

**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL**

**DISTRICT OF COLUMBIA
ANACOSTIA WATERFRONT CORPORATION**

**Financial Statements, Management's
Discussion and Analysis, and
Independent Auditors' Report
Fiscal Year Ended September 30, 2006**



**CHARLES J. WILLOUGHBY
INSPECTOR GENERAL**

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



April 4, 2007

The Honorable Adrian M. Fenty
Mayor of the District of Columbia
Mayor's Correspondence Unit, Suite 221
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

The Honorable Vincent C. Gray
Chairman
Council of the District of Columbia
John A. Wilson Building, Suite 504
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

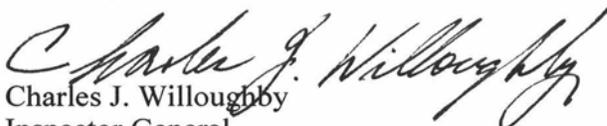
Dear Mayor Fenty and Chairman Gray:

As part of our contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2006, Thompson, Cobb, Bazilio & Associates, PC submitted the enclosed final report on the District of Columbia Anacostia Waterfront Corporation (AWC).

Thompson, Cobb, Bazilio & Associates, PC opined that the financial statements present fairly, in all material respects, the financial position of the AWC, for the year ended September 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

If you have questions or need additional information, please contact William J. DiVello, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Charles J. Willoughby
Inspector General

Enclosure

CJW/ws

cc: See Distribution List

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Mayor Fenty and Chairman Gray
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April 4, 2007
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ANACOSTIA WATERFRONT CORPORATION

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

**FOR THE YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)**

THOMPSON, COBB, BAZILIO & ASSOCIATES, P.C.

Certified Public Accountants and Management, Systems and Financial Consultants

**Main:
1101 15th Street, N.W.
Suite 400
Washington, D.C. 20005
(202) 737-3300
Fax: (202) 737-2684**

**Regional:
100 Pearl Street
14th Floor
Hartford, CT 06103
(203) 249-7246
Fax: (203) 275-6504**

**Regional:
21250 Hawthorne Boulevard
Suite 500
Torrance, California 90503
(310) 792-7001
Fax: (310) 792-7004**

ANACOSTIA WATERFRONT CORPORATION

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)**

ANACOSTIA WATERFRONT CORPORATION
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC
Certified Public Accountants and Management, Systems, and Financial Consultants

■ Main Office:
1101 15th Street, N.W.
Suite 400
Washington, DC 20005
(202) 737-3300
(202) 737-2684 Fax

□ Regional Office:
100 Pearl Street
14th Floor
Hartford, CT 06103
(860) 249-7246
(860) 275-6504 Fax

□ Regional Office:
21250 Hawthorne Boulevard
Suite 500
Torrance, CA 90503
(310) 792-7001
(310) 792-7004 Fax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Anacostia Waterfront Corporation

We have audited the statement of net assets of Anacostia Waterfront Corporation (AWC), a component unit of the District of Columbia Government, as of September 30, 2006, and the related statements of revenues, expenses and the change in net assets and cash flows for the year then ended. These financial statements are the responsibility of AWC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2005 financial statements and, in our report dated January 11, 2006, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AWC as of September 30, 2006, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However we did not audit the information and express no opinion on it.

Washington, D.C.
January 10, 2007

Thompson, Cobb, Bazilio & Associates, P.C.

ANACOSTIA WATERFRONT CORPORATION

Management's Discussion and Analysis

September 30, 2006

The Anacostia Waterfront Corporation (the Corporation or AWC) Management's Discussion and Analysis ("MD&A") is provided to focus on the results of its operations and financial condition for the year ended September 30, 2006. AWC's management encourages readers to consider this analysis of the Corporation's financial performance in conjunction with the information presented in the Corporation's financial statements. It is important to note that fiscal year 2006 marks the first full year of the Corporation's existence and the first year that comparisons can be made with previous year's performance.

1) Overview of Financial Statements

This MD&A is intended to serve as an introduction to the Corporation's basic financial statements. The financial statements are designed to provide readers with a broad overview of AWC's finances, in a manner similar to a private-sector business. These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units on an accrual basis. Under this basis of accounting, revenues are recognized in the period they are earned, while expenses are recognized in the period they are incurred. Depreciation of capital assets is recognized in the statements of revenues, expenses, and change in net assets. The annual financial report is comprised of three components: management's discussion and analysis, the basic financial statements, and the notes to the basic financial statements.

The *Statement of Net Assets* presents information on all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *Statement of Revenues, Expenses and Change in Net Assets* presents information showing the change in the Corporation's net assets during the fiscal year. All changes in net assets are reported at the time the underlying event occurs, regardless of timing of related cash flows.

The *Statement of Cash Flows* presents the sources and uses of cash during the fiscal year. Consequently, only transactions that affect the Corporation's cash accounts are recorded in this statement. Reconciliation is provided at the bottom of the Statement of Cash Flows to assist in the understanding of the difference between cash flows from operating activities and operating income.

ANACOSTIA WATERFRONT CORPORATION

Management's Discussion and Analysis

September 30, 2006

2) Budgetary Highlights

In fiscal year 2006, the Corporation received a \$5,000,000 operating appropriation from the Government of the District of Columbia. In addition, AWC received \$6,994,000 in capital funding from the District Government to support a variety of capital projects.

3) Basic Financial Statements

The summarized audited Statement of Net Assets and Statement of Revenues, Expenses, and Change in Net Assets are discussed below.

Statement of Net Assets At September 30

	<u>2006</u>	<u>2005</u>
ASSETS		
Total Current Assets	\$ 8,699,444	\$ 3,015,030
Capital Assets Net of Accumulated Depreciation	<u>143,463</u>	<u>168,547</u>
Total Assets	<u>8,842,907</u>	<u>3,183,577</u>
LIABILITIES		
Total Current Liabilities	2,237,426	276,466
Capital Lease Obligation-non current portion	<u>17,765</u>	<u>39,675</u>
Total Liabilities	<u>2,255,191</u>	<u>316,141</u>
Net Assets	<u>\$ 6,587,716</u>	<u>\$ 2,867,436</u>

ANACOSTIA WATERFRONT CORPORATION
Management's Discussion and Analysis
September 30, 2006

Statement of Revenues, Expenses and Change In Net Assets
For The Year Ended September 30

	<u>2006</u>	<u>2005</u>
Operating Revenues	\$ 12,359,492	\$ 4,307,500
Operating Expenses	<u>8,793,025</u>	<u>1,442,749</u>
Operating Income	3,566,467	2,864,751
Non-Operating Revenue	153,813	2,685
Total Net Assets-Beginning	<u>2,867,436</u>	<u>-</u>
Total Net Assets-Ending	\$ <u>6,587,716</u>	\$ <u>2,867,436</u>

AWC's revenue for fiscal year 2006 represented a significant increase from the preceding year as a result of an increase in appropriations from the Government of the District of Columbia. In addition to a \$5,000,000 operating appropriation, AWC received \$6,994,000 in funding from the District Government for capital projects and earned approximately \$365,000 in other revenues. AWC's fiscal year 2006 expenses of \$8,793,025 represented a significant increase over fiscal year 2005 expenses. Personnel services expenses rose sharply as a result of a dramatic increase in the number of staff.

Consulting expenses also rose sharply as staff made progress towards meeting a variety of annual capital project objectives. As an Enterprise Fund, AWC retains any unused funding and the Corporation received Congressional approval in fiscal years 2005 and 2006 to carry-over unused budget authority "until expended."

As of September 30, 2006, AWC's assets were comprised almost exclusively of cash and cash equivalents totaling \$8,388,476 and other current assets of \$310,968. In addition, the Corporation's furniture and equipment totaled approximately \$143,463. AWC's liabilities at September 30, 2006 totaled \$2,255,191. This amount was comprised of \$1,426,615 in accounts payable, \$500,000 in developers' deposits and \$328,576 in other liabilities. AWC had not incurred any other debt as of September 30, 2006.

ANACOSTIA WATERFRONT CORPORATION

Management's Discussion and Analysis

September 30, 2006

The resolution of two major land transfers will have a significant impact on the Anacostia Waterfront Corporation's future budgetary requirements and its ability to generate revenues. The first issue involves the transfer of approximately 200 acres of waterfront land along the Anacostia River from the Federal Government to the District of Columbia and the Anacostia Waterfront Corporation. The second issue involves the legislatively mandated transfer of approximately 45 acres of property along the City's Southwest Waterfront from the National Capital Revitalization Corporation to AWC. It is expected that both of these land transfers will be completed during fiscal year 2007.

4) Requests for Information

The report is designed to provide a general overview of Anacostia Waterfront Corporation's finances for fiscal year 2006. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Anacostia Waterfront Corporation, 1100 New Jersey Avenue, SE, Suite 700, Washington, DC, 20003. Additional information is provided on the Corporation's website at www.anacostiawaterfront.net.

ANACOSTIA WATERFRONT CORPORATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 8,388,476	\$ 2,915,570
Prepaid expenses and other current assets	71,468	7,623
Due from D.C. Government (Note 9)	<u>239,500</u>	<u>91,837</u>
Total Current Assets	8,699,444	3,015,030
Non-Current Assets		
Capital assets, net of accumulated depreciation	<u>143,463</u>	<u>168,547</u>
Total Assets	<u>8,842,907</u>	<u>3,183,577</u>
LIABILITIES		
Current Liabilities		
Developers' deposits	500,000	-
Accounts payable	1,426,615	101,482
Accrued liabilities	286,018	112,378
Due to D.C. Government (Note 9)	2,524	41,432
Capital lease obligation (Note 5)	<u>22,269</u>	<u>21,174</u>
Total current liabilities	2,237,426	276,466
Non-Current Liabilities		
Capital Lease obligation	<u>17,765</u>	<u>39,675</u>
Total Liabilities	<u>2,255,191</u>	<u>316,141</u>
NET ASSETS		
Invested in capital assets, net of related debt	103,429	107,698
Unrestricted	<u>6,484,287</u>	<u>2,759,738</u>
Total Net Assets	<u>\$ 6,587,716</u>	<u>\$ 2,867,436</u>

The accompanying notes are an integral part of these financial statements

ANACOSTIA WATERFRONT CORPORATION
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	<u>2006</u>	<u>2005</u>
Operating Revenues		
District of Columbia Appropriation	\$ 11,994,842	\$ 4,300,000
Other revenues	<u>364,650</u>	<u>7,500</u>
 Total operating revenues	 <u>12,359,492</u>	 <u>4,307,500</u>
 <u>Operating Expenses</u>		
Personnel services	2,861,239	527,365
Consulting services	4,828,625	528,572
Grants	340,303	207,393
Rent and Utilities	363,260	104,005
Equipment and supplies	260,398	41,822
Depreciation	56,363	15,236
Other operating expenses	<u>82,837</u>	<u>18,356</u>
 Total operating expenses	 <u>8,793,025</u>	 <u>1,442,749</u>
 Operating income	 3,566,467	 2,864,751
 Non-Operating Revenue		
Interest income	153,813	2,685
 Total net assets-beginning	 <u>2,867,436</u>	 <u>-</u>
 Total net assets-ending	 <u>\$ 6,587,716</u>	 <u>\$ 2,867,436</u>

The accompanying notes are an integral part of these financial statements

ANACOSTIA WATERFRONT CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(WITH COMPARATIVE TOTALS FOR 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Payment to suppliers	\$ (4,330,084)	\$ (559,430)
Grant payments	(215,303)	(179,739)
Payment to employees	(2,540,913)	(465,531)
Other contributions	500,150	7,500
DC Appropriation	<u>11,994,842</u>	<u>4,300,000</u>
Net cash provided by operating activities	<u>5,408,692</u>	<u>3,102,800</u>
Cash flows from non-capital financing activities	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities		
Deposit toward loan financing	(10,000)	-
Purchase of assets	(31,279)	(183,783)
Principal paid on capital lease	(20,815)	(5,230)
Interest paid on capital lease	(3,401)	(824)
Interest received	<u>129,709</u>	<u>2,607</u>
Net cash provided by capital and related financing activities	<u>64,214</u>	<u>(187,230)</u>
Cash flows from investing activities	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	5,472,906	2,915,570
Cash and cash equivalents-beginning of the year	<u>2,915,570</u>	<u>-</u>
Cash and cash equivalents-end of year	<u>\$ 8,388,476</u>	<u>\$ 2,915,570</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,566,467	\$ 2,864,751
Adjustments to operating income to net cash provided by operating activities:		
Depreciation	56,363	15,236
Capital lease	3,401	60,849
Change in assets and liabilities:		
Due to DC Government	(147,663)	(91,837)
Prepays and other current assets	(29,741)	-
Accounts and other payables	1,459,865	253,801
Developers' deposits	<u>500,000</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 5,408,692</u>	<u>\$ 3,102,800</u>

The accompanying notes are an integral part of these financial statements

ANACOSTIA WATERFRONT CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 1: REPORTING ENTITY

The Anacostia Waterfront Corporation (AWC or the Corporation) is a corporate body and an independent instrumentality of the Government of the District of Columbia. It was established pursuant to the Anacostia Waterfront Act effective December 7, 2004, (DC Law 15-219; 51 DCR 9142) enacted by the Mayor and the City Council of the District of Columbia. The purpose of AWC is to lead the revitalization of lands along the Anacostia River, promote initiatives to clean up the river and foster public awareness and enjoyment of the river. The efforts of AWC are guided by a landmark, 20-year master development plan titled the "Anacostia Waterfront Initiative." The Corporation started operations in January 2005.

The Corporation is governed by a 15-member Board of Directors. The Board is comprised of nine voting members who are appointed and serve at the pleasure of the Mayor of the District of Columbia. In addition, the Mayor and the independent Chief Financial Officer of the District of Columbia serve as ex-officio voting members. Finally, there are four ex-officio non-voting members: The Secretary of the United States Department of Defense, the Deputy Commissioner of Public Buildings for the United States General Services Administration, the Deputy Assistant Secretary for Fish and Wildlife of the United States Department of Interior, and the Executive Director of the National Capital Planning Commission. All members of the Board serve without compensation. The Board appoints a President to devise and implement strategies to achieve the goals and objectives of the organization and to direct the Corporation's day-to-day operations. The Corporation employs a paid professional staff possessing expertise in a wide variety of disciplines.

The Anacostia Waterfront Corporation is a component unit of the District of Columbia Government.

The Council of the Government of the District of Columbia – and in some circumstances the United States Congress – is required to approve certain actions of AWC involving contractual agreements, budget authority and the issuance of debt.

To date, AWC has been funded primarily through appropriations the District of Columbia has received through the United States Congress. It is anticipated that a scheduled transfer of land along the Anacostia River from the federal government will allow AWC to become fiscally self-sufficient within the next several years.

ANACOSTIA WATERFRONT CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 2: REPORTING PERIOD

The Anacostia Waterfront Corporation's fiscal year end is September 30. The reporting period for these financial statements is October 1, 2005 through September 30, 2006.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Corporation's financial statements. The Corporation is accounted for on the flow of "economic resources" measurement focus. The accounting objectives of measurement focus are the determination of operating income, change in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported and equity is reported as net assets.

The term basis of accounting is used to determine when a transaction or event is recognized in the Corporation's financial statements. The Corporation's financial statements are prepared on the full accrual basis of accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

AWC has elected, as allowed in paragraph 7 of Governmental Accounting Standards Board (GASB) *Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, not to follow Financial Accounting Standard Board (FASB) pronouncements issued subsequent to November 30, 1989. Therefore, AWC follows all GASB pronouncements; and FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

b. Cash and Cash Equivalents

The Corporation considers all highly liquid instruments purchased with an original maturity of less than three months to be cash equivalents.

c. Capital Assets and Depreciation

Capital assets (excluding land) are depreciated over their useful lives and are carried at cost less accumulated depreciation. Donated capital assets are recorded at fair market value at the date donated. Depreciation

ANACOSTIA WATERFRONT CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

c. Capital Assets and Depreciation (continued)

expense is calculated using the straight-line method over the following estimated useful lives:

Equipment	3 years
Furniture and fixtures	5 years
Vehicles	7 years
Buildings	30 years

Expenditures for repairs and maintenance that do not increase the economic useful lives of related assets are charged to operations during the fiscal year in which the costs are incurred.

d. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 4: CASH AND CASH EQUIVALENTS

Various investment risk factors may affect the value of equity and fixed income investments. These include custodial credit risk, credit risk and interest rate risk. Equity securities respond to such factors as economic conditions, individual company performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit risk

Credit risk is the chance that a bond issuer or other counterparty to an investment will fail to fulfill its obligations. Credit risk is generally higher for non-investment grade securities. As of September 30, 2006, the Corporation's cash equivalent balance of \$9,160,220 was invested in a U.S Treasury Money Market Fund whose obligations are issued or guaranteed by the U.S Treasury. In terms of the prospectus, an investment in the Fund is not a deposit or an obligation of the financial institution and it is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Because yields fluctuate, there can be no assurance that the fund will be able to maintain a stable Net Asset Value of \$1.00 per share. The Board of Trustees of the Fund has determined that the fund's obligations present minimal credit risk.

ANACOSTIA WATERFRONT CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 4: CASH AND CASH EQUIVALENTS (CONTINUED)

Interest rate risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. As of September 30, 2006, the Corporation's cash equivalent balance of \$9,160,220 was invested in a U.S Treasury Money Market Fund, which is exposed to interest rate risk. The fund maintains an average weighted portfolio maturity of 90 days or less and exposure to interest rate risk is considered minimal.

Custodial credit risk

Custodial credit risk is the risk that in the event of a financial institution failure, AWC's balance might not be recovered. At September 30, 2006, AWC had \$9,160,220 with one financial institution that was invested in a U.S. Treasury Money Market Fund. Although this fund only invests in obligations issued or guaranteed by the U.S. Treasury, the securities are uninsured and held by the financial institution and not in the name of AWC. Exposure to custodial credit risk is considered minimal.

NOTE 5: CAPITAL ASSETS

The Corporation's capital assets at September 30, 2006 consisted of the following;

Description	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Furniture	\$ 6,703	\$ 1,508	\$ 5,195
Office equipment	142,417	53,605	88,812
Leased Furniture	<u>65,941</u>	<u>16,485</u>	<u>49,456</u>
Total cost of Assets	<u>\$ 215,061</u>	<u>\$ 71,598</u>	<u>\$ 143,463</u>

The Corporation leases certain furniture under a capital lease arrangement for a period of thirty-six months which began on June 15, 2005. Monthly lease payments of \$2,018 are due and payable on the 15th day of each month. At the termination of the initial lease term, the Corporation shall have the option of purchasing the property for the sum of \$1 or returning the property in the same condition as delivered subject to normal wear and tear.

The following is a schedule by year of future minimum lease payments under capital lease together with the present value of the net minimum payments as of September 30, 2006:

ANACOSTIA WATERFRONT CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE 5: CAPITAL ASSETS (CONTINUED)

Year ending September 30:	
2007	\$ 24,216
2008	<u>18,162</u>
Total minimum lease payments	42,378
Less amount representing interest	<u>(2,344)</u>
Present value of net minimum lease payments	<u>\$ 40,034</u>

NOTE 6: OPERATING LEASES

The DC Government (Office of Property Management) entered into a sublease agreement for rental property with L-3 Communications with AWC listed as the occupying agency. Under this agreement with the District, AWC pays rent of \$25,236 per month and may exercise the extensions with not less than ninety (90) days prior written notice to sublessor.

In July 2006, AWC exercised the first of two one-year options to extend the sublease term. The base rent escalates by 2.5% on the anniversary of the sublease term. AWC rent expense totaled \$330,601 fiscal year 2006.

The following is a schedule of future minimum rental payments under operating leases with remaining non-cancelable lease terms in excess of one year as of September 30, 2006:

Year ending September 30:	
2007	\$ 312,999
2008	<u>212,115</u>
Total minimum lease payments	<u>\$ 525,114</u>

NOTE 7: RETIREMENT PLAN

Effective October 1, 2005, AWC's full-time employees are covered by a defined contribution retirement plan which requires no employee contributions. All employees are vested after four years of service. The contribution ranges from 7% to 10% of total gross salary including bonuses and overtime. AWC made \$135,603 in contributions during fiscal year 2006.

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NOTE 8: RELATED PARTY TRANSACTIONS

As of September 30, 2006, the Corporation had a receivable due from the District of Columbia Government of \$239,500. Of this amount \$236,976 represents the net reimbursement for baseball district development related expenses, net of AWC's contribution to the baseball district development effort. Partially offsetting this number is \$2,524 due to the District of Columbia Government's Office of Property Management for a rent escalation payment made on behalf of the Corporation.

During the year, AWC received \$11,994,892 in appropriations from the District of Columbia Government. It also made payments of \$330,601 and \$18,000 to the Office of Property Management and the Office of the Chief Technology Officer, respectively, for rent and information technology support.

NOTE 9: LAND TRANSFER AND LEASE

On July 21st, 2006, the Government of the District of Columbia transferred to AWC fee simple title to approximately 20 acres of land located in the District's South East quadrant on which a new Washington, DC baseball stadium is being constructed. Simultaneously, AWC executed a 99-year ground lease for the property with the Government of the District of Columbia in return for a total rent payment of one dollar. Also simultaneously, the Government of the District of Columbia executed a 99-year sublease of the property to the D.C. Sports and Entertainment Commission in return for a total rent payment of one dollar. While AWC is technically in the chain of title for these parcels, the value of the transaction to AWC is negligible. Accordingly, AWC has not made any provisions for this transaction in the accompanying financial statements.

NOTE 10: COMMITMENTS AND CONTINGENCIES

AWC has been named a co-defendant -- along with the Government of the District of Columbia and the D.C. Sports and Entertainment Commission -- in a civil lawsuit alleging, among other things, breach of contract in relation to planned development around the new Washington, DC baseball stadium. The Corporation intends to file a motion to dismiss the action in early 2007. The ultimate outcome of the litigation cannot be determined at this time. Accordingly, no provision, for any liability that may result upon adjudication, has been made in the accompanying financial statements.

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NOTE 11: SUBSEQUENT EVENTS

As of January 10, 2007, there were three subsequent events which may have a future impact on the financial status of AWC. First, on November 14, 2006, AWC was named a defendant in a civil case titled WDC Baseball Partners, LLC vs. District of Columbia, et al. Management believes the ultimate outcome of the litigation cannot be determined at this time (see Note 12 describing the Corporation's commitments and contingencies). Second, on November 16, 2006, the President signed into law the *District of Columbia Real Property Act of 2005* transferring land currently held by the Federal Government to the District of Columbia, clearing the way for a transfer of approximately 200 acres to AWC for redevelopment. Third, on December 28, 2006, the Council of the District of Columbia enacted the *National Capital Revitalization Corporation (NCRC) Land Transfer Clarification Amendment Act of 2006*, mandating the terms of the transfer of the Southwest Waterfront Property from the NCRC to AWC. The resolution of two major land transfers will have a significant impact on the Corporation's future budgetary requirements and its ability to generate revenues. It is expected that both of these land transfers will be completed during fiscal year 2007.