



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

CITIZEN'S FINANCIAL REPORT **2011**

YEAR ENDED SEPTEMBER 30, 2011

VINCENT C. GRAY • MAYOR

NATWAR M. GANDHI • CHIEF FINANCIAL OFFICER



February 3, 2012

Dear Citizens of the District of Columbia:

We are pleased to present to you the Citizen's Financial Report on the financial 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 financial information presented in the District of Columbia's Fiscal Year 2011 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.

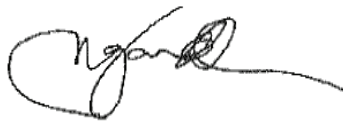
This is the District's ninth publication of the Citizen's Financial Report. In the previous eight fiscal years, the District was honored with the prestigious "Award for Outstanding Achievement in Popular Annual Financial Reporting" by the Government Finance Officers Association (GFOA). It is expected that this report would continue to conform to the Popular Annual Financial Reporting requirements of the GFOA.

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.

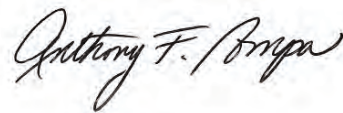
Respectfully submitted,



Vincent C. Gray
Mayor



Natwar M. Gandhi
Chief Financial Officer



Anthony F. Pompa
Deputy CFO
Financial Operations & Systems



Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

District of Columbia

for the Fiscal Year Ended

September 30, 2010



Linda C. Davidson
President

Jeffrey L. Esser
Executive Director

District of Columbia Citizen's Financial Report



Fiscal Year Ended September 30, 2011

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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 GAAP and governmental reporting standards. However, it meets the commitment to provide relevant disclosures to residents regarding the District's financial 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 fiscal year ended September 30, 2011, in a more understandable 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 millions or billions as indicated.

In other tables, to save 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: Certain technical financial terms must be used to accurately present the financial information in this report. For that reason, a Glossary is included on pages 23 and 24 to provide definitions of these technical terms.

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.

A copy of the District's FY 2011 CAFR and PAFR may be obtained from:

Office of Financial Operations & Systems
1100 4th Street, SW, 8th Floor
Washington D.C. 20024
(202) 442-8200

The FY 2011 CAFR and PAFR may also be viewed 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 government's agencies and its five (5) discretely presented **component units**. However, this popular report does not include financial information for the District's component units. For information on the District's component units, please contact the representatives or offices shown below:

DC Water and Sewer Authority
General Manager
5000 Overlook Avenue, S.W.
Washington, D. C. 20032
202-787-2000

Housing Finance Agency
Executive Director
815 Florida Avenue, N.W.
Washington, D. C. 20001
202-777-1600

Not-For-Profit Hospital Corporation
dba United Medical Center
Chief Executive Officer
1310 Southern Avenue, S.E.
Washington, D.C. 20032
202-574-6000

University of the District of Columbia
President
4200 Connecticut Avenue, N.W.
Washington, D. C. 20008
202-274-5000

Washington Convention and Sports Authority
General Manager
801 Mount Vernon Place, N.W.
Washington, D. C. 20001
202-249-3000

Elected Officials

September 30, 2011

September 26, 2011

Name	Position	First Took	
		Office	Term Expires
Chief Executive Officer			
Vincent C. Gray	Mayor	2011	2014
Council			
Kwame R. Brown	Chairman	2011	2014
Michael A. Brown	At Large	2009	2012
David Catania	At Large	1997	2014
Phil Mendelson	At Large	1999	2014
Vincent Orange	At Large	2011	2012
Jim Graham	Ward 1	1999	2014
Jack Evans	Ward 2	1991	2012
Mary M. Cheh	Ward 3	2007	2014
Muriel Bowser	Ward 4	2007	2012
Harry Thomas Jr. *	Ward 5	2007	2014
Tommy Wells	Ward 6	2007	2014
Yvette M. Alexander	Ward 7	2007	2012
Marion Barry, Jr.	Ward 8	2005	2012
House of Representatives			
Eleanor Holmes Norton	Delegate	1991	2012

*Resigned January 2012

Financial Condition

FY 2011 Highlights:

- The District again earned an **unqualified** or **“clean” audit opinion** on its financial statements.
- 15th consecutive balanced budget.
- The **General Fund**, which accounts for taxes, fees and charges for services, ended the year with a budgetary surplus of \$240 million.
- The District's general obligation bond ratings remained as follows: *Standard & Poor's*, **A+**; *Moody's Investors Service*, **Aa2** and *Fitch Rating*, **AA-**.
- The District's income tax secured revenue bonds were rated for its third year as follows: **AAA** by *Standard & Poor's*; **Aa1** by *Moody's Investors Service*; and **AA+** by *Fitch Ratings*.
- The General Fund showed an accumulated **fund balance** of \$1.1 billion, an increase of \$215 million over last year.
- The District has set aside \$338.6 million in an emergency/contingency cash reserve and \$194.2 million in a fiscal stabilization/cash reserve for a total of \$532.8 million.
- The District is restricted by law to spend no more than 17% of total general fund revenues for general obligation **debt service** each year. However, the actual debt service for FY 2011 was only 7.6% of total revenues, or about 44.8% of the debt service ceiling.
- Effective in FY 2009, the District self imposed a more stringent annual debt service limit of 12% of general fund expenditures on all District bonds.

FY 2011 General Fund Budgetary Surplus

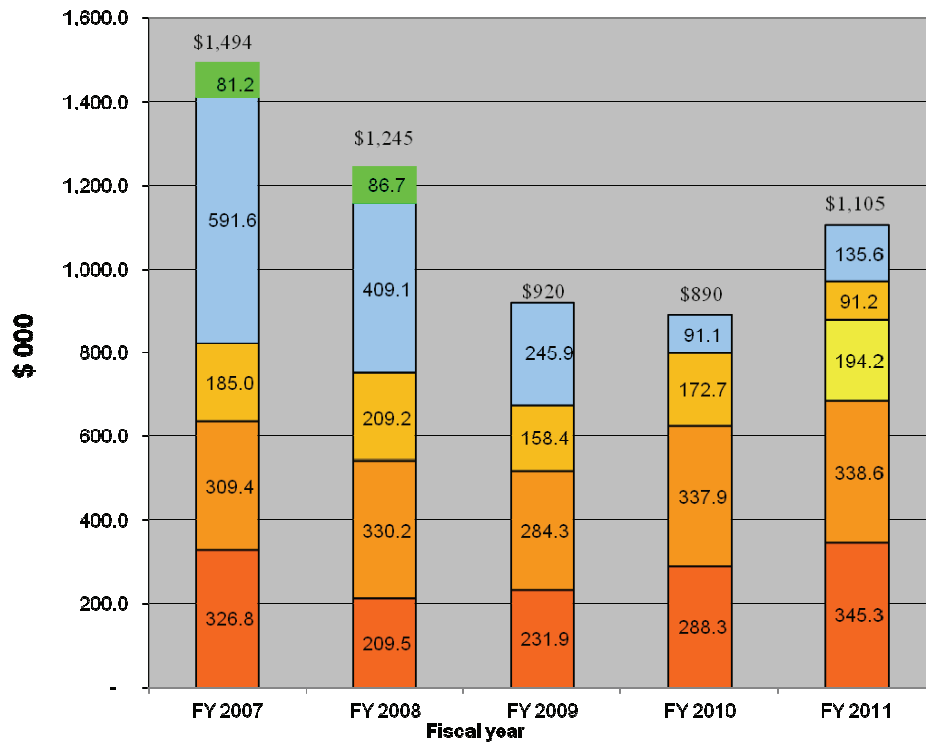
(\$ in millions)

	Revised Budget	Actual	Variance
Revenues			
Taxes	\$ 5,054.0	\$ 5,203.0	\$ 149.0
Non Taxes	796.0	899.0	103.0
Fund Balance Use	106.0	56.0	(50.0)
All other general fund sources	262.0	148.0	(114.0)
Total revenues	\$ 6,218.0	\$ 6,306.0	\$ 88.0
Expenditures			
FY2011 Expenditures	\$ 6,090.0	\$ 5,939.0	
FY2012 Advance to Public Education	127.0	127.0	
Total expenditures	\$ 6,217.0	\$ 6,066.0	
SURPLUS		\$ 240.0	

Composition of General Fund Balance

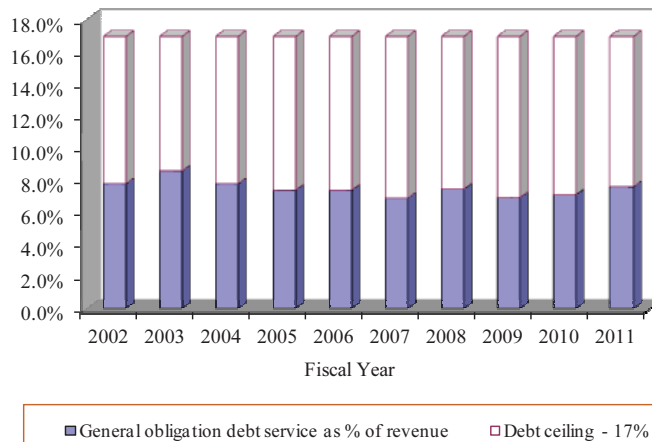
FY 2007 – FY 2011

(\$ in millions)



	Unassigned/ Assigned
	Policy Decisions Reserved
	Restricted by External Factors
	Locally Mandated Reserves
	Emergency/Contingency Cash Reserve
	Restricted for Debt Service

General Obligation Debt Service as a Percentage of Revenues



Economic Condition

Economic recovery continued to be slow throughout the U.S. in FY 2011, which continued to affect the District's revenue streams in FY 2011. As a result, the District faced significant budget challenges during the year. The District's economy continued to show mixed results in FY 2011.

- Sales and use taxes collected were \$1.12 billion, a 3.7% increase over the \$1.08 billion collected in FY 2010.
- Property taxes collected were \$1.77 billion, a 5.9% decrease from the \$1.88 billion collected in FY 2010.
- Total taxable property value was \$139.3 billion, a 7.2% decrease from the \$150.1 billion value in FY 2010.
- The real property market showed some signs of recovery in FY 2011; deed recordation and transfers tax collection increased by \$99.64 million or 52% over last year.

Tourism and Hospitality

Each year, millions of U.S. citizens and international tourists visit the District's more than 400 museums and historical landmarks. In calendar year 2010, approximately 15.5 million domestic visitors and 1.7 million international visitors traveled to the District. The District's hospitality industry generated an estimated \$5.69 billion in visitor spending on hotels, retail, transportation and entertainment in 2010, which was an increase of 8.3% over the prior year. (The 2011 calendar year visitor figures are not yet available.) Hotel occupancy was approximately 76.3% at September 30, 2011. Travel and tourism supports more than 71,301 jobs in the District, generating approximately \$2.8 billion in wages.

Structural Imbalance

The District faces a substantial structural deficit because the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. Some of the major factors contributing to this **structural imbalance** are:

- The District has a large share of very poor and needy citizens.
- Costs of service delivery in the District are 123 percent of national levels; capital costs (buildings) are 1.5 times national average.
- Unlike other jurisdictions, the District cannot divert resources from wealthier suburban areas to serve the poor.
- The District is prohibited from taxing income earned by non-residents – 66% of total income is earned by non-residents, mostly daily commuters to the city.
- The District has an especially high concentration of non-taxable real property; value of property held by the federal government is 30% of non-residential property values.
- Because of the inability to tap these resources, residents must shoulder a disproportionate share of the costs of public services, while the benefits are shared by a much larger community.

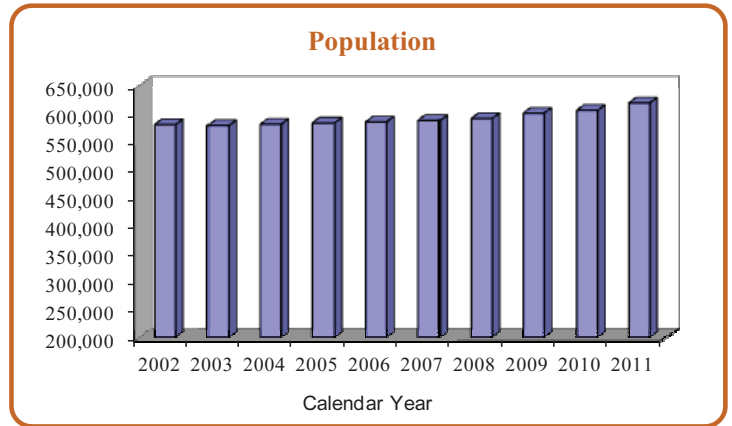
In May 2003, the United States Government Accountability Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*" to address the District's known structural imbalance. The report states that the District's structural deficit is estimated to range from \$470 million to \$1.143 billion annually.

Please visit GAO at www.gao.gov to view the full report or contact GAO on (202) 512-3000 to request a copy of report number GAO-03-666.

Population Trends

Population estimates are published each year by the U.S. Census Bureau. In July of each year, new estimates are released and estimates for earlier years are revised. On July 1, 2011, the U.S. Census Bureau estimated that there were 617,996 residents in the District. This represents an increase of 13,084, or 2.16% from the revised July 1, 2010 estimate of 604,912.

The Census Bureau's 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

Total employment within the District increased slightly to 720,100 as of September 2011 from 718,000 as of September 2010.

The unemployment rate in the District increased to 10.3% in FY 2011, compared to 9.8% in FY 2010.

As the nation's capital, Washington, D.C. is headquarters for most federal government departments and agencies. The September 2011 federal workforce in the Washington metropolitan area totaled 379,200; with approximately 209,800 federal employees located in Washington, D.C. and 169,400 additional federal employees who worked elsewhere in the Washington metropolitan area.



Minimum Wage

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. Therefore, effective July 24, 2009, the District's minimum wage rate increased to \$8.25 per hour and remained unchanged in FY 2011.

New Projects & Initiatives

CityCenter DC

In March 2011, construction began on the landmark CityCenter DC development. The \$700 million, 10-acre, mixed-use development is believed to be the largest downtown development currently underway in any U.S. city. Located between New York Avenue, 9th, H and 11th Streets, NW, the complex will include 2.5 million square feet of office, residential and retail space, a public plaza, and a park. Six buildings (two for apartments, two for condominiums, and two for offices) will form the CityCenter DC complex. 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. It is expected to reach substantial completion by the fourth quarter of 2013.



Architectural Rendering of CityCenter DC

Washington Nationals Youth Baseball Academy

In May 2011, the Washington Nationals baseball team and the District broke ground on the Washington Nationals Youth Baseball Academy, which will be located in Fort Dupont Park in Southeast. The academy will operate as a year-round youth development program that will teach the fundamentals of baseball and softball and provide after-school and summer educational programs for youth in neighborhoods east of the Anacostia River. When completed, the Academy will include three playing fields and an 18,000 square foot state-of-the-art facility that will house multiple classrooms, community rooms, indoor training facilities, batting cages, and locker rooms.

The project is funded through an alliance between the Washington Nationals Dream Foundation, the District and federal governments and local political, civic and community leaders.

The facility's three baseball fields and clubhouse will open in the summer of 2012.

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 environmental conservation activities, the District began levying a five-cent "bag tax" that is to be charged to every consumer in the District. 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 received.

During fiscal year 2011, the District collected more than \$1.8 million in bag taxes. Since the inception of the tax in 2010, the District has collected more than \$3.5 million in such taxes.



Pay-By-Phone Parking

The Department of Transportation rolled out the pay-by-phone initiative on a District-wide basis in FY 2011. Motorists can now pay for parking at all of the District's on-street metered spaces using a toll-free telephone number, the Internet, or a mobile "app".

A parking session begins when the motorist accesses the Parkmobile System via telephone or mobile "app." The motorist must provide a zone number and the amount of meter time needed. Fifteen minutes before the meter expires, the motorist will receive a reminder and will have the opportunity to add more time. There is a \$0.32 fee for each transaction.

The pay-by-phone parking program is administered by Parkmobile USA, Inc. To use the Parkmobile System, motorists must register their license plate numbers and credit card information online at www.parkmobile.com.



Completed Projects

Kastles Stadium at the Wharf

The newly built Kastles Stadium at the Wharf opened in June 2011. The new tennis stadium provides a home court for the District's World Team Tennis (WTT) team, the *Washington Kastles*. The 3,000 seat stadium is located at 800 Water Street, SW, and features spectacular views of the Washington Monument, the Jefferson Memorial and the Potomac River. The Kastles Stadium is a large part of the revitalization of the Southwest Waterfront and when not in use as a tennis court, the venue will host concerts and other entertainment events.



Kastles Stadium at the Wharf



Newly Renonovated Woodrow Wilson Senior High School

In August 2011, the District celebrated the transformation of the old Woodrow Wilson High School into a 21st-century, high-tech campus. Built in 1935, the campus of Woodrow Wilson Senior High School is comprised of four connected buildings – the auditorium, academic core, media center, and gymnasium, and the adjoining recently constructed Department of Parks and Recreation Aquatic Center.

Design features of the new Wilson facility include:

- Transformation of the courtyard space of the academic building into a dynamic new central Crossroads Courtyard atrium space below a dynamic skylight roof supported by tree columns;
- Reorganization and concentration of program elements that previously were disconnected and spread around the campus into three venues – the Academic, Athletic, and Visual and Performing Arts Centers, all independently operational;

- A new cafeteria (with a full kitchen) that opens to an outdoor eating terrace in the restored Rose Garden, as well as dining in the Crossroads Courtyard;
- Two new gymnasium facilities strategically placed next to the recently completed Aquatic Center with access to the stadium and full locker-room suites and fitness room; and
- New Visual and Performing Arts Center including a Black Box Theater, an expanded wing for band and music rooms, and an 850-seat, state of the art auditorium.



Atrium Crossroads



*Aerial View
Woodrow Wilson Senior High School*

Newly Renovated H.D. Woodson High School

District officials cut the ribbon on a new H.D. Woodson High School in August 2011. Woodson first opened its doors in the fall of 1972 occupying an eight-story tower built upon a raised outdoor plaza. Commonly referred to as the “Tower of Power,” the building served as an academic center and source of community pride for over 30 years.

The new building is a three-story structure with a strong central entrance flanked by lower side wings housing major assembly spaces. A sky-lit atrium with dramatic open stairs folds the building's core with natural light, links each floor/level, and serves as the primary student access to educational spaces. Projecting glass bays and a soaring roof overhang form the backdrop for an exterior pedestrian plaza and student gathering space. The new construction also includes: a football stadium with bleachers, locker rooms, ticketing, and concessions buildings as well as tennis courts, a softball field, practice fields, and connections to Marvin Gaye Park.

The building is designed to support a progressive curriculum based on Science, Technology, Engineering, and Math (STEM). The two upper floors of the building feature four distinct learning communities, each configured for integrated learning. Each classroom can operate as a collaborative workspace or can be sub-divided into traditionally sized learning units. Supported by an advanced technology infrastructure, each learning community includes an integrated learning suite with laboratories and break-out areas surrounding a forum/gathering space.



*Football Field
H.D. Woodson High School*



Entrance to H.D. Woodson High School

New Historic Site: The Martin Luther King, Jr. Memorial

Dedicated on October 16th, 2011, the Martin Luther King, Jr. Memorial is the newest addition to the collection of memorials located on the National Mall in Washington D.C. The new memorial stands 30-feet high and consists of three granite pieces. Inspired by Dr. King's "I Have a Dream" speech where he says "With this faith, we will be able to hew out of a mountain of despair, a stone of hope." A figure of Martin Luther King is carved into the "Stone of Hope" which stands past the "Mountain of Despair." Visitors to the memorial literally pass through the "Mountain of Despair" signifying the struggles faced by Dr. King during his life.

Memorial Location

The memorial's address is 1964 Independence Ave, SW, Washington, DC 20024. The street number is a reference to the Civil Rights Act of 1964, a milestone which Dr. King played an integral role in achieving. It is positioned on four beautiful acres in the northwest corner of the Tidal Basin.



Courtesy of mlkmemorial.org



About the Memorial

- **Sculpture:** At the entry, two stones are parted symbolizing the Mountain of Despair. The solitary stone, placed in the center, is the Stone of Hope, from which Dr. King's image emerges gazing towards the horizon.
- **Inscription Wall:** Fourteen of Dr. King's most notable quotes are engraved on a 450-foot crescent shaped granite wall.
- **Trees:** Surrounded by Yoshino cherry blossom trees; a gift from Japan as a sign of peace and unity. Poetically, each year the peak blooming period for the trees coincides with the anniversary of Dr. King's death, April 4th.
- **Water:** Located at the edge of the Tidal Basin, water is used as an essential element that builds on Dr. King's words and recalls the theme of justice.

Dr. Rev. Martin Luther King, Jr. was the face of non-violent activism in the civil rights movement and is recognized internationally for his dedication to end racial segregation and discrimination. In 1963 he was named Time Magazine's "Man of the Year" and in 1964, Dr. King was awarded the Nobel Peace Prize. Toward the end of his life, Dr. King refocused his work to include putting an end to poverty and the Vietnam War. He was assassinated in 1968.



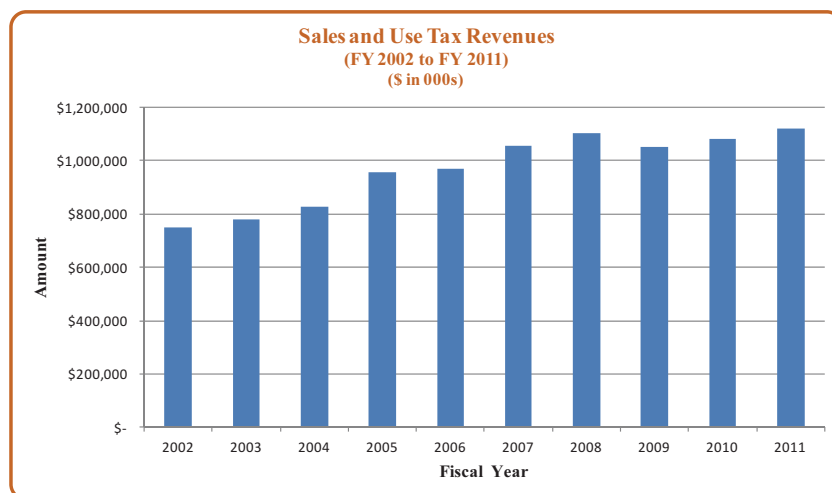
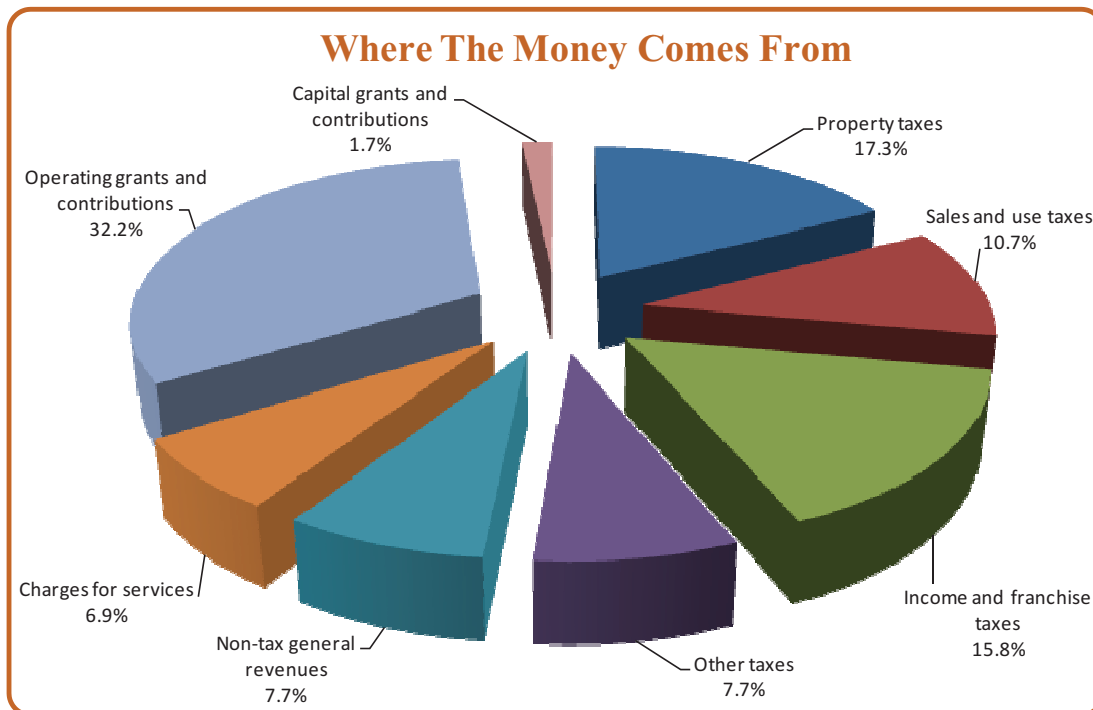
Financial Resources

District-Wide Revenues

The majority of the District's funds come from taxes which represented 51.5% of total revenues in FY 2011. This was a 1% increase from total tax revenues in FY 2010 due to the slow recovery from the recent national recession. The District collected over \$1.66 billion in income and franchise taxes in FY 2011, which was \$222 million or 15.5% more than in FY 2010.

The District also collected \$1.80 billion in property taxes, \$1.12 billion in sales and use taxes, and \$811 million in other taxes in FY 2011.

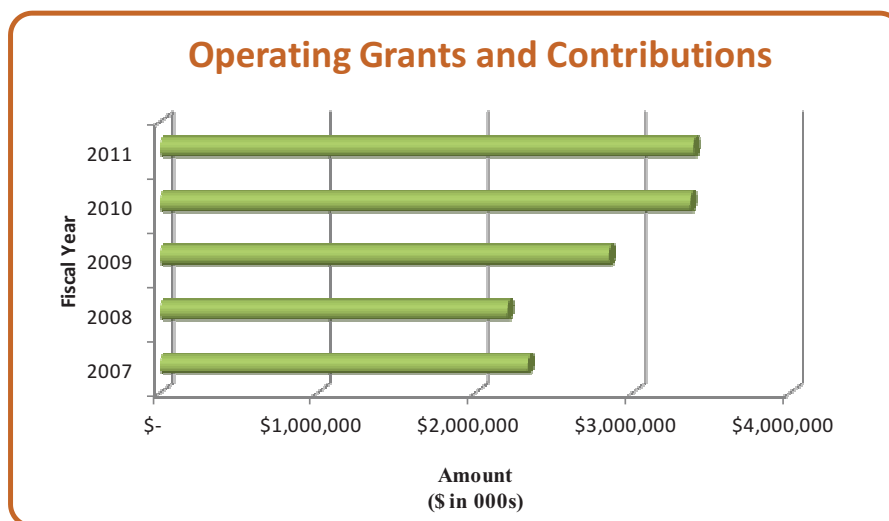
Other revenues are derived from federal and private resources, which include operating grants and contributions.



In addition, \$3.3 billion, or more than 33%, of the District's FY 2011 revenues came from operating grants and contributions received from the federal government and private sources. A portion of the funding received from these sources was in the form of assistance provided under the Federal American Recovery and Reinvestment Act, also known as the Stimulus Act. The District received Stimulus funding to support road and bridge construction; public transportation improvements; energy efficiency and environmental projects; healthcare and health research; education; and public safety.

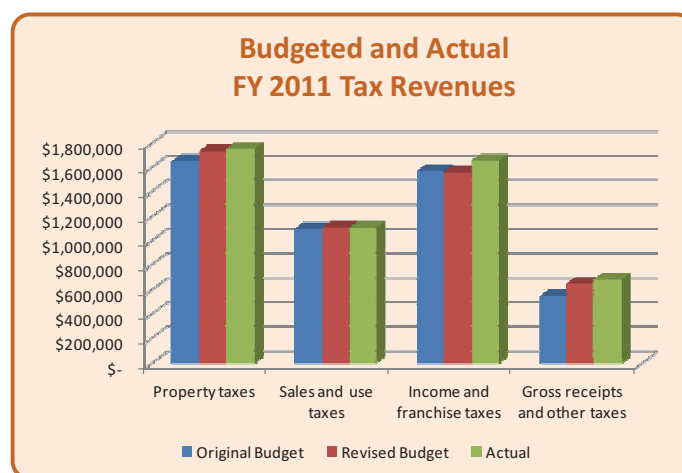
In FY 2011, the District planned to spend \$205.4 million of stimulus funding for operating needs. However, approximately \$171.3 million was expended by the following agencies: Department of Health Care Finance, Office of the State Superintendent for Education, Department of Housing and Community Development; and the Department of Human Services.

In FY 2011, the District planned to spend \$55.9 million of stimulus funding for capital needs. However, approximately \$52.4 million was expended by the District Department of Transportation and the District Department of the Environment.



General Fund Budget

The General Fund is the chief budgetary operating fund of the District. About 85% of the General Fund's FY 2011 revenues were derived from taxes and about 70% of the General Fund's FY 2011 expenditures were in the areas of Human Support Services, Public Education, and Public Safety. *Budgeted* revenues and other sources totaled \$6.22 billion in FY 2011; however, *actual* revenues and total sources were \$6.31 billion. *Budgeted* expenditures and other uses totaled \$6.22 billion in FY 2011; however, *actual* expenditures and other uses totaled \$6.07 billion.

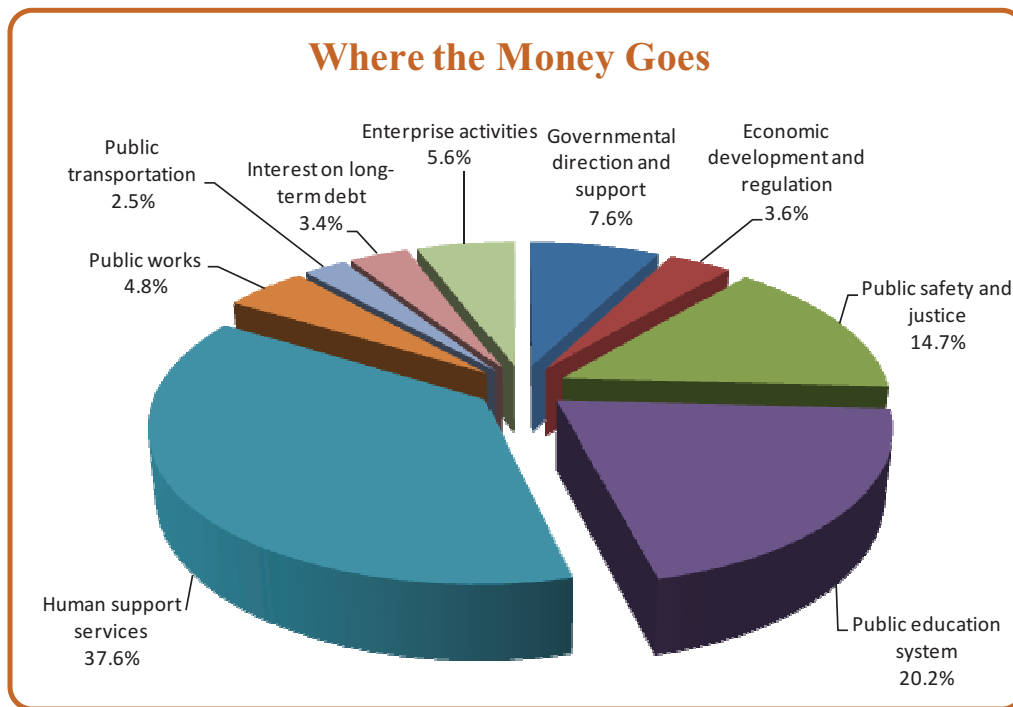


Resource Allocation

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, public transportation, and public works.

In FY 2011, the District's total expenses were \$10.3 billion. Human Support Services expenditures represented 38% 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, represented 20% of the District's total expenses. Public Safety and Justice, mainly the Police Department and Fire and EMS Services, were 15% of total District expenses.



Debt Management

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. 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. On October 25, 2010, the District issued \$700 million in Tax Revenue Anticipation Notes (TRANs), at an interest rate of 2.00%, which was repaid on September 30, 2011.

Long-Term Debt

In the government-wide financial statements and the financial statements of the proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the respective statements of net assets.

The District's **general obligation bonds** are authorized and issued primarily to provide funds for certain capital projects and improvements. The weighted average interest rate on the

District's outstanding fixed-rate bonds is 5.029%. The average interest rate on the District's variable-rate bonds for fiscal year 2011 is 0.27%. All general obligation bonds are backed by the full faith and credit of the District.

The District also issues income tax secured revenue bonds. The payment of principal and interest on these bonds comes, for the most part, from available pledged tax revenues. Income tax secured revenue bonds are not backed by the full faith and credit of the District.

The District also issues, on a less frequent basis, other types of long-term debt, including Tax

Increment Financing Bonds, Tobacco Bonds, Housing Production Trust Bonds, Qualified Zone Academy Bonds, and other revenue bonds.

At September 30, 2011, the District had a total of \$7.44 billion in outstanding bonds. This represents an increase of \$554.78 million over the prior year. The District's level of borrowing has grown over the past few years as the need and demand for infrastructure improvements, such as roads, streets, and bridges, continued to increase.

Outstanding Bonds at September 30, 2011 and 2010
(\$ in 000's)

Type of Bonds	2011	2010	Variance	
			Dollar	Percentage
General Obligation Bonds	\$ 2,829,598	\$ 2,781,053	\$ 48,545	1.7%
Income Tax Secured Revenue Bonds	3,029,100	2,570,650	458,450	17.8%
Other Bonds:				
Tobacco Bonds	690,289	699,779	(9,490)	-1.4%
Ballpark Bonds	512,850	517,390	(4,540)	-0.9%
AWC PILOT Revenue Bonds	90,660	96,950	(6,290)	-6.5%
TIF Bonds	87,484	91,807	(4,323)	-4.7%
HPTF Bonds	84,335	85,615	(1,280)	-1.5%
NCRC Revenue Bonds	22,715	30,671	(7,956)	-25.9%
Qualified Zone Academy Bonds	8,573	9,518	(945)	-9.9%
GARVEE Revenue Bonds	82,610	-	82,610	100.0%
Total	\$ 7,438,214	\$ 6,883,433	\$ 554,781	8.1%

Bond Rating Agencies

Rating Agencies assess the credit quality of municipal issuers and assign a credit rating based on their analyses. The three primary rating agencies that rate municipal debt are: (1) Fitch Ratings; (2) Moody's Investors Service; and (3) Standard & Poor's Rating Service. Each time the District issues new debt, the current debt rating is reviewed for the new issuance. At that time, the bond rating agencies assess the District's financial condition and underlying credit worthiness and change their rating as warranted.

In FY 2011, the District's general obligation bond ratings remained strong at: **AA-** by Fitch Ratings Service; **Aa2** by Moody's Investors Service; and **A+** by Standard & Poor's Rating Service. These ratings are representative of the city's improved financial operations over the last decade and its strong financial standing.

During FY 2009, the District issued its first Income Tax Secured Revenue Bonds. Since that time, additional issuances of Income Tax Secured Revenue Bonds have been made. These bonds also received strong ratings from the three primary rating agencies. At September 30, 2011, the District received credit ratings of: **AA+** by Fitch Ratings; **Aa1** by Moody's Investors Service; and **AAA** by Standard & Poor's Rating Service for its Income Tax Secured Revenue Bonds.

In FY 2011, the District refinanced \$63 million of outstanding Income Tax Secured Revenue Bonds. The refinancing, also considered a debt restructuring, reduced the District's debt service payments in FY 2011 and other years without extending the final maturity of any particular bond issue.

Bond Rating History Last Five Fiscal Years

	General Obligation Bonds				
Rating Agencies	2007	2008	2009	2010	2011
Fitch Ratings	A+	A+	A+	AA-	AA-
Moody's Investors Service	A1	A1	A1	Aa2	Aa2
Standard & Poor's Rating Service	A+	A+	A+	A+	A+

	Income Tax Secured Revenue Bond *				
Rating Agencies	2007	2008	2009	2010	2011
Fitch Ratings	-	-	AA	AA+	AA+
Moody's Investors Service	-	-	Aa2	Aa1	Aa1
Standard & Poor's Rating Service	-	-	AAA	AAA	AAA

*First issued in 2009.

Government-Wide Financial Statements

Governmental Activities

The **government-wide financial statements** combine long-term financial information with the short-term to provide a complete picture of the District's finances. On the other hand, the traditional (fund-based) reporting of governmental activities focuses on short term receipts, disbursements and balances of spendable resources.

This approach accounts for all revenues and expenses incurred in the fiscal year, regardless of when cash is received or spent. The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities.

The government-wide financial statements focus on all of the District's *economic* resources, while the **governmental funds** focus on *current financial* resources.

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*.

The *Statement of Activities* summarizes both the gross and net cost of the governmental, business-type activities, and component units' 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.

Financial Analysis of the Government as a Whole

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

Net Assets as of September 30, 2011 (\$ in 000's)

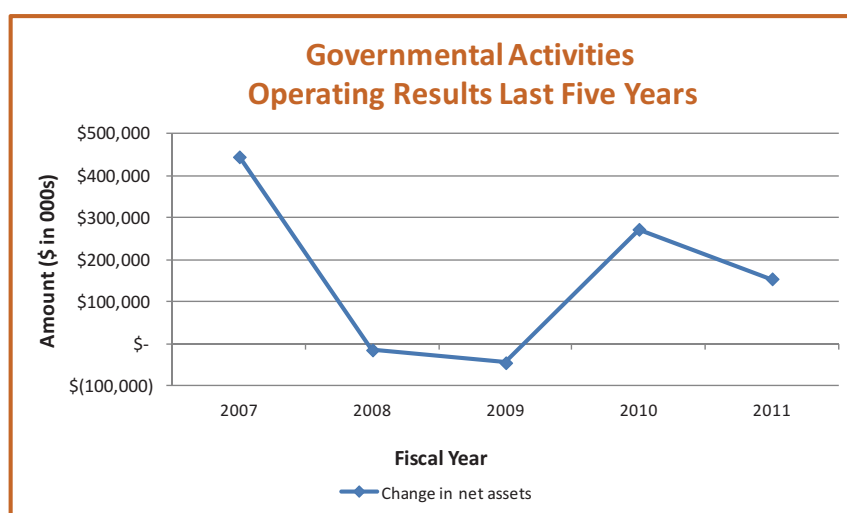
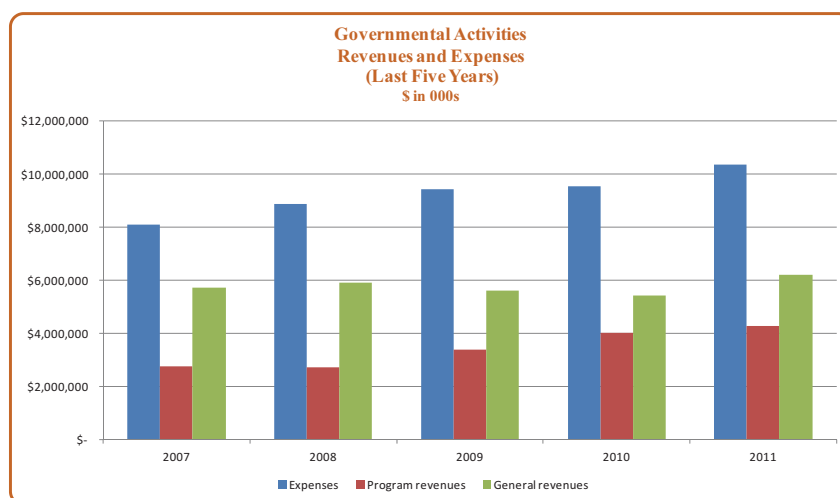
	Governmental activities		Business-type activities		Totals	
	2011	2010 Adjusted	2011	2010	2011	2010 Adjusted
Current and other assets	\$ 3,964,874	\$ 3,571,063	\$ 339,309	\$ 364,234	\$ 4,304,183	\$ 3,935,297
Capital assets	9,815,312	9,228,531	478	4,827	9,815,790	9,233,358
Total assets	13,780,186	12,799,594	339,787	369,061	14,119,973	13,168,655
Long-term liabilities	8,723,811	8,174,105	22,912	29,218	8,746,723	8,203,323
Other liabilities	2,085,790	1,810,264	86,667	93,092	2,172,457	1,903,356
Total liabilities	10,809,601	9,984,369	109,579	122,310	10,919,180	10,106,679
Net assets:						
Invested in capital assets, net of related debt	2,534,538	2,437,385	478	4,827	2,535,016	2,442,212
Restricted	963,694	1,117,560	226,229	233,296	1,189,923	1,350,856
Unrestricted	(527,647)	(739,720)	3,501	8,628	(524,146)	(731,092)
Total net assets	\$ 2,970,585	\$ 2,815,225	\$ 230,208	\$ 246,751	\$ 3,200,793	\$ 3,061,976

- Total assets increased by \$951 million mainly because the District invested more resources in **capital assets** such as new and rehabilitated infrastructure (roads and bridges).
- The increase of \$813 million in total liabilities was due to the issuance of debt to finance the construction of infrastructure and capital improvements.
- The combined total net assets for the governmental activities and business-type activities increased by 4.5% over the previous year.

Change in Net Assets for the Year Ended September 30, 2011
(\$ in 000's)

	Governmental activities		Business-type activities		Total		
	2011	2010 Adjusted	2011	2010	2011	2010 Adjusted	Variance
Revenues:							
Program revenues:							
Charges for services	\$ 490,101	\$ 450,022	\$ 235,884	\$ 250,150	\$ 725,985	\$ 700,172	\$ 25,813
Operating grants and contributions	3,343,747	3,321,671	34,968	36,998	3,378,715	3,358,669	20,046
Capital grants and contributions	172,964	259,277	-	-	172,964	259,277	(86,313)
General revenues:	5,832,954	5,423,883	366,994	372,764	6,199,948	5,796,647	403,301
Total revenues	9,839,766	9,454,853	637,846	659,912	10,477,612	10,114,765	362,847
Expenses	9,755,717	9,540,831	583,078	663,186	10,338,795	10,204,017	134,778
Special item	-	266,942	-	-	-	266,942	(266,942)
Transfer in (out)	71,311	96,624	(71,311)	(96,624)	-	-	-
Change in net assets	155,360	277,588	(16,543)	(99,898)	138,817	177,690	(266,942)
Net assets - Oct 1, as adjusted	2,815,225	2,537,637	246,751	346,649	3,061,976	2,884,286	177,690
Net assets - Sept 30	\$ 2,970,585	\$ 2,815,225	\$ 230,208	\$ 246,751	\$ 3,200,793	\$ 3,061,976	\$ 138,817

- The increase of \$20 million in operating grants and contributions was due primarily to increases in federal grants (including Stimulus funding).
- General revenues increased by \$403 million mainly because of increases in property taxes and income and franchise taxes.
- The increase of \$135 million in expenses was due mainly to increased spending in public safety, human support services, and education.
- In FY 2011, transfers to the District's General Fund totaled \$71.3 million. Each year, the D.C. Lottery transfers substantially all of its net income to the District. In FY 2011, it transferred \$62.1 million of its income, which was a \$4.6 million decrease from last year. In addition, in FY 2011, the JB Johnson Nursing Center transferred \$9.1 million to the District's General Fund when that facility discontinued operations.



Governmental Funds

The focus of governmental funds is on major funds and not on fund types. Major funds are presented individually. Nonmajor governmental funds and nonmajor 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 establish funds for specific purposes, and stipulate specific reporting

requirements for the activities and public services accounted for in these funds. The District's funds are presented in three categories or groups:

- *Governmental Funds* report short-term activities and measure cash and other financial assets that can be readily converted to cash. Most basic services are accounted for in this fund category and are reported as General, Federal and Private Resources, Housing Production Trust Fund, General Capital Improvements, and Nonmajor Governmental Funds.
- *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 proprietary funds: (1) Lottery and Charitable Games; (2) Unemployment Compensation and one nonmajor fund, JB Johnson Nursing Center, which was dissolved in December 2010.

- *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. These funds are presented separately from the District's other funds because these resources are not available to finance the operations of the government. The District is the trustee, or fiduciary, for its employees' pension plans and the 529 College Savings Plan.

Assets and Liabilities

- Total assets decreased by \$10.3 million and total liabilities of the governmental funds decreased by \$112.7 million.

Operating Results

- Revenues in the governmental funds increased by \$367.7 million. This was due mainly to increases in tax revenue totaling \$303.6 million.
- Expenditures of the governmental funds decreased by \$55.4 million.
- Overall, total revenues and other financial sources exceeded total expenditures and other financing uses by \$102.4 million.

Fund Balance

New accounting standards were issued which changed how fund balance is to be defined and reported. Fund balance is now divided into five categories, *nonspendable*, *restricted*, *committed*, *assigned*, and *unassigned*. The **nonspendable fund balance** represents amounts which cannot be spent because they are not in spendable form

or by law or contract must be maintained intact. **Restricted fund balance** may only be used in a manner that is consistent with externally imposed constraints or laws; however, **committed fund balance** represents resources which can only be used for purposes as specified internally within the District government by the highest level of decision making authority (e.g., the Council.) **Assigned fund balance** represents resources that are neither restricted nor committed and is comprised of resources that have a stated or intended use as established by the Mayor, Council, or their authorized designees. **Unassigned fund balance** represents resources which cannot be logically classified in the other four categories. A positive **unassigned fund balance** represents resources available to fund subsequent years' activities.

The fund balance does not consist entirely of cash. Cash is only one of the assets that enter into the calculation of 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 fifteen years, the District's fund balance in the general fund increased from a negative balance of \$518 million to a positive balance of \$1.1 billion in FY 2011, an increase of approximately \$1.62 billion.
- The General Fund fund balance includes: a restricted emergency/contingency cash reserve fund (a congressionally mandated rainy day fund) of \$338.5 million; and a committed stabilization/cash reserve (a self imposed rainy day fund) of \$194 million. In addition, there is \$345.3 million in cash set aside for long term debt service and \$72.7 million set aside for specific programs and projects.

Miscellaneous Statistics

	Last Two Fiscal Years	
	FY 2010	FY 2011
Number of police officers	3,960	3,801
Number of police patrol cars	1,183	1,195
Police crime index offenses	30,872	31,772
Number of fire fighters & EMS personnel	1,946	1,941
Number of fire & EMS stations	34	34
Total number of fire/rescue/medical incidents	162,440	161,795
Number of DCPS teachers	3,758	3,850
Number of DCPS students	45,772	48,737
Number of DCPS high school graduates	2,790	2,954
Number of UDC teachers	231	222
Number of UDC students	5,855	5,286
Number of UDC graduates	602	641
Miles of street resurfaced; regular cover; pavement restoration	13	67
Potholes repaired	5,580	6,863
Tons of snow removed	5,298,905	850,000
Convention Center conventions held	214	231
Convention Center attendees	1,015,324	1,017,638

Outlook for FY 2012

Although the U.S. economy began to show signs of recovery in FY 2011, the District faces substantial challenges in its budget. Resources, such as the federal fiscal stimulus funding received in fiscal years 2009 thru 2011, which provided much needed relief, will no longer be available. However, the District's economy has much strength to help mitigate the impact of severe economic downturns.

- The District, as a place to live, is increasingly desirable because of a relatively strong job market compared to other jurisdictions.
- Private sector employment declines have been slower in the District than in the nation as a whole due to the major service sectors of the District's economy (professional, health, education, and other services).
- D.C.'s hospitality sector is growing.
- The District is investing significantly to increase its housing stock.
- Federal government expenditures add stability to the District's economy.
- Investments in economic development are attracting new retail establishments and influencing the development of "nightlife" in the downtown area.

Glossary

Assigned Fund Balance	Resources neither restricted nor committed for which the government has a stated intended use as established by the Mayor, Council, or a body or official to which the Mayor or Council has delegated authority to assign amounts for specific purposes.
Capital Assets	Assets (infrastructure, land, buildings, equipment) used in operations that have initial useful lives extending beyond a fiscal year.
Committed Fund Balance	Resources which can only be used for specific purposes pursuant to limitations imposed by the government's highest level of decision-making authority. Amounts in this category may be used for other purposes if the government takes the appropriate action to "uncommit" and redirect the resources.
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 principal 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 what is owned (assets) and what is owed (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.
Nonspendable Fund Balance	Resources which cannot be spent because they are either: (a) not in spendable form, or (b) legally or contractually required to be maintained intact.

Glossary

Rating Agencies

Independent sources of information and analysis for capital markets and debt instruments. These agencies are private and for profit entities that assist investors by providing rating and detailed research on credit factors. These factors determine the credit worthiness of municipalities, governments, and business entities.

The three primary Rating Agencies that rate municipal debt are: Fitch Ratings; Moody's Investors Service; and 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		
	<i>Fitch</i>	<i>Moody's</i>	<i>Standard & Poor's</i>
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.

Restricted Fund Balance

Resources with use-constraints which are: (a) externally imposed by creditors, grantors, or contributors or (b) imposed by law.

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.

Tidal Basin

The Tidal Basin is a partially human-made reservoir between the Potomac River and the Washington Channel in Washington, D.C. It is part of West Potomac Park and is a focal point of the National Cherry Blossom Festival held each spring. The basin covers an area of about 107 acres and is 10 feet deep.

Unassigned Fund Balance

Resources which cannot be classified in one of the other four categories: nonspendable, restricted, committed, or assigned.

Unqualified or "Clean" Audit Opinion

An unqualified or "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.



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YEAR ENDED SEPTEMBER 30, 2011