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 2.25% to 7.5%. 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 20**.

Table 20 - Housing Finance Agency Debt Service Requirements to Maturity

Year Ending September 30	Principal	Interest	Total
2005	$ 10,555	$ 40,775	$ 51,330
2006	6,140	40,582	46,722
2007	1,715	40,268	41,983
2008	3,570	40,145	43,715
2009	2,090	40,039	42,129
2010-2014	25,253	195,437	220,690
2015-2019	18,745	189,658	208,403
2020-2024	64,430	179,538	243,968
2025-2029	101,260	147,701	248,961
2030-2034	134,396	115,935	250,331
2035-2039	97,096	79,622	176,718
2040-2044	107,399	55,103	162,502
2045-2049	57,995	24,935	82,930
2050-2054	239,075	21,996	261,071
Subtotal	**869,719**	**1,211,734**	**2,081,453**
Unamortized Bond Premium, net	3,924		3,924
Total	**$ 873,643**	**$ 1,211,734**	**$ 2,085,377**

NOTE 8. LONG TERM LIABILITIES

B. OTHER LONG-TERM LIABILITIES

Certificates of Participation

All 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 $57 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).

The District has approximately $71.5 million of outstanding Certificates of Participation issued by a trust in 2003 with a final maturity of 2023, as shown in **Table 21**. The weighted average interest rate yield on these COPs is 4.59%. 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.

Table 21, Summary of Debt Service Requirements for COP

Year Ending September 30	Emergency Preparedness Communications Center & Related Technology (COP) Principal	Interest	Total
2005	$ 2,480	$ 3,321	$ 5,801
2006	2,555	3,246	5,801
2007	2,635	3,168	5,803
2008	2,735	3,064	5,799
2009	2,850	2,949	5,799
2010-2014	16,265	12,737	29,002
2015-2019	20,820	8,187	29,007
2020-2023	21,115	2,085	23,200
Total	**$ 71,455**	**$ 38,757**	**$ 110,212**

A summary of changes in other long-term liabilities for governmental activities is shown in **Table 22**.

Table 22 - Changes in Other Long-Term Liabilities

Account	Balance October 1, 2003	Additions	Deductions	Balance September 30, 2004
Governmental Activities:				
Accrued disability compensation (Note 14)	$ 260,771	$ 42,623	$ (36,496)	$ 266,898
Accumulated annual leave	102,571	-	(1,264)	101,307
COP public safety center	71,455	-	-	71,455
Grant disallowances	67,336	-	(66,609)	727
Claims & judgments (Note 14)	51,029	22,127	(17,643)	55,513
Equipment financing program (Note 13)	56,756	20,822	(19,070)	58,508
Accreted interest	19,615	2,931	-	22,546
Capital leases payable (Note 13)	90,458	503	(6,505)	84,456
Total	**$ 719,991**	**$ 89,006**	**$ (147,587)**	**$ 661,410**
Business-Type Activities:				
Obligation for unpaid prizes	**$ 73,537**	**$ -**	**$ (7,056)**	**$ 66,481**

NOTE 8. LONG-TERM LIABILITIES

C. CURRENT PORTION OF LONG-TERM LIABILITIES

Table 23 presents the current and long-term portions of long-term liabilities.

Table 23 – Current & Long-Term Portions of Long-Term Liabilities

Type of Liability	Current Portion	Long-Term Portion	Total
Government-Wide Activities			
General Obligation Bonds	$ 173,105	$ 3,245,828	$ 3,418,933
TIF Bonds and Notes	-	124,009	124,009
QZAB	256	2,815	3,071
Capital Leases	8,082	76,374	84,456
Tobacco Bonds	4,000	498,740	502,740
Annual leave	64,431	36,876	101,307
Disability compensation	34,376	232,522	266,898
Equipment financing program	19,186	39,322	58,508
Accreted interest	-	22,546	22,546
Claims and judgements	-	55,513	55,513
Grant disallowances	-	727	727
COP - Public Safety Center	2,480	68,975	71,455
Total	**$ 305,916**	**$ 4,404,247**	**$ 4,710,163**
Business-Type Activities			
Obligation for unpaid prizes	**$ 8,631**	**$ 57,850**	**$ 66,481**

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, 2004, MUSL purchased for the Lottery, U.S. government securities totaling $80,163 to fund future installment payments to winners.

The market value of these securities at September 30, 2004 was $66,481. 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.

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).

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.

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2004, 2003, and 2002, were as shown in **Table 24**. Financial statements for the Civil Service Plan are available from the U.S. Office of Personnel Management at www.opm.gov.

Notes to the Basic Financial Statements (Dollars in Thousands)

NOTE 9. RETIREMENT PROGRAMS

Table 24 - Summary of District Contributions to Federally Administered Pension Plans

Plan	Rate	Employees		2004		2003		2002
Civil Service	8.51%	7,124	$	23,363	$	23,637	$	25,855
Social Security	7.65%	11,434		56,406		52,000		51,338
Total			**$**	**79,769**	**$**	**75,637**	**$**	**77,193**
Total Payroll			**$**	**1,719,073**	**$**	**1,565,725**	**$**	**1,585,193**

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.

Each of the two plans provides retirement, death and 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, 1400 L Street, N. W., Suite 300, Washington, D. C. 20005.

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 25.**

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 2004, 2003 and 2002 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 $270,000 for the year ended September 30, 2004 and have been reported as intergovernmental revenue. Related expenditures of $213,300 and $56,700 have been reported in the public safety and justice and the public education systems functions, respectively.

(Dollars in Thousands) Notes to the Basic Financial Statement

NOTE 9. RETIREMENT PROGRAMS

Table 25 - Actuarial Assumptions

	Police and Fire	Teachers
Contribution rates plan members	7% - 8%	7% - 8%
Actuarial valuation date	10/01/02	10/01/02
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% - 8.8%	5.3% - 8.8%
Inflation rate	5%	5%
Cost of living adjustments	5%	5%

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

Actuarially Required Contributions

The District made its actuarially required contribution of $96.7 million to the Police and Firefighters' Plan during the year ended September 30, 2004, while there was no required contribution for the Teachers' plan. (See Required Supplementary Information for details)

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, 2004, District contributions to the plan were $24,000. This plan also covers employees of the Sports 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 $13 thousand of their annual compensation for calendar year 2004. Employees with more than fifteen years of service may defer up to $15 thousand for the calendar year 2004. Also an additional deferral of $2 thousand 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,

Notes to the Basic Financial Statements (Dollars in Thousands)

NOTE 9. RETIREMENT PROGRAMS

including teachers, were able to defer the lesser of $13 thousand or 100% of includible compensation in calendar year 2004. Also an additional deferral of $3 thousand was available to participants who were at least 50 years old before the end of the calendar year. Compensation deferred and income earned are taxable when paid or made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 10. FUND BALANCE RESERVATIONS/DESIGNATIONS

Reserved/restricted and designated fund balances at September 30, 2004 are shown in **Table 26**.

Table 26 - Schedule of FY 2004 Reserved/Restricted and Designated Fund Balances

	General Fund	Federal & Private Resources	General Capital Improvements	Nonmajor Governmental Funds	Unemployment Compensation Fund	Fiduciary Funds
Reserved/Restricted						
Long term assets	$ 1,828	$ -	$ -	$ -	$ -	$ -
Emergency/contingency cash reserve	285,409	-	-	-	-	-
Bond escrow	239,225	-	-	-	-	-
Inventory	9,999	2,256	-	-	-	-
Budget	30,922	-	-	-	-	-
Purpose restrictions	30,520	137,351	11,944	-	-	-
Charter school loans	10,000	-	-	-	-	-
Joint venture capital subsidies	-	-	11,336	-	-	-
Unemployment benefits	-	-	-	-	294,476	-
Tobacco settlement	-	-	-	91,060	-	-
Tax increment financing	-	-	-	8,624	-	-
Future benefits	-	-	-	-	-	2,644,519
Highway projects	-	-	-	20,634	-	-
Total Reserved Fund Balances	**$ 607,903**	**$ 139,607**	**$ 23,280**	**$ 120,318**	**$ 294,476**	**$ 2,644,519**
Unreserved						
Designated:						
Post employment benefits	227,336	-	-	-	-	-
Other special purposes	194,692	-	-	-	-	-
Paygo capital	40,000	-	-	-	-	-
Subsequent year expenditures	91,330	-	-	-	-	-
Undesignated	53,754	-	(273,432)	-	-	-
Total Unreserved Fund Balances	**$ 607,112**	**$ -**	**$ (273,432)**	**$ -**	**$ -**	**$ -**
Total Fund Balances	**$ 1,215,015**	**$ 139,607**	**$ (250,152)**	**$ 120,318**	**$ 294,476**	**$ 2,644,519**

The general capital improvements fund has a negative fund balance of $(250,152) at September 30, 2004, which will be reduced in subsequent fiscal years by a combination of operating transfers from the general fund, reductions in capital budget authority, and lower annual spending in capital programs.

Notes to the Basic Financial Statements (Dollars in Thousands)

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, 2004 is shown in **Table 27.**

Table 27 - Summary of Grants Provided to WMATA

Account			Amount
Operating grants		$	152,270
Debt service grants			10,331
Capital grants			48,779
	Total	$	211,380

The WMATA issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, NW, Washington, D. C. 20001.

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, 2004 totaled $393,928.

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 2004. 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, $16,316 was spent in fiscal year 2004. As of September 2004, a total amount of $139,445 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

Notes to the Basic Financial Statements (Dollars in Thousands)

NOTE 12. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

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, 1999, 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 $6,988 for the fiscal year ended September 30, 2004.

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 $8,974, in 2004.

Equipment Financing Program

The District began its Master Equipment Lease Purchase Program. (the "Program") in 1998 to provide tax-exempt financing for projects with short-term to intermediate-term useful lives. The Program enables the District to improve its asset/liability management by matching the useful life of the asset being financed to the amortization of the liability (5 to 10 years).

As of September 30, 2004, the District had financed approximately $112.8 million of its capital equipment needs through the Program, and had approximately $58.5 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 3.6%, with payments being made on a quarterly basis.

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 28 shows the schedule of equipment financing program payments.

Table 28 – Schedule of Equipment Financing Program Payments

Year Ending September 30	Principal	Interest	Total
2005	$ 19,186	$ 2,104	$ 21,290
2006	18,867	1,290	20,157
2007	10,736	591	11,327
2008	6,195	257	6,452
2009	3,524	78	3,602
Total	**$ 58,508**	**$ 4,320**	**$ 62,828**

(Dollars in Thousands) Notes to the Basic Financial Statements

NOTE 13. LEASES

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 $99,264 in 2004.

C. SCHEDULES 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, 2004 are shown in **Table 29.**

Table 29 - Schedule of Future Minimum Lease Payments

	Primary Government			Component Units
		Operating Leases		
Year Ending September 30	Capital Leases	Facilities	Equip-ment	Equip-ment
2005	$ 12,694	$ 84,673	$ 3,903	$ 1,450
2006	12,672	87,481	2,854	1,450
2007	12,436	91,472	1,550	1,450
2008	10,715	83,132	772	1,450
2009	10,718	40,769	532	1,450
2010-2014	52,628	70,182	-	7,250
2015-2019	-	3,402	-	7,250
2020-2024	-	-	-	3,015
Minimum lease payments	**111,863**	**$ 461,111**	**$ 9,611**	**$ 24,765**
Less - imputed interest	27,407			
Present value of payments	**$ 84,456**			

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. 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, 2004. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. An accrual of $727 in the government-wide financial statements has been provided which estimates the probable cumulative expenditures that may be disallowed by the granting agencies based on prior experience.

NOTE 14. COMMITMENTS AND CONTINGENCIES

During fiscal year 2004, the District became aware of an investigation being conducted by the Federal Bureau of Investigation of one of its major vendors that previously provided claims processing services related to a major grant program. The District is not a party to the investigation; however, the results of the investigation may impact amounts previously recorded as revenue for this grant program. Due to the uncertainty related to the ultimate resolution of this investigation, no provision for grant disallowances has been included in the financial statements related to this matter.

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, 2004.

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 $47,006.

Summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 30**.

Table 30 - Summary of Changes in Claims and Judgments Accrual

Description	2004	2003
Liability at October 1	**$ 51,029**	**$ 28,969**
Incurred claims	22,127	40,753
Less:		
claims payments/adjustments	(17,643)	(18,693)
Liability at September 30	**$ 55,513**	**$ 51,029**

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 4.5% of projected disability compensation is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table 31**.

Table 31 – Summary of Changes in Disability Compensation Accrual

Description	2004	2003
Liability at October 1	**$ 260,771**	**$ 231,883**
Claims incurred	42,623	64,738
Less-benefit payments	(36,496)	(35,850)
Liability at September 30	**$ 266,898**	**$ 260,771**

During the fiscal year 2004, a settlement was reached in a lawsuit instituted by a certified class of plaintiffs who challenged the modification and/or termination of benefits they had been provided under the District's Disability Compensation Program. The Court ordered that the disability compensation benefits of all members of the plaintiff class be reinstated until individualized determinations made under validly promulgated rules are made. The amount of the additional liability related to this settlement cannot presently be determined and, accordingly, no provision has been made for the settlement in these financial statements.

E. INTEREST RATE SWAP AGREEMENTS

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

2002D Swap

On October 31, 2002, the District entered into a floating-to-fixed rate swap in connection with its $124,995

NOTE 14. COMMITMENTS AND CONTINGENCIES

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.

Fair Market Value

As of September 30, 2004, the 2002D, 2002B, 2001C/D and 1992A/2001A Swaps ("Swaps") had fair market values as shown in **Table 32**:

Table 32 – Swaps Fair Market Values

Swaps Fair Market Values	
2002D Swap	$ (1,568)
2002B Swap	(9,226)
2001C/D (Enhanced Swap)	(13,283)
2001C/D (Bear Stearns)	(7,866)
2001C/D (UBS PaineWebber)	(3,483)
2001A	(5,397)
Total	**$ (40,823)**

The market value was provided by the counterparty to each respective swap and confirmed by Phoenix Capital Advisors.

Credit Risk.

The swaps' fair market value represents the District's obligation to the counterparties if the swaps were terminated. As of September 30, 2004, 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 $(40,823) in aggregate). Standard & Poor's and Moody's rated counterparty to each swap as of September 30, 2004 is presented in **Table 33.**

NOTE 14. COMMITMENTS AND CONTINGENCIES

Table 33 – Swaps Counterparty Credit Ratings

Swap	Counterparty	Credit Rating
2002D	Lehman Brothers	A/A2
2002B	Morgan Stanley	A+/Aa3
2001C/D	Bear Stearns	AAA/Aaa (Insured)
2001C/D	UBS PaineWebber	AAA/Aaa (Insured)
2001C/D	Bear Stearns	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, 2004, principal and interest requirements of the fixed-rate debt and net swap payments are shown in **Table 34**. 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.

Table 34 – Swaps Interest Requirements

	Governmental Activities			
	General Obligation			
Primary Government	**Principal**	**Interest**	**Interest Rate Swaps, Net**	**Total**
Year Ending September 30				
2005	$ 29,985	$ 9,871	$ 15,842	$ 55,698
2006	19,420	9,485	14,875	43,780
2007	12,385	9,248	14,294	35,927
2008	13,040	12,994	13,855	39,889
2009	7,350	8,929	13,530	29,809
2010 - 2014	60,300	42,736	63,360	166,396
2015 - 2019	83,265	38,655	54,636	176,556
2020 - 2024	257,875	27,072	37,009	321,956
2025 - 2029	177,965	6,415	8,643	193,023
2030 - 2035	7,980	203	232	8,415
Total	**$ 669,565**	**$ 165,608**	**$ 236,276**	**$ 1,071,449**

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, 2004, deferred revenue of $5,634 related to this agreement is recorded in the government-wide financial statements.

NOTE. 15 SUBSEQUENT EVENTS

A. ISSUANCE OF BONDS, NOTES AND OTHER OBLIGATIONS

On December 8, 2004, the District issued its Series 2004A General Obligation Bonds in the principal amount of $200,870 (the "2004A Bonds"). The proceeds of these bonds will be used to finance a portion of the District's fiscal year 2005 capital improvements program. Also, on December 8, 2004, the District issued its Series 2004B General Obligation Bonds in the principal amount of $38,250 (the "2004B Bonds") and Multimodal General Obligation Bonds, Series 2004C (the "2004C Bonds") in the principal amount of $147,250. The proceeds of these bonds are being used to finance a portion of the District's fiscal year 2005 capital improvements program. The 2004A, 2004B and 2004C 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 District's 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 2004A Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.45%. The 2004B bonds were issued as CPI Bonds. The Series 2004C Sub-series 2004C-1, Sub-series 2004C-2 and Sub-series 2004C-3, were issued as Auction Rate Securities with initial interest rates ranging from 1.45% to 1.85%. The final maturities of the 2004A, 2004B and Series 2004C Bonds are June 1, 2027, 2020, and 2034, respectively.

On November 23, 2004, the District issued Fiscal Year 2005 General Obligation Tax Revenue Anticipation Notes in the aggregate principal amount of $250,000 (the "Notes"). The proceeds of these notes were issued to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2005. The notes 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 Notes were issued as fixed-rate notes with a rate yield of 2.05%, and mature on September 30, 2005.

B. HOUSING FINANCE AGENCY

On December 21, 2004 , the agency issued collateralized multifamily housing revenue bonds Series 2004 for $9 million with interest rates of 2.9%. On December 28, 2004, the Agency also issued multifamily housing revenue bonds Series 2004 D&E for $13.5 million with interest rates of 2.32%.

C. SWAP AGREEMENTS

On November 17, 2004, the District entered into a floating-to-fixed interest rate swap in connection with the issuance of $38,250 General Obligation Bonds, Series 2004B ("2004B Swap"). The original notional amount of the swap is $38,250. Under the terms of the 2004B Swap, scheduled to terminate in 2020, the District pays fixed rates of 4.598% in 2014, 4.701% in 2015, 4.794% in 2016 and 5.121% in 2020, and receives variable rate payments equal to the MUNI-CPI rate which is the actual rate on the Series 2004B Bonds. The notional value of the 2004B Swap and the principal amount of the associated debt service begins to decline in fiscal year 2013.