

CITIZEN'S FINANCIAL REPORT

2006



YEAR ENDED SEPTEMBER 30, 2006



ADRIAN M. FENTY
MAYOR

NATWAR M. GANDHI
CHIEF FINANCIAL OFFICER

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



February 28, 2007

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 presentation of financial information contained in the District of Columbia's Fiscal Year 2006 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.

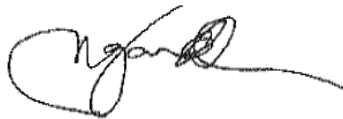
This is the District's fourth publication of the Citizen's Financial Report. In the previous three fiscal years, the District was honored with the prestigious "Award for Outstanding Achievement in Popular Annual Financial Reporting" by the Government Finance Officers Association. It is expected that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



Adrian M. Fenty
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, 2005



Thomas J. Blum
President

Jeffrey L. Esser
Executive Director

District of Columbia Citizen's Financial Report



Fiscal Year Ended September 30, 2006

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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 generally accepted accounting principles and governmental reporting standards. However, it meets the commitment to provide relevant disclosures to residents regarding the 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, 2006 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 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: Many technical 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 2006 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 government's agencies and its six legally separate **component units**. However, this popular report does not include financial information for the District's component units. For additional information on these component units, please refer to the contact information below:

Anacostia Waterfront Corporation

Agency Chief Financial Officer
1100 New Jersey Avenue, S.E., Suite 700
Washington, D.C. 20003
202-406-4034

University of the District of Columbia

President
4200 Connecticut Avenue, N.W.
Washington, D. C. 20008
202-274-5000

Housing Finance Agency

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

Washington Convention Center Authority

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

Sports and Entertainment Commission

General Manager
2001 East Capitol Street, S.E.
Washington, D. C. 20003
202-547-9077

Water and Sewer Authority

General Manager
5000 Overlook Avenue, S.W.
Washington, D. C. 20032
202-787-2000

Elected Officials

As a result of the November 2006 Election

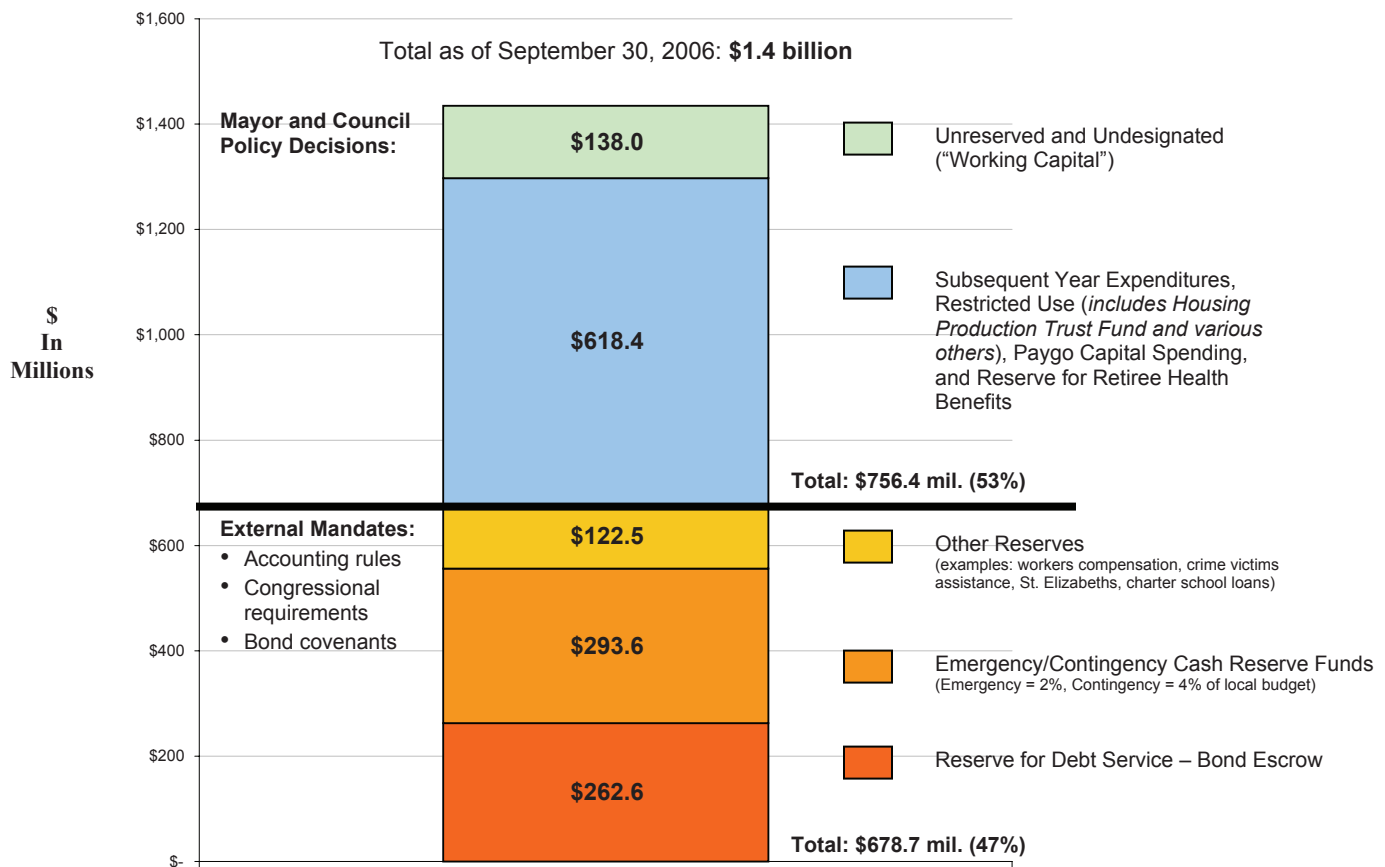
Name	Position	First Elected or Appointed	Term Expires
Chief Executive Officer			
Adrian M. Fenty	Mayor	2007	2011
Council			
Vincent C. Gray	Chairman	2007	2011
Carol Schwartz	At Large	1997	2009
David A. Catania	At Large	2007	2011
Phil Mendelson	At Large	2007	2011
Kwame R. Brown	At Large	2005	2009
Jim Graham	Ward 1	2007	2011
Jack Evans	Ward 2	1991	2009
Mary C. Cheh	Ward 3	2007	2011
<i>Vacant</i>	Ward 4	Special Election to be held within 114 days.	2007
Harry Thomas, Jr.	Ward 5	2007	2011
Tommy Wells	Ward 6	2007	2011
<i>Vacant</i>	Ward 7	Special Election to be held within 114 days.	2007
Marion Barry Jr.	Ward 8	2005	2009
House of Representatives			
Eleanor Holmes Norton	Delegate	1991	2009

Financial Condition

FY 2006 Highlights:

- The District again earned an **unqualified** or **"clean" audit opinion** on its financial statements.
- 10th consecutive balanced budget.
- The **General Fund**, which accounts for all taxes, fees and charges for services, ended the year with a budgetary surplus of \$325.2 million.
- The General Fund showed an accumulated **fund balance** of \$1.4 billion, which includes \$293.7 million in an emergency/contingency cash reserve. The fund balance represents an increase of approximately \$2.0 billion since 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 2006 was only 7.4% of total revenues, or about 43.8% of the debt service ceiling.
- The District's general obligation bond rating by Standard & Poor's remained A+ stable and the ratings by Moody's and Fitch remained A2 positive and A positive, respectively.

FY 2006 GENERAL FUND FUND BALANCE

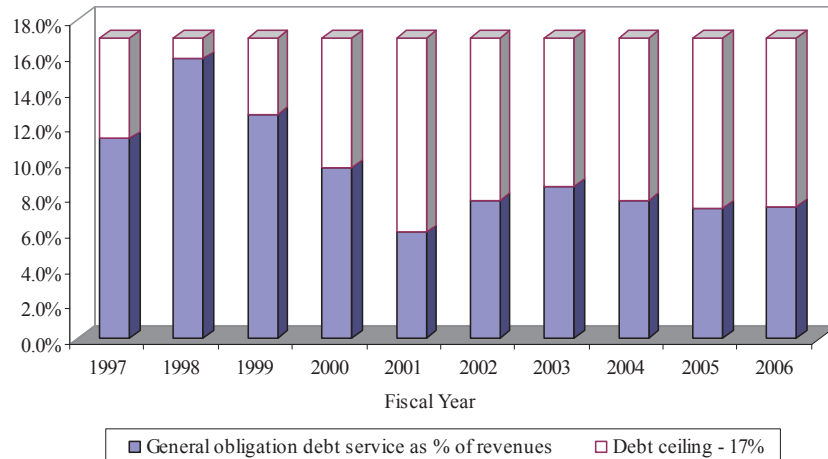


FY 2006 General Fund Budgetary Surplus

(\$ in millions)

	Revised Budget	Actual	Variance
Revenues			
Taxes	\$ 4,156.9	\$ 4,239.0	\$ 82.1
Non Taxes	737.6	737.3	(0.3)
Fund Balance Release	528.4	528.4	-
All other general fund sources	112.0	84.3	(27.7)
Total revenues	\$ 5,534.9	5,589.0	54.1
Expenditures			
FY2006	5,431.0	5,194.8	
FY2007 Advance to Public Education	69.0	69.0	
Total expenditures	\$ 5,500.0	5,263.8	
SURPLUS		\$ 325.2	

General Obligation Debt Service as a Percentage of Revenues



Economic Condition

FY 2006 Economic Highlights:

- Taxable retail sales were \$10 billion, a 0.5% decrease over 2005.
- Property taxes collected were \$1.2 billion, a 7.7% increase over 2005.
- Total taxable property value was \$98.5 billion, a 13.4% increase over 2005.
- Total employment (residents and non-residents) in the District was 687,900 in September 2006, an increase of 7,200 jobs over the September 2005 figure.
- Hotel industry room sales were up 4.8% over prior year.

The District is a diverse economic community which host, 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.

More than 400 museums and historical landmarks attract millions of visitors to the District each year. In calendar year 2005, approximately 14.1 million U.S. citizens visited the District, an increase of about 2.2% from the revised 2004 figure of 13.8 million. An estimated 1.3 million international visitors traveled to the District in 2005, an increase of about 8.3% from the 2004 revised figure of 1.2 million. 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.

Structural Imbalance

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 District also provides, without any tax benefit, for the presence of the Federal government and numerous non-profit organizations. The inability to tax revenue earned by non-residents, and the inability to tax Federal properties, tax-exempt properties, and non-profit international entities put a severe strain on the District's limited resources.

The following bullets provide highlights from the report:

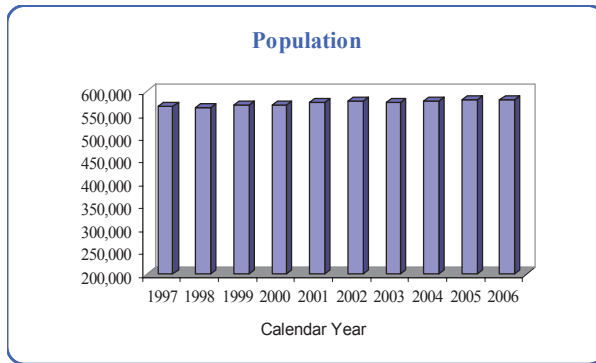
- The District faces a substantial structural deficit because the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. The District's structural deficit is estimated to range from \$470 million to \$1.143 billion annually.
- The District's per capita total revenue capacity is higher than all other state fiscal systems. Revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax federal property or the income of nonresidents.
- Even though the District's tax burden is among the highest in the nation, the resulting revenues plus federal grants are only sufficient to fund an average level of public services.
- The District's underlying structural imbalance is determined by factors beyond the District's direct control.

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

Population Trends

Population estimates are published each year for the current and 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 2006, the U.S. Census Bureau estimated that there were 581,530 permanent residents in the District. This represents a slight decrease of 519 from the revised July 2005 figure of 582,049.

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

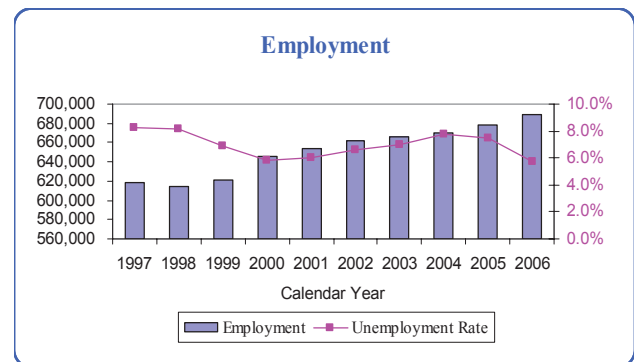
Total employment in the Washington metropolitan area increased to approximately 3,006,400 in FY 2006 from the revised 2,934,200 for FY 2005, representing a slight increase. However, these numbers exclude the self-employed, domestic workers, and military and foreign government personnel, which represent a significant portion of the actual work force of the region. The employment of Washington, D.C. residents has remained at approximately 23% of the metropolitan area's total during the past three years. The seasonally adjusted September 2006 unemployment rate in Washington, D.C. was 5.9%, compared to the September 2005 rate of 6.1%. Total employment within Washington, D.C. increased

to 687,900 in September 2006 from 680,700 in September 2005. Some of the references to the 2005 employment numbers may be different from those shown in the FY 2005 PAFR because of updates and revisions.

As the nation's capital, Washington, D.C. is the seat of the three branches of the federal government and headquarters for most federal departments and agencies. The total September 2006 federal work force in the Washington metropolitan area totaled 338,400; with approximately 192,000 federal employees located in Washington, D.C. and 146,400 additional federal employees who worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer employees than in the past, new business operations, especially in the service industry, continue to fill the void and are strengthening the local economy.

Minimum Wage

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 \$1.6 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 throughout the District.

Two development projects currently under construction are:

Anacostia Gateway @ MLK Jr. Avenue & Good Hope Road SE	<ul style="list-style-type: none"> ▪ 63,000 square feet mixed-use development ▪ Project Cost: \$19 million ▪ Includes 49,000 square feet of office space & 14,000 square feet of retail space ▪ Completion in 2007
DC USA @ 14 th Street & Park Road NW	<ul style="list-style-type: none"> ▪ 546,000 square feet shopping & entertainment complex ▪ Project Cost: \$140 million ▪ Retailers include: Target, Best Buy, Washington Sports Club, Bed Bath & Beyond Staples, Modell's and Marshalls ▪ Completion in 2008

A few of the projects under development/negotiation are:

- ❖ “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.

- ❖ “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.

Please visit www.ncrcdc.com for a description of all the completed and ongoing NCRC development projects in the city.

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.

Other Ongoing Projects

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

Construction of a new U.S. Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF) headquarters building is in its final stages. The ATF is a law enforcement agency within the United States Department of Justice currently located at 650 Massachusetts Avenue, N.W. The new building, located at New York and Florida Avenue, N.E., will consist 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 2007.



Conceptual design of new ATF Headquarters

feet, which is three times larger than the original Newseum. This 600,000 square foot development is estimated to cost \$400 million and will house the Freedom Forum's headquarters, an 11,000 square foot conference center, and 145,000 square feet of housing in addition to the Newseum. The Newseum is expected to be completed and opened to the public in 2007.

Washington Convention Center Headquarters Hotel

Located in the heart of the nation's capital, the Washington Convention Center has 2.3 million square feet of space and occupies six city blocks. It enables the District to maintain its position among major cities as a leader in conventions and conferences.

The Board of Directors of the Washington Convention Center Authority (WCCA) has decided to develop and own a 1200-room headquarters hotel with 100,000 square feet of meeting and ballroom space. The hotel will be built at a site next to the new convention center on 9th Street between Massachusetts Avenue and M Street, N.W. This decision now allows the District to move forward with plans for a mix of housing, office, retail, and cultural facilities on the site of the old convention center. The old convention center site is currently being utilized as a parking lot.

Newseum

Construction is continuing at 555 Pennsylvania Avenue, N.W. on a new and expanded Newseum – the world's first interactive museum of news. The Newseum, owned by the Freedom Forum, originally opened in Arlington, Virginia in 1997. In 2000, the Freedom Forum purchased the former site of the District's Department of Employment Services (DOES) with the purpose of building a much larger and more ambitious Newseum. It will feature six levels of displays and expand the exhibit area to 70,000 square

Accomplishments

Unified Communications Center

On September 26, 2006, the District celebrated the grand opening of a new Unified Communications Center (UCC), located in Ward 8 on the grounds of the St. Elizabeth's campus. The bomb-resistant, 127,000 square-foot facility is a state-of-the-art communications and emergency command center for the greater Washington region. It is now one of the nation's premier public safety, emergency response, and integrated call centers.

The UCC is open 24 hours a day, 7 days a week and will house 425 staff members over a 24-hour period. Built with the employees in mind, the UCC includes an 11,000 square foot child development center, an exercise facility, a brightly lit cafeteria and a terrace retreat overlooking the city. The cost of the facility was \$116 million of which \$24 million was contributed by the Federal government.

Agencies That Will Coordinate Activities Thru The UCC

- District Police & Fire (911 emergency & 311 public safety nonemergency)
- District Emergency Management Agency
- Mayor's Emergency Command Center
- Mayor's Call Center (727-1000 for citizen assistance & service delivery)
- District Department of Transportation (DDOT) (Traffic Management Division support system)
- District Network Operations Center & Protective Services Division security control center
- Regional Incident Command & Control Center (RICCC)



The Dance Institute of Washington

The Dance Institute of Washington (DIW) was founded in 1987 by Fabian Barnes, a former dancer and soloist for the Dance Theatre of Harlem. He started DIW to serve at-risk and underprivileged youth in the DC metropolitan community. Since then, DIW has grown to be the largest African American nonprofit arts organization in the Washington metropolitan area.

In November 2006, the District celebrated the grand opening of DIW's new state-of-the-art dance facility located at 3400 14th Street NW in the redeveloping neighborhood of Columbia Heights. This new building will stand as a symbol of cultural revitalization and renewed hope to a community once devastated by the 1968 riots. The new facility has an open and engaging design with a total of 12,000 square

feet dedicated to arts education, community enrichment and dance training. In addition, the facility houses a 5,000 square-foot child care center owned and operated by Nation's Capital Child and Family Development.



The Town Hall Education, Arts & Recreation Campus

In October 2005, the Town Hall Education, Arts & Recreation Campus (THEARC) officially opened at 1901 Mississippi Avenue, Southeast in Ward 8. THEARC is an 110,000 square foot world-class education arts and recreation campus built by "*Building Bridges Across the River*", a nonprofit organization formed to develop, construct and manage THEARC. Funding for the construction of the \$27 million facility came entirely from contributions by the Federal and District governments, corporations, foundations, and individuals.

THEARC is a "home away from home" for the many underserved children *East of the River* where they can expand their horizons through drama, music and dance. In addition to a 365-seat community theater, THEARC includes a regulation size gymnasium, a computer lab, an art gallery, state-of the-art music and dance studios and other first-rate facilities.



Baseball in the District of Columbia

On May 4, 2006, the District broke ground for the construction of a new baseball stadium to house the Washington Nationals baseball team. The team, formerly known as the Montreal Expos, was relocated to the District in 2005 through an agreement made with Major League Baseball (MLB) on September 29, 2004. Under the agreement, the District must totally finance and construct a new baseball stadium by the start of the 2008 season. The Washington Nationals are currently playing at the renovated Robert F. Kennedy (RFK) Stadium until the new stadium is completed.

The new baseball stadium will be located in the Southeast sector of Washington, DC along the Anacostia River in a new mixed-use entertainment zone. It will have both Metrorail and highway accessibility and will be one of the main centerpieces in the development of the Southeast D.C. Waterfront.



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 at December 2006
[Courtesy of Clark Construction Webcam]

Construction is on schedule and within budget. The steel framework began in October 2006, concrete has been poured and the seating bowl is beginning to take shape.

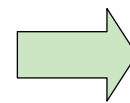
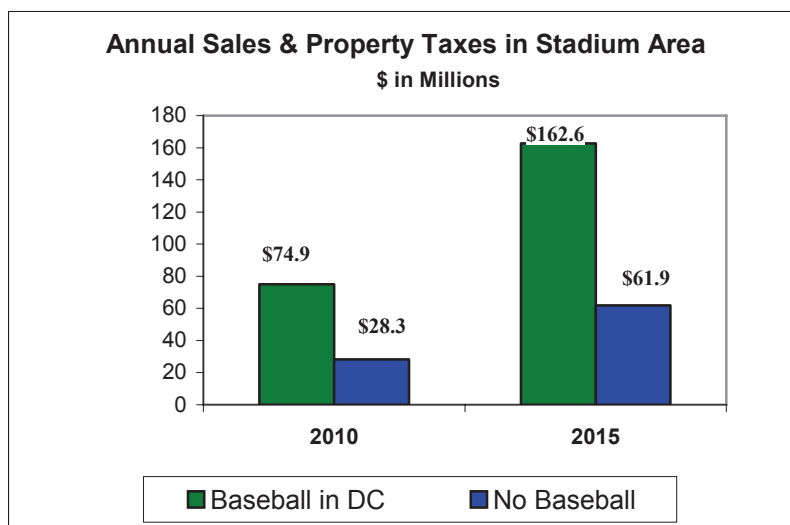


Stadium Design by HOK/Devroux-Purnell Architects
[Courtesy of DC Entertainment & Sports Commission]

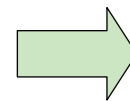
Most recently, the DC Sports and Entertainment Commission (DCSEC) authorized changes to the design to make it the first-ever “green” sports facility. It will be certified as an environmentally and energy efficient facility and will set the standards for future sports facilities.

Why Baseball Stadium is good for DC!

- It will turn a neglected neighborhood into a thriving neighborhood; without the stadium, development will occur much more slowly.
- There will be new housing, retail, shops, office space – sparking a revitalization that will mirror the impact that the Verizon Center had on the downtown sector.
- Over the next 30 years, baseball will generate nearly **\$2.5 billion in tax revenue** (sales and property) that would not otherwise have occurred.
- This target investment by the city will yield over \$50 million in annual new taxes.
- Development in the area around the new stadium will create an estimated 19,260 jobs in the retail, office, hotel, parking and residential areas.
- New development will fully fund a \$450 million Community Benefit Fund in 2009.



In 5 years there will be \$50 million in additional annual tax revenue.



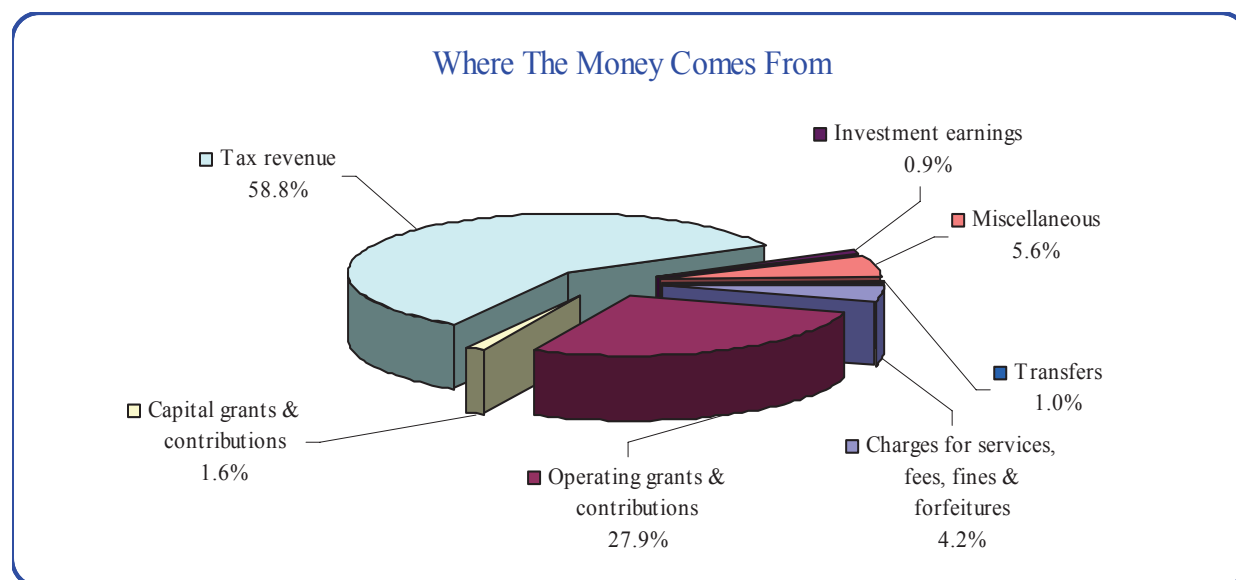
In 10 years there will be over \$100 million in additional annual tax revenue.

Financial Resources

District-Wide Revenues

The majority of the District's funds come from the collection of taxes which represents 58.8% of total revenues. In FY 2006, the District collected \$971 million in Sales and Use taxes, which was \$14 million more than in FY 2005. The District also collected \$1.2 billion in Property taxes; \$1.6 billion in Income and Franchise taxes; and \$669 million in other taxes in FY 2006.

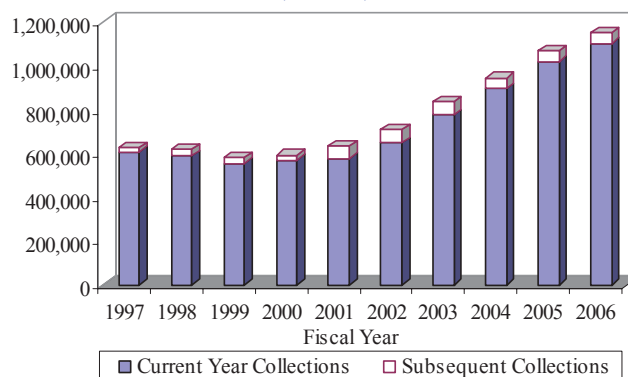
Two other main sources of revenues are federal and private resources, which include Operating Grants and Contributions.



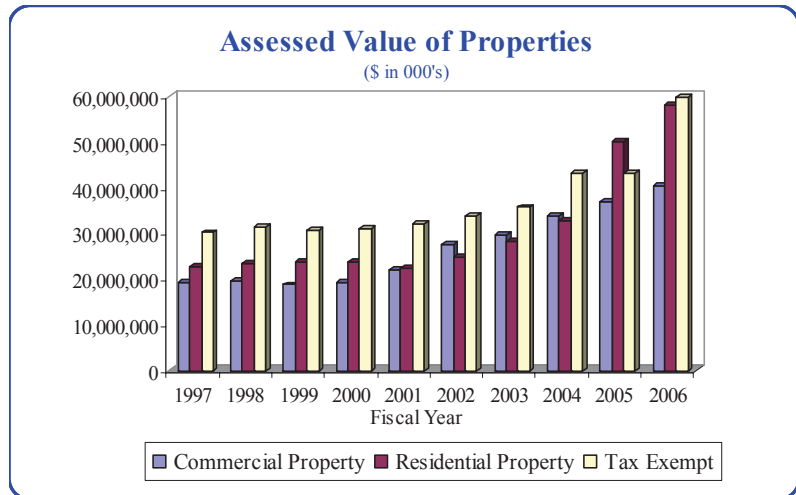
Real Property Tax

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.

Real Property Tax Collections
(\$ in 000's)



The total assessed value of all commercial and residential properties in the District at September 30, 2006 was \$98.5 billion compared with \$86.9 billion in the prior year. Tax-exempt properties accounted for \$59.7 billion or 37.7% of the total estimated actual values in FY 2006 of \$158.2 billion.



General Fund Budget

The FY 2006 general fund actual results of operations showed that total revenues of \$5.6 billion exceeded projections by \$54 million. Total actual expenditures and other uses were \$5.3 billion, which was \$236 million less than the budgeted amount.

FY 2006 General Fund Budgetary Highlights (\$ in 000's)

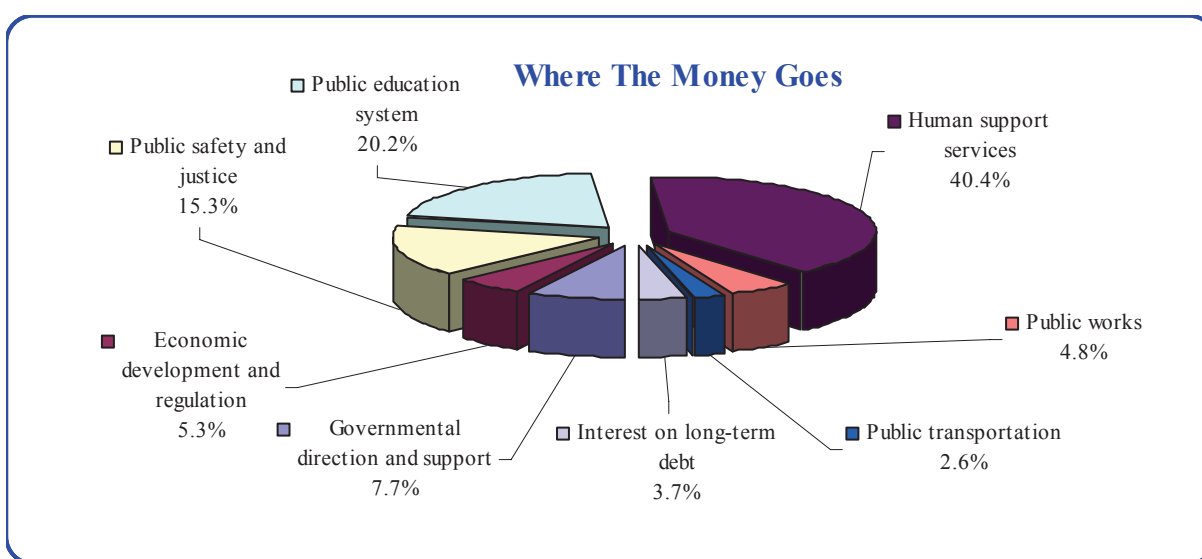
	Budget	Actual	Variance Over(under)
Revenues and Other Sources:			
Property taxes	\$ 1,163,667	\$ 1,207,691	\$ 44,024
Other taxes	2,993,207	3,031,259	38,052
Charges for services	315,226	361,951	46,725
Other sources (O type)	422,414	375,389	(47,025)
All other sources	640,432	612,726	(27,706)
Total revenues and other sources	5,534,946	5,589,016	54,070
Expenditures and Other Uses:			
Governmental direction and support	350,238	333,547	(16,691)
Economic development and regulation	361,724	251,762	(109,962)
Public safety and justice	903,046	894,748	(8,298)
Public education system	1,120,488	1,101,639	(18,849)
AY07 public education expenditures	69,064	69,064	-
Human support services	1,413,855	1,389,575	(24,280)
Public works	374,077	363,798	(10,279)
Receiverships	-	-	-
Other	907,505	859,721	(47,784)
Total expenditures and other uses	5,499,997	5,263,854	(236,143)
Excess (deficit) -- budgetary basis	\$ 34,949	\$ 325,162	\$ 290,213

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 2006, the District's total expenditures were \$7.4 billion. Human Support Services expenditures represented 40.4% 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 20.2% of total expenditures. Public Safety and Justice, mainly the Police Department and Fire and EMS Services, represented 15.3% of total expenditures.



Debt Management

The District's total outstanding long-term debt was \$5.2 billion at September 30, 2006. This amount consisted of general obligation bonds, ballpark bonds, **tax increment financing (TIF)** notes and bonds, **qualified zone academy bonds (QZAB)** and tobacco settlement bonds.

The general obligation debt per capita (D.C. resident), as of September 30, 2006, was \$6,490. This was an increase of \$250, or 4% from the amount on September 30, 2005 of \$6,240 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.

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

Long-Term Debt			
(\$ in 000's)			
	2006	2005	Change
General Obligation Bonds	\$ 3,773,863	\$ 3,632,198	\$ 141,665
Ballpark Bonds	534,800	-	534,800
TIF Bonds and Notes	124,302	117,526	6,776
QZAB Bonds	5,221	2,815	2,406
Tobacco Settlement Bonds	742,284	498,740	243,544
Total	\$ 5,180,470	\$ 4,251,279	\$ 929,191

Bond Rating Agencies

Rating Agencies assess 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) Standard & Poor's Rating Services (2) Moody's Investors Service; and (3) Fitch IBCA, Inc. In FY 2006, the District's bond rating by Standard & Poor's remained stable at A+ and the ratings by Moody's and Fitch remained positive at A2 and A respectively. These ratings are

representative of the improved financial condition of the District.

In the past, financial and operational difficulties required the District to borrow at substantially higher interest rates. 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.

Bond Rating History

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
S&P	B	BB	BBB	BBB	BBB+	BBB+	A-	A	A+	A+
Moody's	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2	A2
Fitch	BB	BB+	BBB	BBB	BBB+	BBB+	A-	A-	A	A

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 incurred in 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, 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, including depreciation.

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, 2006
(\$ in 000's)

	Governmental		Business-type		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 3,811,134	\$ 2,783,666	\$ 473,582	\$ 453,541	\$ 4,284,716	\$ 3,237,207
Capital assets	5,546,741	5,018,939	17,391	16,183	5,564,132	5,035,122
Total assets	9,357,875	7,802,605	490,973	469,724	9,848,848	8,272,329
Long-term liabilities	5,984,643	4,862,030	52,584	59,449	6,037,227	4,921,479
Other liabilities	1,259,206	1,189,911	44,060	36,231	1,303,266	1,226,142
Total Liabilities	7,243,849	6,051,941	96,644	95,680	7,340,493	6,147,621
Net assets:						
Invested in capital assets, net of related debt	958,597	1,069,731	17,391	16,183	975,988	1,085,914
Restricted	987,650	930,021	347,938	322,893	1,335,588	1,252,914
Unrestricted	167,779	(249,088)	29,000	34,968	196,779	(214,120)
Total net assets	\$ 2,114,026	\$ 1,750,664	\$ 394,329	\$ 374,044	\$ 2,508,355	\$ 2,124,708

- Total assets increased by \$1.7 billion; this was due to an increase of \$860 million in cash and investments and an increase of \$529 million in capital assets.
- The increase of \$1.2 billion in total liabilities was due to the issuance of debt for financing the construction of a new baseball stadium, as well as other infrastructure and capital improvements.

- The increase of net assets of approximately \$384 million was due mainly to significant increases in property taxes of \$122 million, income and franchise taxes of \$119 million, and \$120 million from miscellaneous revenues.
- The combined total net assets for the governmental activities and business-type activities increased by 15.3% 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 2006, it transferred \$73.8 million of its income, which was \$2.3 million more than the previous year.

Change in Net Assets as of September 30, 2006
(\$ in 000's)

	Governmental activities		Business-type		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 325,413	\$ 327,162	\$ 295,545	\$ 267,115	\$ 620,958	\$ 594,277
Operating grant and contributions	2,155,035	2,098,723	14,825	16,707	2,169,860	2,115,430
Capital grants and contributions	119,715	112,704	-	-	119,715	112,704
General revenues	5,042,336	4,605,003	115,919	112,552	5,158,255	4,717,555
Total revenues	7,642,499	7,143,592	426,289	396,374	8,068,788	7,539,966
Expenses	7,352,937	6,676,276	332,204	291,860	7,685,141	6,968,136
Other non-operating activities	73,800	71,450	(73,800)	(71,450)	-	-
Increase (decrease) in net assets	363,362	538,766	20,285	33,064	383,647	571,830
Net assets - Oct 1	1,750,664	1,211,898	374,044	340,980	2,124,708	1,552,878
Net assets - Sept 1	\$ 2,114,026	\$ 1,750,664	\$ 394,329	\$ 374,044	\$ 2,508,355	\$ 2,124,708

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 \$410.9 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 establish funds for specific purposes, and require the reporting 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* 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, General Capital Improvements, Baseball Capital Projects, and Non-major 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: Lottery and Charitable Games, Unemployment Compensation; and one non-major fund in this classification.

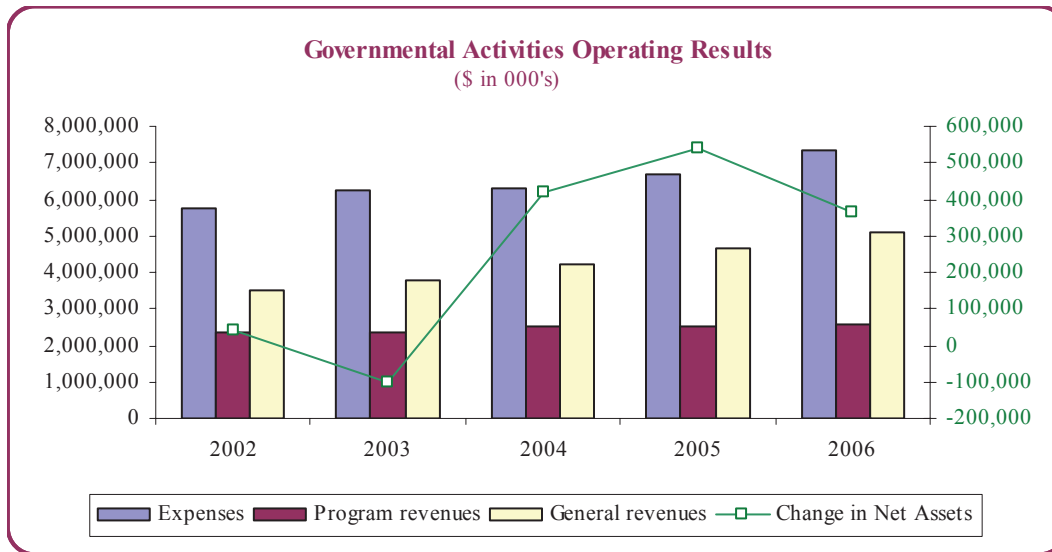
- The District is the trustee, or fiduciary, for its employees' pension plans. *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. These activities are presented separately from the District's other funds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

Assets and Liabilities

- Total assets increased by \$735 million. This increase was due mainly to unspent proceeds from debt issuance.
- The decrease of \$146 million in liabilities was due mainly to a reduction in interfund loan activity.

Operating Results

- Revenue increased by \$494 million. This was due mainly to an increase in taxes of \$220 million, \$84 million in operating grants and \$178 million in other miscellaneous revenue.
- Expenditures increased by \$977 million. This increase was due mainly to expenditures related to human support services, public safety, public education and capital improvements.
- The increase of \$496 million in the net change in fund balance was due mainly to the increase in tax revenues and proceeds from debt issuance.



Fund Balance

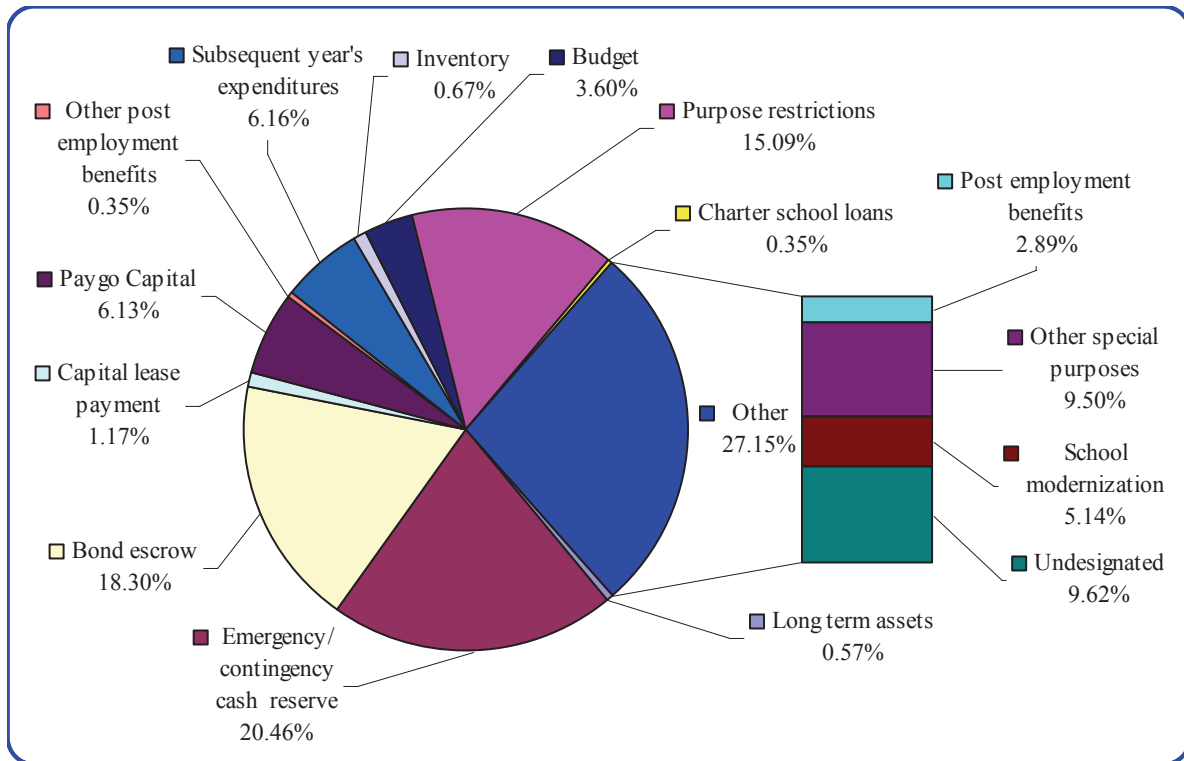
Fund balance is the difference between the assets and liabilities, and is divided into two major parts, *reserved* and *unreserved*. The **reserved fund balance** represents amounts that are already committed to specific programs and are not available for other uses. A positive **unreserved fund balance**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

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 \$1.4 billion in FY 2006, an increase of over \$1.9 billion.

- The unreserved fund balance totaled \$389.6 million in FY 2006.
- The fund balance includes a rainy day (emergency/contingency cash reserve) fund of \$293.6 million. In addition, there is \$262.6 million in cash set aside for long term debt service and \$251.6 million designated by management for specific programs and projects.
- The unallocated fund balance of \$138 million represents resources that the District's management intends to use to supplement the rainy day fund.

General Fund Fund Balance



Outlook for FY 2007

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

- The District, as a place to live, is increasingly desirable because of a strong job market and the need to avoid traffic congestion getting in and out of the city.
- Major service sectors of the District's economy (professional and other services) lead the growth in employment, wages, and gross state product.
- Hospitality sector continues to grow.
- The District is investing significantly to increase its housing stock.
- Increasing Federal government expenditures add impetus to the District's economy.
- Investments in economic development is attracting new retail establishments and influencing the development of "nightlife" in the downtown area.
- Public safety and public works continue to create a more acceptable environment for new employment, visitors, and residents.

Miscellaneous Statistics

Last Two Fiscal Years		
	FY 2006	FY 2005
<u>PUBLIC SAFETY AND JUSTICE</u>		
<u>Police</u>		
Crime index offenses	32,311	32,678
Number of police officers	3,800	3,800
<u>Fire</u>		
Number of fire fighters	1,536	1,500
Number of fire alarms	161,361	187,242
Inspections	28,636	29,072
<u>EMS</u>		
Number emergency medical personnel	264	331
Number of emergency responses	149,395	114,823
<u>PUBLIC EDUCATION SYSTEM</u>		
<u>D.C. Public School System</u>		
Number of school teachers	4,614	4,938
Number of school students	56,943	62,306
Number of high school graduates	2,450	2,680
<u>University of the District of Columbia</u>		
Number of teachers	215	219
Number of students	5,772	5,364
Number of graduates	573	503
<u>PUBLIC WORKS/PUBLIC TRANSPORTATION</u>		
Street resurfaced (includes reconstruction); regular cover; pavement restoration (miles)	65.2	90
Potholes repaired	341,530	*180,000
Refuse collected (tons per day)	425	485
Recyclables collected (tons per day)	86	85
Tons of bulk trash removed	4610	4,956
Tons of leaves removed	9588	9,569
Tons of snow removed	855,712	880,000
* FY 2005 potholes repaired (5,272) was understated based on new definition of a pothole effective FY 2005 & FY 2006.		
<u>CONVENTION CENTER</u>		
Conventions held	106	189
Attendees	935485	1,153,250

Glossary

Capital Assets	Assets (infrastructure, land, buildings, equipment) used in operations that have initial useful lives extending beyond a fiscal year.
Component Unit	A legally separate organization for which the primary government is financially accountable and includes 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.
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.
Rating Agencies	<p>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, governments, and business entities.</p> <p>The three primary Rating Agencies that rate municipal debt are: Fitch IBCA, Inc.; Moody's Investors' Service; and Standard & Poor's Rating Services</p>

Glossary

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.

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 financing 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.

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PHOTOS

ERNEST GRANT
CFO'S OFFICE OF COMMUNICATIONS

YEAR ENDED SEPTEMBER 30, 2006

