

**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 Auditor's Report  
Fiscal Year Ended September 30, 2007**



**CHARLES J. WILLOUGHBY  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



June 20, 2008

The Honorable Adrian M. Fenty  
Mayor of the District of Columbia  
Mayor's Correspondence Unit, Suite 316  
1350 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004

The Honorable Vincent C. Gray  
Chairman  
Council of the District of Columbia  
1350 Pennsylvania Avenue, N.W., Suite 504  
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) 2007, 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, its changes in net assets, and its cash flows for the year ended September 30, 2007, 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  
FY 2007 Anacostia Waterfront Corporation Financial  
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June 20, 2008  
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# ANACOSTIA WATERFRONT CORPORATION

## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(WITH COMPARATIVE TOTALS FOR 2006)

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

*Certified Public Accountants and Management, Systems and Financial Consultants*

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**ANACOSTIA WATERFRONT CORPORATION**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(WITH COMPARATIVE TOTALS FOR 2006)**

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**ANACOSTIA WATERFRONT CORPORATION  
FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(WITH COMPARATIVE TOTALS FOR 2006)**

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**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
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**INDEPENDENT AUDITOR'S REPORT**

Mayor and  
Honorable District Council  
Government of the District of Columbia

We have audited the statement of net assets of Anacostia Waterfront Corporation (AWC), a component unit of the Government of the District of Columbia, as of September 30, 2007, 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 2006 financial statements and, in our report dated January 10, 2007 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, 2007, 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.

As discussed in Note 10 of the financial statements, AWC was dissolved on September 30, 2007 and all of its assets were and liabilities were transferred to and assumed by the Government of the District of Columbia.

The management's discussion and analysis on pages 2 through 7 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Washington, D.C. *Thompson, Cobb, Bazilio & Associates, P.C.*  
March 24, 2008

# ANACOSTIA WATERFRONT CORPORATION

## Management's Discussion and Analysis

September 30, 2007

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 period October 1, 2006 through September 30, 2007. 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 2007 marks the final year of the Corporation's existence. The Fiscal Year 2008 Budget Support Act of 2007 repealed the Anacostia Waterfront Corporation Act of 2004 and transferred assets and liabilities of the Corporation of the Government of the District of Columbia (the District). The District continued operations of the Corporation through September 30, 2007.

### 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 statement 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 the 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, 2007

### 2. GOVERNMENTAL AND ORGANIZATION STRUCTURE

The Corporation was governed by a 15-member Board of Directors, including nine voting members appointed by the Mayor of the District of Columbia. The Mayor and the independent Chief Financial Officer of the District of Columbia served as ex-officio voting members.

The four ex-officio non-voting members include 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. The Board was dissolved pursuant to the "National Capital Revitalization Corporation and Anacostia Waterfront Corporation Reorganization Clarification Congressional Review Emergency Act of 2007" (D.C. Act 17-152, October 18, 2007, 54 D.C. Reg. 10900).

### 3. FINANCIAL HIGHLIGHTS

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

	<u>2007</u>	<u>2006</u>	<u>Change</u>
<b>ASSETS</b>			
Current assets	\$ 11,181,106	\$ 8,689,444	\$ 2,491,662
Non-current assets:			
Capital and other assets	22,237,063	153,463	22,083,600
Restricted assets	116,204,894	-	116,204,894
Total non-current assets	138,441,957	153,463	138,288,494
<b>Total Assets</b>	<u>149,623,063</u>	<u>8,842,907</u>	<u>140,780,156</u>
<b>LIABILITIES</b>			
Current liabilities	11,656,431	2,237,426	9,419,005
Long-term liabilities	108,730,000	17,764	108,712,236
<b>Total Liabilities</b>	<u>120,386,431</u>	<u>2,255,190</u>	<u>118,131,241</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	15,721,277	103,429	15,617,848
Restricted	1,698,064	-	1,698,064
Unrestricted	11,817,291	6,484,288	5,333,003
<b>Total Net Assets</b>	<u>\$ 29,236,632</u>	<u>\$ 6,587,717</u>	<u>\$ 22,648,915</u>

# ANACOSTIA WATERFRONT CORPORATION

## Management's Discussion and Analysis

September 30, 2007

**(a) Assets**

As of September 30, 2007, the Corporation had total assets of approximately \$149.6 million, approximately \$140.8 million higher than the September 30, 2006 fiscal year-end figure of \$8.8 million. Of the total assets as of September 30, 2007, \$11.2 million or 7.4% were current, \$22.2 million or 15% were capital and other assets; and \$116 million or 78% were restricted assets. The significant change in current assets and capital and other assets is a result of the transfer of the Hogates property and Gangplank Marina from the National Capital Revitalization Corporation (NCRC). Restricted assets increased as a result of proceeds from the issuance of PILOT Revenue Bonds.

**(b) Liabilities**

Of the \$120.4 million total liabilities of the Corporation as of September 30, 2007, current liabilities amounted to \$11.6 million or 10% and long-term liabilities (bonds payable, net of discount) amounted to \$108.7 million or 90%.

**(c) Net Assets**

As of September 30, 2007, the Corporation had total net assets amounting to approximately \$29.2 million with \$15.7 million invested in capital assets (net of related debt), approximately \$1.7 million in restricted net assets and unrestricted net assets of approximately \$11.8 million.

**(d) Capital Assets**

As of September 30, 2007 and 2006, the Corporation had capital assets of approximately \$15.9 million and \$143,463, respectively, net of accumulated depreciation.

**(e) Outstanding Debt**

The Corporation's long-term liability consists of bonds payable and financing arrangement notes payable. In September of 2007, the Corporation issued \$111.55 million of Payment in Lieu of Taxes (PILOT) Revenue Bonds with a final maturity date of December 1, 2021. The proceeds of these bonds are to be used to finance the development, improvement, and public infrastructure associated with the Corporation's public improvement projects.

In fiscal 2007, the District approved the transfer of the Southwest Waterfront properties (Hogates Property) from the National Capital Revitalization Corporation (NCRC) to the AWC. As part of this transfer AWC assumed the responsibility of mortgage debt on the Hogates Property. The unpaid balance on the mortgage payable at September 30, 2007 was \$5,000,000.

**ANACOSTIA WATERFRONT CORPORATION**  
**Management's Discussion and Analysis**  
**September 30, 2007**

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>% Increase (Decrease)</u>
Operating Revenues	\$ 20,468,895	\$ 12,359,492	\$ 8,109,403	66%
Operating Expenses	11,376,424	8,793,024	2,583,400	29%
Operating Income	9,092,471	3,566,468	5,526,003	155%
Net Non-Operating Revenues	292,270	153,813	138,457	90%
Capital Contributions	13,264,174	-	13,264,174	100%
Change in Net Assets	22,648,915	3,720,281	18,928,634	509%
Total Net Assets-Beginning	6,587,717	2,867,436	3,720,281	130%
Total Net Assets-Ending	<u>\$ 29,236,632</u>	<u>\$ 6,587,717</u>	<u>\$ 22,648,915</u>	344%

**(f) Operating Revenues**

For the fiscal years ended September 30, 2007 and 2006, the Corporation's operating revenues were \$20.5 million and \$12.4 million, respectively.

The sources of Corporation's fiscal year 2007 operating revenues were: \$11 million or 54% from appropriation; \$5.5 million or 27% from PILOT revenue; \$1.4 million or 7% from Gangplank Marina revenue; \$250,000 or 1% from development revenue; \$1.5 million or 7% from gifts and contributions; \$678,302 or 3% from building rental income; and the remaining \$98,007 or 1% from other sources.

The Corporation's fiscal year 2007 operating revenues increased by 66% compared to fiscal year 2006. The significant increase from the preceding year is a result of PILOT revenue and transfer of the Hogates property and Gangplank Marina from NCRC. Fiscal year 2007 total operating revenues fluctuated as follows: PILOT revenue, Gangplank Marina revenue, development revenue, gift and contributions, and rental income were higher by 100%. Appropriation and other income were lower by 8% and 73%, respectively.

**(g) Operating Expenses**

For fiscal year 2007 and fiscal year 2006, the Corporation's total operating expenses totaled \$11.4 million and \$8.8 million, respectively.

# ANACOSTIA WATERFRONT CORPORATION

## Management's Discussion and Analysis

September 30, 2007

Personnel services which are comprised of salaries, wages, and other personnel related expenses accounted for \$4 million or 35% of fiscal year 2007 operating expenses; contractual services such as property management, real estate advisory and management, architectural, engineering, housekeeping and security contracts related expenses accounted for \$4.3 million or 38%; grant, contributions and subsidies related expenses accounted for \$1.1 million or 9%; rent and utilities expense which includes all utility bills such as electricity, telecommunication, water, sewer, and gas expense accounted for \$746,481 or 7%; supplies accounted for \$786,197 or 7%; and other operating expenses accounted for \$297,245 or 3%. Depreciation and amortization expense, primarily for the transfer of the Hogate building amounted to \$202,123 or 2% in fiscal year 2007.

For fiscal year 2007, the percentages of total operating expenses for the major expense categories were significantly affected by the total expenditures related to the transfer of the Hogate property and Gangplank Marina from NCRC. In fiscal year 2007, as a "percentage of total operating expenses," personnel services increased by 29% and contractual services decreased by 17%. Grants, contributions, and subsidies, rent, utilities and materials and supplies and other expenses also increased due to the transfer of the Hogate property and Gangplank Marina.

In terms of "absolute dollars", the Corporation's fiscal year 2007 total operating expenses (before depreciation) reflected a 28% increase over fiscal year 2006 operating expenses. The increase is attributed to the transfer of the Hogates property and Gangplank Marina.

### *(h) Operating Income*

Fiscal year 2007 operating income (Total Operating Revenues of \$20.5 million minus Total Operating Expenses of \$11.4 million) for the Corporation amounted to \$9.1 million representing a 155% increase from fiscal year 2006.

### *(i) Nonoperating Revenues*

Interest earned on the Corporation's cash reserves in fiscal years 2007 and 2006 amounted to approximately \$704,000 and \$154,000, respectively.

### *(j) Nonoperating Expenses*

The Corporation's nonoperating expenses of approximately \$412,000 included interest expense on bonds payable, amortization of bond discount and issue cost.

**ANACOSTIA WATERFRONT CORPORATION**  
**Management's Discussion and Analysis**  
**September 30, 2007**

**4. EVENTS WITH FUTURE IMPACTS**

On October 1, 2007, pursuant to Section 2164 of the fiscal year 2008 Budget Support Act of 2007, which repealed the Anacostia Waterfront Corporation Act of 2004 (D.C. Law 17-20; D.C. reg. (the NCRC and AWC Reorganization Act), AWC was dissolved by the Council of the District of Columbia. The Act transferred all of the assets, liabilities and obligations to the Government of the District of Columbia.

**5. NOTES TO THE FINANCIAL STATEMENTS**

The notes to the financial statements provide additional information essential to gain a complete understanding of the financial information presented in the Corporation's financial statements. They describe the nature of the reporting entity and the relationship to the District of Columbia as a whole; the basis on which the financial statements were prepared; and the methods used for presentation. The notes also provide explanation of accounts with significant balances.

**6. REQUESTS FOR INFORMATION**

The report is designed to provide a general overview of the Corporation's finances for fiscal year 2007. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Deputy Mayor for Planning and Economic Development (DMPED), 2025 M Street, NW, Suite 600, Washington, DC 20036. Additional information is provided on the DMPED's website at [dcbiz.dc.gov](http://dcbiz.dc.gov).

**ANACOSTIA WATERFRONT CORPORATION**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2007**  
**(WITH COMPARATIVE TOTALS FOR 2006)**

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 10,873,976	\$ 8,388,476
Accounts receivable, net	207,262	266,857
Prepaid expenses	99,868	34,111
Total current assets	11,181,106	8,689,444
<b>Noncurrent assets:</b>		
<b>Capital and other assets:</b>		
Land	5,275,665	-
Property, plant and equipment, net of accumulated depreciation	10,574,735	143,463
Prepaid disposition costs	5,593,132	10,000
Bond issuance costs	793,531	-
Total capital and other assets	22,237,063	153,463
<b>Restricted assets:</b>		
Restricted cash and cash equivalents	116,204,894	-
Total noncurrent assets	138,441,957	153,463
Total assets	149,623,063	8,842,907
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	1,705,925	1,426,615
Accrued liabilities	280,472	286,018
Compensation liabilities	140,495	-
Deferred revenue	1,282,403	500,000
Capital lease obligation, current	17,766	22,270
Mortgage payable	5,000,000	-
Bonds payable, current	2,820,000	-
Due to NCRC	409,370	-
Due to District of Columbia Government	-	2,523
Total current liabilities	11,656,431	2,237,426
<b>Long-term liabilities:</b>		
Capital lease obligation	-	17,764
Bonds payable	108,730,000	-
Total liabilities	120,386,431	2,255,190
<b>Net Assets</b>		
Invested in capital assets, net related of debt	15,721,277	103,429
Restricted	1,698,064	-
Unrestricted	11,817,291	6,484,288
Total net assets	\$ 29,236,632	\$ 6,587,717

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, 2007**  
**(WITH COMPARATIVE TOTALS FOR 2006)**

	<u>2007</u>	<u>2006</u>
<b>Operating revenues:</b>		
Appropriation	\$ 11,016,943	\$ 11,994,842
PILOT revenue	5,500,341	-
Gangplank Marina	1,425,302	-
Development revenue	250,000	-
Gifts and contributions	1,500,000	-
Rental income	678,302	-
Other income	98,007	364,650
Total operating revenues	<u>20,468,895</u>	<u>12,359,492</u>
<b>Operating expenses:</b>		
Personnel services	3,969,956	2,861,239
Contractual services	4,320,292	4,828,624
Grants, contributions and subsidies	1,054,130	343,704
Rent and utilities	746,481	363,260
Material and supplies	786,197	260,280
Depreciation and amortization	202,123	56,363
Other	297,245	79,554
Total operating expenses	<u>11,376,424</u>	<u>8,793,024</u>
Operating Income	<u>9,092,471</u>	<u>3,566,468</u>
<b>Nonoperating revenues and expenses:</b>		
Interest income	704,319	153,813
Bond interest expense and amortization	(412,049)	-
Net nonoperating revenues	<u>292,270</u>	<u>153,813</u>
Change in net assets before capital contributions	9,384,741	3,720,281
Capital contributions (See note 1)	<u>13,264,174</u>	<u>-</u>
Change in net assets	22,648,915	3,720,281
Net assets, beginning of year	6,587,717	2,867,436
Net assets, end of year	<u>\$ 29,236,632</u>	<u>\$ 6,587,717</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, 2007**  
**(WITH COMPARATIVE TOTALS FOR 2006)**

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 9,761,547	\$ 500,150
Appropriations	11,016,943	11,994,842
Payments to suppliers	(5,658,712)	(4,330,084)
Payments to employees	(4,115,479)	(2,540,913)
Gifts and contributions	(266,133)	(215,303)
Other payments	(787,997)	-
Net cash provided by operating activities	<u>9,950,169</u>	<u>5,408,692</u>
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from issuance of debt	111,550,000	-
Payment for bond issuance costs	(793,531)	-
Proceeds from loan financing	5,151,009	(10,000)
Payoff of mortgage	(5,026,527)	-
Capital contributions-cash received from NCRC	2,429,968	-
Principal paid on capital lease	(22,268)	(20,815)
Mortgage principal payments	(151,009)	-
Interest payments	(412,049)	(3,401)
Other receipts	1,904,251	129,709
Net cash provided by capital and related financing activities	<u>114,629,844</u>	<u>95,493</u>
<b>Cash flows from investing activities:</b>		
Acquisition of capital assets	(1,723,063)	(31,279)
Payment for prepaid disposition costs	(4,870,877)	-
Receipts of interest and dividends	704,321	-
Net cash used in investing activities	<u>(5,889,619)</u>	<u>(31,279)</u>
Net increase in cash and cash equivalents	118,690,394	5,472,906
Cash and cash equivalents, beginning of year	8,388,476	2,915,570
Cash and cash equivalents, end of year	<u>\$ 127,078,870</u>	<u>\$ 8,388,476</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 9,092,471	\$ 3,566,468
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	202,123	56,363
Capital lease	-	3,400
Increase in accounts receivable	59,595	-
Increase in prepaid and other assets	(65,757)	(29,741)
Increase in accounts payable	557,260	1,459,865
Decrease in accrued liabilities	(145,523)	-
Due to Government of the District of Columbia	-	(147,663)
Increase in deferred revenue	250,000	500,000
Net cash provided by operating activities	<u>\$ 9,950,169</u>	<u>\$ 5,408,692</u>

The accompanying notes are an integral part of these financial statements

**ANACOSTIA WATERFRONT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**NOTE 1: REPORTING ENTITY**

The Anacostia Waterfront Corporation (AWC or the Corporation), a corporate body and an independent instrumentality of the Government of the District of Columbia (the District), was established in January, 2005 pursuant to the Anacostia Waterfront Corporation Act of 2004 (D.C. Law 15-219; D.C. Official Code § 2-1223.01, *et seq.*). The Corporation's purpose was to lead the revitalization of lands along the Anacostia River, promote initiatives to clean up the river and foster public awareness and enjoyment. The Corporation ceased operations September 30, 2007 pursuant to Section 2164 of the Fiscal Year 2008 Budget Support Act of 2007, which repealed the Anacostia Waterfront Corporation Act of 2004.

The Corporation was governed by a 15-member Board of Directors, including comprised of nine voting members appointed by the Mayor of the District of Columbia. The Mayor and the independent Chief Financial Officer of the District of Columbia served as ex-officio voting members. The four ex-officio non-voting members include 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. The Board was dissolved pursuant to the "National Capital Revitalization Corporation and Anacostia Waterfront Corporation Reorganization Clarification Congressional Review Emergency Act of 2007" (D.C. Act 17-152, October 18, 2007, 54 D.C. Reg. 10900).

In March of 2007 the District authorized transfer assets previously owned by the National Capital Revitalization Corporations (NCRC). The transfer included certain parcels of land on the Southwest Waterfront (Southwest Waterfront properties) recorded at a cost of \$5,275,000. In addition, NCRC transferred net assets totaling \$9,266,925, which represented all assets and liabilities transferred to AWC for the Hogates property and the Gangplank Marina. In return for the assets transferred, AWC made a cash payment of \$2 million dollars to NCRC and agreed to NCRC's participation in income generated from the disposition of the Gangplank Marina.

AWC is funded primarily through appropriations from the District of Columbia received through the United States Congress. 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.

The Government Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, requires the determination of organizations that should be included in the reporting entity. These criteria include significant operational and financial relationships with AWC. Based on the application of the criteria, it was determined that there are no component units of AWC.

The Corporation is a component unit of the District for fiscal year 2007 and is included in the District's Comprehensive Annual Financial Report as a discrete component unit.

**ANACOSTIA WATERFRONT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation:** The Corporation's accounts are organized as an enterprise fund. The operations are accounted for with a set of self-balancing accounts that comprise of assets, liabilities, net assets, revenues and expenses.

**Measurement Focus and Basis of Accounting:** 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 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 with or contradict GASB pronouncements.

**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.

**Prepaid Disposition Costs:** Prepaid disposition costs are deferred expenses associated with preparing property for sale.

**Restricted Assets:** Proceeds from the revenue bonds are classified as restricted assets. The use of these funds is limited by applicable bond covenants.

**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 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

**ANACOSTIA WATERFRONT CORPORATION**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Expenses 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.

**Bond Issuance Costs:** Costs related to the issuance of bonds are amortized over the life of the related debt on a straight-line basis, which approximates the effective yield method.

**Deferred Revenue:** Amounts received but not yet earned for rental of certain Corporation facilities.

**Net Assets:** Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

*Invested in capital assets, net of related debt* - consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination.

*Restricted* - consists of net assets for which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates.

*Unrestricted* - consists of all other net assets not included in the above categories.

**Tax Exemption:** The Corporation is exempt from the payment of income and property taxes.

**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 3: CASH AND CASH EQUIVALENTS**

The cash and cash equivalents balance at September 30, 2007 consisted of the following:

	<b>Unrestricted</b>
Cash in sweep account	\$ 7,796,408
Cash in operation accounts	3,077,568
Total cash and cash equivalents	\$ 10,873,976

**ANACOSTIA WATERFRONT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3: CASH AND CASH EQUIVALENTS (Continued)**

As of September 30, 2007, the Corporation held proceeds of \$111,328,724 from the sale of Payment in Lieu of Taxes (PILOT) Revenue Bonds and \$5,876,000 from the District of Columbia Government under the PILOT agreement, which were invested in the Bank of New York Short-term Investment Fund, a Public Fund Money Rate Savings Account, and money market mutual funds as follows:

	<b>Restricted</b>
Cash in sweep account	\$ 5,876,170
Cash in money market accounts	110,328,724
Total cash and cash equivalents	\$ 116,204,894

Investments in proceeds of bond issuances are governed by the covenants of the indenture of trust entered between the issuer (AWC), the respective trustee and the provider of the investment agreement.

**Credit risk:** Credit risk is the risk 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. Money market funds are short-term in nature and are held by trust banks. The money market funds are top rated by nationally recognized statistical rating organizations, such as Standard & Poor's and Moody's Investors Services.

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Money market funds are short-term by their nature as they are used to meet debt service obligations and project construction. The effect of changes in interest rate is inconsequential.

**Custodial credit risk - deposits:** 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, 2007, AWC's invested with two financial institutions a total of \$10,873,976, \$200,000 of which is insured by the Federal Deposit Insurance Corporation. AWC had exposure to custodial credit risk because \$10,679,996 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in AWC's name.

**Custodial credit risk - investments:** Custodial credit risk is the risk that, in the event of the failure of the counterparty, AWC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At September 30, 2007, AWC's cash equivalents of \$116,204,894 had exposure to custodial credit risk. Although the Short-term Investment 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.

**ANACOSTIA WATERFRONT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4: CAPITAL ASSETS**

The Corporation's capital assets at September 30, 2007 consisted of the following:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
Land	\$ -	\$ 5,275,665	\$ -	\$ 5,275,665
Building	-	6,992,167	-	6,992,167
Bulkhead Docks	-	4,283,300	-	4,283,300
Leasehold Improvements	-	519,805	-	519,805
Parking Lot	-	432,157	-	432,157
Machinery and equipment	142,417	39,606	-	182,023
Furniture and fixtures	72,645	-	-	72,645
	<u>215,062</u>	<u>17,542,700</u>	<u>-</u>	<u>17,757,762</u>
Less accumulated depreciation in:				
Building	\$ -	\$ 329,526	\$ -	\$ 329,526
Bulkhead Docks	-	1,340,502	-	1,340,502
Leasehold Improvements	-	20,838	-	20,838
Parking Lot	-	49,651	-	49,651
Machinery and equipment	53,605	80,717	-	134,322
Furniture and Fixtures	17,994	14,529	-	32,523
Accumulated Depreciation	<u>71,599</u>	<u>1,835,763</u>	<u>-</u>	<u>1,907,362</u>
Capital assets, net	<u>\$ 143,463</u>	<u>\$15,706,937</u>	<u>\$ -</u>	<u>\$15,850,400</u>

Accumulated depreciation includes depreciation that was recorded prior to the acquisition of assets by AWC from NCRC.

**NOTE 5: LONG-TERM DEBT**

**Mortgage Payable**

In fiscal 2007, the District approved the transfer of the Southwest Waterfront properties from the NCRC to AWC. As part of this transfer, AWC assumed the responsibility of mortgage debt on the Hogates property. On March 29, 2007, AWC refinanced the outstanding balance of the loan from Bank of America in the amount of \$5.1 million. The principal mortgage note is payable in monthly installments of \$28,617. Interest on the unpaid principal balance is payable on a monthly basis at a fluctuating rate of interest per annum equal to the BBA LIBOR Daily Floating Rate plus two hundred twenty five (225) basis points per annum. The loan is due to mature on March 31, 2010, when the entire unpaid principal balance plus accrued interest shall be paid in full. The mortgage is secured by the Hogates Restaurant.

**ANACOSTIA WATERFRONT CORPORATION**  
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**NOTE 5: LONG-TERM DEBT (Continued)**

The unpaid balance on the mortgage payable at September 30, 2007 was \$5,000,000. The District intends to pay off the outstanding balance in fiscal year 2008 and as such the liability is classified as a current liability.

**Bonds Payable**

In September of 2007, the Corporation issued \$111.55 million of Payment in Lieu of Taxes (PILOT) Revenue Bonds with a final maturity date of December 1, 2021. The proceeds of these bonds are to be used to finance the development, improvement, and public infrastructure associated with the Corporation's public improvement projects. The PILOT bonds were issued as SIFMA-indexed obligations; the interest on the principal balance is computed on a monthly basis.

The following is the current and long-term portion of the AWC bonds payable for the year ended September 30, 2007:

Bonds Issued	\$111,550,000
Current Portion of Bonds Payable	<u>(2,820,000)</u>
 Long-Term Bond Payable at September 30, 2007	 <u><u>\$108,730,000</u></u>

Annual requirements to amortize long-term debt are as follows:

<b>Year Ending September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2008	\$ 2,820,000	\$ 3,471,104	\$ 6,291,104
2009	5,760,000	4,789,803	10,549,803
2010	6,020,000	4,529,945	10,549,945
2011	6,290,000	4,258,260	10,548,260
2012	6,575,000	3,974,413	10,549,413
2013-2017	37,610,000	15,144,186	52,754,186
2018-2021	<u>46,475,000</u>	<u>5,752,584</u>	<u>52,227,584</u>
 Total	 <u><u>\$ 111,550,000</u></u>	 <u><u>\$ 41,920,295</u></u>	 <u><u>\$ 153,470,295</u></u>

Costs associated with issuing debt are deferred and amortized, on a straight-line basis, over the life of the outstanding debt. Unamortized bond issuance costs at September 30, 2007 were \$793,531. Effective October 1, 2007, the District assumed the payment of the AWC bonds.

**ANACOSTIA WATERFRONT CORPORATION**  
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**NOTE 5: LONG-TERM DEBT (Continued)**

**Bonds Payable (Continued)**

In connection with the issuance of the PILOT Revenue Bonds, AWC entered into a floating-to-fixed rate swap agreement with Wachovia Bank, N.A. with a current notional amount of \$111.55 million. Under the terms of the swap scheduled to terminate in 2021, the District pays a fixed-rate payment of 4.46% and receives variable interest payments equivalent to 100% of the SIFMA Municipal Swap Index plus .70% per annum, commencing December 1, 2007, based on a net basis and the notional amount. As of September 30, 2007, the swap had a fair market value of \$(662,000).

**NOTE 6: LEASES**

**Operating Leases**

The District's 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, AWC paid base rent of \$25,236 per month.

AWC did not exercise the second 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 \$312,989 for fiscal year 2007. The District will not be liable for rent on this sublease in fiscal year 2008.

AWC entered into a three-year lease agreement for office space with Howard Mabry during the fiscal year. Under this agreement, AWC paid base rent of \$6,229 per month with an option to extend the term of the lease by two successive six-month periods by giving written notice not less than sixty (60) days prior to the expiration of the lease or renewal term. The base rent escalates by 4% on the anniversary of the lease term. AWC's rent expense under this agreement was \$63,070 for fiscal year 2007.

**Capital Lease**

The Corporation leased 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 15<sup>th</sup> day of each month. After 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 lease has been transferred to the District pursuant to the NCRC and AWC Reorganization Act.

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the net minimum payments as of September 30, 2007.

Year ending September 30, 2008	\$ 18,162
Less amount representing interest	396
Present value of net minimum lease payments	<u>\$ 17,766</u>

**ANACOSTIA WATERFRONT CORPORATION**  
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**NOTE 7: RETIREMENT PLAN**

AWC's full-time employees were covered by a defined contribution retirement plan which required 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 \$197,448 in contributions during fiscal year 2007.

The National Capital Revitalization Corporation and Anacostia Waterfront Corporation Reorganization Clarification Emergency Act of 2007, effective July 20, 2007 (D.C. Act 17-71; 54 DCR 7390) (Clarification Emergency Act) authorized the Mayor to hire employees of the Corporation as District government employees. The employees hired by the Mayor were transferred to the District's retirement program. The District will no longer be required to contribute to the AWC retirement plan.

**NOTE 8: RELATED PARTY TRANSACTIONS**

In fiscal year 2007, AWC received an appropriation of \$22,000,000 from the District of Columbia government. Of that amount, \$11,016,943 was received as cash revenue. The remaining \$10,983,057 in appropriations has reverted to the District's General Fund.

AWC also made payments of \$312,989; \$33,400; and \$283,000 to the Office of Property Management, the Office of the Chief Technology Officer, and the Office of the Deputy Mayor for Planning and Economic Development, respectively, for rent, information technology support, and transition services.

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

On November 14, 2006, AWC was named a defendant in a civil case titled WDC Baseball Partners, LLC vs. District of Columbia, et al. On January 7, 2008, the District of Columbia was substituted as defendant in place of AWC. On March 19, 2007, AWC was named as one of several defendants in Casco Marina Development, LLC vs. DC Government. In December 2007, the court granted a partial motion to dismiss. No provision, for any liability that may result upon adjudication, has been made in the accompanying financial statements. Management believes the ultimate outcome of the litigation cannot be determined at this time.

**NOTE 10: SUBSEQUENT EVENTS**

On October 1, 2007, pursuant to Section 2164 of the Fiscal Year 2008 Budget Support Act of 2007, which repealed the Anacostia Waterfront Corporation Act of 2004 (D.C. Law 17-20; D.C. reg. (the NCRC and AWC Reorganization Act), AWC was dissolved by the Council of the District of Columbia. All assets, liabilities and obligations were transferred to the Government of the District of Columbia on October 1, 2007.

**NOTE 11: RISK MANAGEMENT**

The Corporation is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Corporation participates in insurance plans for property, general liability, workers' compensation and other activities.