CAFR

2012

YEAR ENDED SEPTEMBER 30, 2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

VINCENT C. GRAY • MAYOR

NATWAR M. GANDHI • CHIEF FINANCIAL OFFICER

GOVERNMENT OF THE DISTRICT OF COLUMBIA

OFFICE OF THE CHIEF FINANCIAL OFFICER

VINCENT C. GRAY
MAYOR

January 28, 2013

Dear Residents of the District of Columbia,

I am pleased to present the District of Columbia's (District) Fiscal Year 2012 Comprehensive Annual Financial Report (CAFR). We completed Fiscal Year 2012 with a budgetary surplus of $417 million, resulting in a General Fund balance of $1.5 billion as of September 30, 2012, and the audit opinion is unqualified for the sixteenth consecutive year. These results are compelling evidence that the District's finances are among the strongest of any jurisdiction in the nation.

As in previous years, the District was able to continue to invest in neighborhoods and commercial projects, and continues to be an attractive destination for visitors and investors from all over the world. Last December the Census Bureau reported that the District added more than 30,000 residents over the last 27 months, a rate of 1,100 residents per month, among the fastest growing in the nation. We enjoy a "AAA" rating from Standard & Poor's on our Income Tax secured revenue bonds, with ratings of "AA+" and "Aal" from Fitch Ratings and Moody's Investors Service, respectively. All three rating agencies have "stable" outlooks on the District's income tax bonds. These strong bond ratings allow the District to secure lower interest rates to finance important investments in public capital projects such as schools, recreation facilities, streets and bridges.

The District's increasingly strong financial outlook, coupled with impressive job growth and a falling unemployment rate, is affirmation that our economic development strategies are working. Despite the challenges that anticipated future federal cuts may bring to the District, the city's economy is vibrant and growing. Our growing prosperity will allow us to ensure financial stability in the years to come while also making important investments in the safety, health, education, and quality of life of all of our residents.

With your continued support, we will keep working to lift up communities in every Ward to build a more prosperous, equitable, and sustainable District of Columbia.

Sincerely,

Vincent C. Gray

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

Natwar M. Gandhi
Chief Financial Officer

January 28, 2013

The Honorable Vincent C. Gray
Mayor of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Gray:

I am pleased to present the District of Columbia's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2012. It is with much pride that I report that our independent auditors, KPMG, LLP, issued an unqualified (clean) audit opinion on the District's fiscal year (FY) 2012 financial statements. This is the 16th consecutive year in which the District has received a clean audit opinion on its annual financial statements.

Like many other jurisdictions, the District continues to face challenges related to our national economy. Of particular concern are potentially large reductions in federal spending that could threaten the economy of the Washington metropolitan region. Through the collaborative efforts of the Mayor, Council, Agency Directors, agency personnel and the financial team, the District has persevered throughout even the most challenging economic times. Over the last several years, working together as one city and one government, we have been successful in preventing budget deficits and maintaining financial health and stability. District residents should be assured that our government functions well and has sufficient resources to provide necessary programs and services.

Due to the District's disciplined financial management practices and innovative approaches, the District's financial position at the close of FY 2012 was strong in comparison with that of many other jurisdictions. At the end of FY 2012, General Fund revenues exceeded expenditures by $417 million on a budgetary basis and the cumulative General Fund fund balance was $1.507 billion, up from $1.105 billion in FY 2011. Considering the economic climate of recent years, the District's strong financial position at this time is an extraordinary accomplishment.

The strength of the District's finances is evidenced by its strong bond ratings. The District's Income Tax Secured Revenue Bonds are currently rated as follows: AA+ by Fitch Ratings; Aa1 by Moody's Investors Service; and AAA by Standard and Poor's Rating Service. In addition, the District's General Obligation Bonds are currently rated as: AA- by Fitch Ratings; Aa2 by Moody's Investors Service; and A+ by Standard and Poor's Rating Service. As a result of these strong ratings, the District was able to refund approximately $95.3 million of its outstanding Income Tax Secured Revenue Bonds and $479.8 million of the District's outstanding General Obligation Bonds through the issuance of Income Tax Secured Revenue Refunding Bonds; and $61.2 million of the Gallery Place Project Tax Increment Revenue Bonds, through the issuance of Tax Increment Revenue Refunding Bonds. These refunding transactions provided the District with $67.5 million in present value savings.

As we move forward, maintaining the District's strong bond ratings will continue to be important to the success of our financial management. Reduced bond ratings would force the City to pay higher interest rates on our bonds and, in turn, reduce the funds available for programs and services. For that reason, we must avoid practices that will compromise the District's strong bond ratings, which we have enjoyed now for several years. We must make every effort to allocate and wisely utilize available resources and limit the use of reserves to meet operational needs so that rating agencies and investors will continue to look favorably on the District's bonds.

Effective management of the District's resources begins with the development of soundly based revenue estimates. Typically, such estimates are prepared after considering historical revenue trends, current economic conditions and indicators, and available financial forecasts. Although the economy showed signs of recovery in FY 2012, it remained fragile. During the first quarter of fiscal year 2012, the economic picture, although improving, was clouded by uncertainty regarding federal spending and the possibility that the nation might fall back into a recession. Based on known economic conditions at the time, at the close of the first quarter of FY 2012, estimated revenues for FY 2012 totaled $5.670 billion. However, due primarily to stronger than expected growth in withholding and sales tax collections, by the end of the fiscal year, the revenue estimate increased to $5.863 billion.

Many economic indicators showed that the economy was in recovery for much of FY 2012, but throughout the fiscal year the pace of that recovery remained slow. Recognizing the vulnerability and tenuous nature of the District's economy, the Office of the Chief Financial Officer was vigilant in its efforts to effectively manage the District's financial resources. We will continue our vigilance as we move forward. We are committed to improving business processes on an on-going basis, strengthening internal controls, and maximizing overall operational efficiency.

I would like to thank both program and financial staff throughout the District who have worked diligently to manage the city's financial resources during the year and successfully close the District's books at the end of the fiscal year. Through their joint efforts, the District was able to operate within budgetary constraints and timely issue its FY 2012 CAFR with a clean audit opinion. These are tremendous accomplishments and we all should be quite proud.

Sincerely,

Natwar M. Gandhi
Chief Financial Officer

Government of the District of Columbia
Comprehensive Annual Financial Report
Year Ended September 30, 2012

Vincent C. Gray
Mayor

Natwar M. Gandhi
Chief Financial Officer

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

Prepared by:

Office of the Chief Financial Officer
Office of Financial Operations and Systems

Anthony F. Pompa
Deputy Chief Financial Officer

Bill K. Slack
Deputy Controller

Financial Control & Reporting Division

Diji Omisore
Director

Cassandra Alexander
Aklilu Ayalew
David Barrow
Cassandra Butler
Kim Chamberlain
Lou Dimitroff
Jesse Dolojan
Jocelyn Hill
Marie Kamara
Michelle McNaughton
Deena Parker
David Pivec
Samuel Robertson
Belete Sitota
Tong Yu

DISTRICT OF COLUMBIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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GOVERNMENT OF THE DISTRICT OF COLUMBIA

OFFICE OF THE CHIEF FINANCIAL OFFICER

Government of the District of Columbia

Office of the Chief Financial Officer
Office of Financial Operations and Systems
1100 4th Street, S.W. (East Building), 8th Floor
Washington, D.C. 20024
(202) 442-8200
(Fax) (202) 442-8201

January 28, 2013

Dr. Natwar M. Gandhi
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2012, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with District management and the Office of the Chief Financial Officer (OCFO). To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District.

This report has been prepared in accordance with generally accepted accounting principles (GAAP) for state and local governments as promulgated by the Governmental Accounting Standards Board (GASB) and includes all disclosures necessary for readers to gain an understanding of the District's financial activities.

The ability to produce a timely and accurate CAFR depends upon the adequacy of the District's internal controls. Internal control is defined as a process, effected by an entity's governing board, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) efficiency and effectiveness of operations; (b) reliability of financial reporting; and (c) compliance with applicable laws and regulations. Reasonable assurance is defined as a high, but not absolute, level of assurance about whether the financial statements are free of material misstatement. The District's management is responsible for establishing and maintaining adequate internal controls. The greatest challenge in establishing and maintaining adequate internal controls is ensuring that the control framework developed by management is comprehensive—that is, broad enough to achieve its intended purpose.

Due to certain inherent limitations, such as prohibitive costs, judgment errors, or potential for management override and collusion, internal control can only provide reasonable assurance that management's objectives will be achieved. However, routine, periodic audits help management assess, on an on-going basis, the adequacy of the District's internal controls. In accordance with D.C. Code Section 47-119, an independent auditor audited the District's financial statements for the year ended September 30, 2012. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. In addition to issuing an opinion on the District's financial statements, the independent auditor, KPMG LLP, prepared a report, which was issued in conjunction with the CAFR, that discussed the auditor's consideration of the District's internal control over financial reporting and the outcome of the auditor's tests of the District's compliance with certain provisions of laws, regulations, contracts, grant agreements, and other related requirements. This report is commonly referred to as the Yellow Book Report.

Moreover, an audit of compliance with the Federal Single Audit Act Amendments of 1996 and the related OMB Circular A-133 is also performed annually and a separate report, often referred to as the Single Audit Report, is issued by the independent auditors. The District's fiscal year 2012 Single Audit Report will be issued at a later date.

GASB Statement No. 34 requires management to provide a narrative introductory overview and analysis (termed management's discussion and analysis (MD&A)) to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and, therefore, does not discuss the District's financial operations and results. For that reason, this letter should be read in conjunction with the MD&A in order to gain a better understanding of the District's financial condition.

PROFILE OF THE GOVERNMENT

Overview: Historical Background of the District

President George Washington established Washington, D.C. (herein after referred to as D.C., the District of Columbia, or the District) in 1791 from territory ceded by the State of Maryland and the Commonwealth of Virginia. The United States Congress assumed jurisdiction over the District of Columbia, but citizens residing in the District of Columbia did not have voting representation in Congress.

Significant dates in the history of the District of Columbia are presented in the timeline shown in **Table T1**.

Table T1 – Timeline: Key Dates in the History of the District of Columbia

February 1801	Congress enacted the Organic Act of 1801, thereby dividing the capital district into Washington County (former Maryland area) and Alexandria County (former Virginia area).
1846	Congress passed a law allowing the City of Alexandria and Alexandria County to be returned to the Commonwealth of Virginia.
1871	Congress consolidated Georgetown, Washington City, and Washington County into one territorial government. The President appointed a territorial governor and council and an elected House of Delegates. A non-voting delegate to Congress was also established.
1874	The territorial government of the District of Columbia was abolished and the non-voting delegate to Congress was eliminated.
1878	The power to elect a territorial governor and council was eliminated. Congress established a three-member Board of Commissioners to govern the District of Columbia. This form of governance lasted for almost 100 years.
1961	The 23rd Amendment to the U.S. Constitution was ratified. Citizens of the District of Columbia were granted the right to vote in a presidential election.
1967	President Lyndon B. Johnson appointed Walter E. Washington Mayor of the District of Columbia.
1970	Congress passed the District of Columbia Delegate Act.
1971	Walter Fauntroy became the first Congressional Delegate to represent the District of Columbia.
1973	Congress passed the District of Columbia Home Rule Act, which provides for a popularly elected mayor and a 13-member Council.

Although Congress passed the Home Rule Act in 1973, Congress retained and continues to retain the right to review and overturn the legislative acts of the Council if both houses of Congress vote within 30 legislative days to do so. In addition, the budget for the District of Columbia government must be approved by Congress and the President of the United States.

The Home Rule Act prohibits the taxing of federal property, other tax-exempt property and the income of non-District residents who work in the District.

In 1983, it was determined that the District could legally issue its own debt. On October 15, 1984, the District issued municipal debt for the first time, in the form of Tax Revenue Anticipation Notes (TRANs), which totaled $150 million.

Although progress has been made on many fronts throughout the city's history, District of Columbia residents still do not have voting representation in Congress. However, in accordance with the District of Columbia Delegate Act of 1970, U.S. Public Law 91-405, the citizens of the District of Columbia are represented in the House of Representatives by a Delegate, who is elected by the voters of the District of Columbia. Consistent with the Act:

> *The Delegate shall have a seat in the House of Representatives, with the right of debate, but not of voting, shall have all the privileges granted a Representative by § 6 of Article I of the Constitution, and shall be subject to the same restrictions and regulations as are imposed by law or rules on Representatives. The Delegate shall be elected to serve during each Congress.*

The current D.C. Delegate, Congresswoman Eleanor Holmes Norton, has no voting power. However, despite her limitations over the years, she has been able to accomplish much on behalf of the District of Columbia. Some of her recent major accomplishments include the following:

- Worked with the U.S. Department of Housing and Urban Development (HUD) to expand job opportunities for low-income people and public housing residents by creating a registry of eligible Section 3 businesses and job opportunities.

  The District is a participant in the Section 3 Business Registry, a HUD pilot program, which offers a searchable online database that housing authorities, local government agencies, and contractors can use to identify firms that have self-certified their status as Section 3 businesses that hire low-income individuals.

- Worked jointly with Democratic Whip Steny Hoyer to secure funding for the Frederick Douglass/South Capitol Street Bridge project. In November 2011, the U.S. Department of Transportation awarded $68 million to the District for construction of a new Frederick Douglass/South Capitol Street Bridge, which is the cornerstone of the South Capitol Street revitalization project.

  Hoyer and Norton have worked for years to obtain incremental funding for this bridge project, successfully securing $123 million in the transportation reauthorization bill, and approximately $20 million since 2002 for the rehabilitation of South Capitol Street and the Frederick Douglass/South Capitol Street Bridge through the appropriations process. The funding announced in November 2011 will be used for right-of-way acquisition.

- Succeeded in fighting back an amendment to allow people with "concealed carry" permits issued by other states to carry concealed guns in the District of Columbia. The amendment was offered to the National Right-to-Carry Reciprocity Act of 2011 (H.R. 822), which would allow people with concealed carry permits to carry concealed guns in any jurisdiction that allows "concealed carry", but not in those jurisdictions that prohibit concealed carry. The amendment, if adopted, would have created a unique exception.

For more information on the initiatives, activities and accomplishments of the D.C. Delegate, visit Congresswoman Eleanor Holmes Norton's website at www.norton.house.gov.

Financial Reporting Entity

For financial reporting purposes, the District's reporting entity consists of: (1) the primary government; (2) five discretely presented component units (Housing Finance Agency, University of the District of Columbia, Washington Convention and Sports Authority, Water and Sewer Authority, and the Not-For-Profit Hospital Corporation (d/b/a the United Medical Center); and (3) one blended component unit (the Tobacco Settlement Financing Corporation). The District of Columbia Housing Authority and the District of Columbia Courts are considered related organizations because the District is not financially accountable for their operations. The funds and accounts of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or the component units have been included in the reporting entity. Further information on the reporting entity can be found in Note 1B, page 58 of the Notes to the Basic Financial Statements.

The District and its component units provide a wide range of services to residents, including elementary, secondary, and postsecondary education; health and human services; economic development and regulation; public safety; transportation; and other general government services.

Budgetary Information

During the first quarter of each fiscal year, agencies begin the budget formulation process for the upcoming fiscal year. On or about March 20 of each year, consistent with Section 442 of the Home Rule Act, the Mayor submits a balanced operating budget for the upcoming fiscal year to the Council for review and approval. The Council holds public hearings and adopts the budget (including a multi-year capital improvement plan by project for all District agencies) through passage of a Budget Request Act. The Mayor may not submit and the Council may not adopt any budget which presents expenditures and other financing uses that exceed revenues and other financing sources. After the Mayor approves the adopted budget, it is forwarded to the President and then to Congress for approval. Congress enacts the District's budget through passage of an appropriations bill, which is signed into law by the President of the United States.

The legally adopted budget is the annual Appropriations Act passed by Congress and signed by the President. The Appropriations Act authorizes expenditures at the agency level and by appropriation title (function), such as Public Safety and Justice; Human Support Services; or Public Education. To revise planned expenditures for any function, Congress must enact the appropriate legislation. However, the District may reallocate budgeted amounts using the District's reprogramming process in accordance with applicable legal requirements.

The District utilizes budgetary controls designed to monitor compliance with expenditure limitations contained in the annual Appropriations Act. Both automation and sound governance provide strong budgetary controls. The annual budget is assigned specific accounting attributes and is uploaded into the District's accounting system of record, thereby establishing the budget authority for each entity within the District government. The budget authority established in the system of record is then reconciled to the levels of funding authorized by the Appropriations Act. In addition, on an annual basis, independent auditors review the budgetary comparison statement to ensure compliance with federally approved amounts and to determine whether budget adjustments are properly documented and approved.

The "*District Anti-Deficiency Act of 2002*" (the Act), which became effective on April 4, 2003, introduced additional budgetary control requirements. This Act requires District managers to develop spending projections, by source of funds, on a monthly basis, which show year-to-date spending, approved budget, year-end projected spending, explanations of variances greater than 5% or $1 million, and planned corrective actions for instances of overspending. Spending projections are required to be submitted to the agency head and the Agency Fiscal Officer. Summarized spending projections must be submitted to the District's Chief Financial Officer (CFO) no later than 30 days after the end of each month.

Other reporting requirements have also been established to enhance the District's budgetary control policies and practices. Consistent with D.C. Code § 47-355.04, agency heads and Agency Fiscal Officers are to submit jointly a monthly spending plan for the fiscal year to the District's CFO by October 1 of each fiscal year. In addition, pursuant to D.C. Code § 47-355.05, the District's CFO is to submit quarterly reports to the Council and the Mayor that present each agency's actual expenditures, encumbrances, and commitments, each by source of funds, compared to each agency's approved spending plan. This report is required to be accompanied by the District CFO's observations regarding spending patterns and steps being taken to ensure that spending remains within the approved budget. These reports are used by the District's Anti-Deficiency Review Board to assess cases of overspending.

In addition, the District uses encumbrance accounting as a means of strengthening budgetary controls and financial reporting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the financial system of record in order to reserve the portion of the related appropriation that will be needed for the expenditure. Therefore, the recording of encumbrances is a valuable tool used by the District to ensure that expenditures are within budgeted amounts. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Fund, Special Revenue Fund, or the fund for Federal Payments.

Cash Reserves

Through Congressional mandate, the District is required to maintain cash reserves totaling 6% of the previous fiscal year's general fund expenditures less debt service cost. The 6% is comprised of a contingency cash reserve of 4% and an emergency cash reserve of 2%. The contingency cash reserve may be used to provide for nonrecurring or unforeseen needs (*e.g.*, severe weather or other natural disasters, and unexpected obligations created by federal law) that arise during the fiscal year or to cover revenue shortfalls experienced by the District for three consecutive months. The emergency cash reserve may be used to provide for unanticipated and nonrecurring extraordinary needs of an emergency nature (*e.g.*, natural disaster or calamity) and may be used in the event that the Mayor declares a State of Emergency in the District.

Other Fund Balance Reserves

Fiscal Stabilization Reserve

The fiscal stabilization reserve may be used by the Mayor for the same purposes for which the contingency reserve was established. However, this reserve may not be used for cash flow management purposes. At full funding, the fiscal stabilization reserve must equal 2.34% of the District's General Fund operating expenditures for each fiscal year.

Cash Flow Reserve

The cash flow reserve may be used by the District's CFO as needed to manage the District's cash flow. When a portion of the reserve is used to meet cash flow needs, this reserve must be replenished in the same fiscal year the amounts were used. At full funding, the cash flow reserve must equal 8.33% of the General Fund operating budget for each fiscal year.

District Accounting and Financial System

Accounting System

The District's accounting system is organized and maintained on a fund basis. A fund is a separate, distinct accounting entity that has its own assets, liabilities, equity, revenues, and expenditures/expenses. The District uses generally accepted accounting principles (GAAP) when determining the types of funds to be established and is guided by the "minimum number of funds principle" and sound financial management practices when determining the number of funds within each fund type.

Measurement Focus and Basis of Accounting

The District's financial statements are prepared in accordance with GAAP. Accordingly, the measurement focus and basis of accounting applied in the preparation of government-wide financial statements and fund financial statements are as follows:

- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.

- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.

- Specialized accounting and reporting principles and practices apply to governmental funds. Proprietary funds, component units and pension trust funds are accounted for in the same manner as business enterprises.

- The budgetary basis of accounting is used to prepare the budgetary comparison statement presented in Exhibit 2-d found on page 49. This basis of accounting differs from the GAAP basis as described below:

    - ***Basis Differences*** - The District uses the purchase method for budgetary purposes and the consumption method for GAAP basis accounting for inventories. Under the purchase method, purchases of inventories are recognized as expenditures when the goods are received and the transaction is vouchered. Under the consumption method, an expenditure is recognized only when the inventory items are used rather than purchased.

    - ***Entity Differences*** - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis for reporting purposes. Such activities primarily include the following as reported in Exhibit 2-d found on page 49:

        1. Fund balance released from restrictions
        2. Proceeds from debt restructuring
        3. Accounts receivable allowance
        4. Operating surplus from enterprise funds

    - ***Perspective Differences*** – Perspective differences exist when the structure of financial information for budgetary purposes differs from the fund structure that is used to construct the basic financial statements. The District does not have any significant budgetary perspective differences that limit its ability to present budgetary comparisons of its general fund. The District's *Budgetary Comparison Statement* is presented as part of the basic financial statements in Exhibit 2-d on page 49.

    - ***Timing Differences*** – Timing differences can exist when there are significant variances between budgetary practices and GAAP, which may include continuing appropriations, project appropriations, automatic re-appropriations, and biennial budgeting. The District has no significant timing differences between its budgetary practices and its GAAP presentation of its financial statements.

Transparency in Financial Reporting

The OCFO continues to promote openness in government and transparency in financial reporting. Over the last decade, the District has opened its books to the public by posting online the annual operating budget and capital plan, the comprehensive annual financial report, and the popular annual financial report. In addition, the OCFO's website provides information that allows taxpayers to review and assess the District's financial status, programs, activities and services, and determine how their tax dollars are being used. This information includes: monthly cash collection reports; debt management policy and data regarding bond issuances; monthly reviews of economic trends; other economic indicators and reports; CFO News (including press releases and Council Hearing written testimonies); and links to other useful information, such as the Taxpayer Service Center, the D.C. College Savings Plan, Unclaimed Property Division, and the Office of Contracting and Procurement.

In addition, CFOInfo, a District government OCFO financial web portal, presents data on actual expenditures for at least the two most recent fiscal years, the current fiscal year's approved budget, and the budget for the upcoming fiscal year. Users can view data in graphical or tabular format and may create comparisons and cross tabs for more detailed analyses. CFOInfo may also be used to access data regarding operating budgets, special purpose revenue, capital budgets, and the current year financial status.

In recent years, the District broadened its efforts to be transparent in financial reporting by creating the website, www.recovery.dc.gov, which offers a wealth of information regarding the District's receipt and use of federal Stimulus funds. This website allows the general public to track the District's receipt and use of such funds (by project category and District agency) and provides information on how District residents may access the benefits associated with Stimulus funds.

ECONOMIC CONDITION AND OUTLOOK

The District's job market gained strength between FY 2011 and FY 2012 and the city realized stronger than expected revenue in both years. Despite a brightening of the District's economic and fiscal outlook, certain risks continue to "cloud" the District's future economic and financial outlook. Federal cutbacks continue to pose the most serious threat to the District's economy and finances. Significant federal cutbacks would most likely tip the national economy into another recession, the effects of which would trickle down to the local economy. Although the federal government cushioned the District and the metropolitan area from the worst effects of the national recession over the past four years, it can no longer be considered a source of real growth as we look to the future.

The possibility of federal government cutbacks is not the only threat to the District's economy. Key issues in the European debt crisis remain unresolved. Moreover, the District's economy may potentially be negatively impacted by disruptions to oil supplies stemming from current Middle East instability and a downturn in the still fragile national economy.

Highlights: The District's Economy

Highlights regarding the District's economy in FY 2012 are presented below:

- Since January 2012, growth in wage and salary jobs located in the District has slowed; however, resident employment has been on the rise in recent months.
- In July 2012 (the start of the third quarter), there were 8,033 (1.1%) more wages and salary jobs located in the District than a year earlier, all in the private sector, as measured by a three-month moving average. There were 3,500 (1.6%) fewer federal government jobs in July 2012 than there were a year earlier. Health services accounted for almost half of the District's net job growth over the past year.
- District resident employment was 15,729 in July 2012 which was 5.1% more than a year earlier. The unemployment rate declined to 8.8%, down from 10.5% a year earlier.
- Housing slowed in recent months. Single family sales for the three-month period ending August 2012 were down 0.5% from a year ago, and there was a 0.1% decrease in the average selling price.
- Condominium sales over the three-month period ending August 2012 were up 17.9% and the average price was 1.6% higher. The value of all home sale contracts for the three-month period was 5.7% more than a year ago.
- Tax collections for FY 2012 have been quite strong, with individual income, sales, and business taxes all showing significant growth.

Key Factors in the District's Economy

Population

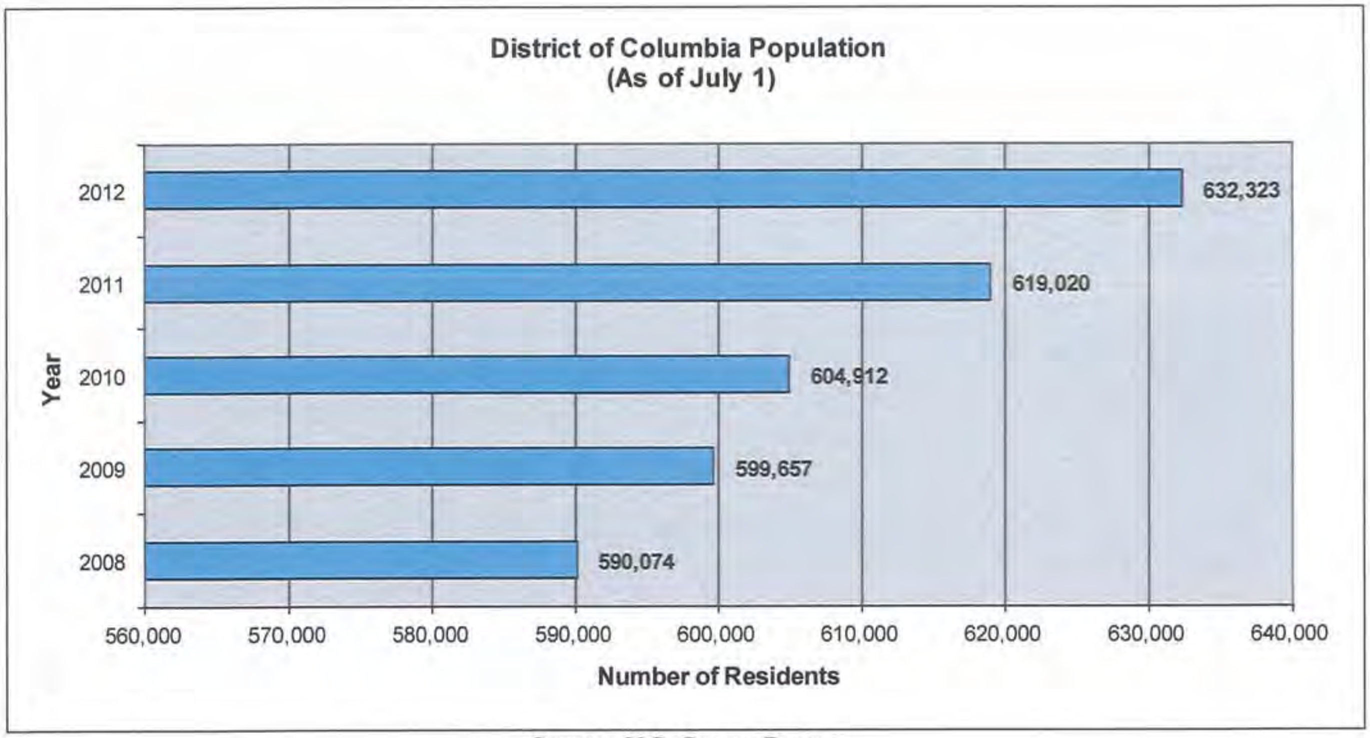
The U.S. Census Bureau estimated that there were 632,323 residents in the District of Columbia, as of July 1, 2012. This represents an increase of 13,303, or 2.1%, from the revised July 1, 2011 estimate of 619,020. Annual census estimates are based on birth and death records, changes in tax return filings, and estimates of the number of immigrants who move into the District each year. **Chart T1** presents the District's population trends for calendar years 2008 through 2012.

Income Trends

Income has grown considerably in the District in recent years. From the third quarter of 2008 to the third quarter of 2012, personal income grew approximately 13.9% in the District as compared to 7.2% nationally.

The distribution of income in the District differs from that of the nation as a whole, with higher proportions at the higher and lower ends and a smaller proportion in the middle. Median household income data is not yet available for 2012; however, for the two-year period 2010 and 2011, the District's median household income of $56,988 was 13.0% above the U.S. average. The Census Bureau estimates that 18.7% of the District's population was below the poverty line in 2011 as compared to 15.9% for all of the U.S.

Chart T1 – Population Trends (2008 – 2012)



Source: U.S. Census Bureau

Employment Trends

Total wage and salary employment in the Washington metropolitan area increased to approximately 3,023,900 in fiscal year 2012 from the revised 2,988,200 for fiscal year 2011, representing a 1.2% increase. These numbers exclude the self-employed, domestic workers, military and foreign government personnel, which represent a significant portion of the total workforce of the region. Some of the references to the 2011 employment numbers may differ from those presented in the fiscal year 2011 CAFR because of updates and revisions. **Table T2** presents 2012 labor market data for the District and the metropolitan region.

Total wage and salary employment within the District increased slightly to 24.4% of the metropolitan area's total wage and salary employment. The seasonally adjusted September 2012 unemployment rate in the District was 8.7%, compared to the September 2011 seasonally adjusted rate of 11.1%.

Total employment within the District increased to 736,600 as of September 2012 from the revised 728,400 as of September 2011. As the nation's capital, Washington, D.C. is the seat of the federal government and headquarters for most federal departments and agencies. The total September 2012 federal workforce in the Washington metropolitan area was 382,900; with approximately 209,700 federal employees located in Washington, D.C. and 173,200 additional federal employees who worked elsewhere in the Washington metropolitan area.

Minimum Wage Rate

District law requires that the minimum wage rate for District employees be at least $1.00 per hour more than the Federal minimum wage. Beginning on July 24, 2009, the Federal minimum wage rate was increased to $7.25 per hour and has not been revised since that time. Therefore, effective July 24, 2009, the District's minimum wage rate increased to $8.25 per hour and has remained unchanged through calendar year 2012.

Table T2– 2012 Labor Market Data for the District and Surrounding Metropolitan Area

Labor Market (000s): FY 2012

	District of Columbia			Metropolitan Area		
Item	**Level**	**1 yr. change (number)**	**1 yr. change (%)**	**Level**	**1 yr. change (number)**	**1 yr. change (%)**
Employed residents	330.2	22.1	7.2	3,058.3	64.2	2.1
Labor force	361.8	17.6	5.1	3,229.2	46.8	1.5
Total wage and salary employment	736.6	8.2	1.1	3,023.9	38.2	1.3
Federal government	209.7	-2.6	-1.2	382.9	-1.5	-0.4
Local government	34.3	0.2	0.6	292.6	4.4	1.5
Leisure & hospitality	63.5	1.7	2.8	284.7	8.0	2.9
Trade	23.5	0.9	4.0	283.6	-36.9	-11.5
Education and health	123.7	6.9	5.9	374.8	11.6	3.2
Prof., bus., and other services	217.9	0.2	0.1	883.2	9.4	1.1
Other private	64.0	0.9	1.4	522.1	43.2	9.0
Unemployed	31.7	-4.6	-12.6	170.8	-17.4	-9.3
New Unemployment Claims **(a)**	1.9	-0.1	-6.9			

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

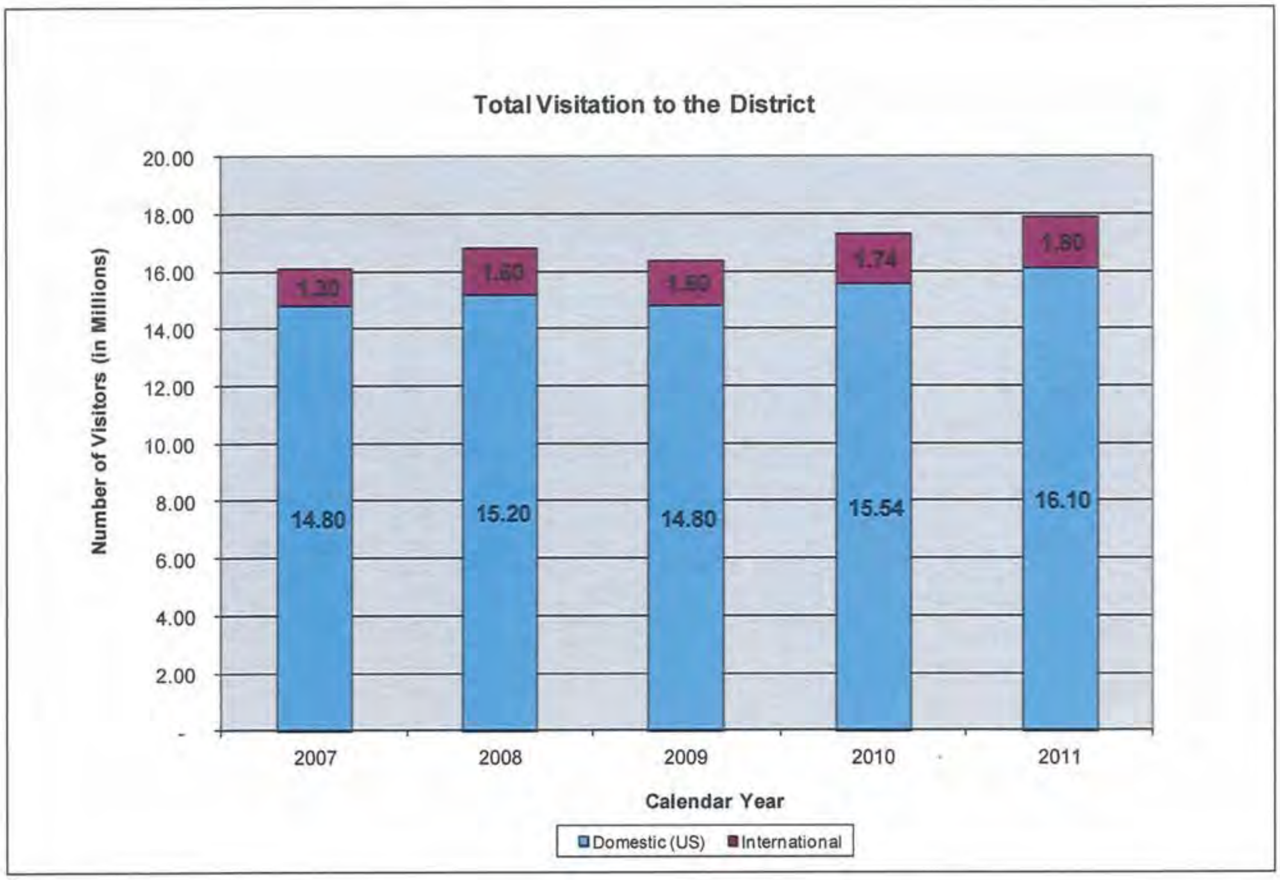
All data are monthly averages for the fiscal year and are preliminary, not seasonally adjusted.

Tourism and Hospitality

Millions of U.S. citizens and international tourists visit the District's more than 400 museums and other historical landmarks each year. Popular attractions include sites along the National Mall, numerous monuments to U.S. presidents, war memorials, and other museums. The presence of a large number of foreign embassies, recognized diplomatic missions, and other international organizations in the District helps to boost tourism. In calendar year 2011, approximately 16.1 million domestic visitors and 1.8 million international visitors traveled to the District. During calendar year 2011, the District maintained its position as the seventh most visited destination in the U.S. for international travelers. **Chart T2** presents the trends in tourism for calendar years 2007 through 2011. Tourism data for calendar year 2012 is not yet available.

Visitor spending, which totaled approximately $6.03 billion in 2011, generated additional business activity in related industries (*e.g.,* hotel, restaurant, and retail) and continues to help sustain the local and regional economies. The distribution of visitor spending in 2011 (by category) was as follows: $2.13 billion for Lodging; $1.63 billion for Food and Beverage; $994 million for Entertainment; $698 million for Shopping/Retail; $103 million for Air Transportation; and $473 million for Other Transportation. Total visitor spending increased by 34 million, or 6.0%, over the prior year. Hotel occupancy was approximately 75.3% at September 30, 2012. Travel and tourism supported more than 76,256 jobs in the District, generating approximately $3.06 billion in wages.

Chart T2 – Trends in District Tourism (2007 – 2011)



Source: Data compiled by Destination DC (formerly the Washington Convention and Tourism Corporation)

Construction - Commercial Real Estate

Construction of commercial real estate continued to show signs of recovery during calendar year 2012. At the end of 2012, commercial space under construction was up 13.5% over the prior year. Nonetheless, during the year, leased space decreased by 210,000 square feet and, the vacancy rate (including sublet) within the District increased from 8.7% at the end of 2011 to 9.3% at the end of 2012.

Construction – Housing Units

For the 12-month period ending September 2012, 4,091 housing unit building permits were issued. This represents a 66.4% increase over the prior 12-month period. **Table T3** presents the number of apartment units located in the District in 2008 through 2012.

Table T3 - District Apartment Units (2008 – 2012)

	2008	2009	2010	2011	2012
Inventory	85,427	87,090	87,970	88,710	89,464
Occupied Units	81,521	81,964	82,965	84,125	85,551

In calendar year 2012, there were 89,464 apartment units in the District, of which 85,551, or 95.6%, were occupied. It is anticipated that approximately 3,980 new apartment units will be added to the inventory between calendar years 2012 and 2013, and occupancy will grow by 4,438 units.

AMERICAN RECOVERY AND REINVESTMENT ACT (STIMULUS ACT)

On February 17, 2009, the American Recovery and Reinvestment Act (ARRA), or federal "Stimulus Bill" was signed into law. The Stimulus Bill was created to jump start the economy, preserve existing jobs, create new employment opportunities, and promote economic recovery throughout the country. Stimulus funding was made available for investments in infrastructure, energy efficiency, science, and state and local fiscal stabilization.

The District received stimulus funding for a variety of activities, including: road and bridge construction; public transportation improvements; energy efficiency and environmental projects; health care and health research; education; and public safety. Total stimulus operating expenditures were approximately $48.7 million in fiscal year 2012, which was approximately $157 million, or 76.3% less than the amount of such expenditures in the prior year. Although this reduction was significant, it was anticipated given the defined period during which stimulus funding was available. For that reason, this reduction did not significantly impact the District's ability to provide programs and services. In many instances, new sources of funding were identified to cover specific programs and activities or portions of costs associated with programs/services were assumed by the general fund. Approximately $39.1 million, or 80.2%, of the stimulus operating expenditures was made by the following agencies: Department of Health (10.7%), Office of the State Superintendent for Education (41.5%), Department of Housing and Community Development (15.1%), and District Department of the Environment (12.9%).

In fiscal year 2012, total stimulus capital expenditures were approximately $38.4 million, of which approximately $20.6 million, or 53.7%, was made by the District Department of Transportation.

THE DISTRICT'S BOND RATINGS

Rating agencies assess the credit quality of municipal issuers and assign a credit rating to the issuer based on the outcome of their assessments. Consequently, rating agencies provide vital information to investors regarding the relative risks associated with rated bond issues. Attaining an acceptable credit rating is important to an issuer because it allows the issuer to more easily access the market.

The three primary agencies that rate municipal debt are: (1) Fitch Ratings; (2) Moody's Investors Service; and (3) Standard & Poor's Rating Service. **Table T4** presents the District's bond ratings from these rating agencies for the past five years. The District's ratings for its general obligation bonds have remained high over the last several years. As a result, the District has been able to access the market and issue bonds more cost effectively.

During fiscal year 2009, the District issued its first Income Tax Secured Revenue Bonds. These bonds are special obligations of the District, payable solely from the Trust Estate pledged under the indenture. The bonds are without recourse to the District, and are not a pledge of, and do not involve, the faith and credit or the taxing power of the District (other than the pledge of the available tax revenues made by the indenture and the Act). The bonds do not constitute a debt of the District, or lending of the public credit for private undertakings. As presented in **Table T4**, the District's ratings for its Income Tax Secured Revenue Bonds continued to be high in fiscal year 2012.

Table T4 – Bond Rating History (Last Five Fiscal Years)

	General Obligation Bonds				
	2008	2009	2010	2011	2012
Fitch Ratings	A+	A+	AA-	AA-	AA-
Moody's Investors Service	A1	A1	Aa2	Aa2	Aa2
Standard & Poor's Rating Service	A+	A+	A+	A+	A+

	Income Tax Secured Revenue Bonds			
	2009	2010	2011	2012
Fitch Ratings	AA	AA+	AA+	AA+
Moody's Investors Service	Aa2	Aa1	Aa1	Aa1
Standard & Poor's Rating Service	AAA	AAA	AAA	AAA

Note: The District issued its first series of Income Tax Secured Revenue Bonds in 2009.

OTHER FACTORS AFFECTING THE DISTRICT'S FINANCIAL POSITION

The District, as the central urban location of a large metropolitan area, houses a disproportionately large share of the area's poor and needy population. The District's overall poverty rate of 18.7% and child poverty rate of 30.4% are significantly higher than the U.S average and that of neighboring counties in Maryland and Virginia. Unlike other urban jurisdictions, the District cannot pool resources across suburban areas to serve its urban poor. Yet, it must provide state-level services such as healthcare, housing and welfare, largely through its own resources.

Moreover, the costs of delivering services to District residents are high. Labor costs in the District are 21% above the national average for public services, and the costs associated with acquiring capital goods and services are 55% above the national average. The high cost of delivering services to a large population in need of healthcare, housing, welfare and other similar services or assistance severely strains the District's financial resources. It has been estimated that if the District were to offer a basket of public services that prevail as "average" among all the state and local governments, it would have to spend 31% more than the national average to deliver it.

The District's ability to pay the high costs of service delivery is limited by several federally mandated restrictions. The federal government has restricted the District's tax base by prohibiting the taxation of federal real property. However, the federal government does not provide a Payment in Lieu of Taxes to compensate for this lost tax revenue. In addition, the Home Rule Act prohibits the District from taxing nonresident income. This prohibition significantly reduces the District's income tax base because approximately 55% of the amounts earned in the District of Columbia cannot be taxed.

As a result of these restrictions on the District's tax revenue collections, District residents must bear a disproportionate share of the costs of public services, while the benefits generated by the District are shared by a much larger community. Under slower revenue growth scenarios, District services could become severely impaired.

The U.S. Government Accountability Office (GAO), in its report entitled, "District of Columbia – Structural Imbalance and Management Issues," described the impact of the high cost of living, high poverty and crime rates, and limited tax base on the District's financial operations and estimated the range of the District's structural deficit to be between $470 million to $1.1 billion annually. Although the GAO's report, which was issued in May 2003, discusses conditions that existed at that time, the District's financial operations continue to be negatively impacted by the conditions reported.

LONG-TERM FINANCIAL PLANNING

As a result of improved financial management practices over the years, the District has been able to develop and operate within more disciplined budgets and address issues faced during challenging economic times. Across the nation, economic recovery has been slow and the District has not been immune to the lingering effects of the national recession.

District officials have developed and implemented a plan for maintaining a strong, stable financial environment, which includes:

- Monitoring and analyzing the District's quarterly revenue estimates and making spending adjustments throughout the year, as necessary;
- Identifying sound measures to enhance revenue streams; and
- Developing and implementing plans to minimize costs without sacrificing essential programs or services.

MAJOR INITIATIVES

Many initiatives and projects have been completed, in progress, or planned to help sustain the District's economy and produce strong financial results. Several of the District's major initiatives and projects are discussed briefly below:

- **Pennsylvania Avenue Great Streets Project:**

  The Pennsylvania Avenue Great Streets Project, which began in November 2009, was substantially completed during fiscal year 2012, with only seasonal planting and other "punch list" items remaining.

  The Pennsylvania Avenue Great Streets Project covers two miles, from 200 feet west of 27th Street, S.E. to Southern Avenue, S.E. on the Maryland border. It runs through the historic neighborhoods of Fairlawn, Randle Highlands, Hillcrest, and Fairfax Village. A portion of the corridor was reduced from five lanes to four. In its place, the District Department of Transportation (DDOT) added a landscaped median and turn pockets that protect pedestrians and neighborhood vehicles. Special streetscape treatments were designed to highlight and enhance the retail nodes along the corridor, and DDOT completed the sidewalk network on both sides of the street for the full length of the corridor. This project also includes multiple Low Impact Development (LID) features, including three environmentally friendly rain gardens. Rain gardens are a method of treating storm runoff by utilizing a mixture of soil and plants to filter out pollutants prior to the runoff entering storm-sewer systems, and local waterways.

This $35.8 million project has dramatically improved this corridor, making it safer for pedestrian and vehicular traffic and much more visually appealing. The District's Great Streets Initiative provided approximately $11 million for the project, and $19.5 million was provided by the American Recovery and Reinvestment Act (ARRA) of 2009. The remainder came from other local and federal sources. The Great Streets Program is a partnership between DDOT, the Office of the Deputy Mayor for Planning and Economic Development, and the Office of Planning.

- **U.S. Department of Homeland Security Headquarters (St. Elizabeth's West Campus)**:

In September 2009, the U.S. Department of Homeland Security (DHS) and the U.S. General Services Administration broke ground for the $3.4 billion consolidated DHS headquarters. DHS is building its headquarters on the west campus of the old St. Elizabeth's Hospital located in Southeast Washington, D.C. The first phase of this project is the new energy-efficient, 1.18 million square foot Coast Guard headquarters facility. Occupancy of the new Coast Guard headquarters facility is slated to begin in 2013.

When completed, the DHS headquarters will house approximately 14,000 employees working in the following DHS components: Transportation Security Administration, Customs and Border Protection, Immigration and Customs Enforcement, and the Federal Emergency Management Administration.

- **CityCenter DC**

Construction began in March 2011 on CityCenter DC, a $700 million complex with 2.5 million square feet of office, residential, and retail space as well as a public plaza and park. Completion of most of the planned project is slated for late 2013.

The principal owner of the CityCenter DC project is the Qatari Diar Real Estate Investment Company. This real estate arm of the Persian Gulf state of Qatar made a $620 million equity investment in the project.

CityCenter DC will include six buildings (two for apartments, two for condominiums, and two for offices), each 10 or 11 stories in height, in keeping with the District's 130-foot height restriction. The six buildings will be connected by a public courtyard. There will be 458 apartments, 216 condominiums, 185,000 square feet of retail space, 515,000 square feet of office space and four levels of underground parking. A luxury hotel is also planned for the project's second phase.

- **Convention Center Hotel**

On November 10, 2010, the District broke ground on the 14-story Washington Convention Center Marriott Marquis Hotel. One of only four Marriott Marquis properties in the country, the hotel will have 1,175 rooms (including 46 suites) and more than 53,000 square feet of meeting space. The hotel will feature an elegant lobby and five separate retail and restaurant outlets on the ground floor; a 30,000-square foot grand ballroom; two 10,800-square foot junior ballrooms; an 18,800-sqaure foot indoor event terrace; and a 5,200 square foot rooftop terrace.

The estimated cost of this project is $520 million. District officials approved $206 million in funding for the hotel during the summer of 2010 and the developer secured financing from private investors. The four-star boutique-style hotel, a mix of glass and steel, is scheduled to open in the spring of 2014.

The project will create about 1,600 construction jobs and more than 1,000 jobs at the hotel when completed.

- **D.C. Streetcar**

The District plans to build a $1.5 billion network of eight streetcar lines throughout the city by 2020, providing transit links in areas currently lacking Metrorail access. Construction on the project began in 2008. The first two lines, H Street/Benning Road in Northeast and Martin Luther King Boulevard in Anacostia, are scheduled to begin ferrying riders during 2013.

Approximately 80% of the construction for the H Street/Benning Road line was completed in 2011 as part of the Great Street project. The remaining 20% of the work began in December 2012.

Construction activities along the Anacostia Corridor are also progressing. The Anacostia Initial Line Segment is a 1.1 mile planned streetcar line connecting the Anacostia Metro Station with the Joint Base Anacostia-Bolling. This line will include a storage yard and maintenance facility. This segment will be used as a testing and commissioning track for streetcar vehicles prior to being put into service.

The District purchased its first "modern streetcars" in late 2009. These cars are approximately eight feet wide and approximately 66 feet long, about 10 inches narrower than and one-third the length of a light rail double car train. The modern streetcars are able to operate in mixed traffic and can easily accommodate existing curbside parking and loading.

The District's existing vehicles will be stored at the Anacostia facility with vehicle testing and commissioning slated to begin in mid-to-late February 2013.

Several District projects and initiatives have been implemented with a focus on protecting the environment. Two of these initiatives are described more fully below:

- **Capital Bikeshare:** In September 2010, the District launched Capital Bikeshare, a regional bike sharing network of 1,100 bicycles throughout the District, and Arlington, Virginia. Bikes are docked at bike stations in the District and Arlington, where they remain locked to racks until a Capital Bikeshare member releases one for use. Anyone can become a Bikeshare member by paying the following fees: for 24 hours, $5; for 30 days, $25; or for a full year, $75.

  Members who sign up for longer than a day receive palm-size bar-coded cards. These cards are slipped into a slot to release a bike. The first 30 minutes of each ride are free, after which the charges are: $1.50 for the next 30 minutes; $3 for the third half-hour; and $6 for each 30-minute period after that.

  Amounts owed are billed to the member's credit card and $1,000 is charged if a bike is not returned within 24 hours. The billing system is activated with the insertion of the bar-coded membership card at the bike station, and another insertion when the bike is returned, both of which are transmitted to Bikeshare headquarters through a wireless, solar-powered communications network.

  Each station begins the day with about 10 bikes and five empty docking spaces. On the Capital Bikeshare Website, a click of the mouse on each station reveals the number of bikes which are available at any given moment, and the number of docking stations which are open for those who want to return a bike. Capital Bikeshare is the nation's largest program of its type. Members of Congress are encouraging the National Park Service to allow Capital Bikeshare stations on the National Mall to offer an innovative, cost-effective and environment-friendly transportation service for the millions of people who visit the National Mall annually.

- **Anacostia River Clean Up and Protection Fund/ Carryout Bag Fees:** During fiscal year 2010, the District established the Anacostia River Clean Up and Protection Fund, which is to be used solely to fund efforts to clean and protect the Anacostia River and the other impaired waterways.

  In January 2010, to help fund such efforts, the District began levying a five-cent "bag tax" on District consumers. A consumer making a purchase from a retail establishment within the District must pay, at the time of purchase, a fee of five cents for each disposable carryout bag he or she receives. During fiscal year 2012, the District collected approximately $2.0 million in bag taxes. Since the inception of the tax in 2010, the District has collected more than $5.3million in such taxes.

The District also makes every effort to implement initiatives that will enhance service to District residents and the general public. Over the last several years, the District has introduced numerous innovative initiatives to improve service delivery, some of which included the following:

- **Pay-By-Phone Parking.** The Pay-By-Phone Parking initiative, designed to make parking in the District more convenient, was implemented in fiscal year 2011.

  The District Department of Transportation rolled out the pay-by-phone parking program on a District-wide basis to enable residents, workers, and visitors to use their mobile telephones to pay for parking at all of the District's approximately 17,000 on-street metered spaces. Pay-by-phone parking gives drivers another convenient payment option. Instead of feeding cash or a credit card into a meter, transactions may be completed by telephone, on the Internet, or by using a mobile application ("app") (available for the iPhone, Android, and Blackberry).

- **DC311 Smartphone App:** In April 2012, the District launched the DC311 free smartphone app, which may be used by residents to report up to 80 different common, non-emergency quality-of-life issues, such as potholes, graffiti, downed trees, and streetlight outages. The DC311 app may also be used to upload pictures and track the status of requests made. In addition, a mapping function may be used to determine where requests have been made.

  The DC311 Smartphone App, together with the Citywide Call Center and 311 Online, offer ways by which the community can report non-emergency problems that need to be rectified. Information from each of these sources is funneled into one centralized database for monitoring and resolution.

Additional information about these and other initiatives within the District may be obtained from the following:

- **Office of the Deputy Mayor for Planning & Economic Development**
  John A. Wilson Building
  1350 Pennsylvania Avenue, N.W., Suite 317
  Washington, D.C. 20004
  Telephone: (202) 727-6365
  Website: http://dcbiz.dc.gov

- **District Department of Transportation**
  55 M Street, S.E., Suite 400
  Washington, D.C. 20003
  Telephone: (202) 673-6813
  Website: http://ddot.dc.gov

- **Office of Planning**
  1100 Fourth Street, S.W., Suite E650
  Washington, D.C. 20024
  Telephone: (202) 442-7600
  Website: http://planning.dc.gov

- **Department of Parks and Recreation**
  3149 16th Street, N.W.
  Washington, D.C. 20010
  Telephone: (202) 673-7647
  Website: http://dpr.dc.gov

- **Department of General Services**
  2000 14th Street, N.W., 8th Floor
  Washington, D.C. 20009
  Telephone: (202) 727-2800
  Website: http://dgs.dc.gov

- **U.S. General Services Administration**
  1800 F Street, N.W.
  Washington, D.C. 20405
  Telephone: (202) 501-0705
  Website: http://www.gsa.gov

AWARDS AND ACKNOWLEDGMENTS

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District of Columbia for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2011. The District has received this award for twenty-eight of the last thirty years. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that the fiscal year 2012 CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District also earned an award from GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the fiscal year ended September 30, 2011, for the ninth consecutive year. The PAFR presents the District's financial results in a format and language that allows information to be more easily understood by the general public. The PAFR is not required to present the same level of detail as the CAFR. It contains very few financial statements, less technical language, and more graphics and photographs.

Like the Certificate of Achievement, the Award for Popular Annual Financial Reporting is valid for one year only. The District expects that the fiscal year 2012 PAFR, which will be issued within 30 days after the CAFR is completed, will conform to the Award for Popular Annual Financial Reporting Program requirements. It will also be submitted to the GFOA to determine its eligibility for another award.

Acknowledgments

I would like to thank the District's accounting and financial management personnel who worked collaboratively with the Office of Financial Operations and Systems throughout the year. I greatly appreciate their efforts, which contribute significantly to the timely preparation of the CAFR. I want to thank my immediate staff, *Bill Slack, Diji Omisore, Tonja Lowe, Wilma Matthias, Vanessa Jackson,* and their respective teams. I am grateful for their dedicated efforts. I would also like to thank the Office of the Inspector General, and the District's independent auditors, KPMG LLP, assisted by Bert Smith & Company, for their efforts throughout the audit engagement.

Respectfully submitted,

Anthony F. Pompa

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

DISTRICT OF COLUMBIA PRINCIPAL OFFICIALS
January 2, 2013

ELECTED OFFICIALS

Name	Position	First Took Office	Term Expires
	Chief Executive Officer		
Vincent C. Gray	Mayor	2011	2015
	Council		
Phil Mendelson	Chairman	1999	2015
David Catania	At Large	1997	2015
David Grosso	At Large	2013	2017
Anita Bonds	At Large	2012	2013
Vincent Orange	At Large	2011	2017
Jim Graham	Ward 1	1999	2015
Jack Evans	Ward 2	1991	2017
Mary M. Cheh	Ward 3	2007	2015
Muriel Bowser	Ward 4	2007	2017
Kenyan McDuffie	Ward 5	2012	2015
Tommy Wells	Ward 6	2007	2015
Yvette M. Alexander	Ward 7	2007	2017
Marion Barry, Jr.	Ward 8	2005	2017
	House of Representatives		
Eleanor Holmes Norton	Delegate	1991	2015

EXECUTIVE OFFICERS

Name	Position
Allen Lew	City Administrator
Natwar M. Gandhi	Chief Financial Officer
Irvin B. Nathan	Attorney General
Christopher Murphy	Chief of Staff
Cynthia Brock-Smith	Secretary of the District of Columbia
Jennifer Leonard	Interim Deputy Mayor for Education
Victor L. Hoskins	Deputy Mayor for Planning and Economic Development
Paul Quander	Deputy Mayor for Public Safety and Justice
Beatriz Otero	Deputy Mayor for Health and Human Services
Eric Goulet	Director of the Mayor's Office of Budget and Finance
Kaya Henderson	Chancellor for D.C. Public Schools
Charles J. Willoughby	Inspector General
Gordon McDonald	Deputy CFO, Budget and Planning
Anthony F. Pompa	Deputy CFO, Financial Operations and Systems
Jeffrey Barnette	Deputy CFO, Finance and Treasury
Fitzroy Lee	Deputy CFO, Revenue Analysis
Stephen Cordi	Deputy CFO, Tax and Revenue
Cyril Byron, Jr.	Associate CFO, Economic Development and Regulation
Mohamed Mohamed	Associate CFO, Governmental Operations
George Dines	Associate CFO, Government Services
Delicia Moore	Interim Associate CFO, Human Support Services
Angelique Hayes	Associate CFO, Public Safety and Justice
Deloras A. Shepherd	Associate CFO, Elementary and Secondary Education
Buddy Roogow	Executive Director, D.C. Lottery

DISTRICT OF COLUMBIA PRINCIPAL OFFICIALS
September 30, 2012

ELECTED OFFICIALS

Name	Position	First Took Office	Term Expires
	Chief Executive Officer		
Vincent C. Gray	Mayor	2011	2015
	Council		
Phil Mendelson	Interim Chairman	1999	2012
Michael A. Brown	At Large	1997	2012
David Catania	At Large	2013	2015
Phil Mendelson	At Large	2012	2015
Vincent Orange	At Large	2011	2015
Jim Graham	Ward 1	1999	2015
Jack Evans	Ward 2	1991	2012
Mary M. Cheh	Ward 3	2007	2015
Muriel Bowser	Ward 4	2007	2012
Kenyan McDuffie	Ward 5	2012	2015
Tommy Wells	Ward 6	2007	2015
Yvette M. Alexander	Ward 7	2007	2012
Marion Barry, Jr.	Ward 8	2005	2012
	House of Representatives		
Eleanor Holmes Norton	Delegate	1991	2012

EXECUTIVE OFFICERS

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Natwar M. Gandhi	Chief Financial Officer
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Christopher Murphy	Chief of Staff
Cynthia Brock-Smith	Secretary of the District of Columbia
De'Shawn Wright	Deputy Mayor for Education
Victor L. Hoskins	Deputy Mayor for Planning and Economic Development
Kaya Henderson	Chancellor for D.C. Public Schools
Charles J. Willoughby	Inspector General
Gordon McDonald	Deputy CFO, Budget and Planning
Anthony F. Pompa	Deputy CFO, Financial Operations and Systems
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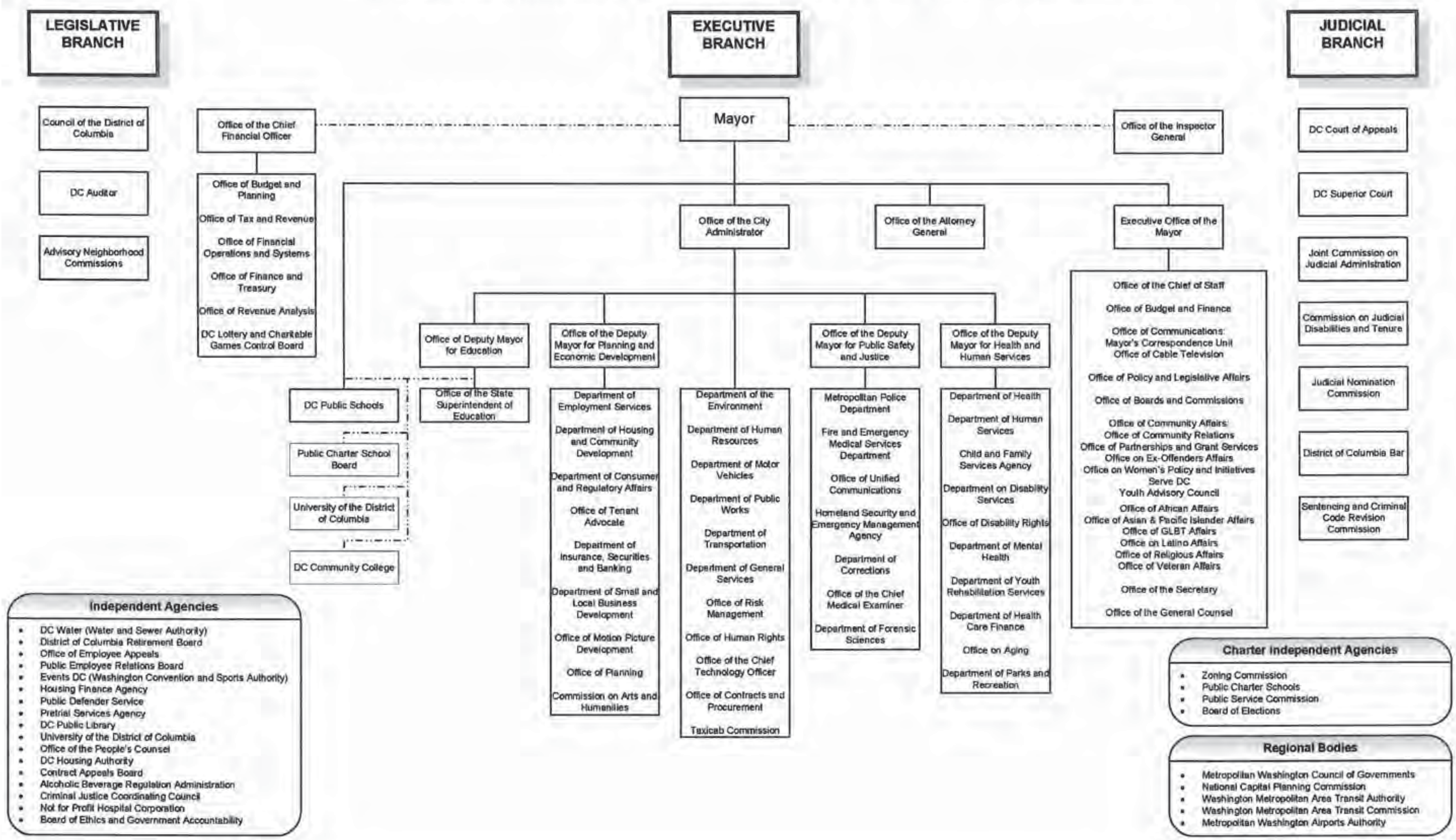
GOVERNMENT OF THE DISTRICT OF COLUMBIA



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Government of the District of Columbia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

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

President

Executive Director

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CAFR

FINANCIAL SECTION

2012

VINCENT C. GRAY • MAYOR

NATWAR M. GANDHI • CHIEF FINANCIAL OFFICER

GOVERNMENT OF THE DISTRICT OF COLUMBIA

OFFICE OF THE CHIEF FINANCIAL OFFICER

INDEPENDENT AUDITORS' REPORT

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the budgetary comparison statement, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia (the District), as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the District of Columbia Water and Sewer Authority and District of Columbia Housing Finance Agency, both discretely presented component units of the District, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the District of Columbia as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison statement for the general and federal and private resources funds for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG

U.S. generally accepted accounting principles require that the management's discussion and analysis and the required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information presented in the financial section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The statements and schedules described as other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information presented in the financial section, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section as listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

January 28, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2012

(Dollar amounts expressed in thousands)

The following is a discussion and analysis of the District of Columbia's (the District's) financial performance for the fiscal year ended September 30, 2012, which includes a narrative overview and analysis of the District's financial activities. This information should be read in conjunction with the transmittal letter, located in the Introductory Section of this report, and the District's basic financial statements and note disclosures, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

- The District's assets exceeded its liabilities as of September 30, 2012, by $3,562,587. The District had negative unrestricted net assets totaling $597,677 at the end of fiscal year 2012. (See Table MDA-1)

- The District's total net assets increased by $361,794 as a result of an increase of $489,424 in revenues and a smaller increase of $266,447 in expenses in fiscal year 2012.

- General revenues increased by approximately $500,616 due to significant increases in income and franchise taxes, and property taxes totaling $300,307 and $141,380, respectively. Expenses increased by $266,447 over the one-year period. Higher than expected increases in revenues from sales and use taxes and charges for services combined with the implementation of self-imposed cost reduction plans contributed to the increase in net assets. (See Table MDA-2)

- As of September 30, 2012, the District's governmental funds reported combined ending fund balances of $1,931,894, an increase of $205,260 in comparison with the prior year. (See Table MDA-3)

- The District's total long-term liabilities increased by $433,949, or 5.0%, during fiscal year 2012. This increase resulted, in large part, from the District's issuance of Income Tax Secured Revenue Bonds during the year. The District issued $956,565 in Income Tax Secured Revenue Bonds to fund infrastructure improvements/capital projects and refund certain series of outstanding bonds. The amount of District bonds defeased through the fiscal year 2012 refundings totaled $623,535. Other factors which contributed to the increase in long-term liabilities include the issuance of Tax Increment Financing Bonds totaling $91,015.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

In general, the purpose of financial reporting is to provide users of financial statements with information that will help them make decisions or reach conclusions about a reporting entity. Many parties use the District's financial statements; however, they do not always use them for the same purpose. In order to address the needs of as many financial statement users as possible, the District, in accordance with generally accepted accounting principles (GAAP) presents: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements.

Government –Wide Financial Statements

The government-wide financial statements focus on the District's overall financial position and activities, and include a *statement of net assets* and a *statement of activities*. These financial statements report on the primary government and its component units. The primary government is further divided into governmental activities and business-type activities.

The purpose of the *statement of net assets* is to report all of the assets held and the liabilities owed by the District at the end of the fiscal year. The difference between the District's total assets and total liabilities is classified as net assets. Total net assets is comprised of three components: 1) *net assets invested in capital assets, net of related debt; 2) restricted net assets;* and 3) *unrestricted* *net assets (deficit)*. Although the District does not focus its operations on accumulating net assets, in general, gauging increases or decreases in net assets is one way to assess the District's financial position over time. Other factors, such as changes in population, the property tax base, infrastructure conditions, and other non-financial matters, should also be considered when assessing the District's overall financial health.

The purpose of the *statement of activities* is to present the District's revenues and expenses. The difference between revenues and expenses is reported as "change in net assets". All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement also include items that will result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The *statement of activities* summarizes both the gross and net cost of the governmental activities and business-type activities. Governmental activities include the District's basic functional services which are generally financed through taxes, intergovernmental revenues and other revenues. Business-type activities include enterprise operations which are primarily funded by fees for services which are expected to cover all or most of the costs of operations, including depreciation. Program or functional expenses are reduced by program-specific earned revenues, and by grants and contributions.

The District's government-wide financial statements are presented on pages 44 and 45 of this report.

Fund Financial Statements

Unlike the government-wide financial statements, the fund financial statements focus on specific District activities rather than the District as a whole. Specific funds are established to maintain managerial control over resources or to comply with legal requirements established by external parties, governmental statutes, or regulations. The District's fund financial statements are divided into three categories: (1) governmental funds; (2) proprietary funds; and (3) fiduciary funds.

Financial statements of the governmental funds consist of a balance sheet and a statement of revenues, expenditures, and changes in fund balance. These statements are prepared using a basis of accounting which differs from that used to prepare the government-wide statements. Financial statements of the governmental funds focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting. However, government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting. Financial statements of the governmental funds have a short-term emphasis, and generally measure and account for cash and other assets that can easily be converted to cash. As such, these statements present the District's financial position at the end of the fiscal year and how the governmental activities were financed during the year.

The balances and activities accounted for in governmental funds are also reported in the governmental activities column of the government-wide financial statements; however, because different accounting bases are used to prepare fund financial statements and government-wide financial statements, there are often significant differences in the totals presented in these statements. Therefore, an analysis is presented at the bottom of the balance sheet that reconciles the total fund balances to the amount of net assets presented in the governmental activities column of the statement of net assets. In addition, there is an analysis following the statement of revenues, expenditures, and changes in fund balances that reconciles the total net change in fund balances for all governmental funds to the change in net assets as reported in the governmental activities column of the government-wide statement of activities.

Consistent with Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District identified its nonspendable fund balance and further classified spendable fund balance as restricted, committed, assigned, or unassigned based on the relative strength of the constraints controlling how specific amounts may be used. Statement No. 54 also provides guidance for classifying and reporting stabilization amounts and clarifies the definitions of the general fund type, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type. Accordingly, the District reviewed its use of the various fund types to ensure compliance with the guidance contained in GASB Statement No. 54.

The District presents funds that are significant to the District (major funds) in separate columns. All other governmental funds are aggregated and reported in a single column (nonmajor funds).

The financial statements of the District's governmental funds are presented on pages 46 through 49 of this report.

Financial statements of the proprietary funds consist of a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. These statements are prepared using the full accrual basis of accounting similar to that used to prepare the government-wide financial statements. The District's proprietary funds are used to account for the activities of District entities that charge customers fees for the services provided. The financial statements of the District's proprietary funds present the changes in financial position and condition of the District's two major proprietary funds, the D.C. Lottery & Charitable Games Board and the Unemployment Compensation Fund.

The Unemployment Compensation Fund is reported as a proprietary fund similar to a public entity risk pool because the District is required by law to recover its costs.

The financial statements of the District's proprietary funds are presented on pages 50 through 52 of this report.

Financial statements of the fiduciary funds consist of a statement of fiduciary net assets and a statement of changes in fiduciary net assets. These statements are prepared using the full accrual basis of accounting similar to that used to prepare the government-wide financial statements. Assets held by the District (either as a trustee or as an agent) for other parties, that cannot be used to finance the District's operating programs, are reported in the fiduciary funds. The District is responsible for ensuring that the activities reported in the fiduciary funds are consistent with each fund's intended purpose.

The financial statements of the District's fiduciary funds are presented on pages 53 and 54 of this report.

Component Units

Combining financial statements, presented on pages 55 and 56, report the financial data for the District's discretely presented component units.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements, which begin on page 57, present additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress toward funding its obligation to provide pension and other postemployment benefits to District employees. Required supplementary information can be found on pages 133 through 135 of this report.

Financial statements of individual funds, combining statements (in connection with nonmajor governmental funds), and supporting schedules are presented immediately following the required supplementary information on postemployment benefits. Financial statements of individual funds and combining statements and schedules can be found in the other supplementary information presented on pages 137 through 163 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND OPERATIONS

The District's overall financial position improved as a result of the year's activities. The District's financial position and operations for the past two fiscal years are summarized in **Tables MDA-1 and MDA-2**. The information for fiscal years 2011 and 2012 is based on the government-wide financial statements presented on pages 44 and 45 of this report.

Table MDA-1 - Net Assets as of September 30, 2012

	Governmental activities		Business-type activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 4,266,717	$ 3,964,874	$ 324,372	$ 339,309	$ 4,591,089	$ 4,304,183
Capital assets	10,424,959	9,815,312	480	478	10,425,439	9,815,790
Total assets	14,691,676	13,780,186	324,852	339,787	15,016,528	14,119,973
Long-term liabilities	9,164,291	8,723,811	16,381	22,912	9,180,672	8,746,723
Other liabilities	2,198,815	2,085,790	74,454	86,667	2,273,269	2,172,457
Total liabilities	11,363,106	10,809,601	90,835	109,579	11,453,941	10,919,180
Net assets:						
Invested in capital assets, net of related debt	2,872,272	2,534,538	480	478	2,872,752	2,535,016
Restricted	1,057,582	963,694	229,930	226,229	1,287,512	1,189,923
Unrestricted	(601,284)	(527,647)	3,607	3,501	(597,677)	(524,146)
Total net assets	**$ 3,328,570**	**$ 2,970,585**	**$ 234,017**	**$ 230,208**	**$ 3,562,587**	**$ 3,200,793**

Table MDA- 2 - Change in Net Assets for the year ended September 30, 2012

	Governmental activities		Business-type activities		Totals		
	2012	2011	2012	2011	2012	2011	Variance
Revenues:							
Program revenues:							
Charges for services	$ 537,403	$ 490,101	$ 249,675	$ 235,884	$ 787,078	$ 725,985	$ 61,093
Operating grants and contributions	3,190,038	3,343,747	27,945	34,968	3,217,983	3,378,715	(160,732)
Capital grants and contributions	261,411	172,964	-	-	261,411	172,964	88,447
General revenues:							
Property taxes	1,945,071	1,803,691	-	-	1,945,071	1,803,691	141,380
Sales and use taxes	1,218,576	1,121,257	-	-	1,218,576	1,121,257	97,319
Income and franchise taxes	1,956,590	1,656,283	-	-	1,956,590	1,656,283	300,307
Other taxes	723,102	682,201	133,618	128,875	856,720	811,076	45,644
Non tax revenues	536,534	569,522	187,073	238,119	723,607	807,641	(84,034)
Total revenues	**10,368,725**	**9,839,766**	**598,311**	**637,846**	**10,967,036**	**10,477,612**	**489,424**
Expenses:							
Governmental direction and support	987,978	783,557	-	-	987,978	783,557	204,421
Economic development and regulation	353,618	370,592	-	-	353,618	370,592	(16,974)
Public safety and justice	1,490,423	1,521,863	-	-	1,490,423	1,521,863	(31,440)
Public education system	2,113,955	2,086,722	-	-	2,113,955	2,086,722	27,233
Human support services	3,925,613	3,889,812	-	-	3,925,613	3,889,812	35,801
Public works	587,002	489,304	-	-	587,002	489,304	97,698
Public transportation	221,339	257,703	-	-	221,339	257,703	(36,364)
Interest on long-term debt	397,216	356,164	-	-	397,216	356,164	41,052
Lottery and games	-	-	183,185	169,526	183,185	169,526	13,659
Unemployment compensation	-	-	344,913	413,552	344,913	413,552	(68,639)
Total expenses	**10,077,144**	**9,755,717**	**528,098**	**583,078**	**10,605,242**	**10,338,795**	**266,447**
Increase in net assets before transfers	**291,581**	**84,049**	**70,213**	**54,768**	**361,794**	**138,817**	**222,977**
Transfers in (out)	66,404	71,311	(66,404)	(71,311)	-	-	-
Change in net assets	357,985	155,360	3,809	(16,543)	361,794	138,817	222,977
Net assets - Oct 1	2,970,585	2,815,225	230,208	246,751	3,200,793	3,061,976	138,817
Net assets - Sept 30	**$ 3,328,570**	**$ 2,970,585**	**$ 234,017**	**$ 230,208**	**$ 3,562,587**	**$ 3,200,793**	**$ 361,794**

Please refer to Note 1W – *Reconciliation of Government-Wide and Fund Financial Statements*, on page 76 for additional information on the differences between the two bases of accounting that the District used in this report.

Financial Analysis of the Government as a Whole

- The District's combined net assets (governmental and business-type activities) increased by $361,794 or 11.3%, from $3,200,793 in fiscal year 2011 to $3,562,587 in fiscal year 2012. This increase in net assets resulted from an increase in revenues totaling $489,424. In addition, expenses in Public Safety and Justice, Economic Development and Regulation, and Public Transportation decreased by $31,440, $16,974, and $36,364, respectively, as a result of cost-saving measures implemented by the District.

  Much of the reduced spending in Public Safety and Justice was attributable to cost-saving measures implemented at the Department of Corrections. The department awarded a healthcare contract that coupled healthcare and pharmaceuticals as a cost-saving initiative. In addition, the Department of Corrections sought other ways to lower its non-personnel services costs. For instance, the department renegotiated its warehouse contract which netted substantial savings, and the department's equipment costs were lowered. Moreover, reductions were made in the department's inmate food contract.

  The decreased expenditures in Economic Development and Regulation are attributable, in large part, to two agencies, the Department of Housing and Community Development (DHCD) and the Department of Employment Services (DOES).

  1. DHCD achieved reductions in the cost of Residential and Community Services related to the Home Purchase Assistance Program. In addition, DHCD's fixed costs decreased significantly from the prior year.

  2. Reductions in DOES's expenditures were due to decreases in subsidies and transfers in the Workforce Development Division; reduced costs associated with supplies, materials, and equipment purchases; reductions in non-personnel services costs related to the Summer Youth Employment Program; and the elimination of full-time equivalents (FTEs) as part of the agency's efforts to streamline operations.

  The District Department of Transportation's restructuring and consolidation of certain divisions and functions produced substantial savings in fiscal year 2012.

Restricted net assets are assets that are subject to use constraints imposed either: (a) externally by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments; or (b) by law, through constitutional provisions or enabling legislation. Restricted net assets totaled $1,287,512 in fiscal year 2012 and $1,189,923 in fiscal year 2011, representing an increase of $97,589, or 8.2%. Most of this increase is due to more funds being held for debt service, grants, and special purposes.

Total net assets of governmental activities was $3,328,570 in fiscal year 2012, which was $357,985 or 12.1%, more than total net assets of governmental activities in fiscal year 2011. Governmental Activities expenses increased by $321,427 from the prior year and Governmental Activities revenues increased by $528,959.

Total net assets increased mainly because of effective management of expenditures and increases in revenues from property taxes, income and franchise taxes, and sales and use taxes. However, negative unrestricted net assets increased to ($597,677) in fiscal year 2012, compared to ($524,146) in fiscal year 2011, because the District has certain long-term liabilities which are funded on a pay-as-you-go basis. Therefore, resources or assets were not accumulated in advance but were appropriated as these liabilities became due.

The Lottery and Charitable Games Control Board (the Lottery), an enterprise fund of the primary government, transfers substantially all of its net income to the District at the end of each fiscal year. In fiscal years 2012 and 2011, the Lottery transferred $66,404 and $62,175 to the District's General Fund, respectively. The Lottery's transfer was the only transfer from the proprietary funds to the primary government in fiscal year 2012.

Chart MDA-1 graphically depicts the District's sources of revenues in its governmental activities as presented in **Table MDA-2,** *Change in Net Assets for the year ended September 30, 2012*, found on page 28.

Chart MDA-1 – Revenues by Source – Governmental Activities

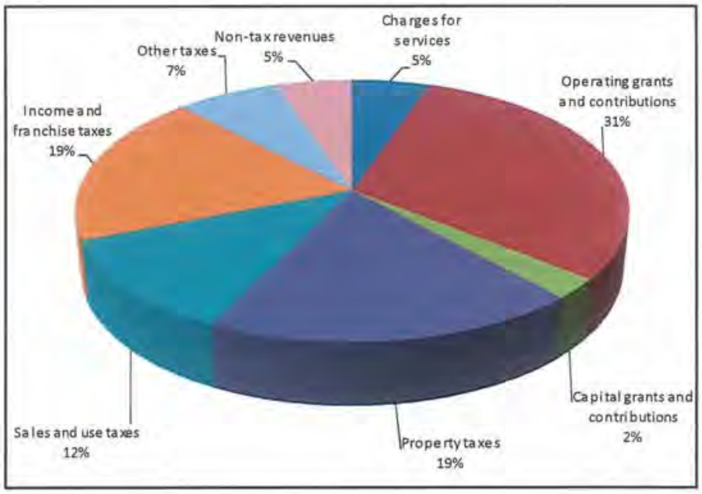
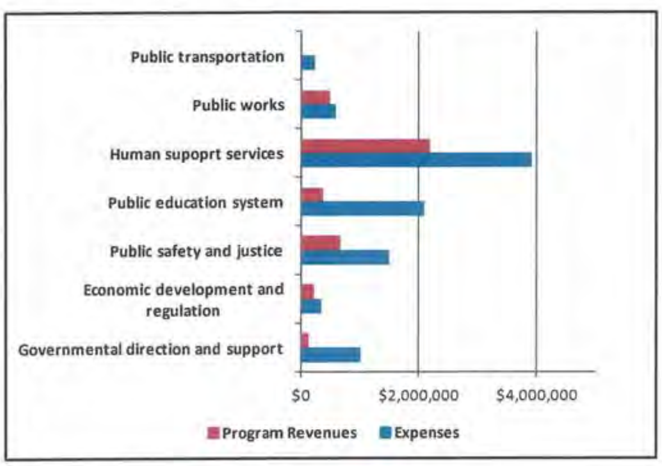


Chart MDA-2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities are: governmental direction and support, economic development and regulation, public safety and justice, public education, human support services, public works,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

Chart MDA-2 – Governmental Activities Expenses and Program Revenues



Total net assets of the business-type activities increased by $3,809, or 1.7%, between fiscal year 2011 and 2012. Business-type activities experienced a moderate change in net assets because although expenses decreased significantly by $54,980, or 9.4%, revenues declined by a smaller amount. The decline in revenues was due mainly to a reduction in federal contributions to the Unemployment Compensation Fund for extended benefits compared to last year.

Reporting on the District's Most Significant Funds

Fund financial statements focus on major funds, instead of fund types. A governmental fund is classified as a major fund if the fund has revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) that are at least 10% of the corresponding totals for all governmental or enterprise funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. Major funds, as required by generally accepted accounting principles (GAAP), are presented individually with nonmajor governmental funds combined in a single column. Detailed information for individual nonmajor governmental funds can be found in Other Supplementary Information, Exhibits B-1 and B-2, presented on pages 148 and 149 of this report.

Governmental Funds

The District's governmental funds provide information that is useful when assessing the District's financing needs, such as data pertaining to near-term inflows, outflows, and balances of spendable resources. For instance, the amount of unassigned fund balance may serve as a useful measure of the government's net resources that are available for appropriation/spending as of the end of the fiscal year.

Most basic services are reported in the governmental funds, which are further classified as General, Federal and Private Resources, Housing Production Trust Fund, General Capital Improvements, and Nonmajor Governmental Funds. Please refer to Exhibits 2-a and 2-b presented on pages 46 and 47, for more detailed information about these funds.

Fund Balances: The governmental funds reported a combined fund balance of $1,931,894 in fiscal year 2012 and $1,726,634 in fiscal year 2011, which represents an increase of $205,260, or 11.9%, from the prior year. The components of the combined fund balance of the governmental funds are presented in **Table MDA-3**.

Table MDA-3 – Comparison of FY 2012 and FY 2011 Fund Balance

Governmental Fund	FY 2012 Balance	FY 2011 Balance	Dollar Variance	Percentage Variance
General	$ 1,506,521	$ 1,104,894	$ 401,627	36.3%
Federal and Private Resources	180,921	183,610	(2,689)	-1.5%
Housing Production Trust	74,379	73,436	943	1.3%
General Capital Improvements	(116,269)	4,970	(121,239)	-2,439.4%
Nonmajor governmental funds	286,342	359,724	(73,382)	-20.4%
Total Fund Balance	**$ 1,931,894**	**$ 1,726,634**	**$ 205,260**	11.9%

Fund balance in the Federal and Private Resources Fund decreased by $2,689 or 1.5% between fiscal years 2011 and 2012. This decrease was due primarily to reductions in operating grant revenue totaling $90,843. Another factor which affected fund balance was a decrease of $62,900 in federal contributions.

Fund balance in the Housing Production Trust Fund increased by $943, or 1.3% between fiscal years 2011 and 2012. This minimal increase was due primarily to a transfer of funds from the General Fund related to housing projects and services.

Fund balance in the General Capital Improvements Fund decreased by $121,239 between fiscal years 2011 and 2012. The General Capital Improvements Fund reported a negative unassigned fund balance at September 30, 2012 because expenditures had been made in the Capital Projects Fund from resources that were advanced from the General Fund in anticipation of bond proceeds. The bond proceeds will be restricted to the purpose for which those expenditures were made.

The most significant changes in the total fund balance of the governmental funds were in the General Capital Improvements Fund and the General Fund, the District's primary operating fund. A more detailed discussion of the District's General Fund follows.

Revenues: General Fund revenues increased by $589,222 as the economy continued to show signs of recovery in fiscal year 2012. **Table MDA-4** presents the most significant one-year variances in General Fund revenues.

Table MDA-4 – Changes in Major General Fund Revenues

Revenue Category	Fiscal Year 2012	Fiscal Year 2011	Dollar Variance	Percentage Variance
Property taxes	$ 1,902,541	$ 1,770,185	$ 132,356	7.5%
Income and franchise taxes	1,956,590	1,656,283	300,307	18.1%
Sales and use taxes	1,183,735	1,066,366	117,369	11.0%
Total	**$ 5,042,866**	**$ 4,492,834**	**$ 550,032**	12.2%

Property tax. Personal property tax collections increased between fiscal years 2011 and 2012 as a result of several factors. Due to the deflating housing bubble and the lingering effects of the economic recession, residential property value declines continued in calendar year 2011 due to fewer residential property sales. This sustained relative weakness in the residential sector continued in calendar year 2012; however, certain classes of property tax collections grew due to rising property values of large apartment buildings and the effect of the assessment cap for many homestead properties. The assessment cap for many homestead properties causes the annual tax liability to increase 10% each year.

In addition, after several years during which market rate sales of commercial property declined, such sales rebounded in fiscal year 2012.

Income and franchise tax. Wages and salaries earned by District residents continued to increase in fiscal year 2012 which led to increased income tax collections through withholdings. The non-withholding component of income tax revenue, which includes declarations (estimated payments), also increased in fiscal year 2012. The behavior of the declarations component is related to the performance of the stock market which continued to gain strength in fiscal year 2012 after sharp declines in several recent years. Consequently, the non-withholding component of income taxes increased.

Corporate franchise tax revenues increased in fiscal year 2012 due in large part to a rebound in the equity markets, and increases in corporate profits.

Sales and use tax. Approximately half of the District's sales tax revenue is generated by hotels, restaurants, and bars and such revenues are closely tied to tourism. In recent years, the slow recovery of the national economy has had a negative impact on tourism in the District. However, as the national economy continued to show signs of recovery in fiscal year 2012, tourism strengthened and sales and use taxes increased.

Also, personal income is an economic driver of sales and use taxes. Between 2011 and 2012, personal income grew significantly which helped to boost sales and use tax related activity within the District.

Dedicated Revenues

The dedicated portions of tax revenues related to the special revenue funds are recorded directly in those funds. However, dedicated taxes for capital project funds are transferred out of the local fund (the major component of the general fund). In fiscal year 2012, the District dedicated a total of $146,886 in tax revenues to fund the projects shown in **Tables MDA-5.**

Expenditures: The District's general fund expenditures, excluding debt service, increased by $273,957 from the previous year. Variances by program or function are presented in **Table MDA-6.**

Table MDA-5 – Dedicated Local Tax Revenues

		Special Revenue Funds			
	Total Dedicated Taxes	Tax Increment Financing Program	PILOT Special Revenue	Baseball Project	Housing Production Trust Fund
Property taxes	$ 32,245	$ 18,576	$ 13,669	$ -	$ -
Sales and use taxes	34,841	22,249	-	12,592	-
Gross receipts taxes	42,638	-	-	42,638	-
Other taxes	37,162	-	-	-	37,162
Total taxes	**$ 146,886**	**$ 40,825**	**$ 13,669**	**$ 55,230**	**$ 37,162**

Table MDA-6 – General Fund Expenditure Variances by Function

Program/ Functional Area	Fiscal Year 2012	Fiscal Year 2011	Dollar Variance	Percentage Variance
Governmental direction and support	$ 694,011	$ 620,426	$ 73,585	11.9%
Economic developnment and regulation	194,458	220,878	(26,420)	-12.0%
Public safety and justice	954,077	993,978	(39,901)	-4.0%
Public education system	1,571,264	1,507,747	63,517	4.2%
Human support services	1,727,072	1,572,717	154,355	9.8%
Public works	311,968	226,783	85,185	37.6%
Public transportation	221,339	257,703	(36,364)	-14.1%
Total Functional Expenditures	**$ 5,674,189**	**$ 5,400,232**	**$ 273,957**	5.1%

Explanations for significant variances in General Fund expenditures are presented below:

Governmental Direction and Support – Although several factors contributed to increased expenditures within Governmental Direction and Support, the establishment of the Department of General Services (DGS) was a significant contributing factor.

Through the creation of DGS, certain functions previously performed in other agencies were consolidated. As a result of this consolidation, certain costs historically incurred in multiple agencies were transferred to DGS. For example, a large number of full-time equivalents (FTEs) were transferred to DGS from other agencies: 273.6 from the Office of Public Education Facilities Modernization (OPEFM); 106.5 FTEs from the facilities and maintenance components of the Department of Parks and Recreation; 242 FTEs from the citywide fixed costs and 5 FTEs from the Metropolitan Police Department. Consequently, as a result of the transfer of these FTEs, DGS incurred the costs of compensation and other related expenses associated with these FTEs.

Human Support Services – Several agencies within Human Support Services experienced increases in expenditures in fiscal year 2012. A significant portion of the increased expenditures were within the Department of Health (DOH) and the Department of Health Care Finance (DHCF).

Department of Health

DOH, through its Community Health Administration, incurred increased costs related to the agency's School Health Nursing Program. The agency also experienced increases in fixed costs and the costs associated with various professional services contracts (including janitorial services for certain of its clinics and the administration of the Rodent and Vector Control Program) and software maintenance.

DOH also incurred additional costs related to: enhancing its HIV/AIDS prevention efforts; providing District residents with access to substance abuse prevention, treatment and recovery support services; and conducting activities related to the administration of the Medical Marijuana Program.

Department of Health Care Finance

Expansion of Medicaid eligibility criteria as part of the healthcare reform legislation impacted expenses related to Medicaid managed care and fee for service. In fiscal year 2012, DHCF experienced increased spending associated with higher fee-for-service enrollments and growth in enrollments related to Medicaid managed care services.

DHCF also experienced increased costs related to increased participation in its Home and Community-Based Services waiver programs. Increased spending also occurred as a result of an increase in the Managed Care Organization rate. Additional funding was used to cover services for Medicaid recipients, immigrant children, and D.C. Healthcare Alliance members.

Public Works – The District Department of Transportation (DDOT) accounted for a significant portion of the increased Public Works expenditures in fiscal year 2012. As part of the restructuring of DDOT, the agency assumed responsibility for all local District transportation, including school transit and the Circulator bus and the related funding was transferred from the Washington Metropolitan Area Transit Authority (WMATA) to DDOT. In fiscal year 2012, DDOT spent these funds by making a transfer to WMATA, the entity which provides the transportation services and operates and maintains the transportation system.

<u>Capital Expenditures and Financing</u>

The District's investments in capital improvements are based on need rather than available current year revenues. It is the District's financial policy to issue bonds to support the expenditures associated with its Capital Improvements Program. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures, in some cases, as well as on the annual amount budgeted. However, agencies are authorized to spend their annual appropriated capital budget in advance of financing. The General Fund advances the amount of the funding, and is repaid with the proceeds from the bonds when issued. This allows the District to determine when it will enter the market to issue bonds, based upon cash flow needs, favorable market rates, and the total amount of municipal debt financing and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximize the pool of potential investors for the District's debt issuances.

The District spent $1,114,114 on general capital improvements which exceeded the general capital improvements revenues of $317,580 by $796,534, which is reported as a deficiency in the capital projects fund. This deficiency was subsequently financed mainly with a total of $675,295 from bond proceeds and other financing sources. The net change in the general capital improvements fund balance was a decrease of $121,239.

Proprietary Funds

The District currently has two major Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery), and the Unemployment Compensation Fund (Unemployment).

The total assets for the Lottery decreased by $7,669, or 20%, over the prior year, due to scheduled payments to long-term prize winners.

Total assets for Unemployment decreased by $9,426, or 2.8%, due primarily to: (a) payments of claimants' benefits; (b) a decrease in interest earned on monies held in trust in the District's name at the U.S. Department of the Treasury; and (c) a decline in the amounts owed to the Unemployment Compensation Fund by employers. The noted decreases in assets were offset by an increase in claimant receivables and the amount due from other states.

District residents who have exhausted regular District benefits may also participate in the federally funded Emergency Unemployment Compensation (EUC) Program. Pursuant to the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, the EUC program was extended until March 6, 2012. In January 2013, Congress passed legislation to retroactively extend the EUC Program until December 31, 2013. Between 2011 and 2012, there was a $173 ($173 thousand) decrease in the amount owed to Unemployment by the federal government for extended benefits.

Overall total net assets of the District's proprietary funds increased by $3,809, or 1.7%, over the prior year, due in large part to the factors mentioned above. Exhibits 3-a, 3-b, and 3-c on pages 50 through 52 present the financial statements of the proprietary funds.

Charts MDA-3 and MDA-4 graphically present comparisons of the revenues and expenses of the District's proprietary funds, based on information contained in the Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds, shown on page 51 of this report.

Chart MDA-3 – Operating Revenues and Expenses – Business-type Activities

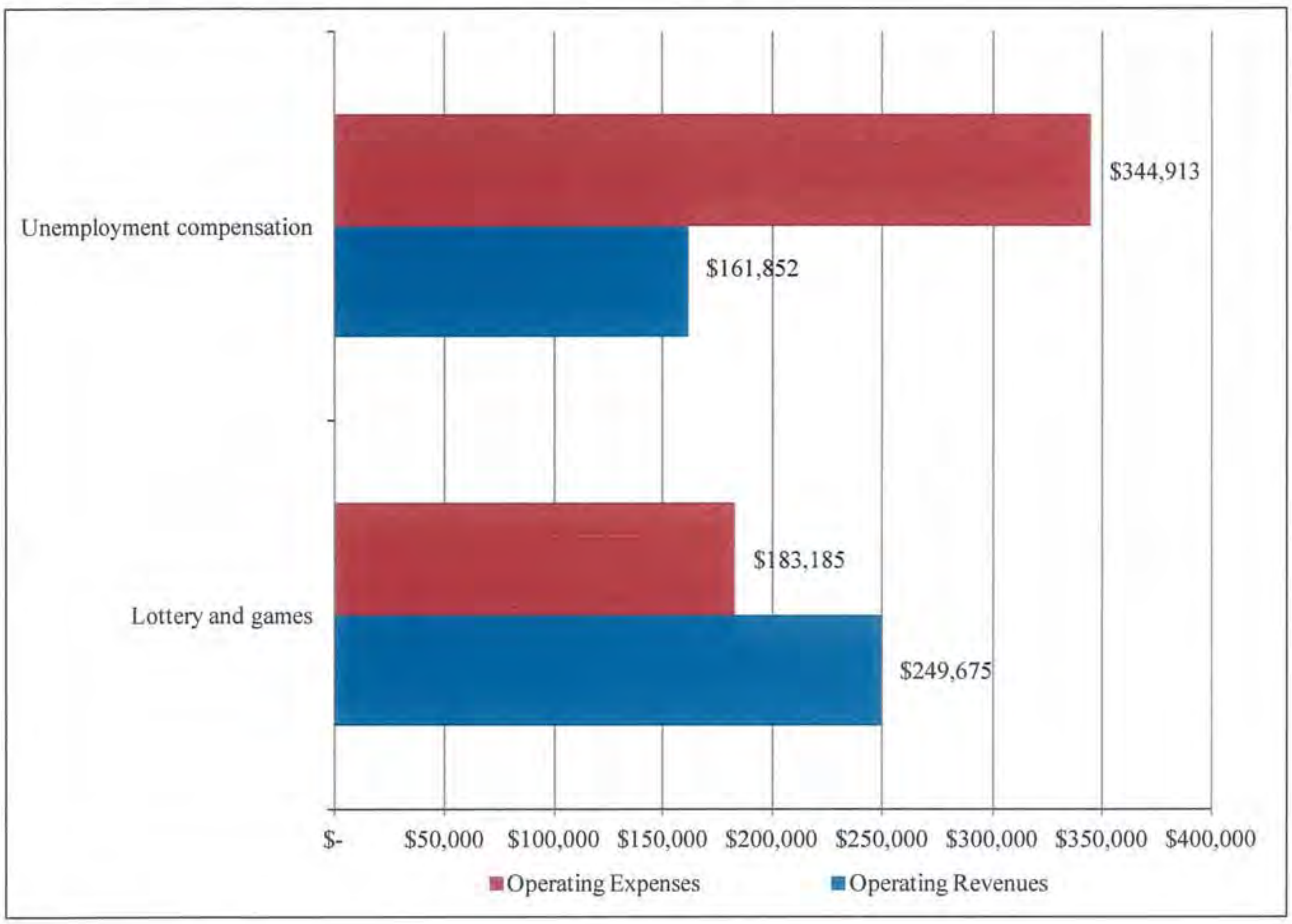
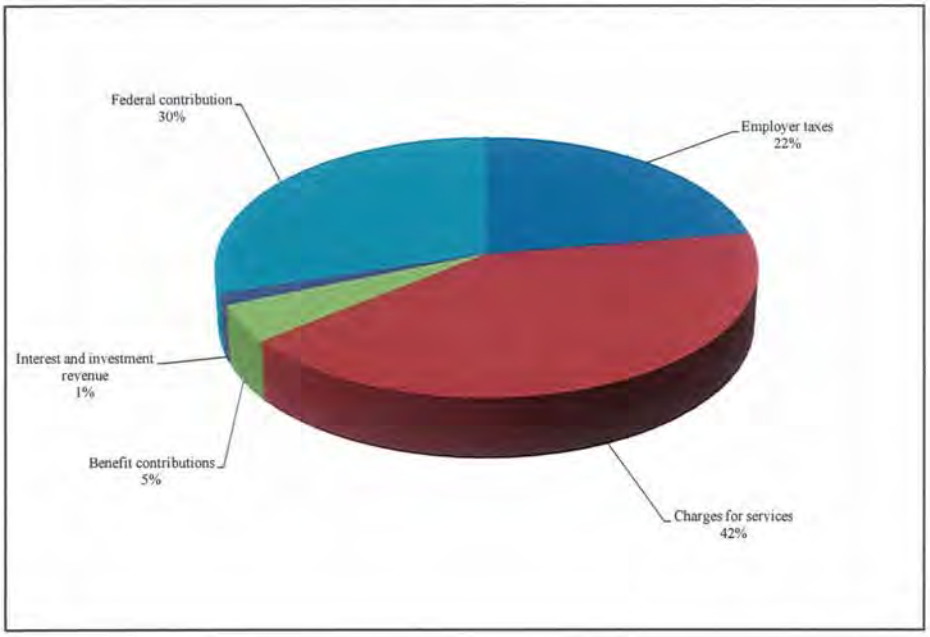


Chart MDA-4 – Revenues by Source – Business-type Activities



Fiduciary Funds

The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. The District is the *trustee* or *fiduciary* for its employees' pension plans and other postemployment benefits (OPEB). All fiduciary activities are reported in Exhibit 4-a, *Statement of Fiduciary Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Net Assets* on pages 53 and 54 respectively. Exhibits C-1, C-2, and C-3, presented on pages 152, 153, and 154 respectively, provide additional information. These activities are excluded from the District's governmental and business-type activities because these resources are restricted and are not available to support the District's operations. The changes in the net assets of the Pension Trust Funds and OPEB Trust Fund are presented in **Table MDA-7.**

Table MDA-7 - Variances in Net Assets of Pension and OPEB Trust Funds

Trust Fund	Fiscal Year 2012	Fiscal Year 2011	Dollar Variance	Percentage Variance
Police and Firefighters Pension	$ 3,681,854	$ 3,127,467	$ 554,387	17.7%
Teachers Pension	1,503,486	1,340,712	162,774	12.1%
Other Postemployment Benefits	693,344	511,486	181,858	35.6%
Total Net Assets	**$ 5,878,684**	**$ 4,979,665**	**$ 899,019**	18.1%

Net assets of the fiduciary funds increased due to increases in the value of equity investments.

Private-purpose trust funds are used to report any trust arrangement not reported in the pension or OPEB trust funds under which principal and income benefit specific individuals, private organizations, or other governments. The District's 529 College Savings Investment Plan, which is designed to help families save for the higher education expenses of designated beneficiaries, comprises the Private-Purpose Trust Fund.

Component Units

Component units are legally separate organizations for which the District is financially accountable. The District has five discretely presented component units: (1) Water and Sewer Authority; (2) Washington Convention and Sports Authority; (3) Not-For-Profit Hospital Corporation (d/b/a United Medical Center); (4) Housing Finance Agency; and (5) University of the District of Columbia. The District is financially accountable for these organizations because the Mayor, with the consent of the Council, appoints a voting majority of the governing bodies of these organizations. In addition, the District has an obligation to provide financial support to the Washington Convention and Sports Authority and the University of the District of Columbia.

Other component units have operations that are so intertwined with those of the primary government that they function, for all practical purposes, as an integral part of the primary government. These are reported as blended component units. A component unit should be blended when the primary government and the component unit share a common governing body or when the component unit either: (1) provides service entirely or almost entirely to the primary government; or (2) otherwise exclusively or almost exclusively benefits the primary government, although it does not provide services directly to it. The District has one blended component unit, the Tobacco Settlement Financing Corporation (Tobacco Corporation). The Tobacco Corporation is a blended component unit because it provides services exclusively to the District.

Each of the component units prepares its own independently audited financial statements, which are accompanied by their respective Management's Discussion and Analysis. Exhibits 5-a and 5-b on pages 55 and 56, respectively, present more detailed financial information on the District's component units.

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. This need occurs due to time lags between the receipt of taxes, grants and other revenues, and the outflow of funds for governmental operations and required disbursements. The District issued $820,000 in Tax Revenue Anticipation Notes (TRANs) on October 26, 2011, at an interest rate of 2.00%. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred. Accordingly, the District repaid the TRANs on September 28, 2012.

Long-Term Debt

The District is empowered by law (Section 461 of the District of Columbia Home Rule Act, as amended) to issue general obligation bonds to refund indebtedness of the District and to provide for the payment of the cost of acquiring capital assets or undertaking the District's various capital projects. The District also issues income tax secured revenue bonds pursuant to the Bond Authorization Act of 2008 (D.C. Code §§ 47-340.26 to 47-340.36). The payment of principal and interest on these bonds comes solely from the associated trust estate and the available pledged tax revenues. The income tax secured revenue bonds are without recourse to the District, and are not a pledge of, and do not involve the full faith and credit or the taxing power of the District.

The District also issues, on a less frequent basis, other types of long term debt, including Tax Increment Financing (TIF) Bonds, Tobacco Bonds, Housing Production Trust Bonds, Qualified Zone Academy Bonds, and other revenue bonds.

At September 30, 2012, the District had $9,180,672 in long term debt outstanding, of which $7,661,141, or 84%, was in the form of bonds. Of the outstanding bonds, $2,295,225, or 30%, were general obligation bonds, and $3,799,645, or 49.6%, were income tax secured revenue bonds. **Table MDA-8** presents the District's outstanding bonds as of September 30, 2012.

Table MDA-8 – Outstanding Bonds at September 30, 2012 and 2011

Outstanding Bond Debt				
Type of Bonds	2012	2011	Dollar Variance	Percentage Variance
General Obligation Bonds	$ 2,295,225	$ 2,829,598	$ (534,373)	-18.9%
Income Tax Secured Revenue Bonds	3,799,645	3,029,100	770,545	25.4%
Other Bonds:				
Qualified Zone Academy Bonds	7,628	8,573	(945)	-11.0%
Tobacco Bonds	677,219	690,289	(13,070)	-1.9%
TIF Bonds	112,985	87,484	25,501	29.1%
Ballpark Bonds	507,935	512,850	(4,915)	-1.0%
GARVEE Revenue Bonds	78,775	82,610	(3,835)	4.6%
HPTF Bonds	82,805	84,335	(1,530)	-1.8%
AWC PILOT Revenue Bonds	84,085	90,660	(6,575)	-7.3%
NCRC Revenue Bonds	14,839	22,715	(7,876)	-34.7%
Total	**$ 7,661,141**	**$ 7,438,214**	**$ 222,927**	**3.0%**

The $770,545 increase in Income Tax Secured Revenue Bonds is due to the following bond issuances made in fiscal year 2012:

- Issued in November 2011, $241,735 in Income Tax Secured Revenue Refunding Bonds, Series 2011B-C-D-E Bonds, used to currently refund $63,335 of the outstanding principal amount of the Income Tax Secured Revenue Refunding Bonds, Series 2010C and $31,930 of the Income Tax Secured Revenue Refunding Bonds Series 2010E, advance refund to the earliest call date general obligation bonds, Series 2003A, Series 2003B and pay the costs of issuing and delivering the bonds.

- Issued in December 2011, $400,720 in Income Tax Secured Revenue Bonds, Series 2011F-G, used to pay and/or reimburse the District for the costs of capital projects and the costs of issuing and delivering the Series 20110F-G Bonds.

- Issued in May 2012, $258,110 in Income Tax Secured Revenue Refunding Bonds, Series 2012A, and $56,000 in Income Tax Secured Revenue Bonds, Series 2012B used to current or advance refund, as applicable, a portion of outstanding general obligation bonds, Series 2002C, Series 2004A, and Series 2005A; and pay the costs of issuing and delivering the Series 2011A Bonds.

The total debt per capita as of September 30, 2012, was $12,538 (not in thousands). This represents an increase of $59 (not in thousands), or 0.5%, over the prior year. This increase is due to the issuance of Income Tax Secured Revenue Bonds and a less than proportional increase in population between fiscal years 2011 and 2012. Exhibit S-3C, on page 184, presents ratios of total outstanding debt for the last ten fiscal years.

For more detailed information on the District's long-term debt activity, refer to Note 8, Long-Term Liabilities, found on pages 97 through 117.

Capital Assets

The General Capital Improvements Fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants, and debt. Capital assets include, but are not limited to, land, buildings, police and fire equipment, office equipment, park facilities, roads, and bridges. In fiscal year 2012, total net capital assets (capital assets less depreciation) increased by $609,647, or 6.2%, over the prior year. Total overall capital assets has continued to increase because the District has been investing resources in the construction of new assets and the rehabilitation of existing infrastructure, such as roads, streets, and bridges.

At September 30, 2012, total net capital assets (capital assets less depreciation) were $10,425,439. Net capital assets of the governmental activities totaled $10,424,959 and the net capital assets of the business-type activities totaled $480. The governmental activities depreciation charges for fiscal year 2012 totaled $385,230 compared to the prior year's amount of $336,212. **Table MDA-9** presents more detailed information on the District's net capital assets.

Table MDA-9 – Net Capital Assets as of September 30, 2012

Asset Category	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 936,234	$ 919,558	$ -	$ -	$ 936,234	$ 919,558
Buildings	5,125,146	4,111,593	-	-	5,125,146	4,111,593
Infrastructure	2,731,450	2,465,943	-	-	2,731,450	2,465,943
Equipment	422,756	404,436	480	478	423,236	404,914
Construction in progress	1,209,373	1,913,782	-	-	1,209,373	1,913,782
Total net capital assets	**$ 10,424,959**	**$ 9,815,312**	**$ 480**	**$ 478**	**$ 10,425,439**	**$ 9,815,790**

Note: For more detailed information on the District's capital asset activity, refer to Note 5, Capital Assets, found on pages 91 through 95.

REPORTING THE DISTRICT'S BUDGET

Overview in Brief

D.C. Code § 47-392.01(c) (1) (A) requires the District to prepare a balanced budget each year. Consistent with D.C. Code §47-392.02, the Mayor is required to submit the budget to Council for review, approval, and submission to Congress. The District's budget is subject to revision and veto by Congress and the President of the United States. As the budget moves through the budgetary process, there may be changes in both amounts and purposes.

The Chief Financial Officer is responsible for forecasting revenue for the District government. Each February, the Chief Financial Officer issues the official revenue estimate that is used to develop the District's budget for the next fiscal year. This estimate is revised as the new fiscal year begins and is periodically reviewed and adjusted at regular intervals throughout the fiscal year to reflect current economic trends and outlook, new legislative mandates, and other similar factors. As the revenue estimates are revised, the District's expenditure budget is also revised to be consistent with the updated revenue estimates.

General Fund Budgetary Highlights

The General Fund is the chief budgetary operating fund of the primary government. **Table MDA-10** presents a Schedule of Budgetary Basis Revenues and Expenditures for the General Fund for the fiscal year ended September 30, 2012.

Table MDA-10 – Schedule of Budgetary Basis Revenues and Expenditures

		Original Budget		Revised Budget		Actual		Variance (Actual to Revised)
Revenues and Sources:								
Taxes	$	5,527,777	$	5,616,181	$	5,841,851	$	225,670
Licenses and permits		63,357		74,096		77,717		3,621
Fines and forfeits		138,236		154,396		181,603		27,207
Charges for services		47,987		61,029		73,795		12,766
Miscellaneous		154,757		126,240		122,997		(3,243)
Other sources		410,079		392,442		421,590		29,148
General obligation bonds		6,000		6,000		3,142		(2,858)
Fund Balance released from restrictions		43,744		69,730		5,769		(63,961)
Interfund transfer from lottery and games		68,500		63,257		66,404		3,147
Interfund transfer - others		5,833		37,073		25,403		(11,670)
Total revenues and other sources		6,466,270		6,600,444		6,820,271		219,827
Expenditures and Other Uses:								
Governmental direction and support		536,105		533,520		520,531		12,989
Economic development and regulation		260,864		262,732		235,349		27,383
Public safety and justice		973,834		958,085		948,965		9,120
Public education		1,557,725		1,591,221		1,567,336		23,885
Human support services		1,577,145		1,631,546		1,610,188		21,358
Public works		530,516		552,305		535,086		17,219
Repay bonds and interest		449,135		420,199		419,801		398
Other expenditures and uses		552,338		571,256		566,288		4,968
Total expenditures and other uses		6,437,662		6,520,864		6,403,544		117,320
Excess of Revenues and Other Sources Over Expenditures and Other Uses - Budgetary Basis	$	28,608	$	79,580	$	416,727	$	337,147

Revenues and Other Sources

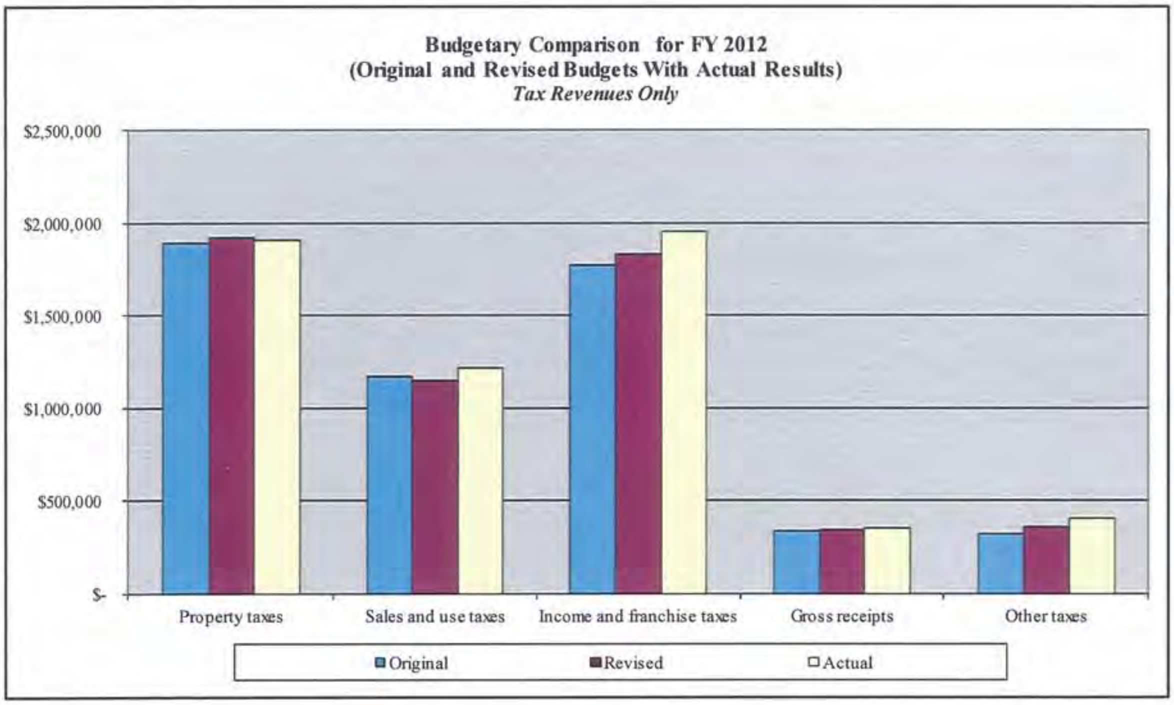
Actual General Fund revenues and other sources were $219,827 more than the revised budget. As presented in **Table MDA-10**, this variance was primarily due to significant increases in taxes and other sources which are discussed below.

Taxes – Tax revenues in excess of the revised budget were primarily in the form of Income and Franchise Taxes. Individual income tax revenue exceeded the revised budget by $44,245 due to strong withholding collections in fiscal year 2012 and a stronger-than-expected recovery in the non-withholding portion of income tax. Corporate franchise taxes and unincorporated business franchise taxes exceeded the revised budget by $65,390 and $12,568, respectively in fiscal year 2012 due to a rebound in the equity markets and increased corporate profits.

Other Sources – Revenues generated through other public sources exceeded the revised budget by $29,148. This excess was due, for the most part, to: increases in various Department of Motor Vehicles fees (e.g., residential parking permits, duplicate registrations, fees for knowledge and road tests); tort liability subrogation which generated additional settlement amounts, and the Washington Convention and Sports Authority's payments for the rights to the Carnegie Library.

Fund Balance Released from Restrictions – Fund balance released from restrictions represents the portion of assets that were restricted for either a period of time or for a particular purpose for which the imposed conditions have been met, allowing the assets to become available for use. In other words, this amount of fund balance was used to finance current year's operations. As presented in **Table MDA-10**, more than 80% of the General Fund's revenues are derived from taxes. **Chart MDA-5** graphically presents differences between the General Fund's original budget, final revised budget and actual revenues (by type of tax) for fiscal year 2012.

Chart MDA-5 – Budgetary Comparison – FY 2012 Tax Revenues

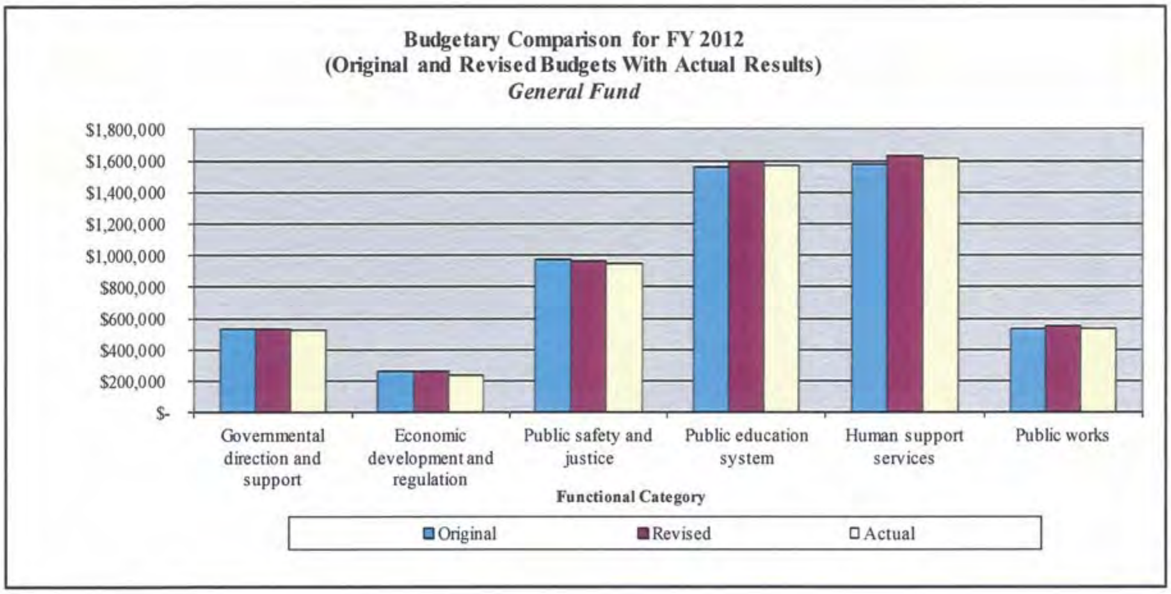


Expenditures and Other Uses

Actual General Fund expenditures and other uses were ($117,320) less than the revised budget. As presented in **Table MDA-10**, this variance was primarily due to underspending in the areas of Economic Development and Regulation, Public Education, and Human Support Services.

More than 60% of the General Fund's expenditures were in the areas of Human Support Services, Public Education, and Public Safety and Justice combined. **Chart MDA-6** graphically presents differences between the General Fund's original budget, revised budget, and actual expenditures (by functional category) for fiscal year 2012.

Chart MDA-6 – General Fund Expenditures (by Function)



For more detailed information, refer to the budgetary schedules for the General Fund, Exhibits A-4 to A-6 which are presented on pages 143 through 145.

SUBSEQUENT EVENTS

Short-Term Debt

On October 23, 2012, the District issued $675,000 in Tax Revenue Anticipation Notes (TRANs) as a means of financing, on a short-term basis, the District's general governmental expenses in anticipation of receiving or collecting revenues for fiscal year 2013. These fixed rate TRANs were issued at an interest rate of 2.00% and mature on September 30, 2013. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year of issuance.

Income Tax Secured Revenue Bonds

On November 28, 2012, the District issued $750,765 in Income Tax Secured Revenue Bonds, Series 2012C, and $25,005 in Income Tax Secured Revenue Refunding Bonds, Series 2012D, together the Series 2012C-D Bonds. The proceeds of the Series 2012C Bonds were used to: (i) pay and/or reimburse the District for costs of capital projects and (ii) pay the costs and expenses of issuing and delivering the Series 2012C Bonds. The proceeds of the Series 2012D Bonds were used, along with other District funds, to: (i) currently refund the District's outstanding 4.00% PILOT Revenue Bond Anticipation Notes, Series 2010 and (ii) pay the costs and expenses of issuing and delivering the Series 2012D Bonds.

Federal Highway Grant Anticipation Revenue Bonds (GARVEE)

On October 10, 2012, the District issued $42,935 in Federal Highway Grant Anticipation Revenue Bonds, Series 2012. The Series 2012 Bonds were issued to: (i) provide funds to finance a portion of the costs of Phase II of the project to replace the twin 11th Street Bridges over the Anacostia River and to improve the interchanges at either end, including adding missing movements to and from the north onto the Anacostia Freeway, and (ii) pay certain costs of issuing the Series 2012 Bonds.

Deed Tax Revenue Bonds

On December 6, 2012, the District issued $$22,395 in Deed Tax Revenue Bonds, Series 2012A, and $17,190 in Deed Tax Revenue Bonds, Series 2012B (together the Series 2012 Bonds). The Series 2012 Bonds were issued to: (i) provide funds to assist in financing, refinancing, or reimbursing the costs of undertakings by the District to accomplish the purposes of the New Communities Initiative, including the New Communities Projects, (ii) fund a deposit to the Debt Service Reserve Fund; and (iii) pay certain costs of issuance associated with the Series 2012 Bonds.

These and other subsequent events are presented more fully in Note 16, found on pages 129 through 132.

CONTACTING THE DISTRICT'S OFFICE OF THE CHIEF FINANCIAL OFFICER

This CAFR is designed to provide the District's citizens, taxpayers, customers, vendors, investors, and creditors with a general overview of the District's finances and to demonstrate the effectiveness of the District's systems of accountability for the money it receives. If you have any questions regarding this report, suggestions for improvement, or need additional financial information, please contact the following:

The Office of the Chief Financial Officer
The John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 209
Washington, D.C. 20004
(202) 727-2476
www.cfo.dc.gov

BASIC FINANCIAL STATEMENTS

The basic financial statements include the *Government-Wide Financial Statements, Governmental Fund Financial Statements, Propietary Fund Financial Statements, Fiduciary Fund Financial Statements and the Component Unit Financial Statements*. These financial statements present different views of the District.

Following the basic financial statements are the *Notes to the Basic Financial Statements* which explain some of the information in the financial statements and provide more detail.

Exhibit 1-a

District of Columbia
Statement of Net Assets
September 30, 2012
(With Comparative Totals at September 30, 2011)
($000s)

	Primary Government				
	Governmental Activities	Business-Type Activities	Totals 2012	Totals 2011	Component Units
ASSETS					
Cash and cash equivalents (unrestricted)	$ 981,411	$ 8,007	$ 989,418	$ 697,859	$ 159,366
Investments (unrestricted)	-	-	-	-	196,572
Due from federal government	526,497	324	526,821	419,956	23,491
Taxes receivable, net	423,309	-	423,309	359,532	-
Accounts receivable, net	520,203	23,970	544,173	508,129	79,081
Other receivables	-	-	-	-	22,363
Due from primary government	-	-	-	-	22,827
Due from component units	34,282	-	34,282	54,455	-
Due from fiduciary funds	2,213	-	2,213	2,631	-
Internal balances	34,117	(34,117)	-	-	-
Inventories	23,079	-	23,079	14,698	8,194
Other current assets	1,745	5	1,750	5,803	25,507
Cash and cash equivalents (restricted)	812,691	309,802	1,122,493	1,370,935	288,052
Investments (restricted)	388,255	16,381	404,636	368,239	783,533
Other long term assets	297,643	-	297,643	261,842	696,749
Deferred outflow of resources	73,597	-	73,597	69,087	-
Deferred charges	147,675	-	147,675	171,017	-
Depreciable capital assets, net	8,279,352	480	8,279,832	6,982,450	3,650,931
Non-depreciable capital assets	2,145,607	-	2,145,607	2,833,340	886,776
Total assets	14,691,676	324,852	15,016,528	14,119,973	6,843,442
LIABILITIES					
Accounts payable	703,299	66,218	769,517	763,133	183,198
Compensation payable	181,634	815	182,449	176,115	32,209
Due to primary government	-	-	-	-	34,282
Due to component units	22,827	-	22,827	27,975	-
Due to fiduciary funds	35	-	35	3,052	-
Unearned revenues	659,034	99	659,133	612,406	59,232
Accrued liabilities	432,270	7,322	439,592	400,543	65,123
Accrued interest payable	116,638	-	116,638	112,842	-
Other current liabilities	10,030	-	10,030	7,637	165,854
Derivative instrument liabilities	73,048	-	73,048	68,754	-
Long-term liabilities:					
Due within one year	477,791	7,306	485,097	401,931	60,115
Due in more than one year	8,686,500	9,075	8,695,575	8,344,792	4,464,509
Total liabilities	11,363,106	90,835	11,453,941	10,919,180	5,064,522
NET ASSETS					
Invested in capital assets, net of related debt	2,872,272	480	2,872,752	2,535,016	1,414,925
Restricted for:					
Expendable					
Debt service	388,255	-	388,255	345,327	-
Benefit payments	-	229,930	229,930	226,229	-
Capital projects	-	-	-	4,970	-
Grants and special purposes	180,921	-	180,921	183,609	-
Budget reserves	29,874	-	29,874	35,430	-
Purpose restriction	99,072	-	99,072	37,310	-
Emergency reserves	339,103	-	339,103	338,583	-
Other	20,357	-	20,357	18,465	276,868
Nonexpendable	-	-	-	-	7,568
Unrestricted (deficit)	(601,284)	3,607	(597,677)	(524,146)	79,559
Total net assets	$ 3,328,570	$ 234,017	$ 3,562,587	$ 3,200,793	$ 1,778,920

The accompanying notes are an integral part of this statement.

Exhibit 1-b

District of Columbia
Statement of Activities
For the Year Ended September 30, 2012
(With Comparative Totals for the Year Ended September 30, 2011)
($000s)

Functions/Programs	Expenses	Program Revenues: Charges for Services, Fees, Fines & Forfeits	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Totals 2012	Primary Government: Totals 2011	Component Units
Primary government:									
Governmental activities:									
Governmental direction and support	$ 987,978	$ 67,667	$ 40,697	$ 9,483	$ (870,131)		$ (870,131)	$ (717,264)	
Economic development and regulation	353,618	134,410	74,120	-	(145,088)		(145,088)	(147,868)	
Public safety and justice	1,490,423	131,648	516,158	-	(842,617)		(842,617)	(890,720)	
Public education system	2,113,955	429	375,082	-	(1,738,444)		(1,738,444)	(1,676,234)	
Human support services	3,925,613	11,289	2,154,127	8,845	(1,751,352)		(1,751,352)	(1,647,698)	
Public works	587,002	191,960	29,854	243,083	(122,105)		(122,105)	(55,254)	
Public transportation	221,339	-	-	-	(221,339)		(221,339)	(257,703)	
Interest on long-term debt	397,216	-	-	-	(397,216)		(397,216)	(356,164)	
Total governmental activities	10,077,144	537,403	3,190,038	261,411	(6,088,292)		(6,088,292)	(5,748,905)	
Business-type activities:									
Lottery and games	183,185	249,675	-	-		$ 66,490	66,490	62,223	
Unemployment compensation	344,913	-	27,945	-		(316,968)	(316,968)	(374,449)	
Total business-type activities	528,098	249,675	27,945			(250,478)	(250,478)	(312,226)	
Total primary government	$ 10,605,242	$ 787,078	$ 3,217,983	$ 261,411	(6,088,292)	(250,478)	(6,338,770)	(6,061,131)	
Component units:									
Water and sewer authority	$ 414,932	$ 424,489	$ -	$ 58,957					$ 68,514
Convention center	145,070	22,555	-	-					(122,515)
United Medical Center	107,600	93,738	-	-					(13,862)
Housing finance	58,203	6,813	-	-					(51,390)
University	147,034	27,981	26,061	26,036					(66,956)
Total component units	$ 872,839	$ 575,576	$ 26,061	$ 84,993					(186,209)
General revenues:									
Taxes:									
Property taxes					1,945,071	-	1,945,071	1,803,691	-
Sales and use taxes					1,218,576	-	1,218,576	1,121,257	-
Income and franchise taxes					1,956,590	-	1,956,590	1,656,283	-
Gross receipts taxes					319,036	-	319,036	279,002	-
Other taxes					404,066	133,618	537,684	532,074	-
Investment earnings					21,944	8,517	30,461	17,886	54,762
Miscellaneous					514,590	178,556	693,146	789,755	46,283
Subsidy from primary government					-	-	-	-	182,088
Transfer in (out)					66,404	(66,404)	-	-	-
Total general revenues and transfers					6,446,277	254,287	6,700,564	6,199,948	283,133
Change in net assets					357,985	3,809	361,794	138,817	96,924
Net assets at October 1					2,970,585	230,208	3,200,793	3,061,976	1,681,996
Net assets at September 30					$ 3,328,570	$ 234,017	$ 3,562,587	$ 3,200,793	$ 1,778,920

The accompanying notes are an integral part of this statement.

Exhibit 2-a

District of Columbia
Balance Sheet
Governmental Funds
September 30, 2012
(With Comparative Totals at September 30, 2011)
($000s)

	General	Federal & Private Resources	Housing Production Trust	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds 2012	Total Governmental Funds 2011
ASSETS							
Cash and cash equivalents (unrestricted)	$ 981,411	$ -	$ -	$ -	$ -	$ 981,411	$ 687,877
Due from federal government	24	457,905	-	68,568	-	526,497	416,097
Taxes receivable, net	419,683	-	-	-	3,626	423,309	359,532
Accounts receivable, net	194,599	294,304	-	3,098	28,202	520,203	485,673
Due from component units	33,616	-	-	-	666	34,282	54,456
Due from other funds	187,901	33,626	6,870	-	10,277	238,674	257,659
Inventories	12,195	10,884	-	-	-	23,079	14,698
Other current assets	1,029	716	-	-	-	1,745	5,794
Cash and cash equivalents (restricted)	339,103	79,497	67,509	51,269	275,313	812,691	1,057,745
Investments (restricted)	388,255	-	-	-	-	388,255	345,327
Other long term assets	13,646	20,063	263,634	-	-	297,343	261,842
Total assets	2,571,462	896,995	338,013	122,935	318,084	4,247,489	3,946,700
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	390,221	119,117	-	183,994	9,967	703,299	686,904
Compensation payable	152,684	26,268	-	2,539	143	181,634	175,275
Due to other funds	17,011	128,607	-	40,983	15,777	202,378	224,981
Due to component units	13,288	634	-	3,905	5,000	22,827	27,976
Deferred revenue	210,786	280,385	263,634	7,783	569	763,157	706,140
Accrued liabilities	270,922	161,062	-	-	286	432,270	391,153
Other current liabilities	10,029	1	-	-	-	10,030	7,637
Total liabilities	1,064,941	716,074	263,634	239,204	31,742	2,315,595	2,220,066
Fund balances:							
Nonspendable	20,357	-	-	-	-	20,357	18,465
Restricted	856,277	180,921	74,379	-	286,342	1,397,919	1,378,390
Committed	595,008	-	-	-	-	595,008	256,287
Assigned	34,879	-	-	-	-	34,879	73,492
Unassigned	-	-	-	(116,269)	-	(116,269)	-
Total fund balances	1,506,521	180,921	74,379	(116,269)	286,342	1,931,894	1,726,634
Total liabilities and fund balances	$ 2,571,462	$ 896,995	$ 338,013	$ 122,935	$ 318,084		$ 3,946,700

Amounts reported for governmental activities in the statement of net assets (Exhibit 1a) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		10,424,959
Certain long term assets are not available to pay current period expenditures and are therefore not recognized as revenues in the funds.		89,833
Loan receivable from sale of capital assets		300
Adjustment for lease agreement - nursing home.		14,290
Net of deferred outflow resources and derivative instrument liabilities.		549
Adjustment for deferred charges.		147,675
Certain liabilities (such as bonds payable and accrued expenses) are not due and payable in the current period:		
General obligation bonds	2,295,225	
Income tax revenue bonds	3,799,645	
Tobacco settlement bonds	677,219	
TIF bonds	112,985	
Ballpark bonds	507,935	
QZAB	7,628	
Accrued interest payable	116,638	
Capital leases	18,972	
Other long-term liabilities	1,744,683	
		(9,280,930)
Net assets of governmental activities		$ 3,328,570

The accompanying notes are an integral part of this statement.

Exhibit 2-b

District of Columbia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012
(With Comparative Totals for the Year Ended September 30, 2011)
($000s)

	General	Federal & Private Resources	Housing Production Trust	General Capital Improvements	Nonmajor Governmental Funds	Total Governmental Funds 2012	Total Governmental Funds 2011
REVENUES							
Taxes:							
Property taxes	$ 1,902,541	$ -	$ -	$ -	$ 32,245	$ 1,934,786	$ 1,800,745
Sales and use taxes	1,183,735	-	-	-	34,841	1,218,576	1,121,257
Income and franchise taxes	1,956,590	-	-	-	-	1,956,590	1,656,283
Gross receipts taxes	276,398	-	-	-	42,638	319,036	279,002
Other taxes	366,904	-	37,162	-	-	404,066	403,199
Fines and forfeitures	185,771	-	-	-	-	185,771	129,448
Licenses and permits	99,300	-	-	-	-	99,300	102,769
Charges for services	246,421	5,911	-	-	-	252,332	257,884
Investment earnings	10,165	636	-	8,535	2,392	21,728	5,789
Miscellaneous	356,643	44,674	7,979	47,634	57,764	514,694	549,006
Federal contributions	-	554,979	-	-	-	554,979	617,845
Operating grants	-	2,635,059	-	261,411	-	2,896,470	2,898,866
Total revenues	6,584,468	3,241,259	45,141	317,580	169,880	10,358,328	9,822,093
EXPENDITURES							
Current:							
Governmental direction and support	694,011	35,565	-	-	57,755	787,331	698,117
Economic development and regulation	194,458	77,760	46,048	-	-	318,266	351,814
Public safety and justice	954,077	515,650	-	-	-	1,469,727	1,517,640
Public education system	1,571,264	409,120	-	-	-	1,980,384	1,943,438
Human support service	1,727,072	2,153,971	-	-	-	3,881,043	3,823,317
Public works	311,968	30,247	-	-	-	342,215	265,750
Public transportation	221,339	-	-	-	-	221,339	257,703
Debt service:							
Principal	177,175	-	-	-	40,470	217,645	211,696
Interest	287,819	20,157	-	-	67,485	375,461	333,872
Fiscal charges	14,349	-	-	-	1,098	15,447	14,296
Capital outlay	-	-	-	1,114,114	38,829	1,152,943	1,189,356
Total expenditures	6,153,532	3,242,470	46,048	1,114,114	205,637	10,761,801	10,606,999
Excess (deficiency) of revenues over (under) expenditures	430,936	(1,211)	(907)	(796,534)	(35,757)	(403,473)	(784,906)
OTHER FINANCING SOURCES (USES)							
Debt issuance	2,737	-	-	397,983	38,650	439,370	745,025
Refunding debt issuance	555,845	-	-	-	52,365	608,210	63,860
Premium on sale of bonds	66,836	-	-	52,166	5,677	124,679	24,711
Payment to refunded bond escrow agent	(622,363)	-	-	-	(57,480)	(679,843)	(63,335)
Equipment financing program	-	-	-	49,463	-	49,463	45,801
Transfers in	92,391	-	1,850	185,555	73,291	353,087	302,059
Transfers out	(124,755)	(1,478)	-	(10,322)	(150,128)	(286,683)	(230,748)
Sale of capital assets	-	-	-	450	-	450	-
Total other financing sources (uses)	(29,309)	(1,478)	1,850	675,295	(37,625)	608,733	887,373
Net change in fund balances	401,627	(2,689)	943	(121,239)	(73,382)	205,260	102,467
Fund balances at October 1,	1,104,894	183,610	73,436	4,970	359,724	1,726,634	1,624,167
Fund balances at September 30	$ 1,506,521	$ 180,921	$ 74,379	$ (116,269)	$ 286,342	$ 1,931,894	$ 1,726,634

The accompanying notes are an integral part of this statement.

Exhibit 2-c

District of Columbia
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2012
($000s)

Net change in fund balances - total governmental funds	$ 205,260
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays that are capitalized exceeded depreciation expense in the current period.	609,648
Deferred property tax revenues which were earned but whose current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements.	10,285
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which bond proceeds exceeded repayments.	(406,731)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount that other long term liabilities increased in the current period.	(60,889)
Capital assets leased to nursing home	(104)
Loan receivable from sale of capital assets	300
Investment income from investment derivative instrument	216
Change in net assets of governmental activities	$ 357,985

The accompanying notes are an integral part of this statement.

Exhibit 2-d

District of Columbia
Budgetary Comparison Statement
For the Year Ended September 30, 2012
($000s)

	General Fund				Federal and Private Resources				Totals			
	Budget			Variance	Budget			Variance	Budget			Variance
	Original	Revised	Actual	Positive (Negative)	Original	Revised	Actual	Positive (Negative)	Original	Revised	Actual	Positive (Negative)
Revenues and Sources:												
Taxes:												
Property taxes	$ 1,889,758	$ 1,924,048	$ 1,910,254	$ (13,794)	$ -	$ -	$ -	$ -	$ 1,889,758	$ 1,924,048	$ 1,910,254	$ (13,794)
Sales and use taxes	1,194,925	1,150,527	1,218,577	68,050	-	-	-	-	1,194,925	1,150,527	1,218,577	68,050
Income and franchise taxes	1,774,080	1,834,387	1,956,590	122,203	-	-	-	-	1,774,080	1,834,387	1,956,590	122,203
Other taxes	669,014	707,219	756,430	49,211	-	-	-	-	669,014	707,219	756,430	49,211
Total taxes	5,527,777	5,616,181	5,841,851	225,670	-	-	-	-	5,527,777	5,616,181	5,841,851	225,670
Licenses and permits	63,357	74,096	77,717	3,621	-	-	-	-	63,357	74,096	77,717	3,621
Fines and forfeits	138,236	154,396	181,603	27,207	-	-	-	-	138,236	154,396	181,603	27,207
Charges for services	47,987	61,029	73,795	12,766	-	-	-	-	47,987	61,029	73,795	12,766
Miscellaneous	154,757	126,240	122,997	(3,243)	-	-	-	-	154,757	126,240	122,997	(3,243)
Other sources	410,079	392,442	421,590	29,148	-	-	-	-	410,079	392,442	421,590	29,148
General obligation bonds	6,000	6,000	3,142	(2,858)	-	-	-	-	6,000	6,000	3,142	(2,858)
Federal contributions	-	-	-	-	92,575	112,989	72,579	(40,410)	92,575	112,989	72,579	(40,410)
Operating grant	-	-	-	-	2,501,972	2,476,622	2,443,127	(33,495)	2,501,972	2,476,622	2,443,127	(33,495)
Fund balance released from restrictions	43,744	69,730	5,769	(63,961)	-	25,306	25,306	-	43,744	95,036	31,075	(63,961)
Interfund transfer-from lottery and games	68,500	63,257	66,404	3,147	-	-	-	-	68,500	63,257	66,404	3,147
Interfund transfer-others	5,833	37,073	25,403	(11,670)	-	-	-	-	5,833	37,073	25,403	(11,670)
Total revenues and other sources	6,466,270	6,600,444	6,820,271	219,827	2,594,547	2,614,917	2,541,012	(73,905)	9,060,817	9,215,361	9,361,283	145,922
Expenditures and Other Uses:												
Governmental direction and support	536,105	533,520	520,531	12,989	29,798	32,241	27,090	5,151	565,903	565,761	547,621	18,140
Economic development and regulation	260,864	262,732	235,349	27,383	139,131	84,346	78,547	5,799	399,995	347,078	313,896	33,182
Public safety and justice	973,834	958,085	948,965	9,120	160,072	142,115	134,553	7,562	1,133,906	1,100,200	1,083,518	16,682
Public education system	1,557,725	1,453,478	1,429,593	23,885	303,859	338,747	311,779	26,968	1,861,584	1,792,225	1,741,372	50,853
Public education AY13 expenditure	-	137,743	137,743	-	-	-	-	-	-	137,743	137,743	-
Human support services	1,577,145	1,631,546	1,610,188	21,358	1,908,352	1,952,651	1,917,856	34,795	3,485,497	3,584,197	3,528,044	56,153
Public works	530,516	552,305	535,086	17,219	38,435	33,468	30,247	3,221	568,951	585,773	565,333	20,440
Wilson building	3,968	3,968	3,458	510	-	-	-	-	3,968	3,968	3,458	510
Repay bonds and interest	442,444	414,625	414,227	398	-	20,277	20,157	120	442,444	434,902	434,384	518
Repay revenue bonds and interest	6,691	5,574	5,574	-	-	-	-	-	6,691	5,574	5,574	-
Bond fiscal charge	6,000	6,000	4,348	1,652	-	-	-	-	6,000	6,000	4,348	1,652
Interest on short term borrowing	4,500	2,572	2,572	-	-	-	-	-	4,500	2,572	2,572	-
Certificates of participation	32,534	32,278	32,233	45	-	-	-	-	32,534	32,278	32,233	45
Settlements and judgments fund	21,477	24,337	24,337	-	-	-	-	-	21,477	24,337	24,337	-
Baseball tax transfer	45,545	55,231	55,231	-	-	-	-	-	45,545	55,231	55,231	-
Convention center transfer	100,718	101,093	101,093	-	-	-	-	-	100,718	101,093	101,093	-
Highway trust transfer	37,294	39,674	39,432	242	-	-	-	-	37,294	39,674	39,432	242
TIF and pilot transfer	65,466	54,494	54,494	-	-	-	-	-	65,466	54,494	54,494	-
Emergency planning and security costs	-	-	-	-	14,900	11,072	9,609	1,463	14,900	11,072	9,609	1,463
Equipment lease operating	53,617	49,804	49,791	13	-	-	-	-	53,617	49,804	49,791	13
Emergency and contingency reserve	3,000	-	-	-	-	-	-	-	3,000	-	-	-
Pay-go capital	37,448	80,878	80,878	-	-	-	-	-	37,448	80,878	80,878	-
Schools modernization fund	8,621	8,621	8,621	-	-	-	-	-	8,621	8,621	8,621	-
District retiree health contribution	109,800	109,800	109,800	-	-	-	-	-	109,800	109,800	109,800	-
Non-departmental agency	22,350	2,506	-	2,506	-	-	-	-	22,350	2,506	-	2,506
Total expenditures and other uses	6,437,662	6,520,864	6,403,544	117,320	2,594,547	2,614,917	2,529,838	85,079	9,032,209	9,135,781	8,933,382	202,399
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES – BUDGETARY BASIS	$ 28,608	$ 79,580	$ 416,727	$ 337,147	$ -	$ -	$ 11,174	$ 11,174	$ 28,608	$ 79,580	$ 427,901	$ 348,321

The accompanying notes are an integral part of this statement.

Exhibit 3-a

District of Columbia

Statement of Net Assets
Proprietary Funds
September 30, 2012
(With Comparative Totals at September 30, 2011)
($000s)

	Lottery and Games	Unemployment Compensation	Totals 2012	Totals 2011
ASSETS				
Current assets:				
Cash and cash equivalents (unrestricted)	$ 8,007	$ -	$ 8,007	$ 9,982
Due from federal government	-	324	324	3,859
Accounts receivable, net	6,282	17,688	23,970	22,456
Due from other funds	-	-	-	3,177
Other current assets	5	-	5	10
Cash and cash equivalents (restricted)	-	309,802	309,802	313,190
Total current assets	14,294	327,814	342,108	352,674
Noncurrent assets:				
Investments (restricted)	16,381	-	16,381	22,912
Capital assets, net	480	-	480	478
Total noncurrent assets	16,861	-	16,861	23,390
Total assets	31,155	327,814	358,969	376,064
LIABILITIES				
Current liabilities				
Accounts payable	2,451	63,767	66,218	76,229
Accrued compensated absences	815	-	815	840
Due to other funds	-	34,117	34,117	36,277
Deferred revenue	99	-	99	208
Accrued liabilities	7,322	-	7,322	9,390
Long term liabilities due within one year	7,306	-	7,306	6,878
Total current liabilities	17,993	97,884	115,877	129,822
Noncurrent liabilities				
Long term liabilities due in more than one year	9,075	-	9,075	16,034
Total noncurrent liabilities	9,075	-	9,075	16,034
Total liabilities	27,068	97,884	124,952	145,856
NET ASSETS				
Invested in capital assets	480	-	480	478
Restricted - expendable	-	229,930	229,930	226,229
Unrestricted	3,607	-	3,607	3,501
Total net assets	$ 4,087	$ 229,930	$ 234,017	$ 230,208

The accompanying notes are an integral part of this statement.

Exhibit 3-b

District of Columbia

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2012
(With Comparative Totals for the Year Ended September 30, 2011)
($000s)

	Lottery and Games	Unemployment Compensation	Totals 2012	Totals 2011
Operating revenues:				
Employer taxes	$ -	$ 133,618	$ 133,618	$ 128,875
Charges for services	249,675	-	249,675	235,884
Benefit contributions	-	27,945	27,945	34,968
Miscellaneous	-	289	289	11
Total operating revenues	249,675	161,852	411,527	399,738
Operating expenses:				
Benefits	-	344,913	344,913	408,997
Prizes, agents commission & advertising	159,460	-	159,460	146,313
Personnel services	11,765	-	11,765	12,221
Contractual services	11,764	-	11,764	14,088
Depreciation	196	-	196	169
Miscellaneous	-	-	-	1,290
Total operating expenses	183,185	344,913	528,098	583,078
Operating income (loss)	66,490	(183,061)	(116,571)	(183,340)
Nonoperating revenues:				
Interest and investment revenue	22	8,495	8,517	11,764
Federal contribution	-	178,267	178,267	226,344
Total nonoperating revenues	22	186,762	186,784	238,108
Income before transfers	66,512	3,701	70,213	54,768
Transfer out	(66,404)	-	(66,404)	(71,311)
Change in net assets	108	3,701	3,809	(16,543)
Total net assets at October 1	3,979	226,229	230,208	246,751
Total net assets at September 30	$ 4,087	$ 229,930	$ 234,017	$ 230,208

The accompanying notes are an integral part of this statement.

Exhibit 3-c

District of Columbia
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2012
(With Comparative Totals for the Year Ended September 30, 2011)
($000s)

	Lottery and Games	Unemployment Compensation	Totals 2012	Totals 2011
Cash Flows from Operating activities:				
Cash receipts from customers/employers	$ 248,684	$ 161,062	$ 409,746	$ 399,431
Other cash receipts	43	-	43	303
Cash payments to vendors	(21,406)	-	(21,406)	(23,193)
Cash payments to employees/claimants	(7,047)	(355,497)	(362,544)	(420,412)
Other cash payments, including prizes	(155,669)	-	(155,669)	(142,149)
Net cash provided by (used in) operating activities	64,605	(194,435)	(129,830)	(186,020)
Cash Flows from Noncapital financing activities:				
Intergovernmental grants	-	182,552	182,552	226,344
Interfund transfers out	(66,404)	-	(66,404)	(65,212)
Net cash provided by (used in) noncapital financing activities	(66,404)	182,552	116,148	161,132
Cash Flows from Capital and related financing activities:				
Disposal (acquisition) of capital assets	(198)	-	(198)	(449)
Net cash provided by (used in) capital and related financing activities	(198)	-	(198)	(449)
Cash Flows from Investing activities:				
Receipts of interest and dividends	22	8,495	8,517	11,764
Net cash provided by investing activities	22	8,495	8,517	11,764
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,975)	(3,388)	(5,363)	(13,573)
Cash and cash equivalents at October 1	9,982	313,190	323,172	336,745
Cash and cash equivalents at September 30	$ 8,007	$ 309,802	$ 317,809	$ 323,172
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 66,490	$ (183,061)	$ (116,571)	$ (183,340)
Depreciation	196	-	196	169
Decrease (increase) in assets:				
Accounts receivable	(840)	(674)	(1,514)	2,790
Allowance for uncollectible	-	-	-	507
Deposits	-	-	-	(3)
Other current assets	5	173	178	79
Increase (decrease) in liabilities:				
Accounts payable	956	(10,873)	(9,917)	(6,381)
Accrued liabilities	(1,952)	-	(1,952)	266
Deferred revenue	(109)	-	(109)	56
Other current liabilities	(141)	-	(141)	(163)
Net cash provided by (used in) operating activities:	$ 64,605	$ (194,435)	$ (129,830)	$ (186,020)

The accompanying notes are an integral part of this statement.

Exhibit 4-a

District of Columbia
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2012
($000s)

	Pension/OPEB Trust Funds	Private Purpose Trust Fund	Agency Funds
ASSETS			
Cash and cash equivalents - restricted	$ 203,819	$ -	$ 53,639
Investments - restricted:			
Equities	3,396,740	149,326	-
Fixed income securities	1,399,703	74,261	-
Real estate	253,621	-	-
Private equity	682,583	-	-
Collateral for securities lending transactions	96,652	-	-
Accounts receivable	-	305	-
Accounts receivable - foreign exchanges	42,010	-	-
Due from federal government	1,606	-	-
Benefit contribution receivables	3,332	-	-
Due from other funds	-	-	35
Other receivables	-	-	9,005
Other current assets	149,659	-	-
Capital assets	3	-	-
Total assets	6,229,728	223,892	$ 62,679
LIABILITIES			
Accounts payable	11,507	327	$ 878
Accounts payable - foreign currency purchased	42,010	-	-
Securities lending collateral	97,797	-	-
Due to component units	-	-	340
Due to other funds	2,054	-	160
Other current liabilities	197,676	-	61,301
Total liabilities	351,044	327	$ 62,679
NET ASSETS			
Held in trust for pension and OPEB benefits and other purposes	$ 5,878,684	$ 223,565	

The accompanying notes are an integral part of this statement.

Exhibit 4-b

District of Columbia
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2012
($000s)

	Pension/OPEB Trust Funds	Private Purpose Trust Fund
ADDITIONS		
Contributions:		
Employer	$ 226,500	$ -
Plan members	59,318	43,614
Total contributions	285,818	43,614
Investment earnings:		
From investment activities		
Net increase in fair value of investments	646,729	31,240
Other revenue	2,256	-
Interest and dividends	83,001	3,452
Total investment gain	731,986	34,692
Less - investment expenses	(12,451)	(1,884)
Net gain from investing activities	719,535	32,808
From securities lending activities		
Securities lending income	2,128	-
Less: securities lending expenses	(570)	-
Net income from securities lending activities	1,558	-
Net investment gain	721,093	32,808
Total additions	1,006,911	76,422
DEDUCTIONS		
Benefits	98,061	-
Administrative expenses	9,831	557
Distributions to participants	-	19,541
Total deductions	107,892	20,098
Change in net assets	899,019	56,324
Net assets at October 1	4,979,665	167,241
Net assets at September 30	$ 5,878,684	$ 223,565

The accompanying notes are an integral part of this statement.

Exhibit 5-a

District of Columbia
Discretely Presented Component Units
Combining Statement of Net Assets
September 30, 2012
(With Comparative Totals at September 30, 2011)
($000s)

	Water and Sewer Authority	Washington Convention and Sports Authority	Not-for-Profit Hospital Corporation	Housing Finance Agency	University	Totals 2012	Totals 2011 as restated
ASSETS							
Current Assets:							
Cash and cash equivalents (unrestricted)	$ 94,472	$ 10,455	$ 1,635	$ 24,317	$ 28,487	$ 159,366	$ 166,083
Investments (unrestricted)	100,489	59,056	-	6,043	30,984	196,572	149,530
Receivables, net:							
Accounts	58,208	2,533	13,425	-	4,915	79,081	75,159
Other	-	-	-	16,890	5,473	22,363	31,892
Due from federal government	23,491	-	-	-	-	23,491	20,505
Due from primary government	3,155	12,611	-	-	7,061	22,827	27,975
Inventories	6,674	-	1,520	-	-	8,194	8,572
Other current assets	519	678	716	23,321	273	25,507	37,268
Restricted cash	175,567	2,287	1,704	107,486	1,008	288,052	267,930
Restricted investments	203,940	327,045	-	245,306	7,242	783,533	828,094
Total current assets	666,515	414,665	19,000	423,363	85,443	1,608,986	1,613,008
Noncurrent Assets:							
Loans receivable	-	-	-	651,874	846	652,720	549,203
Other	32,042	9,743	606	964	674	44,029	36,982
Total long term assets	32,042	9,743	606	652,838	1,520	696,749	586,185
Capital assets, net							
Property and equipment	2,910,813	591,954	49,085	2,064	97,015	3,650,931	3,553,339
Non-depreciable capital assets	807,430	46,998	8,100	573	23,675	886,776	560,007
Total assets	**4,416,800**	**1,063,360**	**76,791**	**1,078,838**	**207,653**	**6,843,442**	**6,312,539**
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	151,020	8,413	9,488	2,610	11,667	183,198	162,072
Compensation	18,302	588	5,668	236	7,415	32,209	26,737
Due to primary government	1,664	5,666	-	-	26,952	34,282	54,455
Accrued liabilities	43,841	17,376	-	-	3,906	65,123	61,341
Deferred revenue	42,875	3,202	-	1,373	11,782	59,232	45,836
Current maturities	19,692	13,865	682	25,876	-	60,115	72,445
Other current liabilities	41,200	9,317	1,010	107,884	6,443	165,854	142,106
Total current liabilities	318,594	58,427	16,848	137,979	68,165	600,013	564,992
Noncurrent Liabilities:							
Long term debt:							
Bonds payable	1,813,967	645,299	-	846,460	-	3,305,726	3,056,485
Other long-term liabilities	27,093	21,213	8,253	576	-	57,135	44,720
Refundable advances	-	982	-	-	1,262	2,244	2,245
Deferred revenue	1,099,404	-	-	-	-	1,099,404	962,101
Total long term liabilities	2,940,464	667,494	8,253	847,036	1,262	4,464,509	4,065,551
Total Liabilities	**3,259,058**	**725,921**	**25,101**	**985,015**	**69,427**	**5,064,522**	**4,630,543**
NET ASSETS							
Invested in capital assets, net of related debt	1,035,584	200,710	56,229	1,712	120,690	1,414,925	1,319,273
Restricted - expendable	63,597	160,454	-	51,112	1,705	276,868	265,574
Restricted - nonexpendable	-	-	-	-	7,568	7,568	7,242
Unrestricted	58,561	(23,725)	(4,539)	40,999	8,263	79,559	89,907
Total Net Assets	**$ 1,157,742**	**$ 337,439**	**$ 51,690**	**$ 93,823**	**$ 138,226**	**$ 1,778,920**	**$ 1,681,996**

The accompanying notes are an integral part of this statement.

Exhibit 5-b

District of Columbia
Discretely Presented Component Units
Combining Statement of Activities
For the Year Ended September 30, 2012
(With Comparative Totals for the Year Ended September 30, 2011)
($000s)

	Water and Sewer Authority	Washington Convention and Sports Authority	Not-for-Profit Hospital Corporation	Housing Finance Agency	University	Totals 2012	Totals 2011
Expenses	$ 414,932	$ 145,070	$ 107,600	$ 58,203	$ 147,034	$ 872,839	$ 870,606
Program Revenues:							
Charges for services, fees, fines & forfeits	424,489	22,555	93,738	6,813	27,981	575,576	558,964
Operating grants and contributions	-	-	-	-	26,061	26,061	27,398
Capital grants and contributions	58,957	-	-	-	26,036	84,993	61,867
Net (Expense) Revenue	68,514	(122,515)	(13,862)	(51,390)	(66,956)	(186,209)	(222,377)
General Revenues:							
Investment earnings	933	2,005	(295)	46,732	5,387	54,762	54,324
Miscellaneous	16,077	4,284	135	11,386	14,401	46,283	64,177
Subsidy from primary government	-	101,026	13,700	-	67,362	182,088	164,417
Total general revenues	17,010	107,315	13,540	58,118	87,150	283,133	282,918
Change in net assets	85,524	(15,200)	(322)	6,728	20,194	96,924	60,541
Net assets at October 1 (as restated)	1,072,218	352,639	52,012	87,095	118,032	1,681,996	1,621,455
Net assets at September 30	$ 1,157,742	$ 337,439	$ 51,690	$ 93,823	$ 138,226	$ 1,778,920	$ 1,681,996

The accompanying notes are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

Index

NOTES TO THE BASIC FINANCIAL STATEMENTS

September 30, 2012

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF THE GOVERNMENTAL UNIT

General Operations

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

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

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

B. FINANCIAL REPORTING ENTITY

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

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

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

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

The Mayor, with the consent of the Council, also appoints the governing bodies of the Water and Sewer Authority, Washington Convention and Sports Authority, Housing Finance Agency, and the University of the District of Columbia. In addition, the District has an obligation to provide financial support to the Housing Finance Agency, the Washington Convention and Sports Authority, and the University of the District of Columbia, and must approve certain transactions of, and certain tax revenues dedicated to the Washington Convention and Sports Authority. The Water and Sewer Authority is responsible for the payment of certain District long-term debt, issued before that Authority's creation, to finance capital improvements. For that reason, and because the Water and Sewer Authority is an independent authority established under

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

C. RELATED ORGANIZATIONS

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

D. JOINT VENTURE

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. BASIS OF PRESENTATION

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Proprietary Funds are used to account for activities similar to those found in the private sector. The criteria for inclusion as a proprietary fund include: (a) the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are financed or recovered mostly through user charges; and (b) the determination of net income is necessary or useful for sound financial administration. The District's proprietary funds include two major enterprise funds which are discussed below:

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

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

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

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

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

- *Pension Trust Funds* – used to report the activities of the District's retirement systems, which accumulate financial resources for pension benefit payments to eligible District employees.

  Other Postemployment Benefits (OPEB) Trust Fund – used to report assets that are accumulated and benefits that are paid for postemployment healthcare and life insurance.

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

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

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

Prior Year Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include sufficient details to constitute a presentation in conformity with U.S. generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the District's financial statements for the year ended September 30, 2011, from which such summarized information was derived.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Government-Wide Financial Statements

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

Fund Financial Statements

Governmental Funds

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

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Revenue Recognition (by Type or Source)

Property Taxes

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

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

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

Other Taxes and Revenues

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

Intergovernmental Revenues

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

Supplemental Nutrition Assistance Program (SNAP)

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

Revenues Susceptible To Accrual

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

Revenues Not Susceptible To Accrual

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

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Appropriations Act

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

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

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

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

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

Budgetary Controls

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

Encumbrances

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

H. CASH AND INVESTMENTS

Cash

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

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

Investments

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

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

I. INVENTORY

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

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

J. RESTRICTED ASSETS

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

K. PREPAID ITEMS AND DEFERRED CHARGES

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

In governmental funds, long-term debt premiums/ (discounts) and issuance costs are recognized in the current period as other financing sources/(uses) and fiscal charges, respectively. In the government-wide financial statements, long-term debt premiums/(discounts) and issuance costs are capitalized and amortized over the term of the related debt using the outstanding balance method.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. RECEIVABLES AND PAYABLES

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

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

M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

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

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Due To Other Funds" or "Due From Other Funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal Balances." Short-term amounts owed between the primary government and a discretely presented component unit is classified as "Due To/From Primary Government" and "Due To/From Component Unit" on the Statement of Net Assets.

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

N. CAPITAL ASSETS

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

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

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

Capitalization and Depreciation Policies

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

Table N1 – Estimated Useful Lives (by Asset Class)

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

O. CAPITAL LEASES

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

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

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

P. COMPENSATED ABSENCES

Benefit Accumulation Policies

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

Accrual

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

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

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

Q. LONG-TERM LIABILITIES

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

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

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

The District began paying principal on its 1994B Capital Appreciation Bonds (CABs) in June 2012, and will make such payments annually through June 2014. There are no periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

R. NEW ACCOUNTING STANDARDS ADOPTED

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

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

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

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

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

S. NEW ACCOUNTING PRONOUNCEMENTS TO BE IMPLEMENTED IN THE FUTURE

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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