, 2006, the District issued \$355 million in tax-exempt, fixed rate bonds, and \$179.8 million in taxable bonds to pay for the construction of the new baseball stadium. These bonds were issued at an interest rate of 4.97% and 6.4% respectively, for a blended rate of 5.37%, to be paid off over 30-years. The new stadium is being financed by a bond issuance backed by a fee on District businesses with over \$5 million in annual gross receipts, a percentage of the gross receipts tax collected from utilities for non-residential services, rent payments from the team owners, and a sales tax on baseball goods and merchandise sold at the stadium.

The new baseball stadium will be located in the Southeast sector of Washington, DC along the Anacostia River in a new mixed-use entertainment zone. It will have both Metrorail and highway accessibility and will be one of the main centerpieces in the development of the Southeast D.C. Waterfront.

The new stadium will occupy more than 1 million gross square feet and include: 41,000 seats; luxury suites; restaurant/bar; conference center; team store; kids training area; arcade; family area; and 30,000 square-feet of office space. Stadium construction is expected to support 3,500 jobs and generate \$5 million in new tax revenues. Annual team and stadium operations are projected to create more than 350 jobs and nearly \$30 million annually in new tax revenues.

#### *Unified Communications Center*

On September 26, 2006, the District celebrated the grand opening of the new Unified Communications Center (UCC), located in Ward 8 on the grounds of St. Elizabeth's Hospital. The \$116 million, 127,000 square-foot facility is now one of the nation's premier public safety, emergency response, and integrated call centers. The grand opening was attended by numerous federal, state and local government representatives, including directors of

emergency preparedness from the states of Maryland and Virginia, and high-ranking officials from the U.S. Department of Homeland Security. The UCC will consolidate the District's "command and control" functions of police, fire, emergency medical services, emergency management agency, and public services.

#### *Washington Convention Center and Headquarters' Hotel*

The Washington Convention Center, located in the heart of the nation's capital, provides the District with 2.3 million square feet of space, the latest technology, and nationally branded dining outlets such as Wolfgang Puck's. It enables the District to maintain its position among major cities as a leader in conventions and conferences.

The Board of Directors of the Washington Convention Center Authority (WCCA) has decided to develop and own a 1,200-room headquarters hotel with 100,000 square feet of meeting and ballroom space. This decision was followed by six-months of intensive predevelopment activities to determine whether the hotel could indeed be built at a site next to the new convention center on 9th Street between Massachusetts Avenue and M Street, N.W. After analyzing the options and financing feasibility of both the 9<sup>th</sup> street and the old convention center site, the Board concluded that the 9<sup>th</sup> street site is the best location for ensuring continued long term success of the Convention Center. This decision now allows the District to move forward with plans for a mix of housing, office, retail, and cultural facilities on the site of the old convention center.

#### *D.C. Department of Transportation*

The District of Columbia Department of Transportation's (DDOT) mission is to enhance the quality of life for residents and visitors by ensuring that people, goods, and information move efficiently and safely, with minimal adverse impact on residents and the environment. DDOT manages and maintains transportation infrastructures which recently included the replacement of the Taylor Street Bridge, located in the Northeast sector, and the Thomas Circle restoration project at 14<sup>th</sup> and Massachusetts, Avenue, N.W.

DDOT currently has two major initiatives in the city; the *Anacostia Waterfront Initiative* and the *Great Streets Initiative*.

The *Anacostia Waterfront Initiative* is a broad-based project to improve access to, across, and along the Anacostia River and to improve neighborhood connections to this valuable natural resource. Currently, the Anacostia River is the District's most undervalued and underutilized natural resource. The plan is to transform the Anacostia River and its banks into an area that will support recreational activities, such as swimming, boating and

fishing, and the creation of parks, neighborhoods and cultural venues.

This initiative created the Anacostia Waterfront Corporation (AWC) in 2004 to oversee the development of the Anacostia River and its banks. The AWC seeks to ensure that the social and economic benefits derived from a revitalized waterfront are shared by those neighborhoods and people living along the Anacostia River. Early projections show that the cost would be approximately \$8 billion and take at least 25 years to complete.

Please visit [www.anacostiawaterfront.net](http://www.anacostiawaterfront.net) to follow the progress of this exciting and monumental task.

The *Great Streets Initiative* targets major boulevards in the city to improve the condition and function of the streets and roadways and to promote local business enterprises and improve neighborhood quality of life. It is a multidisciplinary approach to corridor improvement. DDOT has committed more than \$100 million over the next four years to define, improve, and maintain the public realm of the corridors. The six target corridors are:

(1) Georgia Avenue and 7 <sup>th</sup> Street, NW, from Eastern Avenue to New York Avenue
(2) H Street, NE, and Benning Road NE/SE, from North Capitol Street to Southern Avenue
(3) Nannie Helen Burroughs Avenue, NE, from Kenilworth Avenue to Eastern Avenue
(4) Minnesota Avenue, N.E./SE, from Sheriff Road, NE, to Good Hope Road, SE
(5) Pennsylvania Avenue, S.E., from the Sousa Bridge to Southern Avenue
(6) Martin Luther King, Jr. Avenue and South Capitol Street from and including Good Hope Road to Southern Avenue

Please visit [www.greatstreetsdc.com](http://www.greatstreetsdc.com) to view the plan and progress of this effort.

### Neighborhood Revitalization

#### *District Government Projects*

Washington, D.C. continues to consolidate its position as the world's capital for finance, technology, government and history. The city has become a vibrant community that includes world class arts, sports, entertainment and dining facilities.

New residential construction is occurring in all sections of Washington, D.C., and range from single-family dwellings, to townhouses, to apartment buildings and condominiums. The District's Housing Finance Agency

helped finance a total 67 affordable single-family units and 1,165 affordable multi-family units in fiscal year 2006. These various ongoing efforts are creating a more vibrant downtown residential neighborhood, in addition to expanding residential development throughout Washington, D.C. The rapid reconstruction and renovation of vacant warehouses, commercial buildings and residential structures, and new construction in all areas provide incentives and a very strong marketing tool for attracting new residents and workers to the Nation's Capital.

Since 1999, the District's Housing Finance Agency (HFA) has issued more than \$2.2 billion in mortgage revenue bonds to finance more than 24,500 affordable rental units and single-family homes throughout the city. The HFA continues to work closely and collaboratively with its government housing partners to help increase developers' ability to access various government resources to assist with their development plans. In total, HFA financed eight multi-family housing developments. The HFA issued \$71.2 million in tax-exempt and taxable bonds and \$42.7 million in Low-Income Housing Tax Credits, and supports the construction or preservation of new and existing affordable housing units.

The District's Office of Planning is involved in projects that impact just about every area and neighborhood. Among these are projects from each of the city's eight wards, listed in order: (1) the Columbia Heights Public Realm Framework Plan; (2) the Downtown Action Agenda Project; (3) the Upper Wisconsin Avenue Corridor Study Strategic Framework Plan; (4) the Upper Georgia Avenue Area Land Development Plan; (5) the North of Massachusetts Avenue Vision Plan & Development Strategy; (6) the H Street Corridor Revitalization; (7) the East of the River Project; (8) the Anacostia Transit Area Strategic Investment Plan.

#### *National Capital Revitalization Corporation*

The National Capital Revitalization Corporation (NCRC) is a publicly chartered corporation focused on stimulating real estate development, business investment and job creation in neighborhoods. NCRC is helping to revitalize DC neighborhoods by attracting private sector investments that create jobs, generate revenue, attract and retain businesses, and empower citizens. Together with its affiliates, NCRC is bringing more than \$1.6 billion worth of investments to DC neighborhoods, developing two million square feet of retail space, building 2,000 new homes, and providing 2,000 new jobs for DC residents.

Below are two development projects currently under construction:

Anacostia Gateway @ MLK Jr. Avenue & Good Hope Road SE	<ul style="list-style-type: none"> <li>▪ 63,000 square feet mixed-use development</li> <li>▪ Project Cost: \$19 million</li> <li>▪ Includes 49,000 square feet of office space &amp; 14,000 square feet of retail space</li> <li>▪ Completion in 2007</li> </ul>
DC USA @ 14 <sup>th</sup> Street & Park Road NW	<ul style="list-style-type: none"> <li>▪ 546,000 square feet shopping and entertainment complex</li> <li>▪ Project Cost: \$140 million</li> <li>▪ Retailers include: Target, Best Buy, Bed Bath &amp; Beyond, Washington Sports Club, Staples, Modell's and Marshalls</li> <li>▪ Completion in 2008</li> </ul>

Please visit [www.ncrcdc.com](http://www.ncrcdc.com) for a description of all the completed and ongoing NCRC development projects in the city.

#### ***Federal Government Projects***

The federal government has shown renewed interest in the District as the place for consolidating agencies, functions and staff. The construction of the U.S. Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF) new headquarters building is in its final stages. The decision to locate the 422,000 square foot building at the intersection of First Street and New York Avenues, N.E. helped the District obtain matching Federal and private commitments of \$50 million to pay for the Metrorail station near that location.

The federal government has announced plans to increase its employment presence in the Southeast Federal Center (Center), which already houses a number of U.S. agencies. Plans are under consideration for the long awaited development of federal lands near and adjacent to the U.S. Navy Yard. The U.S. Department of Transportation (DOT) is nearing completion of a new headquarters' building, covering 11 acres, at the Center. The new DOT headquarters will provide 1.35 million square-feet of space for 7,000 employees. The redevelopment of the remaining 44 acres of the Center will include 1.8 million square-feet of office space, 2,800 residential units, and as much as 350,000 square-feet of retail space.

After decades of holding the St. Elizabeth's west campus, the Federal government finally designated the site for the Homeland Security headquarters, beginning with the Coast Guard. The construction of the Coast Guard headquarters will be historic because it marks the first time the federal government has brought development east of the Anacostia River. The District believes that the major federal

construction will stimulate long sought development along the Martin Luther King, Jr. Avenue.

In 2005, the federal government announced a proposal to transfer approximately 170 acres of federal land to the District. The proposal, approved by Congress, will allow the District to push forward several critical initiatives. These initiatives include a new state of the art hospital in Ward 6, recreational opportunities at Poplar Point, east of the Anacostia River, restoration of the old Naval Hospital in S.E., and better control of land near the Convention Center. As part of the agreement, the District will surrender five abandoned buildings on the St. Elizabeth Hospital's campus to the federal government. In addition, the District will relinquish administrative control of a handful of smaller parcels, most of which are already being used as parkland and will not be altered in any way.

The Pentagon's Base Realignment and Closure Commission voted in 2005 to close the Walter Reed Army Hospital (Walter Reed). The timetable for the closure of Walter Reed, and future uses of the property have not yet been decided, but the District is encouraging the federal government to move quickly to turn the property over for productive uses that will benefit the neighborhood, the city and the region. The Walter Reed site encompasses a 73-building complex over 113-acres. Walter Reed has been in operation on Georgia Avenue in N.W. Washington, D.C. since 1909.

#### ***Privately Funded Projects***

Construction is continuing at 555 Pennsylvania Avenue, N.W. on a new and expanded Newseum – the world's first interactive museum of news. The Newseum, owned by the Freedom Forum, originally opened in Arlington, Virginia in 1997. In 2000, the Freedom Forum purchased the former site of the District's Department of Employment Services (DOES) with the purpose of building a much larger and more ambitious Newseum. It will feature six levels of displays and expand the exhibit area to 70,000 square feet, which is three times larger than the original Newseum. This 600,000 square foot development is estimated to cost \$400 million and will house the Freedom Forum's headquarters, an 11,000 square foot conference center, and 145,000 square feet of housing in addition to the Newseum. The Newseum is expected to be completed and opened to the public in 2007.

#### ***Economic Tax Incentives***

The District has created two annual sales tax holidays. The first sales tax holiday is in August, to assist families with their Back-to-School purchases, and the second one starts the day after Thanksgiving. In calendar year 2006, the sales tax holidays ran from Saturday, August 5 through Sunday, August 13, and from Friday, November 24 through Sunday, December 3. These Sales Tax Holidays are available for use by both residents and non-residents.

The Taxpayer Relief Act of 1997 (PL 105-34) established the District of Columbia's Enterprise Zones. The zones consist of the previously existing enterprise zone communities plus all other census tracts for which the poverty rate is at least 20%. The law also increased the limitation on tax-exempt economic development bonds to \$15 million. It eliminated the federal capital gains tax through December 31, 2007 on business stock, partnership interest, and business property held for more than five years in all census tracts for which the poverty rate is at least 10%. The federal Homebuyer Tax Credit, provides a maximum \$5,000 income tax credit for first-time buyers of principal residences. The Act was recently extended for purchases closed through December 31, 2007, and made retroactive for all of 2006.

The Tax Parity Act of 1999 created a schedule to lower District taxes on both income and real property by the end of FY 2004. The new tax rates make Washington, D.C. more competitive with the neighboring suburban jurisdictions. The Act streamlined the tax code and eliminated duplications and discrepancies. At the same time, the District moved from a property assessment schedule of every three years, and one-third of city properties every year, to an annual assessment of all properties.

The District uses the Tax Increment Financing (TIF) Program to encourage new economic development projects that may not occur without this program. TIFs are supported by the collection of increased sales and use and real property taxes in the areas associated with each TIF project. Once the TIF bonds are repaid, these tax collections will go into the District's General Fund. The Embassy Suites Hotel and the H&M retail development were two of the TIF projects that were funded in FY2006. The TIF Notes issued for these two projects were \$11 million and \$3 million respectively. A \$10 million TIF Note was issued on December 20, 2006 for the development of the Capitol Hill Towers.

### Accounting System

The District's accounting system is organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity, having its own assets, liabilities, equity, revenues, and expenditures/expenses. The types of funds used are determined in accordance with GAAP, and the number of funds established within each type is guided by the "minimum number of funds principle" and sound financial administration. Specialized accounting and reporting principles and practices apply to governmental funds. Proprietary, component units and pension trust funds are accounted for in the same manner as business enterprises or non-business organizations.

### Measurement Focus and Basis of Accounting

Fund balances in the governmental fund financial statements will generally differ from net assets in the governmental activities of the government-wide financial statements due to the measurement focus and basis of accounting used in the respective financial statements.

- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.
- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

### Internal Control

Management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are processed and summarized to allow for the preparation of financial statements in conformity with GAAP. The internal controls are designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires the application of estimates and judgments by management.

### Budgetary Control

The District maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the D.C. Council and the U.S. Congress. A project-length financial plan is adopted for Capital Projects Funds. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by function within the General Fund. The District also maintains an encumbrance recording system as one technique of accomplishing budgetary control. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Funds.

By law, the budgetary general fund includes both the general fund and the federal and private resources fund. However, for reporting purposes, the federal and private resources fund is reported separately as a special revenue fund. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in Exhibit 2-d differs from the GAAP – basis general fund

and federal and private resources fund due to other basis and entity differences, as follows:

- *Basis Differences* - The District uses the purchases method for budgetary purposes, and the consumption method to account for inventories on a GAAP basis. Under the consumption method, a governmental expenditure is recognized only when the inventory items are used. Under the purchase method, purchases of inventories are recognized as expenditures when the goods are received and transaction is vouchered.
- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis for reporting purposes. Such activities primarily include the following as detailed in Exhibit 2-d:
  - Fund balance released from restrictions
  - Proceeds from debt restructuring
  - Accounts receivable allowance
  - Operating cost from enterprise funds

The “*District Anti-Deficiency Act of 2002*” (the Act) became effective on April 4, 2003. The Act requires District managers to develop spending projections, by source of funds, on a monthly basis, which show year-to-date spending, approved budget, year-end projected spending, explanations of variances greater than 5%, and in the occurrence of overspending, corrective action plans. Spending projections are required to be submitted to the agency head and the agency chief financial officer. Summarized spending projections must be submitted to the District’s CFO no more than 30-days after the end of each month.

The District’s CFO is required to submit reports to the D.C. Council and the Mayor on a quarterly basis indicating each agency’s actual expenditures, obligations, and commitments, each by source of funds, compared to their approved spending plan. This report is required to be accompanied by the CFO’s observations regarding spending patterns and steps being taken to assure that spending remains within the approved budget.

Congressional mandate required the District to accumulate and maintain an emergency cash reserve equaling 4% of the total budget allocated for operating expenditures by the end of FY 2004. An additional contingency cash reserve was also established, which equaled 3% of the total budget allocated for operating expenditures. The District met both of these requirements. Beginning in FY 2005, the District is only required to maintain a combined balance of 6% of the general fund expenditures less debt service. The 6% is comprised of a contingency cash reserve of 4% and an emergency cash reserve of 2%.

**Cash Management**

Generally, cash from all funds of the primary government is combined unless prohibited by law. Any cash that is not needed for immediate disbursement is invested in securities which are essentially guaranteed by the federal government, such as mutual funds consisting of federal government obligations or repurchase agreements collateralized by federal agency obligations.

The Financial Institutions Deposit and Investment Amendment Act of 1997 (D.C. Code 47-351.3) authorized the District to invest in certain obligations that may not be guaranteed by the federal government. Such deposits and investments are fully collateralized with approved securities that are held by the District or by its agent in the District’s name.

**Bond Rating Agencies**

Rating agencies assess credit quality of municipal issuers and assign a credit rating based on their analyses. An acceptable credit rating enables the issuer to access the market. Because the municipal market contains so many issuers, rating agencies provide vital information to investors as to the relative risks associated with rated bond issues. The three primary Rating Agencies that rate municipal debt are: (1) Fitch, IBCA, Inc.; (2) Moody’s Investors Service; and (3) Standard and Poor’s Rating Service.

The District’s bond ratings for the past three years are:

<b>Bond Rating History</b>			
	<b>Fiscal Year</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>S&amp;P</b>	A	A+	A+
<b>Moody’s</b>	A2	A2	A2
<b>Fitch</b>	A-	A	A

**Risk Management**

The District retains the risk of loss arising out of the ownership of property or from some other cause, except for health care and life insurance benefits for employees. A liability is established in the government-wide statement of net assets to reflect certain contingencies; however, this amount is not intended to include all assets that may be required to finance losses. Rather, certain losses are recognized in the affected funds when they occur. The District is self-insured for unemployment and disability, also known as worker’s compensation, as well as for general liability.

### Independent Audit

District law (D.C. Code 47-119) requires an annual financial audit of the District by independent certified public accountants. The audit must be conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* published by the U.S. Government Accountability Office. The financial statements must be prepared in conformity with GAAP. The District has complied with these requirements and the independent auditors' report is included in the financial section of this report.

### U.S. Office of Management & Budget Single Audit

The District is required by the U.S. Office of Management & Budget (OMB) to conduct a financial and compliance audit of all federal awards. OMB Circular A-133 (Revised) outlines these requirements, and sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. This Circular is issued pursuant to the Single Audit Act Amendments of 1996, P.L. 104-156.

The Office of Internal Audit and Internal Security, Office of the Chief Financial Officer, has completed all required A-133 Single Audits through fiscal year 2005 and the District is in full compliance with the Single Audit Act. The results of the District-wide Single Audits are presented in a separate report.

### Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended September 30, 2005. The District has received this award for twenty-two of the last twenty-four years. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards in the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must also satisfy both GAAP and applicable legal requirements.

GFOA also gave an award to the District for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for fiscal year ended September 30, 2005 for the third consecutive year. The PAFR was prepared and submitted by the District for the first time for FY 2003. The PAFR presents the District's financial results in a format and language that is intended to be more easily

understood by the general public. The PAFR is not required to present the same level of detail as the CAFR. It contains very few financial statements, and the use of graphics and photos is increased.

Both awards are valid for one fiscal year. The District believes that the FY 2006 CAFR continues to conform to the Certificate of Achievement Program requirements and it will be submitted to the GFOA for review and approval. The District also expects that the FY 2006 PAFR, which will be prepared within the next month, will conform to the Award for Popular Annual Financial Reporting Program requirements. It will also be submitted to the GFOA for review and approval.

### Acknowledgments

I would like to thank the hundreds of accounting and financial personnel throughout the District who have cooperated with the Office of Financial Operations and Systems all year, especially in the past four months. I greatly appreciate their efforts, which have continued to be an important factor in our preparation of this CAFR publication. Most of all, I want to thank my immediate staff, *Michael Covington, Grace Crocker, Larry Daniels, Chris Lacour, Bill Slack*, and their respective team members. I am grateful for their dedicated efforts. I would also like to thank the Office of the Inspector General, and the District's independent auditors, *BDO Seidman, LLP*, who was assisted by *Bert Smith and Company*, and *Thompson, Cobb, Bazilio and Associates* for their efforts throughout the audit engagement.

Respectfully submitted,



Anthony F. Pompa  
Deputy Chief Financial Officer  
Financial Operations and Systems



**DISTRICT OF COLUMBIA  
PRINCIPAL OFFICIALS  
September 30, 2006**

<b>Name</b>	<b>Position</b>	<b>First Elected or Appointed</b>	<b>Term Expires</b>
<b>Chief Executive Officer</b>			
Anthony A. Williams	Mayor	1999	2007
<b>Council</b>			
Linda W. Cropp	Chairman	1991	2007
Carol Schwartz	At Large	1997	2009
David A. Catania	At Large	1997	2007
Phil Mendelson	At Large	1999	2007
Kwame R. Brown	At Large	2005	2009
Jim Graham	Ward 1	1999	2007
Jack Evans	Ward 2	1991	2009
Kathleen Patterson	Ward 3	1995	2007
Adrian Fenty	Ward 4	2001	2009
Vincent Orange	Ward 5	1999	2007
Sharon Ambrose	Ward 6	1997	2007
Vincent C. Gray	Ward 7	2005	2009
Marion Barry Jr.	Ward 8	2005	2009
<b>House of Representatives</b>			
Eleanor Holmes Norton	Delegate	1991	2007
<b>Executive Officers</b>			
Robert C. Bobb	City Administrator		
Natwar M. Gandhi	Chief Financial Officer		
Robert Spagnoletti	Attorney General		
Alfreda Davis	Chief of Staff		
Brenda Donald Walker	Deputy Mayor for Children, Youth, Families and Elders		
Herbert R. Tillery	Deputy Mayor for Operations		
Stanley Jackson	Deputy Mayor for Planning and Economic Development		
Edward D. Reiskin	Deputy Mayor for Public Safety and Justice		
Patricia Elwood	Acting Secretary of the District of Columbia		
Clifford B. Janey	Superintendent for D.C. Public Schools		
Charles J. Willoughby	Inspector General		
Humberto O. Molina, Jr.	Deputy CFO, Budget and Planning		
Anthony F. Pompa	Deputy CFO, Financial Operations and Systems		
Lasana K. Mack	Deputy CFO, Finance and Treasury		
Julia Friedman	Deputy CFO, Revenue Analysis		
Sherryl Hobbs Newman	Deputy CFO, Tax and Revenue		
Cyril Byron, Jr.	Associate CFO, Economic Development and Regulation		
Barbara D. Jumper	Associate CFO, Governmental Operations		
George Dines	Interim Associate CFO, Government Services		
Deloras A. Shepherd	Associate CFO, Human Support Services		
Steward D. Beckham	Associate CFO, Public Safety and Justice		
Pamela D. Graham	Interim Agency CFO, D.C. Public Schools		
Jeanette A. Michael	Executive Director, D.C. Lottery		

**DISTRICT OF COLUMBIA  
PRINCIPAL OFFICIALS  
January 2, 2007**

Name	Position	First Elected or Appointed	Term Expires
<b>Chief Executive Officer</b>			
Adrian M. Fenty	Mayor	2006	2011
<b>Council</b>			
Vincent C. Gray	Chairman	2006	2011
Carol Schwartz	At Large	1997	2009
David A. Catania	At Large	1997	2011
Phil Mendelson	At Large	1999	2011
Kwame R. Brown	At Large	2005	2009
Jim Graham	Ward 1	1998	2011
Jack Evans	Ward 2	1990	2009
Mary C. Cheh	Ward 3	2006	2011
<i>Vacant</i>	Ward 4 [Special Election to be held on May 1, 2007]	2007	2011
Harry Thomas, Jr.	Ward 5	2006	2011
Tommy Wells	Ward 6	2006	2011
<i>Vacant</i>	Ward 7 [Special Election to be held on May 1, 2007]	2007	2011
Marion Barry Jr.	Ward 8	2004	2009
<b>House of Representatives</b>			
Eleanor Holmes Norton	Delegate	1991	2009
<b>Executive Officers</b>			
Dan Tangherlini	Acting City Administrator		
Natwar M. Gandhi	Chief Financial Officer		
Linda Singer	Acting Attorney General		
Tene Dolphin	Chief of Staff		
Victor Reinoso	Acting Deputy Mayor for Education		
Neil O. Albert	Acting Deputy Mayor for Planning and Economic Development		
Stephanie Scott	Acting Secretary of the District of Columbia		
Clifford B. Janey	Superintendent for D.C. Public Schools		
Charles J. Willoughby	Inspector General		
Humberto O. Molina, Jr.	Deputy CFO, Budget and Planning		
Anthony F. Pompa	Deputy CFO, Financial Operations and Systems		
Lasana K. Mack	Deputy CFO, Finance and Treasury		
Robert D. Ebel	Deputy CFO, Revenue Analysis		
Sherryl Hobbs Newman	Deputy CFO, Tax and Revenue		
Cyril Byron, Jr.	Associate CFO, Economic Development and Regulation		
Barbara D. Jumper	Associate CFO, Governmental Operations		
George Dines	Interim Associate CFO, Government Services		
Deloras A. Shepherd	Associate CFO, Human Support Services		
Steward D. Beckham	Associate CFO, Public Safety and Justice		
Pamela D. Graham	Interim Agency CFO, D.C. Public Schools		
Jeanette A. Michael	Executive Director, D.C. Lottery		

# GOVERNMENT OF THE DISTRICT OF COLUMBIA

## Organizational Chart

September 30, 2006

- [1] ELECTED OFFICIAL
- [2] ESTABLISHED BY P.L. 104-8
- [3] NOT SUBJECT TO MAYOR'S REORGANIZATION AUTHORITY
- [4] INDEPENDENT AGENCY

**LEGISLATIVE BRANCH [3]**

**COUNCIL OF THE DISTRICT OF COLUMBIA [1]**  
 1 Chairperson  
 4 At-Large Members  
 8 Ward Members

**D.C. AUDITOR**

**ADVISORY NEIGHBORHOOD COMMISSIONS [1]**

**EXECUTIVE BRANCH**

**MAYOR [1]**

**EXECUTIVE OFFICE OF THE MAYOR**  
 Offices of the Chief of Staff  
 Communications  
 Community Affairs  
 Community Outreach  
 Policy & Legislative Affairs  
 Secretary of the District of Columbia

**ATTORNEY GENERAL**

**CITY ADMINISTRATOR**

**INSPECTOR GENERAL [4]**

**CHIEF FINANCIAL OFFICER [2]**

**Agencies & Offices**  
 Budget & Planning  
 D.C. Lottery  
 Finance & Treasury  
 Financial Operations & Systems  
 Revenue Analysis  
 Tax & Revenue

**Deputy Mayor Operations**

**Agencies & Offices**  
 Chief Technology Officer  
 Contracting & Procurement  
 Motor Vehicles  
 Personnel  
 Property Management  
 Public Works  
 Small & Local Business Development  
 Transportation

**Deputy Mayor Planning and Economic Development**

**Agencies & Offices**  
 Arts & Humanities  
 Consumer & Regulatory Affairs  
 Employment Services  
 Housing & Community Development  
 Insurance, Securities and Banking  
 Planning

**Deputy Mayor Children, Youth, Families and Elders**

**Agencies & Offices**  
 Aging  
 Child & Family Services  
 Health & Human Services  
 Mental Health  
 Parks and Recreation  
 Public Library  
 Youth Rehabilitation Services

**Deputy Mayor Public Safety and Justice**

**Agencies & Offices**  
 Chief Medical Examiner  
 Corrections  
 Emergency Management Agency  
 Fire & Emergency Medical Services  
 Justice Grants Administration  
 Metropolitan Police Department  
 Unified Communications

**INDEPENDENT AGENCIES**  
 Anacostia Waterfront Corporation  
 Board of Library Trustees  
 Employee Appeals  
 Housing Finance Agency  
 Peoples Counsel  
 Pretrial Services  
 Public Defenders Services  
 Public Employee Relations Board  
 Retirement Board  
 Sports & Entertainment Commission  
 Tobacco Settlement Financing Corporation  
 University of the District of Columbia  
 Washington Convention Center Authority  
 Water & Sewer Authority

**CHARTER INDEPENDENT AGENCIES**  
 Armory Board  
 Board of Education/Public Schools  
 Board of Elections & Ethics  
 Public Service Commission  
 Zoning Commission

**REGIONAL BODIES**  
 Metropolitan Washington Council of Governments  
 National Capital Planning Commission  
 Washington Metropolitan Area Transit Authority  
 Washington Metropolitan Area Transit Commission  
 Washington Metropolitan Airports Authority

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## District of Columbia

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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# CAFR 2006



YEAR ENDED SEPTEMBER 30, 2006

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



## FINANCIAL SECTION

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER



## **INDEPENDENT AUDITORS' REPORT**



**BDO Seidman, LLP**  
Accountants and Consultants

1250 Connecticut Avenue, NW, Suite 200  
Washington, D.C. 20036  
Telephone: (202) 261-3565  
Fax: (202) 261-3563

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Government of the District of Columbia** (the District), as of and for the year ended September 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2005 financial statements and, in our report dated January 23, 2006, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Government of the District of Columbia** as of September 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general and federal and private resources funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 19 through 35 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.





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

*BDO Seidman, LLP*

Washington, D.C.  
January 26, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2006

(Dollar amounts expressed in thousands)

This Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of the District of Columbia (the District) for the fiscal year ended September 30, 2006. This discussion and analysis should be read in conjunction with the basic financial statements and the related note disclosures, which follow this discussion on pages 37 through 98. In addition, it is important to also read the Transmittal Letter, which begins on page 1, in conjunction with the MD&A.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of three components:

- (1) *Government-Wide Financial Statements* - Exhibit 1-a, *Statement of Net Assets*, and Exhibit 1-b, *Statement of Activities* on pages 38 and 39 respectively, present information about the financial activities of the District as a whole. These two statements provide an overall view of the District's finances.
- (2) *Governmental Fund Financial Statements* - Exhibit 2-a, *Balance Sheet – Governmental Funds*, Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, Exhibit 2-c, *Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, and Exhibit 2-d, *Budgetary Comparison Statement* on pages 40, 41, 42, and 43, respectively, show the District's financial position at the end of the fiscal year and how governmental activities were financed during the current year.

The fund financial statements focus on the most significant District funds and present operations in more detail. The fiduciary funds report activities for which the District acts exclusively as a trustee or agent for the benefit of entities or individuals external to the government.

- (3) *Notes To The Basic Financial Statements* - Present additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, and can be found on pages 51 through 98.

### FINANCIAL HIGHLIGHTS

- In the government-wide analysis, assets exceeded liabilities, resulting in total net assets of \$2,508,355. The total net assets consisted of *net assets invested in capital assets, net of related debt* of \$975,988; *restricted net assets* of \$1,335,588; and *unrestricted net assets* of \$196,779. The total government-wide net assets included \$2,114,026 generated by governmental activities and \$394,329 generated by business-type activities.
- There was an increase of \$383,647 over the previous year in the government-wide total net assets. This increase is attributable to a \$1,576,519 increase in total assets, which was offset by an increase in total liabilities of \$1,192,872. The increased collection of taxes and other revenues accounted for the majority of this increase. (See Table 1, *Net Assets as of September 30, 2006* on page 22.)
- The governmental funds reported a combined fund balance of \$2,489,622 which was an increase of \$880,659 over the previous year. The fund balance of the general fund was \$1,435,142 or 57.6% of the combined fund balances, and represented a decrease of \$(149,541) over the previous year. This reduction was due to management's decision to use \$528.4 million to finance various projects such as: \$252.7 million in capital improvements; \$138.0 million for other post employment benefits and \$75.2 million for advancement in health care, education, and the arts and humanities.
- \$1,045,560 of the general fund's fund balance is reserved for specific purposes: \$293,649 is legally set aside for emergencies and contingencies, \$262,640 for bond escrow, and \$87,987 for PAYGO capital, with \$401,284 reserved for

other purposes. Of the \$389,582 unreserved general fund's fund balance, \$41,473 is designated for other post employment benefits, \$73,784 for school modernization, and \$136,320 for other special purposes, with \$138,005 remaining undesignated and available for use.

- Total long-term debt related to notes and bonds increased by \$929,191, or 21.9%. There was a net increase of \$141,665 in general obligation debt, a new issuance of Ballpark Bonds in the amount of \$534,800 and an increase of \$252,726 in other debt. (Table 4, *Outstanding Bonds and Notes at September 30, 2006*, page 30).

## NEW GASB PRONOUNCEMENTS

### GASB Statement No. 45

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related assets and liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 45 does not become effective for the District until FY2008. The District plans to implement this Statement on or before the effective date.

### GASB Statement No. 46

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement requires that limitations on the use of net assets, imposed by enabling legislation, be reported as restricted net assets. Statement No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to the government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. The Statement requires that the legal enforceability of an enabling legislation be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation, or if the government has other cause for consideration.

The District implemented the requirements of this Statement in fiscal year 2002, prior to its effective date. GASB Statement No. 46 became effective for the District in FY2006.

### GASB Statement No. 47

In June 2005, GASB issued Statement No 47, *Accounting for Termination Benefits*. This Statement requires that in the period in which an employer becomes obligated for termination benefits, and in any additional period in which employees are required to render future service in order to receive involuntary termination benefits, the employer should disclose the following: 1) a description of the termination benefit arrangements, 2) the cost of the termination benefits, 3) a disclosure of whether termination benefits are measured at the discounted present value, and, 4) if the expected benefits are not estimable, the employer should disclose that fact. The provisions of this Statement need not be applied to immaterial items.

GASB Statement No. 47 became effective for the District in FY2006. The District has implemented this Statement.

### GASB Statement No. 48

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Governments sometimes exchange an interest in their expected cash flows from specific receivables or specific revenues, for immediate cash payments – generally, a single lump sum. This Statement establishes criteria that governments will use to ascertain whether the proceeds should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenue, including residual interests and recourse provisions. The requirements in this Statement improve financial reporting by establishing measurement, recognition, and disclosure requirements that apply to both governmental and business-type activities.

GASB Statement No. 48 does not become effective for the District until FY2008. The District has begun the implementation of this Statement.

## THE DISTRICT'S FINANCIAL CONDITION

The District government's level of financial responsibility and performance can be measured in various ways. Below are some of the indicators of the District's improved financial position:

- The total expenditures for the District were again within budget.
- The general fund ended the year with a budgetary surplus of \$325,162. After deducting the use of fund balance released from restrictions and other adjustments required by generally accepted accounting principles (GAAP), the non-budgetary or GAAP deficit was \$(149,541).
- The accumulated general fund fund balance at September 30, 2006 was \$1,435,142.
- The required legal debt limitation allows the District to use up to 17.0% of its total revenues for debt service in FY2006. However, the District's debt service cost was only 7.4% of total revenues, or about 43.8% of the legal limit.
- The District continues to allocate large amounts of funds for infrastructure assets.

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

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

The District's current financial resources (short-term disposable resources) are reported along with capital assets and long-term obligations in the *Statement of Net Assets*. The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. This statement distinguishes between governmental activities, business-type activities and component units' activities.

The total net assets is the sum of three components: 1) *net assets invested in capital assets, net of related debt*, 2) *restricted net assets*, and 3) *unrestricted net assets*. Over time and accounting periods, changes in the District's net assets are an indicator of its financial health. However, changes in population, property tax base, infrastructure condition and other non-financial factors must also be considered in assessing the overall financial health of the District.

The *Statement of Activities* presents information showing how the government's net assets changed from the last fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement also include items that will only result in cash flows in future fiscal periods, (for example, uncollected taxes and earned but unused vacation leave).

The *Statement of Activities* summarizes both the gross and net cost of the governmental activities and business-type activities. Governmental activities show the District's basic functional services while business-type activities reflect enterprise operations where fees for services are expected to cover all or most of the costs of operations, including depreciation. Program/functional expenses are reduced by program specific earned revenues, and by grants, that reduce net expenses for governmental and business-type activities. The District's general revenues (property, sales, income and franchise taxes) offset remaining costs, resulting in an increase or decrease in net assets.

### Financial Analysis of the Government as a Whole (Government-Wide Financial Statements)

In fiscal year 2006, the combined total net assets increased by \$383,647. This increase is the combination of a governmental activities increase of \$363,362 and a business-type activities increase of \$20,285. See Table 2, Change in Net Assets as of

September 30, 2006, on page 23. The increased collection of taxes and other revenues accounted for the majority of this outcome. More efficient use of resources, including better expenditure management, also contributed to this positive result.

Restricted net assets are assets that are subject to use-constraints that 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 by enabling legislation. In FY2006, total restricted net assets increased by \$82,674, or 6.60%, consisting of an increase of \$57,629, or 6.20%, from governmental activities, and an increase of \$25,045, or 7.76% from business-type activities.

The Lottery and Charitable Games Control Board, an enterprise fund of the primary government, transfers substantially all of its net income to the District at the end of each fiscal year. In fiscal year 2006, the transfer was \$73,800, which was a \$2,350 increase from last year's amount. Please see Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, on page 45.

Fund balances in the governmental fund financial statements will generally differ from net assets in the governmental activities of the government-wide financial statements due to the measurement focus and basis of accounting used in the respective financial statements.

- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.
- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.

The positive unrestricted net assets of \$167,779 in FY2006 represents a change of \$416,867 from the FY2005 deficit of \$(249,088). This change is the result of an increase in total net assets of \$363,362 and a net decrease of \$(53,505) in other restrictions and net assets invested in capital assets. The net decrease of \$(53,505) was composed primarily of a decrease of \$(111,134) in invested in capital assets, net of related debt; and an increase of \$57,629 for other restricted net assets. The increase in net assets was due mainly to a significant increase in property taxes of \$122.0 million, an increase of income and franchise taxes of \$119.0 million, and an increase of \$120.0 million for miscellaneous revenues.

*Restricted net assets* are assets whose uses are *not* subject to the District's discretion. This category includes resources subject to *externally imposed* restrictions by creditors, grantors, contributors, laws/regulations of other governments, and constitutional provisions.

**Table 1 - Net Assets as of September 30, 2006**

	Governmental activities		Business-type activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 3,811,134	\$ 2,783,666	\$ 473,582	\$ 453,541	\$ 4,284,716	\$ 3,237,207
Capital assets	5,546,741	5,018,939	17,391	16,183	5,564,132	5,035,122
<b>Total assets</b>	<b>9,357,875</b>	<b>7,802,605</b>	<b>490,973</b>	<b>469,724</b>	<b>9,848,848</b>	<b>8,272,329</b>
Long-term liabilities	5,984,643	4,862,030	52,584	59,449	6,037,227	4,921,479
Other liabilities	1,259,206	1,189,911	44,060	36,231	1,303,266	1,226,142
<b>Total Liabilities</b>	<b>7,243,849</b>	<b>6,051,941</b>	<b>96,644</b>	<b>95,680</b>	<b>7,340,493</b>	<b>6,147,621</b>
Net assets:						
Invested in capital assets, net of related debt	958,597	1,069,731	17,391	16,183	975,988	1,085,914
Restricted	987,650	930,021	347,938	322,893	1,335,588	1,252,914
Unrestricted	167,779	(249,088)	29,000	34,968	196,779	(214,120)
<b>Total net assets</b>	<b>\$ 2,114,026</b>	<b>\$ 1,750,664</b>	<b>\$ 394,329</b>	<b>\$ 374,044</b>	<b>\$ 2,508,355</b>	<b>\$ 2,124,708</b>



Chart 1 shows various sources of revenues. This chart is a visual presentation of the numbers that were presented in Table 2, *Change in Net Assets* as of September 30, 2006 on page 23.

Chart 1 – Revenues by Source – Governmental Activities

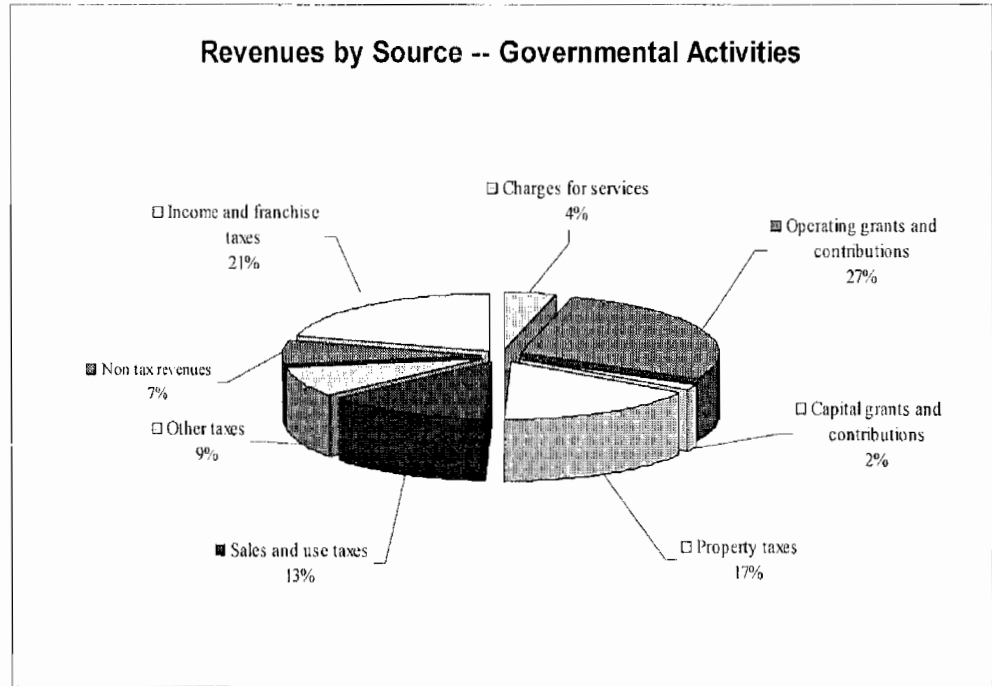
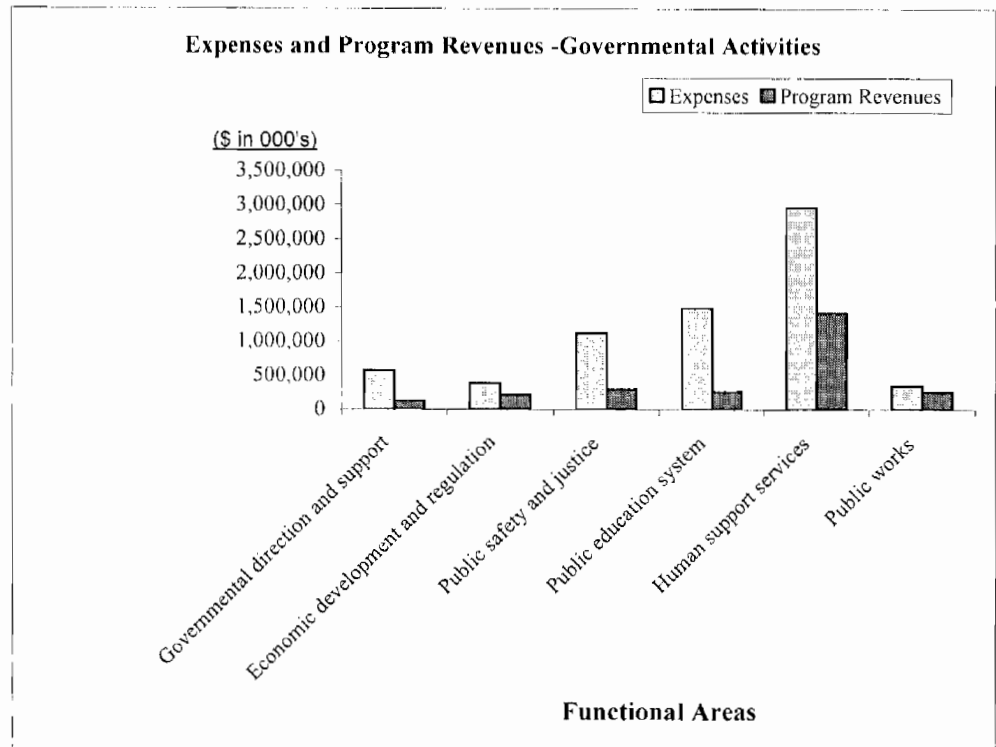


Chart 2 - Expenses and Program Revenues – Governmental Activities

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





## Reporting on the District's Most Significant Funds

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the District uses to keep track of specific sources of funding and spending for a particular purpose. In accordance with District law, bond covenants, and other legal stipulations, funds are established for specific purposes and to report on the activities related to the goods and services that the District provides to the general public. The District's funds are presented in three categories or groups: governmental, enterprise, and fiduciary.

The focus of the fund financial statements' presentation is on major funds, and not on fund types. Major funds, as required by GAAP, are presented individually; with non-major governmental funds combined in a single column. Detailed information for individual non-major governmental funds can be found in 'Other Supplementary Information', Exhibits B-1, *Combining Balance Sheet* and B-2, *Combining Statement of Revenues and Expenditures and Changes in Fund Balances*, pages 110 and 111.

### Governmental Funds

The District's governmental funds provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The governmental fund financial statements relate to the governmental activities column in the government-wide statements. The focus is on a shorter-term basis and measures how money flows into and out of these funds and determines the balances left at year-end for future spending.

Most basic services are found in this fund category, which are reported as General, Federal and Private Resources, General Capital Improvements, Baseball Capital Project, and Non-major Governmental Funds. These funds are reported using the *modified accrual basis of accounting*, which measures cash and other financial assets that can be readily converted into cash. Please refer to Exhibit 2-a, *Balance Sheet – Governmental Funds* and Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, pages 40 and 41, for more detailed information about these funds.

- **Fund Balances:** The governmental funds reported a combined fund balance of \$2,489,622, an increase of \$880,659 over the previous year. The components of this combined fund balance are as follows:
  - General Fund - \$ 1,435,142, a decrease of \$(149,541) over the previous year.
  - Federal and private resources - \$161,310, an increase of \$43,363 over the previous year.
  - General capital improvements - \$396,820, an increase of \$643,182 over the previous year.
  - Baseball capital project - \$328,581. In FY2005, the activity of this fund did not result in a fund balance.
  - Nonmajor governmental funds - \$167,769, an increase of \$15,074 over the previous year.
- **Revenues:** The collection of taxes and other revenues increased in FY2006 due to the continued strength of the Washington, D.C. economy. Revenues of the governmental funds increased by \$494,118. Property taxes, income and franchise taxes, and sales and use taxes continued to show steady increases. Commercial retail and office space growth continued, and commercial vacancy rates remained amongst the lowest in the nation.

On the residential side, longer commuting times, for non-resident employees, has made Washington, D.C. a more attractive place to live. The growth in the wages and salaries of residents contributed to the increase in individual income tax revenue. The increase in the sales and use tax was due to increased retail and hospitality sales, a result of increased individual income and the growth in the number of conventions and visitors.

The primary sources of the increases in general fund revenues are:

- Property taxes increased by \$93,149.
- Income and franchise taxes increased by \$119,051.
- Miscellaneous revenues increased by \$177,494.

The increase in real property tax revenue in FY2006 reflects the strength of the D.C. real estate market two-years prior, since there is a two-year lag between when real property value is assessed and when the revenue from the increased assessment is realized. As the demand for residential and commercial real estate has soared in the last

several years, prices have climbed steeply and the result has been higher assessments and increased tax revenue, despite several rounds of tax relief to the residential sector.

The rise in individual income tax revenue, despite another round of tax cuts from the phased implementation of Tax Parity, reflects the strong growth in income of D.C.'s top earners. The largest source of growth was from the non-withholding portion of the income – the portion that is tied closely to stock market returns. This suggests that the strong growth in returns from the financial markets in the previous year was the main driver of the continued growth in the individual income tax.

The growth in miscellaneous revenues was the result of fluctuations in unclaimed property and end of year adjustments resulting from a change in estimates relating to expenditure accruals. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 41, for more detailed information.

### Dedicated Revenues

Every year, some portion of various District revenue streams are dedicated to certain purposes. The dedicated portion of the tax revenues is transferred out of the local fund, and is thus not available for general budgeting. In FY2006, the District transferred a total of \$271.7 million in tax revenues out of the local fund budget.

**Table 3 – Dedicated Local Tax Revenues (\$ in 000's)**

Tax Revenue  Source	Gross Collection	Dedicated Purpose (Transfer to)								Net Collection
		TIF	Neighborhood Investment Fund	DDOT	Convention Center	Ballpark Fund	Highway Trust Fund	Nursing Facility Quality of Care Fund	HPTF	
Real Property	\$ 1,153,795	(1,652)								1,152,143
Personal Property	65,514		(9,966)							55,548
Public Space Rental	22,206			(22,206)						-
General Sales	908,884	(11,562)		(33,586)	(79,706)	(8,664)				775,366
Motor Fuel Tax	24,960						(24,960)			-
Public Utility	155,157					(10,356)				144,801
Toll Telecommunications	56,611					(2,055)				54,556
Healthcare Provider Tax	9,107							(9,107)		-
Baseball Gross Receipts	15,952					(15,952)				-
Deed Recordation	197,528								(28,504)	169,024
Deed Transfer	132,615								(19,106)	113,509
<b>TOTAL</b>	<b>\$ 2,742,329</b>	<b>(13,214)</b>	<b>(9,966)</b>	<b>(55,792)</b>	<b>(79,706)</b>	<b>(37,027)</b>	<b>(24,960)</b>	<b>(9,107)</b>	<b>(47,610)</b>	<b>2,464,947</b>

- **Expenditures:** The District's expenditures increased in most of its program/functional areas in the total amount of \$977,053 over the previous year. The program/functional areas were led by an increase in governmental direction and support of \$21,276, human support services of \$294,789, the public education system of \$98,743, public safety and justice of \$99,344, economic development and regulation of \$80,756, and capital outlays of \$286,115.

The largest individual expenditure increase at agency level was the \$54.8 million cost in personal services for the Metropolitan Police Department (MPD). This was attributed to a 4% pay increase for the 3,800 sworn members of the MPD, and a \$12.7 million settlement related to the Public Employee's Relations Board (PERB) award. The PERB award was a retroactive settlement agreement with the Fraternal Order of Police for overtime and compensatory time earned from FY2001 to FY2003. An additional \$1.6 million was for new hires in FY2006. Also, in FY2006, the Chief of Police declared a crime emergency which increased overtime by \$10.6 million.

The District spent \$652,198 on general capital improvements which exceeded the general capital improvements revenues of \$212,112 by \$(440,086) resulting in the deficiency shown in the capital projects fund. The District investments in capital improvements is based on need rather than available current year revenues, before considering current year bond proceeds. This deficiency is subsequently financed through the use of bond proceeds, after other financing sources of \$1,083,268 were applied. The net change in the general capital improvements fund balance was an increase of \$643,182.

The District is rapidly investing in infrastructure and other improvements to encourage residents and businesses to stay in the District and to attract new residents and businesses. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances*, page 41, for more detailed information.

Listed below are the seven major infrastructure projects undertaken in FY2006, by costs incurred:

- 1) Street Repair/Pavement Restoration, Citywide - \$10,561
- 2) 9th Street Bridge Design Build - \$10,049
- 3) Theodore Roosevelt Bridge - \$7,447
- 4) Curb/Sidewalks/Alley Replacement/Improvements, Wards 7 & 8- \$7,115
- 5) Traffic Signal Maintenance/Improvements, Citywide - \$7,011
- 6) Road/Resurface/Reconstruction/Upgrades, Ward 5 - \$6,572
- 7) Pavement Restoration Wards 1 & 8 - \$5,333

It is the District's financial policy to issue general obligation bonds to support the expenditures associated with its Capital Improvements Program. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures as opposed to an estimated amount budgeted on an annual basis. In practice, agencies are authorized to spend their annual appropriated capital budget in advance of financing. The general fund advances the amount of the funding, and is repaid with the proceeds from the bonds when issued.

This allows the District to determine when it will enter the market to issue bonds based upon cash flow needs, favorable market rates and the number of municipal debt financing and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximizes the pool of potential investors for the District's debt issuances.

### Proprietary Funds

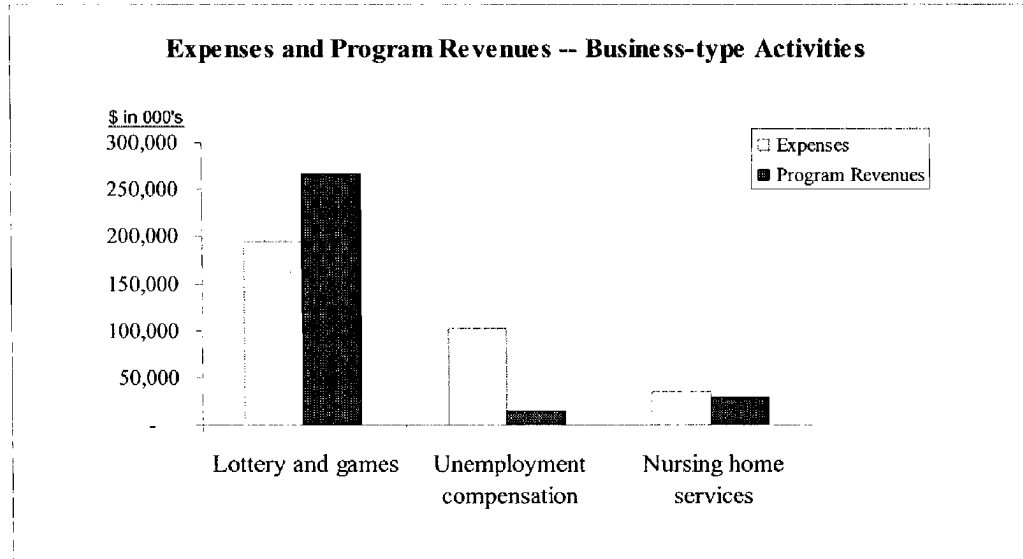
Proprietary funds account for activities of District entities that charge customers a fee for services provided, whether to outside customers or to other entities of the District. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The District currently has two major Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery), and the Unemployment Compensation Fund (Unemployment). There is one non-major proprietary fund, Nursing Home Services, which includes the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and the JB Johnson Nursing Center. See *Chart 3, Expense and Program Revenues – Business-Type Activities* and *Chart 4, Revenues by Source – Business-Type Activities*, both on page 28, which give a visual comparative presentation of the revenues and expenses of the three funds.

The total assets for Lottery decreased by \$(4,138), or -5.6%, over the previous year due to scheduled disbursements to long-term prize winners. The total assets for Unemployment increased by \$19,177, or 5.2%, due to higher tax collections from employers. The net cash provided by (used in) operating activities for Lottery, Unemployment and non-major proprietary funds (Nursing Services) were \$75,610, \$3,310, and \$(2,393) respectively. See Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, and Exhibit 3-c, *Statement of Cash Flows – Proprietary Funds*, on pages 44, 45 and 46 respectively for more detailed information.

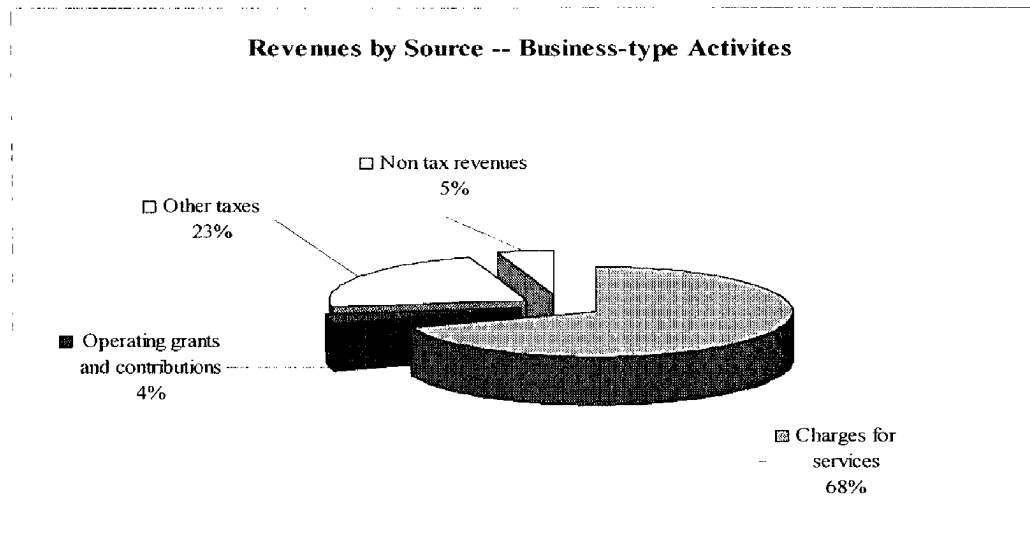
Proprietary funds provide goods and services to the general public and use the *full accrual accounting* method for reporting purposes.

The graphic comparisons in Charts 3 and 4 are based on financial information in Table 2, *Change in Net Assets as of September 30, 2006*, page 23.

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



**Chart 4 – Revenues by Source – Business-type Activities**



**Fiduciary Funds**

The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. The District is the *trustee* or *fiduciary* for its employees' pension plans. All fiduciary activities are reported in Exhibit 4-a, *Statement of Fiduciary Fund Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Fund Net Assets* on pages 47 and 48, respectively. Please also refer to Exhibit C-1, *Pension Trust Funds – Combining Statement of Fiduciary Net Assets*, Exhibit C-2, *Pension Trust Funds – Combining Statement of Changes in Fiduciary Net Assets* on pages 114 and 115 respectively, for more details. These activities are excluded from the District's financial statements because these resources are restricted and are not available to support the District's operations.

Private-purpose trust funds are used to report any trust arrangement not reported in pension funds or investment trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries which is available to D.C. residents and non-residents. This plan is reported in the Private-purpose trust fund, and was established during FY2003. Please see Note 1-E, *Fiduciary Funds – Private Purpose Trust Funds* on page 55.

The net assets of the pension trust fund increased by \$473,737. Net investment income is the primary source of the increases as both entities continue to benefit from the improved U.S. equity and non-U.S. equity markets, and from prudent investment management.

### **The Component Units**

The District currently has six component units: 1) Water and Sewer Authority (WASA), 2) Washington Convention Center Authority (WCCA), 3) Sports and Entertainment Commission (SEC), 4) Housing Finance Agency (HFA), 5) University of the District of Columbia (UDC) and 6) Anacostia Waterfront Corporation (AWC). Component units are legally separate organizations for which the District is financially accountable. Accountability exists because the Mayor, with the consent of the Council, appoints the governing bodies of all of the component units. In addition, the District has an obligation to provide financial support to the Convention Center, and the University of the District of Columbia. Certain tax revenues are dedicated to each of these organizations. The financial data of the component units are reported separately from the financial data of the primary government.

Each of the component units prepares its own independently audited financial statements, which are accompanied by their respective MD&A. Please see Exhibit 5a, *Discretely Presented Component Units - Combining Statement of Net Assets*, page 49, and Exhibit 5b, *Discretely Presented Component Units - Combining Statement of Activities*, page 50, for more detailed financial information on the component units.

### **Short-Term Debt**

The District issues short-term debt primarily to finance seasonal cash flow needs. This need occurs due to the timing variance between receipts of taxes, grants and other revenues and the outflow of funds for governmental operations and required disbursements. The District issued \$250,000 in General Obligation Tax Revenue Anticipation Notes (TRANs) on December 14, 2005, at an interest rate of 3.28%, which has been repaid. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred. The FY2005 TRANs were repaid on September 29, 2006.

### **Long-Term Debt and Bond Ratings**

On December 15, 2005, the District issued its Series 2005A General Obligation Bonds in the aggregate principal amount of \$331,210. The proceeds of these bonds will be used to finance capital project expenditures in the District's fiscal year 2006 capital improvements program, and to pay cost and expenses of issuing and delivering the bonds. The 2005A Bonds were issued as fixed-rate bonds at a weighted average interest rate yield of 4.60%. Like all District general obligation bonds, the 2005A bonds are secured by the District's full faith and credit, and are further secured by a security interest and lien on the funds derived from a Special Property Tax levied annually by the District. Interest payments began in FY2006, and principal payments will begin in 2007, with payments being made on June 1 and December 1. The 2005A Bonds will be paid off on June 1, 2030.

On December 15, 2005, the District issued its Series 2005B General Obligation Refunding Bonds in the aggregate principal amount of \$116,475. The proceeds of these bonds were used to redeem, or defease, a portion of the District's outstanding general obligation bonds at a savings to the District and to pay the costs and expenses of issuing and delivering the bonds. The 2005B Bonds were issued as fixed-rate bonds at a weighted average interest rate yield of 4.48%. Like all District general obligation bonds, the 2005B bonds are secured by the District's full faith and credit, and are further secured by a security interest and lien on the funds derived from a Special Property Tax levied annually by the District. Interest payments began in FY2006, and principal payments will begin in 2009, with interest payments being made on June 1 and December 1, and principal payments being made on June 1. The 2005B Bonds will be paid off on June 1, 2027. The refunding bonds, which refinanced existing bonds at lower interest rates, will provide the District with \$4.12 million in present value savings over the next several years.

In November 2005, Moody's Investors Service upgraded the District's general obligation bond rating to "A2 (Positive Outlook)" from "A2". Also in November 2005, Standard & Poor's upgraded the District's general obligation bond rating to "A+" from "A", based on its stable economic outlook. In June 2005, Fitch Ratings upgraded the District's bond rating from "A- (Positive Outlook)" to "A (Positive Outlook)." Each time the District issues new debt, the current debt rating is reviewed for the new issuance. At that time, the bond rating agencies assess the District's financial condition, and underlying credit worthiness, and change their rating as warranted. Bond rating agencies will also periodically review the District's overall financial condition for possible adjustments to its bond rating or outlook.

The significantly improved bond ratings allow the District to either refinance outstanding debt, or issue new debt, at more favorable rates. In the past, the District's financial and operational difficulties required it to pay substantially higher interest rates on its debt. The District's financial advisors estimate that the effect of the upgrades on the District's recent general obligation bond sale was a savings of approximately 5 basis points, or \$200,000 per year. A basis point is one-percent of a percentage point of interest, or 0.01%. Lower interest rates translate into reduced debt service payments, resulting in a greater percentage of the District's budget being available for the services and operations needed for its citizens.

At September 30, 2006 the District had a total of \$5,180,470 in general obligation bonds, TIF Bonds and Notes, Qualified Zone Academy Bonds (QZAB), and Tobacco Bonds outstanding. Please refer to Table 3, *Outstanding Bonds and Notes at September 30, 2006*. This is an increase of \$929,191 over last year's figure of \$4,251,279. General obligation bonds represent 72.8% of the District's outstanding long-term debt. TIF bonds and notes and QZAB represent 2.5% and Tobacco Bonds Outstanding represent 14.3% of its outstanding long-term debt. In FY2006, the District issued \$534,800 in Ballpark Bonds to finance the new baseball stadium. The District's borrowing has been increasing over the past few years because of the demand for improvements in infrastructure, such as roads, streets, and bridges. (Please see *Note 8. Long-Term Liabilities*, pages 78-88 for a more detailed discussion).

The general obligation debt per capita (D.C. resident) as of September 30, 2006 was \$6,490. This is an increase of \$250, or 1.6% over the revised amount of \$6,240 per capita on September 30, 2005. The increase is due to the District's issuance of additional general obligation debt. The debt per capita figure that was given in last year's CAFR may not correspond to the figure given in this year's CAFR because of adjustments in census estimates. Please refer to Exhibit S-3B, *Ratios of General Bonded Debt Outstanding – Last Ten Years* on page 142.

**Table 4 – Outstanding Bonds and Notes at September 30, 2006**

		<b>Long-Term Debt</b>		
		(\$ in thousands)		
		<b>2006</b>	<b>2005</b>	<b>Variance</b>
General Obligation Bonds	\$	3,773,863	\$ 3,632,198	\$ 141,665
Ballpark Bonds		534,800	-	534,800
TIF Bonds and Notes		124,302	117,526	6,776
Qualified Zone Academy Bonds		5,221	2,815	2,406
Tobacco Bonds		742,284	498,740	243,544
<b>Total</b>	<b>\$</b>	<b>5,180,470</b>	<b>\$ 4,251,279</b>	<b>\$ 929,191</b>

**Capital Assets**

Net capital assets of the governmental activities totaled \$5,546,741, while the net capital assets in business-type activities totaled \$17,391, for a total of \$5,564,132 net capital assets at September 30, 2006. These capital assets include, but are not limited to, land, buildings, police and fire equipment, office equipment, park facilities, roads and bridges. The governmental activities depreciation charges for the current fiscal year totaled \$225,809 compared to last year's \$220,981. The general capital improvements fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants, and or debt. Please see Table 5, *Net Capital Assets*, below for more details.

Total capital assets increased by \$529,010 or 10.5%, over capital assets reported on September 30, 2005. This increase was made up of an increase in governmental activities capital assets of \$ 527,802 or 10.5% and an increase in capital assets from business-type activities of \$1,208, or 7.5%. Total capital assets are increasing because the District is investing more resources in new and existing rehabilitated infrastructure, such as roads, streets, and bridges. The cost of these assets is being funded primarily by the increase in District revenues, the issuance of debt, and the use of general fund fund balance. Please see Note 5. - *Capital Assets* for a more complete discussion of the District's capital assets, on pages 72-76.

**Table 5 – Net Capital Assets as of September 30, 2006**

Asset Category	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 219,938	\$ 220,004	\$ 1,264	\$ 1,264	\$ 221,202	\$ 221,268
Buildings	1,701,162	1,609,435	14,464	14,133	1,715,626	1,623,568
Infrastructure	1,792,926	1,653,759	-	-	1,792,926	1,653,759
Equipment	512,232	409,132	1,663	786	513,895	409,918
Construction in progress	1,320,483	1,126,609	-	-	1,320,483	1,126,609
<b>Total net capital assets</b>	<b>\$ 5,546,741</b>	<b>\$ 5,018,939</b>	<b>\$ 17,391</b>	<b>\$ 16,183</b>	<b>\$ 5,564,132</b>	<b>\$ 5,035,122</b>

**REPORTING THE DISTRICT'S BUDGET**

The District's budget is subject to revision and/or veto by the United States Congress and the President of the United States. As the budget moves through the federal budgetary process, there may be changes in both the amounts and the purposes. In addition, when the District's CFO prepares revised revenue estimates, the budget submission must be adjusted to conform to those revisions. During the Congressional review of the FY2006 budget, the CFO's revised estimates caused the District to revise its budget submission, before the budget was finally approved. Both federal and District laws require that the District present a balanced budget.

**General Fund Budget**

The original formulation of the general fund budget estimated total revenues and other sources at \$5,397,860 and total expenditures and other uses at \$5,396,587. The revised general fund budget resulted in estimated total revenues and other sources of \$5,534,946 and total expenditures and other uses of \$5,499,997, representing a projected budgetary surplus of \$34,949. See Table 6, *Fiscal Year 2006 – General Fund Budgetary Highlights* on page 32 for more details.

**Table 6 - Fiscal Year 2006 General Fund Budgetary Highlights**

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Revised</u>		<u>Over(under)</u>
<b>Revenues and Other Sources:</b>				
Property taxes	\$ 1,222,165	\$ 1,163,667	\$ 1,207,691	\$ 44,024
Other taxes	2,834,729	2,993,207	3,031,259	38,052
Charges for services	313,820	315,226	361,951	46,725
Other sources (O type)	268,009	422,414	375,389	(47,025)
All other sources	759,137	640,432	612,726	(27,706)
<b>Total revenues and other sources</b>	<b>5,397,860</b>	<b>5,534,946</b>	<b>5,589,016</b>	<b>54,070</b>
<b>Expenditures and Other Uses:</b>				
Governmental direction and support	340,858	350,238	333,547	(16,691)
Economic development and regulation	328,158	361,724	251,762	(109,962)
Public safety and justice	827,036	903,046	894,748	(8,298)
Public education system	1,189,303	1,120,488	1,101,639	(18,849)
AY07 public education expenditures	-	69,064	69,064	-
Human support services	1,307,530	1,413,855	1,389,575	(24,280)
Public works	366,101	374,077	363,798	(10,279)
Other	1,037,601	907,505	859,721	(47,784)
<b>Total expenditures and other uses</b>	<b>5,396,587</b>	<b>5,499,997</b>	<b>5,263,854</b>	<b>(236,143)</b>
<b>Excess (deficit) -- budgetary basis</b>	<b>\$ 1,273</b>	<b>\$ 34,949</b>	<b>\$ 325,162</b>	<b>\$ 290,213</b>

**General Fund Budgetary Highlights – Original to Revised Budget**

The adjustments necessary to bring the expenditure budget into agreement with the revised revenue budget account for the differences between the proposed General Fund budget and the final amended budget. Total estimated revenues were increased by \$137,086 and total estimated expenditures were increased by \$103,410. The projected General Fund budgetary basis surplus was increased from \$1,273 to \$34,949, as a result of the revisions. The major changes in the budget are summarized as follows:

Revenues

- Property taxes were decreased by \$(58,498).
- Other taxes were increased by \$158,478.
- Other sources (O Type) were increased by \$154,405.
- All other sources were decreased by \$(118,705).

Expenditures

- The advance of Appropriation Year 2007 budget in the amount of \$69,064 of public education expenditures, to ready the public schools for the new school year which began prior to the District's fiscal year.
- Human support services expenditures were increased by \$106,325.
- Public safety and justice expenditures were increased by \$76,010.
- Public education expenditures were decreased by \$(68,815).
- Other, which represents various nonfunctional expenditures on a budgetary basis decreased by \$(130,096).

The decrease of \$ (58,498) for property taxes was largely the result of real property tax relief measures that were enacted in FY2006. Two of the largest of these were the increase in the homestead exemption from \$38 to \$60, and the lowering of the



tax rate from \$0.96 per \$100.00 of assessed value to \$0.92 per \$100.00 of assessed value. There were also many smaller, more targeted tax relief measures that were enacted between the time that the original and revised estimates were made.

The estimate for the individual income tax was revised upwards by \$127.0 million because of higher than expected growth in the non-withholding portion of individual income tax which was driven by performance of the stock market.

Corporation franchise and unincorporated business tax were both revised upward by about \$24.0 million as the national economy remained strong and business profitability soared. After the previous two-years of double digit growth in the business taxes, the original estimate assumed slower growth going forward. However, at the time of the revised estimate, the business tax growth remained strong and was revised upward.

The deed recordation tax was revised downward by about \$20 million because, by the time of the revised estimate, it was clear that the D.C. real estate market was slowing after several years of double digit growth. Although the volume of sales for single-family housing was falling, at the time of the original estimates, single-family prices were still growing at double digit rates; and both the volume of sales and prices for condominiums were still growing at the same pace. By the time of the revised estimate, the volume of sales for both single-family housing and condominiums were falling and prices were beginning to level off.

The estimate for interest income was revised upward by \$26 million to reflect the unexpected strong growth of that revenue source. At the time of the original revenue estimate, the expectation of the financial community was that the Federal Reserve would stop raising short-term interest rates after a year of rate hikes. Instead, the Federal Reserve continued rate hikes deep into 2006 that resulted in better than expected growth in interest income.

The \$69,064 AY 2007 Advance for Public Education represents the expenditure of the appropriations for AY 2007 in FY2006. The FY2006 D.C. Appropriations Act requires that the advance appropriations be provided on July 1, 2006, based on 10% and 25% of the FY2007 Proposed Budgets for the D.C. Public Schools and the D.C. Public Charter Schools, respectively. When Congress approves the District's budget for the current fiscal year, it does not know the proposed funding level for the next fiscal year. As such, the advance appropriations are not included in the District's Original Budget. The advance appropriations are not known until July 1, and are then made a part of the District's Revised Budget.

The \$106,325 increase for Human Support Services (HSS) was caused primarily by five items: 1) the Department of Human Services (DHS) was increased by \$37,336; 2) the Department of Health was increased by \$27,636; 3) Child and Family Services was increased by \$13,682; 4) the Department of mental Health was increased by \$17,031, and 5) the Department of Youth Rehabilitative Services was increased by \$9,301.

The largest increase for HSS was the result of increases for DHS for reprogramming for Mental Retardation and Developmental Disabilities Administration (MRDDA) program of \$10,000, funding for various programs based on additional certified local revenue of \$8,100, a FY2007 Operating Cash Reserve allocation for the MRDDA program of \$7,900, the Fixed Commodity reallocation from other agencies of \$2,000, and an allocation for Workforce Investment for pay raises of \$1,450.

The \$76,010 increase for Public Safety and Justice was made up almost entirely by the \$66,173 increase for the Metropolitan Police Department. The increase reflects local Workforce Investment allocations to cover pay raises of \$37,800, contingency cash reserve allocations to fund the District's Crime Initiative of \$13,200, Section 103 payments to cover Public Employee Relations Board arbitration awards of \$12,800, and Operating Cash Reserve allocation to cover fleet fuel, and an O Type increase of \$1,200 primarily representing a reprogramming from the Office of Unified Communications.

The \$(68,815) decrease for Public Education was composed primarily of five items: 1) an increase of \$22,101 for the D.C. Public Schools; 2) a decrease of \$(72,209) for Public Charter Schools; 3) an increase of \$66,120 for the AY 2007 Public Charter School Advance; 4) a reduction of \$(21,000) for the District of Columbia Education Investment Fund, and; 5) a reduction of \$(12,200) for the Schools Modernization Fund.

Of the \$(72,209) decrease for Public Charter Schools, the net decrease reflects reprogramming \$(16,900) and the FY2006 budget advanced and expended in FY2005 \$(58,400). Partly offsetting these decreases is an allocation from the Public Charter School Educational Investment fund of \$3,110. The advance appropriations for the AY 2007 Public Charter Schools were not included in the June budget submission to the U.S. Congress. The proposed budget for FY2007, upon which the advance appropriations is based, was not developed at the time of the current fiscal budget submission to Congress.

The \$(130,096) decrease for "Other" was made up of three major items; 1) a decrease of \$(47,731) for the Cash Reserve; 2) a decrease of \$(51,548) for Workforce Investments, and; 3) a decrease for Non-Department of \$(33,020). These three items total \$(132,299), which was offset by net \$2,203 increase in other items were included under "Other". The change in the Cash Reserve was a result of the increase in allocation by the D.C. Council to various agencies to fund spending pressures and/or policy initiatives. The decrease in the budget for workforce investments reflects \$(53,600) in allocations to various agencies to cover pay raises.

### **Budget to Actual Revenue Variances**

Real property assessments are usually known at the time of the estimate for the current fiscal year. Therefore, the variance of the actual from the expected for FY2006 was generally due to differences between estimated adjustments to tax assessments from appeals and the actual results of actual appeals. The positive variance of \$44.0 million is due primarily to the appeals being much lower than expected. The number of appeals was lower than normal because of the large number of real property tax relief programs that were implemented in FY2006. This suggests that FY2007 will see increased tax assessment appeals as residential property owners become used to the effects of the FY2006 tax relief programs.

The economic interest tax is paid when owners of real estate assets sell their ownership *interests* in that asset rather than the property itself. Revenue from the economic interest tax fluctuates from year to year because most of the revenue from this tax is generated from activity in the real estate investment trusts (REITs) market which, like financial markets, are inherently difficult to predict. The \$22.3 million increase was likely due to higher than usual activity in the REIT market as the underlying real estate market changes.

The "Other" revenue category has a positive variance of \$29.4 million over the budgeted amount. The growth in miscellaneous revenues was the result of fluctuations in unclaimed property and end of year adjustments resulting from a change in estimates relating to expenditure accruals, and had a positive variance of \$12.0 million. However, the largest source of variance in this category is an \$18 million end of the year adjustment to account for changes in prior period expenditure accrual.

### **Budget to Actual Expenditure Variances**

The District had a negative variance of \$(236,143) for FY2006. Whenever the District spends less money than was projected in the budget, it shows up in the budget as a negative, but, in reality it means that the District has more money at the end of the fiscal year than it would have if it had actually spent everything that was budgeted. If the District collects more money in revenues than it budgeted, then that money could become part of an operating budget surplus, as long as it is larger than any actual overspending in the budget. Over the past few years, including FY2006, the District has, in fact, collected both more revenues and spent less than projected in the revised budget. As a result, the District has ended with an operating budget surplus for the past ten-years. The largest expenditure variance was for economic development and regulation of \$(109,962).

Within economic development and regulation, \$(74,000) was caused by the Department of Housing and Community Development (DHCD), and \$(12,300) was caused by Business Services and Economic Development (BSED). DHCD's FY2005 to FY2006 variance of \$(74,000) was caused primarily by the \$(69,000) variance for the Housing Production Trust Fund (HPTF).

The variance for fiscal charges was due to \$(30,804) bond issuance costs for the baseball stadium bonds that were expected to be paid out of this account, but were not. However, the baseball stadium bonds were redirected and paid for out of the baseball project special revenue fund, where the transaction was more properly classified, rather than being paid as a general fund expense.

**SUBSEQUENT EVENTS****Short-Term Debt**

The District issues short-term debt to finance seasonal cash flow needs. This need occurs due to the timing variance between receipts of taxes, grants and other revenues and the outflow of funds for governmental operations and other required disbursements. On December 21, 2006, the District issued fixed-rate Tax Revenue Anticipation Notes in the aggregate amount of \$300,000. These Notes were issued at an interest rate of 4.25% and priced to yield 3.5%, and are to be paid off on September 28, 2007. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year of issuance.

**Long-Term Debt**

The proposed FY2007 general obligation debt service budget totals \$408.1 million, on total projected long-term debt of approximately \$4 billion. This represents an increase of approximately \$37.4 million over the approved FY2006 long-term debt service budget of \$370.7 million. This increase is primarily attributable to debt service on new debt issued in FY2006 and on debt to be issued in FY2007 to finance capital project expenditures. The proposed FY2007 debt service budget includes debt service on presumed borrowing of approximately \$714 million in the first quarter of FY2007. This amount will support the District's Capital Improvement Plan (CIP), which includes two major initiatives (Government Centers and Great Streets) that were actually approved in the FY2006 capital plan but will not be financed until FY2007, and also includes the next installment in the plan to reduce the capital fund deficit.

**CONTACTING THE DISTRICT'S OFFICE OF THE CHIEF FINANCIAL OFFICER**

This CAFR is designed to provide the District's citizens, taxpayers, customers, vendors, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. For additional information on the District's component units: the D.C. Water & Sewer Authority, the Washington Convention Center Authority, the Sports & Entertainment Commission, the Housing Finance Agency, the University of the District of Columbia, and the Anacostia Waterfront Corporation, please refer to page 53 of the notes to the basic financial statements for contact information. If you have any questions about the District's Fiscal Year 2006 CAFR, suggestions for improvement, or need additional financial information, please contact:

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

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## **BASIC FINANCIAL STATEMENTS**

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

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

## Exhibit 1-a

**District of Columbia**  
**Statement of Net Assets**  
**September 30, 2006**  
**(With Comparative Totals at September 30, 2005)**  
**(\$000s)**

	Primary Government				Component Units
	Governmental Activities	Business-Type Activities	Totals		
			2006	2005	
<b>ASSETS</b>					
Cash and cash equivalents (unrestricted)	\$ 363,480	\$ 29,345	\$ 392,825	\$ 593,577	\$ 126,589
Investments (unrestricted)	5,000	3,279	8,279	13,847	183,820
Accrued interest receivable, net	108	-	108	66	-
Due from federal government	527,031	-	527,031	485,046	20,113
Taxes receivable, net	274,748	-	274,748	258,672	-
Accounts receivable, net	135,564	18,304	153,868	132,865	41,322
Other receivables	-	-	-	-	21,065
Due from primary government	-	-	-	-	20,535
Due from component units	8,536	-	8,536	5,876	-
Due from fiduciary funds	-	-	-	4,071	-
Internal balances	12,708	(12,708)	-	-	-
Inventories	14,623	-	14,623	14,845	7,369
Other current assets	24,246	314	24,560	279	743
Cash and cash equivalents (restricted)	2,063,305	380,248	2,443,553	1,630,895	120,738
Investments (restricted)	274,984	54,796	329,780	75,907	935,632
Other long term assets	21,621	4	21,625	16,491	35,047
Notes and loans receivable, net	-	-	-	-	426,447
Deferred charges	85,180	-	85,180	4,770	-
Depreciable capital assets, net	4,006,320	16,127	4,022,447	3,687,245	2,880,222
Non-depreciable capital assets	1,540,421	1,264	1,541,685	1,347,877	149,112
<b>Total assets</b>	<b>9,357,875</b>	<b>490,973</b>	<b>9,848,848</b>	<b>8,272,329</b>	<b>4,968,754</b>
<b>LIABILITIES</b>					
Accounts payable	584,426	32,353	616,779	615,867	110,534
Compensation payable	146,236	1,714	147,950	107,593	18,662
Due to primary government	-	-	-	-	8,536
Due to component units	20,535	-	20,535	26,753	-
Due to fiduciary funds	2,809	-	2,809	930	-
Unearned revenues	217,484	184	217,668	188,911	40,125
Accrued liabilities	191,629	9,809	201,438	204,669	29,914
Accrued interest payable	60,506	-	60,506	50,394	-
Other current liabilities	35,581	-	35,581	31,025	131,730
Long-term liabilities:					
Due within one year	371,975	8,631	380,606	346,201	52,590
Due in more than one year	5,612,668	43,953	5,656,621	4,575,278	3,106,600
<b>Total liabilities</b>	<b>7,243,849</b>	<b>96,644</b>	<b>7,340,493</b>	<b>6,147,621</b>	<b>3,498,691</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	958,597	17,391	975,988	1,085,914	1,055,729
Restricted for:					
Expendable					
Debt service	262,640	-	262,640	253,548	-
Benefit payments	-	347,938	347,938	322,893	-
Capital projects	36,597	-	36,597	65,799	-
Grants and contributions	161,310	-	161,310	115,052	-
Emergency reserves	293,649	-	293,649	253,437	-
Other	233,454	-	233,454	242,185	172,557
Nonexpendable	-	-	-	-	7,242
Unrestricted	167,779	29,000	196,779	(214,120)	234,535
<b>Total net assets</b>	<b>\$ 2,114,026</b>	<b>\$ 394,329</b>	<b>\$ 2,508,355</b>	<b>\$ 2,124,708</b>	<b>\$ 1,470,063</b>

The accompanying notes are an integral part of this statement.

District of Columbia  
Statement of Activities  
For the Year Ended September 30, 2006  
(With Comparative Totals for the Year Ended September 30, 2005)  
(\$000s)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services, Fees, Fines & Forfeits	Grants and Contributions		Governmental Activities	Primary Government		
			Operating	Capital		Business-type Activities	Totals	
<b>Primary government:</b>								
<b>Governmental activities:</b>								
Governmental direction and support	\$ 574,097	\$ 17,056	\$ 111,276	\$ 5,149	\$ (440,616)	\$	\$ (440,616)	\$ (476,668)
Economic development and regulation	391,203	94,487	125,603	-	(171,113)		(171,113)	(102,620)
Public safety and justice	1,124,896	64,306	237,163	-	(823,427)		(823,427)	(750,089)
Public education system	1,486,112	101	260,546	-	(1,225,465)		(1,225,465)	(1,112,066)
Human support services	2,967,372	2,835	1,416,429	1,255	(1,546,853)		(1,546,853)	(1,255,153)
Public works	351,917	146,628	4,018	113,311	(87,960)		(87,960)	(71,426)
Public transportation	187,615	-	-	-	(187,615)		(187,615)	(167,783)
Interest on long-term debt	269,725	-	-	-	(269,725)		(269,725)	(201,882)
<b>Total governmental activities</b>	<b>7,352,937</b>	<b>325,413</b>	<b>2,155,035</b>	<b>119,715</b>	<b>(4,752,774)</b>		<b>(4,752,774)</b>	<b>(4,137,687)</b>
<b>Business-type activities:</b>								
Lottery and Games	193,907	266,391	-	-	-	\$ 72,484	72,484	70,865
Unemployment compensation	102,749	-	14,825	-	-	(87,924)	(87,924)	(76,021)
Nursing home services	35,548	29,154	-	-	-	(6,394)	(6,394)	(2,882)
<b>Total business-type activities</b>	<b>332,204</b>	<b>295,545</b>	<b>14,825</b>	<b>-</b>	<b>-</b>	<b>(21,834)</b>	<b>(21,834)</b>	<b>(8,038)</b>
<b>Total primary government</b>	<b>\$ 7,685,141</b>	<b>\$ 620,958</b>	<b>\$ 2,169,860</b>	<b>\$ 119,715</b>	<b>(4,752,774)</b>	<b>(21,834)</b>	<b>(4,774,608)</b>	<b>(4,145,725)</b>
<b>Component units:</b>								
Water and sewer authority	\$ 280,461	\$ 289,688	\$ -	\$ 24,927	-	\$	\$	\$ 34,154
Convention center	100,683	15,618	-	-	-	-	-	(85,065)
Sports commission	17,519	13,006	-	1,280	-	-	-	(3,233)
Housing finance	86,170	46,863	-	-	-	-	-	(39,307)
University	110,703	16,031	26,648	4,182	-	-	-	(63,842)
Anacostia waterfront corporation	8,793	-	11,995	-	-	-	-	3,202
<b>Total component units</b>	<b>\$ 604,329</b>	<b>\$ 381,206</b>	<b>\$ 38,643</b>	<b>\$ 30,389</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>(154,091)</b>
<b>General revenues:</b>								
<b>Taxes:</b>								
Property taxes			1,272,998				1,272,998	1,150,672
Sales and use taxes			1,004,471				1,004,471	957,394
Income and franchise taxes			1,591,483				1,591,483	1,472,432
Gross receipts taxes			278,453				278,453	295,819
Other taxes			390,542		95,888		486,430	470,198
Investment earnings			73,207		19,321		92,528	58,698
Miscellaneous			431,182		710		431,892	33,178
Subsidy from primary government			-		(73,800)		-	-
Transfer in (out)			5,116,136		42,119		5,158,255	4,717,555
<b>Total general revenues and transfers</b>			<b>363,362</b>		<b>20,285</b>		<b>383,647</b>	<b>571,830</b>
Change in net assets			1,750,664		374,044		2,124,708	1,398,438
Net assets at October 1			2,114,026		394,329		2,508,355	1,470,063
Net assets at September 30			\$		\$		\$	\$

The accompanying notes are an integral part of this statement.

Exhibit 2-a

**District of Columbia  
Balance Sheet  
Governmental Funds  
September 30, 2006  
(With Comparative Totals at September 30, 2005)  
(\$000s)**

	General	Federal & Private Resources	General Capital Improvements	Baseball Capital Project	Nonmajor Governmental Funds	Total Governmental Funds	
						2006	2005
<b>ASSETS</b>							
Cash and cash equivalents (unrestricted)	\$ 362,193	\$ -	\$ -	\$ -	\$ 1,287	\$ 363,480	\$ 580,546
Investments (unrestricted)	5,000	-	-	-	-	5,000	6,592
Accrued interest receivable	-	-	-	-	108	108	66
Due from federal government	9,966	470,316	46,749	-	-	527,031	484,397
Taxes receivable, net	274,748	-	-	-	-	274,748	258,672
Accounts receivable, net	96,696	6,107	1,941	-	30,820	135,564	113,750
Due from component units	4,762	-	1,561	1,723	490	8,536	8,876
Due from other funds	645,351	13,278	4,649	-	11,881	675,159	901,720
Inventories	9,640	4,983	-	-	-	14,623	14,476
Other current assets	2,612	-	21,418	89	127	24,246	-
Cash and cash equivalents (restricted)	783,705	18,301	597,091	529,514	134,694	2,063,305	1,271,038
Investments (restricted)	28,782	-	246,202	-	-	274,984	-
Other long term assets	8,177	13,444	-	-	-	21,621	16,450
<b>Total assets</b>	<b>\$ 2,231,632</b>	<b>\$ 526,429</b>	<b>\$ 919,611</b>	<b>\$ 531,326</b>	<b>\$ 179,407</b>	<b>\$ 4,388,405</b>	<b>\$ 3,653,583</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable	400,617	85,994	90,090	45	7,680	584,426	589,208
Compensation payable	133,113	11,023	1,967	-	133	146,236	107,127
Due to other funds	11,668	72,541	374,813	202,700	3,538	665,260	875,617
Due to component units	20,535	-	-	-	-	20,535	26,753
Deferred revenue	109,983	114,446	30,468	-	219	255,116	218,877
Accrued liabilities	113,047	78,514	-	-	68	191,629	196,019
Other current liabilities	7,527	2,601	25,453	-	-	35,581	31,019
<b>Total liabilities</b>	<b>796,490</b>	<b>365,119</b>	<b>522,791</b>	<b>202,745</b>	<b>11,638</b>	<b>1,898,783</b>	<b>2,044,620</b>
<b>Fund balances:</b>							
<b>Reserved for:</b>							
General fund purposes	1,045,560	-	-	-	-	1,045,560	1,110,770
Special revenue funds purposes	-	161,310	-	-	160,568	321,878	249,911
Capital project purposes	-	-	396,820	328,581	7,201	732,602	86,530
<b>Unreserved, reported in:</b>							
General fund	389,582	-	-	-	-	389,582	473,913
Capital projects funds	-	-	-	-	-	-	(312,161)
<b>Total fund balances</b>	<b>1,435,142</b>	<b>161,310</b>	<b>396,820</b>	<b>328,581</b>	<b>167,769</b>	<b>2,489,622</b>	<b>1,608,963</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,231,632</b>	<b>\$ 526,429</b>	<b>\$ 919,611</b>	<b>\$ 531,326</b>	<b>\$ 179,407</b>		<b>\$ 3,653,583</b>

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	5,546,741
Certain long term assets are not available to pay current period expenditures and are therefore deferred in the funds	37,632
Adjustment for deferred charges	85,180
Certain liabilities (such as bonds payable and accrued expenses) are not due and payable in the current period	
General obligation bonds	3,773,863
Tobacco settlement bonds	742,284
TIF bonds & notes	124,302
QZAB	5,221
Accrued interest payable	60,506
Capital leases	67,942
Other long-term liabilities	1,271,031
	(6,045,149)
<b>Net assets of governmental activities</b>	<b>\$ 2,114,026</b>

The accompanying notes are an integral part of this statement.



Exhibit 2-b

**District of Columbia**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended September 30, 2006**  
**(With Comparative Totals for the Year Ended September 30, 2005)**  
**(\$000s)**

	General	Federal & Private Resources	General Capital Improvements	Baseball Capital Project	Nonmajor Governmental Funds	Total Governmental Funds	
						2006	2005
<b>REVENUES</b>							
Taxes:							
Property taxes	\$ 1,241,482	\$ -	\$ -	\$ -	\$ -	\$ 1,241,482	\$ 1,148,333
Sales and use taxes	970,885	-	-	-	-	970,885	957,394
Income and franchise taxes	1,591,483	-	-	-	-	1,591,483	1,472,432
Gross receipts taxes	278,453	-	-	-	-	278,453	295,819
Other taxes	390,542	-	-	-	-	390,542	377,213
Fines and forfeitures	112,919	-	-	-	-	112,919	111,146
Licenses and permits	81,222	-	-	-	-	81,222	82,093
Charges for services	131,079	194	-	-	-	131,273	133,923
Investment earnings	63,655	1,073	936	407	7,135	73,206	39,811
Miscellaneous	290,352	55,327	91,461	2,146	49,781	489,067	311,573
Federal contributions	-	353,709	8,366	-	-	362,075	382,966
Operating grants	-	1,801,326	111,349	-	-	1,912,675	1,828,461
<b>Total revenues</b>	<b>5,152,072</b>	<b>2,211,629</b>	<b>212,112</b>	<b>2,553</b>	<b>56,916</b>	<b>7,635,282</b>	<b>7,141,164</b>
<b>EXPENDITURES</b>							
Current:							
Governmental direction and support	499,289	112,173	-	-	158	611,620	590,344
Economic development and regulation	218,210	129,881	-	-	-	348,091	267,335
Public safety and justice	896,460	237,340	-	-	-	1,133,800	1,034,456
Public education system	1,177,362	262,148	-	-	-	1,439,510	1,340,767
Human support service	1,532,296	1,420,341	-	-	-	2,952,637	2,657,848
Public works	176,027	7,068	-	-	1,105	184,200	175,300
Public transportation	187,615	-	-	-	-	187,615	167,783
Debt service:							
Principal	193,715	-	-	-	11,939	205,654	183,845
Interest	181,590	-	-	-	43,605	225,195	202,387
Fiscal charges	18,514	-	-	-	13,444	31,958	9,277
Capital outlay	-	-	652,198	203,486	45,520	901,204	615,089
<b>Total expenditures</b>	<b>5,081,078</b>	<b>2,168,951</b>	<b>652,198</b>	<b>203,486</b>	<b>115,771</b>	<b>8,221,484</b>	<b>7,244,431</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>70,994</b>	<b>42,678</b>	<b>(440,086)</b>	<b>(200,933)</b>	<b>(58,855)</b>	<b>(586,202)</b>	<b>(103,267)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Debt issuance	133,937	-	528,090	529,514	267,546	1,459,087	386,370
Premium on sale of bonds	18,232	-	13,398	-	8,314	39,944	14,478
Proceeds from bond escrow restructuring	-	-	-	-	-	-	89
Payment to refunded bond escrow agent	(117,925)	-	-	-	-	(117,925)	-
Other charges	(4,216)	-	-	-	(13,996)	(18,212)	-
Proceeds from capital lease	-	-	-	-	-	-	19
Equipment financing program	-	-	30,167	-	-	30,167	15,036
Transfers in	91,675	685	511,613	-	81,233	685,206	193,439
Transfers out	(342,238)	-	-	-	(269,168)	(611,406)	(121,989)
<b>Total other financing sources (uses)</b>	<b>(220,535)</b>	<b>685</b>	<b>1,083,268</b>	<b>529,514</b>	<b>73,929</b>	<b>1,466,861</b>	<b>487,442</b>
<b>Net change in fund balances</b>	<b>(149,541)</b>	<b>43,363</b>	<b>643,182</b>	<b>328,581</b>	<b>15,074</b>	<b>880,659</b>	<b>384,175</b>
Fund balances (deficit) at October 1	1,584,683	117,947	(246,362)	-	152,695	1,608,963	1,224,788
Fund balances at September 30	\$ <u>1,435,142</u>	\$ <u>161,310</u>	\$ <u>396,820</u>	\$ <u>328,581</u>	\$ <u>167,769</u>	\$ <u>2,489,622</u>	\$ <u>1,608,963</u>

The accompanying notes are an integral part of this statement.

## Exhibit 2-c

**District of Columbia**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended September 30, 2006**  
**(\$000s)**

Net change in fund balances - total governmental funds \$ 880,659

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. 527,803

Deferred property tax revenues which were earned but whose current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. This is the amount deferred property taxes increased in the governmental funds between 2005 and 2006. 7,216

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which bond proceeds exceeded repayments. (1,117,206)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount that other long term liabilities decreased in the current period. 64,890

Change in net assets of governmental activities \$ 363,362

*The accompanying notes are an integral part of this statement.*

District of Columbia  
 Budgetary Comparison Statement  
 For the Year Ended September 30, 2006  
 (\$000s)

	General Fund				Federal and Private Resources				Totals			
	Budget		Actual	Variance Positive (Negative)	Budget		Actual	Variance Positive (Negative)	Budget		Actual	Variance Positive (Negative)
	Original	Revised			Original	Revised			Original	Revised		
<b>Revenues and Sources:</b>												
Taxes:												
Property taxes	\$ 1,222,165	\$ 1,163,667	\$ 1,207,691	\$ 44,024	\$ -	\$ -	\$ -	\$ -	\$ 1,222,165	\$ 1,163,667	\$ 1,207,691	\$ 44,024
Sales and use taxes	866,129	862,159	845,992	(16,167)	-	-	-	-	866,129	862,159	845,992	(16,167)
Income and franchise taxes	1,391,345	1,565,704	1,591,483	25,779	-	-	-	-	1,391,345	1,565,704	1,591,483	25,779
Other taxes	577,255	565,344	593,784	28,440	-	-	-	-	577,255	565,344	593,784	28,440
Total taxes	4,056,894	4,156,874	4,238,950	82,076	-	-	-	-	4,056,894	4,156,874	4,238,950	82,076
Licenses and permits	66,470	68,408	72,184	3,776	-	-	-	-	66,470	68,408	72,184	3,776
Fines and forfeits	114,901	110,637	112,456	1,819	-	-	-	-	114,901	110,637	112,456	1,819
Charges for services	44,173	50,513	47,646	(2,867)	-	-	-	-	44,173	50,513	47,646	(2,867)
Miscellaneous	88,276	85,668	129,665	43,997	-	-	-	-	88,276	85,668	129,665	43,997
Other sources	268,009	422,414	375,389	(47,025)	-	-	-	-	268,009	422,414	375,389	(47,025)
General obligation bonds	40,000	40,000	10,494	(29,506)	-	-	-	-	40,000	40,000	10,494	(29,506)
Federal contributions	-	-	-	-	45,738	76,997	70,421	(6,576)	45,738	76,997	70,421	(6,576)
Operating grant	-	-	-	-	1,922,053	1,943,372	1,715,872	(227,500)	1,922,053	1,943,372	1,715,872	(227,500)
Fund balance released from restrictions	646,037	528,432	528,432	1,800	-	-	-	-	646,037	528,432	528,432	-
Interfund transfer	73,100	72,000	73,800	1,800	-	-	-	-	73,100	72,000	73,800	1,800
Total revenues and other sources	5,397,860	5,534,946	5,589,016	54,070	1,967,791	2,020,369	1,786,293	(234,076)	7,365,651	7,555,315	7,375,309	(180,006)
<b>Expenditures and Other Uses:</b>												
Governmental direction and support	340,858	350,238	333,547	16,691	171,975	188,640	107,977	80,663	512,833	538,878	441,524	97,354
Economic development and regulation	328,158	361,724	251,762	109,962	118,312	165,559	130,444	35,115	446,470	527,283	382,206	145,077
Public safety and justice	827,036	903,046	894,748	8,298	10,578	14,489	11,668	2,821	837,614	917,535	906,416	11,119
Public education system	1,189,303	1,120,488	1,101,639	18,849	252,732	216,009	201,650	14,359	1,442,035	1,336,497	1,303,289	33,208
Public education A.Y.07 expenditure	-	69,064	69,064	-	-	-	-	-	-	69,064	69,064	-
Human support services	1,307,530	1,413,855	1,389,575	24,280	1,405,819	1,423,053	1,321,035	102,018	2,713,349	2,836,908	2,710,610	126,298
Public works	366,101	374,077	363,798	10,279	8,375	8,423	7,068	1,355	374,476	382,500	370,866	11,634
Emergency planning and security costs	-	-	-	-	-	4,196	4,196	-	-	4,196	4,196	-
Workforce investments	61,110	9,562	-	9,562	-	-	-	-	61,110	9,562	-	9,562
Wilson building	3,740	4,050	3,830	220	-	-	-	-	3,740	4,050	3,830	220
Repay bonds and interest	370,778	370,163	370,128	35	-	-	-	-	370,778	370,163	370,128	35
Bond fiscal charge	40,000	40,000	9,196	30,804	-	-	-	-	40,000	40,000	9,196	30,804
Interest on short term borrowing	5,500	6,650	6,650	-	-	-	-	-	5,500	6,650	6,650	-
Certificates of participation	11,000	11,000	10,941	59	-	-	-	-	11,000	11,000	10,941	59
Settlements and judgments fund	20,655	29,956	29,956	-	-	-	-	-	20,655	29,956	29,956	-
Tax increment financing	-	1,468	1,423	45	-	-	-	-	-	1,468	1,423	45
Equipment lease operating	27,441	26,090	24,574	1,516	-	-	-	-	27,441	26,090	24,574	1,516
Pay-go capital	260,883	265,023	265,023	-	-	-	-	-	260,883	265,023	265,023	-
Schools modernization fund	12,208	8	-	8	-	-	-	-	12,208	8	-	8
District retiree health contribution	138,000	138,000	138,000	-	-	-	-	-	138,000	138,000	138,000	-
Cash reserve	50,000	2,269	-	2,269	-	-	-	-	50,000	2,269	-	2,269
Non-departmental agency	36,286	3,266	-	3,266	-	-	-	-	36,286	3,266	-	3,266
Total expenditures and other uses	5,396,587	5,499,997	5,263,854	236,143	1,967,791	2,020,369	1,784,038	236,331	7,364,378	7,520,366	7,047,892	472,474
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS</b>	\$ 1,273	\$ 34,949	\$ 325,162	\$ 290,213	\$ -	\$ -	\$ 2,255	\$ 2,255	\$ 1,273	\$ 34,949	\$ 327,417	\$ 292,468

The accompanying notes are an integral part of this statement.

## Exhibit 3-a

**District of Columbia**  
**Statement of Net Assets**  
**Proprietary Funds**  
**September 30, 2006**  
**(With Comparative Totals at September 30, 2005)**  
**(\$000s)**

	Lottery and Games	Unemployment Compensation	Nonmajor Proprietary Fund	Totals	
				2006	2005
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents (unrestricted)	\$ 11,410	\$ -	\$ 17,935	\$ 29,345	\$ 13,031
Investments (unrestricted)	-	-	3,279	3,279	7,255
Due from federal government	-	-	-	-	649
Accounts receivable, net	5,094	8,765	4,445	18,304	19,115
Due from other funds	-	766	155	921	1,124
Inventories	-	-	-	-	369
Other current assets	9	-	305	314	279
Cash and cash equivalents (restricted)	-	380,248	-	380,248	359,857
<b>Total current assets</b>	<b>16,513</b>	<b>389,779</b>	<b>26,119</b>	<b>432,411</b>	<b>401,679</b>
Noncurrent assets:					
Investments (restricted)	52,584	-	2,212	54,796	75,907
Capital assets, net	382	-	17,009	17,391	16,183
Other	-	-	4	4	41
<b>Total noncurrent assets</b>	<b>52,966</b>	<b>-</b>	<b>19,225</b>	<b>72,191</b>	<b>92,131</b>
<b>Total assets</b>	<b>69,479</b>	<b>389,779</b>	<b>45,344</b>	<b>504,602</b>	<b>493,810</b>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	2,754	28,212	1,387	32,353	26,659
Accrued compensated absences	458	-	1,256	1,714	466
Due to other funds	-	13,629	-	13,629	24,086
Deferred revenue	184	-	-	184	450
Accrued liabilities	9,798	-	11	9,809	8,650
Other current liabilities	-	-	-	-	6
Long term liabilities due within one year	8,631	-	-	8,631	8,631
<b>Total current liabilities</b>	<b>21,825</b>	<b>41,841</b>	<b>2,654</b>	<b>66,320</b>	<b>68,948</b>
Noncurrent liabilities					
Long term liabilities due in more than one year	43,953	-	-	43,953	50,818
<b>Total noncurrent liabilities</b>	<b>43,953</b>	<b>-</b>	<b>-</b>	<b>43,953</b>	<b>50,818</b>
<b>Total liabilities</b>	<b>65,778</b>	<b>41,841</b>	<b>2,654</b>	<b>110,273</b>	<b>119,766</b>
<b>NET ASSETS</b>					
Invested in capital assets	382	-	17,009	17,391	16,183
Restricted - expendable	-	347,938	-	347,938	322,893
Unrestricted	3,319	-	25,681	29,000	34,968
<b>Total net assets</b>	<b>\$ 3,701</b>	<b>\$ 347,938</b>	<b>\$ 42,690</b>	<b>\$ 394,329</b>	<b>\$ 374,044</b>

The accompanying notes are an integral part of this statement.

Exhibit 3-b

**District of Columbia**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended September 30, 2006**  
**(With Comparative Totals for the Year Ended September 30, 2005)**  
**(\$000s)**

	Lottery and Games	Unemployment Compensation	Nonmajor Proprietary Fund	Totals	
				2006	2005
<b>Operating revenues:</b>					
Employer taxes	\$ -	\$ 95,888	\$ -	\$ 95,888	\$ 92,985
Charges for services	266,391	-	29,154	295,545	267,115
<b>Benefit contributions</b>					
Benefit contributions	-	14,825	-	14,825	16,695
Miscellaneous	-	-	710	710	680
<b>Total operating revenues</b>	<b>266,391</b>	<b>110,713</b>	<b>29,864</b>	<b>406,968</b>	<b>377,475</b>
<b>Operating expenses:</b>					
Benefits	-	102,749	-	102,749	92,728
Prizes	168,470	-	-	168,470	139,904
Personnel services	10,638	-	5,417	16,055	14,915
Contractual services	14,410	-	20,963	35,373	38,171
Materials and supplies	-	-	5,416	5,416	717
Occupancy	-	-	-	-	1,804
Depreciation	389	-	1,969	2,358	2,363
Miscellaneous	-	-	1,783	1,783	1,258
<b>Total operating expenses</b>	<b>193,907</b>	<b>102,749</b>	<b>35,548</b>	<b>332,204</b>	<b>291,860</b>
<b>Operating income (loss)</b>	<b>72,484</b>	<b>7,964</b>	<b>(5,684)</b>	<b>74,764</b>	<b>85,615</b>
<b>Nonoperating revenues:</b>					
Interest and investment revenue	1,375	17,081	865	19,321	18,887
Intergovernmental	-	-	-	-	12
<b>Total nonoperating revenue</b>	<b>1,375</b>	<b>17,081</b>	<b>865</b>	<b>19,321</b>	<b>18,899</b>
<b>Income (loss) before transfers</b>	<b>73,859</b>	<b>25,045</b>	<b>(4,819)</b>	<b>94,085</b>	<b>104,514</b>
Transfers out	(73,800)	-	-	(73,800)	(71,450)
<b>Change in net assets</b>	<b>59</b>	<b>25,045</b>	<b>(4,819)</b>	<b>20,285</b>	<b>33,064</b>
Total net assets at October 1	3,642	322,893	47,509	374,044	340,980
Total net assets at September 30	\$ 3,701	\$ 347,938	\$ 42,690	\$ 394,329	\$ 374,044

The accompanying notes are an integral part of this statement.

## Exhibit 3-c

**District of Columbia**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended September 30, 2006**  
**(With Comparative Totals for the Year Ended September 30, 2005)**  
**(\$000s)**

	Lottery and Games	Unemployment Compensation	Nonmajor Proprietary Fund	Totals	
				2006	2005
<b>Operating activities:</b>					
Cash receipts from customers/employers	\$ 265,625	\$ 111,569	\$ 28,637	\$ 405,831	\$ 385,106
Other cash receipts	188	-	728	916	2,145
Cash payments to vendors	(23,820)	-	(31,815)	(55,635)	(55,621)
Cash payments to employees/claimants	(5,545)	(108,259)	-	(113,804)	(104,970)
Other cash payments, including prizes	(160,838)	-	57	(160,781)	(135,311)
Net cash provided by (used in) operating activities	<u>75,610</u>	<u>3,310</u>	<u>(2,393)</u>	<u>76,527</u>	<u>91,349</u>
<b>Noncapital financing activities:</b>					
Intergovernmental grants	-	-	-	-	12
Interfund transfers out	(73,800)	-	-	(73,800)	(71,450)
Net cash used in noncapital financing activities	<u>(73,800)</u>	<u>-</u>	<u>-</u>	<u>(73,800)</u>	<u>(71,438)</u>
<b>Capital and related financing activities:</b>					
Acquisitions of capital assets	-	-	(3,565)	(3,565)	(618)
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>(3,565)</u>	<u>(3,565)</u>	<u>(618)</u>
<b>Investing activities:</b>					
Receipts of interest and dividends	1,375	17,081	865	19,321	18,888
Sales/(purchases) of investments	-	-	18,222	18,222	(11,582)
Net cash provided by investing activities	<u>1,375</u>	<u>17,081</u>	<u>19,087</u>	<u>37,543</u>	<u>7,306</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,185</b>	<b>20,391</b>	<b>13,129</b>	<b>36,705</b>	<b>26,599</b>
<b>Cash and cash equivalents at October 1</b>	<b>8,225</b>	<b>359,857</b>	<b>4,806</b>	<b>372,888</b>	<b>346,289</b>
<b>Cash and cash equivalents at September 30</b>	<b>\$ <u>11,410</u></b>	<b>\$ <u>380,248</u></b>	<b>\$ <u>17,935</u></b>	<b>\$ <u>409,593</u></b>	<b>\$ <u>372,888</u></b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ 72,484	\$ 7,964	\$ (5,684)	\$ 74,764	\$ 85,615
Depreciation	389	-	1,969	2,358	2,363
Decrease (increase) in assets:					
Accounts receivable	(311)	857	617	1,163	11,064
Inventories	369	-	-	369	116
Other current assets	12	-	99	111	153
Increase (decrease) in liabilities:					
Accounts payable	536	(5,505)	721	(4,248)	(7,202)
Accrued liabilities	2,381	-	(115)	2,266	(860)
Deferred revenue	(266)	-	-	(266)	144
Other current liabilities	16	(6)	-	10	(44)
Net cash provided by (used in) operating activities:	<u>\$ 75,610</u>	<u>\$ 3,310</u>	<u>\$ (2,393)</u>	<u>\$ 76,527</u>	<u>\$ 91,349</u>

The accompanying notes are an integral part of this statement.

Exhibit 4-a

**District of Columbia**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**September 30, 2006**  
**(\$000s)**

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Fund</b>	<b>Agency Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents - restricted	\$ 147,585	\$ -	\$ 279,095
Investments - restricted:			
Equities	2,861,447	72,495	-
Fixed income securities	608,009	-	-
Cash collateral for securities lending transactions	428,228	-	-
Interest and dividends receivables	-	33	-
Accounts receivable	-	23	-
Benefit contribution receivables	2,585	-	-
Due from other funds	170	-	2,639
Other receivables	-	-	523
Capital assets	81	-	-
Total assets	<u>4,048,105</u>	<u>72,551</u>	<u>\$ 282,257</u>
<b>LIABILITIES</b>			
Accounts payable	30,527	32	152,554
Securities lending collateral	428,228	-	-
Other current liabilities	-	9	129,703
Total liabilities	<u>458,755</u>	<u>41</u>	<u>\$ 282,257</u>
<b>NET ASSETS</b>			
Held in trust for pension benefits and other purposes	<u>\$ 3,589,350</u>	<u>\$ 72,510</u>	

*The accompanying notes are an integral part of this statement.*

## Exhibit 4-b

**District of Columbia**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended September 30, 2006**  
(\$000s)

	<b>Pension Trust Funds</b>	<b>Private Purpose Trust Fund</b>
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 133,000	\$ -
Plan members	50,949	20,311
Total contributions	183,949	20,311
Investment earnings:		
<i>From investment activities</i>		
Net increase in fair value of investments	234,259	3,946
Interest and dividends	107,836	1,139
Total investment earnings	342,095	5,085
Less - investment expenses	(10,828)	(813)
Net income from investing activities	331,267	4,272
<i>From securities lending activities</i>		
Securities lending income	20,164	-
Less: securities lending expenses	(19,228)	-
Net income from securities lending activities	936	-
Net investment earnings	332,203	4,272
<b>Total additions</b>	<b>516,152</b>	<b>24,583</b>
<b>DEDUCTIONS</b>		
Benefits	39,588	-
Administrative expenses	2,827	199
Distributions to participants	-	3,374
<b>Total deductions</b>	42,415	3,573
<b>Change in net assets</b>	<b>473,737</b>	<b>21,010</b>
Net assets at October 1	3,115,613	51,500
Net assets at September 30	\$ 3,589,350	\$ 72,510

*The accompanying notes are an integral part of this statement.*



Exhibit 5-a

District of Columbia  
Discretely Presented Component Units  
Combining Statement of Net Assets  
September 30, 2006  
(With Comparative Totals at September 30, 2005)  
(\$000s)

	Water and Sewer	Convention Center	Sports Commission	Housing Finance	Univer- sity	Anacostia Waterfront	Totals	
							2006	2005
<b>ASSETS</b>								
<b>Current Assets:</b>								
Cash and cash equivalents (unrestricted)	\$ 44,980	\$ 14,849	\$ 8,027	\$ 19,939	\$ 30,405	\$ 8,389	\$ 126,589	\$ 135,629
Investments (unrestricted)	146,978	36,406	436	-	-	-	183,820	85,690
Receivables, net:								
Accounts	33,693	937	749	-	5,943	-	41,322	42,239
Other	9,987	336	-	6,613	4,129	-	21,065	17,619
Due from federal government	20,113	-	-	-	-	-	20,113	19,301
Due from primary government	9,119	6,832	-	-	4,344	240	20,535	26,753
Inventories	7,369	-	-	-	-	-	7,369	7,097
Other current assets	232	12	266	-	161	72	743	1,821
Restricted cash	83,479	-	14,534	22,725	-	-	120,738	242,073
Restricted investments	48,834	62,820	4,665	784,931	34,382	-	935,632	808,807
Total current assets	<u>404,784</u>	<u>122,192</u>	<u>28,677</u>	<u>834,208</u>	<u>79,364</u>	<u>8,701</u>	<u>1,477,926</u>	<u>1,387,029</u>
<b>Noncurrent assets:</b>								
Loans receivable	-	-	-	426,250	197	-	426,447	370,852
Other	7,998	7,833	-	19,216	-	-	35,047	56,547
Total long term assets	<u>7,998</u>	<u>7,833</u>	<u>-</u>	<u>445,466</u>	<u>197</u>	<u>-</u>	<u>461,494</u>	<u>427,399</u>
<b>Capital assets, net</b>								
Property and equipment	2,043,522	741,798	26,892	2,493	65,374	143	2,880,222	2,719,812
Non-depreciable capital assets	149,112	-	-	-	-	-	149,112	147,978
<b>Total assets</b>	<u><b>2,605,416</b></u>	<u><b>871,823</b></u>	<u><b>55,569</b></u>	<u><b>1,282,167</b></u>	<u><b>144,935</b></u>	<u><b>8,844</b></u>	<u><b>4,968,754</b></u>	<u><b>4,682,218</b></u>
<b>LIABILITIES</b>								
<b>Current Liabilities:</b>								
Payables:								
Accounts	79,120	7,039	14,704	944	7,300	1,427	110,534	91,131
Compensation	7,726	326	309	302	9,999	-	18,662	18,494
Due to primary government	1,192	-	5,780	-	1,561	3	8,536	5,876
Accrued liabilities	12,312	12,226	1,878	-	3,212	286	29,914	31,419
Deferred revenue	24,766	2,672	180	5,612	6,395	500	40,125	37,438
Current maturities	7,555	11,720	-	33,315	-	-	52,590	28,601
Other current liabilities	6,916	31,219	-	80,195	13,378	22	131,730	70,527
Total current liabilities	<u>139,587</u>	<u>65,202</u>	<u>22,851</u>	<u>120,368</u>	<u>41,845</u>	<u>2,238</u>	<u>392,091</u>	<u>283,486</u>
<b>Noncurrent Liabilities:</b>								
Long term debt:								
Bonds payable	763,987	475,509	-	1,070,467	-	-	2,309,963	2,239,936
Other long-term liabilities	21,828	27,151	-	1,989	-	18	50,986	42,899
Refundable advances	-	-	-	-	455	-	455	563
Deferred revenue	745,196	-	-	-	-	-	745,196	716,896
Total long term liabilities	<u>1,531,011</u>	<u>502,660</u>	<u>-</u>	<u>1,072,456</u>	<u>455</u>	<u>18</u>	<u>3,106,600</u>	<u>3,000,294</u>
<b>Total liabilities</b>	<u><b>1,670,598</b></u>	<u><b>567,862</b></u>	<u><b>22,851</b></u>	<u><b>1,192,824</b></u>	<u><b>42,300</b></u>	<u><b>2,256</b></u>	<u><b>3,498,691</b></u>	<u><b>3,283,780</b></u>
<b>NET ASSETS</b>								
Invested in capital assets, net of related debt	749,965	212,542	26,892	853	65,374	103	1,055,729	1,035,966
Restricted - expendable	44,888	62,820	4,571	59,981	297	-	172,557	168,801
Restricted - nonexpendable	-	-	-	-	7,242	-	7,242	7,242
Unrestricted	139,965	28,599	1,255	28,509	29,722	6,485	234,535	186,429
<b>Total net assets</b>	<u><b>\$ 934,818</b></u>	<u><b>\$ 303,961</b></u>	<u><b>\$ 32,718</b></u>	<u><b>\$ 89,343</b></u>	<u><b>\$ 102,635</b></u>	<u><b>\$ 6,588</b></u>	<u><b>\$ 1,470,063</b></u>	<u><b>\$ 1,398,438</b></u>

The accompanying notes are an integral part of this statement.

Exhibit 5-b

District of Columbia  
Discretely Presented Component Units  
Combining Statement of Activities  
For the Year Ended September 30, 2006  
(With Comparative Totals for the Year Ended September 30, 2005)  
(\$000s)

Functions/Programs	Expenses		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Operating	Nonoperating	Total	Charges for Services, Fees, Fines & Forfeits	Operating Grants and Contributions	Capital Grants and Contributions	Totals
	2006	2005	2006	2006	2006	2005	2006
Water and sewer authority	\$ 242,657	\$ 37,804	\$ 280,461	\$ 289,688	\$ -	\$ 24,927	\$ 34,154
Convention center	58,596	42,087	100,683	15,618	-	-	(85,494)
Sports commission	15,389	2,130	17,519	13,006	-	1,280	(3,233)
Housing finance	32,147	54,023	86,170	46,863	-	-	(39,307)
University	110,703	-	110,703	16,031	26,648	4,182	(63,842)
Anacostia waterfront corporation	8,793	-	8,793	-	11,995	-	3,202
<b>Total component units</b>	<b>\$ 468,285</b>	<b>\$ 136,044</b>	<b>\$ 604,329</b>	<b>\$ 381,206</b>	<b>\$ 38,643</b>	<b>\$ 30,389</b>	<b>(154,091)</b>
General revenues:							
Investment earnings							51,564
Miscellaneous							33,178
Subsidy from primary government							140,974
Total general revenues and transfers							225,716
Change in net assets							71,625
Net assets at October 1, as restated							1,398,438
Net assets at September 30							\$ 1,470,063

The accompanying notes are an integral part of this statement.

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## NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

(Dollar amounts expressed in thousands)

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

##### General Operations

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

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

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

#### B. FINANCIAL REPORTING ENTITY

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

- The District holds the corporate powers of the organization.

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

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

The Mayor, with the consent of the Council, appoints the governing bodies of all component units. The District has an obligation to provide financial support to the Housing Finance Agency and the University of the District of Columbia. In addition, the District must approve certain transactions of the Anacostia Waterfront Corporation, the Washington Convention Center and certain tax revenues are dedicated to these two organizations. The Water and Sewer Authority is responsible for the payment of certain District long-term debt, issued before that entity's creation, to finance capital improvements for its predecessor agency. For that reason, in conjunction with the fact that the Water and Sewer Authority is an independent authority under its enabling legislation, this entity is included as a component unit of the District of Columbia.

Information on how to obtain a complete set of financial statements for each discretely presented component unit can be obtained at the following locations:

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

**Washington Convention Center 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

**Sports and Entertainment Commission**  
 General Manager  
 2001 East Capitol Street, S.E.  
 Washington, D. C. 20003

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

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

**Anacostia Waterfront Corporation**  
 Chief Financial Officer  
 1100 New Jersey Avenue, S.E.  
 Suite 700  
 Washington, D.C. 20003

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

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

**C. RELATED ORGANIZATIONS**

A related organization is one for which the primary government is accountable but not *financially accountable*. The District of Columbia Housing Authority, the National Capital Revitalization Corporation, and the District of Columbia Courts are related organizations because the District is not financially accountable for them. Although the Mayor appoints a voting majority of the governing boards of these organizations (except for the Courts), the District's accountability for the organizations 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 a related organization because it provides the judicial

services normally associated with municipal and state governments for the District.

**D. JOINT VENTURE**

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a public transit system serving the Metropolitan Washington Area Transit Zone, which includes the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia and Montgomery, Anne Arundel and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 for that purpose. WMATA is governed by a six member Board and six alternates, comprised of two Directors and two alternates each from Maryland, Virginia and the District of Columbia. The Directors and alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for Maryland, by the Washington Suburban Transit Commission from among its members. Further information regarding this joint venture is discussed in Note 11 on page 92.

**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. Since by definition,

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

assets of fiduciary funds are held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements. Governmental activities of the primary government, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The government-wide statements are comprised of the following:

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District (governmental and business-type activities) and its discretely presented component units. The District reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets. The net assets of a government is broken into these three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
- *Statement of Activities* – The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include fines and forfeitures, charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The District also reports depreciation expense, the cost of “using up” capital assets in the Statement of Activities.

*Fund Financial Statements* - Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. Each fund is considered to be a separate accounting entity and the transactions in each are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses/expenditures.

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

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

- *General Fund*, used to account for all financial resources not accounted for in other funds.
- *Federal and Private Resources Fund*, used to account for proceeds of intergovernmental grants and other federal payments and private grants that are legally restricted to expenditure for specified purposes.
- *General Capital Improvements Fund*, used to account for the purchase or construction of capital assets financed by operating transfers, capital grants or debt proceeds.
- *Baseball Project Capital Fund*, used to account for the construction of a new baseball stadium.

**Non-Major Governmental Funds** include three Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund (2) Tobacco Settlement Financing Corporation (TSFC) Fund and (3) Baseball Project Fund. The funds also include Highway Trust Fund, and a Debt Service Fund.

**Proprietary Funds** are used to account for activities similar to those found in the private sector where the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are, financed or recovered primarily through user charges, and the determination of net income is necessary or useful for sound financial administration. The District operates only one type of proprietary fund which is an enterprise fund. The District has 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 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

<b>NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
---

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

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

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

- *Pension Trust Funds* report the activities of the District's retirement system, which accumulates financial resources for pension benefit payments to qualified District's employees.
- *Private Purpose Trust Fund* is used to report any trust arrangement not reported in pension trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide.
- *Agency Funds* report those resources held by the District in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

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

#### F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund or activity is determined by its measurement focus.

#### Measurement Focus

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally, only current assets and current liabilities are included in the balance sheet. The operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The proprietary funds, pension and private purpose trust funds, discretely presented component units, and the government-wide financial statements are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Net assets of the government-wide and proprietary funds are segregated into capital assets, net of related debt, restricted and unrestricted components. The related operating statements present increases (revenues) and decreases (expenses) in net assets. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net assets.

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

Enterprise funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations.

<b>NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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**Basis of Accounting**

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

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. GASB Interpretation No. 6 (GASBI 6) requires that expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special termination benefits be recorded in the governmental fund statements only when they mature or become due for payment within the period. However, such activity is recorded in the government-wide financial statements as incurred.

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

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 - June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all tangible personal property that has taxable sites in the District of Columbia as of July 1. The property taxes become levied once the returns are filed. However, the District does not have a legal claim to a provider's resources that is enforceable through the eventual seizure of the property

until after July 31 if the taxpayer fails to pay the property tax when due. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

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

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

The government-wide financial statements, proprietary funds, and pension and private purpose trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The pension trust funds recognize additions to net assets from participants' contributions when due, District contributions when due and a formal commitment for payment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The private purpose trust fund recognizes additions to net assets when participants' contributions are received.

**Food Stamps**

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



<b>NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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## G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

### Process

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

### Appropriations Act

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

Pursuant to the Reprogramming Policy Act (D. C. Official Code 47-363(2001), as amended), the District may reallocate budget amounts within appropriation title. The appropriated budget amounts in the Budgetary Comparison Statement include all approved reallocations. This statement reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on this statement. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341, 1342, 1349, 1351) and the District of Columbia Anti-Deficiency Act (D.C. Official Code 47-355.01-355.08, 2001). Also, a violation of the D.C. Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation.

The Appropriations Act specifies expenditures and net surplus or deficit of revenues. The Appropriations Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation.

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

- *Basis Differences* - These are differences that arise because the basis of budgeting differs from the basis of accounting prescribed by GAAP as indicated in Note 1W on page 64.
- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis as indicated in Note 1W on page 64.

### Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. All encumbrances lapse in the General Fund at year end, and may automatically be re-appropriated and re-encumbered as part of the subsequent year's budget.

## H. CASH AND INVESTMENTS

### Cash

Cash from the governmental and proprietary funds and certain component units is pooled unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each participating fund and component unit. If a fund overdraws its share of the pooled cash, that fund reports a liability to the general fund, which is deemed to have loaned the cash to the overdrawn fund. The general fund reports a receivable from the overdrawn fund.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and mature in such a short period of time that their values are

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

effectively immune from changes in interest rates. The District's cash management pool is considered a cash equivalent. For an investment to be considered a cash equivalent, it must mature no more than three months after the date it is purchased.

### Investments

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Amendment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. At September 30, 2006 the District has invested primarily in investments backed by U.S. government agencies' securities, with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced fund, and fixed income securities.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made with such are reported as assets and as related liabilities for collateral received.

### I. NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2005, the Governmental Accounting Standards Board (GASB) issued a new accounting standard, Statement No. 47, *Accounting for Termination Benefits*. This Statement, an amendment of various paragraphs of certain statements issued by NCGA and GASB, addresses termination benefits that are provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination. Termination benefits include early-retirement incentives, severance benefits, and termination-related benefits, e.g. healthcare. The District

did not provide termination benefits in the fiscal year ended September 30, 2006.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, was issued in September 2006. This Statement establishes criteria that governments will use to ascertain whether the proceeds should be reported as revenue or as a liability. It also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenue, including residual interests and recourse provisions. The requirements of this Statement improve financial reporting by establishing measurement, recognition, and disclosure requirements that apply to both governmental and business-type activities. The implementation of this Statement is effective for financial statements for periods beginning after December 15, 2006, the District's fiscal year 2008. The District is already in compliance with this Statement.

### J. RESTRICTED ASSETS

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

### K. PREPAID ITEMS AND DEFERRED CHARGES

Prepaid items are for 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 discounts and issuance costs are recognized in the current period as interest and fiscal charges, respectively. In the government-wide financial statements, long-term debt discounts and issuance costs are capitalized and amortized as fiscal charges over the term of the related debts using the outstanding balance method.

<b>NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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**L. RECEIVABLES AND PAYABLES**

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

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

**M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS**

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any 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 are classified as "Due to/from primary government" and "Due to/from component unit" on the statement of net assets.

Transfers are included in the results of operations of both the governmental and proprietary funds. Accordingly, transfers are reported in the "Other Financing Sources (Uses)" section of the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Transfers" section in the statement of revenues, expenses, and changes in net assets (proprietary funds).

**N. CAPITAL ASSETS**

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

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

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

**Capitalization and Depreciation Policies**

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

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

**Table 1 – Estimated Useful Lives (by Asset Category)**

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

**O. CAPITAL LEASES**

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

**P. COMPENSATED ABSENCES**

**Benefit Accumulation Policies**

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

**Accrual**

The District records vacation as an expenditure and related liability in the governmental fund financial statements only to the extent that they 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. 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 and in the District Retirement Program.

The employees of the District earn sick leave credits that are considered termination payments at time of retirement rather than be taken as absences due to illness or other

contingencies. The District estimates the sick leave liability based on the sick leave accumulated at fiscal year end by employees who are currently eligible for retirement and to receive sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments. Accumulated compensatory leave is reported in the government-wide financial statements and in the proprietary funds.

**Q. LONG-TERM LIABILITIES**

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

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

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

The District pays principal on its 2002 Mandarin TIF Capital Appreciation Bonds (CABs) annually. 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 4.26 to 5.91%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such

<b>NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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bonds is the current value, plus the interest that has been accumulating on the bonds.

The District pays principal on its 2006 Tobacco Capital Appreciation Bonds (CABs) annually. 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. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS**

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

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category presents net assets subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Non-expendable restricted net assets represent the portion of net assets that must be held in perpetuity in accordance with donor stipulations.
- *Unrestricted Net Assets* - This category represents net assets of the District not restricted for any project or other purpose.

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

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The amount of fund balance that is available for future operations is presented as "unreserved." Reservations of fund balance represent

amounts that are legally or statutorily identified for specific purposes or portions that are not appropriable for expenditure. Designations of fund balance represent management's intent to fund future projects, but do not represent a legal or statutory requirement to do so.

As of September 30, 2006, the District had established the following fund balance reservations and designations and restricted net assets (see **Tables 34a and 34b** on pages 91 and 92):

#### **Reservations**

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

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

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

*Reserve for Capital Lease Payment* - This portion of fund balance is reserved for the purpose of making lease payments on Saint Elizabeth and DMV Facilities.

*Reserve for Paygo Capital* - This portion of fund balance represents amounts to be used to supplement the District's bond financing activity, to the extent feasible, with resources from the general fund.

*Reserve for Other Post Employment Benefits* - This portion of reserved fund balance is set aside to fund the District's share of retirees' health and life insurance costs.

*Reserve for Subsequent Year's Expenditures* - This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives (referred to as "Resident Dividends"), which were approved by the District Council and Congress for FY2006 and dedicated gross sales taxes.

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

*Reserve for Budget* - This portion of fund balance represents unused FY 2006 Budget Reserve amounts that are available until expended.

<b>NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>
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*Reserve for Purpose Restrictions* - This portion of fund balance represents resources from grants and other revenues with limitations on how the District may expend the funds.

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

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

*Reserve for Tobacco Settlement (TSFC)* - This portion of the District's fund balance represents the fund balance reserved for the purpose of paying future debt service and related expenses associated with TSFC's issuance of Tobacco Settlement Asset-Backed Bonds in FYs 2001 and 2006.

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

*Reserve for Baseball* - This portion of fund balance represents the resource that is available for constructing the baseball stadium.

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

#### **Designations**

*Designation for Other Post Employment Benefits* - This designation of unreserved fund balance is set aside to fund the District's share of retirees' health and life insurance costs.

*Designation for School Modernization* - This designation of unreserved fund balance is for reconstruction and modernization of public schools.

*Designation for Other Special Purposes* - This designation of unreserved fund balance is for activities financed by fees and charges for services.

#### **Restricted Net Assets**

*Restricted for Workers' Compensation* - This portion of fund balance is restricted for the purpose of paying restitution under Workers' Compensation Claims.

*Restricted for Future Benefits* - This portion of fund balance represents the resource that is available for

benefit payments from the Pension and Private Purpose Trust Funds.

#### **S. POST-EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 9, employees may receive post-retirement health care and life insurance benefits. As of September 30, 2006, there were 5,491 pre-87 (Civil Service) and 12,151 post-87 (DC Defined Contribution) employees who are eligible for such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the federal government and the District has no liability for this cost. Employees hired after September 30, 1987, pursuant to the D.C. Code 1-622, who subsequently retire may be eligible to continue their health care benefits. Furthermore, in accordance with D.C. Code 1-623, these employees may convert their group life insurance to individual life insurance. The District therefore bears responsibility for the cost relating to employees hired after September 30, 1987. The District does not record a liability for its portion of the cost of post-retirement benefits but rather records such cost as expenses/expenditures when premiums are paid.

#### **T. OTHER POST-EMPLOYMENT BENEFITS**

The District provides health and life insurance benefits to retirees first employed by the District after September 30, 1987. The expense of providing such benefits to employees hired prior to October 1, 1987 is defrayed by the federal government and the District has no liability for those employees. The District pays 75% of the cost of health insurance, and 33% of the cost of life insurance, for eligible retirees. The District also pays 75% of the premium for retirees' spouse and dependent health insurance coverage. The District has recognized \$1,112 for post-retirement health and life insurance premiums paid during fiscal year 2006, and as of September 30, 2006, there were 421 retirees that received these benefits. The District has funded the Plan on pay-as-you-go basis, but will start funding on an actuarial basis in its fiscal year beginning October 1, 2007. The District is in the process of conducting an actuarial study of its obligations under the Plan.

#### **U. USE OF ESTIMATES**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues, expenses and

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

expenditures during the reporting period. Actual results could differ from those estimates.

**V. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

The governmental funds balance sheet includes reconciliation between fund balances - total governmental funds, and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that certain liabilities are not reported under the modified accrual accounting basis including deferred revenue, but are reported in the government-wide financial statements. The difference in deferred revenue of \$37,632 between the two statements is a reconciling item.

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

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

The details of the \$527,803 difference related to capital outlay are as follows:

Capital outlay capitalized	\$ 705,872
Less: Depreciation expense	(225,809)
Equipment additions	65,196
Transfers/Dispositions	(17,456)
<b>Net adjustment</b>	<b>\$ 527,803</b>

Deferred property tax revenues which were earned but which current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. Such revenue increased by \$7,216 from fiscal year 2005 as a result of a change in the amount deferred in the governmental funds between 2005 and 2006.

The details of the \$(1,117,206) difference related to capital debt are as follows:

Bonds proceeds	\$ (1,247,407)
Equipment financing program	(30,167)
COPs proceeds	(211,680)
Premium on long term debt	(39,944)
Less:	
G.O. bonds advance refunding	117,925
Principal payments on G.O. bonds	188,095
Principal payments on other long-term liabilities	14,750
Principal payments on capital lease	8,448
Principal payments on equipment financing program	23,458
Fiscal charges	59,316
<b>Net adjustment</b>	<b>\$ (1,117,206)</b>

The details of the \$64,890 difference related to the change in accrued liabilities are as follows:

Annual leave	\$ (21,036)
Future disability benefits	117,505
Capital Appreciation Bond (CAB) interest accretion	(13,324)
Accrued interest	(10,113)
Claims and judgments	(8,142)
<b>Net adjustment</b>	<b>\$ 64,890</b>

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

**W. BUDGETARY COMPARISON STATEMENT –  
RECONCILIATION OF BUDGETARY BASIS  
TO GAAP BASIS**

The following presents a GAAP basis reconciliation of the budgetary basis operating results as shown in the Budgetary Comparison Statement.

	<u>GENERAL FUND</u>	<u>FEDERAL AND PRIVATE RESOURCES</u>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS</b>	\$ 325,162	\$ 2,255
<b>Basis differences:</b>		
Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis	(1,973)	2,120
Proceeds from debt issuance - certificate of participation, a financing source that was not included on a budgetary basis	16,822	-
Contingency reserve replenishment - an interfund transfer not included on a budgetary basis	14,187	-
Revenue accrual adjustments	24,905	-
Expenditure accrual adjustments	20,997	38,988
Fund balance released from restrictions - a funding source for budgetary purposes but is not revenue on a GAAP basis	(528,432)	-
<b>Entity differences:</b>		
Operating cost from enterprise funds that are excluded on a budgetary basis	<u>(21,209)</u>	<u>-</u>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - GAAP BASIS</b>	<u>\$ (149,541)</u>	<u>\$ 43,363</u>

**X. RESTATEMENT**

Certain errors were discovered in the prior year financial statement of the Housing Finance Agency, a component unit. The errors were related to the calculation of the outstanding mortgage note. As a result of these errors, the net assets of the component unit were restated as follows:

October 1, 2005, as previously reported	\$ 1,399,713
Overstatement of loan receivable and revenue	<u>(1,275)</u>
<b>October 1, 2005, as restated</b>	<b>\$ <u>1,398,438</u></b>



**NOTE 2. CASH AND INVESTMENTS****A. CASH**

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operating efficiency and to maximize investment opportunities. Of \$3,510,385 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2006 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2006, the carrying amounts of cash for the primary government and fiduciary funds were \$3,263,058 and the bank balances were \$2,253,113. The carrying amount of cash (deposits) for the component units was \$247,327 and the bank balance was \$246,832.

**B. INVESTMENTS**

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

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

- *Interest Rate Risk* - The District limits exposure to fair value losses arising from rising interest rates.

During the fiscal year, the District's investments, other than those held by the Retirement Board, were limited to U.S. government and agency securities and money market funds with original maturities of 90 days or less. The Retirement Board's fixed income managers must construct and actively manage a portfolio of fixed income and related securities that maintains a weighted average duration within +/-2 years of the duration of the fixed income benchmark.

- *Credit Risk* - The District invests in obligations of the United States government and agencies securities, prime commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's, banker's acceptances, and repurchase agreements. During the fiscal year, the District's investments (other than those held by the Retirement Board) were limited to U.S. government and agency securities and money market funds with original maturities of 90 days or less. For the Retirement Board, fixed income managers are permitted to invest in eligible long-term instruments rated investment grade (top four ratings) by nationally recognized rating organizations.
- *Custodial Credit Risk* - Custodial credit risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial credit risk exposure during the fiscal year. The District collateralized all required investments during fiscal year 2006. All collateral for investments is held in the District's name by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight investments in the District's name.
- *Foreign Currency Risk* - As a general policy of the Retirement Board, the Board managers, with authority to invest in a portfolio consisting primarily of non-U.S. securities, structure optional currency positions which minimize tracking error and enhance risk-adjusted returns relative to the benchmark.

In connection with its Public Charter Schools Credit Enhancement and Direct Loan Program, the District invested a net amount of approximately \$9.7 million with Geneva Capital Partners, LLC. Geneva subsequently executed an agreement with the District through which it pledged certain mortgage notes with a total face value of approximately \$15.3 million as collateral for the District's investment. However, based on certain on-going legal proceedings

**NOTE 2. CASH AND INVESTMENTS**

involving Geneva, the disposition of the District's assets owned by or in the custody of Geneva is uncertain, and the market value, negotiability and liquidity of the notes pledged by Geneva as collateral for the District's investment are uncertain. The District has recorded this investment as a long term investment.

- *Concentration of credit risk* – The District's investment policy does not allow for an investment in any one institution that is in excess of five percent of the District's total investment.

**Table 2a – Cash and Investments Details**

	<u>Total Carrying Value</u>
<b>INVESTMENTS</b>	
<b>Primary Government:</b>	
U. S. government securities	\$ 311,862
Corporate securities	3,279
Mutual funds	<u>22,918</u>
<b>Total Primary Government</b>	<b>338,059</b>
<b>Fiduciary Funds:</b>	
Pension trust funds investments held by Board's agent in Board's name:	
Equities (of which \$304,375 is on securities loan with securities and other collateral)	2,557,081
Fixed income securities (of which \$102,106 is on securities loan with securities and other collateral)	505,903
Pension trust funds investments held by broker-dealer under securities loans with cash collateral:	
Equity securities	304,366
Fixed income securities	102,106
Securities lending collective investment pool	428,228
Private purpose trust funds investments	<u>72,495</u>
<b>Total Fiduciary Funds</b>	<b><u>3,970,179</u></b>
<b>Component Units:</b>	
U. S. government securities	213,171
Corporate securities	337,000
Investment contracts	265,004
Mutual funds	<u>304,277</u>
<b>Total Component Units</b>	<b><u>1,119,452</u></b>
<b>Total reporting entity investments</b>	<b><u>\$ 5,427,690</u></b>
<b>CASH BALANCES</b>	
Primary government	\$ 2,836,378
Fiduciary Funds	426,680
Component units	<u>247,327</u>
<b>Total cash balances</b>	<b><u>\$ 3,510,385</u></b>

**NOTE 2. CASH AND INVESTMENTS****Table 2b – Reconciliation of the District’s deposit and investment balances**

Total investments per Table 2a	\$	5,427,690
Total cash balances		3,510,385
<b>Total</b>	<b>\$</b>	<b>8,938,075</b>

	<u>Exhibit 1-a</u>	<u>Exhibit 4-a</u>	<u>Total</u>
Cash and cash equivalents	\$ 519,414	\$ -	\$ 519,414
Investments	192,099	-	192,099
Cash and cash equivalents (restricted)	2,564,291	426,680	2,990,971
Investments (restricted)	1,265,412	3,970,179	5,235,591
<b>Total</b>	<b>\$ 4,541,216</b>	<b>\$ 4,396,859</b>	<b>\$ 8,938,075</b>

**Derivative Financial Instruments**

In accordance with the policies of the Retirement Board and pursuant to D. C. Code Section 1-741(a)(2)(C), during 2006, the Pension Trust Funds held certain derivative investments to increase potential earnings or to hedge against potential losses. Derivative investments are defined as financial instruments, the values of which depend on or are derived from the value of an underlying asset, reference rate, or index. Derivative investments often contain exposure to market risk resulting from fluctuations in interest and currency exchange rates or changes in the price or principal value of a security. The investment credit risk results from the creditworthiness of the counterparties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers and mortgages. The Retirement Board maintains that all contracts are legally permissible in accordance with its policy.

In fiscal year 2006, these derivatives included asset-backed securities (ABS), collateralized mortgage-backed securities (CMOs), mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, inflation index bonds, forward mortgage-backed security contracts (TBAs), foreign currency forward and futures contracts, equity index futures, bond futures, bond options, currency options, and warrants.

The Pension Trust Funds used asset backed securities (ABS), collateralized mortgage obligations (CMOs,) mortgage-backed pools and securities, structured notes, stripped/zero coupon bonds, inflation index bonds, mortgage backed security forward contracts, foreign currency futures/forward contracts, and options primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U. S. Treasury Notes with higher credit and market risks. CMOs also offer higher potential yields than comparable duration U. S. Treasury Notes,

with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset backed and mortgage backed pools and securities are managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

The Pension Trust Funds invest in structured notes with step-up coupons that offer higher yields than comparable U. S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay interest according to a pre-set series of interest rates, which start at one rate and then step-up to higher rates on specific dates. The Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay an interest rate.

Foreign currency forward and futures contracts and foreign currency options are used by the Retirement Funds for defensive purposes. These contracts hedge a portion of the Retirement Funds’ exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels are 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 Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of A1 or P1 or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Exchange-traded and over-the-counter bond futures and options are used by the Retirement Funds to gain exposure to fixed income markets in a more efficient and

## NOTE 2. CASH AND INVESTMENTS

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 on organized exchanges.

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

At September 30, 2006, the Pension Trust Funds' portfolio included \$416,584 of derivative investments, or 10.32% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year.

Derivative investments by type at September 30, 2006 are shown in **Table 3**.

**Table 3 – Derivative Investments by Type**

<u>Derivative Instrument Type</u>	
Asset-backed securities	\$ 68,137
Collateralized mortgage obligations	89,973
Mortgage-backed security pools and securities	177,289
Inflation index bonds	82,351
Mortgage-backed security forward contracts	1,332
Foreign currency futures/forward contracts, net	(3,150)
Interest rate swaps	660
Options	(8)
<b>Total Derivatives</b>	<b>\$ 416,584</b>

### C. SECURITIES LENDING

During the fiscal year 2006, the master custodian, at the direction of the Retirement Board, lent the Retirement Funds equity and fixed income securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit issued by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U.S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The 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 Fund).

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

The Quality Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality 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 Fund is not the same as the value of the Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality Fund and there was no income from one fund that was assigned to another fund by the master custodian during fiscal year 2006.

During fiscal year 2006, the 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

**NOTE 2. CASH AND INVESTMENTS**

were no losses resulting from a default of the borrowers or the master custodian during 2006.

The Quality Fund invests qualified cash collateral from loans of U.S. and non-U.S. equities, U.S. corporate fixed income securities, U.S. Government securities and sovereign debt. Its average effective duration is restricted to 120 days or less. The average duration of the investment pool as of September 30, 2006 was 446 days. The maximum remaining effective maturity of any instrument is two years. The average weighted maturity of the investment pool as of September 30, 2006 was 52 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

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

to fund guidelines. On September 30, 2006, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Board was \$428,228 and \$413,922, respectively, as of September 30, 2006.

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

During fiscal year 2006, the Master Trust's gross earnings from securities lending transactions totaled \$21,017. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled \$22,099, \$962, and \$3,062 respectively, in 2006. The Fund's share of the net earnings on securities lending transactions totaled \$607 in fiscal year 2006.

**NOTE 3. RESTRICTED ASSETS**

At September 30, 2006, restricted assets of the primary government, component units, and fiduciary funds totaled \$8,226,562 as summarized in Table 4.

**Table 4 – Summary of Restricted Assets**

Governmental Funds/Governmental Activities						
	General	Federal & Private Resources	General Capital Improvements	Baseball	Non-Major	Total
Bond Escrow Accounts	\$ 279,462	\$ -	\$ -	\$ -	\$ -	\$ 279,462
Public Transportation	-	-	843,293	-	6,174	849,467
Emergency Cash Reserves	293,649	-	-	-	14,220	307,869
Others	239,376	18,301	-	529,514	114,300	901,491
<b>Total</b>	<b>\$ 812,487</b>	<b>\$ 18,301</b>	<b>\$ 843,293</b>	<b>\$ 529,514</b>	<b>\$ 134,694</b>	<b>\$ 2,338,289</b>
Proprietary Funds/Business-Type Activities						
	Lottery & Games	Unemployment Compensation	Nonmajor	Total	Fiduciary Funds	Component Units
Bond Escrow Accounts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,021,988
Unpaid Prizes	52,584	-	-	52,584	-	-
University Endowment	-	-	-	-	-	34,382
Benefits	-	380,248	-	380,248	4,396,859	-
Other	-	-	2,212	2,212	-	-
<b>Total</b>	<b>\$ 52,584</b>	<b>\$ 380,248</b>	<b>\$ 2,212</b>	<b>\$ 435,044</b>	<b>\$ 4,396,859</b>	<b>\$ 1,056,370</b>

The bond escrow account includes bond escrow for capital lease payment of \$16,822.

**NOTE 4. COMPONENT UNITS AND RECEIVABLES AND INTERFUND BALANCES**

**A. 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, 2006 are shown in Table 5.

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

Fund or Component Unit	Primary Government/ Component Units		Interfund	
	Receivables	Payables	Receivables	Payables
General	\$ 4,762	\$ 20,535	\$ 645,351	\$ 11,668
Federal & Private Resources	-	-	13,278	72,541
General Capital Improvements	1,561	-	4,649	374,813
Capital Projects, Highway	-	-	9,711	3,538
Capital Projects, Baseball Fund	1,723	-	-	202,700
Baseball Fund	490	-	2,170	-
Unemployment Compensation	-	-	766	13,629
Nursing Homes	-	-	155	-
Pension Trust	-	-	170	-
Agency	-	-	2,639	-
Water and Sewer Authority	9,119	1,192	-	-
Washington Convention Center	6,832	-	-	-
Sports and Entertainment Commission	-	5,780	-	-
University of the District of Columbia	4,344	1,561	-	-
Anacostia Waterfront	240	3	-	-
<b>Total</b>	<b>\$ 29,071</b>	<b>\$ 29,071</b>	<b>\$ 678,889</b>	<b>\$ 678,889</b>

The above balances represent the impact of transactions among the funds and component units which will be settled during fiscal year 2007.

**B. RECEIVABLES**

Receivables are valued at their estimated collectible amount. These receivables are presented in various funds as shown in Table 6.

**Table 6 - Receivables**

	General	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Lottery & Games	Unemployment Compensation	Nonmajor Proprietary Fund	Fiduciary Funds
Gross Receivable:								
Taxes	\$ 381,583	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	108	-	-	-	33
Accounts	213,012	6,107	8,077	30,820	5,094	15,795	4,659	3,131
Federal	9,966	598,901	46,749	-	-	-	-	-
<b>Total gross receivable</b>	<b>604,561</b>	<b>605,008</b>	<b>54,826</b>	<b>30,928</b>	<b>5,094</b>	<b>15,795</b>	<b>4,659</b>	<b>3,164</b>
Less-allowance for uncollectibles	223,151	128,585	6,136	-	-	7,030	214	-
<b>Total net receivable</b>	<b>\$ 381,410</b>	<b>\$ 476,423</b>	<b>\$ 48,690</b>	<b>\$ 30,928</b>	<b>\$ 5,094</b>	<b>\$ 8,765</b>	<b>\$ 4,445</b>	<b>\$ 3,164</b>

**NOTE 4. COMPONENT UNITS AND RECEIVABLES AND INTERFUND BALANCES****C. INTERFUND TRANSFERS**

Table 7 shows a summary of interfund transfers for the fiscal year ended September 30, 2006.

**Table 7 – Summary of Interfund Transfers**

<b>TRANSFER FROM (OUT)</b>	<b>TRANSFER TO (IN)</b>	<b>PURPOSE</b>	<b>AMOUNT</b>
General Fund	Highway Trust Fund	Motor fuel taxes dedicated to the Highway Trust Fund	\$ 24,960
DC Lottery & Games	General Fund	DC Lottery & Games excess revenues, after operating cost, to the general fund	73,800
Tobacco Corporation	Capital Projects	Tobacco Settlement asset backed bonds	245,260
Tobacco Corporation	General Fund	Funds to pay the QZAB issuance costs	3,004
General Fund	Capital Projects	PAYGO-Capital projects financed by the general fund	266,353
General Fund	Baseball Fund	Taxes imposed for the baseball stadium project	37,026
General Fund	Federal and Private Resources	Federal Payment monies transferred from local source funds	685
General Fund	Tax Increment Financing Program	Tax imposed to pay bonds on economic development tasks	13,214
Baseball Fund	General Fund	Replenishment of the Contingency Fund	14,871
Baseball Fund	Baseball Debt Services	Funds for debt service payments	6,033
<b>TOTAL INTERFUND TRANSFERS</b>			<b>\$685,206</b>

**NOTE 5. CAPITAL ASSETS****Capital Outlays**

Capital outlays totaled \$901,204 for the fiscal year ended September 30, 2006, which are reported in the General Capital Improvements, Baseball Capital Project and Other Nonmajor Governmental Funds. As construction progresses, the cumulative expenditures are capitalized as construction in progress in the Governmental Activities column of the Government-Wide Financial Statements. Upon completion of the project, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building, equipment or infrastructure.

**Impaired Capital Assets**

As of September 30, 2006, the public schools permanently closed some schools. The carrying amount of the impaired assets that are idle at year-end was \$11,543.

**A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS**

Table 8 presents the changes in the governmental activities capital assets by category for the primary government:

**Table 8 - Changes in the Governmental Activities Capital Assets by Asset Class**

Asset Class	Balance October 1, 2005	Additions	Transfers/ Dispositions	Transfers from CIP	Balance September 30, 2006
Non-depreciable:					
Land	\$ 220,004	\$ -	\$ (66)	\$ -	\$ 219,938
Construction in progress	1,126,609	705,872	(14,468)	(497,530)	1,320,483
<b>Total non-depreciable</b>	<b>1,346,613</b>	<b>705,872</b>	<b>(14,534)</b>	<b>(497,530)</b>	<b>1,540,421</b>
Depreciable:					
Infrastructure	3,055,854	-	-	218,744	3,274,598
Buildings	2,537,950	-	(201)	138,475	2,676,224
Equipment	791,129	65,196	(28,068)	140,311	968,568
<b>Total depreciable</b>	<b>6,384,933</b>	<b>65,196</b>	<b>(28,269)</b>	<b>497,530</b>	<b>6,919,390</b>
Less accumulated depreciation for:					
Infrastructure	1,402,096	79,575	-	-	1,481,671
Buildings	928,515	46,547	-	-	975,062
Equipment	381,997	99,687	(25,347)	-	456,337
<b>Total accumulated depreciation</b>	<b>2,712,608</b>	<b>225,809</b>	<b>(25,347)</b>	<b>-</b>	<b>2,913,070</b>
<b>Total depreciable, net</b>	<b>3,672,325</b>	<b>(160,613)</b>	<b>(2,922)</b>	<b>497,530</b>	<b>4,006,320</b>
<b>Net governmental activities capital assets</b>	<b>\$ 5,018,938</b>	<b>\$ 545,259</b>	<b>\$ (17,456)</b>	<b>\$ -</b>	<b>\$ 5,546,741</b>



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

Table 9 presents the changes in the governmental activities capital assets by function for the primary government:

**Table 9- Governmental Activities Capital Assets by Function**

Function	Balance October 1, 2005	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2006
Governmental direction and support	\$ 512,852	\$ 5,192	\$ (24,923)	\$ 205,090	\$ 698,211
Economic development and regulation	95,045	1,051	(3,405)	2,722	95,413
Public safety and justice	604,110	21,900	17,183	2,826	646,019
Public education system	1,155,133	21,122	(12,600)	56,236	1,219,891
Human support services	630,158	3,293	(1,306)	6,595	638,740
Public works	3,607,639	12,638	(3,284)	224,061	3,841,054
Construction in progress (CIP)	1,126,609	705,872	(14,468)	(497,530)	1,320,483
<b>Total</b>	<b>\$ 7,731,546</b>	<b>\$ 771,068</b>	<b>\$ (42,803)</b>	<b>\$ -</b>	<b>\$ 8,459,811</b>

**C. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION**

A summary of changes in governmental activities capital assets depreciation by function for the primary government is shown in Table 10.

**Table 10 – Governmental Activities Capital Assets Accumulated Depreciation By Function**

Function	Balance October 1, 2005	Additions	Transfers/ Dispositions	Balance September 30, 2006
Government direction and support	\$ 135,798	\$ 56,196	\$ (1,688)	\$ 190,306
Economic development and regulation	23,600	2,638	(1,820)	24,418
Public safety and justice	255,492	26,376	(6,836)	275,032
Public education system	453,798	28,533	(10,590)	471,741
Human support services	265,980	14,041	(1,133)	278,888
Public works	1,577,940	98,025	(3,280)	1,672,685
<b>Total</b>	<b>\$ 2,712,608</b>	<b>\$ 225,809</b>	<b>\$ (25,347)</b>	<b>\$ 2,913,070</b>

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

Business-Type Activities Capital Assets are presented in **Table 11**.

**Table 11 - Business-Type Activities Capital Assets**

Asset Class	Balance October 1, 2005	Additions	Transfers/ Dispositions	Balance September 30, 2006
<b>Lottery:</b>				
<b>Depreciable:</b>				
Equipment	\$ 4,178	\$ -	\$ (936)	\$ 3,242
<b>Total</b>	<b>4,178</b>	<b>-</b>	<b>(936)</b>	<b>3,242</b>
<b>Nonmajor business-type</b>				
<b>Non-depreciable:</b>				
Land	1,264	-	-	1,264
<b>Depreciable:</b>				
Building	41,521	3,222	-	44,743
Equipment	4,574	347	-	4,921
<b>Total Depreciable, nonmajor business-type</b>	<b>46,095</b>	<b>3,569</b>	<b>-</b>	<b>49,664</b>
<b>Total Business-Type</b>	<b>51,537</b>	<b>3,569</b>	<b>(936)</b>	<b>54,170</b>
Less accumulated depreciation for:				
Equipment	(7,047)	(389)	936	(6,500)
Building	(28,307)	(1,972)	-	(30,279)
Total accumulated depreciation	(35,354)	(2,361)	936	(36,779)
<b>Net capital assets</b>	<b>\$ 16,183</b>	<b>\$ 1,208</b>	<b>\$ -</b>	<b>\$ 17,391</b>

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

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

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

Asset Class	Balance October 1, 2005	Additions	Transfers/ Dispositions	CIP Transfers in (out)	Balance September 30, 2006
Land	\$ 12,890	\$ -	\$ -	\$ -	\$ 12,890
Utility plant	1,927,428	4,878	-	398,052	2,330,358
Buildings	963,080	8,448	-	1,288	972,816
Equipment	146,099	2,052	(3,275)	8,783	153,659
Artwork	2,725	-	-	-	2,725
Construction in progress	736,573	229,998	-	(408,123)	558,448
<b>Total</b>	<b>3,788,795</b>	<b>245,376</b>	<b>(3,275)</b>	<b>-</b>	<b>4,030,896</b>
Less-accumulated depreciation for					
Utility plant	(640,246)	(34,947)	-	-	(675,193)
Buildings	(173,020)	(33,835)	(82)	-	(206,937)
Equipment	(107,738)	(14,409)	2,715	-	(119,432)
Total accumulated depreciation	(921,004)	(83,191)	2,633	-	(1,001,562)
<b>Net Capital Assets</b>	<b>\$ 2,867,791</b>	<b>\$ 162,185</b>	<b>\$ (642)</b>	<b>\$ -</b>	<b>\$ 3,029,334</b>

**NOTE 5. CAPITAL ASSETS****Table 13 - Capital Assets by Component Unit**

Component Units	Balance October 1, 2005	Additions	Transfers/ Dispositions	Balance September 30, 2006
University of the District of Columbia	\$ 166,755	\$ 5,982	\$ (1,754)	\$ 170,983
Washington Convention Center	810,827	34,647	-	845,474
Water and Sewer Authority	2,743,340	203,843	(1,521)	2,945,662
Sports and Entertainment Commission	62,548	833	-	63,381
Anacostia Waterfront Corporation	183	31	-	214
Housing Finance Agency	5,142	40	-	5,182
<b>Total capital assets</b>	<b>3,788,795</b>	<b>245,376</b>	<b>(3,275)</b>	<b>4,030,896</b>
Less-accumulated depreciation for:				
University of the District of Columbia	(101,109)	(5,724)	1,224	(105,609)
Washington Convention Center	(75,677)	(27,999)	-	(103,676)
Water and Sewer Authority	(710,288)	(44,149)	1,409	(753,028)
Sports and Entertainment Commission	(31,475)	(5,014)	-	(36,489)
Anacostia Waterfront Corporation	(15)	(56)	-	(71)
Housing Finance Agency	(2,440)	(249)	-	(2,689)
Total accumulated depreciation	(921,004)	(83,191)	2,633	(1,001,562)
<b>Net component units capital assets</b>	<b>\$ 2,867,791</b>	<b>\$ 162,185</b>	<b>\$ (642)</b>	<b>\$ 3,029,334</b>

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

Construction in progress by function for governmental activities capital assets is shown in **Table 14**.

**Table 14 – Construction in Progress by Function**

Function and Subfunction	Number of Projects	Authorizations	Expenditures			Unexpended Balance	
			Prior Year	Current Year	Transfers from CIP/Disposition		
<b>PRIMARY GOVERNMENT</b>							
<b>Governmental Direction and Support</b>							
Finance	3	\$ 29,238	\$ 16,312	\$ 2,535	\$ (16,103)	\$ 2,744	\$ 26,494
Personnel	1	8,833	7,947	258	-	8,205	628
Legislative	2	31,705	15	1,846	-	1,861	29,844
Administrative	55	873,989	202,817	322,352	(198,736)	326,433	547,556
<b>Total</b>	<b>61</b>	<b>943,765</b>	<b>227,091</b>	<b>326,991</b>	<b>(214,839)</b>	<b>339,243</b>	<b>604,522</b>
<b>Public Safety and Justice</b>							
Police	7	23,710	2,588	2,723	(4,728)	583	23,127
Fire	26	71,864	22,950	12,243	(687)	34,506	37,358
Correction	4	7,699	7,518	1,402	-	8,920	(1,221)
Courts	3	1,048	-	78	-	78	970
Medical Examiner	2	18,822	1,136	480	-	1,616	17,206
<b>Total</b>	<b>42</b>	<b>123,143</b>	<b>34,192</b>	<b>16,926</b>	<b>(5,415)</b>	<b>45,703</b>	<b>77,440</b>
<b>Economic Development and Regulation</b>							
Zoning	1	350	207	109	-	316	34
Housing and Comm. Dev.	5	48,468	15,162	7,422	-	22,584	25,884
Planning & Econ. Dev.	8	75,260	280	2,902	(2,722)	460	74,800
<b>Total</b>	<b>14</b>	<b>124,078</b>	<b>15,649</b>	<b>10,433</b>	<b>(2,722)</b>	<b>23,360</b>	<b>100,718</b>
<b>Public Education System</b>							
Libraries	11	50,999	3,594	300	-	3,894	47,105
Public Education System	54	920,713	277,394	84,142	(56,237)	305,299	615,414
<b>Total</b>	<b>65</b>	<b>971,712</b>	<b>280,988</b>	<b>84,442</b>	<b>(56,237)</b>	<b>309,193</b>	<b>662,519</b>
<b>Human Support Services</b>							
Health and Welfare	28	79,396	40,000	4,515	(4,788)	39,727	39,669
Human Services	12	10,904	8,394	1,537	(2,176)	7,755	3,149
Mental Health Services	11	79,990	42,368	13,235	-	55,603	24,387
Recreation	19	255,232	49,738	25,052	(1,745)	73,045	182,187
Youth Rehabilitation Services	1	34,193	-	792	-	792	33,401
Aging	10	22,562	3,587	3,701	(14)	7,274	15,288
<b>Total</b>	<b>81</b>	<b>482,277</b>	<b>144,087</b>	<b>48,832</b>	<b>(8,723)</b>	<b>184,196</b>	<b>298,081</b>
<b>Public Works</b>							
Environmental	115	1,391,169	424,602	218,248	(224,062)	418,788	972,381
<b>Total</b>	<b>115</b>	<b>1,391,169</b>	<b>424,602</b>	<b>218,248</b>	<b>(224,062)</b>	<b>418,788</b>	<b>972,381</b>
<b>Totals</b>	<b>378</b>	<b>\$ 4,036,144</b>	<b>\$ 1,126,609</b>	<b>\$ 705,872</b>	<b>\$ (511,998)</b>	<b>\$ 1,320,483</b>	<b>\$ 2,715,661</b>

**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, 2006, the aggregate outstanding principal amount for these conduit debt obligations was approximately \$4.2 billion.

**B. ENTERPRISE ZONE FACILITY BONDS**

Beginning January 1, 1998, businesses located in the District of Columbia Enterprise Zone (D.C. Zone) are eligible to obtain up to \$15 million of tax-exempt financing. Similar to Industrial Revenue Bonds, the principal and interest are payable solely from defined revenues of private entities, including non-profit and for-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. As of September 30, 2006, the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was \$125 million.

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

The District issued \$250,000 in Tax Revenue Anticipation Notes (TRANS) on December 14, 2005. This is a short term financing method used to provide for seasonal cash flow needs. The proceeds of the TRANS were used to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2006. 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 TRANS were issued as fixed-rate notes with an interest rate of 4% and priced to yield 3.27%-3.28%. Operational and other disbursement costs are covered by the TRANS proceeds until periodic taxes, grants and other revenues are received. The FY 2005 TRANS, as prescribed by law, were repaid in the current year on September 29, 2006.

**Table 15 - Changes in Short-Term Liabilities**

Account	Balance October 1, 2005	Additions	Deductions	Balance September 30, 2006
<b>Governmental Activities</b>				
Tax Revenue Anticipation Notes	\$ -	\$ 250,000	\$ 250,000	\$ -

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

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

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

**General Obligation Bonds**

The District's general obligation bonds are authorized and issued primarily to provide funds for certain capital projects and improvements. The average interest rate on the District's outstanding fixed-rate bonds is 5.27%. The average interest rate on the District's variable-rate bonds for fiscal year 2006 is 3.25%. All general obligation bonds are backed by the full faith and credit of the District. In addition, the bonds are secured by a security interest in and lien on the funds derived from a Special Real Property Tax levied annually by the District on portions of certain real property. These tax revenues have been dedicated for the payment of bond principal and interest. Amounts collected are deposited in banks and held in escrow for payment of bond principal and interest when due. A summary of the outstanding debt totaling \$3,773,863 at September 30, 2006 is shown in **Table 16**.

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

	General Obligation Bonds	TIF Notes	TIF Bonds	Tobacco Bonds	Ballpark Bonds	COPs	QZAB	Total
<b>Debt payable at October 1, 2005</b>	\$ 3,632,198	\$ 2,822	\$ 114,703	\$ 498,740	\$ -	\$ 68,975	\$ 2,815	\$ 4,320,253
Bond and note proceeds:								
Series 2005A	331,210	-	-	-	-	-	-	331,210
Series 2005B	116,475	-	-	-	-	-	-	116,475
TIF - Woodies	-	2,996	-	-	-	-	-	2,996
TIF - Embassy Suites	-	11,000	-	-	-	-	-	11,000
Tobacco Series 2006	-	-	-	248,264	-	-	-	248,264
Ballpark Series 2006A1	-	-	-	-	78,425	-	-	78,425
Ballpark Series 2006A2	-	-	-	-	76,410	-	-	76,410
Ballpark Series 2006B1	-	-	-	-	354,965	-	-	354,965
Ballpark Series 2006B2	-	-	-	-	25,000	-	-	25,000
COPs	-	-	-	-	-	211,680	-	211,680
QZAB Series 2005	-	-	-	-	-	-	2,662	2,662
<b>Total</b>	<b>4,079,883</b>	<b>16,818</b>	<b>114,703</b>	<b>747,004</b>	<b>534,800</b>	<b>280,655</b>	<b>5,477</b>	<b>5,779,340</b>
Debt payments:								
Principal matured	188,095	-	4,808	4,720	-	2,555	256	200,434
Principal defeased	117,925	2,411	-	-	-	-	-	120,336
<b>Debt payable at September 30, 2006</b>	<b>\$ 3,773,863</b>	<b>\$ 14,407</b>	<b>\$ 109,895</b>	<b>\$ 742,284</b>	<b>\$ 534,800</b>	<b>\$ 278,100</b>	<b>\$ 5,221</b>	<b>\$ 5,458,570</b>

**NOTE 8. LONG-TERM LIABILITIES**

On December 15, 2005 the District issued its Series 2005A General Obligation Bonds in the principal amount of \$331,210 (the "2005A Bonds"). The proceeds of these bonds will be used to finance capital project expenditures in the District's capital improvements program and to pay the costs and expenses of issuing and delivering the bonds. Also, on December 15, 2005, the District issued its 2005B General Obligation Refunding Bonds in the principal amount of \$116,475 (the "2005B Bonds"). The proceeds of these bonds are being used to redeem or defease a portion of the Districts' outstanding general obligation bonds at a savings to the District and to pay the costs and expenses of issuing and delivering the bonds.

The 2005A and 2005B bonds together with other outstanding general obligation bonds and bonds to be issued in the future are general obligations of the District, secured by the Districts' full faith and credit and further secured by the Special Real Property Tax, and are issued under Section 461 of the Home Rule Act. The 2005A Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.60%. The 2005B Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.48%. The final maturities of the 2005A and 2005B bonds are June 1, 2030 and 2027, respectively.

Prior to the creation of the Water and Sewer Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Water and Sewer Authority is responsible for this debt. While the Water and Sewer Authority is not directly liable for the general obligation bonds, it is required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. Accordingly, District general obligation bonds totaling \$22,300 are reflected in the financial statements of the Water and Sewer Authority.

**Advance Refunding**

On December 15, 2005 the District issued \$116,475 in General Obligation Refunding Bonds with a weighted average interest rate yield of 4.5% to advance refund \$117,925 of outstanding 1994, 1997A, 1998A, 1998B, and 2001B bonds with a weighted average interest rate yield of 5.3%. The general obligation bonds were issued at par with a premium of \$7,437 and after paying issuance costs of \$1,771, the net proceeds were \$122,141. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. Treasury Securities (State and Local Government Series) and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are fully called on 6/1/2010. The District completed the

advance refunding to reduce its total debt service payment over the next 22 years by approximately \$4,187.

**TIF Notes and Bonds**

The Tax Increment Financing (TIF) Notes and Bonds are special limited obligations of the District. In 2001, the District promised to pay an aggregate principal amount of \$6,900 to the House on F Street Development Sponsor. The interest rate on this TIF note ranges from 2.13% to 6.26%. The sole source of repayment of the TIF Notes is the incremental sales and 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. If the incremental revenues are insufficient to pay the principal and interest due on the TIF Notes when due, the payment shortfall does not constitute a default under the TIF agreement. When the incremental revenues are sufficient, the District must pay the amount of any previous shortfall to the Development Sponsor without any penalty interest or premium thereon.

In 2002, the District promised to pay an aggregate principal amount of \$73,650 to the Gallery Place Development Sponsor and \$45,995 to the Mandarin Hotel Development Sponsor. Two Tax Increment Financing (TIF) Bonds were issued pursuant to the District of Columbia Tax Increment Financing Authorization Act of 1998, as amended, and the Trust Indenture dated as of April 1, 2002. Interest rate yields on the Gallery Place and Mandarin Hotel TIF Bonds range from 3.28% to 5.43%. These two bond issuances are supported by the pledge of incremental sales and real property tax revenues from the respective projects and secondarily by incremental tax revenues from a Downtown TIF Area.

In 2006, the District used TIF to finance the Embassy Suites Hotel and the H&M retail development. The \$11,000 Embassy Suites Hotel TIF Notes has an interest rate of 5%. Similar to the House on F Street Notes, the sole source of repayment of the TIF Notes is the incremental sales and real property tax revenues from the Project and any repayment shortfalls do not constitute a default. The Woodies retail development TIF Notes are approximately \$2,996 with an 8% interest rate. The TIF Notes are a pledge of the incremental sales tax revenue only. If the incremental revenue is insufficient to pay the principal and interest due on the TIF Notes when due, the payment shortfall does not constitute a default. When the incremental revenues are sufficient, the District must pay the amount of any previous shortfall to the Development Sponsor without any penalty interest or premium thereon.

**NOTE 8. LONG-TERM LIABILITIES****Table 17 - Summary of Debt Service Requirements for Gallery Place TIF Bond**

Year Ending September 30	GALLERY PLACE		
	Principal	Interest	Total
2007	\$ 1,425	\$ 3,779	\$ 5,204
2008	1,495	3,708	5,203
2009	1,570	3,633	5,203
2010	1,655	3,551	5,206
2011	1,740	3,464	5,204
2012-2016	10,220	15,796	26,016
2017-2021	13,350	12,671	26,021
2022-2026	17,225	8,788	26,013
2027-2031	22,285	3,730	26,015
<b>Total</b>	<b>\$ 70,965</b>	<b>\$ 59,120</b>	<b>\$ 130,085</b>

**Table 18 - Summary of Debt Service Requirement for Mandarin Oriental Hotel TIF Bond**

Year Ending September 30	MANDARIN ORIENTAL HOTEL		
	Principal	Interest	Total
2007	\$ 3,241	\$ 1,263	\$ 4,504
2008	3,070	1,439	4,509
2009	2,897	1,612	4,509
2010	2,735	1,769	4,504
2011	2,583	1,921	4,504
2012-2016	10,767	11,764	22,531
2017-2021	9,357	13,174	22,531
2022-2026	4,280	225	4,505
<b>Total</b>	<b>\$ 38,930</b>	<b>\$ 33,167</b>	<b>\$ 72,097</b>

**Table 19 - Summary of Debt Service Requirement for Embassy Suites Hotel TIF Note**

Year Ending September 30	EMBASSY SUITES HOTEL		
	Principal	Interest	Total
2007	\$ -	\$ 266	\$ 266
2008	582	507	1,089
2009	760	470	1,230
2010	799	432	1,231
2011	839	391	1,230
2012-2016	4,877	1,274	6,151
2017-2021	2,314	146	2,460
<b>Total</b>	<b>\$ 10,171</b>	<b>\$ 3,486</b>	<b>\$ 13,657</b>

**Tobacco Bonds**

In November 1998, the District (along with a number of other States and various jurisdictions) signed a Master Settlement Agreement with the major U.S. tobacco companies that ended litigation over health care treatment costs incurred for smoking-related illnesses. Under the settlement, the District is scheduled to receive total annual payments aggregating an estimated \$1.2 billion by 2025. There are a number of potential adjustments to this schedule, including an inflation adjustment and a cigarette volume adjustment. In addition, there are numerous risks regarding whether the District will receive the full amount to which it is entitled under the terms of the Master Settlement Agreement, including various lawsuits outside the District alleging that the Master Settlement Agreement is void or voidable.

In 2001, the Tobacco Corporation issued \$521,105 principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001, of which \$494,020 was outstanding as of September 30, 2006.

In 2006, the Tobacco Corporation issued \$248,264 principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2006. Since no payment was made in 2006, the amount outstanding as of September 30, 2006 was \$248,264. The payment of these bonds is secured by the distribution under the Master Settlement Agreement. Payments received by the Tobacco Corporation under the Master Settlement Agreement in excess of the annual debt service requirements for the Tobacco Bonds may revert to the General Fund. There was no transfer of funds from Tobacco proceeds to the General Fund in fiscal year 2006. 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.

As of September 30, 2006, the total outstanding balance for all Tobacco bonds as shown in **Table 20** was \$742,284.



**NOTE 8. LONG-TERM LIABILITIES**

Summary of debt service requirements for general obligation and tobacco bonds to maturity is shown in **Table 20**.

**Table 20 - Summary of Debt Service Requirements for General Obligation and Tobacco Bonds to Maturity**

Year Ending September 30	General Obligation Bonds		Tobacco Bonds		Total
	Principal	Interest	Principal	Interest	
2007	\$ 202,805	\$ 180,551	\$ 5,215	\$ 31,928	\$ 420,499
2008	213,640	169,687	12,585	31,603	427,515
2009	221,255	158,501	13,245	30,877	423,878
2010	237,005	146,654	14,305	30,112	428,076
2011	191,055	133,930	15,450	29,278	369,713
2012 - 2016	752,853	595,255	92,830	130,998	1,571,936
2017 - 2021	658,830	380,007	130,695	97,284	1,266,816
2022 - 2026	826,360	215,786	209,695	48,914	1,300,755
2027 - 2031	404,035	53,341	-	-	457,376
2032 - 2035	66,025	5,351	-	-	71,376
2042 - 2046	-	-	159,733	1,697,592	1,857,325
2052 - 2056	-	-	88,531	2,478,469	2,567,000
<b>Total</b>	<b>\$ 3,773,863</b>	<b>\$ 2,039,063</b>	<b>\$ 742,284</b>	<b>\$ 4,607,055</b>	<b>\$ 11,162,265</b>

**Defeased Bonds**

In prior years, the District has defeased certain bond issues by issuing refunding bonds. As of September 30, 2006, the total amount of defeased debt outstanding but removed from the government-wide financial statement was \$489,197.

**Table 21 - Summary of Defeased Bonds in FY 2006**

**SUMMARY OF DEFEASED BONDS IN FY2006**  
**Defeased by Refunding Bond 2005B**

Bond Series Refunded	Interest Rate	Refunded Amount
1994B	6%	\$ 5
1997A	5.3%-5.5%	46,350
1998A	5.0%-5.25%	38,330
1998B	5.25%	20,165
2001B	5.0%-5.5%	13,075
		<b>\$ 117,925</b>

**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 in the principal amount of \$78,425 and the issuance of Taxable Series 2006A-2 bonds in the principal amount of \$76,410 (the "Series 2006A-1 Bond and together with the Series 2006A-2 bond, 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 (Auction Rate Securities) in the principal amount of \$25,000 (the "Series 2006B-1 Bond and together with the Series 2006B-2 bond, the "Series 2006B Bonds"). Series 2006B is tax-exempt.

The weighted average interest rate yield on 2006A and 2006B Bonds is 5.35%.

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

**NOTE 8. LONG-TERM LIABILITIES**

**Table 22 - Summary of Debt Service Requirements for Ballpark Revenue Bonds**

Year Ending September 30	BALLPARK BONDS		
	Principal	Interest	Total
2007	\$ 6,310	\$ 28,040	\$ 34,350
2008	2,075	27,828	29,903
2009	4,665	27,672	32,337
2010	4,360	27,455	31,815
2011	4,540	27,242	31,782
2012-2016	33,665	131,862	165,527
2017-2021	58,340	119,987	178,327
2022-2026	90,850	100,656	191,506
2027-2031	135,165	70,941	206,106
2032-2036	194,830	27,212	222,042
<b>Total</b>	<b>\$ 534,800</b>	<b>\$ 588,895</b>	<b>\$ 1,123,695</b>

**Qualified Zone Academy Bond**

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

On December 28, 2005, the District issued the Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received \$3,191 and is obligated to deposit a total amount of \$2,662 into a sinking fund in fifteen equal amounts of \$177 beginning December 1, 2006.

A summary of Debt Service Requirements to Maturity for QZAB is shown in **Table 23**.

**Table 23 - Summary of Debt Service Requirements for QZAB**

Year Ending September 30	Qualified Zone Academy Bond (QZAB)		
	Principal	Interest	Total
2007	\$ 433	\$ 48	\$ 481
2008	433	64	497
2009	434	81	515
2010	433	98	531
2011	434	115	549
2012-2016	2,167	829	2,996
2017-2021	887	305	1,192
<b>Total</b>	<b>\$ 5,221</b>	<b>\$ 1,540</b>	<b>\$ 6,761</b>

**NOTE 8. LONG-TERM LIABILITIES****COMPONENT UNITS****Water and Sewer Authority**

The Water and Sewer Authority (WASA) derives its funding for future capital projects from the issuance of revenue bonds, notes payable to the federal government and various other non-debt sources of financing. The public utility revenue bonds and notes payable to the federal government for the Washington Aqueduct are considered senior debt. Notes payable to the federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. During the year ended September 30, 2006, the highest rate on these notes was 6.75% and the lowest rate was 3.25%. Debt outstanding at September 30, 2006 totaling \$776,028 included net unamortized bond premiums and discounts of (\$4,486) and a remaining principal balance of \$771,542.

*Commercial Paper Note Payable*

The Board of Directors of the Authority approved WASA's commercial paper program on November 1, 2001, with the Series A and B notes, not to exceed \$50,000 each at any one time. Proceeds from the sale of the notes are used to finance costs incurred in connection with the construction of capital improvements to WASA's wastewater treatment collection and disposal system, its water distribution system and capital equipment.

Series A and B notes are secured by separate letters of credit, issued by Westdeutsche Landesbank Girozentrale (WestLB) and are rated P1, A1+ and F1+ by Moody's, S&P and Fitch respectively. The letter of credit expires on November 30, 2015. WASA had no balance payable in Commercial paper.

**Table 24 – Water and Sewer Authority Debt Service Requirements to Maturity**

<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 7,555	\$ 37,576	\$ 45,131
2008	13,956	36,981	50,937
2009	14,002	36,145	50,147
2010	17,446	39,397	56,843
2011	16,783	39,670	56,453
2012 - 2017	91,475	189,205	280,680
2018 - 2021	115,873	167,901	283,774
2022 - 2026	150,586	137,175	287,761
2027 - 2031	191,407	147,884	339,291
2032 - 2036	153,903	101,767	255,670
2037 - 2041	3,042	303	3,345
<b>Sub-total</b>	<b>776,028</b>	<b>934,004</b>	<b>1,710,032</b>
Less: Unamortized Net Bond Discount	(4,486)	-	(4,486)
<b>Total</b>	<b>\$ 771,542</b>	<b>\$ 934,004</b>	<b>\$ 1,705,546</b>

**NOTE 8. LONG-TERM LIABILITIES****Washington Convention Center Authority**

On September 1, 1998, the Washington Convention Center Authority (WCCA) issued \$524 million in senior lien dedicated tax revenue serial and term bonds at various rates ranging from 4.5% to 5.25%.

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

The WCCA Act authorized the pledge of the dedicated taxes to secure the repayment of the 1998 bonds. Pursuant to the WCCA Act, the District has also pledged not to limit or alter any rights vested in the WCCA to fulfill agreements made with holders of the 1998 Bonds, or in any way impair rights and remedies of bondholders until the 1998 bonds and the interest thereon are paid in full.

A summary of WCCA's debt service requirements to maturity for principal and interest is shown in **Table 25**.

**Table 25 – Washington Convention Center Authority Debt Service Requirements to Maturity**

<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 11,720	\$ 24,452	\$ 36,172
2008	12,310	23,866	36,176
2009	12,925	23,251	36,176
2010	13,600	22,572	36,172
2011	14,315	21,858	36,173
2012 - 2016	83,675	97,196	180,871
2017 - 2021	107,690	73,179	180,869
2022 - 2026	137,145	43,723	180,868
2027 - 2028	98,980	9,549	108,529
<b>Sub-total</b>	<b>492,360</b>	<b>339,646</b>	<b>832,006</b>
Less: Unamortized Bond Discount	(5,131)	-	(5,131)
<b>Total</b>	<b>\$ 487,229</b>	<b>\$ 339,646</b>	<b>\$ 826,875</b>

**NOTE 8. LONG-TERM LIABILITIES****Housing Finance Agency**

Bonds payable consists of term and serial bonds which are subject to redemption at the option of the Housing Finance Agency, in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Interest rates on these bonds range from 3.84% to 7.75%. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciates either annually or semi-annually, compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts.

Bonds have been issued to provide financing for the Housing Finance Agency's housing programs and are collateralized by: (a) mortgage loans made on the related developments or single-family residential mortgage loans purchased, (b) substantially all revenues, mortgage payments, and recovery payments received by the agency from mortgage loans made on related developments or (c) certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

A summary of Housing Finance Agency's debt service requirements to maturity for principal and interest is shown in **Table 26**.

**Table 26 - Housing Finance Agency Debt Service Requirements to Maturity**

<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 33,315	\$ 58,717	\$ 92,032
2008	43,507	56,640	100,147
2009	14,950	55,511	70,461
2010	5,165	55,174	60,339
2011	4,428	54,981	59,409
2012-2016	38,910	268,439	307,349
2017-2021	41,720	258,950	300,670
2022-2026	114,520	240,251	354,771
2027-2031	65,309	210,972	276,281
2032-2036	169,809	180,279	350,088
2037-2041	95,498	137,757	233,255
2042-2046	135,204	105,359	240,563
2047-2051	52,028	78,684	130,712
2051-2056	280,974	61,439	342,413
<b>Subtotal</b>	<b>1,095,337</b>	<b>1,823,153</b>	<b>2,918,490</b>
Unamortized Bond Premium, net	8,412	-	8,412
<b>Total</b>	<b>\$ 1,103,749</b>	<b>\$ 1,823,153</b>	<b>\$ 2,926,902</b>

**NOTE 8. LONG TERM LIABILITIES**

**B. OTHER LONG-TERM LIABILITIES**

**Certificates of Participation**

In 2002, the Certificates of Participation (COPs) obligations 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 Certificates. The District has approximately \$46.4 million of outstanding Certificates of Participation issued by a trust in 2002 with a final maturity of 2013. The 2002 COPs were used to finance the acquisition of certain real property located at 441 Fourth Street, N.W., in the District. The debt service requirements on these COPs are included in capital leases payable (See Note 13C).

In 2003, the Certificates of Participation (COPs) obligations 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 approximately \$66.4 million of outstanding Certificates of Participation issued by a trust in 2003 with a final maturity of 2023, as shown in **Table 27A**. The 2003 COPs were used to provide funds to finance a portion of the design and construction of a public safety and emergency preparedness communications and command center and a portion of 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 both inclusion of sufficient funds in annual District budgets and annual appropriations being made by the United States Congress for such purpose.

In 2006, a COPs obligation was 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 \$211.7 million which will be used to fund the Saint Elizabeth and DMV Projects' as shown in **Table 26B**. The proceeds of the certificates will be used to fund a portion of the cost of the design and construction of the Hospital, which is estimated to cost approximately \$208 million. Of this amount, \$184.2 million will be financed with the proceeds of the certificates and interest earning thereon. In addition, the certificates will be used to fund the purchase of the DMV Building from its current owner for approximately \$15.3 million and approximately \$3.1 million of improvements to include: improved parking, window replacement, elevators, a

loading dock and providing access to the adjacent inspection facility.

The weighted average interest rate yield on these COPs is 4.97%.

**Table 27A - Summary of Debt Service Requirements for COP- Public Safety Communications Center**

<b>Emergency Preparedness Communications Center &amp; Related Technology (COP)</b>			
<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 2,635	\$ 3,168	\$ 5,803
2008	2,735	3,063	5,798
2009	2,850	2,949	5,799
2010	2,960	2,840	5,800
2011	3,100	2,703	5,803
2012-2016	17,855	11,149	29,004
2017-2021	23,215	5,785	29,000
2022-2023	11,070	532	11,602
<b>Total</b>	<b>\$ 66,420</b>	<b>\$ 32,189</b>	<b>\$ 98,609</b>

**Table 27B - Summary of Debt Service Requirements for COP- St Elizabeth/DMV Building**

<b>St Elizabeth/DMV Building (COP)</b>			
<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2007	\$ 4,685	\$ 12,133	\$ 16,818
2008	6,670	10,149	16,819
2009	7,010	9,807	16,817
2010	7,370	9,447	16,817
2011	7,750	9,069	16,819
2012-2016	45,240	38,853	84,093
2017-2021	58,500	25,604	84,104
2022-2026	74,455	9,642	84,097
<b>Total</b>	<b>\$ 211,680</b>	<b>\$ 124,704</b>	<b>\$ 336,384</b>

**NOTE 8. LONG-TERM LIABILITIES**

A summary of changes in other long-term liabilities for governmental activities is shown in **Table 28**.

**Table 28 - Changes in Other Long-Term Liabilities**

Account	Balance October 1, 2005	Additions	Deductions	Balance September 30, 2006
<b>Governmental Activities:</b>				
Accrued disability compensation (Note 14)	\$ 210,670	\$ 50,046	\$ (167,551)	\$ 93,165
Accumulated annual leave	110,497	23,511	(2,475)	131,533
Claims & judgments (Note 14)	50,734	34,425	(26,283)	58,876
Equipment financing program (Note 13)	53,844	30,167	(23,458)	60,553
Accreted interest	25,669	14,040	(717)	38,992
Capital leases payable (Note 13)	76,390	-	(8,448)	67,942
<b>Total</b>	<b>\$ 527,804</b>	<b>\$ 152,189</b>	<b>\$ (228,932)</b>	<b>\$ 451,061</b>
<b>Business-Type Activities:</b>				
Obligation for unpaid prizes	<b>\$ 59,449</b>	<b>\$ -</b>	<b>\$ (6,865)</b>	<b>\$ 52,584</b>

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

**Table 29** presents the current and long-term portions of long-term liabilities.

**Table 29 – Current & Long-Term Portions of Long-Term Liabilities**

Type of Liability	Current Portion	Long-Term Portion	Total
<b>Government-Wide Activities:</b>			
General Obligation Bonds	\$ 202,805	\$ 3,571,058	\$ 3,773,863
Premium on long-term debt	5,484	69,528	75,012
TIF Bonds and Notes	5,115	119,187	124,302
QZAB	433	4,788	5,221
Capital Leases	8,615	59,327	67,942
Tobacco Bonds	5,215	737,069	742,284
Baseball Bonds	6,310	528,490	534,800
Annual leave	76,542	54,991	131,533
Disability compensation	34,035	59,130	93,165
Equipment financing program	19,187	41,366	60,553
Accreted interest	914	38,078	38,992
Claims and judgements	-	58,876	58,876
COPs	7,320	270,780	278,100
<b>Total</b>	<b>\$ 371,975</b>	<b>\$ 5,612,668</b>	<b>\$ 5,984,643</b>
<b>Business-Type Activities:</b>			
Obligation for unpaid prizes	<b>\$ 8,631</b>	<b>\$ 43,953</b>	<b>\$ 52,584</b>

**NOTE 8. LONG-TERM LIABILITIES****Obligation for Unpaid Prizes**

The Lottery is a member of the Multi-State Lottery Association (MUSL), 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, 2006, MUSL purchased for the Lottery, U.S. government securities totaling \$62,875 to fund future installment payments to winners.

The market value of these securities at September 30, 2006 was \$52,584. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statement of net assets.

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

District full-time employees receive pension benefits either through the federally administered Civil Service Retirement System or the District's Retirement Programs and the Social Security System.

The Balanced Budget Act of 1997 (P. L. 105-33) mandated an increase in the District's contribution for most Civil Service covered employees from 7% to 8.51% (9.01% for law enforcement officers and firefighters.) This increase became effective for the first pay period ended on or after October 1, 1997.

**Plan Descriptions****Civil Service Retirement and Social Security Systems**

The Civil Service Retirement System (5 U.S.C. 8331), a cost sharing multiple employer public employee retirement system, covers permanent full-time employees hired before October 1, 1987 (except those covered by the District Retirement Program).

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2006, 2005, and 2004, were as shown in **Table 30**. Financial statements for the Civil Service Plan are available from the U.S. Office of Personnel Management at [www.opm.gov](http://www.opm.gov).

**Table 30 - Summary of District Contributions to Federally Administered Pension Plans**

<u>Plan</u>	<u>Rate</u>	<u>Employees</u>		<u>2006</u>		<u>2005</u>		<u>2004</u>
Civil Service	7%	5,491	\$	22,568	\$	24,011	\$	23,363
Social Security	7.65%	25,086		67,772		63,966		56,406
<b>Total</b>			<b>\$</b>	<b>90,340</b>	<b>\$</b>	<b>87,977</b>	<b>\$</b>	<b>79,769</b>
<b>Total Payroll</b>			<b>\$</b>	<b>1,906,173</b>	<b>\$</b>	<b>1,861,771</b>	<b>\$</b>	<b>1,719,073</b>

The District has no further liability to the plans.

**District Retirement Programs**

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

disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Each pension trust fund issues a publicly available financial report that includes financial statements and required supplementary information. These reports can be obtained from the District of Columbia Retirement Board, Executive Director, 900 7th Street, N.W., 2<sup>nd</sup> Floor, Washington, D.C. 20001.

Each of the two plans provides retirement, death and



**NOTE 9. RETIREMENT PROGRAMS**

**Funding Policy**

The Retirement Board establishes, for each pension trust fund, the contribution requirements of plan members and the District government. The Retirement Board, when deemed necessary, may amend these requirements. A summary of the actuarial assumptions is shown in **Table 31**.

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

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

payment for covered District employees for service accrued after June 30, 1997. The District's contributions for fiscal years 2006, 2005 and 2004 were equal to the Fund's independent actuary's recommendation.

Under P. L. 105-33, the federal government makes annual contributions to the Police and Firefighters' Plan and to the Teachers' plan on behalf of District employees and retirees. These on-behalf payments totaled \$285,400 for the year ended September 30, 2006 and have been reported as intergovernmental revenue. Related expenditures of \$225,466 and \$59,934 have been reported in the public safety and justice and the public education systems functions, respectively.

**Table 31 - Actuarial Assumptions**

	<b>Police and Fire</b>	<b>Teachers</b>
Contribution rates plan members	7% - 8%	7% - 8%
Actuarial valuation date	10/01/04	10/01/04
Actuarial cost method	Aggregate*	Aggregate*
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	7.25%	7.25%
Projected salary increases	5%	5%
Inflation rate	5%	5%
Cost of living adjustments	5%	5%

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

**NOTE 9. RETIREMENT PROGRAMS***Actuarially Required Contributions*

The District made its actuarially required contribution of \$117.5 million to the Police and Fire Pension Plan (**Table 32**) and \$15.5 million to the Teachers Pension Plan (**Table 33**) during the year ended September 30, 2006.

**Table 32 – Police and Fire Pension Plan**

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/06	\$ 117.5	100%	\$ 0
09/30/05	112.1	100%	0
09/30/04	96.7	100%	0

**Table 33 – Teachers Pension Plan**

Year Ended	Annual Pension Cost (APC) (millions)	Percentage of APC Contributed	Net Pension Obligation
09/30/06	\$ 15.5	100%	\$ 0
09/30/05	9.2	N/A	0
09/30/04	0	N/A	0

**B. DEFINED CONTRIBUTION PENSION PLANS****District of Columbia**

Under the provisions of D. C. Code 1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code section 401(a) for permanent full-time employees covered under the Social Security System. Employees do not contribute to the plan and are eligible to participate after one year of service. The District contributes 5% of base salaries for eligible employees each pay period. This contribution rate is 5.5% of base salaries for detention officers. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan. For the fiscal year ended September 30, 2006, District contributions to the plan were \$28,691. This plan also covers employees of the Sports and Entertainment Commission, D. C. Housing Authority and Water and Sewer Authority, while the employees of the Housing Finance Agency, Washington Convention Center and the University are covered under their own separate defined contribution plans.

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

The District sponsors an annuity purchase plan (D. C. Code 31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees were able to defer up to \$15 of their annual compensation for calendar year 2006. Employees with more than fifteen years of service may defer up to \$18 for the calendar year 2006. Also an additional deferral of \$5 was available to participants who were at least 50 years old before the end of the calendar year. Contributions vest immediately and are not assets of the District.

**Internal Revenue Code Section 457 Plan**

The District offers its employees a deferred compensation plan (D. C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees, including teachers, were able to defer the lesser of \$15 or 100% of includable compensation in calendar year 2006. Also, an additional deferral of \$5 was available to participants who were at least 50 years old before the end of the calendar year. Compensation deferred and income

**NOTE 9. RETIREMENT PROGRAMS**

earned are taxable when paid, or made available to the participant or beneficiary, upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

**NOTE 10. FUND BALANCE/NET ASSETS**

Reserved and unreserved at September 30, 2006 are shown in Table 34a.

**Table 34a - Schedule of FY 2006 Reserved and Unreserved Fund Balance**

	General Fund	Federal & Private Resources	General Capital Improvement	Baseball Capital Project	Nonmajor Governmental Funds
<b>Reserved</b>					
Long term assets	\$ 8,177	\$ 13,444	\$ -	\$ -	\$ -
Emergency/contingency cash	293,649	-	-	-	-
Bond escrow	262,640	-	-	-	-
Capital Lease Payment	16,822	-	-	-	-
PAYGO Capital	87,987	-	-	-	-
Other Post Employment Benefits	5,000	-	-	-	-
Subsequent year's expenditures	88,343	-	-	-	-
Inventory	9,640	4,982	-	-	-
Budget	51,670	-	-	-	-
Purpose restrictions	216,632	142,884	-	-	-
Charter School Enrollment Expansion	5,000	-	-	-	-
Capital projects	-	-	396,820	328,581	-
Tobacco settlement	-	-	-	-	95,350
Tax increment financing	-	-	-	-	15,245
Baseball	-	-	-	-	49,973
Highway projects	-	-	-	-	7,201
<b>Total Reserved Fund Balances</b>	<b>\$ 1,045,560</b>	<b>\$ 161,310</b>	<b>\$ 396,820</b>	<b>\$ 328,581</b>	<b>\$ 167,769</b>
<b>Unreserved</b>					
Designated:					
Other post employment benefits	\$ 41,473	\$ -	\$ -	\$ -	\$ -
School Modernization	73,784	-	-	-	-
Other Special purposes	136,320	-	-	-	-
Undesignated	138,005	-	-	-	-
<b>Total Unreserved Fund Balances</b>	<b>\$ 389,582</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Fund Balances</b>	<b>\$ 1,435,142</b>	<b>\$ 161,310</b>	<b>\$ 396,820</b>	<b>\$ 328,581</b>	<b>\$ 167,769</b>

**NOTE 10. FUND BALANCE/NET ASSETS**

Net assets at September 30, 2006 are shown in **Table 34b**.

**Table 34b - Schedule of FY 2006 Net Assets**

	Unemployment Compensation Fund	Lottery & Games	Nonmajor Proprietary Fund	Fiduciary Funds
<b>Net Assets</b>				
Invested in capital assets	\$ -	\$ 382	\$ 17,009	\$ -
Restricted for worker's compensation	347,938	-	-	-
Restricted for future benefits	-	-	-	3,661,860
Unrestricted	-	3,319	25,681	-
<b>Total Net Assets</b>	<b>\$ 347,938</b>	<b>\$ 3,701</b>	<b>\$ 42,690</b>	<b>\$ 3,661,860</b>

**NOTE 11. JOINT VENTURE****Washington Metropolitan Area Transit Authority**

The Washington Metropolitan Area Transit Authority (WMATA) was created by Interstate Compact by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports the Transit Authority through operating, debt service and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the

funds are drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as nonoperating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and investment in capital assets when the grant resources are expended for capital acquisitions. A summary of the grants provided to WMATA during the year ended September 30, 2006 is shown in **Table 35**.

**Table 35 - Summary of Grants Provided to WMATA**

<b>Account</b>	<b>Amount</b>
Operating grants	\$ 173,521
Debt service grants	14,093
Capital grants	44,579
<b>Total</b>	<b>\$ 232,193</b>

The WMATA issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5<sup>th</sup> Street, NW, Washington, D. C. 20001. WMATA is accumulating significant financial resources and it is not experiencing fiscal stress that could cause additional financial benefits to or burden to the District and other participating government in the future.

**NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT**

**A. FEDERAL CONTRIBUTION**

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment was repealed and replaced with a federal contribution to cover special purpose and other unusual costs imposed on the District by the federal government. Federal contributions to the District for the year ended September 30, 2006 totaled \$362,075.

**B. EMERGENCY PREPAREDNESS**

The District, as the nation’s capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. The District did not receive any federal payment for emergency preparedness in fiscal year 2006. In prior years, these funds were made available to assist the District to prepare itself and its citizens to more effectively respond to any threat or possible terrorist attack. Of the \$155,900 received in fiscal year 2002, \$2,614 was spent in fiscal year 2006. As of September 30, 2006, a total amount of \$151,030 has been spent.

**C. GRANTS**

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

The federal government also provides capital grants, which are used for the purchase or construction of fixed

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

**D. WATER AND SEWER SERVICES**

The District exercises no oversight responsibility over the Washington Aqueduct, which is owned by the Federal government and operated by the U. S. Army Corps of Engineers. Historically, the District issued long-term debt to finance most of the Aqueduct’s capital facilities and the Water and Sewer Authority recorded this debt and related capital costs in its financial statements. In 1997, the Water and Sewer Authority and the other Northern Virginia customers entered into an agreement with the federal government, which provides for the funding of the Washington Aqueduct’s capital improvement program directly through borrowings. The Water and Sewer Authority is now responsible for funding only its portion of this debt, other related capital projects, and operating costs calculated as 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 are 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 draw-downs and pay-as-you-go financing were \$4,895 for the fiscal year ended September 30, 2006.

**NOTE 13. LEASES**

**A. CAPITAL LEASES**

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

Capital lease payments are classified as current expenditures in the governmental funds. Such expenditures totaled \$12,679 in fiscal year 2006.

**Equipment Financing Program**

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

As of September 30, 2006, the District has financed approximately \$158 million of its capital equipment needs through the Program, and has approximately \$61 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 4.5%. Payments on the liability are made on a quarterly basis.

**NOTE 13. LEASES**

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

Table 36 shows the schedule of equipment financing program payments.

**Table 36 – Schedule of Equipment Financing Program Payments**

Year Ending September 30	Principal	Interest	Total
2007	\$ 19,187	\$ 2,343	\$ 21,530
2008	15,054	1,607	16,661
2009	12,810	1,001	13,811
2010	9,095	476	9,571
2011	4,407	114	4,521
<b>Total</b>	<b>\$ 60,553</b>	<b>\$ 5,541</b>	<b>\$ 66,094</b>

**B. OPERATING LEASES**

Operating leases are not recorded in the statement of net assets. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if it is considered that the option will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds were \$107,221 in 2006.

**C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS**

The present value of future minimum lease payments under capital leases and minimum lease payments for all operating leases having non-cancelable terms in excess of one year at September 30, 2006 are shown in Table 37.

**Table 37 - Schedule of Future Minimum Lease Payments**

Year Ending September 30	Primary Government		
	Capital Leases	Operating Leases	
		Facilities	Equipment
2007	\$ 12,443	\$ 95,622	\$ 2,282
2008	10,720	83,701	1,647
2009	10,718	52,345	1,107
2010	10,715	35,953	368
2011	10,714	25,169	25
2012-2016	31,199	50,605	-
2017-2021	-	114	-
<b>Minimum lease payments</b>	<b>86,509</b>	<b>\$ 343,509</b>	<b>\$ 5,429</b>
Less - imputed interest	18,567	-	-
<b>Present value of payments</b>	<b>\$ 67,942</b>		

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

**A. RISK MANAGEMENT**

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

**B. GRANTS AND CONTRACTS**

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2006. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. No accrual has been provided in the government-wide financial statements because there was no estimate of the probable cumulative expenditures that may be disallowed by the granting agencies.

**C. LITIGATION**

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the liability for claims and judgments at September 30, 2006.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of excess of the range of probable losses and the minimum range of losses that

are reasonably possible which are not accrued is estimated to be \$39,533.

A summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 38**.

**Table 38 - Summary of Changes in Claims and Judgments Accrual**

Description	2006	2005
Liability at October 1	\$ 50,734	\$ 55,513
Incurred claims	34,425	38,340
Less:		
claims payments/adjustments	(26,283)	(43,119)
<b>Liability at September 30</b>	<b>\$ 58,876</b>	<b>\$ 50,734</b>

**D. DISABILITY COMPENSATION**

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

A summary of changes in this accrual is shown in **Table 39**.

**Table 39 - Summary of Changes in Disability Compensation Accrual**

Description	2006	2005
Liability at October 1	\$ 210,670	\$ 266,898
Claims incurred	50,046	23,491
Less-benefit payments/adjustments	(167,551)	(79,719)
<b>Liability at September 30</b>	<b>\$ 93,165</b>	<b>\$ 210,670</b>

**NOTE 14. COMMITMENTS AND CONTINGENCIES****E. INTEREST RATE SWAP AGREEMENTS**

## Objectives:

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

*Terms***2004B Swap**

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

**2002D Swap**

On October 31, 2002, the District entered into a floating-to-fixed rate swap in connection with its \$124,995 Multimodal General Obligation Refunding Bonds, Series 2002D ("2002D Swap"). The original notional amount of the swap was \$124,995. Under the terms of the swap, scheduled to terminate in 2031, the District pays a fixed-rate of 3.617% and receives variable rate payments equivalent to the Bond Market Association Municipal Swap Index (BMA) until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begins to decline in fiscal year 2015.

**2002B Swap**

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

principal amount of the associated debt service begins to decline in fiscal year 2020.

**2001C/D Swap**

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

On June 2, 2003, the District entered into an enhanced interest rate swap agreement for the 2001C/D Bond issue ("2001C/D Enhanced Swap"). Based on the 2001C/D Enhanced Swap, the District pays the counterparty 67% of LIBOR and the counterparty pays the District a variable rate as a percentage of the actual LIBOR reset each month. The purpose of this swap is to reduce the basis risk to the District by providing a closer match between the District underlying variable rate bonds and the variable rate swap receipt from the counterparty. Only the net difference in interest payments is actually exchanged between the counterparties.

**1992A/2001A Swap**

On March 26, 1992, the District entered into a floating-to-fixed rate swap in connection with its \$299,800 General Obligation Variable Rate Refunding Bonds, Series 1992A ("1992A/2001A Swap"). The 1992A Bonds were refunded by the District's \$114,150 Multimodal General Obligation Refunding Bonds, Series 2001A. The original notional amount of the swap was \$299,800. Under the terms of the swap, scheduled to terminate in 2007, the District pays a fixed-rate of 6.02% and receives variable rate payments equivalent to the J.J. Kenny Index. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 1992.



**NOTE 14. COMMITMENTS AND CONTINGENCIES***Fair Market Value*

As of September 30, 2006, the 2004B, 2002D, 2002B, 2001C/D and 1992A/2001A Swaps ("Swaps") had fair market values as shown in **Table 40**:

**Table 40 – Swap Fair Market Values**

Swaps Fair Market Values	
2004B Swaps	\$ (931)
2002D Swap	(2,385)
2002B Swap	(3,075)
2001C/D (Enhanced Swap)	(3,598)
2001C/D (Bear Stearns)	(8,080)
2001C/D (UBS PaineWebber)	(4,928)
2001A	(173)
<b>Total</b>	<b>\$ (23,170)</b>

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

*Credit Risk*

The swaps' fair market value represents the District's obligation to the counterparties if the swaps were terminated. As of September 30, 2006, the District is not exposed to any credit risk because the swaps have a negative fair value. Should the counterparty to these transactions fail to perform according to the terms of the swaps' contracts, the District faces a maximum possible loss equivalent to the swaps' fair market value \$(23,170) in aggregate. Standard & Poor's and Moody's rated counterparty to each swap as of September 30, 2006 is presented in **Table 41**.

**Table 41 – Swaps Counterparty Credit Ratings**

Swap	Counterparty	Credit Rating
2004B	Bear Stearns Capital Markets	A/A1
2002D	Lehman Brothers	A/A2
2002B	Morgan Stanley	A+/Aa3
2001C/D	Bear Stearns Financial Products	AAA/Aaa
2001C/D	UBS Paine Webber	AA+/Aa2
2001C/D	Bear Stearns Financial Products	AAA/Aaa
2001A	Merrill Lynch	A+/Aa3

*Basis Risk*

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

*Termination Risk*

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

*Swap Payments and Associated Debt*

Using interest rates as of September 30, 2006, principal and interest requirements of the fixed-rate debt and net swap payments are shown in **Table 42**. As rates vary, net swap payments will vary. As the principal on the variable rate bonds mature, the swaps' notional amount likewise diminishes, or amortizes as well.

**NOTE 14. COMMITMENTS AND CONTINGENCIES****Table 42 – Swaps Interest Requirements**

Primary Government Year Ending September 30	Governmental Activities General Obligation		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007	\$ 12,385	\$ 23,843	\$ 1,508	\$ 37,736
2008	13,040	23,385	1,346	37,771
2009	7,350	23,021	1,246	31,617
2010	7,635	22,759	1,214	31,608
2011	7,945	22,487	1,181	31,613
2012-2016	99,255	103,809	5,048	208,112
2017-2021	163,975	83,671	3,796	251,442
2022-2026	286,690	42,555	1,789	331,034
2027-2031	60,135	3,844	147	64,126
<b>Total</b>	<b>\$ 658,410</b>	<b>\$ 349,374</b>	<b>\$ 17,275</b>	<b>\$ 1,025,059</b>

**F. DEBT SERVICE DEPOSIT AGREEMENTS**

The District entered into debt service deposit agreements effective through 2014 that exchanged future cash flows of certain special tax fund escrow accounts for a fixed amount received by the District upon entering into the agreements, thus increasing the predictability of cash flows from the earnings on escrow account investments.

Upon early termination of an agreement and depending upon the then current interest rates, a termination amount may be owed by the District. At September 30, 2006, unearned revenue of \$3,015 related to this agreement is recorded in the government-wide financial statements.

**NOTE 15. SUBSEQUENT EVENTS****A. TAX REVENUE ANTICIPATION NOTES**

The District issued \$300,000 in Tax Revenue Anticipation Notes (TRANs) on December 21, 2006. The note is a short term financing method used to provide for seasonal cash flow needs, and the proceeds were used to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2007.

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. Operational and other disbursement costs are covered by the TRANs proceeds until periodic taxes, grants and other revenues are received. The notes were issued as fixed-rate notes with an interest rate of 4.25%, priced to yield 3.5%, and will mature on September 28, 2007.

**B. CAPITOL HILL TOWERS TIF NOTE**

On December 20, 2006, the District released the tax increment financing (TIF) note of the Capitol Hill Towers from escrow. Henceforth, the District will assume the debt and thus record it as its obligation. The face amount of the note is \$10 million. The note matures on January 1, 2029 with interest rate of 7.5% compounded semiannually on unpaid principal.

**C. HOUSING FINANCE AGENCY**

On November 9, 2006, the agency issued single family revenue bonds Series 2006 D, E & F for \$102.1 million. On November 12, 2006, the agency issued multifamily housing revenue bonds of \$4.13 million for Azeeze Bates Apartments. On December 11, 2006, the agency issued multifamily housing revenue bonds of \$11 million for Eastgate family. On December 14, 2006, the agency issued multifamily housing revenue bonds of \$10.34 million for Wesley House.

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**OTHER SUPPLEMENTARY INFORMATION**

This subsection includes the combining and individual fund statements and schedules for the following:

*General Fund*

*Nonmajor Governmental Funds*

*Fiduciary Funds*

*Supporting schedules*

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**GENERAL FUND**

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

## Exhibit A-1

**GENERAL FUND  
BALANCE SHEET  
September 30, 2006  
(With Comparative Totals at September 30, 2005)  
(\$000s)**

	2006	2005
<b>ASSETS</b>		
Cash and cash equivalents (unrestricted)	\$ 362,193	\$ 492,533
Investments	5,000	-
Receivables (net of allowances for uncollectibles):		
Taxes	274,748	256,779
Accounts	96,696	75,258
Intergovernmental	9,966	9,328
Due from component units	4,762	5,846
Interfund	645,351	873,788
Inventories	9,640	11,613
Other current assets	2,612	-
Cash and cash equivalents (restricted)	783,705	632,950
Investments (restricted)	28,782	-
Total current assets	<u>2,223,455</u>	<u>2,358,095</u>
<b>Long Term Assets:</b>		
Loans	<u>8,177</u>	<u>7,872</u>
<b>Total assets</b>	<u><b>\$ 2,231,632</b></u>	<u><b>\$ 2,365,967</b></u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities:</b>		
Payables:		
Accounts	\$ 400,617	\$ 416,580
Compensation:		
Salaries and wages	116,716	79,798
Employee benefits	610	132
Payroll taxes	12,561	7,942
Other deductions	3,226	4,025
Due to component units	20,535	23,630
Interfund	11,668	4,887
Accrued liabilities:		
Grant disallowances	11,529	9,663
Medicaid	46,984	59,172
Tax refunds	54,534	51,480
Deferred revenue:		
Property taxes	78,001	69,518
Other	31,982	28,885
Other current liabilities	<u>7,527</u>	<u>25,572</u>
<b>Total liabilities</b>	<u><b>796,490</b></u>	<u><b>781,284</b></u>
<b>Fund Balance:</b>		
Reserved	1,045,560	1,110,770
Unreserved	<u>389,582</u>	<u>473,913</u>
<b>Total fund balance</b>	<u><b>1,435,142</b></u>	<u><b>1,584,683</b></u>
<b>Total liabilities and fund balance</b>	<u><b>\$ 2,231,632</b></u>	<u><b>\$ 2,365,967</b></u>

*See Accompanying Independent Auditors' Report*

## Exhibit A-2

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended September 30, 2006**  
**(With Comparative Totals for the Year Ended September 30, 2005)**  
**(\$000s)**

	2006	2005
<b>Revenues:</b>		
Taxes	\$ 4,472,845	\$ 4,251,191
Licenses and permits	81,222	82,093
Fines and forfeits	112,919	111,146
Charges for services:		
Public	122,865	116,321
Intergovernmental	8,214	1,598
Interfund	-	15,050
Miscellaneous:		
Public	290,352	232,193
Investment income	63,655	34,867
Total revenues	<u>5,152,072</u>	<u>4,844,459</u>
<b>Expenditures:</b>		
<b>Current:</b>		
Governmental direction and support	499,289	472,984
Economic development and regulation	218,210	175,664
Public safety and justice	896,460	805,903
Public education system	1,177,362	1,082,129
Human support services	1,532,296	1,259,122
Public works	176,027	164,012
Public transportation	187,615	165,303
<b>Debt service:</b>		
Principal	193,715	173,361
Interest	181,590	164,980
Fiscal charges	18,514	9,277
Total expenditures	<u>5,081,078</u>	<u>4,472,735</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>70,994</u>	<u>371,724</u>
<b>Other Financing Sources (Uses):</b>		
Debt issuance	133,937	4,935
Premium on sale of bonds	18,232	-
Payment to refunded bond escrow agent	(117,925)	-
Other charges	(4,216)	-
Proceeds from capital lease	-	19
Transfers in	91,675	91,553
Transfers out	(342,238)	(98,563)
Total other financing sources (uses)	<u>(220,535)</u>	<u>(2,056)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>(149,541)</u>	<u>369,668</u>
<b>Fund Balance at October 1</b>	<u>1,584,683</u>	<u>1,215,015</u>
<b>Fund Balance at September 30</b>	<u>\$ 1,435,142</u>	<u>\$ 1,584,683</u>

See Accompanying Independent Auditors' Report.

## Exhibit A-3

**GENERAL FUND**  
**SCHEDULE OF EXPENDITURES AND NET FINANCING (SOURCES) USES**  
**FUNCTION AND OBJECT --GAAP BASIS**  
**Year Ended September 30, 2006**  
**(With Comparative Totals for the Year Ended September 30, 2005)**  
**(\$000s)**

Function and Subfunction	Personal Services	Contractual Services	Supplies	Occupancy	Miscellaneous *	Totals	
						2006	2005
<b>Governmental Direction and Support:</b>							
Legislative	\$ 14,275	\$ 693	\$ 82	\$ 236	\$ 3,691	\$ 18,977	\$ 14,921
Executive	56,825	45,265	444	4,835	18,500	125,869	99,972
Finance	71,073	32,511	667	11,196	92,277	207,724	220,844
Personnel	11,626	16,431	239	2,064	306	30,666	25,959
Administrative	35,902	31,702	725	13,015	28,672	110,016	105,670
Elections	3,672	1,594	78	447	246	6,037	5,618
Total	193,373	128,196	2,235	31,793	143,692	499,289	472,984
<b>Economic Development and Regulation:</b>							
Community development	11,929	9,714	257	2,841	66,684	91,425	70,013
Economic regulation	47,051	14,845	583	10,126	5,444	78,049	65,416
Employment services	12,843	5,535	202	8,542	21,614	48,736	40,235
Total	71,823	30,094	1,042	21,509	93,742	218,210	175,664
<b>Public Safety and Justice:</b>							
Police	397,663	48,400	6,375	15,119	87,186	554,743	490,509
Fire	143,563	5,573	3,101	4,055	34,109	190,401	179,783
Corrections	62,521	64,081	3,441	5,340	700	136,083	124,135
Protection	5,069	2,047	47	1,752	388	9,303	7,546
Law	4,480	225	72	405	398	5,580	3,622
Judicial	278	61	5	2	4	350	308
Total	613,574	120,387	13,041	26,673	122,785	896,460	805,903
<b>Public Education System:</b>							
Schools	518,157	61,900	15,611	46,854	479,337	1,121,859	1,037,737
Culture	25,972	6,174	627	2,877	19,853	55,503	44,392
Total	544,129	68,074	16,238	49,731	499,190	1,177,362	1,082,129
<b>Human Support Services:</b>							
Health and welfare	249,045	216,379	11,333	56,628	762,794	1,296,179	1,169,522
Human relations	3,804	1,999	68	248	14,535	20,654	20,078
Employment benefits	-	-	-	-	171,807	171,807	34,211
Recreation	29,719	6,315	904	4,894	1,824	43,656	35,311
Total	282,568	224,693	12,305	61,770	950,960	1,532,296	1,259,122
<b>Public Works</b>	87,962	61,337	4,617	14,877	7,234	176,027	164,012
<b>Public Transportation</b>	-	-	-	-	187,615	187,615	165,303
<b>Debt Service</b>	-	-	-	-	393,819	393,819	347,618
<b>Net Financing Uses</b>	-	-	-	-	220,535	220,535	2,056
<b>Total expenditures and net sources</b>	\$ 1,793,429	\$ 632,781	\$ 49,478	\$ 206,353	\$ 2,619,572	\$ 5,301,613	\$ 4,474,791

See Accompanying Independent Auditors' Report.

\* This column includes transfers, subsidies and other payments totaling \$2,097,872.

Transfers to: Convention Center [\$79,410], Charter Schools [\$227,190], UDC [\$61,266], Baseball [\$37,026], PAYGO [\$265,023], TIF [\$13,214], DC Contribution to Retirement Pension Plan for Police, Fire & Teachers [\$132,931], Mass Transit [\$187,615], Other Post Employment Benefits [\$138,000], Housing Production [\$57,412], Motor Fuel [\$24,960], Other [\$685]

Payments for: Medicaid & Other Human Support Services [\$751,161], Special Education [\$121,979]



Exhibit A-4

**GENERAL FUND**  
**SCHEDULE OF LOCAL SOURCE REVENUES**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**Year Ended September 30, 2006**  
**(\$000s)**

Source	Budget		Actual	Variance Positive (Negative)
	Original	Revised		
<b>Taxes:</b>				
<b>Property:</b>				
Real	\$ 1,167,616	1,109,118	1,152,143	43,025
Personal	54,549	54,549	55,548	999
Total	1,222,165	1,163,667	1,207,691	44,024
<b>Sales and use:</b>				
General	796,000	792,549	775,366	(17,183)
Alcoholic beverages	4,692	5,013	5,070	57
Cigarette	20,903	20,238	22,993	2,755
Motor vehicles	44,534	44,359	42,563	(1,796)
Total	866,129	862,159	845,992	(16,167)
<b>Income and franchise:</b>				
Individual income	1,091,884	1,218,705	1,233,602	14,897
Corporation franchise	196,133	220,000	215,283	(4,717)
Unincorporated business	103,328	126,999	142,598	15,599
Total	1,391,345	1,565,704	1,591,483	25,779
<b>Gross receipts:</b>				
Public utility	145,539	146,816	144,801	(2,015)
Toll telecommunication	45,852	51,445	54,556	3,111
Insurance companies	44,500	51,600	51,495	(105)
Health care providers	11,000	-	-	-
Total	246,891	249,861	250,852	991
<b>Other:</b>				
Deed recordation	179,052	159,248	169,024	9,776
Deed transfers	125,392	126,815	113,509	(13,306)
Inheritance and estate	21,420	21,420	30,125	8,705
Economic interests	4,500	8,000	30,274	22,274
Total	330,364	315,483	342,932	27,449
<b>Total taxes</b>	<b>4,056,894</b>	<b>4,156,874</b>	<b>4,238,950</b>	<b>82,076</b>
<b>Licenses and Permits:</b>				
Business licenses	33,324	37,221	42,443	5,222
Nonbusiness permits	33,146	31,187	29,741	(1,446)
Total	66,470	68,408	72,184	3,776
<b>Fines and Forfeits</b>				
	114,901	110,637	112,456	1,819
<b>Charges for Services:</b>				
Right of way	-	-	55	55
Other	44,173	50,513	47,591	(2,922)
Total	44,173	50,513	47,646	(2,867)
<b>Miscellaneous:</b>				
Interest	11,516	38,000	52,628	14,628
Other	76,760	47,668	77,037	29,369
Total	88,276	85,668	129,665	43,997
<b>Total local revenues</b>	<b>4,370,714</b>	<b>4,472,100</b>	<b>4,600,901</b>	<b>128,801</b>
<b>Transfers and Other sources:</b>				
General obligation bonds	40,000	40,000	10,494	(29,506)
Fund balance released from restrictions	466,930	504,439	504,439	-
Interfund transfer	73,100	72,000	73,800	1,800
<b>Total transfers and other sources</b>	<b>580,030</b>	<b>616,439</b>	<b>588,733</b>	<b>(27,706)</b>
<b>Total Local Revenues and Sources</b>	<b>\$ 4,950,744</b>	<b>5,088,539</b>	<b>5,189,634</b>	<b>101,095</b>

See Accompanying Independent Auditors' Report.

GENERAL FUND  
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES BY SOURCE OF FUNDS  
Year Ended September 30, 2006  
(\$000s)

	Local Source			Other Source			Totals		
	Original Budget	Revised Budget	Variance	Original Budget	Revised Budget	Variance	Original Budget	Revised Budget	Variance
<b>Revenues and Sources:</b>									
Taxes									
Property	\$ 1,222,165	1,163,667	1,207,691	-	-	-	1,222,165	1,163,667	1,207,691
Sales and uses	866,129	862,159	845,992	-	-	-	866,129	862,159	845,992
Income and franchise	1,391,345	1,565,704	1,591,483	-	-	-	1,391,345	1,565,704	1,591,483
Gross receipts and other taxes	577,255	565,344	593,784	-	-	-	577,255	565,344	593,784
Total taxes	4,056,894	4,156,874	4,238,950	-	-	-	4,056,894	4,156,874	4,238,950
Licenses and permits	66,470	68,408	72,184	-	-	-	66,470	68,408	72,184
Fines and forfeits	114,901	110,637	112,456	-	-	-	114,901	110,637	112,456
Charges for services	44,173	50,513	47,646	-	-	-	44,173	50,513	47,646
Miscellaneous	88,276	85,668	129,665	-	-	-	88,276	85,668	129,665
Other	-	-	-	268,009	422,414	(47,025)	268,009	422,414	375,389
General obligation bonds	40,000	40,000	10,494	-	-	-	40,000	40,000	10,494
Fund balance released from restrictions	466,930	504,439	504,439	-	-	-	466,930	504,439	504,439
Interfund transfer	73,100	72,000	73,800	179,107	23,993	23,993	73,100	72,000	73,800
Total Revenues and Sources	4,950,744	5,088,539	5,189,634	447,116	446,407	(47,025)	5,397,860	5,534,946	5,589,016
<b>Expenditures and Uses:</b>									
Governmental direction and support	296,631	312,185	303,103	44,227	38,053	30,444	340,858	350,238	333,547
Economic development and regulation	101,629	125,154	118,198	226,529	236,570	133,564	328,158	361,724	251,762
Public safety and justice	769,785	845,795	839,975	57,251	57,251	54,773	827,036	903,046	894,748
Public education system	1,177,599	1,108,784	1,097,745	11,704	11,704	3,894	1,189,303	1,120,488	1,101,639
Public education AY07 expenditure	-	69,064	69,064	-	-	-	-	69,064	69,064
Human support services	1,273,676	1,362,941	1,356,563	33,854	50,914	33,012	1,307,530	1,413,855	1,389,575
Public works	316,374	324,856	322,272	49,727	49,221	41,526	366,101	374,077	363,798
Workforce investments	61,110	9,562	-	-	-	-	61,110	9,562	9,562
Wilson building	3,740	4,050	3,830	-	-	-	3,740	4,050	3,830
Repay bonds and interest	370,778	370,163	370,128	-	-	-	370,778	370,163	370,128
Bond fiscal charge	40,000	40,000	9,196	-	-	-	40,000	40,000	9,196
Interest on short term borrowing	5,500	6,650	6,650	-	-	-	5,500	6,650	6,650
Certificates of participation	11,000	11,000	10,941	-	-	-	11,000	11,000	10,941
Settlements and judgments fund	20,655	29,956	29,956	-	-	-	20,655	29,956	29,956
Tax increment financing	-	1,468	1,423	-	-	-	-	1,468	1,423
Equipment lease operating	27,441	26,090	24,574	-	-	-	27,441	26,090	24,574
Pay-go capital	260,883	265,023	265,023	-	-	-	260,883	265,023	265,023
Schools modernization fund	12,208	8	-	-	-	-	12,208	8	8
District retiree health contribution	138,000	138,000	138,000	-	-	-	138,000	138,000	138,000
Cash reserve	50,000	2,269	-	-	-	-	50,000	2,269	2,269
Non-departmental agency	12,462	572	-	23,824	2,694	-	36,286	3,266	3,266
Total Expenditures and Uses	4,949,471	5,053,590	4,966,641	447,116	446,407	297,213	5,396,587	5,499,997	5,263,854
<b>Excess of Revenues and Sources Over Expenditures and Uses</b>	<b>\$ 1,273</b>	<b>34,949</b>	<b>222,993</b>	<b>188,044</b>	<b>102,169</b>	<b>102,169</b>	<b>1,273</b>	<b>34,949</b>	<b>325,162</b>

See Accompanying Independent Auditors' Report.

Exhibit A-6

**GENERAL FUND**  
**SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES**  
**Year Ended September 30, 2006**  
**(\$000s)**

	Original Budget	Revisions	Revised Budget	Actual	Variance (Actual To Original Budget)
<b>Revenues and Sources:</b>					
Taxes:					
Property	\$ 1,222,165	(58,498)	1,163,667	1,207,691	(14,474)
Sales and use	866,129	(3,970)	862,159	845,992	(20,137)
Income and franchise	1,391,345	174,359	1,565,704	1,591,483	200,138
Other taxes	577,255	(11,911)	565,344	593,784	16,529
Total taxes	4,056,894	99,980	4,156,874	4,238,950	182,056
Licenses and permits	66,470	1,938	68,408	72,184	5,714
Fines and forfeits	114,901	(4,264)	110,637	112,456	(2,445)
Charges for services	44,173	6,340	50,513	47,646	3,473
Miscellaneous	88,276	(2,608)	85,668	129,665	41,389
Other	268,009	154,405	422,414	375,389	107,380
General obligation bonds	40,000	-	40,000	10,494	(29,506)
Fund balance released from restriction	646,037	(117,605)	528,432	528,432	(117,605)
Interfund transfer	73,100	(1,100)	72,000	73,800	700
<b>Total Revenues and Sources</b>	<b>5,397,860</b>	<b>137,086</b>	<b>5,534,946</b>	<b>5,589,016</b>	<b>191,156</b>
<b>Expenditures and Uses:</b>					
Governmental direction and support	340,858	9,380	350,238	333,547	7,311
Economic development and regulation	328,158	33,566	361,724	251,762	76,396
Public safety and justice	827,036	76,010	903,046	894,748	(67,712)
Public education system	1,189,303	(68,815)	1,120,488	1,101,639	87,664
Public education AY07 expenditure	-	69,064	69,064	69,064	(69,064)
Human support services	1,307,530	106,325	1,413,855	1,389,575	(82,045)
Public works	366,101	7,976	374,077	363,798	2,303
Workforce investments	61,110	(51,548)	9,562	-	61,110
Wilson building	3,740	310	4,050	3,830	(90)
Repay bonds and interest	370,778	(615)	370,163	370,128	650
Bond fiscal charge	40,000	-	40,000	9,196	30,804
Interest on short term borrowing	5,500	1,150	6,650	6,650	(1,150)
Certificates of participation	11,000	-	11,000	10,941	59
Settlements and judgments fund	20,655	9,301	29,956	29,956	(9,301)
Tax increment financing	-	1,468	1,468	1,423	(1,423)
Equipment lease operating	27,441	(1,351)	26,090	24,574	2,867
Pay-go capital	260,883	4,140	265,023	265,023	(4,140)
Schools modernization fund	12,208	(12,200)	8	-	12,208
District retiree health contribution	138,000	-	138,000	138,000	-
Cash reserve	50,000	(47,731)	2,269	-	50,000
Non-departmental agency	36,286	(33,020)	3,266	-	36,286
<b>Total Expenditures and Uses</b>	<b>5,396,587</b>	<b>103,410</b>	<b>5,499,997</b>	<b>5,263,854</b>	<b>132,733</b>
<b>Excess of Revenues and Sources Over Expenditures and Uses</b>	<b>\$ 1,273</b>	<b>33,676</b>	<b>34,949</b>	<b>325,162</b>	<b>323,889</b>

See Accompanying Independent Auditors' Report.

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**NONMAJOR GOVERNMENTAL FUNDS****Special Revenue Funds**

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

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

The **Baseball Project Fund** under the Special Revenue Funds is used to account for the proceeds of baseball related revenue sources that are legally restricted to expenditures for baseball project purposes.

**Debt Service Fund**

The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of ballpark revenue bonds.

**Capital Project Fund**

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

Exhibit B-1

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET**  
September 30, 2006  
(With Comparative Totals at September 30, 2005)  
(\$000s)

	Special Revenue Funds					Capital		Totals
	Tax Increment Financing Program	Tobacco Settlement Financing Corporation	Baseball Project	Debt Service Fund	Project Fund	Highway Trust		
<b>ASSETS</b>								
<b>Current Assets:</b>								
Cash and cash equivalents	\$ 1,008	\$ 279	\$ -	\$ -	\$ -	\$ -	\$ 1,287	\$ 17,780
Receivables (net of allowances for uncollectibles):								
Taxes	-	-	-	-	-	-	-	1,893
Accounts	17	27,150	1,064	-	2,589	-	30,820	26,029
Due from other District entities	-	-	490	-	-	-	490	30
Interfund	-	-	2,170	-	9,711	-	11,881	3,956
Accrued interest	-	108	-	-	-	-	108	66
Other current assets	-	-	-	-	127	-	127	-
Restricted cash and cash equivalents	14,220	67,881	46,419	-	6,174	-	134,694	110,839
<b>Total assets</b>	<b>\$ 15,245</b>	<b>\$ 95,418</b>	<b>\$ 50,143</b>	<b>\$ -</b>	<b>\$ 18,601</b>	<b>\$ -</b>	<b>\$ 179,407</b>	<b>\$ 160,593</b>

**LIABILITIES AND FUND BALANCE**

<b>Current Liabilities:</b>								
Payables:								
Accounts	\$ -	\$ -	\$ -	\$ -	\$ 7,680	\$ -	\$ 7,680	\$ 3,363
Compensation payable	-	-	-	-	133	-	133	12
Deferred revenue	-	-	170	-	49	-	219	172
Due to other funds	-	-	-	-	3,538	-	3,538	1,152
Due to other District entities	-	-	-	-	-	-	-	3,123
Accrued liabilities	-	68	-	-	-	-	68	76
<b>Total liabilities</b>	<b>-</b>	<b>68</b>	<b>170</b>	<b>-</b>	<b>11,400</b>	<b>-</b>	<b>11,638</b>	<b>7,898</b>
<b>Fund Balance:</b>								
Reserved for special revenue funds	15,245	95,350	49,973	-	-	-	160,568	131,964
Reserved for capital project fund	-	-	-	-	7,201	-	7,201	20,731
<b>Total fund balances</b>	<b>15,245</b>	<b>95,350</b>	<b>49,973</b>	<b>-</b>	<b>7,201</b>	<b>-</b>	<b>167,769</b>	<b>152,695</b>
<b>Total liabilities and fund balances</b>	<b>\$ 15,245</b>	<b>\$ 95,418</b>	<b>\$ 50,143</b>	<b>\$ -</b>	<b>\$ 18,601</b>	<b>\$ -</b>	<b>\$ 179,407</b>	<b>\$ 160,593</b>

See Accompanying Independent Auditors' Report.

Exhibit B-2

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
Year Ended September 30, 2006  
(With Comparative Totals for the Year Ended September 30, 2005)**

	Special Revenue Funds						Capital Project Fund		Totals
	Tax Increment Financing Program	Tobacco Settlement Financing Corporation	Baseball Project	Debt Service Fund	Highway Trust		2006	2005	
					2006	2005			
<b>Revenues:</b>									
Interest	\$ 455	\$ 3,182	\$ 2,639	\$ -	\$ 859	\$ 7,135	\$ 3,309		
Other	5,315	38,295	-	-	6,171	49,781	36,176		
Total revenues	5,770	41,477	2,639	-	7,030	56,916	39,485		
<b>Expenditures:</b>									
Current-									
Governmental direction and support	-	158	-	-	-	158	188		
Capital outlay	-	-	-	-	45,520	45,520	37,001		
Bond principal payment	7,219	4,720	-	-	-	11,939	10,484		
Other	-	-	1,105	-	-	1,105	41		
Interest	5,348	32,224	-	6,033	-	43,605	37,407		
Fiscal charges	-	-	13,444	-	-	13,444	-		
Total expenditures	12,567	37,102	14,549	6,033	45,520	115,771	85,121		
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(6,797)</b>	<b>4,375</b>	<b>(11,910)</b>	<b>(6,033)</b>	<b>(38,490)</b>	<b>(58,855)</b>	<b>(45,636)</b>		
<b>Other Financing Sources (Uses):</b>									
Bond issuance	13,996	248,264	5,286	-	-	267,546	89		
Premium on sale of bonds	-	-	8,314	-	-	8,314	-		
Other charge	(13,996)	-	-	-	-	(13,996)	-		
Transfers in	13,214	-	37,026	6,033	24,960	81,233	81,336		
Transfers out	-	(248,264)	(20,904)	-	-	(269,168)	(3,412)		
Total other financing sources	13,214	-	29,722	6,033	24,960	73,929	78,013		
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>	<b>6,417</b>	<b>4,375</b>	<b>17,812</b>	<b>-</b>	<b>(13,530)</b>	<b>15,074</b>	<b>32,377</b>		
<b>Fund Balances at October 1</b>	<b>8,828</b>	<b>90,975</b>	<b>32,161</b>	<b>-</b>	<b>20,731</b>	<b>152,695</b>	<b>120,318</b>		
<b>Fund Balances at September 30</b>	<b>\$ 15,245</b>	<b>\$ 95,350</b>	<b>\$ 49,973</b>	<b>\$ -</b>	<b>\$ 7,201</b>	<b>\$ 167,769</b>	<b>\$ 152,695</b>		

See Accompanying Independent Auditors' Report.

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### FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the District in a trustee or agency capacity. These assets cannot be used to support the District's programs. The District has the following Fiduciary Funds:

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

The **Private Purpose Trust Fund** is used to account for the District's sponsored college tuition savings plan.

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

## Exhibit C-1

**PENSION TRUST FUNDS**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
**September 30, 2006**  
**(With Comparative Totals at September 30, 2005)**  
**(\$000s)**

	Police and Fire	Teachers	Totals	
			2006	2005
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents - restricted	\$ 94,771	\$ 52,814	\$ 147,585	\$ 329,173
Investments - restricted	2,502,870	1,394,814	3,897,684	3,167,371
Receivables:				
Benefit contribution	955	1,630	2,585	-
Other current assets	-	-	-	1,882
Due from other funds	109	61	170	-
Capital assets	51	30	81	136
<b>Total assets</b>	<b>2,598,756</b>	<b>1,449,349</b>	<b>4,048,105</b>	<b>3,498,562</b>
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Payables:				
Accounts	14,044	16,483	30,527	23,966
Securities lending	274,501	153,727	428,228	354,912
Due to other funds	-	-	-	4,071
<b>Total liabilities</b>	<b>288,545</b>	<b>170,210</b>	<b>458,755</b>	<b>382,949</b>
<b>NET ASSETS</b>				
<b>Net Assets</b>				
<b>Held in trust for pension benefits</b>	<b>\$ 2,310,211</b>	<b>\$ 1,279,139</b>	<b>\$ 3,589,350</b>	<b>\$ 3,115,613</b>

See Accompanying Independent Auditors' Report.

Exhibit C-2

**PENSION TRUST FUNDS**  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**For the Year Ended September 30, 2006**  
**(With Comparative Totals for the Year Ended September 30, 2005)**  
**(\$000s)**

	Police and Fire	Teachers	Totals	
			2006	2005
<b>Additions:</b>				
Benefit contributions:				
Employer	\$ 117,500	\$ 15,500	\$ 133,000	\$ 121,300
Plan members	25,142	25,807	50,949	48,582
Investment income:				
<i>From investment activities</i>				
Interest and dividends	70,452	37,384	107,836	91,653
Net appreciation in fair value of investments	148,175	86,084	234,259	288,986
Less - investment expenses	(7,143)	(3,685)	(10,828)	(8,679)
Net income from investing activities	<u>211,484</u>	<u>119,783</u>	<u>331,267</u>	<u>371,960</u>
<i>From securities lending activities</i>				
Securities lending income	13,043	7,121	20,164	9,287
Less: securities lending expenses	(12,438)	(6,790)	(19,228)	(8,399)
Net income from securities lending activities	<u>605</u>	<u>331</u>	<u>936</u>	<u>888</u>
Total net investment income	<u>212,089</u>	<u>120,114</u>	<u>332,203</u>	<u>372,848</u>
Total additions	<u>354,731</u>	<u>161,421</u>	<u>516,152</u>	<u>542,730</u>
<b>Deductions:</b>				
Administrative expenses	1,817	1,010	2,827	5,999
Benefit payments	15,795	23,793	39,588	34,433
Total deductions	<u>17,612</u>	<u>24,803</u>	<u>42,415</u>	<u>40,432</u>
<b>Change in net assets</b>	<b>337,119</b>	<b>136,618</b>	<b>473,737</b>	<b>502,298</b>
<b>Net assets held in trust for pension benefits:</b>				
October 1	<u>1,973,092</u>	<u>1,142,521</u>	<u>3,115,613</u>	<u>2,613,315</u>
September 30	<u>\$ 2,310,211</u>	<u>\$ 1,279,139</u>	<u>\$ 3,589,350</u>	<u>\$ 3,115,613</u>

See Accompanying Independent Auditors' Report.

## Exhibit C-3

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**For the Year Ended September 30, 2006**  
**(\$000s)**

	Balance October 1 2005	Additions	Deductions	Balance September 30 2006
<b>ASSETS</b>				
Cash and cash equivalents - restricted	\$ 134,274	\$ 886,507	\$ 741,686	\$ 279,095
Due from other funds	930	1,709	-	2,639
Other receivables	839	707,830	708,146	523
<b>Total assets</b>	<b>\$ 136,043</b>	<b>\$ 1,596,046</b>	<b>\$ 1,449,832</b>	<b>\$ 282,257</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 14,298	\$ 246,650	\$ 108,394	\$ 152,554
Other current liabilities	121,745	339,280	331,322	129,703
<b>Total liabilities</b>	<b>\$ 136,043</b>	<b>\$ 585,930</b>	<b>\$ 439,716</b>	<b>\$ 282,257</b>

See Accompanying Independent Auditors' Report.

**SUPPORTING SCHEDULES**

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

## Exhibit D-1

**FINANCIAL REPORTING ENTITY**  
**SCHEDULE OF BUDGETARY BASIS EXPENDITURES**  
**Year Ended September 30, 2006**  
**(\$000s)**

	Budget		Actual	Variance
	Original	Revised		
<b>Governmental direction and support:</b>				
City Council	\$ 14,039	14,038	13,430	608
DC Auditor	2,009	2,008	1,928	80
Advisory neighborhood commissions	976	981	956	25
Mayor	13,343	14,405	13,468	937
Executive secretary	4,241	3,534	3,084	450
Citywide call center	353	399	328	71
City administrator	173,296	186,961	106,173	80,788
Risk management	1,865	1,946	1,634	312
Personnel	10,950	11,295	9,198	2,097
Human resource development	2,000	2,038	1,566	472
Finance and resource management	10,630	10,630	9,688	942
Contracts and procurement	12,989	13,324	12,602	722
Chief technology officer	39,422	46,704	46,517	187
Property management	19,551	19,508	15,908	3,600
Contract appeals	806	848	746	102
Elections and ethics	5,042	7,060	6,502	558
Campaign finance	1,374	1,460	1,354	106
Public employee relations	801	863	767	96
Employee appeals	1,589	1,669	1,578	91
Council of governments	440	440	440	-
Corporation counsel	63,884	64,793	61,000	3,793
Inspector general	12,942	13,324	12,490	834
Chief financial officer	120,291	120,650	120,167	483
<b>Total governmental direction and support</b>	<b>512,833</b>	<b>538,878</b>	<b>441,524</b>	<b>97,354</b>
<b>Economic development and regulation:</b>				
Business services and economic development	42,980	47,981	35,425	12,556
Office of planning	6,673	6,772	6,383	389
Local business development	1,438	2,288	1,698	590
Motion picture and television development	579	594	536	58
Office of zoning	2,902	2,902	2,602	300
Housing and community development	210,710	251,957	151,942	100,015
Alcoholic beverage regulation administration	4,702	4,113	3,158	955
Employment services	90,514	95,362	77,280	18,082
Real property assessment and appeals	431	431	408	23
Consumer and regulatory affairs	40,145	50,983	41,515	9,468
Commission on arts & humanities	9,898	9,413	9,158	255
Anacostia waterfront corp	-	8,000	8,000	-
Public services commission	7,977	10,568	10,417	151
Office of people's counsel	4,306	4,406	4,239	167
Insurance regulation	14,158	14,308	13,157	1,151
Housing authority subsidy	4,003	10,903	10,903	-
Office of cable TV	5,054	6,302	5,385	917
<b>Total economic development and regulation</b>	<b>446,470</b>	<b>527,283</b>	<b>382,206</b>	<b>145,077</b>
<b>Public safety and justice:</b>				
Police	372,089	441,215	440,074	1,141
Fire and emergency medical services	155,900	158,503	157,674	829
Police and firefighter retirement contribution	117,500	117,500	117,500	-
Corrections	130,751	138,036	135,207	2,829
National guard	3,428	3,956	3,207	749
Emergency preparedness	5,495	5,599	5,140	459
Judicial disabilities and tenure	218	227	227	-
Judicial nomination	126	131	122	9
Citizen complaint review board	2,095	2,095	2,082	13
Advisory commission on sentencing	662	662	651	11
Office of the chief medical examiner	9,264	9,240	8,548	692
Office of administrative hearings	5,893	5,893	5,580	313
Corrections information council	155	155	-	155
Criminal justice coordinating council	1,576	1,413	1,341	72
Forensic health and science laboratory	800	800	516	284
Emergency and disaster	-	414	-	414
Office of unified communications	31,662	31,696	28,547	3,149
<b>Total public safety and justice</b>	<b>837,614</b>	<b>917,535</b>	<b>906,416</b>	<b>11,119</b>

(Continued)

Exhibit D-1

**FINANCIAL REPORTING ENTITY**  
**SCHEDULE OF BUDGETARY BASIS EXPENDITURES**

Year Ended September 30, 2006  
(\$000s)

	Budget		Actual	Variance
	Original	Revised		
<b>Public education system:</b>				
Public schools	979,038	961,127	945,637	15,490
AY07 public school expenditure	-	2,943	2,943	-
Teachers' retirement system	15,500	15,500	15,431	69
State education office	90,987	94,182	84,207	9,975
Public charter schools	239,284	167,076	161,069	6,007
AY07 public charter school expenditure	-	66,121	66,121	-
University	57,873	61,266	61,266	-
Public library	34,153	36,256	35,679	577
District educational investment fund	21,000	-	-	-
District charter schools investment fund	4,200	1,090	-	1,090
<b>Total public education system</b>	<b>1,442,035</b>	<b>1,405,561</b>	<b>1,372,353</b>	<b>33,208</b>
<b>Human support services:</b>				
Human development	413,818	441,752	438,374	3,378
Child and family services	192,477	197,927	194,002	3,925
Dept of mental health	186,627	204,062	201,873	2,189
Health	1,720,485	1,783,134	1,670,390	112,744
Recreation and parks	43,890	45,582	44,881	701
Aging	21,190	21,592	21,465	127
Unemployment compensation contribution	7,125	6,349	5,056	1,293
Employee disability compensation	30,281	28,751	28,751	-
Human rights	5,032	3,519	3,024	495
Children investment trust	8,068	9,249	9,249	-
Latino affairs	3,655	3,679	3,652	27
Energy	20,820	21,294	20,864	430
Asian and pacific islander affairs	540	625	606	19
Veterans' affairs	251	292	266	26
Depart of youth rehabilitation services	59,090	69,101	68,157	944
<b>Total human support services</b>	<b>2,713,349</b>	<b>2,836,908</b>	<b>2,710,610</b>	<b>126,298</b>
<b>Public works:</b>				
Public works	95,044	102,365	100,633	1,732
Department of transportation	38,791	40,007	38,134	1,873
Department of motor vehicles	46,368	45,828	38,056	7,772
Taxicab commission	1,362	1,389	1,149	240
Washington metropolitan area transit commission	110	110	110	-
Washington metropolitan area transit authority	187,632	187,632	187,615	17
School transit subsidy	5,169	5,169	5,169	-
<b>Total public works</b>	<b>374,476</b>	<b>382,500</b>	<b>370,866</b>	<b>11,634</b>
<b>Other:</b>				
Repayment of bonds and interest	370,778	370,163	370,128	35
Bond fiscal charge paid from bond proceeds	40,000	40,000	9,196	30,804
Interest on short term borrowing	5,500	6,650	6,650	-
Certificates of participation	11,000	11,000	10,941	59
Settlements and judgments	20,655	29,956	29,956	-
Emergency planning and security costs	-	4,196	4,196	-
Wilson Building	3,740	4,050	3,830	220
Workforce investment	61,110	9,562	-	9,562
Tax increment financing	-	1,468	1,423	45
Equipment lease operating	27,441	26,090	24,574	1,516
Pay-go capital	260,883	265,023	265,023	-
Schools modernization fund	12,208	8	-	8
District retiree health contribution	138,000	138,000	138,000	-
Cash reserve	50,000	2,269	-	2,269
Non-departmental agency	36,286	3,266	-	3,266
Storm water	6,673	6,673	-	6,673
Retirement board administration	30,078	30,078	17,559	12,519
Housing finance agency	-	6,070	-	6,070
National capital revitalization corporation	-	52,731	-	52,731
<b>Total other</b>	<b>1,074,352</b>	<b>1,007,253</b>	<b>881,476</b>	<b>125,777</b>
<b>Total budget</b>	<b>\$ 7,401,129</b>	<b>7,615,918</b>	<b>7,065,451</b>	<b>550,467</b>

See Accompanying Independent Auditors' Report.

## Exhibit D-2

**FINANCIAL REPORTING ENTITY**  
**SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS**  
**Year Ended September 30, 2006**  
**(\$000s)**

	Local Source				Federal Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
<b>Governmental direction and support:</b>								
City Council	\$ 14,039	14,038	13,430	608	-	-	-	-
DC Auditor	2,009	2,008	1,928	80	-	-	-	-
Advisory neighborhood commissions	976	981	956	25	-	-	-	-
Mayor	7,466	10,983	10,314	669	5,877	3,241	2,990	251
Executive secretary	3,825	3,092	2,898	194	-	-	-	-
Citywide call center	353	399	328	71	-	-	-	-
City administrator	8,900	11,927	11,726	201	147,235	163,608	84,948	78,660
Risk management	1,865	1,946	1,634	312	-	-	-	-
Personnel	10,407	10,752	8,944	1,808	-	-	-	-
Human resource development	2,000	2,038	1,566	472	-	-	-	-
Finance and resource management	9,782	9,782	9,688	94	-	-	-	-
Contracts and procurement	12,089	12,424	12,076	348	-	-	-	-
Chief technology officer	39,422	46,528	46,515	13	-	176	2	174
Property management	15,926	15,784	13,970	1,814	-	99	17	82
Contract appeals	806	848	746	102	-	-	-	-
Elections and ethics	5,042	5,207	4,684	523	-	1,853	1,818	35
Campaign finance	1,374	1,460	1,354	106	-	-	-	-
Public employee relations	801	863	767	96	-	-	-	-
Employee appeals	1,589	1,669	1,578	91	-	-	-	-
Council of governments	440	440	440	-	-	-	-	-
Corporation counsel	40,805	41,452	40,727	725	16,635	16,897	15,963	934
Inspector general	11,646	11,966	11,279	687	1,296	1,358	1,211	147
Chief financial officer	105,069	105,598	105,555	43	932	1,201	846	355
<b>Total governmental direction and support</b>	<b>296,631</b>	<b>312,185</b>	<b>303,103</b>	<b>9,082</b>	<b>171,975</b>	<b>188,433</b>	<b>107,795</b>	<b>80,638</b>
<b>Economic development and regulation:</b>								
Business services and economic development	13,681	18,332	16,996	1,336	-	350	137	213
Office of planning	6,223	6,223	5,918	305	450	494	415	79
Local business development	1,438	2,288	1,698	590	-	-	-	-
Motion picture and television development	579	594	536	58	-	-	-	-
Office of zoning	2,902	2,902	2,602	300	-	-	-	-
Housing and community development	2,031	2,031	1,797	234	84,294	126,541	100,557	25,984
Alcoholic beverage regulation administration	-	-	-	-	-	-	-	-
Employment services	35,208	34,726	31,815	2,911	32,772	37,102	28,491	8,611
Real property assessment and appeals	431	431	408	23	-	-	-	-
Consumer and regulatory affairs	26,581	28,119	26,982	1,137	-	-	-	-
Commission on arts & humanities	8,552	8,552	8,490	62	546	567	563	4
Anacostia waterfront corp	-	8,000	8,000	-	-	-	-	-
Public services commission	-	2,053	2,053	-	125	175	140	35
Office of people's counsel	-	-	-	-	-	-	-	-
Insurance regulation	-	-	-	-	-	-	-	-
Housing authority subsidy	4,003	10,903	10,903	-	-	-	-	-
Office of cable TV	-	-	-	-	-	-	-	-
<b>Total economic development and regulation</b>	<b>101,629</b>	<b>125,154</b>	<b>118,198</b>	<b>6,956</b>	<b>118,187</b>	<b>165,229</b>	<b>130,303</b>	<b>34,926</b>
<b>Public safety and justice:</b>								
Police	353,774	418,755	418,560	195	6,154	9,097	8,254	843
Fire and emergency medical services	155,889	158,039	157,228	811	-	453	446	7
Police and firefighter retirement contribution	117,500	117,500	117,500	-	-	-	-	-
Corrections	104,996	112,199	109,832	2,367	-	82	-	82
National guard	2,187	2,488	2,329	159	1,241	1,468	878	590
Emergency preparedness	3,621	4,411	4,377	34	1,874	1,188	763	425
Judicial disabilities and tenure	218	227	227	-	-	-	-	-
Judicial nomination	126	131	122	9	-	-	-	-
Citizen complaint review board	2,095	2,095	2,082	13	-	-	-	-
Advisory commission on sentencing	662	662	651	11	-	-	-	-
Office of the Chief Medical Examiner	9,129	9,105	8,468	637	-	-	-	-
Office of administrative hearings	5,710	5,710	5,580	130	-	-	-	-
Corrections information council	155	155	-	155	-	-	-	-
Criminal justice coordinating council	276	294	275	19	1,300	1,019	992	27
Forensic health and science laboratory	800	800	516	284	-	-	-	-
Emergency and disaster	-	-	-	-	-	414	-	414
Office of unified communications	12,647	13,224	12,228	996	-	-	-	-
<b>Total public safety and justice</b>	<b>769,785</b>	<b>845,795</b>	<b>839,975</b>	<b>5,820</b>	<b>10,569</b>	<b>13,721</b>	<b>11,333</b>	<b>2,388</b>



Exhibit D-2

**FINANCIAL REPORTING ENTITY**  
**SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS**  
**Year Ended September 30, 2006**  
**(\$000s)**

	Private Grants				Other Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
<b>Governmental direction and support:</b>								
City Council	\$ -	-	-	-	-	-	-	-
DC Auditor	-	-	-	-	-	-	-	-
Advisory neighborhood commissions	-	-	-	-	-	-	-	-
Mayor	-	181	164	17	-	-	-	-
Executive secretary	-	26	18	8	416	416	168	248
Citywide call center	-	-	-	-	-	-	-	-
City administrator	-	-	-	-	17,161	11,426	9,499	1,927
Risk management	-	-	-	-	-	-	-	-
Personnel	-	-	-	-	543	543	254	289
Human resource development	-	-	-	-	-	-	-	-
Finance and resource management	-	-	-	-	848	848	-	848
Contracts and procurement	-	-	-	-	900	900	526	374
Chief technology officer	-	-	-	-	-	-	-	-
Property management	-	-	-	-	3,625	3,625	1,921	1,704
Contract appeals	-	-	-	-	-	-	-	-
Elections and ethics	-	-	-	-	-	-	-	-
Campaign finance	-	-	-	-	-	-	-	-
Public employee relations	-	-	-	-	-	-	-	-
Employee appeals	-	-	-	-	-	-	-	-
Council of governments	-	-	-	-	-	-	-	-
Corporation counsel	-	-	-	-	6,444	6,444	4,310	2,134
Inspector general	-	-	-	-	-	-	-	-
Chief financial officer	-	-	-	-	14,290	13,851	13,766	85
<b>Total governmental direction and support</b>	<b>-</b>	<b>207</b>	<b>182</b>	<b>25</b>	<b>44,227</b>	<b>38,053</b>	<b>30,444</b>	<b>7,609</b>
<b>Economic development and regulation:</b>								
Business services and economic development	-	-	-	-	29,299	29,299	18,292	11,007
Office of planning	-	55	50	5	-	-	-	-
Local business development	-	-	-	-	-	-	-	-
Motion picture and television development	-	-	-	-	-	-	-	-
Office of zoning	-	-	-	-	-	-	-	-
Housing and community development	-	-	-	-	124,385	123,385	49,588	73,797
Alcoholic beverage regulation administration	-	-	-	-	4,702	4,113	3,158	955
Employment services	-	-	-	-	22,534	23,534	16,974	6,560
Real property assessment and appeals	-	-	-	-	-	-	-	-
Consumer and regulatory affairs	-	-	-	-	13,564	22,864	14,533	8,331
Commission on arts & humanities	-	-	-	-	800	294	105	189
Anacostia waterfront corp	-	-	-	-	-	-	-	-
Public services commission	125	125	91	34	7,727	8,215	8,133	82
Office of people's counsel	-	-	-	-	4,306	4,406	4,239	167
Insurance regulation	-	150	-	150	14,158	14,158	13,157	1,001
Housing authority subsidy	-	-	-	-	-	-	-	-
Office of cable TV	-	-	-	-	5,054	6,302	5,385	917
<b>Total economic development and regulation</b>	<b>125</b>	<b>330</b>	<b>141</b>	<b>189</b>	<b>226,529</b>	<b>236,570</b>	<b>133,564</b>	<b>103,006</b>
<b>Public safety and justice:</b>								
Police	-	353	261	92	12,161	13,010	12,999	11
Fire and emergency medical services	9	9	-	9	2	2	-	2
Police and firefighter retirement contribution	-	-	-	-	-	-	-	-
Corrections	-	-	-	-	25,755	25,755	25,375	380
National guard	-	-	-	-	-	-	-	-
Emergency preparedness	-	-	-	-	-	-	-	-
Judicial disabilities and tenure	-	-	-	-	-	-	-	-
Judicial nomination	-	-	-	-	-	-	-	-
Citizen complaint review board	-	-	-	-	-	-	-	-
Advisory commission on sentencing	-	-	-	-	-	-	-	-
Office of the Chief Medical Examiner	-	-	-	-	135	135	80	55
Office of administrative hearings	-	-	-	-	183	183	-	183
Corrections information council	-	-	-	-	-	-	-	-
Criminal justice coordinating council	-	100	74	26	-	-	-	-
Forensic health and science laboratory	-	-	-	-	-	-	-	-
Emergency and disaster	-	-	-	-	-	-	-	-
Office of unified communications	-	306	-	306	19,015	18,166	16,319	1,847
<b>Total public safety and justice</b>	<b>9</b>	<b>768</b>	<b>335</b>	<b>433</b>	<b>57,251</b>	<b>57,251</b>	<b>54,773</b>	<b>2,478</b>

(Continued)

Exhibit D-2

**FINANCIAL REPORTING ENTITY  
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS  
Year Ended September 30, 2006  
(\$000s)**

	Local Source				Federal Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
<b>Public education system:</b>								
Public schools	\$ 794,245	816,346	812,830	3,516	173,347	131,520	123,653	7,867
AY07 public school expenditure	-	2,943	2,943	-	-	-	-	-
Teachers' retirement contribution	15,500	15,500	15,431	69	-	-	-	-
State education office	13,085	13,004	12,684	320	73,609	76,881	71,448	5,433
Public charter schools	239,284	167,076	161,069	6,007	-	-	-	-
AY07 public charter school expenditure	-	66,121	66,121	-	-	-	-	-
Univervst	57,873	61,266	61,266	-	-	-	-	-
Public library	32,412	34,502	34,465	37	1,000	826	826	-
District educational investment fund	21,000	-	-	-	-	-	-	-
District charter schools investment fund	4,200	1,090	-	1,090	-	-	-	-
<b>Total public education system</b>	<b>1,177,599</b>	<b>1,177,848</b>	<b>1,166,809</b>	<b>11,039</b>	<b>247,956</b>	<b>209,227</b>	<b>195,927</b>	<b>13,300</b>
<b>Human support services:</b>								
Human development	224,433	253,922	253,856	66	186,385	176,983	176,041	942
Child and family services	152,843	166,525	165,874	651	38,470	29,814	26,694	3,120
Dept of mental health	179,767	196,798	196,723	75	3,052	3,396	2,783	613
Health	546,305	564,728	561,762	2,966	1,149,553	1,184,450	1,088,156	96,294
Recreation and parks	41,349	42,771	42,674	97	-	121	119	2
Aging	14,744	14,808	14,681	127	6,446	6,784	6,784	-
Unemployment compensation contribution	7,125	6,349	5,036	1,293	-	-	-	-
Employee disability compensation	30,281	28,751	28,751	-	-	-	-	-
Human rights	2,285	2,399	2,322	77	2,747	1,120	702	418
Children investment trust	8,068	9,249	9,249	-	-	-	-	-
Latino affairs	3,655	3,679	3,652	27	-	-	-	-
Energy	2,940	2,944	2,934	10	7,863	9,683	9,488	195
Asian and pacific islander affairs	540	625	606	19	-	-	-	-
Veterans' affairs	251	292	266	26	-	-	-	-
Depart of youth rehabilitation services	59,090	69,101	68,157	944	-	-	-	-
<b>Total human support services</b>	<b>1,273,676</b>	<b>1,262,941</b>	<b>1,356,563</b>	<b>6,378</b>	<b>1,394,516</b>	<b>1,412,351</b>	<b>1,310,767</b>	<b>101,584</b>
<b>Public works:</b>								
Public works	91,572	97,622	97,588	34	-	-	-	-
Department of transportation	-	1,805	1,805	-	8,375	7,316	5,961	1,355
Department of motor vehicles	31,069	31,669	29,327	2,342	-	637	637	-
Taxicab commission	822	849	658	191	-	-	-	-
Washington metropolitan area transit commission	110	110	110	-	-	-	-	-
Washington metropolitan area transit authority	187,632	187,632	187,615	17	-	-	-	-
School transit subsidy	5,169	5,169	5,169	-	-	-	-	-
<b>Total public works</b>	<b>316,374</b>	<b>324,856</b>	<b>322,272</b>	<b>2,584</b>	<b>8,375</b>	<b>7,953</b>	<b>6,598</b>	<b>1,355</b>
<b>Other:</b>								
Repayment of bonds and interest	370,778	370,163	370,128	35	-	-	-	-
Bond fiscal charge paid from bond proceeds	40,000	40,000	9,196	30,804	-	-	-	-
Interest on short term borrowing	5,500	6,650	6,650	-	-	-	-	-
Certificates of participation	11,000	11,000	10,941	59	-	-	-	-
Settlements and judgments	20,655	29,956	29,956	-	-	-	-	-
Emergency planning and security costs	-	-	-	-	-	4,196	4,196	-
Wilson Building	3,740	4,050	3,830	220	-	-	-	-
Workforce investment	61,110	9,562	-	9,562	-	-	-	-
Tax increment financing	-	1,468	1,423	45	-	-	-	-
Equipment lease operating	27,441	26,090	24,574	1,516	-	-	-	-
Pay-go capital	260,883	265,023	265,023	-	-	-	-	-
Schools modernization fund	12,208	8	-	8	-	-	-	-
District retiree health contribution	138,000	138,000	138,000	-	-	-	-	-
Cash reserve	50,000	2,269	-	2,269	-	-	-	-
Non-departmental agency	12,462	572	-	572	-	-	-	-
Storm water	-	-	-	-	-	-	-	-
Retirement board administration	-	-	-	-	-	-	-	-
Housing finance agency	-	-	-	-	-	-	-	-
National capital revitalization corporation	-	-	-	-	-	-	-	-
<b>Total other</b>	<b>1,013,777</b>	<b>904,811</b>	<b>859,721</b>	<b>45,090</b>	<b>-</b>	<b>4,196</b>	<b>4,196</b>	<b>-</b>
<b>Total budget</b>	<b>\$ 4,949,471</b>	<b>5,053,590</b>	<b>4,966,641</b>	<b>86,949</b>	<b>1,951,578</b>	<b>2,001,110</b>	<b>1,766,919</b>	<b>234,191</b>

See Accompanying Independent Auditors' Report.

Exhibit D-2

**FINANCIAL REPORTING ENTITY  
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS  
Year Ended September 30, 2006  
(S000s)**

	Private Grants				Other Source			
	Original Budget	Revised Budget	Actual	Variance	Original Budget	Revised Budget	Actual	Variance
<b>Public education system:</b>								
Public schools	\$ 4,666	6,481	5,704	777	6,780	6,780	3,450	3,330
AY07 public school expenditure	-	-	-	-	-	-	-	-
Teachers' retirement contribution	-	-	-	-	-	-	-	-
State education office	-	4	4	-	4,293	4,293	71	4,222
Public charter schools	-	-	-	-	-	-	-	-
AY07 public charter school expenditure	-	-	-	-	-	-	-	-
University	-	-	-	-	-	-	-	-
Public library	110	297	15	282	631	631	373	258
District educational investment fund	-	-	-	-	-	-	-	-
District charter schools investment fund	-	-	-	-	-	-	-	-
<b>Total public education system</b>	<b>4,776</b>	<b>6,782</b>	<b>5,723</b>	<b>1,059</b>	<b>11,704</b>	<b>11,704</b>	<b>3,894</b>	<b>7,810</b>
<b>Human support services:</b>								
Human development	-	-	-	-	3,000	10,847	8,477	2,370
Child and family services	414	838	684	154	750	750	750	-
Dept of mental health	-	60	16	44	3,808	3,808	2,351	1,457
Health	95	211	127	84	24,532	33,745	20,345	13,400
Recreation and parks	941	1,090	1,069	21	1,600	1,600	1,019	581
Aging	-	-	-	-	-	-	-	-
Unemployment compensation contribution	-	-	-	-	-	-	-	-
Employee disability compensation	-	-	-	-	-	-	-	-
Human rights	-	-	-	-	-	-	-	-
Children investment trust	-	-	-	-	-	-	-	-
Latino affairs	-	-	-	-	-	-	-	-
Energy	9,853	8,503	8,372	131	164	164	70	94
Asian and pacific islander affairs	-	-	-	-	-	-	-	-
Veterans' affairs	-	-	-	-	-	-	-	-
Depart of youth rehabilitation services	-	-	-	-	-	-	-	-
<b>Total human support services</b>	<b>11,303</b>	<b>10,702</b>	<b>10,268</b>	<b>434</b>	<b>33,854</b>	<b>50,914</b>	<b>33,012</b>	<b>17,902</b>
<b>Public works:</b>								
Public works	-	-	-	-	3,472	4,743	3,045	1,698
Department of transportation	-	470	470	-	30,416	30,416	29,898	518
Department of motor vehicles	-	-	-	-	15,299	13,522	8,092	5,430
Taxicab commission	-	-	-	-	540	540	491	49
Washington metropolitan area transit commission	-	-	-	-	-	-	-	-
Washington metropolitan area transit authority	-	-	-	-	-	-	-	-
School transit subsidy	-	-	-	-	-	-	-	-
<b>Total public works</b>	<b>-</b>	<b>470</b>	<b>470</b>	<b>-</b>	<b>49,727</b>	<b>49,221</b>	<b>41,526</b>	<b>7,695</b>
<b>Other:</b>								
Repayment of bonds and interest	-	-	-	-	-	-	-	-
Bond fiscal charge paid from bond proceeds	-	-	-	-	-	-	-	-
Interest on short term borrowing	-	-	-	-	-	-	-	-
Certificates of participation	-	-	-	-	-	-	-	-
Settlements and judgments	-	-	-	-	-	-	-	-
Emergency planning and security costs	-	-	-	-	-	-	-	-
Wilson Building	-	-	-	-	-	-	-	-
Workforce investment	-	-	-	-	-	-	-	-
Tax increment financing	-	-	-	-	-	-	-	-
Equipment lease operating	-	-	-	-	-	-	-	-
Pay-go capital	-	-	-	-	-	-	-	-
Schools modernization fund	-	-	-	-	-	-	-	-
District retiree health contribution	-	-	-	-	-	-	-	-
Cash reserve	-	-	-	-	-	-	-	-
Non-departmental agency	-	-	-	-	23,824	2,694	-	2,694
Storm water	-	-	-	-	6,673	6,673	-	6,673
Retirement board administration	-	-	-	-	30,078	30,078	17,559	12,519
Housing finance agency	-	-	-	-	-	6,070	-	6,070
National capital revitalization corporation	-	-	-	-	-	52,731	-	52,731
<b>Total other</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>60,575</b>	<b>98,246</b>	<b>17,559</b>	<b>80,687</b>
<b>Total budget</b>	<b>16,213</b>	<b>19,259</b>	<b>17,119</b>	<b>2,140</b>	<b>483,867</b>	<b>541,959</b>	<b>314,772</b>	<b>227,187</b>

## Exhibit D-3

**FINANCIAL REPORTING ENTITY**  
**SCHEDULE OF BUDGET REVISIONS**  
**Year Ended September 30, 2006**  
**(\$000s)**

	Local Source			Federal Resources		
	Original Budget	Reprogramming	Revised Budget	Original Budget	Reprogramming	Revised Budget
<b>Revenues and Sources:</b>						
Taxes:						
Property taxes	\$ 1,222,165	(58,498)	1,163,667	-	-	-
Sales and use taxes	866,129	(3,970)	862,159	-	-	-
Income taxes	1,391,345	174,359	1,565,704	-	-	-
Other taxes	577,255	(11,911)	565,344	-	-	-
Total taxes	4,056,894	99,980	4,156,874	-	-	-
Licenses and permits	66,470	1,938	68,408	-	-	-
Fines and forfeits	114,901	(4,264)	110,637	-	-	-
Charges for services	44,173	6,340	50,513	-	-	-
Miscellaneous	88,276	(2,608)	85,668	-	-	-
Other	-	-	-	-	-	-
Federal contributions	-	-	-	45,738	31,259	76,997
Operating grant	-	-	-	1,905,840	18,273	1,924,113
General obligation bonds	40,000	-	40,000	-	-	-
Fund balance released from restrictions	466,930	37,509	504,439	-	-	-
Transfer in from Lottery Board	73,100	(1,100)	72,000	-	-	-
Total revenues and sources	4,950,744	137,795	5,088,539	1,951,578	49,532	2,001,110
<b>Expenditures and Uses:</b>						
Governmental direction and support	296,631	15,554	312,185	171,975	16,458	188,433
Economic development and regulation	101,629	23,525	125,154	118,187	47,042	165,229
Public safety and justice	769,785	76,010	845,795	10,569	3,152	13,721
Public education system	1,177,599	(68,815)	1,108,784	247,956	(38,729)	209,227
Public education AY07 expenditure	-	69,064	69,064	-	-	-
Human support services	1,273,676	89,265	1,362,941	1,394,516	17,835	1,412,351
Public works	316,374	8,482	324,856	8,375	(422)	7,953
Workforce investments	61,110	(51,548)	9,562	-	-	-
Wilson Building	3,740	310	4,050	-	-	-
Repayment of bonds and interest	370,778	(615)	370,163	-	-	-
Bond fiscal charge paid from bond proceeds	40,000	-	40,000	-	-	-
Interest on short term borrowing	5,500	1,150	6,650	-	-	-
Certificates of participation	11,000	-	11,000	-	-	-
Tax increment financing	-	1,468	1,468	-	-	-
Equipment lease operating	27,441	(1,351)	26,090	-	-	-
Pay-go capital	260,883	4,140	265,023	-	-	-
Schools modernization fund	12,208	(12,200)	8	-	-	-
District retiree health contribution	138,000	-	138,000	-	-	-
Cash reserve	50,000	(47,731)	2,269	-	-	-
Non departmental	12,462	(11,890)	572	-	-	-
Emergency planning and security costs	-	-	-	-	4,196	4,196
Storm water	-	-	-	-	-	-
Retirement board administration	-	-	-	-	-	-
Housing finance agency	-	-	-	-	-	-
Settlements and judgments	20,655	9,301	29,956	-	-	-
National capital revitalization corporation	-	-	-	-	-	-
Total expenditures and uses	4,949,471	104,119	5,053,590	1,951,578	49,532	2,001,110
<b>Excess of Revenues and Sources Over Expenditures and Uses</b>	\$ 1,273	33,676	34,949	-	-	-

See Accompanying Independent Auditors' Report.

Exhibit D-3

**FINANCIAL REPORTING ENTITY  
SCHEDULE OF BUDGET REVISIONS  
Year Ended September 30, 2006  
(S000s)**

	Private and Other			Totals		
	Original Budget	Repro- gramming	Revised Budget	Original Budget	Repro- gramming	Revised Budget
<b>Revenues and Sources:</b>						
Taxes:						
Property taxes	\$ -	-	-	1,222,165	(58,498)	1,163,667
Sales and use taxes	-	-	-	866,129	(3,970)	862,159
Income taxes	-	-	-	1,391,345	174,359	1,565,704
Other taxes	-	-	-	577,255	(11,911)	565,344
Total taxes	-	-	-	4,056,894	99,980	4,156,874
Licenses and permits	-	-	-	66,470	1,938	68,408
Fines and forfeits	-	-	-	114,901	(4,264)	110,637
Charges for services	-	-	-	44,173	6,340	50,513
Miscellaneous	-	-	-	88,276	(2,608)	85,668
Other	304,760	213,206	517,966	304,760	213,206	517,966
Federal contributions	-	-	-	45,738	31,259	76,997
Operating grant	16,213	3,046	19,259	1,922,053	21,319	1,943,372
General obligation bonds	-	-	-	40,000	-	40,000
Fund balance released from restrictions	179,107	(155,114)	23,993	646,037	(117,605)	528,432
Transfer in from Lottery Board	-	-	-	73,100	(1,100)	72,000
<b>Total revenues and sources</b>	<b>500,080</b>	<b>61,138</b>	<b>561,218</b>	<b>7,402,402</b>	<b>248,465</b>	<b>7,650,867</b>
<b>Expenditures and Uses:</b>						
Governmental direction and support	44,227	(5,967)	38,260	512,833	26,045	538,878
Economic development and regulation	226,654	10,246	236,900	446,470	80,813	527,283
Public safety and justice	57,260	759	58,019	837,614	79,921	917,535
Public education system	16,480	2,006	18,486	1,442,035	(105,538)	1,336,497
Public education FY07 expenditure	-	-	-	-	69,064	69,064
Human support services	45,157	16,459	61,616	2,713,349	123,559	2,836,908
Public works	49,727	(36)	49,691	374,476	8,024	382,500
Workforce investments	-	-	-	61,110	(51,548)	9,562
Wilson Building	-	-	-	3,740	310	4,050
Repayment of bonds and interest	-	-	-	370,778	(615)	370,163
Bond fiscal charge paid from bond proceeds	-	-	-	40,000	-	40,000
Interest on short term borrowing	-	-	-	5,500	1,150	6,650
Certificates of participation	-	-	-	11,000	-	11,000
Tax increment financing	-	-	-	-	1,468	1,468
Equipment lease operating	-	-	-	27,441	(1,351)	26,090
Pay-go capital	-	-	-	260,883	4,140	265,023
Schools modernization fund	-	-	-	12,208	(12,200)	8
District retiree health contribution	-	-	-	138,000	-	138,000
Cash reserve	-	-	-	50,000	(47,731)	2,269
Non departmental	23,824	(21,130)	2,694	36,286	(33,020)	3,266
Emergency planning and security costs	-	-	-	-	4,196	4,196
Storm water	6,673	-	6,673	6,673	-	6,673
Retirement board administration	30,078	-	30,078	30,078	-	30,078
Housing finance agency	-	6,070	6,070	-	6,070	6,070
Settlements and judgments	-	-	-	20,655	9,301	29,956
National capital revitalization corporation	-	52,731	52,731	-	52,731	52,731
<b>Total expenditures and uses</b>	<b>500,080</b>	<b>61,138</b>	<b>561,218</b>	<b>7,401,129</b>	<b>214,789</b>	<b>7,615,918</b>
<b>Excess of Revenues and Sources Over Expenditures and Uses</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>1,273</b>	<b>33,676</b>	<b>34,949</b>

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# CAFR 2006



YEAR ENDED SEPTEMBER 30, 2006

## COMPREHENSIVE ANNUAL FINANCIAL REPORT



### STATISTICAL SECTION

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE CHIEF FINANCIAL OFFICER



## Statistical Section

This section contains statistical tables that reflect financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. These tables differ from the financial statements because they usually cover more than two fiscal years and may present non accounting data.

The Statistical Section is divided into 5 sections as follows:

<b>Section</b>	<b><u>Page</u></b>
<b>1. Financial Trends .....</b>	<b>129</b>
<b>2. Revenue Capacity .....</b>	<b>135</b>
<b>3. Debt Capacity .....</b>	<b>141</b>
<b>4. Demographic and Economic Information .....</b>	<b>145</b>
<b>5. Operating Information .....</b>	<b>147</b>



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## **1. Financial Trends**

These schedules contain trend information to better understand how the District's financial performance and well-being have changed over time.

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**Net Assets By Component**

**Last Five Fiscal Years**

(accrual basis of accounting, dollars in thousands)

<b>NET ASSETS</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Governmental activities</b>					
Invested in capital assets, net of related debt	\$ 656,901	\$ 518,223	\$ 774,533	\$ 1,069,731	\$ 958,597
Restricted	834,006	870,284	807,839	930,021	987,650
Unrestricted	(625,908)	(593,786)	(370,474)	(249,088)	167,779
<b>Total governmental activities net assets</b>	<b>864,999</b>	<b>794,721</b>	<b>1,211,898</b>	<b>1,750,664</b>	<b>2,114,026</b>
<b>Business-type activities</b>					
Invested in capital assets, net of related debt	1,495	1,354	17,927	16,183	17,391
Restricted	271,361	262,148	288,224	322,893	347,938
Unrestricted	1,990	37,442	34,829	34,968	29,000
<b>Total business-type activities net assets</b>	<b>274,846</b>	<b>300,944</b>	<b>340,980</b>	<b>374,044</b>	<b>394,329</b>
<b>Primary government</b>					
Invested in capital assets, net of related debt	658,396	519,577	792,460	1,085,914	975,988
Restricted	1,105,367	1,132,432	1,096,063	1,252,914	1,335,588
Unrestricted	(623,918)	(556,344)	(335,645)	(214,120)	196,779
<b>Total primary government net assets</b>	<b>\$ 1,139,845</b>	<b>\$ 1,095,665</b>	<b>\$ 1,552,878</b>	<b>\$ 2,124,708</b>	<b>\$ 2,508,355</b>

Note: As a result of GASB 34 implementation in FY2002, only five fiscal years are presented.

Source: Information was extracted from Exhibit I-a, Statement of Net Assets, Page 38.

**Changes in Net Assets  
Last Five Fiscal Years**

Exhibit S-1B

(accrual basis of accounting, dollars in thousands)

	2002	2003	2004	2005	2006
<b>Governmental activities</b>					
<b>Expenses</b>					
Governmental direction and support	\$ 471,609	\$ 525,072	\$ 554,614	\$ 641,964	\$ 574,097
Economic development and regulation	323,804	252,716	253,311	283,186	391,203
Public safety and justice	920,599	936,797	1,007,755	1,036,120	1,124,896
Public education system	1,153,719	1,168,545	1,301,807	1,374,538	1,486,112
Human support services	2,267,597	2,572,881	2,537,195	2,663,556	2,967,372
Public works	279,506	312,704	313,580	307,247	351,917
Public transportation	184,883	272,726	162,602	167,783	187,615
Interest on long-term debt	175,241	178,301	189,697	201,882	269,725
<b>Total governmental activities expenses</b>	<b>5,776,958</b>	<b>6,219,742</b>	<b>6,320,561</b>	<b>6,676,276</b>	<b>7,352,937</b>
<b>Program revenues</b>					
Charges for services, fees, fines & forfeitures:					
Fines and forfeitures	88,495	90,237	102,828	111,146	112,919
Licenses and permits	52,003	62,189	62,968	82,093	81,222
Charges for services	145,546	170,735	134,314	133,923	131,272
Operating grants & contributions	1,890,544	1,833,060	2,060,973	2,098,723	2,155,035
Capital grants & contributions	161,450	176,449	151,334	112,704	119,715
<b>Total governmental activities program revenues</b>	<b>2,338,038</b>	<b>2,332,670</b>	<b>2,512,417</b>	<b>2,538,589</b>	<b>2,600,163</b>
<b>Net expenses</b>	<b>(3,438,920)</b>	<b>(3,887,072)</b>	<b>(3,808,144)</b>	<b>(4,137,687)</b>	<b>(4,752,774)</b>
<b>General revenues</b>					
Taxes:					
Property taxes	809,069	899,665	1,017,653	1,150,672	1,272,998
Sales and use taxes	750,060	779,920	828,391	957,394	1,004,471
Income and franchise taxes	1,160,423	1,167,452	1,299,009	1,472,432	1,591,483
Gross receipts taxes	231,786	261,643	271,897	295,819	278,453
Other taxes	283,146	273,191	379,521	377,213	390,542
Grants and contributions - unrestricted	-	25,070	24,543	-	-
Investment earnings	19,283	13,341	16,211	39,811	73,207
Miscellaneous	333,943	325,529	314,596	311,662	431,182
Special items	(171,094)	-	-	-	-
Transfers	63,000	37,574	73,500	71,450	73,800
<b>Total governmental activities general revenues</b>	<b>3,479,616</b>	<b>3,783,385</b>	<b>4,225,321</b>	<b>4,676,453</b>	<b>5,116,136</b>
<b>Change in net assets --- governmental activities</b>	<b>\$ 40,696</b>	<b>\$ (103,687)</b>	<b>\$ 417,177</b>	<b>\$ 538,766</b>	<b>\$ 363,362</b>
<b>Business activities</b>					
<b>Expenses</b>					
Lottery and games	\$ 148,670	\$ 166,185	\$ 167,938	\$ 164,066	\$ 193,907
Unemployment compensation	191,043	165,045	113,888	92,728	102,749
Nursing home services	-	34,687	33,023	35,066	35,548
<b>Total business-type activities expenses</b>	<b>339,713</b>	<b>365,917</b>	<b>314,849</b>	<b>291,860</b>	<b>332,204</b>
<b>Program revenues</b>					
Charges for services, fees, fines & forfeitures:					
Lottery and games	211,151	237,890	241,133	234,931	266,391
Nursing home services	-	34,124	30,907	32,184	29,154
Operating grants & contributions	49,308	55,356	26,588	16,707	14,825
Capital grants & contributions	-	-	15,464	-	-
<b>Total business-type activities program revenues</b>	<b>260,459</b>	<b>327,370</b>	<b>314,092</b>	<b>283,822</b>	<b>310,370</b>
<b>Net expenses</b>	<b>(79,254)</b>	<b>(38,547)</b>	<b>(757)</b>	<b>(8,038)</b>	<b>(21,834)</b>
<b>General revenues</b>					
Taxes:					
Other taxes	104,945	82,626	97,196	92,985	95,888
Investment earnings	18,978	19,332	16,847	18,887	19,321
Miscellaneous	-	261.00	250.00	680	710
Transfers	(63,000)	(37,574)	(73,500)	(71,450)	(73,800)
<b>Total business-type activities general revenues</b>	<b>60,923</b>	<b>64,645</b>	<b>40,793</b>	<b>41,102</b>	<b>42,119</b>
<b>Change in net assets --- business-type activities</b>	<b>\$ (18,331)</b>	<b>\$ 26,098</b>	<b>\$ 40,036</b>	<b>\$ 33,064</b>	<b>\$ 20,285</b>
<b>Total primary government</b>					
<b>Expenses</b>	<b>\$ 6,116,671</b>	<b>\$ 6,585,659</b>	<b>\$ 6,635,410</b>	<b>\$ 6,968,136</b>	<b>\$ 7,685,141</b>
<b>Program revenues</b>	<b>2,598,497</b>	<b>2,660,040</b>	<b>2,820,257</b>	<b>2,822,411</b>	<b>2,910,533</b>
<b>Net (expenses)/revenues</b>	<b>(3,518,174)</b>	<b>(3,925,619)</b>	<b>(3,815,153)</b>	<b>(4,145,725)</b>	<b>(4,774,608)</b>
<b>General revenues</b>	<b>3,540,539</b>	<b>3,848,030</b>	<b>4,272,366</b>	<b>4,717,555</b>	<b>5,158,255</b>
<b>Change in net assets --- primary government</b>	<b>\$ 22,365</b>	<b>\$ (73,090)</b>	<b>\$ 457,213</b>	<b>\$ 571,830</b>	<b>\$ 383,647</b>

Note: As a result of GASB 34 implementation in FY2002, only five fiscal years are presented.

Source: Information was extracted from Exhibit 1-b, Statement of Activities, Page 39.

**Fund Balances, Governmental Funds  
Last Five Fiscal Years**

*(modified accrual basis of accounting, dollars in thousands)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>General Fund</b>					
Reserved	\$ 545,414	\$ 568,243	\$ 607,903	\$ 1,110,770	\$ 1,045,560
Unreserved	<u>319,914</u>	<u>329,114</u>	<u>607,112</u>	<u>473,913</u>	<u>389,582</u>
<b>Total general fund</b>	<u><u>865,328</u></u>	<u><u>897,357</u></u>	<u><u>1,215,015</u></u>	<u><u>1,584,683</u></u>	<u><u>1,435,142</u></u>
<b>All other governmental funds</b>					
Reserved, reported in:					
Special revenue funds	292,936	249,434	239,291	249,911	321,878
Capital project funds	148,760	52,607	43,914	86,530	732,602
Unreserved, reported in:					
Special revenue funds	31,751	-	-	-	-
Capital project funds	<u>(472,305)</u>	<u>(169,287)</u>	<u>(273,432)</u>	<u>(312,161)</u>	<u>-</u>
<b>Total all other governmental funds</b>	<u><u>\$ 1,142</u></u>	<u><u>\$ 132,754</u></u>	<u><u>\$ 9,773</u></u>	<u><u>\$ 24,280</u></u>	<u><u>\$ 1,054,480</u></u>

Note: As a result of GASB Statement No. 34 implementation in FY2002, only five fiscal years are presented.

Source: Information was extracted from Exhibit 2-a, Balance Sheet - Governmental Funds, Page 40.

**Changes in Fund Balances, Governmental Funds  
Last Five Fiscal Years**

Exhibit S-1D

(modified accrual basis of accounting, dollars in thousands)

	2002	2003	2004	2005	2006
<b>REVENUES</b>					
Taxes	\$ 3,229,809	\$ 3,384,093	\$ 3,806,906	\$ 4,251,191	\$ 4,472,845
Fines and forfeits	88,495	90,238	102,828	111,146	112,919
Licenses and permits	52,003	62,189	62,968	82,093	81,222
Charges for services	145,546	170,736	134,314	133,923	131,273
Investment earnings	19,283	13,341	16,211	39,811	73,206
Miscellaneous	332,861	320,460	305,039	311,573	489,067
Federal contributions	490,373	380,100	393,928	382,966	362,075
Operating grants	1,561,621	1,555,404	1,842,922	1,828,461	1,912,675
<b>Total revenues</b>	<b>5,919,991</b>	<b>5,976,561</b>	<b>6,665,116</b>	<b>7,141,164</b>	<b>7,635,282</b>
<b>EXPENDITURES</b>					
Governmental direction and support	366,981	415,591	483,185	590,344	611,620
Economic development and regulation	223,760	224,811	236,220	267,335	348,091
Public safety and justice	899,116	907,670	984,062	1,034,456	1,133,800
Public education system	1,143,281	1,155,297	1,284,448	1,340,767	1,439,510
Human support services	2,249,303	2,445,336	2,563,646	2,657,848	2,952,637
Public works	149,302	164,753	164,231	175,300	184,200
Public transportation	184,883	272,726	162,602	167,783	187,615
Debt service:					
Principal	138,575	149,792	152,086	183,845	205,654
Interest and other charges	189,006	178,301	189,697	202,387	225,195
Fiscal charges	-	15,338	13,721	9,277	31,958
Total debt service	327,581	343,431	355,504	395,509	462,807
<b>Subtotal expenditures</b>	<b>5,544,207</b>	<b>5,929,615</b>	<b>6,233,898</b>	<b>6,629,342</b>	<b>7,320,280</b>
Capital outlay	905,418	762,145	666,649	615,089	901,204
<b>Total expenditures</b>	<b>6,449,625</b>	<b>6,691,760</b>	<b>6,900,547</b>	<b>7,244,431</b>	<b>8,221,484</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(529,634)</b>	<b>(715,199)</b>	<b>(235,431)</b>	<b>(103,267)</b>	<b>(586,202)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of bonds	408,180	1,019,873	325,726	386,370	1,459,087
Premium (discount) from sale of bonds	-	-	-	14,478	39,944
Payment to escrow agent	(69,487)	(234,179)	-	-	(136,137)
Proceeds from bond escrow restructuring	-	-	9,557	89	-
Proceeds from capital lease	-	-	503	19	-
Equipment financing program	51,944	17,094	20,822	15,036	30,167
Transfers in	63,000	77,119	109,717	193,439	685,206
Transfers out	-	(34,476)	(36,217)	(121,989)	(611,406)
<b>Total other financing sources</b>	<b>453,637</b>	<b>845,431</b>	<b>430,108</b>	<b>487,442</b>	<b>1,466,861</b>
<b>Net change in fund balances</b>	<b>\$ (75,997)</b>	<b>\$ 130,232</b>	<b>\$ 194,677</b>	<b>\$ 384,175</b>	<b>\$ 880,659</b>
Other capital expenditures beside capital outlay	31,262	49,529	23,960	33,706	65,197
Total capital expenditures	936,680	811,674	690,609	648,795	966,401
<b>Debt service as a percentage of noncapital expenditures</b>	<b>5.94%</b>	<b>5.84%</b>	<b>5.72%</b>	<b>6.00%</b>	<b>6.38%</b>

Note: As a result of GASB Statement No. 34 implementation in FY2002, only five fiscal years are presented.

Source: Information was extracted from Exhibit 2-b, Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, Page 41.

**Tax Revenues by Source, Governmental Funds**  
**Last Five Fiscal Years**  
*(modified accrual basis of accounting, dollars in thousands)*

Fiscal Year	Property Tax			Sales and Use	Income and Franchise	Gross Receipts	Other Taxes	Total
	Real	Personal	Rental					
2002	\$ 726,014	\$ 65,208	\$ 13,172	\$ 750,060	\$ 1,160,423	\$ 231,786	\$ 283,146	\$ 3,229,809
2003	822,845	67,294	11,749	779,920	1,167,452	261,643	273,191	3,384,094
2004	947,690	63,558	16,840	828,391	1,299,009	271,897	379,521	3,806,906
2005	1,058,100	72,068	18,165	957,394	1,472,432	295,819	377,213	4,251,191
2006	1,163,598	55,548	22,336	970,885	1,591,483	278,453	390,542	4,472,845

Note: As a result of GASB Statement No. 34 implementation in FY2002, only five fiscal years are presented.

Source: Information was extracted from Exhibit 2-b, Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, Page 41.

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## **2. Revenue Capacity**

These schedules contain information regarding the District's most significant local revenue sources: property, income, and sales and use taxes.

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**Assessed Value and Actual Value of Taxable Property  
Last Ten Fiscal Years**  
(dollars in thousands)

Exhibit S-2A

Fiscal Year	Estimated Actual Value				Total Taxable	Tax Exempt	Total Value	Total Direct Tax Rate	Tax exempt as a % of total estimated actual
	Commercial Property	Residential Property	(1)	(2) (3) (4)					
1997	\$ 19,373,225	\$ 22,884,675			\$ 42,257,900	\$ 30,170,470	\$ 72,428,370	N/A	41.7%
1998	19,726,319	23,461,404			43,187,723	31,517,981	74,705,704	N/A	42.2%
1999	18,734,933	23,710,565			42,445,498	30,620,782	73,066,280	N/A	41.9%
2000	19,357,631	23,912,435			43,270,066	30,900,682	74,170,748	1.43	41.7%
2001	21,960,148	22,268,968			44,229,116	32,086,134	76,315,250	1.45	42.0%
2002	27,619,604	24,902,543			52,522,147	33,812,037	86,334,184	1.39	39.2%
2003	29,684,430	28,379,237			58,063,667	35,728,289	93,791,956	1.38	38.1%
2004	33,752,889	32,701,220			66,454,109	43,234,068	109,688,177	1.35	39.4%
2005	36,905,213	49,982,554			86,887,767	43,219,725	130,107,492	1.37	33.2%
2006	40,400,447	58,090,888			98,491,335	59,664,865	158,156,200	1.34	37.7%

Note: Assessed value is 100 percent of estimated actual value.

Total direct tax rate for years 1997 - 1999 could not be determined

(1) After deduction of homestead exemption and credits against tax

(2) Does not reflect the 2002 & 2003 Cap Assessment of 25% for Class 01 with Homestead Exemptions

(3) Does not reflect the 2004 & 2005 Cap Assessment of 12% for Class 01 with Homestead Exemptions

(4) Does not reflect the 2006 Cap Assessment of 10% for Class 01 with Homestead Exemptions

Source: Office of Tax and Revenue

**Direct Property Tax Rates  
Last Six Fiscal Years**

Exhibit S-2B

Fiscal Year	Direct Property Tax Rate (Per \$100 Assessed Valuation)				Total Direct
	Basic Rate	General Obligation Debt Service	Redevelopment Program		
2000	0.73	0.70	-	1.43	
2001	0.75	0.70	-	1.45	
2002	0.79	0.60	-	1.39	
2003	0.78	0.60	-	1.38	
2004	0.90	0.45	-	1.35	
2005	0.92	0.45	-	1.37	
2006	0.94	0.40	-	1.34	

Note:

Information prior to FY2000 is not available.

The total direct rate is the weighted rate of all taxable real property. The basic rate is the direct rate, less general obligation debt service and redevelopment program costs per \$100.

Source: Office of Tax and Revenue

Major Tax Rates  
Last Ten Fiscal Years

Exhibit S-2C

Fiscal Year	Property (per \$100 of assessed value)					Sales and Use			Income and Franchise		Gross Receipt Public Utility (6)		
	Residential		Commercial			Personal	General (1)	Cigarette (2)	Motor Fuel (3)	Individual (4)	Business (5)	Commercial	Residential
	Owner occupied	Tenant occupied	Hotels	Improved	Unimproved								
1997	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.20	.060-.095	0.09975	0.10	0.10
1998	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.20	.060-.095	0.09975	0.10	0.10
1999	0.96	1.54	1.85	2.15	5.00	3.40	0.0575	0.65	0.20	.060-.095	0.09975	0.10	0.10
2000	0.96	1.34	1.85	2.05	2.05	3.40	0.0575	0.65	0.20	.050-.095	0.09975	0.10	0.10
2001	0.96	1.15	1.85	1.95	1.95	3.40	0.0575	0.65	0.20	.050-.093	0.09975	0.10	0.10
2002	0.96	0.96	1.85	1.85	1.85	3.40	0.0575	0.65	0.20	.050-.093	0.09975	0.10	0.10
2003	0.96	0.96	1.85	1.85	5.00	3.40	0.0575	1.00	0.20	.050-.093	0.09975	0.11	0.11
2004	0.96	0.96	1.85	1.85	5.00	3.40	0.0575	1.00	0.20	.050-.093	0.09975	0.11	0.11
2005	0.96	0.96	1.85	1.85	5.00	3.40	0.0575	1.00	0.20	.050-.090	0.09975	0.11	0.10
2006	0.92	0.92	1.85	1.85	5.00	3.40	0.0575	1.00	0.20	.045-.087	0.09975	0.11	0.10

Source: Office of Tax and Revenue

- (1) Of sales value
- (2) Per package of 20
- (3) Per gallon
- (4) Of taxable income
- (5) Of net income
- (6) Of gross charges (gas, lighting, telephone)

Principal Property Taxpayers  
Current Year and Nine Years Ago  
(dollars in thousands)

Exhibit S-2D

Taxpayer	2006			1997		
	Taxable Assessed Value	Rank	% of Total Taxable Assessed Value	* Taxable Assessed Value	Rank	% of Total Taxable Assessed Value
MANUFACTURERS LIFE INSURANCE	\$ 348,411	1	0.354%	\$ 114,481	5	0.271%
13TH & F ASSOCIATES LP	288,142	2	0.293%	137,008	4	0.324%
WASHINGTON SQUARE LIMITED PARTNERSHIP	281,135	3	0.285%	193,642 **	1	0.458%
CARR CRHP PROPERTIES LLC	263,842	4	0.268%	165,640 **	2	0.392%
WARNER INVESTMENTS LP	255,096	5	0.259%	101,383 **	6	0.240%
HARBOUR 1 LLC	220,000	6	0.223%	57,491 **	9	0.136%
WELLS REIT/INDEPENDENCE SQUARE LLC	219,744	7	0.223%	142,638 **	3	0.338%
1301 K STREET LP	218,194	8	0.222%	95,717	8	0.227%
TEACHERS INSURANCE & ANNUITY ASSOCIATION	212,478	9	0.216%	90,069 **	7	0.213%
PARCEL 49C LIMITED PARTNERSHIP	205,780	10	0.209%	10,780 ***		0.026%

\* Source 1997 RPT Account Status Report (Folio)

\*\* Different ownership in 1997

\*\*\* 1997 exact rank can not be determined

Source: Office of Tax and Revenue

**Ten Highest Assessed Values For Tax Exempt Properties**  
**Current Year**  
*(dollars in thousands)*

**Exhibit S-2E**

Property	Value
INTERNATIONAL FINANCE CORPORATION	\$ 407,780
INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT	340,772
GEORGETOWN UNIVERSITY	262,281
INTER-AMERICAN DEVELOPMENT BANK	257,799
INTERNATIONAL MONETARY FUND	243,827
INTERNATIONAL MONETARY FUND	227,225
PROTESTANT EPISCOPAL CATHEDRAL FND DC	176,072
AMERICAN UNIVERSITY	173,648
WASHINGTON HOSPITAL CENTER	150,333
INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT	140,640

Source: Office of Tax and Revenue

Note: Duplicate property listings resulted from properties with multiple addresses.

**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
*(dollars in thousands)*

**Exhibit S-2F**

Fiscal Year Ended Sep 30	Taxes Levy	Tax Collections (1)			Percent of Collections to Levy	
		Current	Subsequent Years (2)	Total	Current	Total
1997	\$ 648,166	\$ 606,435	\$ 21,002	\$ 627,437	93.6%	96.8%
1998	638,569	590,249	30,548	620,797	92.4%	97.2%
1999	637,647	554,064	29,078	583,142	86.9%	91.5%
2000	613,385	569,190	23,587	592,777	92.8%	96.6%
2001	669,016	576,965	58,359	635,324	86.2%	95.0%
2002	740,387	649,895	57,729	707,624	87.8%	95.6%
2003	847,980	774,989	63,110	838,099	91.4%	98.8%
2004	1,011,891	898,352	47,701	946,053	88.8%	93.5%
2005	1,198,319	1,021,836	46,314	1,068,150	85.3%	89.1%
2006	1,234,062	1,102,954	47,422	1,150,376	89.4%	93.2%

(1) Approximately 40% of real property tax collections are deposited with fiscal agents, such as commercial banks, for payment of matured bonds and interest.

(2) Subsequent year collections related to collections on prior year levies.

Calculations for Exhibit S-2F were done based on methodology used for the FY2003 CAFR. Current year tax levy amounts include new billings for prior year penalties and interest. Subsequent year collections relate to collections on prior year levies.

Source: Office of Tax and Revenue

**Personal Income Tax Rates  
Last Ten Fiscal Years**

Exhibit S-2G

Year	Top Rate	Top Income Tax Rate Is Applied to Taxable Income in Excess of			* Average Effective Rate
		Single	Married Filing Jointly	Head of Household	
1997	9.50%	20,000	20,000	20,000	6.32%
1998	9.50%	20,000	20,000	20,000	6.39%
1999	9.50%	20,000	20,000	20,000	6.47%
2000	9.50%	20,000	20,000	20,000	6.39%
2001	9.30%	30,000	30,000	30,000	6.60%
2002	9.30%	30,000	30,000	30,000	6.55%
2003	9.30%	30,000	30,000	30,000	6.66%
2004	9.30%	30,000	30,000	30,000	6.65%
2005	9.00%	30,000	30,000	30,000	6.68%
2006	8.70%	40,000	40,000	40,000	N/A

N/A: Not Available

\* Fiscal year personal income tax collections divided by prior-year personal income.

Source: Office of Tax and Revenue

**Personal Income Tax Filers and Liability by Income Level  
Current Year and Nine Years Ago**

Exhibit S-2H

Income Level	2006				1997			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$100,001 and higher	31,800	11.11%	\$ 586,347,984	56.91%	17,372	6.05%	\$ 274,911,804	42.64%
\$75,001 -- \$100,000	17,005	5.94%	94,204,648	9.14%	10,846	3.78%	66,174,296	10.26%
\$50,001 -- \$75,000	33,500	11.70%	122,903,167	11.93%	23,714	8.26%	96,732,747	15.00%
\$25,001 -- \$50,000	76,406	26.68%	142,878,370	13.87%	70,668	24.62%	144,917,839	22.48%
\$10,001 -- \$25,000	65,025	22.71%	42,956,067	4.17%	80,585	28.08%	56,409,900	8.75%
\$10,000 and lower	62,606	21.86%	41,001,765	3.98%	83,796	29.20%	5,579,571	0.87%
Total	286,342	100.00%	\$ 1,030,292,001	100.00%	286,981	100.00%	\$ 644,726,157	100.00%

Source: Office of Tax and Revenue

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### **3. Debt Capacity**

These schedules present information showing the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

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**Ratios of General Obligation Bonds Outstanding  
Last Ten Fiscal Years**  
*(dollars in thousands, except per capita)*

Exhibit S-3A

<u>Fiscal Year</u>	<u>General Obligation Bonds (GO)</u>	<u>Actual Value of Taxable Property</u>	<u>GO Bonds as a Percentage of Actual Value of Taxable Property</u>	<u>GO Debt Per Capita *</u>
1997	\$ 3,084,763	\$ 42,257,900	7.30%	\$ 5,433
1998	3,091,403	43,187,723	7.16%	5,469
1999	3,098,582	42,445,498	7.30%	5,426
2000	3,109,728	43,270,066	7.19%	5,436
2001	2,582,017	44,229,116	5.84%	4,472
2002	2,670,573	52,522,147	5.08%	4,613
2003	3,251,118	58,063,667	5.60%	5,630
2004	3,418,933	66,454,109	5.14%	5,898
2005	3,632,198	86,887,767	4.18%	6,240
2006	3,773,863	98,491,335	3.83%	6,490

\* The prior year per capita amounts were updated to reflect the revised census population estimates.

**Pledged-Revenue Coverage  
Last Four Fiscal Years**  
*(dollars in thousands)*

Exhibit S-3B

<u>Fiscal Year</u>	<u>Tax Increment Financing Debts</u>					<u>Coverage</u>
	<u>Sales Tax Increment</u>	<u>Real Property Tax</u>	<u>Debt Service</u>			
			<u>Principal</u>	<u>Interest</u>		
2002	\$ 33	\$ -	\$ -	\$ 33	100.00%	
2003	1,236	-	1,104	132	100.00%	
2004	2,222	112	1,515	4,265	40.38%	
2005	6,733	2,537	6,484	4,933	81.19%	
2006	11,562	1,652	7,219	5,348	105.15%	

Note: Details regarding the District's outstanding debt can be found in the Notes to the Basic Financial Statements.

**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
*(dollars in thousands, except per capita)*

Exhibit S-3C

Fiscal Year	Governmental Activities										Total Debt as a Percentage of Personal Income	Population	Total Debt Per Capita	Total "Tax Supported Debt" Per Capita**
	General Obligation Bonds	TIF Bonds	Qualified Zone Academy Bonds	Certificates of Participation	Capital Leases	Baseball Bonds	Tobacco Bonds*	Total Debt	Personal Income	Personal Income				
1997	\$ 3,084,763	\$ -	\$ -	\$ -	\$ 129,715	\$ -	\$ -	\$ 3,214,478	\$ 19,579,959	16.4%	567,736	\$ 5,662	\$ 5,662	
1998	3,091,403	-	-	-	124,181	-	-	3,215,584	20,562,335	15.6%	565,230	5,689	5,689	
1999	3,098,582	-	-	-	132,189	-	-	3,230,771	21,114,995	15.3%	571,042	5,658	5,658	
2000	3,109,728	-	-	-	131,167	-	-	3,240,895	23,102,223	14.0%	572,059	5,665	5,665	
2001	2,582,017	6,900	-	-	121,564	-	521,105	3,231,586	25,525,115	12.7%	577,357	5,597	4,695	
2002	2,670,573	126,545	3,582	-	157,057	-	514,280	3,472,037	25,786,286	13.5%	578,907	5,998	5,109	
2003	3,251,118	125,524	3,327	129,530	90,458	-	506,550	4,106,507	27,168,871	15.1%	577,476	7,111	6,234	
2004	3,418,933	124,009	3,071	128,345	84,456	-	502,740	4,261,554	29,277,663	14.6%	579,720	7,351	6,484	
2005	3,632,198	117,525	2,815	120,760	76,390	-	498,740	4,448,428	31,010,231	14.3%	582,049	7,643	6,786	
2006	3,773,863	109,895	5,221	278,100	67,942	534,800	742,284	5,512,105	N/A	N/A	581,530	9,479	8,202	

Note: There are no business type activities with outstanding debt.

Convention: Center bonds are neither reported nor included in this table.

\* Tobacco bonds are not supported by general tax revenues and are not included in the Total "Tax Supported Debt" Per Capita calculation.

\*\* The prior year per capita amounts were updated to reflect the revised census population estimates.



**Legal Debt Margin Information**  
**Last Ten Fiscal Years**  
*(dollars in thousands)*

Exhibit S-3D

**Debt Service Cost Margin Calculation for Fiscal Year 2006:**

General fund revenue	\$ 5,152,072
Debt service cost limitation (17% of general fund revenue)	875,852
Debt expenditure applicable to limit:	
Principal	\$ 188,095
Interest	177,474
Subtotal for current year	<u>365,569</u>
Highest future year debt service cost	<u>383,659</u>
Total debt service cost subject to the limitation	383,659
Debt service cost margin	<u>\$ 492,193</u>

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt service cost limitation	\$ 530,194	\$ 573,851	\$ 608,902	\$ 688,754	\$ 718,024	\$ 622,331	\$ 627,516	\$ 735,472	\$ 823,558	\$ 875,852
Highest future year debt service cost	428,918	400,504	346,992	327,044	270,910	284,114	319,160	339,003	359,735	383,659
Debt service cost margin	\$ 101,276	\$ 173,347	\$ 261,910	\$ 361,710	\$ 447,114	\$ 338,217	\$ 308,356	\$ 396,469	\$ 463,823	\$ 492,193
Total debt service cost subject to the limit as a percentage of debt service cost limit	80.9 %	69.8 %	57.0 %	47.5 %	37.7 %	45.7 %	50.9 %	46.1 %	43.7 %	43.8 %
Debt limit ratio	11.3 %	15.8 %	12.7 %	9.7 %	6 %	7.8 %	8.6 %	7.8 %	7.4 %	7.4 %

Note: Under the District of Columbia Self-Government and Governmental Reorganization Act, 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 long term debt to exceed 17 percent of the revenues of the fiscal year in which the debt is issued. The debt service percent is calculated using the highest fiscal year debt service divided by the total revenues. The debt service percent limitation was increased from 14 to 17 percent in fiscal year 1998 as a result of the National Capital Revitalization and Self-Government Improvement Act of 1997, accounting for the decrease in revenues from the repeal of the Federal payment in lieu of taxes and the loss of court revenues.

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#### **4. Demographic and Economic Information**

These schedules offer demographic and economic data to help explain the environment within which the District's financial activities take place. This information also facilitates comparisons of financial statement information over time and among governments.

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**Demographic and Economic Statistics  
Last Ten Fiscal Years**

Exhibit S-4A

Fiscal Year	Popula- tion (1)	Personal Income (2)(3)	Per Capita Income (2)	Median Age (1)	Employ- ment (4)	Unemploy- ment Rate (4)	Claims	Claims
							Accepted (5)	Rejected (5)
1997	567,736	19,579,959	34,488	36.0	619,100	8.3%	38,851	15,898
1998	565,230	20,562,335	36,379	36.3	614,600	8.2%	28,202	8,412
1999	571,042	21,114,995	37,030	37.2	620,600	6.9%	22,440	7,475
2000	572,059	23,102,223	40,456	34.7	645,200	5.8%	22,113	6,002
2001	577,357	25,525,115	44,834	34.9	654,400	6.0%	18,189	6,514
2002	578,907	25,786,286	45,670	35.0	661,800	6.6%	26,166	10,706
2003	577,476	27,168,871	48,703	35.0	665,900	7.0%	21,527	7,342
2004	579,720	29,277,663	52,825	35.0	670,500	7.8%	18,554	6,450
2005	582,049	31,010,231	56,329	35.2	677,900	7.5%	17,223	6,074
2006	581,530	N/A	N/A	N/A	689,300	5.7%	17,021	6,212

N/A: Not Available

- (1) Source: Federal Bureau of the Census (As of July 1 - Updated each year for all of the years after the 2000 census)
- (2) Source: Federal Department of Commerce, Bureau of Economic Analysis (BEA). BEA does not incorporate the latest census population estimates in its calculation of per capita income.
- (3) In thousands
- (4) Source: D.C. Department of Employment Services
- (5) Source: D.C. Unemployment Compensation Office

**Principal Employers  
Current Year and Nine Years Ago \*\***

Exhibit S-4B

Employer	2005 **			1996		
	Employees	Rank	% of Total Employment	Employees	Rank	% of Total Employment
Howard University	*	1	*	*	4	*
Georgetown University	*	3	*	*	1	*
The George Washington University	*	2	*	*	8	*
Washington Hospital Center	*	4	*	*	2	*
Children's National Medical Center	*	5	*	*	7	*
Fannie Mae	*	6	*	*	10	*
Georgetown University Hospital	*	7	*	*	9	*
American University	*	8	*	*	11	*
Howard University Hospital	*	9	*	*	13	*
Providence Hospital	*	10	*	*	12	*
George Washington University Hospital	*	16	*	*	3	*
Washington Post	*	12	*	*	5	*
Potomac Electric Power Company	*	30	*	*	6	*
<b>Total</b>	<b>47,880</b>		<b>10.9%</b>	<b>40,950</b>		<b>10.8%</b>

\* This data is produced through the Quarterly Covered Employment and Wage (QCEW) Program, a Bureau of Labor Statistics federal/state cooperative statistical program. Release of data under this program is subject to the Confidential Information Protection and Statistical Efficiency Act of 2002. The District cannot release company specific employment information without the written consent of each of the companies that are included in the release of such data. As a result, we are only presenting rank and total employment information for the top ten principal employers.

\*\* 2006 data will not be available until fiscal year 2007

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## 5. Operating Information

These schedules contain service and infrastructure data to better understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

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Operating Indicators by Function/Program  
Last Ten Fiscal Years

Exhibit S-5A

Function/Program	Operating Indicators									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b><u>GOVERNMENTAL DIRECTION AND SUPPORT</u></b>										
Bond rating by S&P	B	BB	BBB	BBB	BBB+	BBB+	A-	A	A+	A+
Bond rating by Moody's	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2	A2
Bond rating by Fitch	BB	BB+	BBB	BBB	BBB+	BBB+	A-	A-	A	A
	6,640	6,892	7,730	8,298	7,367	7,485	7,683	8,342,682	10,486,545	10,051,365
<b><u>ECONOMIC DEVELOPMENT AND REGULATION</u></b>										
Taxable retail sales (\$ millions)	57	127	45	36	38	59	59	115	125	121
Commercial construction units	1,003,761	343,121	362,692	301,372	889,830	919,252	418,049	1,720,869	1,466,587	1,366,931
Value	165	165	40	42	422	448	499	506	861	815
Residential construction units	91,170	35,851	6,746	8,217	100,366	102,861	68,931	117,803	192,609	186,685
Value										
<b><u>Housing Finance Agency</u></b>										
Number of Single-Family Units Financed	329	314	486	527	503	161	5	0	0	67
Amount of Single-Family Financing Provided (\$ 000s)	300,000	312,217	56,200	67,922	61,300	19,600	612	0	0	16,820
Number of Multi-Family Units Financed	36	736	1,509	1,115	1,555	1,893	1,237	525	7,623	1,165
Amount of Multi-Family Financing Provided (\$ 000s)	1,997	53,160	70,870	45,647	98,534	101,205	76,358	36,051	133,510	71,543
Total Number of Housing Units Financed	365	1,050	1,995	1,642	2,058	2,054	1,242	525	7,623	1,232
Total Amount of Housing Financing Provided (\$ 000s)	301,997	84,377	127,070	113,569	159,834	120,805	76,970	36,051	133,510	88,363
<b><u>PUBLIC SAFETY AND JUSTICE</u></b>										
<b><u>Police</u></b>										
Crime Index Offenses	58,378	48,819	42,671	39,651	40,305	40,213	39,797	36,246	32,678	32,311
Number of Police Officers	3,657	3,537	3,484	3,599	3,601	3,666	3,711	3,800	3,800	3,800
<b><u>Fire</u></b>										
Number of Fire Fighters	1,233	1,206	1,179	1,204	1,282	1,294	1,388	1,426	1,500	1,536
Number of Fire Alarms	148,774	146,457	155,497	115,601	125,371	118,416	119,582	119,846	187,242	161,361
Inspections	27,594	34,978	18,595	22,983	23,923	20,303	13,055	26,703	29,072	28,636
<b><u>EMS</u></b>										
Number Emergency Medical Personnel	298	304	328	321	331	354	377	342	331	264
Number of Emergency Responses	71,475	70,196	72,337	71,998	75,008	86,175	89,817	N/A	114,823	149,395
<b><u>PUBLIC LIBRARY</u></b>										
Number of Volumes	2,863,749	2,562,452	2,562,452	2,756,244	2,715,332	2,721,119	2,609,062	2,559,601	2,333,957	2,873,518

Operating Indicators by Function/Program  
Last Ten Fiscal Years  
(Continued)

Function/Program	Operating Indicators									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b><u>PUBLIC EDUCATION SYSTEM</u></b>										
<b><u>D.C. Public School System</u></b>										
Number of School Teachers	5,062	5,482	5,267	5,030	4,850	4,938	4,365	5,206	4,938	4,614
Number of School Students	78,648	77,111	71,899	70,762	68,925	67,522	65,093	62,306	62,306	56,943
Number of High School Graduates	2,853	2,777	2,675	2,695	2,808	2,894	2,723	2,740	2,680	2,450
<b><u>University of the District of Columbia</u></b>										
Number of Teachers	N/A	N/A	233	223	N/A	260	260	208	219	215
Number of Students	4,754	5,284	5,181	5,358	5,456	5,468	5,241	5,424	5,364	5,772
Number of Graduates	961	692	576	581	511	466	483	508	503	573
<b><u>PUBLIC WORKS/PUBLIC TRANSPORTATION</u></b>										
Street Resurfaced (includes reconstruction); regular cover; pavement restoration (miles)										
Potholes Repaired	56.1	31.8	31.9	39.4	78.8	103.1	27.8	36.5	90.0	65.2
Refuse collected (tons per day)	N/A	N/A	N/A	5,354	5,802	7,005	7,679	9,177	** 180,000	341,530
Recyclables collected (tons per day)	513	538	505	526	466	491	511	506	485	425
Tons of Bulk Trash Removed	* 0	* 0	80	79	82	78	83	84	85	86
Tons of Leaves Removed	N/A	N/A	N/A	N/A	N/A	4,898	4,994	5,362	4,956	4,610
Tons of Snow Removed	N/A	N/A	N/A	N/A	N/A	8,983	8,014	6,651	9,569	9,588
	1,336,034	1,994	2,313,133	3,070,883	1,475,619	638,106	8,056,083	2,472,659	880,000	855,712
* In FY's 1997 and 1998 recycling was suspended.										
**FY2005 Potholes Repaired (\$,272) was understated based on new definition of a pothole effective FY2005 & FY2006										
<b><u>Department of Motor Vehicles</u></b>										
Number of motor vehicle registrations (1/1 - 12/31)	130,203	270,242	237,832	288,866	N/A	231,848	235,907	243,874	250,602	260,662
Number of operator licenses issued (1/1 - 12/31)	86,983	102,095	120,755	148,216	N/A	70,491	78,022	96,760	80,765	90,456
Number of operator licenses outstanding (1/1 - 12/31)	N/A	N/A	N/A	N/A	N/A	N/A	241,304	237,526	314,650	357,569
<b><u>D.C. WATER AND SEWER AUTHORITY</u></b>										
Number of Customer locations	130,645	130,920	130,000	127,882	124,749	130,000	122,502	122,802	123,062	123,465
Average daily water consumption (MGD)	137	133	139	134	132	135	86	87	86	87
Daily maximum sewer capacity (MGD)	740	740	740	740	740	1,076	370	370	370	370
Peak 4 Hour Flow, through complete process (MGD)	740	740	740	740	740	740	740	740	740	740
Excess Storm Flow, primary treatment only (MGD)	336	336	336	336	336	336	336	336	336	336
Peak Flow (MGD)	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076	1,076
<b><u>CONVENTION CENTER</u></b>										
Conferences held	98	115	139	116	165	169	163	201	189	106
Attendees	598,069	989,787	840,590	935,763	985,196	915,088	891,008	1,023,072	1,153,250	935,485

**Capital Asset Statistics by Function/Program  
Last Ten Fiscal Years**

Exhibit S-5B

Function/Program	Fiscal Years									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b><u>Police</u></b>										
Police Stations Including Satellites	9	10	11	13	13	14	14	16	16	16
Number of Patrol Cars	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,207	1,199	1,234
<b><u>Fire</u></b>										
Number of Fire stations	33	33	33	34	34	34	34	34	34	33
Number of Fire Fighting Equipment	64	62	62	70	78	78	91	92	92	107
<b><u>EMS</u></b>										
Number of Ambulances	42	57	57	53	53	53	65	62	62	91
<b><u>D.C. Public School System</u></b>										
Schools	147	149	149	146	146	146	147	147	165	144
Number of school buses	N/A	N/A	N/A	N/A	N/A	N/A	N/A	650	669	712
<b><u>Public Library</u></b>										
Number of Main and Branch Buildings	22	22	22	22	22	22	22	22	22	22
Number of Community and Kiosk Facilities	5	5	5	5	5	5	5	5	5	5
<b><u>Parks and Recreation</u></b>										
Acreage	800	800	800	800	800	800	800	800	800	832
Number of Recreation & Community Centers	71	77	77	77	77	78	75	75	72	70
Number of Day Camps	3	3	3	3	3	78	57	70	51	86
Number of Outdoor Swimming Pools	34	34	35	35	35	22	32	27	26	24
Number of Indoor Swimming Pools	6	7	6	7	7	7	6	6	8	6
<b><u>Public Works/Public Transportation</u></b>										
Number of Refuse collection trucks	74	52	52	52	52	52	52	52	71	71
Primary Street Miles	126	126	126	126	126	126	126	126	126	126
Secondary Street Miles	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007	1,007
Number of Street Lights	66,364	66,429	66,507	76,565	64,349	66,089	66,570	66,562	66,650	66,630
Number of Signalized Intersections	1,502	1,504	1,510	1,519	1,519	1,529	1,533	1,534	1,538	1,563
Number of Trees	N/A	N/A	N/A	N/A	N/A	106,000	110,000	114,000	118,000	120,934
<b><u>D.C. Water &amp; Sewer Authority</u></b>										
Miles of water mains	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1300	1300
Miles of sewer mains	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1800	1800

**Full-Time Equivalent General Fund District Government Employees by Function/Program**  
**Last Ten Fiscal Years**  
*(Year ended Sept 30)*

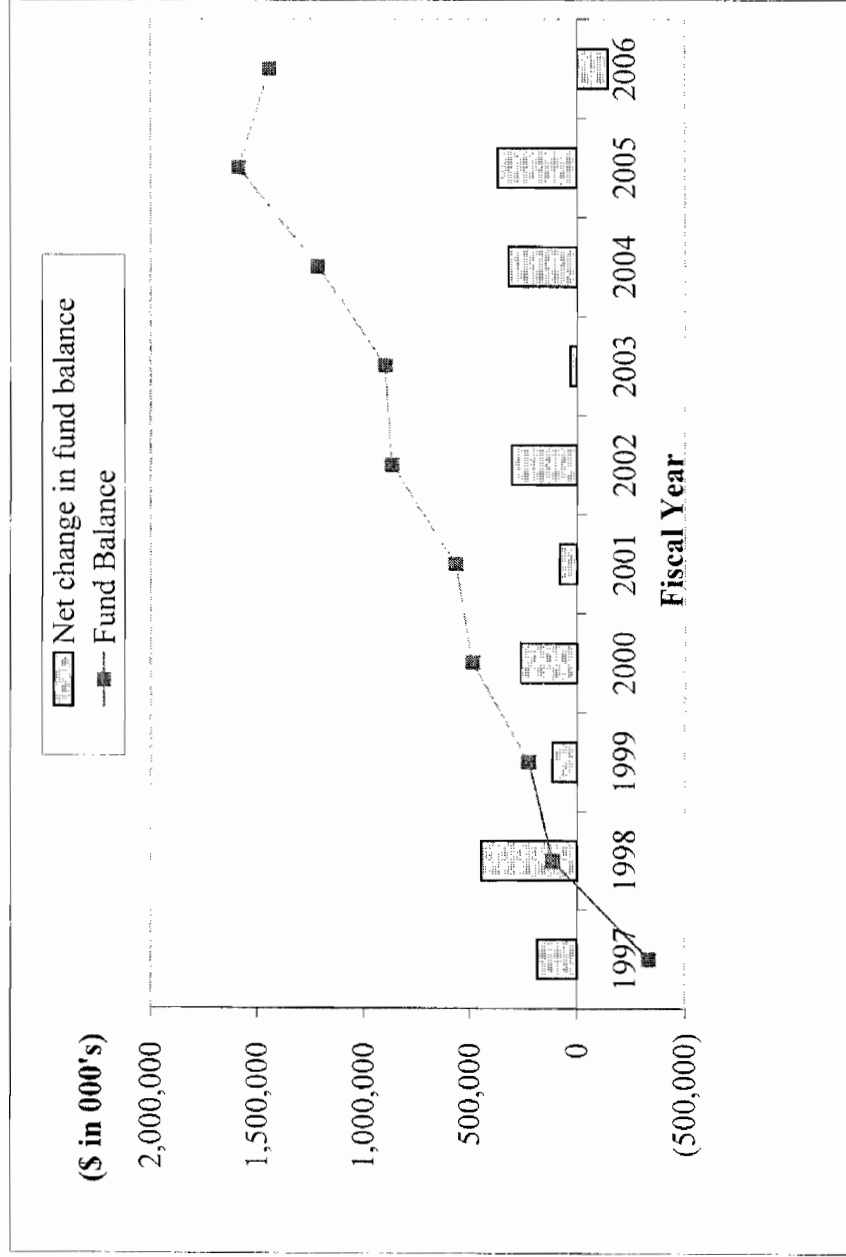
Exhibit S-5C

Function/Program	Full-time Equivalent District Government Employees									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Governmental direction and support	1,457	1,700	2,187	1,953	2,659	2,647	2,417	2,358	2,419	2,475
Economic development and regulation	626	584	1,014	1,205	597	556	538	1,000	986	1,104
Public safety and justice	10,611	8,738	8,548	8,244	7,328	7,169	7,379	7,547	7,963	7,919
Public education system	9,334	8,636	8,495	9,662	10,824	11,344	10,818	10,770	9,211	9,714
Human support services	3,112	3,224	3,086	4,666	1,957	4,095	4,280	4,211	4,555	4,611
Public works	2,111	2,225	1,235	1,718	2,071	1,585	1,454	1,624	1,752	1,789
<b>Total</b>	<b>27,251</b>	<b>25,107</b>	<b>24,565</b>	<b>27,448</b>	<b>25,436</b>	<b>27,396</b>	<b>26,886</b>	<b>27,510</b>	<b>26,886</b>	<b>27,613</b>



Exhibit S-5D

### General Fund Fund Balance Trend Chart



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PHOTOS

ERNEST GRANT

CFO'S OFFICE OF COMMUNICATIONS

YEAR ENDED SEPTEMBER 30, 2006

