March 24, 2006

Dear Citizens of the District of Columbia:

We are pleased to present to you this Citizen's Financial Report on the fiscal condition of the Government of the District of Columbia (District). The purpose of this report, which is referred to as the Popular Annual Financial Report (PAFR), is to summarize the presentation of financial information contained in the District of Columbia's Fiscal Year 2005 Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and is independently audited. This PAFR is intended to simplify but not replace the CAFR.

This is the District's third year preparing this report. In fiscal years 2003 and 2004, the District was honored with the prestigious "Award for Outstanding Achievement in Popular Annual Financial Reporting" by the Government Finance Officers Association. It is expected that the current report continues to conform to the Popular Annual Financial Reporting requirements.

We welcome any feedback regarding the contents of this report. If you desire more information concerning the District of Columbia Government and its various departments and agencies, please visit our web site at www.dc.gov.

Respectfully submitted,

Anthony A. Williams
Mayor

Natwar M. Gandhi
Chief Financial Officer

Anthony F. Pompa
Deputy CFO for
Financial Operations & Systems

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

DISTRICT OF COLUMBIA

for the Fiscal Year Ended September 30, 2004

President

Jeffrey L. Esser

Executive Director

District of Columbia Citizen's Financial Report

INDEX

Introduction

The Popular Annual Financial Report (PAFR) is a report for the citizens. It provides information about the District of Columbia (District) government's financial condition without overwhelming detail and technical accounting terminology. The information provided is derived from the **District's Comprehensive Annual Financial Report (CAFR),** which is prepared in accordance with **generally accepted accounting principles (GAAP)**.

The PAFR is not required to present the same level of detail as the CAFR. The PAFR contains reports and statements that do not present the entire financial reporting entity and may not conform to generally accepted accounting principles and governmental reporting standards. However, it meets the commitment to provide relevant disclosures to residents regarding the District's fiscal condition, general economy, and financial trends. It contains summarized financial schedules and tables.

The **fiscal year (FY)** of the District begins on October 1 and ends on September 30. This report presents summary financial information for the District's FY ended September 30, 2005 in a more easily understood format and language that includes fewer technical tables than are presented in the CAFR. Below are some explanations to assist you:

Dollar ($) Amounts: In the narrative and in some tables, the dollar amounts are expressed in the millions or billions as indicated.

In other tables, to conserve space, dollar amounts are expressed as ($000s); meaning that the amounts are expressed in thousands. Two examples are: (1) $1,000 would be expressed as $1 and (2) $1,500,000 would be expressed as $1,500.

Glossary: Many technical words and financial terms cannot be avoided. In order to better understand these terms, a Glossary is included on pages 24 and 25. The Glossary provides a definition of those technical words and financial terms that must be used to accurately present the financial information in this report.

The first time selected technical words or financial terms are used in this PAFR, in a non-title format, they will be presented in **green bold text** in the narrative. This indicates that the definition of that word or phrase is in the Glossary.

If you would like to obtain a copy of the District's FY 2005 CAFR or PAFR, please contact:

Office of Financial Operations & Systems
810 First Street NE, Suite 200
Washington D.C. 20002
(202) 442-8200

You may also view the CAFR and PAFR on the District's web site at: www.cfo.dc.gov .

Financial Reporting Entity

The financial reporting entity of the District includes all of the primary government's agencies and its **component units**. However, this popular report does not include financial information for the District's six legally separate component units. For information on the District's component units, please refer to the contact information below:

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

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

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

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

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

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

Financial Condition

FY 2005 Highlights

- The District finished the year with an **unqualified** or **"clean" audit opinion**.
- 9th consecutive balanced budget.
- The **General Fund**, which accounts for all taxes, fees and charges for services, ended the year with a surplus of $369.7 million.
- The General Fund showed an accumulated **fund balance** of $1.6 billion, which includes $253.4 million in an emergency/contingency cash reserve. The fund balance represents an increase of approximately $2.1 billion from the FY 1996 deficit of $518.2 million.
- The District is restricted by law to spend up to 17% of total general fund revenues for general obligation **debt service** each year. However, the actual debt service for fiscal year 2005 was only 7.4% of total revenues, or about 43.7% of the debt service ceiling.
- The District received upgrades on its general obligation bond ratings. Standard & Poor's and Fitch ratings are now A+, and A respectively.

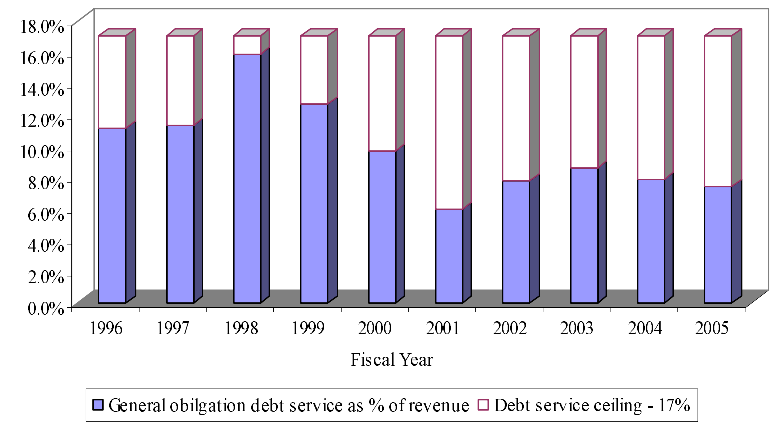
FY 2005 General Fund
Fund Balance
($ in millions)

Resources Set Aside		**$ 1,409.2**
Emergency/Contingency Cash Reserves	*$253.4*	
Bond Escrow	*$253.6*	
Restricted Use	*$270.4*	
Past & Present Capital Spending	*$252.8*	
Retiree Health Benefits	*$166.0*	
Other Reserves	*$137.0*	
One-Time Expenditures	*$76.0*	
Resources Available		**175.5**
TOTAL FUND BALANCE		**$ 1,584.7**

In FY 2005, the District issued $386.4 million in **general obligation bonds**. The entire amount was used to finance capital improvements projects. The allocation was primarily for the repair and replacement of some of the District's bridges, roads, street traffic signals, and sidewalks.

FY 2005 General Fund Surplus
($ in millions)

	Revised Budget	Actual	Variance
Revenues			
Taxes	$ 3,935.3	$ 4,052.1	$ 116.8
Non Taxes	338.3	352.4	14.1
All other general fund sources	487.0	469.0	(18.0)
Total revenues	**4,760.6**	**4,873.5**	**112.9**
Expenditures	**4,622.4**	**4,427.1**	
Excess - budgetary basis		**446.4**	
Nonbudgetary adjustments, net		(76.7)	
SURPLUS		**$ 369.7**	



Bond Rating History
Fiscal Year

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
S&P	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A	A+
Moody's	Ba	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2
Fitch	BB	BB	BB+	BBB	BBB	BBB+	BBB+	A-	A-	A

The three primary **Rating Agencies** that rate municipal debt are:

1. Fitch IBCA, Inc.
2. Moody's Investors Service
3. Standard & Poor's Rating Services

The rating scale (shown to the right) represents a consistent framework for ranking and comparing the relative risks of different debt issues. Each agency has developed its own set of easily recognizable symbols to grade all debt consistently.

Explanation of municipal bond ratings	**RATING SERVICE**		
	Fitch	***Moody's***	***Standard & Poor's***
Highest quality	AAA	Aaa	AAA
High quality	AA	Aa	AA
Upper medium grade	A	A	A
Medium grade	BBB	Baa	BBB
Predominantly speculative	BB	Ba	BB
Speculative, low grade	B	B	B
Poor to default	CCC	Caa	CCC
Highest speculation	CC	Ca	CC
Lowest quality, no interest	C	C	C
In default	DDD		DDD
In arrears	DD		DD
Questionable value	D		D

Fitch and Standard & Poor's may use + or – to modify some ratings. Moody's uses the numerical modifiers 1 (highest), 2, and 3 in the range from Aa1 through Ca3.

Economic Condition

2005 Economic Highlights

- Taxable retail sales were $10.5 billion, a 25.7% increase over 2004.
- Property taxes collected were $1.1 billion, a 12.9% increase over 2004.
- Total taxable property was $86.9 billion, a 30.7% increase over 2004.
- Property taxes levied were $1.2 billion, an 18.4% increase over 2004.
- Total employment (residents and non-residents) in the District was 680,700 in September 2005, an increase of 9,900 jobs over the September 2004 figure.
- Hotel industry room sales were up 16.1% over prior year.
- The Washington Convention Center hosted 1,153,250 conventioneers and conference attendees, 12.7% increase over 2004.

The District is a diverse economic community. The service industry now surpasses the federal government as the largest employer. The federal work force in the District averaged approximately 191,800 employees in FY 2005. An additional 148,000 federal employees worked elsewhere in the Washington metropolitan area. The District and the federal government, over the past decade, have been downsizing their workforces. However, in the past few years, there have been moderate increases, partially due to U.S. Department of Homeland Security hiring and grants to private contractors. In addition, new business operations, especially in the service industry, have continued to add to the strengthening of the local economy.

The District hosts, on a permanent basis, more than 170 foreign embassies and recognized diplomatic missions. Also, a number of international organizations have their headquarters in the District, including the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States. The United States' increasing involvement and leadership in international security, and economic, political and health affairs ensure that even more international organizations will either establish offices within the District or the Washington metropolitan area.

More than 400 museums and historical landmarks attract millions of visitors to the District each year. In calendar year 2004, approximately 17.7 million U.S. citizens visited the District, an increase of about 7.9% from 2003. An estimated 1,057,000 international visitors traveled to the District in 2004, an increase of about 22.2% from the 2003 revised figure of 865,000 for international visitors. Visitors are important to the District's economy because of the money spent on lodging, meals, retail purchases and other services. The District's tourism industry generates more than $10 billion in direct spending each year and sustains 260,000 jobs.

Current development projects in retail, entertainment, tourism, and housing support the expectation of additional growth in private sector employment over the next several years. A number of national retail and food service chains have already moved into renovated commercial spaces across the central business district, and similar projects are appearing in surrounding areas.

The New York Avenue Technology Corridor is already home to XM Satellite Radio, FedEx and several District agencies. The construction of the headquarters for the United States Bureau of Alcohol, Tobacco, Firearms and Explosives is scheduled to be completed by the spring of 2006. Telecommunications companies are being encouraged to relocate to the corridor.

New residential construction is occurring in all sections of the District. The District's Housing Finance Agency helped finance a total of 7,623 housing units in fiscal year 2005.

Structural Imbalance

Recent Efforts to Eliminate Structural Imbalance

In 2005, the D.C. Delegate to the United States Congress introduced legislation to eliminate the federally imposed **structural imbalance** with a formula-based annual federal contribution.

In 2004, the United States Senate passed the District of Columbia Budget Autonomy Act which was sponsored by the D.C. Delegate. It is hoped that the United States House of Representatives will follow suit. This Act is intended to move the District toward greater control of its local budget. The bill was re-introduced in 2005. The Senate bill gives the District control of its taxpayer-raised **fund**s after a brief period of oversight. This bill is to eliminate costly delays in access to funds caused by the cumbersome congressional budget process and the requirement that Congress enact the District's budget.

Background

On June 4, 2003, The U.S. Government Accountability Office (GAO) released its report "*District of Columbia: Structural Imbalance and Management Issues*," which confirmed that the District of Columbia has a structural imbalance that ranges from $470 million to more than $1.1 billion. The GAO report specifically states that, "Without changes in the underlying factors driving expenses and revenue capacity, the structural imbalance will remain."

The structural imbalance includes a prohibition on taxing federal real property, which comprises 42 percent of the District's property value, and other non-municipal tax-exempt property, such as universities, which comprise an additional 11 percent. The imposition of restrictions on taxing non-residents working in the District means that only 34% of the income earned within its borders are taxed. The District also provides state-like functions such as human services, mental health, and higher education estimated at $500 million annually.

Over the past several years, the District has submitted balanced and responsible budgets during periods of increasing as well as stagnating and declining revenues. However, despite these balanced budgets, there is a serious long-term financial problem; a structural imbalance that transcends short-term challenges and cyclical revenue fluctuations. This imbalance creates a long-term gap between the District's ability to raise revenue at reasonable tax rates and the District's ability to provide services of reasonable quality to its residents.

There are few options available for correcting this imbalance. The District can increase the tax burden on businesses and residents even further. However, this could drive potential and current residents or businesses to locate in adjacent, lower-tax states and have an adverse impact on total tax receipts. This option forces the District to choose between tax levels that are higher than the national average and service levels that are lower than the national average, or a combination of both.

An alternative solution is federal compensation for the District's unique relationship with the federal government. The District has to fund itself with a federally restricted tax base and yet provide un-reimbursed services to the federal government.

The structural imbalance is a matter for District and congressional policymakers and should be addressed with urgency. A dialogue must continue that revisits the local/federal partnership and arrives at a long-term solution for equitable support of District services. The solution will ensure the long-term financial viability of the nation's capital.

Population Trends

Population estimates are published each year for the present and the past data. In July each year, new estimates are released from the U.S. Census Bureau, and estimates for earlier years are revised. In July 2005, the U.S. Census Bureau estimated that there were 550,521 permanent residents in the District. This represents a slight decrease of 3,718 from the revised July 2004 figure of 554,239.

The 2000 census revealed that estimates of residents leaving the District had been overstated during the previous decade. The actual population loss was 5.7% from 1990 to 2000, which is almost 60% less than the estimated loss predicted by the previous 1990 census results. Those same census estimates predicted that the District population would not reach its current level for approximately five more years. In fact, the District's population decreased 16% between 1970 and 1980, but only experienced an additional 5% loss between 1980 and 1990 and 5.7% from 1990 to 2000.

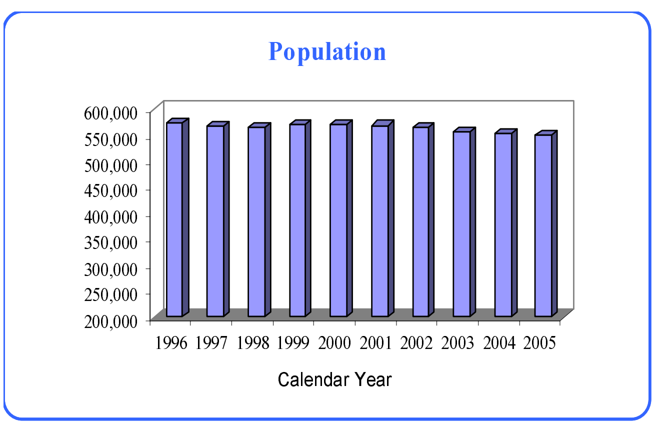
The Census Bureau estimates are determined from births, deaths, changes in tax return filings and estimates of the number of immigrants who move into the District each year. These estimates are used in federal funding allocations and in monitoring recent demographic changes.

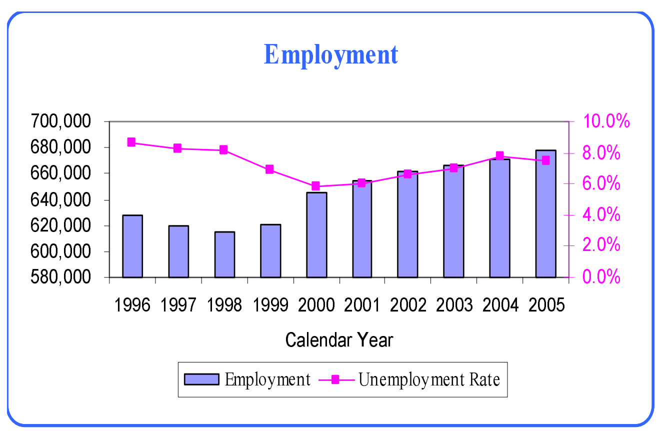
Employment Trends

District resident employment has remained at approximately 23% of the metropolitan area totals for the past three years. The September 2005, seasonally adjusted, unemployment rate in the District was 6.1%, compared to the September 2004 rate of 6.2%. Total employment within the District increased to 680,700 in September 2005 from 670,800 in September 2004. *Some of the references to 2004 employment numbers are different from those shown in the FY2004 PAFR because of updates and revisions.*

The total employment in the Washington metropolitan area was approximately 2,939,700 in FY 2005 compared to the revised 2,860,300 FY 2004 number, representing a slight increase. These numbers do not include the self-employed, domestic workers, military and foreign government personnel, which represent a significant portion of the actual work force of the region.

Effective January 1, 2006, the standard minimum wage for District employees increased from $6.60 per hour to $7.00 per hour. This is the second minimum wage increase since 1997. District law requires that the minimum wage rate for the District be at least $1.00 per hour greater than the minimum wage set by the federal government. The federal minimum wage rate is currently $5.15 per hour and has been that rate since September 1, 1997.





Major Initiatives

National Capital Revitalization Corporation

The National Capital Revitalization Corporation (NCRC) is a publicly chartered corporation focused on stimulating real estate development, business investment and job creation in neighborhoods. Together with its affiliates, NCRC is bringing $1 billion worth of investment to D.C. neighborhoods over the next few years. NCRC is developing 2 million square feet of retail space, and 2,000 condominium units and apartments. A few of the projects being developed are:

- "Heights of Columbia" – Located at 14th and Girard Streets, N.W.; 56 condominium units, 19,000 square feet of retail and office space, restaurants and child care center. Expected to open in the summer of 2006.

- "Kenyon Square and Victory Heights" – Located at 14th and Irving Streets, N.W.; 147 condominium units and 75 rental apartments for seniors, 19,238 square feet of retail space. Expected completion in 2007.

- "City Vista" – Located at 5th and K Streets N.W.; a 55,000 square foot Safeway Grocery Store, 75,000 square feet of retail space and 685 condominium units and apartments. Expected to open fall 2007.

- "Skyland Shopping Center" – Located at Naylor and Alabama Avenues S.E.; a 250,000 square foot retail center. Expected to open summer 2008.

- "DC USA" – Located at 15th Street between Irving Street and Park Road, N.W.; a 500,000 square foot retail center that will be anchored by a Target Store and include Bed, Bath and Beyond, Washington Sports Club and Best Buy. Expected completion in 2008.

- "Washington Gateway" - Located at New York and South Dakota Avenues N.E.; a 272,000 square foot retail center to be anchored by a Costco Warehouse. Still in negotiations.

Washington Convention Center Expansion & Headquarters Hotel

The new Washington Convention Center opened in April 2003 with tremendous fanfare and promise. Located in the heart of the nation's capital, the new Washington Convention Center has 2.3 million square feet of space and occupies six city blocks. The Center consists of 703,000 square-feet of exhibit space, 150,000 square-feet of flexible meeting space, a 52,000 square-foot ballroom, along with 44,000 square feet of retail space and a street level restaurant.

In early December 2004, the Board of Directors of the Washington Convention Center Authority (WCCA) decided to move forward with plans to expand the meeting and ballroom capacity of the new convention center by 75,000 square feet and to develop and own a 1200-room headquarters hotel that will also have 100,000 square feet of meeting and ballroom space. This decision was followed by six months of intensive predevelopment activities by WCCA to determine if the hotel can indeed be built at a site next to the new convention center on 9th Street between Massachusetts Avenue and M Street, N.W.

Several outstanding issues for this site, including land acquisition, design, historic preservation and financing, must be explored in depth and resolved. WCCA is currently in negotiations for the acquisition of the site for the hotel. WCCA's revised plan is for a 1400-room hotel, and is estimated to cost $500 million. Private partners are willing to pay about $350 million, and the remainder of the money will come from tax-increment financing.

In the event that development of the hotel at this site is not feasible, the District has agreed to reserve adequate space at the old convention center site for the hotel project. That agreement now allows the District to move forward with plans for a mix of housing, office, retail and cultural uses on the old convention center site, which is currently being utilized as a parking lot.

Anacostia Waterfront Initiative

The Anacostia River is the District's most undervalued and underutilized natural resource. On March 22, 2000, the Mayor brought together the 20 federal and District agencies that own or control land along the Anacostia River, to sign the Anacostia Waterfront Initiative (AWI) Memorandum of Understanding (MOU). The AWI MOU created an unprecedented partnership between the federal and District governments to transform the Anacostia River from a forgotten river to a gem that will support recreational activities, such as swimming, boating and fishing. The vision of the District is to provide a clean and vibrant waterfront with parks, recreational uses and urban waterfront settings – places for people to meet, relax, and encounter nature in an urban setting.

In August 2004, the District created the Anacostia Waterfront Corporation (AWC) to design, plan and control all of the development in and around the Anacostia River. One of the Corporation's long-term goals is to make the Anacostia safe for swimming by 2025.

The plans, as outlined by District Officials, would cost approximately $8 billion and take at least 25 years to complete.

The Anacostia Waterfront Today

Bureau of Alcohol, Tobacco, Firearms and Explosives National Headquarters Building

Construction is continuing on a new Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) National Headquarters building at New York and Florida Avenue, N.E. The ATF is a law enforcement agency within the United States Department of Justice currently located at 650 Massachusetts Avenue, N.W. This $83 million project consists of a structure composed of two building wings arranged in an "L" shape which will include approximately 422,000 gross square feet of office space. The structure is to house approximately 1,100 employees and provide 200 parking spaces. The building is expected to be completed in late 2006.

Newseum

A new and expanded Newseum is being constructed at 555 Pennsylvania Avenue, N.W. at a cost of $400 million. Formally located in Arlington, Virginia, the Newseum is the world's first interactive museum of news owned by the Freedom Forum, a foundation dedicated to free press, free speech and free spirit for all people. The new museum will feature six levels of displays and expand the exhibit area to 70,000 square feet, which is three times larger than the original Newseum.

In addition to the Newseum and its support facilities, this 600,000 square foot project will contain office space for Newseum and Freedom Forum staff, an 11,000 square foot conference center, more than 30,000 square feet of retail space and more than 145,000 square feet of housing. The Newseum is expected to be completed in 2007.

<u>Tivoli Square</u>

In 2005, the Columbia Heights neighborhood welcomed the opening of Tivoli Square, a $39.7 million development project covering an entire city block. This project, stretching from 14th Street to Holmead Place, and Park Road to Monroe Street, aims to economically rejuvenate this once blighted Northwest neighborhood.

Tivoli Square houses the historic Tivoli Theater, constructed in 1924 at a cost of $1 million. The Tivoli Theater was one of the most elegant movie houses in Washington, D.C. until its closing in 1976 in the wake of the 1968 riots. The Tivoli suffered vandalism and water damage that obliterated its grandeur. Some residents and developers wanted the theater torn down, while others fought to save it. Under this redevelopment project, the exterior of the theater was completely restored to its original grandeur and the interior retained historic spaces and features.

Tivoli Square also features the 250-seat GALA Hispanic Theatre that is built within the balcony of the Tivoli Theatre. Attached to the Tivoli Theatre along Park Road is a new 53,000 square foot Giant Food supermarket and a 230-car parking garage. Also within a new building adjacent to the theatre is 24,000 square feet of retail and office space which includes Wachovia Bank, Blockbuster and a sit-down restaurant. Finally, completing the block on Monroe Street are 40 new town homes.

The Tivoli Theatre, 1924

The Tivoli Theatre, 2005

Baseball in the District of Columbia

In 2005, the District welcomed the successful relocation of the Montreal Expos baseball team to the District of Columbia as the new Washington Nationals baseball team. The Washington Nationals played their 2005 baseball season at Robert F. Kennedy (RFK) Stadium with an impressive number of wins and an impressive number of fans in attendance. They will continue to play at the renovated RFK Stadium until a new baseball stadium is constructed. Under the agreement reached between the District and Major League Baseball (MLB) on September 29, 2004, the District must totally finance and construct a new baseball stadium by the 2008 baseball season.

The Mayor's office originally estimated that the stadium, plus land acquisition and infrastructure would cost $440 million. Subsequently, the District's CFO and the D.C. Auditor estimated that the entire project would cost $534.8 million and $584 million, respectively. On December 21, 2004, the D.C. Council passed the Ballpark Omnibus Financing and Revenue Act of 2004, which authorized the District to issue up to $534.8 million in bonds to pay for the RFK renovation and the new ballpark.

The proposed site for the new stadium is located within the South Capitol Street Corridor in the Southeast sector of the District. This location has both Metrorail and highway accessibility. The District is in the process of acquiring 21 acres of land from the current owners in the Southeast neighborhood.

The D.C. Sports and Entertainment Commission (DCSEC) is actively planning for the successful contracting, construction and management of the new baseball stadium. Clark/Hunt/Smoot, a Joint Venture, was selected by DCSEC as Construction Manager for the new baseball stadium. Clark/Hunt/Smoot is comprised of Clark Construction Group, LLC, of Bethesda, Maryland; Hunt Construction Group of Indianapolis, Indiana; and Smoot Construction of Washington D.C. The combined portfolio of these three firms includes the construction of 11 of the last 16 Major League Baseball ballparks built in the country. In March 2005, the joint venture team of HOK/Devrouax-Purnell Architects (HOK) was selected to design the new stadium. HOK is the world's leading sports facility designer with over 20 professional stadiums among its vast design portfolio.

The design for the new stadium includes:

- 41,000 seats
- Over 1 million gross square feet
- Luxury suites
- Club level seating
- Restaurants/Sports bar
- Picnic area
- Family Plaza &
- MORE!

Stadium construction will support 3,500 jobs and generate $5 million per year in new tax revenues

The Washington Nationals First Pitch at RFK Stadium, April 14, 2005
[Courtesy of the D.C. Sports and Entertainment Commission]

Who Pays for Baseball?

Baseball Project Cost

- $535 million from revenue bonds, a majority of which will be paid from ballpark revenues.
- MLB will make a one-time $20 million contribution.
- Remainder will be paid from interest earnings, premiums, and 2005 revenue collected at RFK.

Baseball Project Sources
($ in millions)

Revenue Bonds	$	535
Premium		9
Construction Interest		30
2005 Revenues		37
MLB Contribution		20
Total Sources	$	631

Debt Service

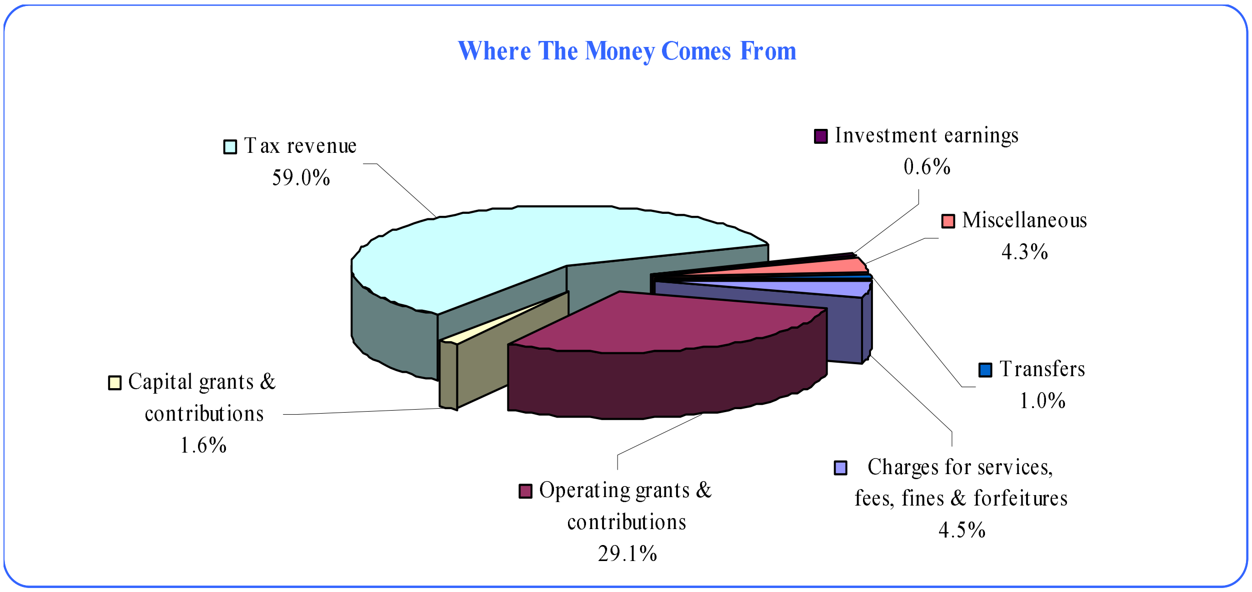
- The District will issue $535 million in 30-year revenue bonds to pay for the stadium.
- It is estimated that $58 million will be generated by MLB rent, stadium taxes, ballpark fees, and utility taxes.
- $42 million a year is needed to pay debt service on revenue bonds and expenses.
- The majority of the annual debt service on the revenue bonds comes from revenue generated by the stadium itself.
  - $24 million in stadium taxes (including tickets, concession, and parking)
  - $6 million in MLB rent
- The District will also payoff bonds through a gross-receipts tax on 1,423 District employers, and a tax on utilities, half of which is paid will be the Federal government.
  - $14 million in gross receipts tax
  - $14 million in tax on utilities
- The remaining $16 million will be allocated by Mayor and Council.

Financial Resources

District-Wide Revenues

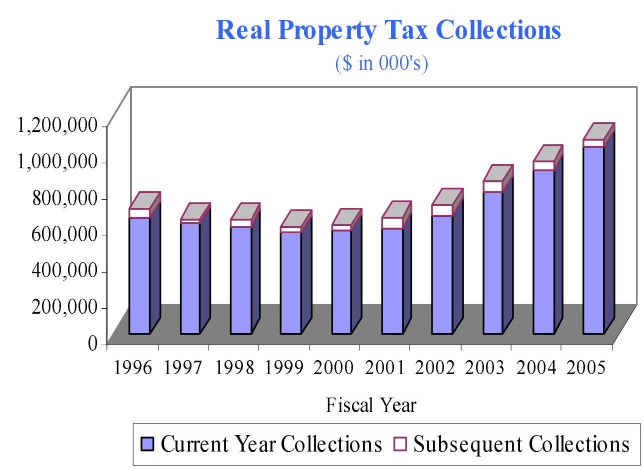
The majority of the District's funds come from the collection of taxes which represents 59% of total revenues. In FY 2005 the District collected $957 million in Sales and Use taxes, which was $129 million more than in FY 2004. The District also collected $1.1 billion in Property taxes; $1.4 billion in Income and Franchise taxes; and $377 million in other taxes in FY 2005. Property, income and franchise and other taxes collected in FY 2005 were $96 million less than the revised FY 2005 budget.

Two other main sources of revenues are federal and private resources, which include Operating Grants and Contributions.

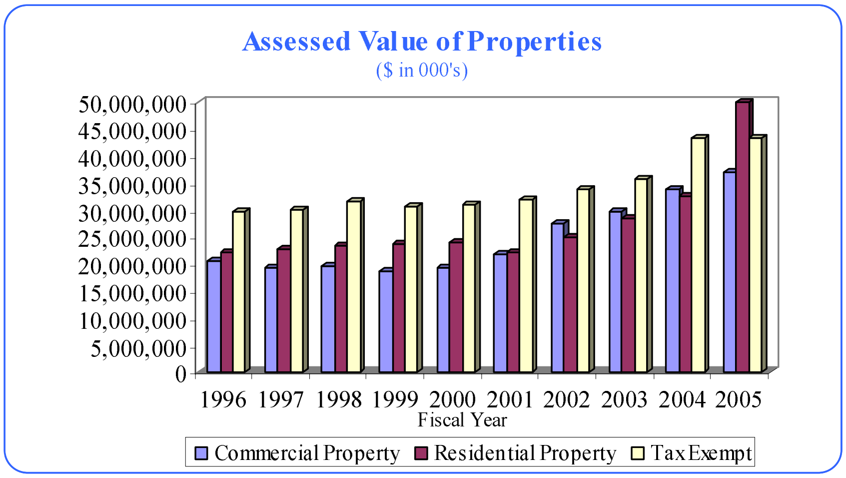


Real Property Tax

Real property tax increased due to higher assessments on existing properties and on new construction. Deed recordation fees were also higher due to brisk real estate purchases and refinancing prompted by low mortgage interest rates.



The total assessed value of all commercial and residential properties in the District at September 30, 2005 was $86.9 billion compared with $66.5 billion in the prior year. Tax-exempt properties accounted for $43.2 billion or 33.2% of the total estimated actual values in FY 2005.



General Fund Budget

The FY 2005 general fund actual results of operations showed that total revenues of $4.9 billion exceeded projections by $113 million. Total actual expenditures and other uses were $4.4 billion, which was $195 million less than the budgeted amount. Overall, the District ended the year with a general fund surplus of $370 million. (See table below.)

Fiscal Year 2005 General Fund Budgetary Highlights
($ in 000's)

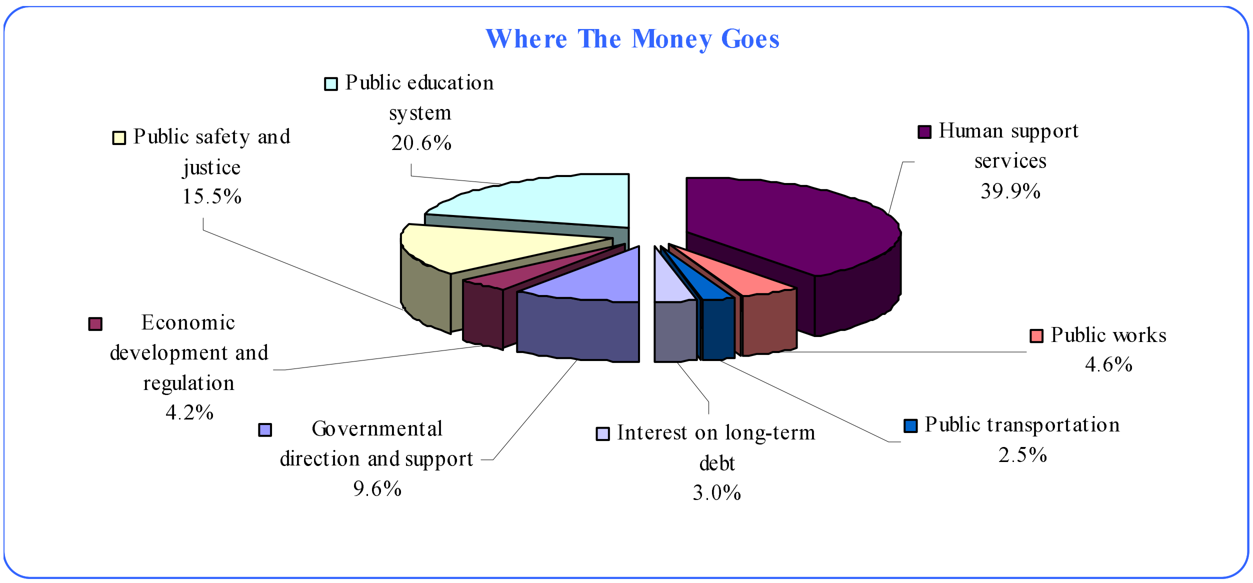
	Budget Original	Budget Revisions	Budget Revised	Actual	Variance Over(under)
Revenues and Other Sources:					
Property taxes	$ 1,068,108	$ 80,202	$ 1,148,310	$ 1,145,796	$ (2,514)
Other taxes	2,634,547	152,414	2,786,961	2,906,291	119,330
Charges for services	342,504	(4,169)	338,335	352,427	14,092
Other sources and contributions	217,112	100,998	318,110	311,789	(6,321)
All other sources	238,115	(69,234)	168,881	157,166	(11,715)
Total revenues and other sources	4,500,386	260,211	4,760,597	4,873,469	112,872
Expenditures and Other Uses:					
Governmental direction and support	315,813	20,334	336,147	294,778	(41,369)
Economic development and regulation	241,571	31,117	272,688	193,456	(79,232)
Public safety and justice	790,815	29,752	820,567	805,471	(15,096)
Public education system	1,067,666	(22,210)	1,045,456	1,018,959	(26,497)
AY06 public education expenditures	-	63,218	63,218	63,218	-
Human support services	1,192,756	77,422	1,270,178	1,258,537	(11,641)
Public works	327,936	7,952	335,888	328,997	(6,891)
Other	561,692	(83,380)	478,312	463,678	(14,634)
Total expenditures and other uses	4,498,249	124,205	4,622,454	4,427,094	(195,360)
Excess (deficit) - budgetary basis	$ 2,137	$ 136,006	$ 138,143	446,375	$ 308,232
Nonbudgetary adjustments, net				(76,707)	
Surplus				**$ 369,668**	

Resource Allocation

The District provides a broad range of services to its residents, including those normally provided by states and counties. These services include: public safety and justice, public education, human support services, and public works.

In FY 2005, the District's total expenditures were $6.7 billion. Human Support Services expenditures represented 39.9% of the total.

The majority of the Human Support Services expenditures were for the District's Medicaid and Medicare programs. Public Education, primarily D.C. Public Schools and Charter Schools, represents 20.6% of total expenditures. Public Safety and Justice, mainly the Police Department and Fire and EMS Services, represented 15.5% of total expenditures.



Debt Management

The District's total outstanding long-term debt was $4.3 billion at September 30, 2005. This amount consisted of general obligation bonds, **tax increment financing (TIF)** notes and bonds, **qualified zone academy bonds (QZAB)** and tobacco settlement bonds.

The table below shows the balances in each category and changes in long-term debt.

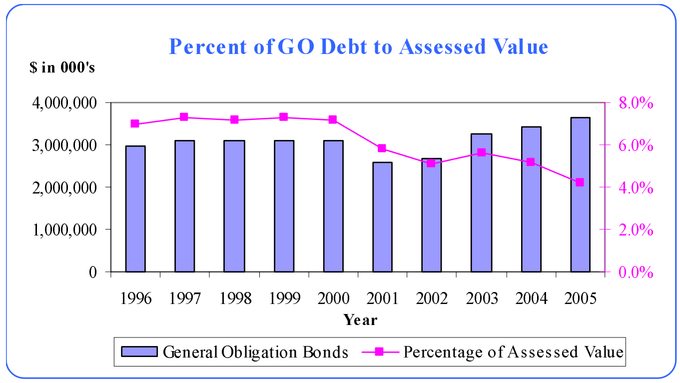
Long-Term Debt
($ in 000's)

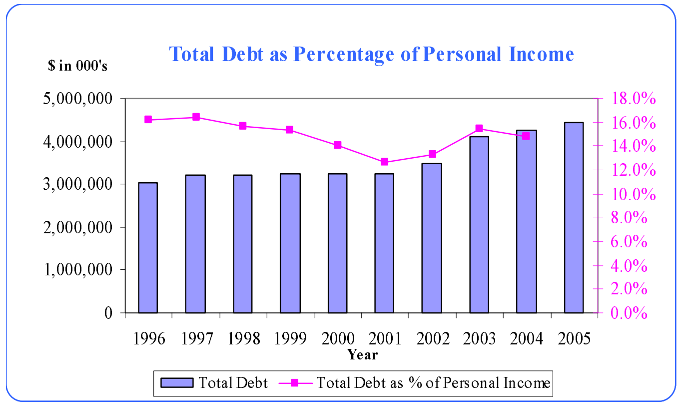
	2005	2004	Change
General Obligation Bonds	$ 3,632,198	$ 3,418,933	$ 213,265
TIF Bonds and Notes	117,526	124,009	(6,483)
QZAB Bonds	2,815	3,071	(256)
Tobacco Settlement Bonds	498,740	502,740	(4,000)
Total	**$ 4,251,279**	**$ 4,048,753**	**$ 202,526**

The District's uninsured bonds were rated A2 by Moody's Investor Services; A+ by Standard & Poor's Rating Services; and A by Fitch Ratings. These ratings are higher than previous ratings and are representative of the improved financial condition of the District.

In the past, financial and operational difficulties required the District to pay substantially higher interest rates for its debt. The improved bond ratings allow the District to either refinance outstanding debt, or to issue new debt, at more favorable rates. Lower interest rates translate into lower debt service payments. The savings make a greater percentage of the District's budget available for the needed services and operations for its citizens.

The general obligation debt per capita (D.C. resident), as of September 30, 2005, was $6,598. This was an increase of $429, or 7% from the amount on September 30, 2004 of $6,169 debt per capita. The increase was due to the issuance of additional general obligation debt, and a decrease in the U.S. Census population estimate for Washington, D.C.





Government-Wide Financial Statements

Governmental Activities

The traditional (fund based) reporting of governmental activities focuses on short term receipts, disbursements and balances of spendable resources. The **government-wide financial statements**, on the other hand, combine long-term information with the short-term to provide a complete picture of the District's finances. This approach accounts for all revenues and expenses connected with the fiscal year, regardless of when the cash is received or spent. The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. This statement distinguishes between governmental activities, business-type activities and component units' activities.

The *Statement of Activities* summarizes both the gross and net cost of the governmental and business-type activities. Governmental activities show the District's basic functional services while business-type activities reflect enterprise operations where fees for services are expected to cover all or most of the costs of operations, including depreciation. Program or function specific earned revenues are subtracted from program or function specific expenses to arrive at net expense or revenue.

Federal and private grants for specific programs or functions also reduce net expenses for these governmental and business-type activities. The District's general revenues (property, sales, income and franchise taxes) offset remaining program/function costs, resulting in an increase or decrease in net assets.

Financial Analysis of the Government as a Whole

The "Net Assets" table below shows net assets from governmental activities and business-type activities, and the totals for these two activities.

Net Assets as of September 30, 2005
($ in 000's)

	Governmental		Business-type		Totals	
	2005	2004	2005	2004 (restated)	2005	2004 (restated)
Current and other assets	$ 2,783,666	$ 2,491,541	$ 453,541	$ 430,972	$ 3,237,207	$ 2,922,513
Capital assets	5,018,939	4,716,538	16,183	17,927	5,035,122	4,734,465
Total assets	7,802,605	7,208,079	469,724	448,899	8,272,329	7,656,978
Long-term liabilities	4,862,030	4,710,163	59,449	66,481	4,921,479	4,776,644
Other liabilities	1,189,911	1,286,018	36,231	41,438	1,226,142	1,327,456
Total Liabilities	6,051,941	5,996,181	95,680	107,919	6,147,621	6,104,100
Net assets:						
Invested in capital assets, net of related debt	1,069,731	774,533	16,183	17,927	1,085,914	792,460
Restricted	930,021	807,839	322,893	288,224	1,252,914	1,096,063
Unrestricted	(249,088)	(370,474)	34,968	34,829	(214,120)	(335,645)
Total net assets	**$ 1,750,664**	**$ 1,211,898**	**$ 374,044**	**$ 340,980**	**$ 2,124,708**	**$ 1,552,878**

- The total assets from governmental activities amounted to $7.8 billion and $469 million from its business-type activities, for a grand total of $8.3 billion.
- The total liabilities associated with these amounts were $6 billion, $96 million and $6.1 billion respectively for governmental activities, business-type activities and the total of the two categories.
- By deducting the total liabilities from the total assets, the District showed total net assets of $1.8 billion for governmental activities, $374 million for business type activities for total net assets of $2.1 billion.
- The District's combined net assets increased by $572 million in fiscal year 2005. Governmental activities increased by $539 million while business-type activities increased by $33 million.
- The combined total net assets for the governmental activities and business-type activities increased by 31% over the previous year.
- **Capital assets** increased because the District invested more resources in new and rehabilitated infrastructure, such as roads, bridges and buildings. This increase in assets was funded primarily by the increase in revenues and proceeds from debt issuance.
- Each year, the D.C. Lottery transfers substantially all of its net income to the District. In FY 2005, it transferred $71.5 million of its income, which was $2 million less than last year's transfer.

Change in Net Assets as of September 30, 2005
($ in 000's)

	Governmental activities		Business-type		Total	
	2005	2004	2005	2004 (restated)	2005	2004 (restated)
Revenues:						
Program revenues:						
Charges for services	$ 327,162	$ 300,110	$ 267,115	$ 272,040	$ 594,277	$ 572,150
Operating grant and contributions	2,098,723	2,060,973	16,707	26,588	2,115,430	2,087,561
Capital grants and contributions	112,704	151,334	-	15,464	112,704	166,798
General revenues	4,605,003	4,151,821	112,552	114,293	4,717,555	4,266,114
Total revenues	**7,143,592**	**6,664,238**	**396,374**	**428,385**	**7,539,966**	**7,092,623**
Expenses	**6,676,276**	**6,320,561**	**291,860**	**314,849**	**6,968,136**	**6,635,410**
Other non-operating activities	**71,450**	**73,500**	**(71,450)**	**(73,500)**	**-**	**-**
Increase (decrease) in net assets	538,766	417,177	33,064	40,036	571,830	457,213
Net assets - Oct 1	1,211,898	794,721	340,980	300,944	1,552,878	1,095,665
Net assets - Sept 1	**$ 1,750,664**	**$ 1,211,898**	**$ 374,044**	**$ 340,980**	**$ 2,124,708**	**$ 1,552,878**

The improvements in the District's financial position were mainly the result of an increase in revenues and better expenditure management. The increase in business-type activities net assets resulted from improved operating efficiency.

The government-wide financial statements focus on all of the District's *economic* resources while the **governmental funds** focus on the flow of *current financial* resources. The $121.5 million improvement in the unrestricted net assets was due mainly to increased revenues.

Governmental Funds

The fund financial statements are more familiar to regular readers of the traditional Comprehensive Annual Financial Report (CAFR). The focus is on major funds and not on fund types. Major funds are presented individually. Non-major governmental funds and non-major proprietary funds are combined in separate columns. The sources (revenues) and uses (expenditures) of resources, assigned through the financial planning and budgeting process, focus on the District's ability to finance operations in the short-term.

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

- *Governmental Funds* relate to the governmental activities column in the government-wide statements. The focus is on a shorter-term basis and measures how money flows into and out of these funds and determines the balances left at year-end for future spending. Most basic services are accounted for in this fund category and are reported as General, Federal and Private Resources, General Capital Improvements, and Non-major Governmental Funds. These funds report short-term activities and measure cash and other financial assets that can be readily converted to cash.

- *Proprietary Funds* are used to account for the District's business-type activities. These funds generate a significant portion of their revenues through user charges. The District recognizes two major funds: Lottery and Charitable Games, Unemployment Compensation; and one non-major fund in this classification.

- The District is the *trustee,* or *fiduciary,* for its employees' pension plans. *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. These activities are presented separately from the District's other funds because these resources are not available to finance the operations of the government.

Assets and Liabilities

The District reported the following total assets in its governmental funds balance sheet: $2.3 billion in its general fund, $587.9 million in federal & private resources (grants and federal payments), $539.1 million in general capital improvements, and $160.6 million in non-major governmental funds, for total governmental fund assets of $3.7 billion as of September 30, 2005.

The following liabilities were reported in the governmental funds balance sheet: $781.2 million in the general fund, $470.0 million in federal & private resources, $785.5 million in general capital improvements, and $7.9 million in non-major governmental funds. The total governmental fund liabilities amounted to $2.0 billion.

Operating Results

The District reported the following revenue amounts in its governmental funds: $4.8 billion in its general fund, $2.1 billion in federal & private resources, $150.4 million in general capital improvements, and $39.5 million in non-major governmental funds, for a total of $7.1 billion for the year ended September 30, 2005.

The following expenditure amounts were reported in the governmental funds: $4.5 billion in the general fund, $2.1 billion in federal & private resources, $578.1 million in general capital improvements, and $85.1 million in non-major governmental funds. These amounts total $7.2 billion in governmental fund expenditures for the year ended September 30, 2005.

The operating results measure the difference between revenues and expenditures during the year. The results showed a combined excess of expenditures over revenues which resulted in a deficiency of $103.3 million. This deficiency, however, was caused by the reporting of the $578.1 million cost of capital improvements without showing the matching financing assigned to these improvements. The funding (financing) was shown below the net of total revenues and expenditures as *other financing sources*. The proceeds from the sale of bonds and other long-term financing by the District amounted to $487.4 million in other financing sources. This amount offsets the revenue deficiency.

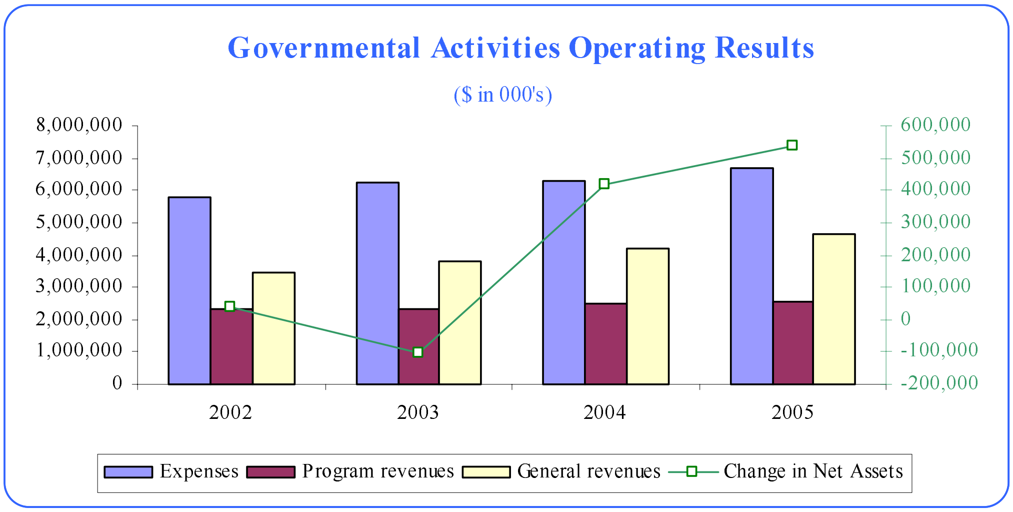
The majority of the revenues of the federal and private resources fund were from federal contributions of $361.8 million and operating grants of $1.7 billion. The largest expenditure, $1.4 billion, in the federal and private resources fund, was related to human support services.

General Capital Improvements

General capital improvements revenues and other sources of $581.9 million exceeded related expenditures of $578.1 million by $3.8 million. The District's policy, to the extent allowed by available funding, is to rapidly invest in infrastructure and other improvements to encourage residents and businesses to stay in the District and also to attract new residents and businesses.

The general capital improvements fund deficit for fiscal year 2005 was reduced from $250.2 million to $246.4 million as a result of a $3.8 million current year operating surplus.

It is the District's financial policy to issue general obligation bonds to support the expenditures associated with its Capital Improvements Program. The District has instituted the practice of issuing bonds based on actual expenditures as opposed to estimated annual amounts to minimize the cost of carrying debt. In practice, agencies are authorized to spend their annual appropriated capital budget in advance of financing.



The general fund advances the amount of the funding, and is repaid with the proceeds from bonds when issued. This policy allows the District to determine when it will enter the market to issue bonds based upon cash flow needs, favorable market rates and the number of municipal debt financing instruments. The flexibility inherent in this approach minimizes borrowing costs and maximizes the pool of potential investors for the District's debt issuances.

The deficit in this fund will be controlled and reduced in subsequent fiscal years by a combination of the following:

- Operating transfers from the general fund
- Reductions in capital budget authority
- Lower annual spending in capital programs
- An annual allocation of a portion of bond proceeds

Fund Balance

Fund balance is the difference between the assets and liabilities, and is divided into two major parts, *reserved* and *unreserved*. The **reserved fund balance** represents amounts that are already committed to specific programs and are not available for other uses. A positive **unreserved fund balance** represents resources available to fund subsequent years' activities. A negative unreserved fund balance represents an over-commitment of available resources.

The fund balance does not consist entirely of cash. Cash is only one of the assets that enter into the calculation of fund balance (assets minus liabilities equal fund balance). Therefore, the fund balance may consist of cash and other resources or assets like receivables and inventories. In some cases, the composition of financial assets may be such that it is possible to have a large positive fund balance with little or no cash.

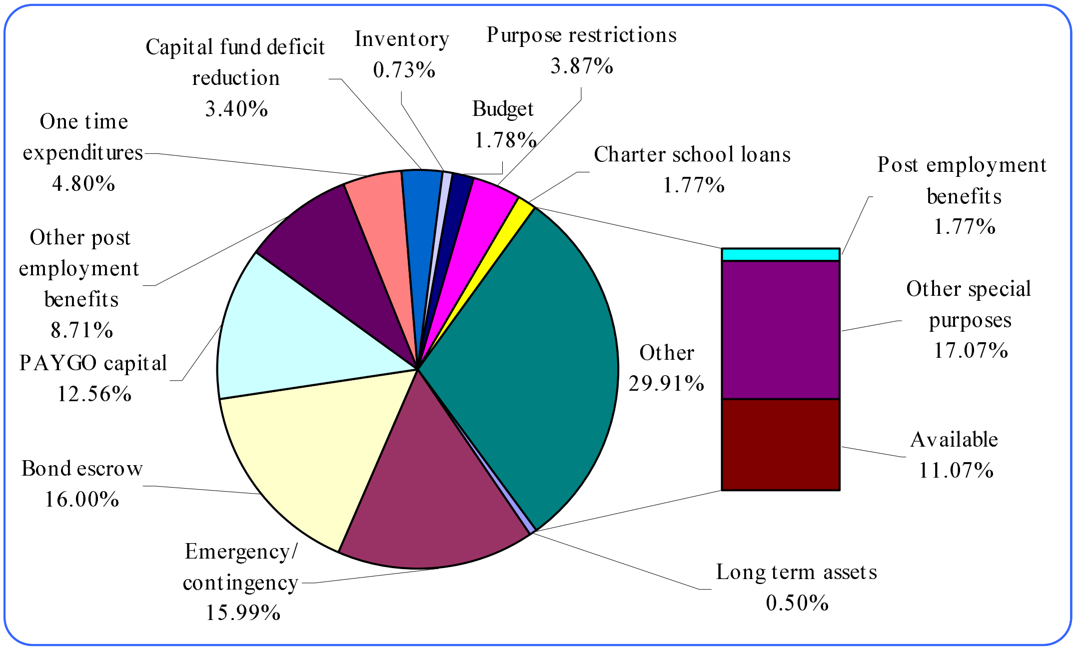
- Over the past ten years, the District's fund balance in the general fund increased from a negative balance of $518 million to a positive balance of $1.6 billion in FY 2005, an increase of over $2.1 billion.

- The unreserved fund balance was $91.3 million, $320.0 million, $329.1 million, $607.1 million, and $473.9 million in fiscal years 2001, 2002, 2003, 2004 and 2005 respectively.

- The fund balance includes a rainy day (emergency/contingency cash reserve) fund of $253.4 million. In addition, there is $253.5 million in cash set aside for long term debt service and $902 million designated by management for specific programs and projects.

- The unallocated fund balance of $176 million represents resources that the District's management intends to use to supplement the rainy day fund.

General Fund
Fund Balance



Outlook for FY 2006

The economy of the District is expected to hold on to its current strength

- Housing demand is high in the District and throughout the metropolitan area. District as a place to live is increasingly desirable because of a strong job market and the desire to avoid traffic congestion getting in and out of the city.
- Major service sector of the District's economy (professional and membership organizations) leads the growth in employment, wages, and gross state product.
- Hospitality sector continues to grow.
- The District is investing significantly to increase it's housing stock.
- Growing expenditures by the federal government add impetus to the District's. economy.
- Investments in economic development are paying off in terms of tourism, new retail establishments that attract demand from suburban malls, and the development of "nightlife" in downtown.
- Public safety and public works continue to create an acceptable environment for new employment, visitors, and residents.

Miscellaneous Statistics

Last Two Fiscal Years

	2005	2004
ECONOMIC DEVELOPMENT AND REGULATION		
Taxable retail sales ($ millions)	10,486,545	8,342,682
Commercial construction units	125	115
Value	1,466,587	1,720,869
Residential construction units	861	506
Value	192,609	117,803
Housing Finance Agency		
Number of Multi-Family Units Financed	7,623	525
Amount of Multi-Family Financing Provided ($ 000s)	133,510	36,051
Total Number of Housing Units Financed	7,623	525
Total Amount of Housing Financing Provided ($ 000s)	133,510	36,051
PUBLIC SAFETY AND JUSTICE		
Police		
Crime Index Offenses	32,678	36,246
Number of Police Officers	3,800	3,800
Fire		
Number of Fire Fighters	1,500	1,426
Number of Fire Alarms	187,242	119,846
Inspections	29,072	26,703
EMS		
Number Emergency Medical Personnel	331	342
Number of Emergency Responses	114,823	N/A
PUBLIC EDUCATION SYSTEM		
D.C. Public School System		
Number of School Teachers	4,938	5,206
Number of School Students	62,306	62,306
Number of High School Graduates	2,680	2,740
University of the District of Columbia		
Number of Teachers	219	208
Number of Students	5,364	5,424
Number of Graduates	503	508
PUBLIC LIBRARY		
Number of Volumes	2,333,957	2,559,601
PUBLIC WORKS/PUBLIC TRANSPORTATION		
Street resurfaced (includes reconstruction); regular cover; pavement restoration (miles)	90	37
Potholes repaired	5,272	9,177
Refuse collected (tons per day)	485	506
Recyclables collected (tons per day)	85	84
Tons of bulk trash removed	4,956	5,362
Tons of leaves removed	9,569	6,651
Tons of snow removed	880,000	2,472,659
Department of Motor Vehicles		
Number of motor vehicle registrations (1/1 - 12/31)	250,602	243,874
Number of operator licenses issued (1/1 - 12/31)	80,765	96,760
Number of operator licenses outstanding (1/1 - 12/31)	314,650	237,526
D.C. WATER AND SEWER AUTHORITY		
Number of Customer locations	123,062	122,802
Average daily water consumption (MGD)	86	87
Daily maximum sewer capacity (MGD)	370	370
Peak 4 Hour Flow, through complete process (MGD)	740	740
Excess Storm Flow, primary treatment only (MGD)	336	336
Peak Flow (MGD)	1,076	1,076
CONVENTION CENTER		
Conventions held	189	201
Attendees	1,153,250	1,023,072

N/A: Not Available
MGD: Millions of gallons daily

Glossary

Capital Assets	Assets (infrastructure, land, buildings, equipment) used in operations that have initial useful lives extending beyond a fiscal year and that will not become available for spending.
Component Unit	A legally separate organization for which the primary government is financially accountable and is included as part of its financial reporting entity.
Comprehensive Annual Financial Report (CAFR)	An annual report issued by state and local governmental entities. A CAFR has three major sections: introductory, financial and statistical.
Debt Service	Cash required in a given period, usually one year, for payment of interest and current maturities of principals on outstanding debt.
Fiscal Year	A financial reporting period of twelve months. The District's fiscal year commences October 1 and ends September 30.
Fund	A separate fiscal and accounting entity used to segregate and account for resources related to a specific activity.
Fund Balance	The difference between assets and liabilities in a governmental fund.
General Fund	The chief operating fund of the government. This fund is used to account for all financial resources except those required to be accounted for in other funds.
General Obligation Bonds	These are uninsured general obligations. The full faith and credit of the issuer is pledged for the payment of the principal and interest on these bonds.
Generally Accepted Accounting Principles (GAAP)	The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements.
Government-Wide Financial Statements	Financial statements that report governmental activities and business-type activities rather than funds or fund types.
Governmental Funds	Funds generally used to account for tax supported activities.
PAYGO (pay-as-you-go)	Represent annual operating revenues that are approved and allocated to cover the cost of a multi-year capital improvement project. Typically, operating revenues are only used to cover the cost of day-to-day government operations. PAYGO capital helps reduce the need to borrow capital dollars to finance capital projects.
Qualified Zone Academy Bond (QZAB)	This is a financing arrangement for certain academic improvement plans authorized by Congress through the Taxpayer Relief Act of 1997. Through this special funding arrangement, the issuer does not incur any interest costs and is only obligated to pay the outstanding principal amount over time.

Glossary

Rating Agencies	Independent sources of information and analysis for capital markets and debt instruments. These agencies are private and for profit and assist investors by providing rating and detailed research on credit factors. These factors determine the credit worthiness of municipalities and governments.
Reserved Fund Balance	The portion of fund balance that reflects financial assets that is not available for spending.
Structural Imbalance	Represents the inability to levy taxes on federal real property, and non-municipal tax exempt property while providing state-like services such as human services, mental health and education.
Tax Increment Financing (TIF)	This is an economic development tool used to facilitate the financing of business investment activities within a locality. TIF is secured by the anticipated incremental tax revenues (sales and use and property taxes) resulting from the development of an area.
Unqualified "Clean" Audit Opinion	An unqualified "clean" audit opinion is a written report issued by an independent auditor which states that the financial statements for the government present fairly, the financial position and results of operations for the organization.
Unreserved Fund Balance	The portion of fund balance that is available for spending.