

CAFR 2007

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Government of the District of Columbia
Office of the Chief Financial Officer

YEAR ENDED SEPTEMBER 30, 2007

Adrian M. Fenty, Mayor
Natwar M. Gandhi, Chief Financial Officer



PUBLIC SAFETY



ECONOMIC GROWTH



CHILDREN AND YOUTH



PARKS AND MONUMENTS



ADRIAN M. FENTY
MAYOR

April 1, 2008

Dear Citizens of the District of Columbia:

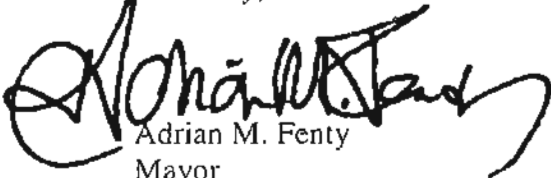
I am pleased to present the District of Columbia's Fiscal Year 2007 Comprehensive Annual Financial Report (CAFR). The audit opinion is unqualified for the eleventh consecutive year. We completed Fiscal Year 2007 with a General Fund balance of \$1.5 billion.

The District continues to be an attractive place to live and to work with growing investment in residential and commercial projects throughout the city. The District's overall credit worthiness is supported by strong ratings from the major rating agencies, "A+" by Standard and Poor's, "A+" by Fitch Ratings and "A1" by Moody's Investors Services. Through hard work and fiscal discipline, the District of Columbia has earned another budget surplus, and enjoys the respect of Wall Street and the rest of the nation. The District's fiscal strength enables us to invest more resources in residents' policy priorities.

Although the District Government has made tremendous progress over the past decade, we know that major work remains yet to be done. In particular, the management letter that accompanies this audit outlines areas in need of reform. My administration is committed to remedying the issues identified, to strengthen the District's financial position and its ability to deliver on our basic promise to citizens.

I continue to be proud to be your Mayor, and I pledge to continue working with you to make the District of Columbia a world-class city.

Sincerely,



Adrian M. Fenty
Mayor

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



Natwar M. Gandhi
Chief Financial Officer

March 31, 2008

The Honorable Adrian M. Fenty
Mayor of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Fenty:

On behalf of the citizens of the District of Columbia, we are pleased to present the District's Fiscal Year 2007 Comprehensive Annual Financial Report (CAFR). The District's financial statements have once again earned an unqualified "clean" audit opinion from our independent auditors, for the eleventh consecutive year.

The year ended with General Fund revenues exceeding expenditures by \$281 million on a budgetary basis. During Fiscal Year (FY) 2007, total general fund revenues and other sources were \$52 million higher than the revised forecast, whereas general fund expenditures and other uses were lower in every category; as a result, spending was \$228.5 million less than budgeted. The cumulative fund balance was \$1.5 billion at September 30, 2007.

The District works to insure that there are sufficient resources each year to meet critical needs and to avoid excessive debt. However, the District has a structural imbalance; its revenue base is not large enough to meet the combined spending requirements of a city, county, school district and state. The federal government's restructuring of District of Columbia finances in 1997 acknowledged this condition. In 2003, the GAO documented an imbalance of between \$470 million and \$1.1 billion. The District's structural imbalance remains a pressing issue that needs the attention of the U.S. Congress and the President of the United States.

The District cannot tax its way out of the structural imbalance; due to the prohibition against taxing nonresident workers and its largest employer, the federal government, and the unusually high concentration of nontaxable property. Neither can it borrow its way out. In June 2007, in a letter to you and Council Chairman Vincent C. Gray, I reported that the District's tax-supported debt service ratio at the time was projected to be approximately 8.9% of general fund expenditures by the close of FY 2007, and was projected to increase to approximately 11.9% by the end of FY 2009. Based on prevailing benchmarks, such an increase raises serious cause for concern, and it would be wise for you and the Council to begin the discussion of what projects the District can prudently afford, and over what developmental timeframe.

In spite of the efforts of many fine District employees, I am saddened, and truly sorry, to have to report that two employees in the Office of Tax and Revenue (OTR) were arrested in November 2007, and charged with criminal collusion in the misappropriation of at least \$20 million in District funds by issuing fraudulent real property tax refund checks to their coconspirators outside of the D.C. Government. The District has reflected, in the CAFR, \$8.8 million of this amount that has been identified as having occurred during FY 2007. Multiple investigations into the exact nature, size, scope and duration of these fraudulent activities are ongoing, and it will take an undetermined amount of time before completion.

Fifteen employees, including the Deputy Chief Financial Officer for OTR, have been removed or have resigned, with more personnel actions to come, if the facts warrant such. Although internal controls did not detect the OTR fraud, supervisors and managers in the Real Property Tax Assessment and Real Property Adjustments Division also failed to detect and stop the fraud. I relied upon the management team that I put into place at OTR, and my trust in their professional and technical competence was obviously misplaced. I also failed to more closely monitor the development and implementation of internal controls and management oversight at OTR. I will not make that mistake again, for any of the agencies that report directly to me, nor for the executive agencies that the OCFO staff provides budgeting, accounting and financial reporting services for.

While the investigations continue, I have already begun making changes in the leadership of OTR, by appointing a new Director, Stephen M. Cordi, former Deputy Comptroller for the State of Maryland. In addition, my staff is working to institute the following improvements throughout the entire Office of the Chief Financial Officer (OCFO) organization: (1) updating and rewriting all position descriptions; (2) reviewing and updating all financial policies and procedures; (3) reviewing and strengthening all internal controls; (4) requiring more comprehensive and detailed management oversight and review of transactions and operations; (5) strengthening the reporting requirements for employee financial disclosures, and; (6) instituting periodic background, police and credit checks of all employees in sensitive decision-making or operating positions. My goal is to have all of these improvements in place and operational by September 30, 2009, the end of the next fiscal year.

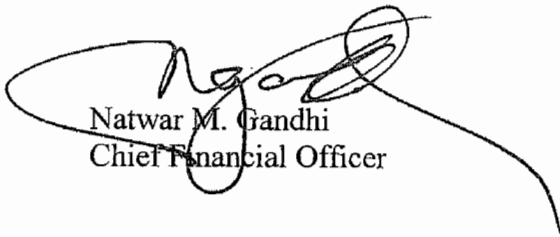
As a result of the alleged OTR fraud, the District's External Auditor, BDO Seidman, LLP (BDO), requested and was granted by the D.C. Inspector General, an additional 60-days to complete their financial audit of the District's FY 2007 financial statements. This allowed sufficient time for BDO to comprehensively review the internal controls and management failures that allowed the alleged fraud to occur and to go undetected for as long as it did.

The alleged fraud will not require the District to restate its prior year financial statements, nor has it affected this year's unqualified, or "clean," audit opinion from our independent auditors, because the amounts are not considered quantitatively "material," in relation to the District's overall budget. The District recently issued \$300 million in revenue anticipation notes that were rated in the highest short-term rating category and \$334.8 million in general obligation bonds that received a high "A" category bond rating, which further supports the bond market's continued very strong assessment of the District's financial strength and stability. Confidence in the District Government and the OCFO has been shaken, but not destroyed.

There have been many substantive improvements to the District's financial reporting and operations over the last 12-years since the District has had an independent CFO. These improvements have allowed program staff in every District agency to more effectively manage government operations at all levels. The District is one of the very few major cities or state governments in the United States that prepares its own CAFR in four-months instead of the normal six-month that most jurisdictions are allowed. I am happy to report that the District was again awarded the "*Certificate of Achievement for Excellence in Financial Reporting*" by the Government Finance Officers Association for the FY 2006 CAFR, and we will submit the FY 2007 CAFR for consideration.

I would like to commend the many employees, both program and financial staff, especially the staff of the Office of Financial Operations and Systems, who have worked diligently to guarantee a successful closure of the District's books. They have again ensured that our records meet the highest standards required for an unqualified audit opinion. While the alleged fraud has shaken the confidence that many have had in the integrity and professionalism of the OCFO, my staff and I have made a personal and professional commitment to do everything necessary to regain the public's trust, which will take a number of years of extremely hard and focused work. My senior staff and I have pledged to stay on the job until that task is accomplished.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

**Government of the District of Columbia
Comprehensive Annual Financial Report
Year Ended September 30, 2007**

**Adrian M. Fenty
Mayor**

**Natwar M. Gandhi
Chief Financial Officer**

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

Prepared by:

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

**Anthony F. Pompa
Deputy Chief Financial Officer**

**Bill K. Slack
Deputy Controller**

Financial Control & Reporting Division

**Bill K. Slack
Director**

**Lanre Banjo
Kim Chamberlain
Randolph David
Alvin C. Frost
Jocelyn Hill
Diji Omisore
David Pivec
Andres Urcia
Tong Yu**

Accounting Systems Administration

**Grace Crocker
Director**

**Cassandra Butler
Tonja Lowe**

**DISTRICT OF COLUMBIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2007**

TABLE OF CONTENTS

| Exhibit | | Page |
|-----------------------------|---|-------------|
| INTRODUCTORY SECTION | | |
| | Letter of Transmittal | 1 |
| | Principal Officials | 15 |
| | Organizational Chart | 16 |
| | GFOA Certificate of Achievement | 17 |
| FINANCIAL SECTION | | |
| | Independent Auditors' Report | 19 |
| | Management's Discussion and Analysis | 23 |
| | Basic Financial Statements | 45 |
| 1-a | Statement of Net Assets | 46 |
| 1-b | Statement of Activities | 47 |
| 2-a | Balance Sheet - Governmental Funds | 48 |
| 2-b | Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 49 |
| 2-c | Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 50 |
| 2-d | Budgetary Comparison Statement | 51 |
| 3-a | Statement of Net Assets - Proprietary Funds | 52 |
| 3-b | Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds | 53 |
| 3-c | Statement of Cash Flows - Proprietary Funds | 54 |
| 4-a | Statement of Fiduciary Net Assets - Fiduciary Funds | 55 |
| 4-b | Statement of Changes in Fiduciary Net Assets - Fiduciary Funds | 56 |
| 5-a | Discretely Presented Component Units - Combining Statement of Net Assets | 57 |
| 5-b | Discretely Presented Component Units - Combining Statement of Activities | 58 |
| | Index to the Notes to the Basic Financial Statements | 59 |
| | Notes to the Basic Financial Statements | 60 |
| | Other Supplementary Information | 115 |
| | General Fund | 117 |
| A-1 | Balance Sheet | 118 |
| A-2 | Schedule of Revenues, Expenditures and Changes in Fund Balance | 119 |
| A-3 | Schedule of Expenditures and Net Financing (Sources) Uses, Function and Object - GAAP Basis | 120 |
| A-4 | Schedule of Local Source Revenues, Budget and Actual (Budgetary Basis) | 121 |
| A-5 | Schedule of Budgetary Basis Revenues and Expenditures by Source of Funds | 122 |
| A-6 | Schedule of Budgetary Basis Revenues and Expenditures | 123 |
| | Nonmajor Governmental Funds | 125 |
| B-1 | Combining Balance Sheet | 126 |
| B-2 | Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 127 |

| | | |
|-----|--|-----|
| | Fiduciary Funds | 129 |
| C-1 | Pension Trust Funds - Combining Statement of Fiduciary Net Assets | 130 |
| C-2 | Pension Trust Funds - Combining Statement of Changes in Fiduciary Net Assets | 131 |
| C-3 | Schedule of Changes in Assets and Liabilities - Agency Funds | 132 |
| | Supporting Schedules | 133 |
| D-1 | Schedule of Budgetary Basis Expenditures | 134 |
| D-2 | Schedule of Budgetary Basis Operations by Source of Funds | 136 |
| D-3 | Schedule of Budget Revisions | 140 |
| | Discretely Presented Component Unit Cash Flow Schedules | 143 |
| E-1 | Statement of Cash Flows | 144 |

STATISTICAL SECTION

| | | |
|------|---|-----|
| | Statistical Section | 145 |
| | Financial Trends | 147 |
| S-1A | Net Assets By Component | 148 |
| S-1B | Change in Net Assets | 149 |
| S-1C | Fund Balances, Governmental Funds | 150 |
| S-1D | Changes in Fund Balances, Governmental Funds | 151 |
| S-1E | Tax Revenues by Source, Governmental Funds | 152 |
| | Revenue Capacity | 153 |
| S-2A | Assessed Value and Estimated Actual Value of Taxable Property | 154 |
| S-2B | Direct Property Tax Rates | 154 |
| S-2C | Major Tax Rates | 155 |
| S-2D | Principal Property Taxpayers | 155 |
| S-2E | Ten Highest Assessed Values for Tax Exempt Properties | 156 |
| S-2F | Property Tax Levies and Collections | 156 |
| S-2G | Personal Income Tax Rates | 157 |
| S-2H | Personal Income Tax Filers and Liability by Income Level | 157 |
| | Debt Capacity | 159 |
| S-3A | Ratios of General Obligation Bonds Outstanding | 160 |
| S-3B | Pledged-Revenue Coverage | 160 |
| S-3C | Ratios of Outstanding Debt by Type | 161 |
| S-3D | Legal Debt Margin Information | 162 |
| | Demographic and Economic Information | 163 |
| S-4A | Demographic and Economic Statistics | 164 |
| S-4B | Principal Employers | 164 |
| | Operating Information | 165 |
| S-5A | Operating Indicators by Function/Program | 166 |
| S-5B | Capital Asset Statistics by Function/Program | 168 |
| S-5C | Full-Time Equivalent General Fund District Government Employees by Function/Program | 169 |
| S-5D | General Fund Fund Balance Trend Chart | 170 |

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Office of the Chief Financial Officer

YEAR ENDED SEPTEMBER 30, 2007

INTRODUCTORY SECTION



PUBLIC SAFETY



ECONOMIC GROWTH



CHILDREN AND YOUTH



PARKS AND MONUMENTS



**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF FINANCIAL OPERATIONS AND SYSTEMS
810 FIRST STREET, NORTHEAST, SUITE 200
WASHINGTON, D.C. 20002
202-442-8200
(FAX) 202-442-8201**

March 31, 2008

Dr. Natwar M. Gandhi
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2007, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District.

This report includes all disclosures necessary for readers to gain a useful understanding of the District's financial activities. The city of Washington, D.C. is referred to in this CAFR as Washington, as D.C., and as the City. This Transmittal Letter does not discuss the District's financial operations and results. To obtain a better understanding of the District's financial condition, refer to the Management's Discussion & Analysis (MD&A), which begins on page 23 of this CAFR.

Report Sections

The CAFR is presented in three sections: introductory, financial, and statistical.

Introductory Section

The introductory section includes this letter of transmittal, a list of principal officials, the District's organizational chart, and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting.

Financial Section

The financial section includes the independent auditors' report, Management's Discussion & Analysis (MD&A), the basic financial statements, the notes to the basic

financial statements, and other supplementary information which includes combining and individual fund statements and schedules. The MD&A is an analysis of the financial condition and operating results of the District and is intended to introduce the basic financial statements and notes. The MD&A must be presented as required supplementary information in every financial report that includes basic financial statements presented in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America.

Statistical Section

The statistical section presents detailed information that assists readers of the CAFR in assessing the overall economic condition of the District. The tables in the statistical section differ from the financial statements, because they usually cover more than two fiscal years and may present non accounting data.

Financial Reporting Entity

The financial reporting entity consists of the primary government and its component units. The primary government is the District, which consists of all the agencies that make up its legal entity. Component units are legally separate organizations for which the primary government is financially accountable.

The District currently has eight (8) discretely presented component units: (1) Anacostia Waterfront Corporation; (2) District of Columbia Economic Development Finance Corporation (EDFC); (3) Housing Finance Agency; (4) National Capital Revitalization Corporation (NCRC); (5) Sports and Entertainment Commission; (6) University of the District of Columbia; (7) Washington Convention Center Authority; and (8) Water and Sewer Authority. The financial data for these discretely presented component units are reported separately from the financial

data of the primary government. During FY 2007, the D.C. Council passed an act which dissolved NCRC and EDFC, and incorporated them into the Deputy Mayor's Office of Planning and Economic Development. These entities are being reported as component units of the District in FY 2007 and will be reported as part of the District's general fund in FY 2008.

The Tobacco Settlement Financing Corporation is presented as a blended component unit, as required by GAAP for state and local governments. The District of Columbia Housing Authority and the District of Columbia Courts are related organizations, because the District is not financially accountable for their operations.

A Brief History of Washington, D.C.

The Creation of the District of Columbia

Article I, Section 8, Clause 17 of the U.S. Constitution states: *"To exercise exclusive Legislation in all Cases whatsoever, over such District (not exceeding ten Miles square) as may, by Cession of Particular States, and the Acceptance of Congress, become the Seat of the Government of the United States, and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, Arsenals, dock-Yards, and other needful Buildings;"*

First, a little history is important to understanding why the creation of Washington, D.C. was considered so vitally important to the nation's destiny and well-being. In 1783, after a delegation of Continental Army officers complained to Congress about their unpaid salaries and pensions, Congress had no adequate response or quick solution. If its grievance was ignored, some members of the army were prepared to revolt against Congress. Some eighty soldiers from Pennsylvania, unpaid and weary, armed and angry, marched on the Congress, sitting in Philadelphia, surrounded Independence Hall demanding their pay. Physically threatened and verbally abused, the Congress flees the city when neither municipal nor state authorities would take action to protect them.

James Madison noted in the Federalist Papers in January 1788 that *"[t]he indispensable necessity of complete authority at the seat of government, carries its own evidence with it... Without it, not only the public authority might be insulted and its proceedings interrupted with impunity, but a dependence of the members of the general government on the State comprehending the seat of government, for protection in the exercise of their duty, might bring on the national council an imputation of awe or influence, equally dishonorable to the government and dissatisfactory to the other members of the confederacy."* James Madison became the fourth President of the United States (1809-1817).

As a direct result of this incident, Washington, D.C. was established by President George Washington in 1791. Congress assumes jurisdiction over the District of Columbia from territory ceded by Maryland and Virginia, and does not provide for voting representation for residents. Residents of the fledgling Nation's Capital District were denied the right to representation that they had shared with their fellow countrymen up until then. In February 1801, Congress enacts the Organic Act of 1801, that divided the capital district into the counties of Washington (former Maryland area) and Alexandria (former Virginia area).

In 1846, as a result of the contentious debates concerning State power versus Federal power and the issue of Slavery, Congress passed a law that allowed for the returning of the City of Alexandria and Alexandria County to the State of Virginia. In 1871, Congress consolidated the three remaining municipal governments of the District of Columbia – Georgetown, Washington City and Washington County – into one territorial government. A territorial governor and council were appointed by the President. An elected House of Delegates and a non-voting delegate to Congress were also created. Thus the District of Columbia became another creation of the Congress.

In 1874, the territorial government of the District of Columbia was abolished after Alexander "Boss" Shepherd, an appointee of President Grant, spent triple the amount he projected to spend on the 1871 Comprehensive Plan to improve local infrastructure, which had become dilapidated during the Civil War. The non-voting delegate to Congress was also eliminated at that time. The power to elect a mayor and council was eliminated in 1878.

The U.S. Constitution did not automatically deny residents of the District of Columbia the right to vote for an elected government of D.C., or for elected representatives to the United States Congress or the U.S. President. Those acts of disenfranchisement required specific acts of the Congress.

Limited Home Rule and Its Imposed Costs

It was not until the 23rd Amendment to the U.S. Constitution was ratified in 1961 that Washington, D.C. citizens are granted the right to vote in a presidential election. President Lyndon B. Johnson appointed Walter E. Washington mayor in 1967, making him the first African American to govern a major U.S. city. It was part of a reorganization of city government that included an appointed council. In 1970, Congress passed the District of Columbia Delegate Act, and in 1971, Walter Fauntroy became the city's first congressional representative in almost 100-years. In 1973, Congress passed, and President Lyndon Johnson signs, the Home Rule Act, which provides for a popularly elected mayor and a 13-member D.C. Council. On January 2, 1975, the Honorable Walter

E. Washington became the first elected mayor of the District of Columbia in more than 100-years.

The Home Rule Act, passed in 1973, prohibits the taxing of federal property, any property exempted from taxation by federal law and the income of non-District of Columbia residents who work in the District of Columbia. It also prohibits changing height limitation for buildings and altering the courts system or changing the criminal code until 1977. After 1977, any proposed changes could be defeated by a veto from a single House of Congress. In the 1983 U.S. Supreme Court decision, *INS v. Chada*, it was held that the single house veto was unconstitutional.

As a result of *Chada*, this removed the concern over whether the District could legally issue its own debt. The District issued municipal debt for the first time, on its own, on October 15, 1984. The District issued \$150 million in Tax Revenue Anticipation Notes, which were paid in full on September 30, 1985. On all legislative acts of the D.C. Council, Congress continues to retain the right to review and overturn such acts if both houses vote within 30 legislative days. The District Government budget also requires the approval of Congress and the President, even over revenues raised entirely by the District Government.

Washington, D.C. residents pay federal taxes just like other American citizens and they fight and die to protect America against foreign and domestic threats, and yet are denied the sovereign and constitutional right to elect voting representatives to the U.S. House of Representatives and to the U.S. Senate. Actually, in fiscal year 2005, Washington, D.C. residents and companies paid more total federal taxes than nineteen states.

Congressional Representation

Delegate to the House of Representatives from the District of Columbia.

The District of Columbia Delegate Act, U.S. Public Law 91-405, Title II, September 22, 1970, 84 Stat. 848, allows:

D.C. Official Code, Section 1-401 (a) The people of the District of Columbia shall be represented in the House of Representatives by a Delegate, to be known as the "Delegate to the House of Representatives from the District of Columbia", who shall be elected by the voters of the District of Columbia in accordance with subchapter I of Chapter 10 of this title:

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

Although the D.C. Delegate, Eleanor Holmes Norton, is not allowed to vote, she has been able to accomplish a great deal for the citizens of Washington, D.C. and for all U.S. citizens. Some of the recent accomplishments of her office are:

- The D.C. Tuition Assistance Grant Program, which provides grants of up to \$10,000 for D.C. students to cover the difference between in-state and out-of-state tuition at most public colleges, or up to \$2,500 to attend private institutions in the city and region.
- The D.C. Homebuyers Tax Credit of \$5,000 for qualified purchasers of a principal residence in Washington, D.C.
- Passage of a needle exchange program for D.C. residents.
- Obtaining funds to help build road infrastructure at the Southeast Federal Center, the Frederick Douglass Bridge, and the South Capitol Street Corridor.
- Eliminating a longstanding rider to District legislation and funding that prohibited the use of local funds for D.C. voting rights lobbying efforts, or for pursuing relief in court.
- Passage of legislation allowing for the creation and circulation of a D.C. quarter coin.
- Working with other Members on the Lily Ledbetter Fair Pay Act, passed by the House, overturning a Supreme Court decision that limited damages under the Equal Pay Act.

For more information on the accomplishments and current objectives of our D.C. Delegate, you may visit Congresswoman Eleanor Holmes Norton's website at: www.norton.house.gov.

Current Economic Condition and Outlook

Washington, D.C. Attractions and Tourism

Millions of visitors are attracted to the more than 400 museums and historical landmarks in Washington, D.C. each year. Tourists also visit other popular attractions located within the Washington Metropolitan area. Citizens of the United States and international visitors enjoy the many popular attractions along the National Mall as well as the monuments to U.S. presidents and the war memorials. Tourists also discover reminders of their American heritage at the National Arboretum and the Kenilworth Aquatic Gardens in Northeast Washington, at

Fort Stevens and at the National Museum of Health and Medicine at the Walter Reed Army Medical Center.

Washington, D.C. hosts, on a permanent basis, more than 175 foreign embassies and recognized diplomatic missions, according to the U.S. State Department's "Diplomatic List – Spring 2007." In addition, a number of international organizations such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States call the District home. (Source: U.S. State Department web site: www.state.gov)

In calendar year 2006, approximately 13.9 million U.S. citizens visited Washington D.C., a decrease of about 1.4% from the revised 2005 figure of 14.1 million. An estimated 1.2 million international visitors traveled to Washington, D.C. in 2006, unchanged from the 2005 revised figure. Overall, visitors to Washington, D.C., both foreign and domestic, decreased from the revised figure of 15.3 million in 2005 to 15.1 million in 2006, or about -1.3%. The 2007 calendar year visitor figures are not yet available.

Hotel occupancy has remained level at 75% from 2005 to 2006. The city's tourism industry generated more than \$5.2 billion in direct spending in 2006 and directly supports 60,107 jobs. This direct visitor spending continues to generate additional business activity in related industries and is boosting local as well as regional economic growth. This trend is expected to continue. (Source: Washington Convention & Tourism Corporation web site: www.washington.org)

Employment

Total wage and salary employment in the Washington metropolitan area increased to approximately 3,012,500 in FY2007 from the revised 2,969,200 for FY2006, 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.

Total wage and salary employment within Washington, D.C. has remained at approximately 23% of the metropolitan area's total wage and salary employment during the past three years. The seasonally adjusted September 2007 unemployment rate in Washington, D.C. was 5.8%, compared to the September 2006 rate of 5.7%.

September 2007 - Labor Market ('000s)

| | District of Columbia | | Metropolitan area | |
|--|----------------------|-----------|-------------------|-----------|
| | Level | 1 yr. ch. | Level | 1 yr. ch. |
| Employed residents | 298.9 | 4.0 | 2,906.0 | 26.0 |
| Labor force | 317.7 | 3.8 | 2,996.7 | 20.4 |
| Total wage and salary employment | 696.3 | 10.8 | 3,012.5 | 43.3 |
| Federal government | 193.7 | 0.2 | 341.2 | -0.1 |
| Local government | 38.1 | 0.9 | 297.4 | 3.1 |
| Leisure & hospitality | 55.0 | 0.8 | 257.3 | 4.2 |
| Trade | 22.8 | 0.4 | 342.6 | 6.1 |
| Education and Health | 92.4 | 0.2 | 318.1 | 2.0 |
| Professional, business and other services | 220.9 | 7.1 | 868.5 | 23.6 |
| Other private | 73.4 | 1.2 | 587.2 | 4.4 |
| Unemployed | 18.9 | -0.2 | 90.7 | -5.6 |
| New unemployment claims (D.C.) | 1.5 | -0.3 | N/A | N/A |

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

Total employment within Washington, D.C. increased to 696,300 in September 2007 from 685,500 in September 2006. Some of the references to the 2006 employment numbers may be different from those shown in the FY2006 CAFR 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 2007 federal work force in the Washington metropolitan area totaled 341,200; with approximately 193,700 federal employees located in Washington, D.C. and 147,500 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. The increased spending by the Department of Homeland Security is also helping to stabilize federal employment in the region.

Minimum Wage

Effective January 1, 2006, the standard minimum wage for employees in Washington, D.C. increased from \$6.60 to \$7.00 per hour. District law requires that the minimum wage rate for Washington, D.C. employees be at least \$1.00 per hour greater than the minimum wage set by the federal government. In July 2007, the federal minimum wage rate was increased to \$5.85 per hour from \$5.15 per hour, where it had been since September 1, 1997. The President signed into law an increase in the federal minimum wage in three steps: \$5.85 per hour beginning on July 24, 2007; \$6.55 per hour beginning on July 24, 2008, and \$7.25 per hour beginning on July 24, 2009. Accordingly, the District's minimum wage will be increased to \$7.55 per hour beginning July 24, 2008 and to \$8.25 per hour beginning on July 24, 2009.

U.S. Census Bureau

The U.S. Census Bureau estimated that on July 1, 2007 there were 588,292 permanent residents in Washington, D.C., an increase of 2,833 from the revised July 1, 2006 estimate of 585,459, or 0.5%. The annual census estimates are based on birth and death records, changes in tax return filings and estimates of the number of immigrants who move into Washington, D.C. each year. District officials have consistently disagreed with the Census Bureau because these estimates do not take fully into account the effect of increased residential construction, property transfers and undocumented individuals.

There is credible evidence that the U.S. Census Bureau has been historically low in its estimates of Washington, D.C.'s population. These estimates can seriously affect the amount of Federal dollars that the District receives, which is based on the Census Bureau's total population reports. As a result of the District's challenge to the July 2005 estimate, the U.S. Census Bureau increased its estimate of D.C.'s population for July 1, 2005 from 550,521 to 582,048, an increase of 31,527, or 5.7%.

Factors Affecting the District's Financial Condition

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. Structural imbalance is defined as the fiscal and economic imbalance caused by being required to fund the services of both a state and city. 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 place a severe strain on the District's limited resources.

The following bullets provide highlights from the report:

- The cost of delivering an average level of services per capita in Washington, D.C. far exceeds that of the average state fiscal system due to factors such as high poverty, crime, and the high cost of living.
- The District's per capita total revenue capacity is higher than all other state fiscal systems but not to the same extent that its costs are higher. Revenue capacity would be larger without constraints on its taxing authority, such as the inability to tax federal property or the income of nonresidents.
- 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 was estimated to range from \$470 million to \$1.143 billion annually.

- 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, if those services were delivered with average efficiency.
- 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 at (202) 512-3000 to request a copy of GAO-03-666 report.

Income Trends

In a report prepared by the Center on Budget and Policy Priorities and the Economic Policy Institute issued in early 2006, "*Pulling Apart: A State-by-State Analysis of Income Trends*," it was concluded that the gap between the highest and lowest income families in the city grew substantially between the early 1980s and the early 2000s. Middle-income families experienced only modest growth in salaries. These findings demonstrate that increasing economic growth will not, by itself, reduce economic inequality. The District continues to request that the federal government address the District's revenue limitations. The District must target and manage programs and services directed at the poorest and at-risk families more effectively, while also making it more attractive for middle-income families to remain, or to move into the city.

Major Projects and Initiatives

The New "Washington Nationals" Baseball Stadium

Construction of a new baseball stadium to house the Washington Nationals Baseball Team was completed in early 2008. The District marked this monumental accomplishment to a sold out crowd at the Washington National's Home Opener held on March 30, 2008 against the Atlanta Braves Baseball Team. The new stadium is located in the Southeast sector of Washington, DC along the Anacostia River in a new mixed-use entertainment zone. It is accessible by both the highway and Metrorail and is one of the main centerpieces in the development of the Southeast D.C. Waterfront.

Renovation of the Nationals temporary stadium, Robert F. Kennedy (RFK) Stadium and construction of the new stadium, plus land acquisition and infrastructure, were originally estimated to cost \$630.8 million and were planned to be paid by a combination of funds from a bond

issuance, taxes collected at RFK Stadium during the 2005 baseball season, interest earnings on the construction proceeds and a \$20 million team contribution. On May 15, 2006, the District issued the Ballpark Revenue Bonds, which included \$355 million in tax-exempt, fixed rate bonds, \$25 million in tax-exempt, auction rate certificates and \$154.8 million in taxable, fixed rate bonds. The fixed rate bonds were issued at an interest rate of 4.97% and 6.4% respectively, for a blended rate of 5.37%, to be paid over 30-years.

The Ballpark Revenue Bonds are backed by a fee on District businesses with over \$5 million in annual gross receipts, a percentage of the gross receipts tax collected from utilities for non-residential services, rent payments from the team owners, and a sales tax on baseball goods and merchandise sold at the stadium. Since the bond issuance, land acquisition and environmental remediation costs have increased by approximately \$43.2 million, bringing the overall project cost to approximately \$674.0 million. The additional expenditures have been funded from excess taxes collected from baseball activities not needed to pay debt service on the bonds.

The new stadium occupies more than 1 million gross square feet and includes: 41,000 seats; a 500 seat Founder's Club; a 1,300 seat Diamond Club; a conference center; a team store; a kids training area; an arcade; a family area; and 30,000 square-feet of office space. Also, the stadium is an environmentally friendly facility. It received the LEED® Silver Certification from the US Green Building Council, making it the first major stadium in the United States to achieve LEED Certification.

Stadium construction supports 3,500 jobs and will generate \$5 million in new tax revenues. Over \$200 million in contracts have been awarded to Local, Small, and Disadvantaged Business Enterprises (LSDBE) contractors.

Navy Yard Metro Station

To accommodate the high volume of traffic around the new baseball stadium and surrounding new developments, the Navy Yard Metro Station underwent a \$20 million expansion. This effort increased its capacity from 5,000 riders an hour to 15,000 riders per hour. The expansion details include (1) increasing the number of fare gate and fare card machines; (2) relocating the West entrance to the street level; (3) installing a new elevator from the street level to the mezzanine, and; (4) installing a new stairway between the mezzanine and the platform. Funding for this project was provided by the District in anticipation of being refunded by the federal government.

The Walter E. Washington Convention Center Headquarters Hotel

The Board of Directors of the Washington Convention Center Authority (WCCA) announced on September 24, 2007 that it had reached a new agreement with Marriott

International to build a 1,150-room Marriott Marquis, which will serve as the headquarters hotel. The hotel will be located on 9th and L Streets, N.W., and will include additional meeting space and approximately 400 parking spaces. To move the deal forward, the District completed a land swap on November 1, 2007 with local developer Kingdon Gould III for property located within the old convention center site. That decision allowed 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.

On November 5, 2007, the Washington Convention Center, was renamed the "Walter E. Washington Convention Center" after the District of Columbia's first elected mayor.

The Old Convention Center Site

On December 17, 2007, the Mayor announced that the District had closed on its deal with Hines | Archstone-Smith, making way for an \$850 million retail, residential and office project on the site of the former Washington Convention Center. The Hines | Archstone-Smith team expects to break ground on the site by January 2009. Located on a 10-acre parcel bounded by New York Avenue and 9th, H and 11th Streets in downtown, the project will create a pedestrian-friendly neighborhood with 250,000 square feet of retail; more than 670 apartments and condos including at least 134 units of affordable housing; 465,000 square feet of office space and parks and entertainment areas—a combination that will make the site a live/work/play environment unlike any other in D.C.

The District awarded Hines | Archstone-Smith development rights to the site in June 2005, after the team prevailed in a competitive selection process. The master-plan was approved in October 2006, at which time the schematic design phase of the project began. The team is working to finalize design, bidding and permitting by November 2008. It is anticipated that a 35-month construction period will begin in January 2009, with initial occupancy in July 2011.

This project is expected to: (1) generate 3,000 development-related jobs and 2,500 direct permanent jobs; (2) generate more than \$32 million a year in direct tax revenues; (3) provide affordable housing for 20 percent of all units at a range of incomes for buyers and renters earning 30 percent, 60 percent and 80 percent of the Area Median Income, and; (4) create significant opportunities for Certified Business Entities (CBE). CBEs will also own 20 percent of developer equity, and at least 35 percent of construction and operations will go to CBE contractors. District residents will be given priority for at least 51 percent of all new jobs created in relation to the project.

Neighborhood Revitalization

D.C. Department of Transportation

The District of Columbia Department of Transportation's (DDOT) mission is to enhance the quality of life for residents and visitors by ensuring that people, goods, and information move efficiently and safely, with minimal adverse impact on residents and the environment.

DDOT currently has three major initiatives in the city; the *Anacostia Waterfront Initiative*, the *Fredrick Douglass Memorial Bridge* and the *Great Streets Initiative*.

The *Anacostia Waterfront Initiative* (AWI) is a broad-based project to improve access to, across, and along the Anacostia River and to improve neighborhood connections to this valuable natural resource. Currently, the Anacostia River is the District's most undervalued and underutilized natural resource. The plan is to transform the Anacostia River and its banks into an area that will support recreational activities, such as swimming, boating and fishing, and the creation of parks, neighborhoods and cultural venues.

This initiative created the Anacostia Waterfront Corporation (AWC) in 2004 to oversee the development of the Anacostia River and its banks. The AWI seeks to ensure that the social and economic benefits derived from a revitalized waterfront are shared by those neighborhoods and people living along the Anacostia River. Early projections show that the cost would be approximately \$8 billion and take at least 25 years to complete. Please visit www.anacostiawaterfront.net to follow the progress of this exciting and monumental task.

The *Fredrick Douglass Memorial Bridge Initiative* began a major renovation of the Frederick Douglass Memorial Bridge in January 2007. Constructed in 1950, the Frederick Douglass Memorial Bridge has served as a major thoroughfare into our nation's capital for both Southern Maryland, and Northern Virginia commuters. However, a study and evaluation conducted by DDOT in late 2001 deemed the bridge to be a major barrier to pedestrian, bicycle, motorist and commercial access in and around the Anacostia Waterfront area. DDOT determined that extensive renovation of the bridge is necessary to accelerate the transformation of the South Capitol Street Corridor and Anacostia Waterfront.

The preliminary stages of renovation began in January 2007 but the most critical phase was reserved for July and August, months with the lowest amount of traffic. Utilizing the DDOT mantra of "**Get In, Get Out and Stay Out**," the bridge was completely shutdown to traffic and pedestrians to allow for efficient and safe completion of work. The project consisted of two types of rehabilitation being done simultaneously: 1) the repair of existing structures and 2) the creation of new buildings and designs

for the bridge. The most notable work was the lowering of approximately 200 feet of the bridge's northern approach by up to 10 feet from its then-elevated position to create an at-grade roadway with a new intersection at South Capitol Street and Potomac Avenue. This "extreme makeover" will transform the South Capitol Street Corridor into a grand urban boulevard that will improve mobility and access and provide a fitting and beautiful gateway into the nation's capital.

The *Great Streets Initiative* targets major boulevards in the city to improve the condition and function of the streets and roadways and to promote local business enterprises and improve neighborhood quality of life. It is a multidisciplinary approach to corridor improvement. DDOT has committed more than \$100 million over the next four years to define, improve, and maintain the public realm of the corridors. The six target corridors are:

- 1) Georgia Avenue and 7th Street, N.W., from Eastern Avenue to New York Avenue
- 2) H Street, NE, and Benning Road N.E./S.E., from North Capitol Street to Southern Avenue
- 3) Nannie Helen Burroughs Avenue, N.E., from Kenilworth Avenue to Eastern Avenue
- 4) Minnesota Avenue, N.E./S.E., from Sheriff Road, N.E., to Good Hope Road, S.E.
- 5) Pennsylvania Avenue, S.E., from the Sousa Bridge to Southern Avenue
- 6) Martin Luther King, Jr. Avenue and South Capitol Street from and including Good Hope Road to Southern Avenue

By uniting infrastructure investments "between the curbs" with economic development support "behind the curb," DDOT and its program partners aim to reposition the Great Streets corridors as vibrant and unique community centers that meet the needs of local residents, visitors, workers and entrepreneurs. Public space improvements such as restored streets, sidewalks, transit services, lighting and trees reveal the promise of target neighborhoods - places that will soon bring population back to Washington, generate commerce, create jobs, expand the District's tax base, and improve the quality of life for the residents.

Please visit www.greatstreetsdc.com to view the plan and progress of this effort.

D.C. Housing Finance Agency

The D.C. Housing Finance Agency (HFA) was established in 1979 to stimulate and expand homeownership and rental housing opportunities in Washington, D.C. HFA accomplishes its mission by issuing mortgage revenue bonds that lower the homebuyers' costs of purchasing and rehabilitating homes and the developers' costs of acquiring, constructing and rehabilitating rental housing. HFA embraces its responsibility with conviction and pledges its best efforts to serve as the city's champion for

homeowners and renters and to act as the city's principal catalyst for neighborhood investment.

New residential construction is occurring in all sections of Washington, D.C., and ranges from single family dwellings, to townhouses, to apartment buildings and condominiums. HFA helped finance a total 273 affordable single family units and 1,198 affordable multifamily units in fiscal year 2007. The total number of housing units financed was 1,471, with the total amount of financing totaling \$178.0 million. These various ongoing efforts are creating more vibrant downtown residential neighborhoods, in addition to expanding residential development throughout Washington, D.C. Rapidly increasing construction activity in the form of the rehabilitation of vacant warehouses, commercial buildings and residential structures, and new construction in all areas provide incentives and very strong marketing tools for attracting new residents and workers to the Nation's Capital.

Since 1999, HFA has issued more than \$2.5 billion in mortgage revenue bonds to finance more than 25,971 affordable rental units and single family homes throughout the city. The HFA works closely and collaboratively with its government housing partners to help increase developers' ability to access various government resources to assist with their development plans. HFA financed seven multifamily housing developments during FY 2007 and issued \$118.8 million in tax exempt and taxable mortgage revenue bonds for multifamily rental housing. Companion financing in the amount of \$91.7 million in low income housing tax credit and historic tax credit equity was raised and invested by institutional and private financiers in FY 2007. These tax exempt bond deals supported the construction or preservation of new and existing affordable housing units.

D.C. Office of Planning

The District's Office of Planning is involved in projects that impact just about every area and neighborhood. Among these are projects from each of the city's eight wards, listed respectively by ward: (1) the Park Morton Redevelopment Initiative Plan; (2) the Development Framework for a Cultural Destination District Within Washington, D.C.'s Greater Shaw/U Street; (3) the Glover Park Commercial District Study; (4) the Kennedy Street Corridor Revitalization Plan; (5) the Northeast Gateway Revitalization Strategy and Implementation Plan; (6) Pennsylvania Avenue, S.E.; (7) the Benning Road Corridor Redevelopment Framework, and; (8) the Barry Farm/Park Chester/Wade Road Redevelopment Plan.

Washington enjoys a remarkable wealth of parks—from the large forested areas of Rock Creek Park to small neighborhood parks, playgrounds and ball fields. Washington, D.C. has more than 7,800 acres of public parks, or open space, which is the most park land of any of the country's most populous cities.

To protect and enhance this great resource, the Office of Planning and the D.C. Department of Parks and Recreation (DPR) have joined forces with the National Park Service and the National Capital Planning Commission to launch CapitalSpace. By working together, CapitalSpace partners will improve park management, eliminate duplicated efforts, and maximize resources. The partners are also collaborating closely with D.C. Public Schools (DCPS), the District Department of Transportation (DDOT), and the U.S. Commission of Fine Arts.

The principal goals of CapitalSpace are to perform the following:

- Balance and reconcile intense demand for the parks and clarify appropriate uses.
- Enhance the quality of the city's parks and improve access to them.
- Establish a coordinated, connected citywide system of parks.
- Provide parks and open spaces that serve the needs of long-established neighborhoods as well as rapidly changing areas.
- Attract scarce resources for wise investments to design, operate, and maintain the city's parks and open spaces to the highest standards.

National Capital Revitalization Corporation

The National Capital Revitalization Corporation (NCRC) was a publicly chartered corporation which focused on stimulating real estate development, business investment and job creation in neighborhoods. NCRC helped to revitalize D.C. neighborhoods by attracting private sector investments that created jobs, generated revenue, attracted and retained businesses, and empowered citizens. Together with its affiliates, NCRC initiated more than \$1.6 billion worth of investments to D.C. neighborhoods, developed two million square-feet of retail space, built 2,000 new homes, and provided 2,000 new jobs for D.C. residents. NCRC became a part of the District Government on October 1, 2007 and is now located in the Office of the Deputy Mayor for Planning and Economic Development.

The following are two development projects that NCRC is currently working on:

McMillan Site

The McMillan Water Filtration Plant served as Washington, D.C.'s water filtration plant for 80-years before it was closed in 1986 and later sold to the District for \$9.3 million for development purposes in 1987. The District is working with the surrounding community to evaluate and select development options that will embrace the historical elements of the 25-acre site. These development options will include a mix of open green space, housing, retail and commercial developments.

Skyland Shopping Center Redevelopment

The District is finalizing plans to redevelop the former Skyland Shopping Center (Skyland), which it has recently acquired by eminent domain to increase the development potential and positive impact on the surrounding neighborhood. It is currently anticipated that the new Skyland will include: (1) over 250,000 sq ft. of retail; (2) 1,100 surface parking spaces; (3) \$125 million in total development investment; (4) \$3.3 million in new projected annual tax revenue, and (5) over 230 permanent new jobs projected. Skyland is located on Good Hope Road at Naylor Road and Alabama Avenue, S.E.

Federal Government Projects

The federal government continues to see the District as the prime location for consolidating agencies, functions and staff. The construction of the U.S. Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF) new National Headquarters Building is complete, and employees have already moved in. Construction continues on another ATF building on the site. The decision to locate the 422,000 square foot building at the intersection of First Street and New York Avenue, N.E. helped the District obtain matching Federal and private commitments of \$50 million to pay for the Metrorail station near that location.

The federal government has plans to increase its employment presence in the Southeast Federal Center (Center), which already houses a number of U.S. agencies. Plans are under consideration for the long awaited development of federal lands near and adjacent to the U.S. Navy Yard. The U.S. Department of Transportation (DOT) completed a new headquarters' building, covering 11 acres, at the Center. The new DOT headquarters provides 1.35 million square-feet of space for 7,000 employees. The redevelopment of the remaining 44 acres of the Center will include 1.8 million square-feet of office space, 2,800 residential units, and as much as 350,000 square-feet of retail space.

After decades of holding the St. Elizabeth's west campus, the Federal government has designated the site for the Homeland Security headquarters, beginning with the construction of a new Coast Guard headquarters. This project will be historic because it marks the first time the federal government has brought development east of the Anacostia River. The District believes that this project and other federal construction will stimulate long sought development along the Martin Luther King, Jr. Avenue.

In 2005, the federal government announced a proposal to transfer approximately 170 acres of federal land to the District. The proposal, approved by Congress, will allow the District to push forward several critical initiatives. These initiatives include a new state of the art hospital in Ward 6, recreational opportunities at Poplar Point, east of

the Anacostia River, restoration of the old Naval Hospital in S.E., and better control of land near the Convention Center.

As part of the agreement, the District will surrender five abandoned buildings on the St. Elizabeth Hospital's campus to the federal government. In addition, the District will relinquish administrative control of a handful of smaller parcels, most of which are already being used as parkland and will not be altered in any way. The transfer has not yet taken place, as plans for environmental remediation of many of the properties must be completed, and funding for the remediation must be made available before the transfers will occur.

The Pentagon's Base Realignment and Closure Commission voted in 2005 to close the Walter Reed Army Hospital (Walter Reed). It is expected that the closure of Walter Reed will occur sometime after 2010, but future uses of the property have not yet been decided. The District is encouraging the federal government to move quickly to turn the property over for productive uses that will benefit the neighborhood, the city and the region. The Walter Reed site encompasses a 73-building complex over 113-acres. Walter Reed has been in operation on Georgia Avenue in N.W. Washington, D.C. since 1909.

Privately Funded Projects

Construction is in its final stages 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 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 early 2008. The Source Restaurant, a nationally branded dining experience operated under Wolfgang Puck has already opened. The two-story restaurant offers a "bar and grill" ambiance and a casual menu on the first floor, and a more leisurely dining experience on the second floor.

Giant Food opened a new store on Alabama Avenue, S.E. on November 30, 2007, at the old Camp Simms site, a former National Guard base. This store is the only full-service supermarket in Ward 8 since a Safeway closed in 1998. The absence of adequate shopping facilities East of

the River, has caused residents to have to travel long distances to obtain goods and services that most D.C. residents could walk to. This lack of adequate shopping alternatives has forced residents to shop at suburban locations, depriving their own neighborhoods of the tax support that is so desperately needed.

Business Improvement Districts

A business improvement district (BID) is organized and established by property and business owners to enhance the economic vitality of a downtown or neighborhood commercial area. The cost of BID services is financed by a self-imposed tax on the businesses within the community. Often, the tax is a surcharge to the real property tax liability of commercial property. The tax is collected by the District and all revenues are returned entirely to the organization managing the BID. Business and property owners control the BID and how funds are spent. BID expenditures are used primarily for purchasing supplemental (e.g. maintenance, sanitation, security and branding activities) and capital improvements (e.g. street furniture and decorative lighting) beyond those services already provided by the city.

Justification for and benefits of a BID:

- Some parts of the District are used more intensively than others, and therefore require additional services.
- Supplemental services are better allocated on a very local level by a special-purpose organization with a thorough knowledge of the service needs.
- BIDs help a district present and maintain a consistent, customer-friendly, and clean public appearance.
- BIDs can work closely with elected officials and District agencies to voice collective concerns, monitor business regulations, and obtain funding and support for business development projects.

Washington, D.C. has the following eight (8) BIDs:

- 1) Adams Morgan Partnership BID
- 2) Capital Hill BID
- 3) Capitol Riverfront BID
- 4) Downtown D.C. BID
- 5) Georgetown BID
- 6) Golden Triangle BID
- 7) Mount Vernon Triangle BID
- 8) NoMa (North of Massachusetts Avenue) BID

Economic Tax Incentives

The District has created two annual sales tax holidays. The first sales tax holiday is in August, to assist families with their Back-to-School purchases, and the second one starts the day after Thanksgiving. These Sales Tax Holidays are available to both residents and non-residents.

The Taxpayer Relief Act of 1997 (PL 105-34) established the District of Columbia's Enterprise Zones. The zones consist of the previously existing enterprise zone communities plus all other census tracts for which the poverty rate is at least 20%. The law also increased the limitation on tax-exempt economic development bonds to \$15 million. It eliminated the federal capital gains tax through December 31, 2007 on business stock, partnership interest, and business property held for more than five years in all census tracts for which the poverty rate is at least 10%. Another incentive to businesses has been the wage tax credit, allowing an employer a 20% credit for the first \$15,000 (or \$3,000) of an employee's wages if that employee is a D.C. resident. The federal Homebuyer Tax Credit provides a maximum \$5,000 income tax credit for first-time buyers of principal residences. The Act was recently extended for purchases closed through December 31, 2007, and made retroactive for all of 2006.

The Tax Parity Act of 1999 created a schedule to lower District taxes on both income and real property by the end of FY 2004. The new tax rates make Washington, D.C. more competitive with the neighboring suburban jurisdictions. The Act streamlined the tax code and eliminated duplications and discrepancies. At the same time, the District moved from a property assessment schedule of every three years to an annual assessment of all properties.

The District uses the Tax Increment Financing (TIF) Program to encourage new economic development projects that may not occur without this program. TIFs are supported by the collection of increased sales and use and real property taxes in the areas associated with each TIF project. Once the TIF notes or bonds are repaid, these tax collections will go into the District's General Fund.

Accounting System

The District's accounting system is organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity, having its own assets, liabilities, equity, revenues, and expenditures/expenses. The types of funds used are determined in accordance with generally accepted accounting principles (GAAP) and the number of funds established within each type is guided by the "minimum number of funds principle" and sound financial administration. Specialized accounting and reporting principles and practices apply to governmental

funds. Proprietary, component units and pension trust funds are accounted for in the same manner as business enterprises.

Measurement Focus and Basis of Accounting

Fund balances in the governmental fund financial statements will generally differ from net assets in the governmental activities of the government-wide financial statements due to the measurement focus and basis of accounting used in the respective financial statements.

- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.
- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.
- The District's financial statements are prepared in accordance with GAAP.

Internal Control

Management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are processed and summarized to allow for the preparation of financial statements in conformity with GAAP.

The internal controls are designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires the application of estimates and judgments by management.

The management of any entity – government, business, or nonprofit organization – is charged with providing the leadership needed for the entity to achieve its purpose. Moreover, management is not free simply to act in any way it chooses to achieve the entity's goals. Rather, management's options and actions are circumscribed by constraints and expectations, both implicit and explicit. Management's responsibilities may be summarized as follows:

- **Effectiveness:** Ultimately, management's success must be judged on the basis of whether the entity is achieving its objectives.

- **Efficiency:** Because there are legitimate and conflicting demands for scarce resources, management is expected to make optimal use of the resources placed under its control. An activity can only be truly efficient if it is first effective.
- **Compliance:** Management does not have unlimited authority over the resources under its control. Rather, management's control over resources normally is limited by policy, law, or regulation, particularly in the public sector. A condition of management's stewardship of resources is that it strictly complies with all such restrictions.
- **Reporting:** Managers must be accountable to those who have provided the resources in their care. An essential part of meeting this responsibility is the regular preparation of financial reports for the benefit of interested parties.

The greatest challenge to effective internal control is ensuring that the control established by management is **comprehensive** – that is, broad enough to fully achieve its intended purpose. It is generally recognized that any truly comprehensive framework of internal control must possess five essential elements. The framework must provide for:

- A favorable **control environment**;
- The **continuing assessment of risk**;
- The design, implementation, and maintenance of effective **control-related policies and procedures**;
- Effective **communication** of information; and
- Ongoing **monitoring** of the effectiveness of control-related policies and procedures, as well as the resolution of any potential problems identified.

The cost of internal control, of course, should never exceed related benefits. Thus, a key limitation on internal control is that cost considerations will prevent management from ever installing a "**perfect**" system. Instead, management will deliberately choose to run certain risks because the cost of preventing such risks cannot be justified.

A second important limitation of internal control is that control-related policies and procedures are potentially subject to management override. That is, if management has the power to establish a control-related policy or procedure, management probably has the ability to override that same policy or procedure.

The risk of collusion is a third limitation of internal control. Often, control-related policies and procedures are designed so that one employee functions as a check on another employee's work (segregation of incompatible duties). Consequently, there is always the risk that employees who are supposed to serve as a check on one another may instead work together to circumvent control.

Budgetary Control

The District maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the D.C. Council and the U.S. Congress. A project-length financial plan is adopted for Capital Projects Funds. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by function within the General Fund. The District also maintains an encumbrance recording system as one technique of accomplishing budgetary control. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Funds.

By law, the budgetary general fund includes both the general fund and the federal and private resources funds. However, for reporting purposes, the federal and private resources fund is reported separately as a special revenue fund. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in Exhibit 2-d differs from the GAAP – basis general fund and federal and private resources fund due to the basis, entity, perspective and timing differences, as follows:

- *Basis Differences* - The District uses the purchases method for budgetary purposes, and the consumption method to account for inventories on a GAAP basis. Under the consumption method, a governmental expenditure is recognized only when the inventory items are used. Under the purchase method, purchases of inventories are recognized as expenditures when the goods are received and transaction is vouchered.
- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those on a GAAP basis for reporting purposes. Such activities primarily include the following as detailed in Exhibit 2-d:
 - Fund balance released from restrictions
 - Proceeds from debt restructuring
 - Accounts receivable allowance
 - Operating cost from enterprise funds
- *Perspective Differences* – Perspective differences exist when the structure of financial information for budgetary purposes differs from the fund structure that is used to construct the basic financial statements. If there were significant budgetary perspective

differences that resulted in the District's not being able to present budgetary comparisons for the District's general fund and major special revenue funds as part of the basic financial statements, then the District would have to present its budgetary comparisons as required supplementary information (RSI). The District does not have any significant budgetary perspective differences, and its *Budgetary Comparison Statement*, Exhibit 2-d, is presented as part of the basic financial statements on page 51.

- *Timing Differences* – Timing differences can exist when there are significant variances between budgetary practices and GAAP, which may include continuing appropriations, project appropriations, automatic reappropriations, and biennial budgeting. The District has no significant timing differences between its budgetary practices and its GAAP presentation of its financial statements. GAAP requires that all jurisdictions recognize property tax revenues when they become available. The “*availability criteria*” means collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. GAAP has determined that this period shall not exceed 60 days. As a result, the District was required to include property tax revenues collected within 60-days of September 30, 2007 as FY 2007 revenues.

The “*District Anti-Deficiency Act of 2002*” (the Act) became effective on April 4, 2003. The Act requires District managers to develop spending projections, by source of funds, on a monthly basis, which show year-to-date spending, approved budget, year-end projected spending, explanations of variances greater than 5%, and in the occurrence of overspending, corrective action plans. Spending projections are required to be submitted to the agency head and the agency chief financial officer (CFO). Summarized spending projections must be submitted to the District's CFO no more than 30-days after the end of each month.

The District's CFO is required to submit reports to the D.C. Council and the Mayor on a quarterly basis indicating each agency's actual expenditures, obligations, and commitments, each by source of funds, compared to their approved spending plan. This report is required to be accompanied by the CFO's observations regarding spending patterns and steps being taken to assure that spending remains within the approved budget.

Congressional mandate required the District to accumulate and maintain an emergency cash reserve equaling 4% of the total budget allocated for operating expenditures by the end of FY 2004. An additional contingency cash reserve was also established, which equaled 3% of the total budget allocated for operating expenditures. The District met both of these requirements. Beginning in FY 2005, the District

is only required to maintain a combined balance of 6% of the general fund expenditures less debt service. The 6% is comprised of a contingency cash reserve of 4% and an emergency cash reserve of 2%.

Cash Management

Generally, cash from all funds of the primary government is combined unless prohibited by law. Any cash that is not needed for immediate disbursement is invested in securities which are essentially guaranteed by the federal government, such as mutual funds consisting of federal government obligations or repurchase agreements collateralized by federal agency obligations.

The Financial Institutions Deposit and Investment Amendment Act of 1997 (D.C. Code 47-351.3) authorized the District to invest in certain obligations that may not be guaranteed by the federal government. Such deposits and investments are fully collateralized with approved securities that are held by the District or by its agent in the District's name.

Bond Rating Agencies

Rating agencies assess credit quality of municipal issuers and assign a credit rating based on their analyses. An acceptable credit rating enables the issuer to access the market. Because the municipal market contains so many issuers, rating agencies provide vital information to investors as to the relative risks associated with rated bond issues. The three primary Rating Agencies that rate municipal debt are: (1) Fitch, IBCA, Inc.; (2) Moody's Investors Service; and (3) Standard and Poor's Rating Service.

The District's bond ratings for the past four years are:

| Bond Rating History | | | | |
|----------------------------|-------------------------------|-------------|-------------|-------------|
| | Last Four Fiscal Years | | | |
| | 2004 | 2005 | 2006 | 2007 |
| S&P | A | A+ | A+ | A+ |
| Moody's | A2 | A2 | A2 | A1 |
| Fitch | A- | A | A | A+ |

Risk Management

The District retains the risk of loss arising out of the ownership of property or from some other cause, except for health care and life insurance benefits for employees.

A liability is established in the government-wide statement of net assets to reflect certain contingencies; however, this amount is not intended to include all assets that may be required to finance losses. Rather, certain losses are recognized in the affected funds when they occur. The District is self-insured for unemployment and disability, also known as worker's compensation, as well as for general liability.

Independent Audit

District law (D.C. Code 47-119) requires an annual financial audit of the District by independent certified public accountants. The audit must be conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* published by the U.S. Government Accountability Office (GAO). The financial statements must be prepared in conformity with Generally Accepted Accounting Principles (GAAP). The District has complied with these requirements and the independent auditors' report is included in the financial section of this report.

The D.C. Office of the Inspector General (OIG) is responsible for selecting the District's Independent Auditor (Auditor), after a thorough review of bids from qualified auditing firms. The winning Auditor is awarded a contract for the Base-Year, with up to Four-Option-Years, if the Auditor continues to meet the standards and criteria established by the OIG in the contract. The Auditor may not succeed itself at the conclusion of its term. The Auditor is responsible for conducting an annual financial audit, which is designed to assure the reliability of the financial statements used in the District's Comprehensive Annual Financial Report (CAFR). The audit is conducted to obtain reasonable assurance about whether the financial statements are free of material misstatement. The goal of the Auditor is to obtain *reasonable* – not absolute - *assurance* that the financial statements are fairly presented.

The definition of the term "*reasonable assurance*" has been changed by GAO to a "*High, but not absolute, level of assurance is expressed as obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud).*" In addition, the Auditor prepares a report, issued in conjunction with the CAFR, on its consideration of the District's internal control over financial reporting and on its tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

U.S. Office of Management & Budget Single Audit

The District is required by the U.S. Office of Management & Budget (OMB) to conduct a financial and compliance audit of all federal awards. OMB Circular A-133 (Revised) outlines these requirements, and sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. This Circular is issued pursuant to the Single Audit Act Amendments of 1996, P.L. 104-156.

All required A-133 Single Audits through fiscal year 2006 have been completed and the District is in full compliance with the Single Audit Act. The results of the District-wide Single Audits are presented in a separate report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District of Columbia for its comprehensive annual financial report for the fiscal year ended September 30, 2006. The District has received this award for twenty-three of the last twenty-five years. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards in the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

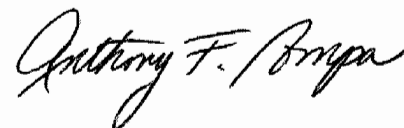
The District also earned an award from GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for fiscal year ended September 30, 2006 for the fourth consecutive year. The PAFR was prepared and submitted by the District for the first time for FY 2003. The PAFR presents the District's financial results in a format and language that are intended to be more easily understood by the general public. The PAFR is not required to present the same level of detail as the CAFR. It contains very few financial statements, and the use of graphics and photos is increased.

Both awards are valid for one fiscal year. The District believes that the FY 2007 CAFR continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate. The District also expects that the FY 2007 PAFR, which will be prepared within 30 days after the CAFR is completed, will conform to the Award for Popular Annual Financial Reporting Program requirements. It will also be submitted to the GFOA to determine its eligibility for another certificate.

Acknowledgments

I would like to thank the hundreds of accounting and financial personnel throughout the District who have cooperated with the Office of Financial Operations and Systems all year. I greatly appreciate their efforts, which have continued to be an important factor in our preparation of this CAFR publication. Most of all, I want to thank my immediate staff, *Michael Covington, Grace Crocker, Larry Daniels, Vanessa Jackson, Bill Slack*, and their respective team members. I am grateful for their dedicated efforts. I would also like to thank the Office of the Inspector General, and the District's independent auditors, *BDO Seidman, LLP*, who was assisted by *Bert Smith and Company, and Thompson, Cobb, Bazilio and Associates* for their efforts throughout the audit engagement.

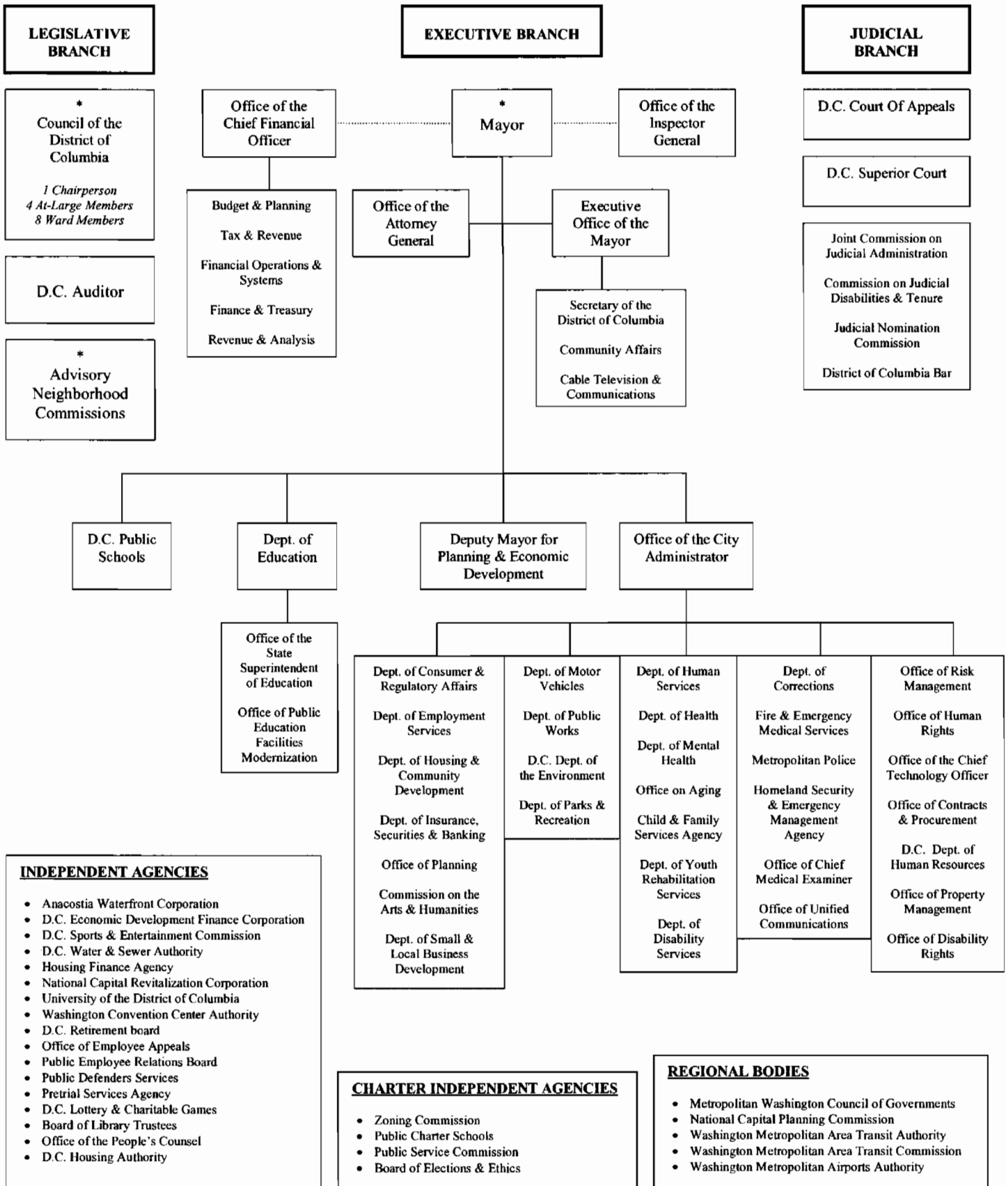
Respectfully submitted,



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

**DISTRICT OF COLUMBIA
PRINCIPAL OFFICIALS
September 30, 2007**

| Name | Position | First Elected or Appointed | Term Expires |
|---------------------------------|--|---------------------------------------|---------------------|
| Chief Executive Officer | | | |
| Adrian M. Fenty | Mayor | 2006 | 2011 |
| Council | | | |
| Vincent C. Gray | Chairman | 2006 | 2011 |
| Carol Schwartz | At Large | 1997 | 2009 |
| David A. Catania | At Large | 1997 | 2011 |
| Phil Mendelson | At Large | 1999 | 2011 |
| Kwame R. Brown | At Large | 2005 | 2009 |
| Jim Graham | Ward 1 | 1998 | 2011 |
| Jack Evans | Ward 2 | 1990 | 2009 |
| Mary C. Cheh | Ward 3 | 2006 | 2011 |
| Muriel Bowser | Ward 4 | 2007 | 2011 |
| Harry Thomas, Jr. | Ward 5 | 2006 | 2011 |
| Tommy Wells | Ward 6 | 2006 | 2011 |
| Yvette M. Alexander | Ward 7 | 2007 | 2011 |
| Marion Barry Jr. | Ward 8 | 2004 | 2009 |
| House of Representatives | | | |
| Eleanor Holmes Norton | Delegate | 1991 | 2009 |
| Executive Officers | | | |
| Dan Tangherlini | City Administrator | | |
| Natwar M. Gandhi | Chief Financial Officer | | |
| Linda Singer | Attorney General | | |
| Tene Dolphin | Chief of Staff | | |
| Victor Reinoso | Deputy Mayor for Education | | |
| Neil O. Albert | Deputy Mayor for Planning and Economic Development | | |
| Stephanie D. Scott, PhD | Secretary of the District of Columbia | | |
| Michelle Rhee | Chancellor for D.C. Public Schools | | |
| Charles J. Willoughby | Inspector General | | |
| Gordan McDonald | Interim Deputy CFO, Budget and Planning | | |
| Anthony F. Pompa | Deputy CFO, Financial Operations and Systems | | |
| Lasana K. Mack | Deputy CFO, Finance and Treasury | | |
| Robert D. Ebel | Deputy CFO, Revenue Analysis | | |
| Sherryl Hobbs Newman | Deputy CFO, Tax and Revenue | | |
| Cyril Byron, Jr. | Associate CFO, Economic Development and Regulation | | |
| Mohamed Mohamed | Associate CFO, Governmental Operations | | |
| George Dines | Interim Associate CFO, Government Services | | |
| Deloras A. Shepherd | Associate CFO, Human Support Services | | |
| Angelique Hayes | Interim Associate CFO, Public Safety and Justice | | |
| Pamela D. Graham | Agency CFO, D.C. Public Schools | | |
| Jeanette A. Michael | Executive Director, D.C. Lottery | | |



* Elected Officials

Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

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



Charles S. Cox

President

Jeffrey R. Emer

Executive Director



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CAFR 2007

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Government of the District of Columbia
Office of the Chief Financial Officer

YEAR ENDED SEPTEMBER 30, 2007

FINANCIAL SECTION



PUBLIC SAFETY



ECONOMIC GROWTH



CHILDREN AND YOUTH



PARKS AND MONUMENTS

INDEPENDENT AUDITORS' REPORT



BDO Seidman, LLP
Accountants and Consultants

1250 Connecticut Avenue, NW, Suite 200
Washington, D.C. 20036
Telephone: (202) 261-3565
Fax: (202) 261-3563

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Government of the District of Columbia** (the District), as of and for the year ended September 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from the District's 2006 financial statements and, in our report dated January 26, 2007, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **Government of the District of Columbia** as of September 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general and federal and private resources funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16, current and former employees of the District are subjects and targets of on-going federal investigations with respect to significant fraud which occurred at the Office of Tax and Revenue. As of the date of this report, the entire scope of the investigations is not known and the ultimate outcome of the investigations cannot presently be determined.

As described in Note 1 to the financial statements, the District's Council exercised the power to dissolve the Boards of the National Capital Revitalization Corporation (NCRC) and the District of Columbia Economic Development Finance Corporation (EDFC) during 2007, which constituted evidence of imposition of will by the District. Because NCRC and EDFC were excluded as component units in the prior year, the 2006 financial statements have been restated to reflect their inclusion as discretely presented component units.



As further described in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in 2007. This statement requires the District to present a statement of plan net assets and a statement of changes in plan net assets for the Other Postemployment Benefit Plan, as well as a schedule of funding progress.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 23 through 43 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, the other supplementary information as presented in the financial section, and the statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statements and schedules described as other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BDO Seidman, LLP

Washington, D.C.
March 31, 2008



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MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

(Dollar amounts expressed in thousands)

This Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial activities of the District of Columbia (the District) for the fiscal year ended September 30, 2007. This discussion and analysis should be read in conjunction with the basic financial statements and the related note disclosures. In addition, it is important to also read the Transmittal Letter, which begins on page 1, in conjunction with the MD&A.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of three components:

- (1) *Government-Wide Financial Statements* - Exhibit 1-a, *Statement of Net Assets*, and Exhibit 1-b, *Statement of Activities* on pages 46 and 47 respectively, present information about the financial activities of the District as a whole. These two statements provide an overall view of the District's finances.
- (2) *Governmental Fund Financial Statements* - Exhibit 2-a, *Balance Sheet – Governmental Funds*, Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, Exhibit 2-c, *Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities*, and Exhibit 2-d, *Budgetary Comparison Statement* on pages 48, 49, 50, and 51, respectively, show the District's financial position at the end of the fiscal year and how governmental activities were financed during the current year.

Proprietary Funds – Exhibit 3-a, *Statement of Net Assets*, Exhibit 3-b, *Statement of Revenues, Expenses, and Changes in Fund Net Assets* and Exhibit 3-c, *Statement of Cash Flows* on pages 52, 53 and 54 respectively, show the changes in financial position and condition of the District's two major proprietary funds, the D.C. Lottery & Charitable Games Board and the Unemployment Compensation Fund, and its one non-major proprietary fund, Nursing Home Services. Proprietary funds account for the activities of District entities that charge customers fees for services provided.

Fiduciary Funds – Exhibit 4-a, *Statement of Fiduciary Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Net Assets* on pages 55 and 56 report activities for which the District acts exclusively as a trustee or agent for the benefit of entities or individuals external to the government.

Discretely Presented Component Units - The District currently has eight (8) component units. The financial data of the component units are reported separately from the financial data of the primary government: Exhibit 5-a, *Discretely Presented Component Units Combining Statement of Net Assets* on page 57 and Exhibit 5-b, *Discretely Presented Component Units Combining Statement of Activities* on page 58.

- (3) *Notes To The Basic Financial Statements* - Present additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements, and can be found on pages 60 through 113.

FINANCIAL HIGHLIGHTS

- In the government-wide analysis, assets exceeded liabilities, resulting in total net assets of \$2,977,667. The total net assets consists of *net assets invested in capital assets*, *net of related debt* of \$1,214,486, *restricted net assets* of \$1,644,856, and *unrestricted net assets* of \$118,325. The total government-wide net assets included \$2,559,328 generated by governmental activities and \$418,339 generated by business-type activities.
- There was an increase of \$469,198 over the previous year in the government-wide total net assets. This increase is attributable to a \$978,732 increase in total assets, which was offset by an increase in total liabilities of \$509,534. The increased collection of taxes and other revenues accounted for the majority of this increase. (See Table 1, *Net Assets as of September 30, 2007* on page 27.)

- The governmental funds reported a combined fund balance of \$2,789,580 which was an increase of \$299,958 over the previous year. The fund balance of the General Fund was \$1,494,000 or 53.6% of the combined fund balances, and represented an increase of \$58,858 over the previous year.
- \$1,135,459 of the General Funds fund balance is reserved for specific purposes: \$309,383 is legally set aside for emergencies and contingencies, and \$326,768 for bond escrow, with \$499,308 reserved for other purposes. \$358,541 of the General Fund's fund balance is unreserved with \$277,299 designated for specific purposes leaving \$81,242 undesignated.
- Total long-term debt related to notes and bonds increased by \$335,238, or 6.5%. There was a net increase of \$366,270 in general obligation debt and a decrease of \$(31,032) in other debt. (Table 4, *Outstanding Bonds and Notes at September 30, 2007*, page 36).

NEW GASB PRONOUNCEMENTS

The mission of the Governmental Accounting Standards Board (GASB) is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports. GASB is one of the authoritative bodies that set accounting, auditing and financial reporting standards for state and local governments.

GASB Statement No. 43

Issued in April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*. This Statement supersedes the interim guidance included in *Statement No. 26, Financial Reporting for Post Employment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach employed in this Statement conforms with the approach adopted in *Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* with modification to reflect variances between pension plans and other post employment benefits (OPEB) plans. Implementation of GASB Statement No. 43 requires footnote disclosures, schedule of funding progress and inclusion in Exhibit 4-a, *Statement of Fiduciary Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Net Assets* for FY 2007.

GASB Statement No. 45

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related assets and liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

GASB Statement No. 45 does not become effective for the District until FY 2008. The District plans to implement this Statement by the effective date.

GASB Statement No. 48

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Governments sometimes exchange an interest in their expected cash flows from specific receivables or specific revenues, for immediate cash payments – generally, a single lump sum. This Statement establishes criteria that governments will use to ascertain whether the proceeds should be reported as revenue or as a liability. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenue, including residual interests and recourse provisions. The requirements in this Statement improve financial reporting by establishing measurement, recognition, and disclosure requirements that apply to both governmental and business-type activities.

GASB Statement No. 48 does not become effective for the District until FY 2008. The District will implement this Statement during FY 2008.

GASB Statement No. 49

On December 1, 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement identifies the circumstances under which a government would have to estimate its expected outlays for pollution remediation, if it knows that a site is polluted. This Statement also requires state and local governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements.

GASB Statement No. 49 becomes effective for financial statements beginning after December 15, 2007, the District's FY 2009. The District will implement this pronouncement prior to its due date.

GASB Statement No. 50

In May 2007, GASB issued Statement No. 50, *Pension Disclosures*. This Statement provides new guidance and modifies the note and required supplementary information (RSI) required for other postemployment benefits (OPEB). The changes for the financial statement of pension plans include a requirement to present a schedule of funding progress as RSI even when a government uses the aggregate actuarial cost method.

GASB Statement No. 50 becomes effective for financial statements beginning after July 15, 2007, the District's FY 2008. This Statement will be implemented during FY 2008.

GASB Statement No. 51

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that intangible assets must possess the following characteristics: (1) lack of physical substance, (2) be non-financial in character, and (3) have an initial useful life extending beyond a single reporting period. The Statement further provides that recognition of intangible assets is only appropriate when they are either separable (e.g. can be sold, transferred, or licensed) or represent contractual or other legal rights, regardless of transferability or separability.

GASB Statement No. 51 becomes effective for financial statements beginning after June 15, 2009, the District's FY 2010. This District plans early implementation of this Statement.

GASB Statement No. 52

In November 2007, GASB issued Statement No. 52, *Land and Other Real Estates Held as Investments by Endowments*. This Statement requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

GASB Statement No. 52 becomes effective for financial statements beginning after June 15, 2008, the District's FY 2009. The District plans implementation of this Statement during FY 2009.

THE DISTRICT'S FINANCIAL CONDITION

The District government's level of financial responsibility and performance can be measured in various ways. Below are some of the indicators of the District's improved financial position and condition:

- The total expenditures for the District were again within budget.
- The General Fund ended the year with a budgetary surplus of \$280,854. After deducting the use of fund balance released from restrictions and other adjustments required by generally accepted accounting principles (GAAP), the non-budgetary or GAAP surplus was \$58,858.
- The accumulated General Fund fund balance at September 30, 2007 was \$1,494,000.

- The required legal debt limitation allows the District to use up to 17.0% of its total revenues for debt service in FY 2007. However, the District's debt service cost was only 6.9% of total revenues, or about 40.6% of the legal limit.
- The District continues to allocate large amounts of funds for infrastructure assets.

Reporting the District as a Whole (Government-Wide Financial Statements)

The District, as a whole, reports all assets and liabilities using the *accrual basis of accounting*. This method of reporting is similar to the accounting method used by most private-sector companies. Under this basis of accounting, all of the current year's financial activities are taken into account regardless of when cash is received or paid. The governmental activities and business-type activities are presented in two separate columns and combined to show totals for the primary government. The *Statement of Net Assets* and the *Statement of Activities* are two statements that present information and activities that help the reader determine the overall financial condition of the District.

The District's current financial resources (short-term disposable resources) are reported along with capital assets and long-term obligations in the *Statement of Net Assets*. 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 total net assets is the sum of three components: 1) *net assets invested in capital assets, net of related debt*, 2) *restricted net assets*, and 3) *unrestricted net assets*. Over time and accounting periods, changes in the District's net assets are indicators of its financial health. However, changes in population, property tax base, infrastructure condition and other non-financial factors must also be considered in assessing the overall financial health of the District.

The *Statement of Activities* presents information showing how the government's net assets changed from the last fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement also include items that will only result in cash flows in future fiscal periods, (for example, uncollected taxes and earned but unused vacation leave).

The *Statement of Activities* summarizes both the gross and net cost of the governmental activities and business-type activities. Governmental activities show the District's basic functional services while business-type activities reflect enterprise operations where fees for services are expected to cover all or most of the costs of operations, including depreciation. Program/functional expenses are reduced by program specific earned revenues, and by grants, that reduce net expenses for governmental and business-type activities. The District's general revenues (property, sales, income and franchise taxes) offset remaining costs, resulting in an increase or decrease in net assets.

Financial Analysis of the Government as a Whole (Government-Wide Financial Statements)

In fiscal year 2007, the combined total net assets increased by \$469,198. This increase is the combination of a governmental activities increase of \$445,302 and a business-type activities increase of \$23,896. See Table 2, *Change in Net Assets as of September 30, 2007*, on page 28. The increased collection of taxes and other revenues, particularly individual income and property taxes, accounted for the majority of this outcome. More efficient use of resources, including better expenditure management, also contributed to this positive result.

Restricted net assets are assets that are subject to use-constraints that are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or, (b) imposed by law through constitutional provisions or by enabling legislation. In FY 2007, total restricted net assets increased by \$309,268, or 23.16%, consisting of an increase of \$282,058, or 28.56%, from governmental activities, and an increase of \$27,210, or 7.82% from business-type activities.

The Lottery and Charitable Games Control Board, an enterprise fund of the primary government, transfers substantially all of its net income to the District at the end of each fiscal year. In fiscal year 2007, the transfer was \$65,376, which was a \$8,424 decrease from last year. Please see Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, on page 53.

Fund balances in the governmental fund financial statements will generally differ from net assets in the governmental activities of the government-wide financial statements due to the measurement focus and basis of accounting used in the respective financial statements.

- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.
- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.

The total net assets of \$2,559,328 in FY 2007 represent an increase of \$445,302 from the FY 2006. The net increase was composed primarily of an increase of \$238,678 in invested in capital assets, net of related debt, and an increase of \$282,058 for other restricted net assets. The increase in net assets was due mainly to a significant increase in property taxes of \$272,327, an increase in income and franchise taxes of \$144,878, and an increase of \$184,280 for other taxes.

Table 1 - Net Assets for the year ended September 30, 2007

| | Governmental activities | | Business-type activities | | Totals | |
|--|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 Restated | 2007 | 2006 Restated |
| Current and other assets | \$ 4,181,473 | \$ 3,811,134 | \$ 489,112 | \$ 473,582 | \$ 4,670,585 | \$ 4,284,716 |
| Capital assets | 6,139,898 | 5,546,741 | 17,211 | 17,505 | 6,157,109 | 5,564,246 |
| Total assets | 10,321,371 | 9,357,875 | 506,323 | 491,087 | 10,827,694 | 9,848,962 |
| Long-term liabilities | 6,416,109 | 5,984,643 | 46,725 | 52,584 | 6,462,834 | 6,037,227 |
| Other liabilities | 1,345,934 | 1,259,206 | 41,259 | 44,060 | 1,387,193 | 1,303,266 |
| Total Liabilities | 7,762,043 | 7,243,849 | 87,984 | 96,644 | 7,850,027 | 7,340,493 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 1,197,275 | 958,597 | 17,211 | 17,505 | 1,214,486 | 976,102 |
| Restricted | 1,269,708 | 987,650 | 375,148 | 347,938 | 1,644,856 | 1,335,588 |
| Unrestricted | 92,345 | 167,779 | 25,980 | 29,000 | 118,325 | 196,779 |
| Total net assets | \$ 2,559,328 | \$ 2,114,026 | \$ 418,339 | \$ 394,443 | \$ 2,977,667 | \$ 2,508,469 |

Table 2 - Change in Net Assets for the year ended September 30, 2007

| | Governmental activities | | Business-type activities | | Total | | |
|--|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 Restated | 2007 | 2006 Restated | Variance |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 334,977 | \$ 325,413 | \$ 288,673 | \$ 295,545 | \$ 623,650 | \$ 620,958 | \$ 2,692 |
| Operating grants and contributions | 2,309,495 | 2,155,035 | 18,358 | 14,825 | 2,327,853 | 2,169,860 | 157,993 |
| Capital grants and contributions | 130,557 | 119,715 | - | - | 130,557 | 119,715 | 10,842 |
| General revenues: | | | | | | | |
| Property taxes | 1,545,325 | 1,272,998 | - | - | 1,545,325 | 1,272,998 | 272,327 |
| Income and franchise taxes | 1,736,361 | 1,591,483 | - | - | 1,736,361 | 1,591,483 | 144,878 |
| Sales and use taxes | 1,056,780 | 1,004,471 | - | - | 1,056,780 | 1,004,471 | 52,309 |
| Other taxes | 800,966 | 668,995 | 90,117 | 95,888 | 891,083 | 764,883 | 126,200 |
| Non tax revenues | 580,845 | 504,389 | 21,936 | 20,031 | 602,781 | 524,420 | 78,361 |
| Total revenues | 8,495,306 | 7,642,499 | 419,084 | 426,289 | 8,914,390 | 8,068,788 | 845,602 |
| Expenses: | | | | | | | |
| Governmental direction and support | 787,392 | 574,097 | - | - | 787,392 | 574,097 | 213,295 |
| Economic development and regulation | 509,874 | 391,203 | - | - | 509,874 | 391,203 | 118,671 |
| Public safety and justice | 1,264,715 | 1,124,896 | - | - | 1,264,715 | 1,124,896 | 139,819 |
| Public education system | 1,589,652 | 1,486,112 | - | - | 1,589,652 | 1,486,112 | 103,540 |
| Human support services | 2,992,805 | 2,967,372 | - | - | 2,992,805 | 2,967,372 | 25,433 |
| Public works | 481,702 | 351,917 | - | - | 481,702 | 351,917 | 129,785 |
| Public transportation | 198,484 | 187,615 | - | - | 198,484 | 187,615 | 10,869 |
| Interest on long-term debt | 281,918 | 269,725 | - | - | 281,918 | 269,725 | 12,193 |
| Lottery and games | - | - | 192,336 | 193,907 | 192,336 | 193,907 | (1,571) |
| Unemployment compensation | - | - | 99,920 | 102,749 | 99,920 | 102,749 | (2,829) |
| Nursing home services | - | - | 37,556 | 35,434 | 37,556 | 35,434 | 2,122 |
| Total expenses | 8,106,542 | 7,352,937 | 329,812 | 332,090 | 8,436,354 | 7,685,027 | 751,327 |
| Special item | (8,838) | - | - | - | (8,838) | - | (8,838) |
| Increase in net assets before transfers | 379,926 | 289,562 | 89,272 | 94,199 | 469,198 | 383,761 | 85,437 |
| Transfer from lottery and games | 65,376 | 73,800 | (65,376) | (73,800) | - | - | - |
| Increase in net assets | 445,302 | 363,362 | 23,896 | 20,399 | 469,198 | 383,761 | 85,437 |
| Net assets - Oct I | 2,114,026 | 1,750,664 | 394,443 | 374,044 | 2,508,469 | 2,124,708 | 383,761 |
| Net assets - Sept 30 | \$ 2,559,328 | \$ 2,114,026 | \$ 418,339 | \$ 394,443 | \$ 2,977,667 | \$ 2,508,469 | \$ 469,198 |

Please refer to Note 1.X – Reconciliation of Government-Wide and Fund Financial Statements, on page 73, for additional information on the differences between the two bases of accounting that the District uses in this Report.

Chart 1 shows various sources of revenues. This chart is a visual presentation of the numbers that were presented in Table 2, *Change in Net Assets* for the year ended September 30, 2007 on page 28.

Chart 1 – Revenues by Source – Governmental Activities

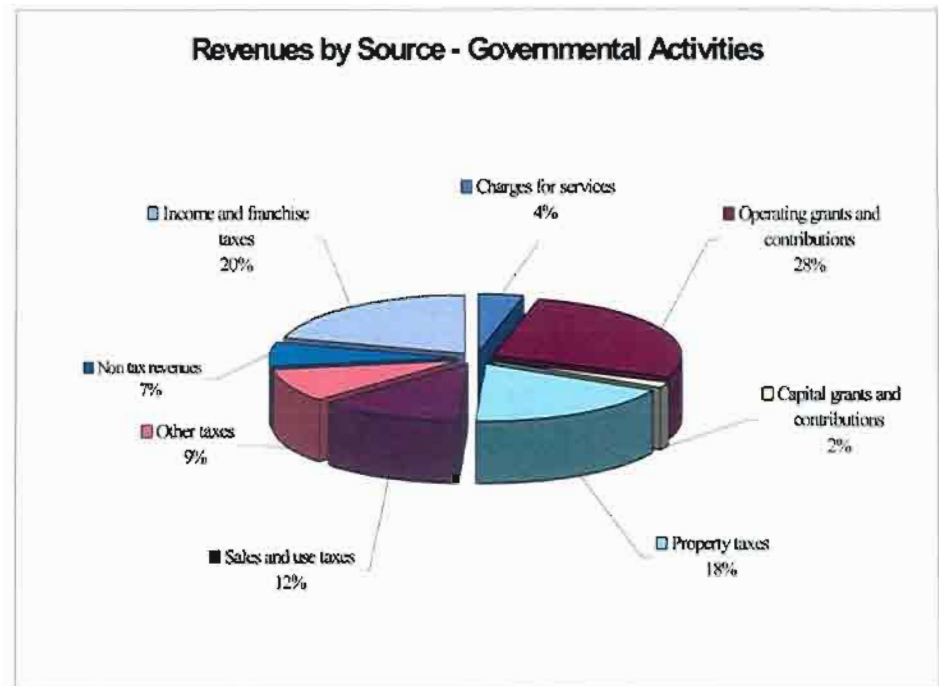
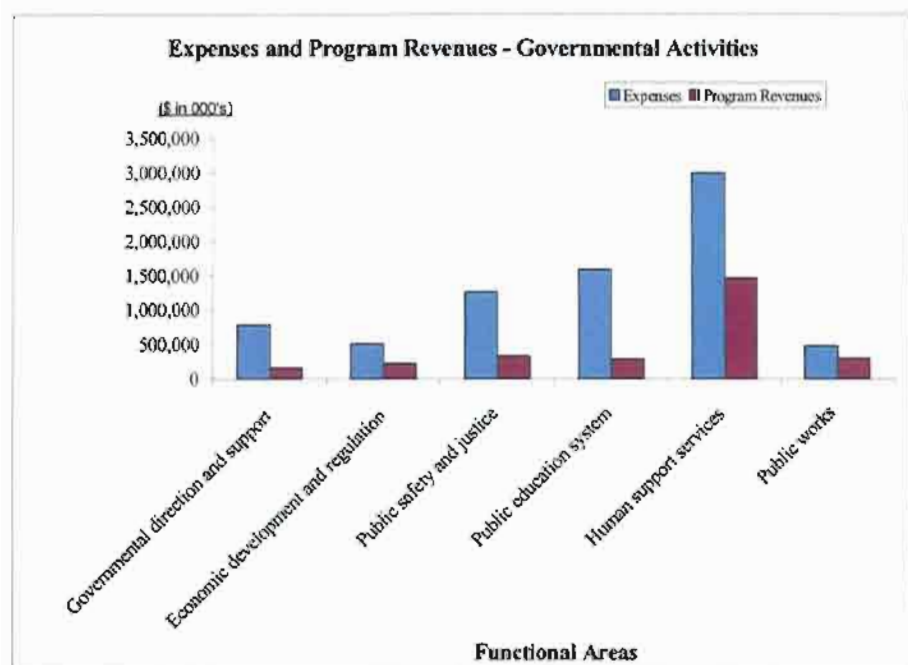


Chart 2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities that are shown are: governmental direction and support, economic development and regulation, public safety and justice, public education system, human support services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

Chart 2 - Expenses and Program Revenues – Governmental Activities



Reporting on the District's Most Significant Funds

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. In accordance with District law, bond covenants, and other legal stipulations, funds are established for specific purposes and to report on the activities related to the goods and services that the District provides to the general public. The District's funds are presented in three categories or groups: governmental, enterprise, and fiduciary.

The focus of the fund financial statements' presentation is on major funds, and not on fund types. Major funds, as required by GAAP, are presented individually with non-major governmental funds combined in a single column. Detailed information for individual non-major governmental funds can be found in 'Other Supplementary Information', Exhibits B-1, *Combining Balance Sheet* and B-2, *Combining Statement of Revenues, Expenditures and Changes in Fund Balances*, pages 126 and 127.

Governmental Funds

The District's governmental funds provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The governmental fund financial statements relate to the governmental activities column in the government-wide statements. The focus is on a shorter-term basis and measures how money flows into and out of these funds and determines the balances left at year-end for future spending.

Most basic services are found in this fund category, which are reported as General, Federal and Private Resources, General Capital Improvements, Baseball Capital Project, and Non-major Governmental Funds. These funds are reported using the *modified accrual basis of accounting*, which measures cash and other financial assets that can be readily converted into cash. Please refer to Exhibit 2-a, *Balance Sheet – Governmental Funds* and Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, pages 48 and 49, for more detailed information about these funds.

- **Fund Balances:** The governmental funds reported a combined fund balance of \$2,789,580, an increase of \$299,958 over the previous year. The components of this combined fund balance are as follows:
 - General Fund - \$1,494,000, an increase of \$58,858 over the previous year.
 - Federal and private resources - \$134,249, a decrease of \$ (27,061) over the previous year.
 - General capital improvements - \$703,763, an increase of \$306,943 over the previous year.
 - Baseball capital project - \$113,042, a decrease of \$(215,539) over the previous year.
 - Nonmajor governmental funds - \$344,526, an increase of \$176,757 over the previous year.
- **Revenues:** The collection of taxes and other revenues increased in FY 2007 due to the continued strength of the Washington, D.C. economy. Revenues of the governmental funds increased by \$854,436. Property taxes, income and franchise taxes, and sales and use taxes continued to show steady increases. Commercial retail and office space growth continued, and commercial vacancy rates remained amongst the lowest in the nation.

On the residential side, longer commuting times, for non-resident employees, have made Washington, D.C. a more attractive place to live. The growth in the wages and salaries of residents contributed to the increase in individual income tax revenue. The increase in the sales and use tax was due to increased retail and hospitality sales, a result of increased individual income and the growth in the number of conventions and visitors.

The primary sources of the increases in General Fund revenues are:

- Property taxes increased by \$310,418.
- Income and franchise taxes increased by \$144,878.
- Other taxes increased by \$217,866.

The increase in real property tax revenue in FY 2007 reflects the strength of the D.C. real estate market two-years prior, since there is a two-year lag between the times when real property value is assessed and when the revenue from the increased assessment is realized. As the demand for residential and commercial real estate has soared in

the last several years, prices have climbed steeply and the result has been higher assessments and increased tax revenue, despite several rounds of tax relief to the residential sector.

The rise in individual income tax revenue, despite another round of tax cuts from the phased implementation of Tax Parity, reflects the strong growth in income of D.C.'s top earners. The largest source of growth was from the non-withholding portion of the income – the portion that is tied closely to stock market returns. This suggests that the strong growth in returns from the financial markets in the previous year was the main driver of the continued growth in the individual income tax.

The growth in miscellaneous revenues was the result of fluctuations in unclaimed property and end of year adjustments resulting from a change in estimates relating to expenditure accruals. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds*, page 49, for more detailed information.

Dedicated Revenues

Every year, some portion of various District revenue streams are dedicated to certain purposes. The dedicated portion of the tax revenues is transferred out of the local fund, and is thus not available for general budgeting. In FY 2007, the District transferred a total of \$456 million in tax revenues out of the local fund budget to fund the projects in Tables 3a and 3b.

Table 3a – Dedicated Local Tax Revenues (\$ in 000's)

| Tax Revenue Source | Dedicated Purpose (Transfer to) | | | | | | | | | |
|-----------------------------|---------------------------------|-----------------|------------------------------|-----------------|-------------------|-----------------|--------------------|---------------------------------------|----------------------|------------------|
| | Gross Collection | TIF | Neighborhood Investment Fund | DDOT | Convention Center | Ballpark Fund | Highway Trust Fund | Nursing Facility Quality of Care Fund | School Modernization | Net Collection |
| Real Property | \$ 1,448,697 | (5,096) | | | | | | | | 1,443,601 |
| Personal Property | 67,395 | | (10,000) | | | | | | | 57,395 |
| Public Space Rental | 32,239 | | | (32,239) | | | | | | - |
| General Sales | 959,968 | (14,205) | | (37,087) | (83,312) | (8,275) | | | (100,000) | 717,089 |
| Motor Fuel Tax | 26,776 | | | | | | (26,776) | | | - |
| Public Utility | 163,792 | | | | | (10,503) | | | | 153,289 |
| Toll | | | | | | | | | | |
| Telecommunications | 59,071 | | | | | (2,285) | | | | 56,786 |
| Healthcare Provider Tax | 12,393 | | | | | | | (12,393) | | - |
| Baseball Gross Receipts Tax | 24,888 | | | | | (24,888) | | | | - |
| TOTAL | \$ 2,795,219 | (19,301) | (10,000) | (69,326) | (83,312) | (45,951) | (26,776) | (12,393) | (100,000) | 2,428,160 |

Table 3b – Dedicated Local Tax Revenues-Housing related (\$ in 000's)

| Housing Related Dedicated Tax | | | | |
|-----------------------------------|------------------|----------|----------------------|--------------------------------|
| Budgetary Dedicated Tax Transfers | Gross Collection | HPTF | Mayor's Housing Fund | Available for General Fund use |
| Deed Recordation | 226,743 | (34,734) | (18,075) | 173,934 |
| Deed Transfer | 152,411 | (23,998) | (12,071) | 116,342 |

Source: Office of Tax and Revenue

- **Expenditures:** The District's expenditures increased in most of its program/functional areas in the total amount of \$692,917 over the previous year. The program/functional areas were led by an increase in governmental direction and support of \$40,354, human support services of \$23,184, the public education system of \$101,684, public safety and justice of \$107,884, economic development and regulation of \$96,417, and public works of \$145,742.

The District spent \$742,499 on general capital improvements which exceeded the general capital improvements revenues of \$199,420 by \$(543,079), resulting in the deficiency shown in the capital projects fund. The District investments in capital improvements are based on need rather than available current year revenues, before considering current year bond proceeds. This deficiency is subsequently financed through a total of \$850,022 of bond proceeds and other financing sources. The net change in the general capital improvements fund balance was an increase of \$306,943 .

The District is rapidly investing in infrastructure and other improvements to encourage residents and businesses to stay in the District and to attract new residents and businesses. Please see Exhibit 2-b, *Statement of Revenues, Expenditures and Changes in Fund Balances*, page 49, for more detailed information.

Listed below are the eight major infrastructure projects undertaken in FY 2007, by costs incurred:

| | | |
|----|--|----------|
| 1) | South Capital Street Bridge over Anacostia River, Design & Build | \$20,746 |
| 2) | Ward 5 Resurface/Reconstruct/Upgrade, Design & Build | \$20,341 |
| 3) | Street Repair and Maintenance, Equipment & Tech. Improvement | \$13,396 |
| 4) | Streetlight Replacement Contract | \$ 8,208 |
| 5) | Preventative Maintenance and Emergency Repairs on Highways & Streets | \$ 7,053 |
| 6) | Traffic Signal Maintenance | \$ 6,150 |
| 7) | Pave/Restore NHS | \$ 5,754 |
| 8) | Rehabilitate South Capital Street Bridge (Fredrick Douglas Bridge) | \$ 5,142 |

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

Proprietary Funds

Proprietary funds account for activities of District entities that charge customers fees for services provided, whether to outside customers or to other entities of the District. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The District currently has two major Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery), and the Unemployment Compensation Fund (Unemployment). There is one non-major proprietary fund, Nursing Home Services, which includes the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and the JB Johnson Nursing Center. See *Chart 3, Expenses and Program Revenues – Business-Type Activities* and *Chart 4, Revenues by Source – Business-Type Activities*, both on page 33, which give a visual comparative presentation of the revenues and expenses of the three funds.

The total assets for Lottery decreased by \$(7,884), or -11.3%, over the previous year due to scheduled disbursements to long-term prize winners. The total assets for Unemployment increased by \$23,837, or 6.1%, due to higher tax collections from employers. The net cash provided by (used in) operating activities for Lottery, Unemployment and non-major proprietary funds (Nursing Services) were \$61,978, \$6,341, and \$(2,050) respectively. See Exhibit 3-a, *Statement of Net Assets – Proprietary Funds*, Exhibit 3-b, *Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds*, and Exhibit 3-c, *Statement of Cash Flows – Proprietary Funds*, on pages 52, 53 and 54 respectively for more detailed information.

Proprietary entities provide goods and services to the general public and use the *full accrual accounting* method for reporting purposes.

Charts 3 and 4 are graphic comparisons based on financial information in Table 2 - Change in Net Assets for the year ended September 30, 2007 on page 28.

Chart 3 – Expenses and Program Revenues – Business-type Activities

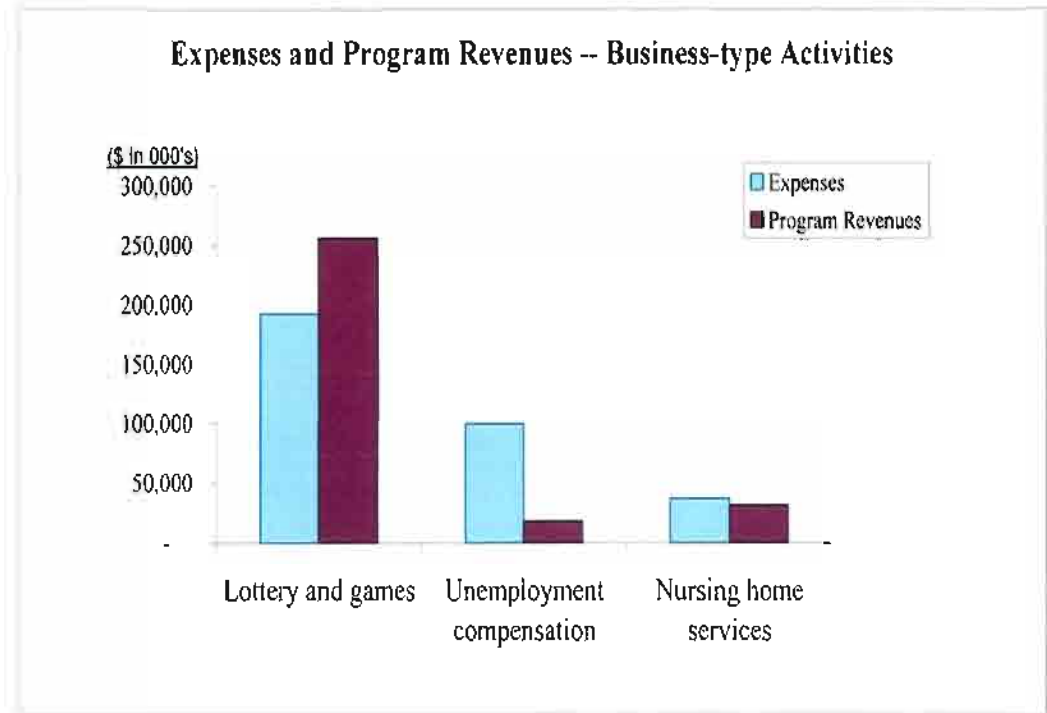
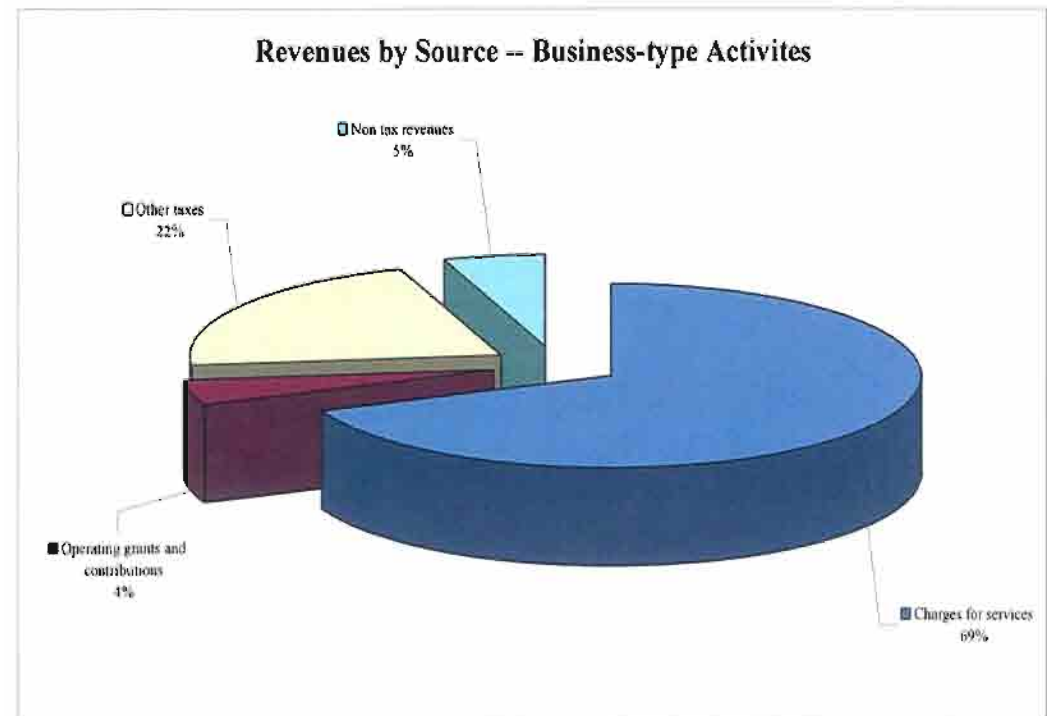


Chart 4 – Revenues by Source – Business-type Activities



Fiduciary Funds

The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. The District is the *trustee or fiduciary* for its employees' pension plans and other post employment benefits. All fiduciary activities are reported in Exhibit 4-a, *Statement of Fiduciary Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Fund Net Assets* on pages 55 and 56, respectively. Please also refer to Exhibit C-1, *Pension Trust Funds – Combining Statement of Fiduciary Net Assets*, Exhibit C-2, *Pension Trust Funds – Combining Statement of Changes in Fiduciary Net Assets* on pages 130 and 131 respectively, for more details. These activities are excluded from the District's financial statements because these resources are restricted and are not available to support the District's operations.

Private-purpose trust funds are used to report any trust arrangement not reported in pension funds or investment trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries which is available to D.C. residents and non-residents. This plan is reported in the Private-purpose trust fund, and was established during FY 2003. Please see Note 1-E, *Fiduciary Funds – Private Purpose Trust Fund* on page 63.

The net assets of the pension trust fund increased by \$782,023. Net investment income is the primary source of the increases as both entities continue to benefit from the improved U.S. equity and non-U.S. equity markets, and from prudent investment management.

The Component Units

The District currently has eight (8) discretely presented component units: (1) Anacostia Waterfront Corporation; (2) District of Columbia Economic Development Finance Corporation (EDFC); (3) Housing Finance Agency; (4) National Capital Revitalization Corporation (NCRC); (5) DC Sports and Entertainment Commission; (6) University of the District of Columbia; (7) Washington Convention Center Authority; and (8) DC Water and Sewer Authority. The Council enacted the Reorganization Clarification Act of 2007 to dissolve the Boards of NCRC and EDFC. The Act vests in the Mayor the right to succeed to the powers, duties, and responsibilities of the Board of Directors of both the NCRC and EDFC. The exercise of the power to dissolve the NCRC and EDFC constituted a prima-facie evidence of imposition of will by the District. Consequently, these two entities are regarded as component units of the District in fiscal year 2007. NCRC and EDFC had previously been treated as related organizations, because the District was not financially accountable for their operations at that time. Component units are legally separate organizations for which the District is financially accountable. Accountability exists because the Mayor, with the consent of the Council, appoints the governing bodies of all of the component units. In addition, the District has an obligation to provide financial support to the Convention Center, and the University of the District of Columbia. Certain tax revenues are dedicated to each of these organizations. The financial data of the component units are reported separately from the financial data of the primary government.

The District also has one blended component Unit: Tobacco Settlement Financing Corporation (Tobacco Corporation). The Tobacco Corporation is a blended component unit because it provides services exclusively to the District.

Each of the component units except NCRC and EDFC, prepares its own independently audited financial statements, which are accompanied by their respective MD&A. Please see Exhibit 5a, *Discretely Presented Component Units - Combining Statement of Net Assets*, page 57, and Exhibit 5b, *Discretely Presented Component Units - Combining Statement of Activities*, page 58, for more detailed financial information on the component units.

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. This need occurs due to the timing variance between the receipt of taxes, grants and other revenues and the outflow of funds for governmental operations and required disbursements. The District issued \$300,000 in Tax Revenue Anticipation Notes (TRANs) on December 21, 2006, at an interest rate of 4.25%, which has been repaid. 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. The FY 2007 TRANs were repaid on September 28, 2007.

Long-Term Debt and Bond Ratings

On June 7, 2007, the District issued its Series 2007A General Obligation Bonds in the principal amount of \$576,475. The proceeds of these bonds will be used to finance capital project expenditures and to pay the costs and expenses of issuing and delivering the bonds. Also, on June 7, 2007, the District issued its 2007B General Obligation Refunding Bonds in the principal amount of \$251,155. The proceeds of these bonds are being used to redeem, or defease, a portion of the District's outstanding general obligation bonds at a savings to the District and to pay the costs and expenses of issuing and delivering the bonds. The 2007A and 2007B bonds, together with other outstanding general obligation bonds and bonds to be issued in the future, are general obligations of the District, secured by the District's full faith and credit, and are further secured by a security interest and lien on the funds derived from a Special Property Tax, and are issued under Section 461 of the Home Rule Act. The 2007A bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.69%. The 2007B bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.47%. Interest payments for the 2007A and 2007B bonds began in December 2007, and will be made each year on June 1st and December 1st until paid off. Principal payments will begin in 2029 for the 2007A bonds and 2016 for the 2007B bonds, and will be made each year on June 1st until paid off. The 2007A bonds and 2007B bonds will mature and be fully paid off on June 1, 2037 and June 1, 2030, respectively.

In May 2007, Moody's Investors Service upgraded the District's general obligation bond rating to "A1" from "A2 (Positive Outlook)". Standard & Poor's maintained the District's general obligation bond rating of "A+" where it has been since it was upgraded from "A" in November 2005. In May 2007, Fitch Ratings upgraded the District's bond rating from "A (Positive Outlook)" to "A+." 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.

The significantly improved bond ratings allow the District to either refinance outstanding debt, or issue new debt, at more favorable rates. In the past, the District's financial and operational difficulties required it to pay substantially higher interest rates on its debt. The District's financial advisors estimate that the effect of the upgrades on the District's recent general obligation bond sale was a savings of approximately 5 basis points, or \$200,000 per year. A basis point is one-percent of a percentage point of interest, or 0.01%. Lower interest rates translate into reduced debt service payments, resulting in a greater percentage of the District's budget being available for the services and operations needed for its citizens.

At September 30, 2007 the District had a total of \$5,515,708 in general obligation bonds, TIF Bonds, Qualified Zone Academy Bonds (QZAB), and Tobacco Bonds outstanding. Please refer to Table 4, *Outstanding Bonds at September 30, 2007*. This is an increase of \$335,238 over last year. General obligation bonds represent 75.1% of the District's outstanding long-term debt. TIF bonds and QZAB represent 2.0% and Tobacco bonds outstanding represent 13.4% of its outstanding long-term debt. In FY 2006, the District issued \$534,800 in Ballpark Bonds to finance the new baseball stadium, of which \$528,490 remains outstanding, or 9.6% of the District's outstanding long-term debt. The District's borrowing has been increasing over the past few years because of the continuing need and demand for improvements in infrastructure, such as roads, streets, and bridges. (Please see *Note 8. Long-Term Liabilities*, pages 89-90 for a more detailed discussion).

The general obligation debt per capita (D.C. resident) as of September 30, 2007 was \$7,038. This is an increase of \$592, or 9.2% over last year. The increase is due to the District's issuance of additional general obligation debt. The debt per capita figure that was given in last year's CAFR for FY 2006 may not correspond to the figure given in this year's CAFR because of adjustments in census estimates. Please refer to Exhibit S-3A, *Ratios of General Obligation Bonds Outstanding – Last Ten Fiscal Years* on page 160.

Table 4 – Outstanding Bonds at September 30, 2007

| Long-Term Debt | | | |
|------------------------------|---------------------|---------------------|-------------------|
| (\$ in 000's) | | | |
| | 2007 | 2006 | Variance |
| General Obligation Bonds | \$ 4,140,133 | \$ 3,773,863 | \$ 366,270 |
| Ballpark Bonds | 528,490 | 534,800 | (6,310) |
| TIF Bonds * | 105,229 | 124,302 | (19,073) |
| Qualified Zone Academy Bonds | 4,787 | 5,221 | (434) |
| Tobacco Bonds | 737,069 | 742,284 | (5,215) |
| Total | \$ 5,515,708 | \$ 5,180,470 | \$ 335,238 |

* FY 2006 included TIF notes and bonds.

Capital Assets

Net capital assets of the governmental activities totaled \$6,139,898, while the net capital assets in business-type activities totaled \$17,211, for a total of \$6,157,109 net capital assets at September 30, 2007. These capital assets include, but are not limited to, land, buildings, police and fire equipment, office equipment, park facilities, roads and bridges. The governmental activities depreciation charges for the current fiscal year totaled \$260,821 compared to last year's \$225,809. The general capital improvements fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants, and or debt. Please see Table 5, *Net Capital Assets*, below for more details.

Total capital assets increased by \$592,863 or 10.7%, over last year. This increase was made up of an increase in governmental activities capital assets of \$593,157 or 10.7% and an decrease in capital assets from business-type activities of \$(294), or -1.7%. Total capital assets are increasing because the District is investing more resources in new and existing rehabilitated infrastructure, such as roads, streets, and bridges. The cost of these assets is being funded primarily by the issuance of debt, and the use of General Fund fund balance. Please see Note 5 - *Capital Assets* for a more complete discussion of the District's capital assets, on pages 83-87.

Table 5 – Net Capital Assets as of September 30, 2007

| Asset Category | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------|-------------------------|---------------------|--------------------------|------------------|---------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 Restated | 2007 | 2006 Restated |
| | Land | \$ 219,920 | \$ 219,938 | \$ 1,264 | \$ 1,264 | \$ 221,184 |
| Buildings | 1,679,673 | 1,701,162 | 13,402 | 14,464 | 1,693,075 | 1,715,626 |
| Infrastructure | 1,884,395 | 1,792,926 | - | - | 1,884,395 | 1,792,926 |
| Equipment | 503,148 | 512,232 | 2,545 | 1,777 | 505,693 | 514,009 |
| Construction in progress | 1,852,762 | 1,320,483 | - | - | 1,852,762 | 1,320,483 |
| Total net capital assets | \$ 6,139,898 | \$ 5,546,741 | \$ 17,211 | \$ 17,505 | \$ 6,157,109 | \$ 5,564,246 |

REPORTING THE DISTRICT'S BUDGET

The District's budget is subject to revision and/or veto by the United States Congress and the President of the United States. As the budget moves through the federal budgetary process, there may be changes in both the amounts and the purposes. In addition, when the District's CFO prepares revised revenue estimates, the budget submission must be adjusted to conform to those revisions. During the Congressional review of the FY 2007 budget, the CFO's revised estimates caused the District to revise its budget submission, before the budget was finally approved. Both federal and District laws require that the District present a balanced budget.

General Fund Budget

The original formulation of the General Fund budget estimated total revenues and other sources at \$5,613,643 and total expenditures and other uses at \$5,611,811. The revised General Fund budget, resulted in estimated total revenues and other sources of \$5,735,277 and total expenditures and other uses of \$5,734,781, resulting in a projected budgetary surplus of \$496. See Table 6, *Fiscal Year 2007 – General Fund Budgetary Highlights*.

Table 6 - Fiscal Year 2007 General Fund Budgetary Highlights

| | Budget | | Actual | Variance with Revised Budget |
|--|------------------|------------------|-------------------|---------------------------------|
| | Original | Revised | | |
| Revenues and Other Sources: | | | | |
| Property taxes | \$ 1,366,247 | \$ 1,421,903 | \$ 1,500,996 | \$ 79,093 |
| Other taxes | 3,109,495 | 3,083,225 | 3,286,775 | 203,550 |
| Charges for services | 333,857 | 337,561 | 423,875 | 86,314 |
| Other sources (O type) | 525,614 | 446,201 | 366,511 | (79,690) |
| All other sources | 278,430 | 446,387 | 208,994 | (237,393) |
| Total revenues and other sources | 5,613,643 | 5,735,277 | 5,787,151 | 51,874 |
| Expenditures and Other Uses: | | | | |
| Governmental direction and support | 433,758 | 432,526 | 366,258 | 66,268 |
| Economic development and regulation | 409,394 | 437,945 | 380,623 | 57,322 |
| Public safety and justice | 943,293 | 977,060 | 961,429 | 15,631 |
| Public education system | 1,223,971 | 1,174,460 | 1,155,629 | 18,831 |
| AY08 public education expenditures | - | 85,047 | 85,047 | - |
| Human support services | 1,423,138 | 1,533,234 | 1,512,702 | 20,532 |
| Public works | 405,318 | 447,792 | 429,971 | 17,821 |
| Other | 772,939 | 646,717 | 614,638 | 32,079 |
| Total expenditures and other uses | 5,611,811 | 5,734,781 | 5,506,297 | 228,484 |
| Excess -- budgetary basis | \$ 1,832 | \$ 496 | \$ 280,854 | \$ 280,358 |

General Fund Budgetary Highlights – Original to Revised Budget

The adjustments necessary to bring the expenditure budget into agreement with the revised revenue budget account for the differences between the proposed General Fund budget and the final amended budget. Total estimated revenues were increased by \$121,634 and total estimated expenditures were increased by \$122,970. The projected General Fund budgetary basis surplus was decreased from \$1,832 to \$496, as a result of the revisions. The major changes in the budget are summarized as follows:

Revenues

- Property taxes increased by \$55,656.

- Other sources (O Type) decreased by \$(79,413).
- All other sources increased by \$167,957.

Expenditures

- The advance of Appropriation Year 2008 budget in the amount of \$85,047 for public education expenditures, to ready the public schools for the new school year which began prior to the District's fiscal year.
- Human support services expenditures increased by \$110,096.
- Other, which represents various nonfunctional expenditures on a budgetary basis decreased by \$(126,222).

FY 2007 Original Budget to Revised Budget Revenue Variances

The \$55.7 million (4%) increase in the revenue estimate for **real property tax** between the original and revised budget reflects adjustments that were made to the real property tax estimate based on first billing receipts that became available after the original estimate was made. Although assessed values are known at the time the original estimate is made, actual real property tax receipts reflect adjustments to the assessed values from successful appeals (which are not known at the time that the original estimate is made). Data from first billing receipts are therefore used to make a more accurate estimate.

The revenue estimate for the **individual income tax** was adjusted downward by \$26.2 million (2%) as data on revenue collections through March 2007 showed slower than expected growth in withholding collections.

The revenue estimate for the **general sales and use tax** was revised downwards by \$37.2 million (5%) after data on cash collections and the final tally of revenues for FY 2006 showed sharp slowing in sales tax growth for FY 2006. There were also signs of weakness in the hospitality sector. In the three (3) month period ending August 2006, the hotel occupancy rate was down 5.1 percent from a year ago.

The revenue estimates for the **business income taxes** (corporation franchise and unincorporated business taxes) were revised upwards by a total of \$68.8 million (19%), a \$33.6 million increase for the corporation franchise tax and a \$35.2 million increase for the corporate income tax. There were two reasons for the upward revision in the business income taxes: (1) The final tally of revenue for FY 2006 showed that business income tax cash receipts grew 14 percent over the previous year compared to a forecast of 11 percent and (2) data on revenue collections through March 2007 showed faster than expected growth in the business taxes.

The revenue estimates for **deed recordation and transfer taxes** were lowered by a total of \$106.7 million (27%) as data and forecasts throughout the year pointed to a cooling DC real estate market. By the time the revised revenue estimate was completed in May 2007, data from the previous year showed that:

- In the third quarter of 2006, housing sales (including both single family and condos) were down 15.2 percent from a year ago and prices were up just 0.4 percent. Single family sales were down more than condo sales, but single family prices were up 5.9 percent while condo prices were down 2.8 percent
- D.C. office vacancy rates remained low at 6.2 percent, the lowest in the D.C. metropolitan area and among the lowest nationally, but the value of office sales had declined 25 percent in FY 2006 compared to FY 2005.

The revenue estimate for the **estate tax** was increased by \$35.5 million (177%) between the original and revised estimate as data on cash collections at the time of the revised estimate showed that revenue collections from this source was much stronger than anticipated. Revenue from estate tax is notoriously volatile because revenue flows depend on the number of deaths of persons with taxable estate in the District as well as the value of estates, which in turn is tied to the real estate market and the volatile financial market.

The revenue estimate for the **economic interests tax** was increased by \$44.1 million (551%) between the original and revised estimate to be consistent with the much stronger than anticipated collections from this source data after reviewing cash collections reports. Like the estate tax, receipts from the economic interests tax are very volatile because it depends on volume and value of transactions in the real estate investment trust markets (REITs), which is volatile.

FY 2007 Original Budget to Revised Budget Expenditure Variances

The \$110,096 increase for Human Support Services (HSS) was caused primarily by five items: (1) the Department of Human Services (DHS) was increased by \$34,822; (2) the Department of Health (DOH) was increased by \$27,257; (3) the Medicaid Reserve was increased by \$26,927; (4) the Department of Mental Health (DMH) was increased by \$14,718, and (5) the D.C. Energy Office was decreased by \$(12,848). The largest increase for DHS was the result of a \$29,530 increase from the FY 2006 Operating Cash Reserve. The increase for DOH was primarily the result of a \$10,987 from FY 2006 Operating Cash Reserve and \$11,139 from additional certified revenues. The DMH increase was entirely due to two items: (1) an increase of \$10,155 from additional certified revenues, and (2) \$4,563 allocated from Workforce Investments for salary increases. The decrease for the Energy Office was as a result of transferring the entire office to the new Department of the Environment.

The \$85,047 AY 2007 Advance for Public Education represents the expenditure of the appropriations for AY 2008 in FY 2007. The FY 2007 D.C. Appropriations Act requires that the advance appropriations be provided on July 1, 2007, based on 10% and 25% of the FY 2007 Proposed Budgets for the D.C. Public Schools and the D.C. Public Charter Schools, respectively. When Congress approves the District's budget for the current fiscal year, it does not know the proposed funding level for the next fiscal year. As such, the advance appropriations are not included in the District's Original Budget. The advance appropriations are not known until July 1, and are then made a part of the District's Revised Budget.

The \$42,474 increase for Public Works was primarily the result of: (1) an increase of \$9,173 for the Department of Public Works (DPW), (2) an increase of \$13,578 for the Department of Transportation (DOT) and (3) an increase of \$19,583 for the Department of the Environment (DOE). The DPW increase was primarily a result of an increase of \$4,000 from a Workforce Investment allocation for pay increases and \$5,000 in a reprogramming from the Office of the Chief Financial Officer. The DOE increase was mainly the result of the transfer of the entire \$12,848 budget of the D.C. Energy Office from the Department of Human Service to DOE and a \$5,050 transfer from Storm Water.

The \$33,767 increase for Public Safety and Justice was made up principally of: (1) the \$16,443 increase for the Metropolitan Police Department (MPD); (2) a \$10,472 increase for the Department of Corrections (DOC); and (3) a \$4,969 increase in Fire and Emergency Services. The MPD increase was the result of several changes, mainly: (1) a \$10,500 increase for tax triggered expenditures; (2) an allocation of \$6,675 from Non-Departmental for the hiring of additional police employees; (3) a \$998 allocation from Workforce Investments for pay increases; (4) a \$5,971 increase in the Mayor's crime initiative program, and (5) \$(8,001) in decreases in various reprogrammings to other agencies. The DOC increase was due to reprogrammings of \$2,000 from the Repayment of Loans and Interest, less \$500 to the Department of Health for fixed costs, and various Non-Departmental allocations totaling \$8,972.

The \$28,551 increase for Economic Development and Regulation was primarily the result of: (1) a \$12,098 increase for the Office of the Deputy Mayor for Business Services and Economic Development (BSED); (2) a \$8,054 increase for the Department of Housing and Community Development (DHCD); (3) a \$14,887 increase for the Department of Employment Services (DOES), and (4) a \$15,007 decrease for the Housing Production Trust Fund Subsidy (HPTFS). The BSED increase was due mainly to a \$6,480 increase from Master Lease and \$3,500 from PAYGO. The DHCD increase was due mainly from the reprogramming for the Home Loans program from the HPTFS. The reduction in the HPTFS is due primarily to a reprogramming of \$8,000 of the Home Loans program to DHCD, and a \$7,007 reduction in appropriation to the level of dedicated deed recordation and deed transfer taxes to be transferred to the Housing Production Trust Fund Special Revenue Fund.

The \$(49,511) decrease for Public Education was composed primarily of two items: 1) an increase of \$8,299 for the D.C. Public Schools and 2) a decrease of \$(66,421) for Public Charter Schools. Of the \$(66,421) decrease for Public Charter Schools, the net decrease reflects a reprogramming of \$(16,900) and the FY 07 budget advanced and expended in FY 2006 \$(58,400). Partly offsetting these decreases is an allocation from the Public Charter School Educational Investment fund of \$3,110. The advance appropriations for the AY 2008 Public Charter Schools were not included in the June budget submission to the U.S. Congress. The proposed budget for FY 2008, upon which the advance appropriations is based, was not developed at the time of the current fiscal budget submission to Congress.

The \$(126,222) decrease for "Other" was made up of five major items; (1) a decrease of \$(49,500) for the Cash Reserve; (2) a decrease of \$(30,627) for Workforce Investments; (3) a decrease for Non-Department of \$(44,996), and (4) a decrease of \$(21,927) for Equipment Lease Operating. These four items total \$(147,050), which was offset by net \$20,828 increase in other items. The change in the Cash Reserve was a result of the increase in allocation by the D.C. Council to various agencies to fund spending pressures and/or policy initiatives. The decrease in the budget for workforce investments reflects \$(30,627) in allocations to various agencies to cover pay raises.

FY 2007 Revised Budget to Actual Revenue Variances

The **real property tax**, with a positive variance of \$79 million, has the second largest variance, in absolute terms, of any revenue source. This is partly because it is the largest source of revenue so that even with a percentage variance less than 10%, the absolute magnitude of the variance is large. Real property assessments are generally known at the time of the estimate with two exceptions: 1) reductions to assessments from appeals to the Board of Real Property Assessments and Appeals; and 2) supplemental assessments made to capture higher assessments from new construction and renovations. For FY 2007, reductions in assessments from appeals was higher than estimated, but this was more than offset by higher than estimated supplemental assessments, resulting in the observed positive variance.

The **individual income tax**, with a positive variance of \$103.5 million, has the single largest variance, in absolute terms, of any revenue source. Like the real property tax, this is partly because it is the second largest source of revenue so that even with a percentage variance of less than 10%, the absolute magnitude of the variance is large. In May, when data was not yet available, the revised estimate was made on the non-withholding components of the tax (especially final payments and refunds) which can swing the individual income tax into the red in a bad year. At that time, the monthly collections data showed slowing growth in the withholding component. Preferring to err on the side of caution, we made a fairly conservative estimate. The final collections data showed that even though growth in the withholding component of the individual income tax was flat, the net of the non-withholding components (declarations plus final payments, plus fiduciary and less refunds) grew significantly more than forecast, resulting in the large observed variance.

The positive variances of \$49.6 million (28%) for the **deed recordation tax** and \$38.3 million (34%) for the **deed transfer tax** are due to better than expected performance of the District's real estate market despite a nationwide slowdown in housing. Revenue from deed recordation and transfer tax depends crucially on the value of transactions in the real estate market. This means that, unlike the real property tax where the revenue depends only on the price changes through the assessment process, the deed taxes revenue depends both on the price and the value of transactions. At the time the revised estimate was completed, total value of real estate transactions for the first quarter of calendar year 2007 was down almost 9% from the same quarter of the previous year. Given the considerable state of uncertainty with respect to the D.C. real estate market at the time, prudence required that our estimate of deed taxes collection be conservative. The DC real estate market held up better than expected and deed taxes collection was stronger than expected.

The **economic interests tax** is paid when owners of real estate assets sell their ownership interests in assets rather than the property itself. Revenue from the economic interest tax fluctuates from year to year because most of the revenue from this tax is generated from activity in the real estate investment trusts (REITs) market which, like financial markets, are inherently difficult to predict. In FY 2007, there was a one time large sale of interests in DC real estate holdings, generating a huge payment of economic interests. We believe that this one time sale explains most, if not all, of the \$12.7 million (24%) variance between the actual and revised estimate.

Most of the positive variance of \$88.1 million for the **miscellaneous** category is attributed to higher than expected revenues from **Interest Income and Unclaimed Property**. About \$40.7 million, or nearly half, of the total variance in this category is attributable to higher than expected revenue from Interest Income. Two major bond issuances were responsible for the higher than expected revenue from interest income: (1) issuances associated with tobacco bonds and (2) issuances related to the Certificate of Participation (COP) (St. E's) program. Although it is generally known at the time that the revenue estimate is made that these issuances will occur sometime during a given calendar year, it is difficult to determine beforehand the exact timing of the issuance—whether it will fall within one fiscal year or the other (two fiscal years overlap with a given calendar year). So prudent revenue estimating requires that we do not factor these into the estimate. The bulk of the remaining positive variance is due to higher than expected revenue from Unclaimed Property. The higher Unclaimed Property revenue is due primarily to an unexpected appreciation of stock and new stock received from demutualization of insurance companies that occurred in March of 2007. There was also an unexpected influx of unclaimed funds from District of Columbia agencies.

FY 2007 Revised Budget to Actual Expenditure Variances

Total expenditures and uses were under budget by \$228,484 for FY 2007. The two largest expenditure variances for FY 2007 were for governmental direction and support of \$66,268 and \$57,322 for economic development and regulation. The Office of the Mayor accounted for \$46,380 of the \$66,268 decrease for Governmental Direction and Support.

Economic Development and Regulation expended \$57,322 less than budgeted. Within Economic Development and Regulation, the majority of the variance was caused by: (1) the \$26,242 variance within Business Services and Economic Development (BSED), (2) a \$13,205 variance within the Department of Housing (DHCD), and (3) the \$8,955 variance within the Department of Employment Services (DOES). The majority of the DHCD variance of \$10,724 was caused by the revenue estimates for the Housing Strategy Task Force Fund that was reduced mid-year. This variance represents budget authority that was above actual collections that the agency could not use. The DHCD variance is largely attributable to the agency not using budget authority in the Home Purchase Assistance Program (HPAP) Repayment Account. This was also done to preserve the HPAP Repayment fund balance for use in 2008 and beyond.

The DOES variance was primarily the result of a supplemental budget increase of \$10,597 to implement the Mayor's Summer Youth Program enhancement in addition to a few minor budget decreases. This new initiative prolonged the Summer Youth program from the original six-weeks that was originally budgeted to 10-weeks. It also required the agency to provide jobs for all applicants, as opposed to the 11,000 participants that were budgeted.

FY 2007 to FY 2006 Actual Revenue Variances

The \$291.5 million (25%) FY 2007 increase in **real property tax** over the previous year reflects an increase in real property prices over the last several years. 2005 was the peak year for property price appreciation. Property tax assessments lag behind the increases in real property values, and when real property values are becoming somewhat stagnant, property taxes will continue to increase, unless there is a significant reduction in real property values.

Although gross **sales and use tax** revenue for FY 2007 actually grew over 9%, the revenue net of transfers is down \$58.3 million (8%) over the previous year primarily because of the first year implementation of School Modernization.

The relatively strong growth of \$80.2 million (7%) in the FY 2007 **individual income tax** revenue over the previous year was due to the strong performance of the non-withholding part of the income tax (estimated payments, final payments, refunds); returns from the non-withholding portion is closely related to the financial market returns of the previous year and the financial markets did exceptionally well in 2006. The withholding portion of the tax was actually flat.

The relatively strong growth of \$40.2 million (19%) in the FY 2007 **corporate franchise tax** revenue over the previous year, although a slowdown from the growth of the past few years, is consistent with the strong growth in corporate profits that was seen over the last several years.

The FY 2007 revenue for the **unincorporated business (UB) tax** grew \$24.4 million (17%) over the previous year. The UB tax is collected primarily from real estate businesses and to a large extent reflects the fortunes of those businesses. As the DC real estate market boomed so did collections from this revenue source. As the real estate market slows, so does the revenue from the UB tax. Still, even with the slowing in the real estate market, FY 2007 revenue from the UB tax managed to grow at a double-digit growth rate.

The variance analysis showing a \$57.7 million (34%) increase in FY 2007 revenue over the previous year for the **deed recordation tax** and a \$38.9 million (34%) increase for the **deed transfer tax** is misleading. This is because the analysis compares FY 2007 figures, which is gross of transfer to the Housing Production Trust Fund (HPTF) to FY 2006 figures, which is net of the HPTF. When the HPTF transfers are added to the FY 2006 figures, the FY 2007 increase over the previous year for the deed recordation tax is \$28.5 million and \$19.1 million for the deed transfer tax. The increase is due primarily to an increase in the tax rate from 1.1% to 1.45% in FY 2007. Adjusting the FY 2007 figures for the rate increase shows both deed taxes falling by 13%, consistent with the slowdown in the real estate markets.

The FY 2007 \$24.1 million (80%) increase in the **inheritance and estate tax** revenue over the previous year is due mainly to an increase in value of estates tied to the financial and real estate markets.

The FY 2007 revenue from the **economic interests tax** grew \$34.5 million (114%) over the previous year because of unusually high activity in the market for real estate investment trusts (REITs) and, in particular, because of a one time large sale of interests in DC real estate holdings, generating a huge payment of economic interests.

FY 2007 to FY 2006 Actual Expenditure Variances

The net increase of \$128,861 in Economic Development and Regulation expenditures was caused primarily by: (1) a \$105,411 increase in the Housing Production Trust Fund Subsidy; (2) a \$35,879 increase in Business Services and Economic Development; (3) an increase of \$21,463 in the Department of Employment Services, and (4) a decrease of \$(45,842) in the Department of Housing and Community Development.

Human Support Services expenditures increased by \$123,127. This increase was caused primarily by: (1) a \$60,328 increase in the Department of Health; (2) a \$26,927 increase in Medicaid Reserve; (3) a \$15,352 increase in Child and Family Services, and (4) a \$13,628 increase in the Department of Human Services. The Department of Health variances were caused primarily by two items: (1) a \$28,900 increase in the District's Disproportionate Share payment, coupled with increased utilization of services, and (2) a \$25,500 increase as a result of increased enrollment in the D.C. Healthcare Alliance Program.

The increase of \$69,973 in expenditures for the Public Education System was caused primarily by: (1) a \$35,999 increase for Public Charter Schools; (2) a \$13,970 increase in the AY08 Public Charter School Advance Appropriation and (3) a \$7,848 increase for the D.C. Public Library. The Public Charter Schools variance was caused by an increase in actual student population from 17,343 in FY 2006 to 19,522 students in FY 2007, or 2,179 additional students. Per pupil funding for both residential and non-residential students was increased. These two factors accounted for the entire variance.

The Public Safety & Justice variance of \$66,681 was caused primarily by: (1) a \$22,600 variance for the Police and Firefighter's Retirement System; (2) a \$15,547 variance for Fire and Emergency Services; (3) a \$12,543 variance for the Metropolitan Police Department, and (4) a \$11,924 variance for the Department of Corrections.

The Public Works expenditure increase of \$66,173 was caused primarily by: (1) a \$26,942 increase for the Department of Environment; (2) a \$15,165 increase for the Department of Transportation; (3) a \$13,026 increase for the Department of Public Works, and (4) a \$10,869 increase for Mass transit Subsidies.

Expenditures for Government Direction and Support increased by \$32,711. This net increase was caused primarily by: (1) a \$13,958 increase for the Office of the Chief Financial Officer; (2) a \$13,653 increase for the Office of the Attorney General; (3) an increase of \$10,154 for the Department of Property Management, and (4) a decrease of \$(8,375) for the Office of the Chief Technology Officer.

The Finance and Other Uses decrease of \$(245,083) was caused primarily by: (1) a decrease of \$(133,300) for the District Retiree Health Contribution, and (2) a decrease of \$(146,162) for PAY-Go Capital. In FY 2006, the District funded Other Post Employment Benefits, in the amount of \$138,000. This was done to make sure that sufficient funds were placed in a trust account while the District had a large General Fund fund balance. These post-employment benefits are earned by District employees while they are employed and paid out during retirement. A new accounting pronouncement requires all state and local governments to fund these benefit liabilities as they are earned, instead of on a "pay as you go" basis. This change was made to more closely reflect the costs of employees' benefits in the year in which they are earned, giving a more accurate representation of the fiscal and financial health of municipal governments. The District is required to make an annual contribution for OPEB that equals the liability that is attributable to that year. The FY 2007 OPEB contribution was only \$4,700.

SUBSEQUENT EVENTS

Short-Term Debt

The District issues short-term debt to finance seasonal cash flow needs. This need occurs due to the timing variance between receipts of taxes, grants and other revenues and the outflow of funds for governmental operations and other required disbursements. On December 21, 2007, the District issued fixed-rate Tax Revenue Anticipation Notes in the aggregate amount of \$300,000. These Notes were issued at an interest rate of 4.00% and priced to yield 3.13%, and are to be paid off

on September 28, 2008. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year of issuance.

Long-Term Debt

On December 19, 2007, the District issued its Series 2007C General Obligation Bonds in the principal amount of \$333,840. The proceeds of these bonds will be used to finance capital project expenditures and to pay the costs and expenses of issuing and delivering the bonds. The 2007C bonds, together with other outstanding general obligation bonds and bonds to be issued in the future, are general obligations of the District, secured by the District's full faith and credit. These bonds are further secured by a security interest and lien on the funds derived from a Special Property Tax and are issued under Section 461 of the Home Rule Act. The 2007C bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.38%. The maturity of the 2007C bonds is June 1, 2033.

Special Item – Property Tax Refund Fraud

On November 7, 2007, federal authorities announced the arrest of two Office of Tax and Revenue (OTR) employees in connection with an alleged misappropriation of District funds by issuing fraudulent real property tax refund checks. The investigation into the size, scope and duration of the OTR fraud is continuing, and the District is fully cooperating with federal authorities. Although only two employees are currently believed to have actively participated in the fraud, to date fifteen OTR employees have resigned or been terminated. During FY 2007, the approximate amount alleged to have been stolen amounted to \$8.8 million. That amount has been reflected in the District's financial statements as a special item. An entry was made for this amount, to increase real property tax revenue and to create an offsetting account, Real Property Tax Loss. There will be no impact on cash and General Fund fund balance, as the amounts involved have already been reflected in those prior year financial statements. Any assets that are recovered from the participants of the OTR fraud will be reflected in the District's financial statements as Real Property Tax Loss Recovery Receivable. It is impossible to estimate that amount until a detailed inventory of seized assets becomes available, and its liquidated value is determined.

CONTACTING THE DISTRICT'S OFFICE OF THE CHIEF FINANCIAL OFFICER

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

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



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BASIC FINANCIAL STATEMENTS

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

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

Exhibit 1-a

District of Columbia
Statement of Net Assets
September 30, 2007
(With Comparative Totals at September 30, 2006)
(\$000s)

| | Primary Government | | | | Component Units |
|---|----------------------------|-----------------------------|---------------------|---------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Totals | | |
| | | | 2007 | 2006 Restated | |
| ASSETS | | | | | |
| Cash and cash equivalents (unrestricted) | \$ 602,923 | \$ 18,224 | \$ 621,147 | \$ 392,825 | \$ 260,878 |
| Investments (unrestricted) | - | 7,277 | 7,277 | 8,279 | 84,935 |
| Accrued interest receivable, net | 116 | - | 116 | 108 | - |
| Due from federal government | 415,716 | - | 415,716 | 440,001 | 19,827 |
| Taxes receivable, net | 288,700 | - | 288,700 | 274,748 | - |
| Accounts receivable, net | 151,851 | 17,524 | 169,375 | 240,898 | 50,094 |
| Other receivables | - | - | - | - | 33,427 |
| Due from primary government | - | - | - | - | 64,037 |
| Due from component units | 10,003 | - | 10,003 | 8,536 | - |
| Due from fiduciary funds | 57,482 | - | 57,482 | - | - |
| Internal balances | 11,043 | (11,043) | - | - | - |
| Inventories | 17,113 | - | 17,113 | 14,623 | 7,260 |
| Other current assets | 3,435 | 729 | 4,164 | 24,560 | 822 |
| Cash and cash equivalents (restricted) | 2,427,863 | 405,244 | 2,833,107 | 2,443,553 | 468,556 |
| Investments (restricted) | - | 51,157 | 51,157 | 329,780 | 881,083 |
| Other long term assets | 113,961 | - | 113,961 | 21,625 | 581,332 |
| Deferred charges | 81,267 | - | 81,267 | 85,180 | - |
| Depreciable capital assets, net | 4,067,216 | 15,947 | 4,083,163 | 4,022,561 | 2,597,709 |
| Non-depreciable capital assets | 2,072,682 | 1,264 | 2,073,946 | 1,541,685 | 670,298 |
| Total assets | 10,321,371 | 506,323 | 10,827,694 | 9,848,962 | 5,720,258 |
| LIABILITIES | | | | | |
| Accounts payable | 624,418 | 30,665 | 655,083 | 616,779 | 89,657 |
| Compensation payable | 119,530 | 2,304 | 121,834 | 147,950 | 23,972 |
| Due to primary government | - | - | - | - | 10,003 |
| Due to component units | 64,037 | - | 64,037 | 20,535 | - |
| Due to fiduciary funds | - | - | - | 2,809 | - |
| Unearned revenues | 284,220 | 149 | 284,369 | 217,668 | 51,516 |
| Accrued liabilities | 175,408 | 7,809 | 183,217 | 201,438 | 34,950 |
| Accrued interest payable | 66,365 | - | 66,365 | 60,506 | - |
| Other current liabilities | 11,956 | 332 | 12,288 | 35,581 | 158,844 |
| Long-term liabilities: | | | | | |
| Due within one year | 406,177 | 8,631 | 414,808 | 380,606 | 136,661 |
| Due in more than one year | 6,009,932 | 38,094 | 6,048,026 | 5,656,621 | 3,524,761 |
| Total liabilities | 7,762,043 | 87,984 | 7,850,027 | 7,340,493 | 4,030,364 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 1,197,275 | 17,211 | 1,214,486 | 976,102 | 1,174,207 |
| Restricted for: | | | | | |
| Expendable | | | | | |
| Debt service | 343,590 | - | 343,590 | 262,640 | - |
| Benefit payments | - | 375,148 | 375,148 | 347,938 | - |
| Capital projects | - | - | - | 36,597 | - |
| Grants and contributions | 118,838 | - | 118,838 | 161,310 | - |
| Emergency reserves | 309,383 | - | 309,383 | 293,649 | - |
| Other | 497,897 | - | 497,897 | 233,454 | 228,445 |
| Nonexpendable | - | - | - | - | 7,242 |
| Unrestricted | 92,345 | 25,980 | 118,325 | 196,779 | 280,000 |
| Total net assets | \$ 2,559,328 | \$ 418,339 | \$ 2,977,667 | \$ 2,508,469 | \$ 1,689,894 |

The accompanying notes are an integral part of this statement.

District of Columbia
Statement of Activities
For the Year Ended September 30, 2007
(With Comparative Totals for the Year Ended September 30, 2006)
(S000s)

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | | Component Units |
|---|---------------------|--|------------------------------------|----------------------------------|---|--------------------------|---------------------|---------------------|---------------------|
| | | Charges for Services, Fees, Fines & Forfeits | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Totals | 2006 | |
| | | | | | Governmental Activities | Business-type Activities | | | |
| Primary government: | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| Governmental direction and support | \$ 787,392 | \$ 19,068 | \$ 135,162 | \$ 4,950 | \$ (628,212) | \$ (628,212) | \$ (440,616) | | |
| Economic development and regulation | 509,874 | 102,230 | 121,719 | - | (285,925) | (285,925) | (171,113) | | |
| Public safety and justice | 1,264,715 | 55,634 | 280,526 | - | (928,555) | (928,555) | (823,427) | | |
| Public education system | 1,589,652 | 66 | 286,654 | - | (1,302,932) | (1,302,932) | (1,225,465) | | |
| Human support services | 2,992,805 | 6,022 | 1,461,418 | 70 | (1,525,295) | (1,525,295) | (1,546,853) | | |
| Public works | 481,702 | 151,957 | 24,016 | 125,537 | (180,192) | (180,192) | (87,960) | | |
| Public transportation | 198,484 | - | - | - | (198,484) | (198,484) | (187,615) | | |
| Interest on long-term debt | 281,918 | - | - | - | (281,918) | (281,918) | (269,725) | | |
| Total governmental activities | 8,106,542 | 334,977 | 2,309,495 | 130,557 | (5,331,513) | (5,331,513) | (4,752,774) | | |
| Business-type activities: | | | | | | | | | |
| Lottery and Games | 192,336 | 256,824 | - | - | \$ 64,488 | 64,488 | 72,484 | | |
| Unemployment compensation | 99,920 | - | 18,358 | - | (81,562) | (81,562) | (87,924) | | |
| Nursing home services | 37,556 | 31,849 | - | - | (5,707) | (5,707) | (6,280) | | |
| Total business-type activities | 329,812 | 288,673 | 18,358 | - | (22,781) | (22,781) | (21,720) | | |
| Total primary government | \$ 8,436,354 | \$ 623,650 | \$ 2,327,853 | \$ 130,557 | (5,331,513) | (5,354,294) | (4,774,494) | | |
| Component units: | | | | | | | | | |
| Water and sewer authority | \$ 305,707 | \$ 303,722 | \$ - | \$ 25,083 | | | | \$ 23,098 | |
| Convention center | 95,855 | 16,151 | - | - | | | | (79,704) | |
| Sports commission | 24,136 | 13,136 | - | - | | | | (11,000) | |
| Housing finance | 86,410 | 45,735 | - | - | | | | (40,675) | |
| University | 119,388 | 16,640 | 27,266 | 2,836 | | | | (72,646) | |
| Anacostia waterfront corporation | 13,788 | - | 11,017 | 15,264 | | | | 12,493 | |
| National capital revitalization | 36,238 | 6,728 | - | (279) | | | | (29,789) | |
| Economic development finance | 9 | - | - | - | | | | (9) | |
| Total component units | \$ 681,531 | \$ 402,112 | \$ 38,283 | \$ 42,904 | | | | (198,232) | |
| General revenues: | | | | | | | | | |
| Taxes: | | | | | | | | | |
| Property taxes | | | | | 1,545,325 | - | 1,545,325 | 1,272,998 | - |
| Sales and use taxes | | | | | 1,056,780 | - | 1,056,780 | 1,004,471 | - |
| Income and franchise taxes | | | | | 1,736,361 | - | 1,736,361 | 1,591,483 | - |
| Gross receipts taxes | | | | | 302,768 | - | 302,768 | 278,453 | - |
| Other taxes | | | | | 498,198 | 90,117 | 588,315 | 486,430 | - |
| Investment earnings | | | | | 124,420 | 20,841 | 145,261 | 92,528 | 67,435 |
| Miscellaneous | | | | | 456,425 | 1,095 | 457,520 | 431,892 | 40,607 |
| Subsidy from primary government | | | | | - | - | - | - | 145,948 |
| Special item-real property loss | | | | | (8,838) | - | (8,838) | - | - |
| Transfer in (out) | | | | | 65,376 | (65,376) | - | - | - |
| Total general revenues and transfers | | | | | 5,776,815 | 46,677 | 5,823,492 | 5,158,255 | 253,990 |
| Change in net assets | | | | | 445,302 | 23,896 | 469,198 | 383,761 | 55,758 |
| Net assets at October 1, as restated | | | | | 2,114,026 | 394,443 | 2,508,469 | 2,124,708 | 1,634,136 |
| Net assets at September 30 | | | | | \$ 2,559,328 | \$ 418,339 | \$ 2,977,667 | \$ 2,508,469 | \$ 1,689,894 |

The accompanying notes are an integral part of this statement.

Exhibit 2-a

District of Columbia
Balance Sheet
Governmental Funds
September 30, 2007
(With Comparative Totals at September 30, 2006)
(\$000s)

| | General | Federal & Private Resources | General Capital Improvements | Baseball Capital Project | Nonmajor Governmental Funds | Total Governmental Funds | |
|--|---------------------|-----------------------------|------------------------------|--------------------------|-----------------------------|--------------------------|---------------------|
| | | | | | | 2007 | 2006 |
| ASSETS | | | | | | | |
| Cash and cash equivalents (unrestricted) | \$ 602,923 | \$ - | \$ - | \$ - | \$ - | \$ 602,923 | \$ 363,480 |
| Investments (unrestricted) | - | - | - | - | - | - | 5,000 |
| Accrued interest receivable | - | - | - | - | 116 | 116 | 108 |
| Due from federal government | 18,317 | 357,619 | 39,780 | - | - | 415,716 | 440,001 |
| Taxes receivable, net | 288,700 | - | - | - | - | 288,700 | 274,748 |
| Accounts receivable, net | 29,670 | 84,689 | 2,548 | 122 | 34,822 | 151,851 | 222,594 |
| Due from component units | 5,165 | - | 1,073 | 3,678 | 87 | 10,003 | 8,536 |
| Due from other funds | 368,507 | 12,268 | 845 | - | 69,513 | 451,133 | 675,159 |
| Inventories | 15,998 | 1,115 | - | - | - | 17,113 | 14,623 |
| Other current assets | 3,435 | - | - | - | - | 3,435 | 24,246 |
| Cash and cash equivalents (restricted) | 947,030 | - | 1,045,481 | 184,385 | 250,967 | 2,427,863 | 2,063,305 |
| Investments (restricted) | - | - | - | - | - | - | 274,984 |
| Other long term assets | 6,704 | 14,296 | - | - | 92,961 | 113,961 | 21,621 |
| Total assets | \$ 2,286,449 | \$ 469,987 | \$ 1,089,727 | \$ 188,185 | \$ 448,466 | \$ 4,482,814 | \$ 4,388,405 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | 402,870 | 84,115 | 128,024 | 176 | 9,233 | 624,418 | 584,426 |
| Compensation payable | 109,645 | 8,014 | 1,656 | - | 215 | 119,530 | 146,236 |
| Due to other funds | 30,409 | 52,057 | 251,315 | 47,982 | 845 | 382,608 | 665,260 |
| Due to component units | 15,785 | 21,267 | - | 26,985 | - | 64,037 | 20,535 |
| Deferred revenue | 111,120 | 107,764 | 2,814 | - | 93,579 | 315,277 | 255,116 |
| Accrued liabilities | 115,363 | 59,977 | - | - | 68 | 175,408 | 191,629 |
| Other current liabilities | 7,257 | 2,544 | 2,155 | - | - | 11,956 | 35,581 |
| Total liabilities | 792,449 | 335,738 | 385,964 | 75,143 | 103,940 | 1,693,234 | 1,898,783 |
| Fund balances: | | | | | | | |
| Reserved for: | | | | | | | |
| General fund purposes | 1,135,459 | - | - | - | - | 1,135,459 | 1,045,560 |
| Special revenue funds purposes | - | 134,249 | - | - | 326,307 | 460,556 | 321,878 |
| Capital project purposes | - | - | 703,763 | 113,042 | 18,219 | 835,024 | 732,602 |
| Unreserved, designated, reported in: | | | | | | | |
| General fund | 277,299 | - | - | - | - | 277,299 | 389,582 |
| Unreserved, undesignated reported in: | | | | | | | |
| General fund | 81,242 | - | - | - | - | 81,242 | - |
| Total fund balances | 1,494,000 | 134,249 | 703,763 | 113,042 | 344,526 | 2,789,580 | 2,489,622 |
| Total liabilities and fund balances | \$ 2,286,449 | \$ 469,987 | \$ 1,089,727 | \$ 188,185 | \$ 448,466 | | \$ 4,388,405 |

Amounts reported for governmental activities in the statement of net assets (Exhibit 1a) are different because:

| | |
|--|---------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 6,139,898 |
| Certain long term assets are not available to pay current period expenditures and are therefore deferred in the funds. | 31,057 |
| Adjustment for deferred charges. | 81,267 |
| Certain liabilities (such as bonds payable and accrued expenses) are not due and payable in the current period: | |
| General obligation bonds | 4,140,133 |
| Tobacco settlement bonds | 737,069 |
| TIF bonds & notes | 105,229 |
| Ballpark bonds | 528,490 |
| QZAB | 4,788 |
| Accrued interest payable | 66,365 |
| Capital leases | 59,869 |
| Other long-term liabilities | 840,531 |
| | (6,482,474) |
| Net assets of governmental activities | <u>\$ 2,559,328</u> |

The accompanying notes are an integral part of this statement.

Exhibit 2-b

District of Columbia
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2007
(With Comparative Totals for the Year Ended September 30, 2006)
(\$000s)

| | General | Federal & Private Resources | General Capital Improvements | Baseball Capital Project | Nonmajor Governmental Funds | Total Governmental Funds | |
|--|------------------|-----------------------------------|------------------------------------|--------------------------------|-----------------------------------|-----------------------------|------------------|
| | | | | | | 2007 | 2006 |
| REVENUES | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | \$ 1,551,900 | \$ - | \$ - | \$ - | \$ - | \$ 1,551,900 | \$ 1,241,482 |
| Sales and use taxes | 1,056,780 | - | - | - | - | 1,056,780 | 970,885 |
| Income and franchise taxes | 1,736,361 | - | - | - | - | 1,736,361 | 1,591,483 |
| Gross receipts taxes | 302,768 | - | - | - | - | 302,768 | 278,453 |
| Other taxes | 498,198 | - | - | - | - | 498,198 | 390,542 |
| Fines and forfeitures | 101,971 | - | - | - | - | 101,971 | 112,919 |
| Licenses and permits | 89,072 | - | - | - | - | 89,072 | 81,222 |
| Charges for services | 141,883 | 2,051 | - | - | - | 143,934 | 131,273 |
| Investment earnings | 89,425 | (6,709) | 2,915 | 24,985 | 13,804 | 124,420 | 73,206 |
| Miscellaneous | 315,477 | 3,372 | 65,948 | 4,433 | 55,032 | 444,262 | 489,067 |
| Federal contributions | - | 433,042 | 7,920 | - | - | 440,962 | 362,075 |
| Operating grants | 2,539 | 1,873,914 | 122,637 | - | - | 1,999,090 | 1,912,675 |
| Total revenues | 5,886,374 | 2,305,670 | 199,420 | 29,418 | 68,836 | 8,489,718 | 7,635,282 |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| Governmental direction and support | 532,140 | 119,674 | - | - | 160 | 651,974 | 611,620 |
| Economic development and regulation | 323,267 | 121,241 | - | - | - | 444,508 | 348,091 |
| Public safety and justice | 960,766 | 280,918 | - | - | - | 1,241,684 | 1,133,800 |
| Public education system | 1,250,769 | 290,425 | - | - | - | 1,541,194 | 1,439,510 |
| Human support service | 1,512,095 | 1,463,726 | - | - | - | 2,975,821 | 2,952,637 |
| Public works | 223,891 | 27,640 | - | - | 78,411 | 329,942 | 184,200 |
| Public transportation | 198,484 | - | - | - | - | 198,484 | 187,615 |
| Debt service: | | | | | | | |
| Principal | 216,198 | - | - | - | 16,191 | 232,389 | 205,654 |
| Interest | 193,808 | - | - | - | 64,961 | 258,769 | 225,195 |
| Fiscal charges | 15,002 | - | - | - | 93 | 15,095 | 31,958 |
| Capital outlay | - | - | 742,499 | 237,620 | 44,422 | 1,024,541 | 901,204 |
| Total expenditures | 5,426,420 | 2,303,624 | 742,499 | 237,620 | 204,238 | 8,914,401 | 8,221,484 |
| Excess (deficiency) of revenues over expenditures | 459,954 | 2,046 | (543,079) | (208,202) | (135,402) | (424,683) | (586,202) |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Debt issuance | 256,595 | - | 605,140 | - | - | 861,735 | 1,459,087 |
| Premium on sale of bonds | 16,063 | - | - | - | - | 16,063 | 39,944 |
| Payment to refunded bond escrow agent | (264,334) | - | - | - | - | (264,334) | (136,137) |
| Equipment financing program | - | - | 42,471 | - | - | 42,471 | 30,167 |
| Transfers in | 88,759 | - | 251,411 | - | 354,059 | 694,229 | 685,206 |
| Transfers out | (501,509) | (29,107) | (49,000) | (7,337) | (41,900) | (628,853) | (611,406) |
| Sale of capital assets | 12,168 | - | - | - | - | 12,168 | - |
| Total other financing sources (uses) | (392,258) | (29,107) | 850,022 | (7,337) | 312,159 | 733,479 | 1,466,861 |
| Special item-real property loss | (8,838) | - | - | - | - | (8,838) | - |
| Net change in fund balances | 58,858 | (27,061) | 306,943 | (215,539) | 176,757 | 299,958 | 880,659 |
| Fund balances at October 1 | 1,435,142 | 161,310 | 396,820 | 328,581 | 167,769 | 2,489,622 | 1,608,963 |
| Fund balances at September 30 | \$ 1,494,000 | \$ 134,249 | \$ 703,763 | \$ 113,042 | \$ 344,526 | \$ 2,789,580 | \$ 2,489,622 |

The accompanying notes are an integral part of this statement.

Exhibit 2-c

District of Columbia
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2007
(\$000s)

| | | |
|--|----|---------|
| Net change in fund balances - total governmental funds | \$ | 299,958 |
|--|----|---------|

Amounts reported for governmental activities in the statement of activities are different because:

| | | |
|--|--|---------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. | | 593,157 |
|--|--|---------|

| | | |
|--|--|---------|
| Deferred property tax revenues which were earned but whose current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. This is the amount deferred property taxes increased in the governmental funds between 2006 and 2007. | | (6,575) |
|--|--|---------|

| | | |
|---|--|-----------|
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which bond proceeds exceeded repayments. | | (388,971) |
|---|--|-----------|

| | | |
|--|--|----------|
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount that other long term liabilities decreased in the current period. | | (52,267) |
|--|--|----------|

| | | |
|---|----|----------------|
| Change in net assets of governmental activities | \$ | <u>445,302</u> |
|---|----|----------------|

The accompanying notes are an integral part of this statement.

District of Columbia
Budgetary Comparison Statement
For the Year Ended September 30, 2007
(\$000s)

| | General Fund | | | | Federal and Private Resources | | | | Totals | | | | |
|---|--------------|--------------|--------------|------------------------------------|-------------------------------|-----------|-----------|------------------------------------|--------------|--------------|--------------|------------------------------------|----------|
| | Budget | | Actual | Variance Positive (Negative) | Budget | | Actual | Variance Positive (Negative) | Budget | | Actual | Variance Positive (Negative) | |
| | Original | Revised | | | Original | Revised | | | Original | Revised | | | |
| Revenues and Sources: | | | | | | | | | | | | | |
| Taxes | | | | | | | | | | | | | |
| Property taxes | \$ 1,366,247 | \$ 1,421,903 | \$ 1,500,996 | \$ 79,093 | \$ - | \$ - | \$ - | \$ - | \$ 1,366,247 | \$ 1,421,903 | \$ 1,500,996 | \$ 79,093 | |
| Sales and use taxes | 824,998 | 789,174 | 787,125 | (2,049) | - | - | - | - | 824,998 | 789,174 | 787,125 | (2,049) | |
| Income and franchise taxes | 1,593,814 | 1,636,428 | 1,736,361 | 99,933 | - | - | - | - | 1,593,814 | 1,636,428 | 1,736,361 | 99,933 | |
| Other taxes | 690,683 | 657,623 | 763,289 | 105,666 | - | - | - | - | 690,683 | 657,623 | 763,289 | 105,666 | |
| Total taxes | 4,475,742 | 4,505,128 | 4,787,771 | 282,643 | - | - | - | - | 4,475,742 | 4,505,128 | 4,787,771 | 282,643 | |
| Licenses and permits | 70,845 | 72,141 | 78,283 | 6,142 | - | - | - | - | 70,845 | 72,141 | 78,283 | 6,142 | |
| Fines and forfeits | 107,336 | 111,920 | 101,436 | (10,484) | - | - | - | - | 107,336 | 111,920 | 101,436 | (10,484) | |
| Charges for services | 53,218 | 49,846 | 52,421 | 2,575 | - | - | - | - | 53,218 | 49,846 | 52,421 | 2,575 | |
| Miscellaneous | 102,458 | 103,654 | 191,735 | 88,081 | - | - | - | - | 102,458 | 103,654 | 191,735 | 88,081 | |
| Other sources | 525,614 | 446,201 | 366,511 | (79,690) | - | - | - | - | 525,614 | 446,201 | 366,511 | (79,690) | |
| General obligation bonds | 30,000 | 30,000 | 6,335 | (23,665) | - | - | - | - | 30,000 | 30,000 | 6,335 | (23,665) | |
| Federal contributions | - | - | - | - | 82,618 | 86,850 | 82,261 | (4,589) | - | 82,618 | 86,850 | 82,261 | (4,589) |
| Operating grant | - | - | - | - | 2,008,371 | 1,891,816 | 1,794,807 | (97,009) | - | 2,008,371 | 1,891,816 | 1,794,807 | (97,009) |
| Fund balance released from restrictions | 176,330 | 344,287 | 122,412 | (221,875) | - | 17,837 | 17,837 | - | 176,330 | 362,124 | 140,249 | (221,875) | |
| Interfund transfer-from lottery and games | 72,100 | 72,100 | 65,376 | (6,724) | - | - | - | - | 72,100 | 72,100 | 65,376 | (6,724) | |
| Interfund transfer-from baseball project | - | - | 14,871 | 14,871 | - | - | - | - | - | - | 14,871 | 14,871 | |
| Total revenues and other sources | 5,613,643 | 5,735,277 | 5,787,151 | 51,874 | 2,090,989 | 1,996,503 | 1,894,905 | (101,598) | 7,704,632 | 7,731,780 | 7,682,056 | (49,724) | |
| Expenditures and Other Uses: | | | | | | | | | | | | | |
| Governmental direction and support | 433,758 | 432,526 | 366,258 | 66,268 | 157,746 | 122,744 | 114,983 | 7,761 | 591,504 | 555,270 | 481,241 | 74,029 | |
| Economic development and regulation | 409,394 | 437,945 | 380,623 | 57,322 | 133,741 | 140,539 | 121,852 | 18,687 | 543,135 | 578,484 | 502,475 | 76,009 | |
| Public safety and justice | 943,293 | 977,060 | 961,429 | 15,631 | 7,386 | 9,657 | 8,052 | 1,605 | 950,679 | 986,717 | 969,481 | 17,236 | |
| Public education system | 1,223,971 | 1,174,460 | 1,155,629 | 18,831 | 249,970 | 263,342 | 217,280 | 46,062 | 1,473,941 | 1,437,802 | 1,372,909 | 64,893 | |
| Public education AY08 expenditure | - | 85,047 | 85,047 | - | - | - | - | - | - | 85,047 | 85,047 | - | |
| Human support services | 1,423,138 | 1,533,234 | 1,505,889 | 27,345 | 1,501,766 | 1,426,708 | 1,377,498 | 49,210 | 2,924,904 | 2,959,942 | 2,883,387 | 76,555 | |
| Write off mental health receivable | - | - | 6,813 | (6,813) | - | - | - | - | - | - | 6,813 | (6,813) | |
| Public works | 405,318 | 447,792 | 429,971 | 17,821 | 40,380 | 28,822 | 27,653 | 1,169 | 445,698 | 476,614 | 457,624 | 18,990 | |
| Emergency planning and security costs | - | - | - | - | - | 4,691 | 4,691 | - | - | 4,691 | 4,691 | - | |
| Workforce investments | 38,500 | 7,873 | - | 7,873 | - | - | - | - | 38,500 | 7,873 | - | 7,873 | |
| Wilson building | 4,211 | 3,961 | 3,763 | 198 | - | - | - | - | 4,211 | 3,961 | 3,763 | 198 | |
| Repay bonds and interest | 405,114 | 389,016 | 386,245 | 2,771 | - | - | - | - | 405,114 | 389,016 | 386,245 | 2,771 | |
| Repay revenue bonds and interest | 6,000 | 4,750 | - | 4,750 | - | - | - | - | 6,000 | 4,750 | - | 4,750 | |
| Bond fiscal charge | 30,000 | 30,000 | 6,406 | 23,594 | - | - | - | - | 30,000 | 30,000 | 6,406 | 23,594 | |
| Interest on short term borrowing | 8,000 | 8,460 | 8,455 | 5 | - | - | - | - | 8,000 | 8,460 | 8,455 | 5 | |
| Certificates of participation | 31,225 | 30,575 | 30,448 | 127 | - | - | - | - | 31,225 | 30,575 | 30,448 | 127 | |
| Settlements and judgments fund | 15,655 | 25,047 | 25,029 | 18 | - | - | - | - | 15,655 | 25,047 | 25,029 | 18 | |
| Real property tax loss | - | - | 8,838 | (8,838) | - | - | - | - | - | - | 8,838 | (8,838) | |
| Equipment lease operating | 43,955 | 22,028 | 21,893 | 135 | - | - | - | - | 43,955 | 22,028 | 21,893 | 135 | |
| Pay-go capital | 87,987 | 118,861 | 118,861 | - | - | - | - | - | 87,987 | 118,861 | 118,861 | - | |
| Schools modernization fund | 1,650 | - | - | - | - | - | - | - | 1,650 | - | - | - | |
| District retiree health contribution | 4,700 | 4,700 | 4,700 | - | - | - | - | - | 4,700 | 4,700 | 4,700 | - | |
| Cash reserve | 50,000 | 500 | - | 500 | - | - | - | - | 50,000 | 500 | - | 500 | |
| Non-departmental agency | 45,942 | 946 | - | 946 | - | - | - | - | 45,942 | 946 | - | 946 | |
| Total expenditures and other uses | 5,611,811 | 5,734,781 | 5,506,297 | 228,484 | 2,090,989 | 1,996,503 | 1,872,009 | 124,494 | 7,702,800 | 7,731,284 | 7,378,306 | 352,978 | |
| EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES -- BUDGETARY BASIS | | | | | | | | | | | | | |
| | \$ 1,832 | \$ 496 | \$ 280,854 | \$ 280,358 | \$ - | \$ - | \$ 22,896 | \$ 22,896 | \$ 1,832 | \$ 496 | \$ 303,750 | \$ 303,254 | |

The accompanying notes are an integral part of this statement.

Exhibit 3-a

District of Columbia
Statement of Net Assets
Proprietary Funds
September 30, 2007
(With Comparative Totals at September 30, 2006)
(\$000s)

| | Lottery and Games | Unemployment Compensation | Nonmajor Proprietary Fund | Totals | |
|---|----------------------|------------------------------|---------------------------------|-------------------|-------------------|
| | | | | 2007 | 2006 Restated |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents (unrestricted) | \$ 8,824 | \$ - | \$ 9,400 | \$ 18,224 | \$ 29,345 |
| Investments (unrestricted) | - | - | 7,277 | 7,277 | 3,279 |
| Accounts receivable, net | 5,728 | 7,127 | 4,669 | 17,524 | 18,304 |
| Due from other funds | - | 1,245 | 151 | 1,396 | 921 |
| Other current assets | 7 | - | 722 | 729 | 314 |
| Cash and cash equivalents (restricted) | - | 405,244 | - | 405,244 | 380,248 |
| Total current assets | 14,559 | 413,616 | 22,219 | 450,394 | 432,411 |
| Noncurrent assets: | | | | | |
| Investments (restricted) | 46,725 | - | 4,432 | 51,157 | 54,796 |
| Capital assets, net | 311 | - | 16,900 | 17,211 | 17,505 |
| Other | - | - | - | - | 4 |
| Total noncurrent assets | 47,036 | - | 21,332 | 68,368 | 72,305 |
| Total assets | 61,595 | 413,616 | 43,551 | 518,762 | 504,716 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Accounts payable | 2,625 | 26,029 | 2,011 | 30,665 | 32,353 |
| Accrued compensated absences | 559 | - | 1,745 | 2,304 | 1,714 |
| Due to other funds | - | 12,439 | - | 12,439 | 13,629 |
| Deferred revenue | 149 | - | - | 149 | 184 |
| Accrued liabilities | 7,784 | - | 25 | 7,809 | 9,809 |
| Other current liabilities | - | - | 332 | 332 | - |
| Long term liabilities due within one year | 8,631 | - | - | 8,631 | 8,631 |
| Total current liabilities | 19,748 | 38,468 | 4,113 | 62,329 | 66,320 |
| Noncurrent liabilities | | | | | |
| Long term liabilities due in more than one year | 38,094 | - | - | 38,094 | 43,953 |
| Total noncurrent liabilities | 38,094 | - | - | 38,094 | 43,953 |
| Total liabilities | 57,842 | 38,468 | 4,113 | 100,423 | 110,273 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 311 | - | 16,900 | 17,211 | 17,505 |
| Restricted - expendable | - | 375,148 | - | 375,148 | 347,938 |
| Unrestricted | 3,442 | - | 22,538 | 25,980 | 29,000 |
| Total net assets | \$ 3,753 | \$ 375,148 | \$ 39,438 | \$ 418,339 | \$ 394,443 |

The accompanying notes are an integral part of this statement.

Exhibit 3-b

District of Columbia
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended September 30, 2007
(With Comparative Totals for the Year Ended September 30, 2006)
(\$000s)

| | Lottery and Games | Unemployment Compensation | Nonmajor Proprietary Fund | Totals | |
|--|----------------------|------------------------------|---------------------------------|----------------|----------------|
| | | | | 2007 | 2006 Restated |
| Operating revenues: | | | | | |
| Employer taxes | \$ - | \$ 90,117 | \$ - | \$ 90,117 | \$ 95,888 |
| Charges for services | 256,824 | - | 31,849 | 288,673 | 295,545 |
| Benefit contributions | - | 18,358 | - | 18,358 | 14,825 |
| Miscellaneous | - | - | 1,095 | 1,095 | 710 |
| Total operating revenues | 256,824 | 108,475 | 32,944 | 398,243 | 406,968 |
| Operating expenses: | | | | | |
| Benefits | - | 99,920 | - | 99,920 | 102,749 |
| Prizes | 166,689 | - | - | 166,689 | 168,470 |
| Personnel services | 11,653 | - | 5,523 | 17,176 | 16,055 |
| Contractual services | 13,794 | - | 24,156 | 37,950 | 35,373 |
| Materials and supplies | - | - | - | - | 5,416 |
| Depreciation | 200 | - | 2,069 | 2,269 | 2,244 |
| Miscellaneous | - | - | 5,808 | 5,808 | 1,783 |
| Total operating expenses | 192,336 | 99,920 | 37,556 | 329,812 | 332,090 |
| Operating income (loss) | 64,488 | 8,555 | (4,612) | 68,431 | 74,878 |
| Nonoperating revenues: | | | | | |
| Interest and investment revenue | 940 | 18,655 | 1,246 | 20,841 | 19,321 |
| Total nonoperating revenue | 940 | 18,655 | 1,246 | 20,841 | 19,321 |
| Income (loss) before transfers | 65,428 | 27,210 | (3,366) | 89,272 | 94,199 |
| Transfer out | (65,376) | - | - | (65,376) | (73,800) |
| Change in net assets | 52 | 27,210 | (3,366) | 23,896 | 20,399 |
| Total net assets at October 1, as restated | 3,701 | 347,938 | 42,804 | 394,443 | 374,044 |
| Total net assets at September 30 | \$ 3,753 | \$ 375,148 | \$ 39,438 | \$ 418,339 | \$ 394,443 |

The accompanying notes are an integral part of this statement.

Exhibit 3-c

District of Columbia
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2007
(With Comparative Totals for the Year Ended September 30, 2006)
(\$000s)

| | Lottery and Games | Unemployment Compensation | Nonmajor Proprietary Fund | Totals | |
|--|------------------------|------------------------------|---------------------------------|--------------------------|--------------------------|
| | | | | 2007 | 2006 Restated |
| Operating activities: | | | | | |
| Cash receipts from customers/employers | \$ 255,271 | \$ 109,690 | \$ 30,361 | \$ 395,322 | \$ 405,831 |
| Other cash receipts | 885 | - | 605 | 1,490 | 916 |
| Cash payments to vendors | (24,735) | - | (33,228) | (57,963) | (55,635) |
| Cash payments to employees/claimants | (6,114) | (103,349) | - | (109,463) | (113,804) |
| Other cash payments, including prizes | (163,329) | - | 212 | (163,117) | (160,781) |
| Net cash provided by (used in) operating activities | <u>61,978</u> | <u>6,341</u> | <u>(2,050)</u> | <u>66,269</u> | <u>76,527</u> |
| Noncapital financing activities: | | | | | |
| Interfund transfers out | (65,376) | - | - | (65,376) | (73,800) |
| Net cash used in noncapital financing activities | <u>(65,376)</u> | <u>-</u> | <u>-</u> | <u>(65,376)</u> | <u>(73,800)</u> |
| Capital and related financing activities: | | | | | |
| Acquisitions of capital assets | (128) | - | (1,513) | (1,641) | (3,565) |
| Net cash used in capital and related financing activities | <u>(128)</u> | <u>-</u> | <u>(1,513)</u> | <u>(1,641)</u> | <u>(3,565)</u> |
| Investing activities: | | | | | |
| Receipts of interest and dividends | 940 | 18,655 | 1,246 | 20,841 | 19,321 |
| Sales/(purchases) of investments | - | - | (6,218) | (6,218) | 18,222 |
| Net cash provided by (used in) investing activities | <u>940</u> | <u>18,655</u> | <u>(4,972)</u> | <u>14,623</u> | <u>37,543</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (2,586) | 24,996 | (8,535) | 13,875 | 36,705 |
| Cash and cash equivalents at October 1 | <u>11,410</u> | <u>380,248</u> | <u>17,935</u> | <u>409,593</u> | <u>372,888</u> |
| Cash and cash equivalents at September 30 | <u>\$ 8,824</u> | <u>\$ 405,244</u> | <u>\$ 9,400</u> | <u>\$ 423,468</u> | <u>\$ 409,593</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Operating income (loss) | \$ 64,488 | \$ 8,555 | \$ (4,612) | \$ 68,431 | \$ 74,878 |
| Depreciation | 200 | - | 2,069 | 2,269 | 2,358 |
| Decrease (increase) in assets: | | | | | |
| Accounts receivable | (635) | 1,216 | (1,388) | (807) | 1,049 |
| Allowance for uncollectible | - | - | 1,266 | 1,266 | 369 |
| Other current assets | 2 | - | (411) | (409) | 111 |
| Increase (decrease) in liabilities: | | | | | |
| Accounts payable | (129) | (3,430) | 617 | (2,942) | (4,248) |
| Accrued liabilities | (2,000) | - | 409 | (1,591) | 2,266 |
| Deferred revenue | (35) | - | - | (35) | (266) |
| Other current liabilities | 87 | - | - | 87 | 10 |
| Net cash provided by (used in) operating activities: | <u>\$ 61,978</u> | <u>\$ 6,341</u> | <u>\$ (2,050)</u> | <u>\$ 66,269</u> | <u>\$ 76,527</u> |

The accompanying notes are an integral part of this statement.

Exhibit 4-a

District of Columbia
Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2007
(\$000s)

| | Pension Trust Funds | Other Postemployment Benefit Trust Fund (OPEB) | Private Purpose Trust Fund | Agency Funds |
|---|------------------------|---|----------------------------------|-------------------|
| ASSETS | | | | |
| Cash and cash equivalents - restricted | \$ 148,521 | \$ 2,718 | \$ - | \$ 156,848 |
| Investments - restricted: | | | | |
| Equities | 3,571,130 | 146,148 | 69,806 | - |
| Fixed income securities | 682,799 | 71,592 | 31,435 | - |
| Cash collateral for securities lending transactions | 478,716 | - | - | - |
| Interest and dividends receivables | - | - | 13 | - |
| Accounts receivable | - | - | 187 | - |
| Benefit contribution receivables | 2,471 | - | - | - |
| Due from other funds | - | - | - | 4,694 |
| Other receivables | 7,475 | - | - | 303 |
| Other current assets | 6 | - | - | - |
| Capital assets | 24 | - | - | - |
| Total assets | <u>4,891,142</u> | <u>220,458</u> | <u>101,441</u> | <u>\$ 161,845</u> |
| LIABILITIES | | | | |
| Accounts payable | 35,153 | - | 197 | 10,358 |
| Securities lending collateral | 478,716 | - | - | - |
| Due to other fund | 5,900 | 56,277 | - | - |
| Other current liabilities | - | - | 13 | 151,487 |
| Total liabilities | <u>519,769</u> | <u>56,277</u> | <u>210</u> | <u>\$ 161,845</u> |
| NET ASSETS | | | | |
| Held in trust for pension and OPEB benefits and other purposes | <u>\$ 4,371,373</u> | <u>\$ 164,181</u> | <u>\$ 101,231</u> | |

The accompanying notes are an integral part of this statement.

Exhibit 4-b

District of Columbia
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended September 30, 2007
(\$000s)

| | Pension Trust Funds | Other Postemployment Benefit Trust Fund (OPEB) | Private Purpose Trust Fund |
|---|------------------------------------|---|---|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer | \$ 154,700 | \$ 147,199 | \$ - |
| Plan members | 54,282 | - | 24,912 |
| Total contributions | <u>208,982</u> | <u>147,199</u> | <u>24,912</u> |
| Investment earnings: | | | |
| <i>From investment activities</i> | | | |
| Net increase in fair value of investments | 518,230 | 6,151 | 9,639 |
| Interest and dividends | 110,822 | 11,528 | 1,782 |
| Total investment earnings | 629,052 | 17,679 | 11,421 |
| Less - investment expenses | (12,543) | (697) | (1,048) |
| Net income from investing activities | <u>616,509</u> | <u>16,982</u> | <u>10,373</u> |
| <i>From securities lending activities</i> | | | |
| Securities lending income | 26,764 | - | - |
| Less: securities lending expenses | (25,109) | - | - |
| Net income from securities lending activities | <u>1,655</u> | <u>-</u> | <u>-</u> |
| Net investment earnings | <u>618,164</u> | <u>16,982</u> | <u>10,373</u> |
| Total additions | <u>827,146</u> | <u>164,181</u> | <u>35,285</u> |
| DEDUCTIONS | | | |
| Benefits | 46,389 | - | - |
| Administrative expenses | 6,198 | - | 286 |
| Distributions to participants | - | - | 6,278 |
| Total deductions | <u>52,587</u> | <u>-</u> | <u>6,564</u> |
| Change in net assets | <u>774,559</u> | <u>164,181</u> | <u>28,721</u> |
| Net assets at October 1, as restated | <u>3,596,814</u> | <u>-</u> | <u>72,510</u> |
| Net assets at September 30 | <u>\$ 4,371,373</u> | <u>\$ 164,181</u> | <u>\$ 101,231</u> |

The accompanying notes are an integral part of this statement.

District of Columbia
Discretely Presented Component Units
Combining Statement of Net Assets
September 30, 2007
(With Comparative Totals at September 30, 2006)
(\$000s)

| | Water and Sewer | Convention Center | Sports Commission | Housing Finance | Univer- sity | Anacostia Waterfront | National Capital Revitalization | Economic Development | Totals | |
|---|--------------------|----------------------|----------------------|--------------------|-------------------|-------------------------|------------------------------------|-------------------------|---------------------|---------------------|
| | | | | | | | | | 2007 | 2006 Restated |
| ASSETS | | | | | | | | | | |
| Current Assets: | | | | | | | | | | |
| Cash and cash equivalents (unrestricted) | \$ 162,611 | \$ 2,819 | \$ 8,989 | \$ 26,895 | \$ 35,551 | \$ 10,874 | \$ 9,830 | \$ 3,309 | \$ 260,878 | \$ 142,230 |
| Investments (unrestricted) | 29,632 | 55,303 | - | - | - | - | - | - | 84,935 | 185,474 |
| Receivables, net: | | | | | | | | | | |
| Accounts | 37,862 | 1,028 | 4,536 | - | 6,244 | 207 | 217 | - | 50,094 | 46,581 |
| Other | 13,546 | - | - | 8,668 | 3,324 | 1,495 | 6,394 | - | 33,427 | 54,097 |
| Due from federal government | 19,827 | - | - | - | - | - | - | - | 19,827 | 20,113 |
| Due from primary government | 6,564 | 7,184 | 26,985 | - | 2,037 | - | 21,267 | - | 64,037 | 20,535 |
| Inventories | 7,260 | - | - | - | - | - | - | - | 7,260 | 7,369 |
| Other current assets | 278 | 9 | 198 | - | 119 | 100 | 118 | - | 822 | 1,314 |
| Restricted cash | 313,829 | - | 3,950 | 26,066 | - | 116,205 | 8,506 | - | 468,556 | 146,989 |
| Restricted investments | 19,751 | 55,971 | - | 764,235 | 39,065 | - | 2,061 | - | 881,083 | 938,359 |
| Total current assets | 611,160 | 122,314 | 44,658 | 825,864 | 86,340 | 128,881 | 48,393 | 3,309 | 1,870,919 | 1,563,061 |
| Noncurrent assets: | | | | | | | | | | |
| Loans receivable | - | - | - | 492,416 | 144 | - | 15,997 | 3,025 | 511,582 | 461,777 |
| Other | 6,130 | 6,563 | - | 41,641 | 299 | 6,387 | 4,187 | 4,543 | 69,750 | 34,271 |
| Total long term assets | 6,130 | 6,563 | - | 534,057 | 443 | 6,387 | 20,184 | 7,568 | 581,332 | 496,048 |
| Capital assets, net | | | | | | | | | | |
| Property and equipment | 1,830,246 | 676,317 | 22,163 | 1,908 | 56,205 | 10,575 | 295 | - | 2,597,709 | 2,466,353 |
| Non-depreciable capital assets | 493,505 | 42,718 | - | 573 | 7,531 | 5,276 | 120,695 | - | 670,298 | 669,369 |
| Total assets | 2,941,041 | 847,912 | 66,821 | 1,362,402 | 150,519 | 151,119 | 189,567 | 10,877 | 5,720,258 | 5,194,831 |
| LIABILITIES | | | | | | | | | | |
| Current Liabilities: | | | | | | | | | | |
| Payables: | | | | | | | | | | |
| Accounts | 71,353 | 2,864 | 2,998 | 1,070 | 8,617 | 1,706 | 884 | 165 | 89,657 | 111,751 |
| Compensation | 10,601 | 309 | 319 | 288 | 12,314 | 141 | - | - | 23,972 | 18,662 |
| Due to primary government | 1,017 | - | 7,913 | - | 1,073 | - | - | - | 10,003 | 8,536 |
| Accrued liabilities | 15,800 | 11,614 | 2,511 | - | 4,734 | 280 | 11 | - | 34,950 | 30,232 |
| Deferred revenue | 24,553 | 4,684 | 105 | 12,677 | 7,474 | 1,282 | 741 | - | 51,516 | 42,125 |
| Current maturities | 13,956 | 11,690 | - | 105,595 | - | 2,820 | 2,600 | - | 136,661 | 52,590 |
| Other current liabilities | 7,660 | 10,259 | 26,984 | 95,526 | 12,037 | 5,018 | 1,360 | - | 158,844 | 137,024 |
| Total current liabilities | 144,946 | 41,420 | 40,830 | 215,156 | 46,249 | 11,247 | 5,596 | 165 | 505,603 | 400,920 |
| Noncurrent Liabilities: | | | | | | | | | | |
| Long term debt: | | | | | | | | | | |
| Bonds payable | 1,039,924 | 477,082 | - | 1,056,403 | - | 108,730 | 44,300 | - | 2,726,439 | 2,356,863 |
| Other long-term liabilities | - | 14,089 | - | 1,863 | - | - | 4,150 | - | 20,102 | 56,215 |
| Refundable advances | - | - | - | - | 466 | 1,905 | 562 | - | 2,933 | 1,501 |
| Deferred revenue | 775,287 | - | - | - | - | - | - | - | 775,287 | 745,196 |
| Total long term liabilities | 1,815,211 | 491,171 | - | 1,058,266 | 466 | 110,635 | 49,012 | - | 3,524,761 | 3,159,775 |
| Total liabilities | 1,960,151 | 532,591 | 40,830 | 1,273,422 | 46,715 | 121,882 | 54,608 | 165 | 4,030,364 | 3,560,695 |
| NET ASSETS | | | | | | | | | | |
| Invested in capital assets, net of related debt | 777,968 | 213,314 | 22,163 | 670 | 63,736 | 10,850 | 85,506 | - | 1,174,207 | 1,055,729 |
| Restricted - expendable | 53,972 | 55,970 | 2,053 | 57,939 | 472 | 14,265 | 39,982 | 3,792 | 228,445 | 266,009 |
| Restricted - nonexpendable | - | - | - | - | 7,242 | - | - | - | 7,242 | 7,242 |
| Unrestricted | 148,950 | 46,037 | 1,775 | 30,371 | 32,354 | 4,122 | 9,471 | 6,920 | 280,000 | 305,156 |
| Total net assets | \$ 980,890 | \$ 315,321 | \$ 25,991 | \$ 88,980 | \$ 103,804 | \$ 29,237 | \$ 134,959 | \$ 10,712 | \$ 1,689,894 | \$ 1,634,136 |

The accompanying notes are an integral part of this statement.

Exhibit 5-b

District of Columbia
Discretely Presented Component Units
Combining Statement of Activities
For the Year Ended September 30, 2007
(With Comparative Totals for the Year Ended September 30, 2006)
(\$000s)

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | |
|----------------------------------|-------------------|---|---|---|--|----------------------|
| | <u>Total</u> | <u>Charges for Services, Fees, Fines & Forfeits</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Totals</u> | |
| | | | | | <u>2007</u> | <u>2006 Restated</u> |
| Water and sewer authority | \$ 305,707 | \$ 303,722 | \$ - | \$ 25,083 | \$ 23,098 | \$ 34,154 |
| Convention center | 95,855 | 16,151 | - | - | (79,704) | (85,065) |
| Sports commission | 24,136 | 13,136 | - | - | (11,000) | (3,233) |
| Housing finance | 86,410 | 45,735 | - | - | (40,675) | (39,307) |
| University | 119,388 | 16,640 | 27,266 | 2,836 | (72,646) | (63,842) |
| Anacostia waterfront corporation | 13,788 | - | 11,017 | 15,264 | 12,493 | 3,202 |
| National capital revitalization | 36,238 | 6,728 | - | (279) | (29,789) | (20,687) |
| Economic development | 9 | - | - | - | (9) | (36) |
| Total component units | \$ 681,531 | \$ 402,112 | \$ 38,283 | \$ 42,904 | (198,232) | (174,814) |
| General revenues: | | | | | | |
| | | | | | 67,435 | 56,220 |
| | | | | | 40,607 | 29,753 |
| | | | | | 145,948 | 140,974 |
| | | | | | <u>253,990</u> | <u>226,947</u> |
| | | | | | 55,758 | 52,133 |
| | | | | | 1,634,136 | 1,582,003 |
| | | | | | <u>\$ 1,689,894</u> | <u>\$ 1,634,136</u> |

The accompanying notes are an integral part of this statement.

INDEX TO THE NOTES TO THE BASIC FINANCIAL STATEMENTS

| | | | |
|---|-----------|---|------------|
| NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES..... | 60 | D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS... 85 | |
| A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT..... | 60 | E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS | 85 |
| B. FINANCIAL REPORTING ENTITY | 60 | F. CONSTRUCTION IN PROGRESS..... | 87 |
| C. RELATED ORGANIZATIONS..... | 61 | NOTE 6. CONDUIT DEBT TRANSACTIONS..... | 88 |
| D. JOINT VENTURE..... | 61 | A. INDUSTRIAL REVENUE BOND PROGRAM | 88 |
| E. BASIS OF PRESENTATION | 62 | B. ENTERPRISE ZONE FACILITY BONDS | 88 |
| F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING..... | 63 | NOTE 7. SHORT-TERM LIABILITIES | 88 |
| G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES | 65 | NOTE 8. LONG-TERM LIABILITIES | 89 |
| H. CASH AND INVESTMENTS | 66 | A. LONG-TERM DEBT..... | 89 |
| I. INVENTORY | 66 | B. OTHER LONG-TERM LIABILITIES | 98 |
| J. RESTRICTED ASSETS..... | 66 | C. CURRENT & LONG-TERM PORTIONS OF LONG-TERM LIABILITIES..... | 100 |
| K. PREPAID ITEMS AND DEFERRED CHARGES | 67 | NOTE 9. RETIREMENT PROGRAMS | 101 |
| L. RECEIVABLES AND PAYABLES | 67 | A. DEFINED BENEFIT PENSION PLANS..... | 101 |
| M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS | 67 | B. DEFINED CONTRIBUTION PENSION PLANS | 103 |
| N. CAPITAL ASSETS | 67 | C. DEFERRED COMPENSATION PLANS | 103 |
| O. CAPITAL LEASES..... | 68 | NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB) | 104 |
| P. COMPENSATED ABSENCES..... | 68 | NOTE 11. FUND BALANCE/NET ASSETS | 105 |
| Q. LONG-TERM LIABILITIES | 68 | NOTE 12. JOINT VENTURE | 106 |
| R. NEW ACCOUNTING STANDARDS ADOPTED..... | 69 | NOTE 13. TRANSACTIONS WITH THE FEDERAL GOVERNMENT..... | 106 |
| S. NEW ACCOUNTING PRONOUNCEMENTS..... | 69 | A. FEDERAL CONTRIBUTION..... | 106 |
| T. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS..... | 71 | B. EMERGENCY PREPAREDNESS..... | 106 |
| U. POST-EMPLOYMENT BENEFITS | 72 | C. GRANTS | 107 |
| V. OTHER POST-EMPLOYMENT BENEFITS (OPEB)..... | 73 | D. WATER AND SEWER SERVICES..... | 107 |
| W. USE OF ESTIMATES..... | 73 | NOTE 14. LEASES | 107 |
| X. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS | 73 | A. CAPITAL LEASES | 107 |
| Y. BUDGETARY COMPARISON STATEMENT – RECONCILIATION OF BUDGETARY BASIS TO GAAP BASIS | 74 | B. OPERATING LEASES | 108 |
| Z. RESTATEMENT | 75 | C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS..... | 108 |
| NOTE 2. CASH AND INVESTMENTS..... | 75 | NOTE 15. COMMITMENTS AND CONTINGENCIES..... | 109 |
| A. CASH | 75 | A. RISK MANAGEMENT..... | 109 |
| B. INVESTMENTS..... | 75 | B. GRANTS AND CONTRACTS | 109 |
| C. SECURITIES LENDING | 79 | C. LITIGATION..... | 109 |
| NOTE 3. RESTRICTED ASSETS..... | 80 | D. DISABILITY COMPENSATION | 109 |
| NOTE 4. COMPONENT UNITS AND RECEIVABLES AND INTERFUND BALANCE | 81 | E. INTEREST RATE SWAP AGREEMENTS..... | 110 |
| A. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS | 81 | F. DEBT SERVICE DEPOSIT AGREEMENTS..... | 112 |
| B. RECEIVABLES | 81 | NOTE 16. SUBSEQUENT EVENTS | 112 |
| C. INTERFUND TRANSFERS | 82 | A. TAX REVENUE ANTICIPATION NOTES | 112 |
| NOTE 5. CAPITAL ASSETS..... | 83 | B. SPECIAL ITEM – PROPERTY TAX REFUND FRAUD..... | 112 |
| A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS | 83 | C. VERIZON CENTER NOTES..... | 113 |
| B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY FUNCTION..... | 84 | D. GENERAL OBLIGATION BONDS | 113 |
| C. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION | 84 | E. COMPONENT UNITS | 113 |
| | | F. DISSOLUTION OF COMPONENT UNITS..... | 113 |

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

(Dollar amounts expressed in thousands)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BACKGROUND AND HISTORY OF GOVERNMENTAL UNIT

General Operations

The District of Columbia (District) was created on March 30, 1791 and became the nation's capital on December 1, 1800, in accordance with Article 1, section 8, clause 17 of the United States Constitution. This portion of the Constitution empowered Congress to establish the seat of government for the United States. On January 2, 1975, Congress granted the District a Home Rule Charter, which became effective through the enactment of the District of Columbia Self-Government and Governmental Reorganization Act, Public Law 93-198.

The District is a municipal corporation, which operates under an elected Mayor-Council form of government. Accordingly, an Act of the Council, other than a budget request act, becomes law unless Congress and the President disapprove it after it has been adopted. Citizens of the District have the right to vote for the President and Vice-President of the United States but not for members of Congress. The District does, however, have an elected nonvoting Delegate to the United States House of Representatives.

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

B. FINANCIAL REPORTING ENTITY

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

- The District holds the corporate powers of the organization.

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

Based on the application of the aforementioned criteria, the District's financial statements include eight discretely presented component units: Water and Sewer Authority, Washington Convention Center, Sports and Entertainment Commission, Housing Finance Agency, the Anacostia Waterfront Corporation, the National Capital Revitalization Corporation, the District of Columbia Economic Development Finance Corporation, and the University of the District of Columbia. These organizations are presented in a separate column to emphasize that they are legally separate from the District.

The Mayor, with the consent of the Council, appoints the governing bodies of all component units. The District has an obligation to provide financial support to the Housing Finance Agency and the University of the District of Columbia. In addition, the District must approve certain transactions of the Anacostia Waterfront Corporation, the Washington Convention Center and certain tax revenues dedicated to these two organizations. The Water and Sewer Authority is responsible for the payment of certain District long-term debt, issued before that Authority's creation, to finance capital improvements. For that reason, in conjunction with the fact that the Water and Sewer Authority is an independent authority under its enabling legislation, this entity is included as a component unit of the District of Columbia.

The District of Columbia Economic Development Finance Corporation (EDFC) was formed under the District of Columbia Economic Development Finance Corporation Act of 1984. Another entity, the National Capital Revitalization Corporation (NCRC) was created pursuant to Section 3 of the National Capital

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revitalization Corporation Act of 1998 and was deemed a related organization. However, the Council enacted the Reorganization Clarification Act of 2007 to dissolve the Boards of NCRC and EDFC. The Act vests in the Mayor the right to succeed to the powers, duties, and responsibilities of the Board of Directors of both the NCRC and EDFC. The exercise of the power to dissolve the NCRC and EDFC constituted a prima-facie evidence of imposition of will by the District. Consequently, these two entities are regarded as component units of the District in fiscal year 2007. Since these legally separate entities did not qualify as discretely presented component units in the previous years, but are now qualified by the action of the primary government, this financial statement reported beginning net assets as though the two entities had always been included within the financial reporting entity and labeled "restated."

Information on how to obtain a complete set of financial statements for each discretely presented component unit can be obtained at the following locations:

Anacostia Waterfront Corporation

Chief Financial Officer
2025 M Street, N.W. Suite 600
Washington, D.C. 20036

DC Economic Development Finance Corporation

Chief Financial Officer
2025 M Street, N.W. Suite 600,
Washington, D.C. 20036

DC Sports and Entertainment Commission

General Manager
2001 East Capitol Street, S.E.
Washington, D. C. 20003

DC Water and Sewer Authority

General Manager
5000 Overlook Avenue, S.W.
Washington, D. C. 20032

Housing Finance Agency

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

National Capital Revitalization Corporation

Chief Financial Officer
2025 M Street, N.W. Suite 600
Washington, D.C. 20036

University of the District of Columbia

President
Van Ness Campus
4200 Connecticut Avenue, N.W.
Washington, D. C. 20008

Washington Convention Center Authority

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

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

Separate audited financial statements for the Tobacco Corporation are available from the Office of the Chief Financial Officer, 1275 K Street, N.W., Sixth floor Washington, D.C. 20005.

C. RELATED ORGANIZATIONS

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

D. JOINT VENTURE

The District is a participant with other local jurisdictions in a joint venture to plan, construct, finance and operate a

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

public transit system serving the Metropolitan Washington Area Transit Zone, which includes the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia and Montgomery, Anne Arundel and Prince George's in Maryland. The Washington Metropolitan Area Transit Authority (WMATA) was created in February 1967 for that purpose. WMATA is governed by a six member Board and six alternates, comprised of two Directors and two alternates each from Maryland, Virginia and the District of Columbia. The Directors and alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the Council from its members and mayoral nominees; and for Maryland, by the Washington Suburban Transit Commission from among its members. The District does not have explicit measurable equity interest in the joint venture, accordingly, the District does not include the financial activities of the joint venture in its financial statements. Further information regarding this joint venture is discussed in Note 12 on page 106.

E. BASIS OF PRESENTATION

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

- *Statement of Net Assets* – The Statement of Net Assets displays the financial position of the District (governmental and business-type activities) and its discretely presented component units. The District reports all capital assets, including infrastructure, in the government-wide Statement of Net Assets. The net assets of a government is broken into these three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
- *Statement of Activities* – The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly

identifiable with a specific function or segment. Program revenues include fines and forfeitures, charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues. The District also reports depreciation expense, the cost of “using up” capital assets in the Statement of Activities.

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

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

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

- *General Fund*, used to account for all financial resources not accounted for in other funds.
- *Federal and Private Resources Fund*, used to account for proceeds of intergovernmental grants and other federal payments and private grants that are legally restricted to expenditure for specified purposes.
- *General Capital Improvements Fund*, used to account for the purchase or construction of capital assets financed by operating transfers, capital grants or debt proceeds.
- *Baseball Project Capital Fund*, used to account for the construction of a new baseball stadium.

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Non-Major Governmental Funds include five Special Revenue Funds: (1) Tax Increment Financing (TIF) Program Fund (2) Tobacco Settlement Financing Corporation (TSFC) Fund and (3) Community Health Care Financing (4) Housing Production Trust Fund (5) Baseball Project Fund. The funds also include Highway Trust, a capital project fund, and a Debt Service Fund.

Proprietary Funds are used to account for activities similar to those found in the private sector where the costs (including depreciation) of providing goods or services primarily or solely to the public on a continuing basis are, financed or recovered primarily through user charges, and the determination of net income is necessary or useful for sound financial administration. The District operates only one type of proprietary fund which is an enterprise fund. The District has two major enterprise funds, which are discussed below:

- *Lottery and Games Fund* - Used to account for revenues from lotteries and daily numbers games operated by the District and from licenses to conduct bingo games and raffles, and related prizes, expenses and capital outlays. Gaming activities are administered by the Lottery and Charitable Games Control Board consisting of five members appointed by the Mayor with the consent of the Council.
- *Unemployment Compensation Fund* - Used to account for the accumulation of financial resources to be used for benefit payments to unemployed former employees of the District and federal government and of private employers in the District. Resources are contributed by private employers at rates fixed by law, and by the District and federal government on a reimbursable basis. The administrative costs of the program are accounted for in the General Fund.

Non-Major Proprietary Fund is used to account for the operations of the Washington Center for Aging Services, the Washington Center for Aging Services Center Care, and JB Johnson Nursing Center.

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

- *Pension Trust Funds* report the activities of the District's retirement system, which accumulates financial resources for pension benefit payments to qualified District's employees.
- *Other Post Employment Benefit Trust Fund* is used to report assets that are accumulated and benefits that are paid for post-employment health

care.

- *Private Purpose Trust Fund* is used to report any trust arrangement not reported in pension trust funds "under which principal and income benefit individuals, private organizations, or other governments." The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code). The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide.
- *Agency Funds* report those resources held by the District in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

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

Prior year comparative information

The financial statements include summarized prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended September 30, 2006, from which such summarized information was derived.

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Thus, the accounting and financial reporting treatment applied to a fund or activity is determined by its measurement focus.

Measurement Focus

All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, generally, only current assets and current liabilities are included in the balance sheet. The operating statements of these funds present increases (revenues and other financing sources) and decreases

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(expenditures and other financing uses) in net current assets.

The proprietary funds, pension and private purpose trust funds, discretely presented component units, and the government-wide financial statements are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities are included on the statement of net assets. Net assets of the government-wide and proprietary funds are segregated into capital assets, net of related debt, restricted and unrestricted components. The related operating statements present increases (revenues) and decreases (expenses) in net assets. Operating statements of pension and private purpose trust funds present additions and deductions in fiduciary net assets.

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

Enterprise funds distinguish operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations.

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) applicable to governmental entities as established by GASB.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is when they become both measurable and available). "Measurable" means the amount of the

transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. GASB Interpretation No. 6 (GASBI 6) requires that expenditures and liabilities such as debt service, compensated absences, claims and judgments, and special termination benefits be recorded in the governmental fund statements only when they mature or become due for payment within the period. However, such activity is recorded in the government-wide financial statements as incurred.

Those revenues susceptible to accrual are taxes, federal contributions and grants, charges for services and investment income. Property taxes are recognized as revenue in the tax year for which they are levied, provided they are available. Real property taxes are levied as of October 1 on property values assessed as of the preceding January 1. The tax levy is due and collectible in two equal installments on March 31 and September 15. After these dates, the bill becomes delinquent and the District may assess penalties and interest. Real property taxes attach as an enforceable lien on property as of October 1 of the year after levy. Sales and use taxes are recognized as revenue when the sales or uses take place. Interest on investments is recognized when earned. Charges for services are recorded as revenues and services are provided.

In the District, the personal property tax is self-assessed. The District requires a personal property tax return for the tax year beginning July 1 - June 30 each year to be filed on or before July 31 of that tax year. The return should report the remaining cost (current value) of all tangible personal property that has taxable sites in the District of Columbia as of July 1. The property taxes become levied once the returns are filed. However, the District does not have a legal claim to a provider's resources that is enforceable through the eventual seizure of the property until after July 31 if the taxpayer fails to pay the property tax when due. The revenue budget for the Personal Property Tax is formulated with the understanding that 25% of collections are to be allocated to the current fiscal year, while the remaining 75% are to be allocated to the immediate subsequent fiscal year.

Intergovernmental revenues are amounts derived through agreements with other governments. In general, these revenues are comprised of contributions and grants made by the Federal government to the District. Contributions are recognized as revenue when received. Generally,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

entitlements and shared revenues are recognized as revenue at the time of receipt or earlier, if measurable and available. Resources arising from grants are usually subject to certain eligibility requirements; therefore, most grant revenues are recognized as revenue only when the conditions of the grant are met. Grant funds received before all eligibility requirements are met are recorded as deferred revenue.

Licenses and permits, fines and forfeitures are not considered susceptible to accrual because they are not both measurable and available to finance expenditures of the current period. Licenses and permits and fines and forfeitures are recorded as revenue when received in cash because they are generally not measurable until received.

The government-wide financial statements, proprietary funds, and pension and private purpose trust funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. The pension trust and OPEB trust funds recognize additions to net assets from participants' contributions when due, District contributions when due and a formal commitment for payment has been made, net investment income as earned, and expenditures for benefits and refunds when due and payable. The private purpose trust fund recognizes additions to net assets when participants' contributions are received.

Food Stamps

The District participates in the federal government's food stamp program, which is designed to increase the food purchasing power of economically disadvantaged residents. The District mainly uses the Electronic Benefits Transfer (EBT) system that allows program beneficiaries to charge their qualifying food purchases, thereby eliminating the need for paper stamps. Thus, revenues and expenditures are reported in the federal and private resources fund when the underlying transaction (the food purchase) occurs.

G. BASIS OF BUDGETING AND BUDGETARY CONTROL POLICIES

Process

About March 20 of each year, the Mayor submits to the Council an all sources budget for the General Operating Fund, for the fiscal year commencing the following October 1. The Council holds public hearings and adopts the budget through passage of a budget request act. The Mayor may not forward and the Council may not adopt any budget for which expenditures and other financing

uses exceed revenues and other financing sources. A project-length financial plan is adopted for the General Capital Improvements Fund. About June 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. Early in June of each year, the President submits the reviewed budget to Congress which conducts public hearings and enacts the budget through passage of an appropriation bill.

Appropriations Act

The legally adopted budget is the annual appropriation public law (Appropriations Act) enacted by Congress and signed by the President. The Appropriations Act authorizes expenditures at the function level or by appropriation title, such as Public Safety and Justice, Human Support Services or Public Education. Congress must enact a revision that alters the total expenditures of any function. The District may request a revision to the appropriated expenditure amounts in the Appropriations Act by submitting to the President and Congress a request for a supplemental appropriation.

Pursuant to the Reprogramming Policy Act (D. C. Official Code 47-363(2001), as amended), the District may reallocate budget amounts within appropriation title. The appropriated budget amounts in the Budgetary Comparison Statement include all approved reallocations. This statement reflects budget to actual comparisons at the function level (or appropriation title). Appropriated actual expenditures and uses may not legally exceed appropriated budgeted expenditures and uses at the function level as shown on this statement. A negative expenditure variance in the budgetary comparison statement for a particular function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341, 1342, 1349, 1351) and the District of Columbia Anti-Deficiency Act (D.C. Official Code 47-355.01-355.08, 2001). Also, a violation of the D.C. Anti-Deficiency Act exists if there is a negative expenditure variance for a particular purpose or object of expenditure within an appropriation.

The Appropriations Act specifies expenditures and net surplus or deficit of revenues. The Appropriations Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as modified through legislation.

By law, the budgetary general fund includes both the general fund and the federal and private resources fund presented in Exhibit 2-b. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in Exhibit 2-d differs from the GAAP -- basis general fund and federal and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

private resources fund due to other basis and entity differences, as follows:

- *Basis Differences* - These are differences that arise because the basis of budgeting differs from the basis of accounting prescribed by GAAP as indicated in Note 1Y on page 74.
- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those included or excluded on a GAAP basis as indicated in Note 1Y on page 74.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the appropriation, is employed in the governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities for GAAP or budgetary purposes. All encumbrances lapse in the General Fund at year end, and may automatically be re-appropriated and re-encumbered as part of the subsequent year's budget.

H. CASH AND INVESTMENTS

Cash

Cash from the governmental and proprietary funds and certain component units is pooled unless prohibited by law. The cash management pool is considered to be cash because it is used as a demand deposit account by each participating fund and component unit. If a fund overdraws its share of the pooled cash, that fund reports a liability to the general fund, which is deemed to have loaned the cash to the overdrawn fund. The general fund reports a receivable from the overdrawn fund.

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

Investments

Any cash that is not needed for immediate disbursement is used to purchase investments. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Amendment Act of 1997" (D.C. Law 12-56),

which became effective March 18, 1998. At September 30, 2007 the District has invested primarily in investments backed by U.S. government agencies' securities, with the implicit guarantee of the federal government. Such investments are considered to be the equivalents of cash. The Pension Trust Funds are authorized to invest in fixed income, equity securities and other types of investments. Also, the Private Purpose Trust Fund is authorized to invest in eight portfolios which are comprised of equities, balanced fund, and fixed income securities.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost, which approximates fair value. Other investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Asset-backed securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar investments. Investment purchases and sales are recorded as of the trade date. These transactions are not finalized until the settlement date. Cash received as collateral on securities lending transactions and investments made with such are reported as assets and as related liabilities for collateral received.

I. INVENTORY

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

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

J. RESTRICTED ASSETS

Certain governmental and proprietary funds, component units, and all fiduciary fund assets are restricted as to use by legal or contractual requirements. Any excess of restricted assets over liabilities payable from restricted assets is reported as part of the restricted net assets in the government-wide, proprietary, and fiduciary financial statements and as "reserved" fund balance in the governmental fund financial statements, to indicate the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

portion of the net assets or fund balance that is available for restricted purposes, only. Restricted assets also represent cash deposited in bank accounts legally restricted for certain purposes such as the payment of bond principal and interest or the payment of fiscal charges on long-term debt.

K. PREPAID ITEMS AND DEFERRED CHARGES

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

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

L. RECEIVABLES AND PAYABLES

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

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

M. TRANSFERS AND OTHER TRANSACTIONS BETWEEN FUNDS

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

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of

the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any remaining balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Short-term amounts owed between the primary government and a discretely presented component unit is classified as "Due to/from primary government" and "Due to/from component unit" on the statement of net assets.

Transfers are included in the results of operations of both the governmental and proprietary funds. Accordingly, transfers are reported in the "Other Financing Sources (Uses)" section of the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Transfers" section in the statement of revenues, expenses, and changes in net assets (proprietary funds).

N. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and land improvements (infrastructure) such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items, are reported in the applicable governmental or business-type activities or component units columns in the government-wide financial statements and proprietary fund financial statements. All purchased capital assets are stated at cost when historical records are available and at estimated historical cost when no historical records exist. In the case of the initial capitalization of general infrastructure acquired prior to fiscal years ended after June 30, 1980, the District elected to include all such items regardless of their acquisition date.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Capitalization and Depreciation Policies

Assets capitalized have an original cost of \$5 or more per unit. Depreciation is calculated on each class of depreciable property using the straight-line method. Estimated useful lives for capital assets are shown in **Table 1** by category.

Table 1 – Estimated Useful Lives (by Asset Category)

| | <u>Useful Life</u> |
|-------------------|--------------------|
| Sewer Lines | 45 years |
| Buildings | 50 years |
| Equipment | 5-12 years |
| Land Improvements | 30-40 years |

O. CAPITAL LEASES

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

P. COMPENSATED ABSENCES

Benefit Accumulation Policies

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

Accrual

The District records vacation leave as an expenditure and related liability in the governmental fund financial statements only to the extent that they have matured or come due for payment. Accumulated annual leave that has not matured by the end of the current fiscal year is

reported in the government-wide financial statements. Accumulated annual leave of the proprietary funds and discretely presented component units is recorded as an expense and liability as the benefits accrue to employees.

The District does not record a liability for accumulated rights to receive sick pay benefits. At the time of retirement, however, unused sick leave can be used to determine employees' years of service. One month would be added to the years and months of service of employees who have accumulated 22 days of sick leave in the Civil Service Retirement System and in the District Retirement Program.

The employees of the District earn sick leave credits that are considered termination payments at time of retirement rather than be taken as absences due to illness or other contingencies. The District estimates the sick leave liability based on the sick leave accumulated at fiscal year end by employees who are currently eligible for retirement and to receive sick leave payments upon separation, or who are expected to become eligible in the future to receive such payments. Accumulated compensatory leave is reported in the government-wide financial statements and in the proprietary funds.

Q. LONG-TERM LIABILITIES

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

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

The District pays principal on its 1994B Capital Appreciation Bonds (CABs) annually. There are no

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging from 6.00 to 6.65%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

The District pays principal on its 2002 Mandarin TIF Capital Appreciation Bonds (CABs) annually. There are no periodic interest payments due. The CABs accrete to their full value at maturity. Interest is accreted and recorded annually using rates ranging from 4.26 to 5.91%. Accreted interest is calculated throughout the maturity periods of the bonds and is recorded in the government-wide financial statements. The accreted value of such bonds is the current value, plus the interest that has been accumulating on the bonds.

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

R. NEW ACCOUNTING STANDARDS ADOPTED

During the fiscal year ended September 30, 2007, the District implemented one new accounting standard issued by the Governmental Accounting Standards Board (GASB):

Statement No. 43, Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans:

Issued in April 2004, this Statement supersedes the interim guidance included in *Statement No. 26, Financial Reporting for Post Employment Healthcare Plans Administered by Defined Benefit Pension Plans*. The approach employed in this Statement conforms with the approach adopted in *Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* with modification to reflect variances between pension plans and other post employment benefits (OPEB) plans. Implementation of GASB Statement No. 43

requires footnote disclosures, schedule of funding progress, and financial statement. (See Note 10)

Governmental Accounting Standard Board Technical Bulletin (GASBTB) 2006-1 Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D

Issued in June 2006 to clarify the application of existing standards of accounting and financial reporting to payments that an employer or a defined benefit other postemployment benefit (OPEB) plan receives from the federal government pursuant to the retiree drug subsidy (RDS) provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Under the subsidy option in Medicare Part D, the federal prescription drug benefit program, the federal government makes payments to enrolled employers that provide drug benefits to persons who would otherwise be eligible to enroll in Medicare Part D. This guidance requires a Plan and an employer to apply the measurement requirements of Statement No. 43 and 45 respectively to determine the actuarial accrued liabilities, the annual required contribution (ARC) of the employer, and the annual OPEB cost *without reduction* for RDS payment. The GASBTB clarifies that the payment is an on-behalf payment for fringe benefits (GASB 24, par. 24) and should be accounted for as voluntary non-exchange transaction with assets and revenue recognized in accordance with paragraph 7 of Statement 33. The Technical Bulletin is effective immediately; however, with the implementation of GASB Statement No. 43, the actuarial study revealed that the subsidy would have no material impact on the District because of the numbers of retirees the District currently has. The District therefore has not applied for such subsidy.

S. NEW ACCOUNTING PRONOUNCEMENTS

Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

Issued in July 2004, this statement is required to be implemented by the District in fiscal year 2008. As discussed in Note 10, the Department of Human Resources (DHR) and Office of Finance and Revenue (OFR) which are jointly responsible for managing OPEB have implemented GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pension Plan. The DHR and OFT published the Plan's financial statements for the fiscal year ended September 30, 2007 separately. The District, as an Employer, will implement GASB Statement No. 45 in fiscal year 2008 as required. This Statement will require the District to report obligations and funding status in the financial statements for the fiscal year 2008.

Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues

Issued in September 2006, this Statement establishes criteria that governments will use to ascertain whether the proceeds should be reported as revenue or as a liability. It also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenue, including residual interests and recourse provisions. The requirements of this Statement improve financial reporting by establishing measurement, recognition, and disclosure requirements that apply to both governmental and business-type activities. The implementation of this Statement is effective for financial statements for periods beginning after December 15, 2006, the District's fiscal year 2008. The District indicated in the fiscal year 2006 CAFR that this Statement was implemented in that fiscal year due to its commitment to comply with the pronouncement. However, the disclosure was erroneously made without regard to the effect of Statement 48 on Tobacco Bonds. Therefore, the District defers the implementation of GASB Statement No. 48 until fiscal year 2008 when it will become effective.

Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations:

Issued on December 1, 2006, this Statement identifies the circumstances under which a government would have to estimate its expected outlays for pollution remediation if it knows a site is polluted. Liabilities and expenses would be estimated using "an expected cash flows" measurement technique, which is used by environmental professionals, but will be employed for the first time by governments. The Statement also requires state and local governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. The implementation of this Statement is effective for financial statements for periods beginning after

December 2007, the District's fiscal year 2009. The provisions of this Statement need not be applied to immaterial terms. The District will implement this pronouncement prior to its due date.

Statement No. 50, Pension Disclosure

Issued in May 2007, this statement amends GASB Statements No. 25 and 27. The new guidance modifies the notes and required supplementary information (RSI) for pension benefits to make them more similar to information required for other postemployment benefits (OPEB). The changes for financial statements of pension plans include a requirement to present a schedule of funding progress as RSI even when a government uses the aggregate actuarial cost method. In this case the schedule of funding progress would be prepared using the entry age actuarial cost method. Also, the notes to the financial statements must include the current year's portion of the schedule of funding progress along with the disclosure of the actuarial methods and assumptions used in the preparation of the actuarial valuation. The statement is effective for both pension plans and employers for fiscal periods beginning after June 15, 2007 which is the District's fiscal year 2008. The statement will be implemented in fiscal year 2008.

Statement No. 51, Accounting and Financial Reporting for Intangible Assets

Issued in June 2007, this statement provides that intangible assets must possess the following characteristics:

- Lack of physical substance
- Be non-financial in character, and
- Have an initial useful life extending beyond a single reporting period.

The Statement further provides that recognition of intangible assets is only appropriate when they are either separable (e.g. can be sold, transferred, or licensed) or represent contractual or other legal rights regardless of transferability or separability. The requirements are mandated to be effective for financial statements for periods beginning after June 15, 2009, the District's fiscal year 2010. Retroactive implementation is only required for intangible assets acquired in fiscal years ending after June 30, 1980. The District plans early implementation of this Statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement No. 52, Land and Other Real Estates Held as Investments by Endowments

Issued in November 2007, this statement requires endowments to report their land and other real estate investments at fair value. Governments are also required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This Statement is effective for financial statements for periods beginning after June 15, 2008, the District's fiscal year 2009. The District will implement this Statement in fiscal year 2009.

T. RESTRICTED NET ASSETS AND FUND BALANCE RESERVATIONS AND DESIGNATIONS

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as:

- *Invested in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* - This category presents net assets subject to external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Non-expendable restricted net assets represent the portion of net assets that must be held in perpetuity in accordance with donor stipulations.
- *Unrestricted Net Assets* - This category represents net assets of the District not restricted for any project or other purpose.

It is the policy of the District to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the governmental fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The amount of fund balance that is

available for future operations is presented as "unreserved." Reservations of fund balance represent amounts that are legally or statutorily identified for specific purposes or portions that are not appropriable for expenditure. These reserved fund balances are imposed by Congress of the United States. Designations of fund balance represent management's intent to fund future projects, but do not represent a legal or statutory requirement to do so.

As of September 30, 2007, the District had established the following fund balance reservations and designations and restricted net assets (see **Tables 40a and 40b** on page 105):

Reservations

Reserve for Long-Term Assets - This portion of fund balance represents those long-term assets that are not available for appropriation and expenditure.

Reserve for Emergency and Contingency Cash Reserve Fund - This portion of fund balance represents amounts that, in accordance with legislative mandate, are held in an emergency and contingency cash reserve funds, to be used for unanticipated and non-recurring, extraordinary needs of an emergency nature.

Reserve for Debt Service-Bond Escrow - This portion of fund balance represents that portion of investments held in escrow that are available for future debt service obligations or requirements.

Reserve for Capital Lease Payment - This portion of fund balance is reserved for the purpose of making lease payments on Saint Elizabeth and DMV Facilities.

Reserve for Other Post Employment Benefits - This portion of reserved fund balance is set aside to fund the District's share of retirees' health and life insurance costs.

Reserve for Subsequent Year's Expenditures - This portion of fund balance represents amounts to be used to finance certain non-recurring policy initiatives and other expenditures included in the FY 2008 budget approved by the District Council and Congress.

Reserve for Inventory - This portion of fund balance represents that portion of inventories that is not available for appropriation and expenditure.

Reserve for Budget - This portion of fund balance represents unused FY 2007 Budget Reserve amounts that are available until expended.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reserve for Purpose Restrictions - This portion of fund balance represents resources from grants and other revenues with limitations on how the District may expend the funds.

Reserve for Charter School Enrollment Expansion - This portion of fund balance is restricted for the purpose of providing start-up costs for new charter schools.

Reserve for Capital Projects - This portion of fund balance is restricted for the purpose of executing capital projects.

Reserve for Tobacco Settlement (TSFC) - This portion of the District's fund balance represents the fund balance reserved for the purpose of paying future debt service and related expenses associated with TSFC's issuance of Tobacco Settlement Asset-Backed Bonds in FYs 2001 and 2006.

Reserve for Tax Increment Financing Program - This portion of fund balance is restricted for debt service on Tax Increment Financing Bonds and Notes.

Reserve for Housing Production Trust Fund - This portion of fund balance is reserved to provide financial assistance to non-profit and for-profit developers for the planning and production of low, very low, and extremely low income housing and related facilities.

Reserve for Community Health - This portion of fund balance is reserved to promote health care and for the delivery of health care related services in the District.

Reserve for Baseball - This portion of fund balance represents the resource that is available for constructing the baseball stadium.

Reserve for Highway Projects - This portion of fund balance is restricted for the purpose of executing federal highway projects.

Designations

Designation for Other Post Employment Benefits - This designation of unreserved fund balance is set aside to fund the District's share of retirees' health and life insurance costs.

Designation for Integrated Service Fund - This designation of unreserved fund balance is set aside to fund interdisciplinary, programs and services designed to meet the needs of at-risk children, youth and their families.

Designation for Budget Support Act - This designation of unreserved fund balance is set aside for various non-lapsing accounts established in the budget support act, which is a local law.

Designation for Supplemental - This designation of unreserved fund balance is set aside to fund the "Fiscal Year 2008 Supplemental Appropriation Emergency Act" passed by the Council in December 2007. The supplemental legislation is subject to a 30-day review period by Congress.

Designation for Fixed Cost - This designation of unreserved fund balance is set aside for unexpended funds appropriated for fixed costs at the end of the fiscal year pursuant to the Commodities Cost Reserve Fund Act of 2005.

Designation for Other Special Purposes - This designation of unreserved fund balance is for activities financed by fees and charges for services.

Restricted Net Assets

Restricted for Workers' Compensation - This portion of fund balance is restricted for the purpose of paying restitution under Workers' Compensation Claims.

Restricted for Future Benefits - This portion of fund balance represents the resource that is available for benefit payments from the Pension and Private Purpose Trust Funds.

U. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, employees may receive post-retirement health care and life insurance benefits. As of September 30, 2007, there were 5,060 pre-87 (Civil Service) and 13,306 post-87 (DC Defined Contribution) employees who are eligible for such benefits. The cost of providing such benefits to employees hired prior to October 1, 1987 is borne by the federal government and the District has no liability for this cost. Pursuant to the D.C. Code 1-622 employees hired after September 30, 1987, who subsequently retire may be eligible to continue their health care benefits. Furthermore, in accordance with D.C. Code 1-623, these employees may convert their group life insurance to individual life insurance. The District therefore bears responsibility for the cost relating to employees hired after September 30, 1987. The District does not record a liability for its portion of the cost of post-retirement benefits but rather records such cost as expenses/expenditures when premiums are paid.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**V. OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

The District provides health and life insurance benefits to retirees first employed by the District after September 30, 1987. The expense of providing such benefits to employees hired prior to October 1, 1987 is defrayed by the federal government and the District has no liability for those employees. The District pays 75% of the cost of health insurance, and 33% of the cost of life insurance, for eligible retirees. The District also pays 75% of the premium for retirees' spouse and dependent health insurance coverage. The District has recognized \$1,466 for post-retirement health and life insurance premiums paid during fiscal year 2007, and as of September 30, 2007, there were 494 retirees that received these benefits. The District has funded the Plan on pay-as-you-go basis, but will start funding on an actuarial basis in its fiscal year beginning October 1, 2007. The District has conducted an actuarial study of its obligations under the Plan and would begin funding the annual required contribution (ARC) beginning fiscal year 2008.

W. USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

X. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**Explanation of certain differences between the governmental funds balance sheet and governmental activities on the government-wide statement of net assets**

The governmental funds balance sheet includes reconciliation between fund balances - total governmental funds, and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that certain liabilities are not reported under the modified accrual accounting basis including deferred revenue, but are reported in the government-wide financial statements. The difference in deferred revenue of \$31,057 between the two statements is a reconciling item.

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and governmental activities on the government-wide statement of activities

The governmental funds statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

The details of the \$593,157 difference related to capital outlay are as follows:

| | |
|----------------------------|--------------------------|
| Capital outlay capitalized | \$ 833,088 |
| Less: Depreciation expense | (260,821) |
| Equipment additions | 24,651 |
| Transfers/Dispositions | (3,761) |
| Net adjustment | \$ <u>593,157</u> |

Deferred property tax revenues which were earned but which current financial resources are not available for the purpose of recognition in the governmental funds were recognized in the government-wide financial statements. Such revenue decreased by \$6,575 from fiscal year 2006 as a result of a change in the amount deferred in the governmental funds between 2006 and 2007.

The details of the \$(388,971) difference related to capital debt are as follows:

| | |
|---|----------------------------|
| Bonds issued | \$ (861,735) |
| Equipment financing program | (42,470) |
| Premium on long term debt | (16,063) |
| Less: | |
| G.O. bonds advance refunding | 258,555 |
| Principal payments on G.O. bonds | 202,805 |
| Principal payments on other long-term liabilities | 38,352 |
| Principal payments on equipment financing program | 23,301 |
| Principal payments on capital lease | 8,074 |
| Fiscal charges - net | 210 |
| Net adjustment | \$ <u>(388,971)</u> |

| |
|---|
| NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES |
|---|

The details of the \$(52,267) difference related to the change in accrued liabilities are as follows:

| | |
|--|---------------------------|
| Annual leave | \$ (11,457) |
| Future disability benefits | 3,223 |
| Capital Appreciation Bond (CAB) interest accretion | (21,413) |
| Accrued interest | (5,859) |
| Grant disallowances | (3,217) |
| Claims and judgments | (1,586) |
| Unfunded pension expense | (7,464) |
| Verizon Liability | (4,494) |
| Net adjustment | \$ <u>(52,267)</u> |

**Y. BUDGETARY COMPARISON STATEMENT –
RECONCILIATION OF BUDGETARY BASIS
TO GAAP BASIS**

The following presents a GAAP basis reconciliation of the budgetary basis operating results as shown in the Budgetary Comparison Statement.

| | <u>GENERAL FUND</u> | <u>FEDERAL AND PRIVATE RESOURCES</u> |
|--|-------------------------|--|
| EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES - BUDGETARY BASIS | \$ 280,854 | \$ 22,896 |
| Basis differences: | | |
| Inventory is recorded using the purchase method for budgetary purposes and the consumption method on a GAAP basis | 6,358 | (3,868) |
| Transfers -other financing sources/uses | (31,707) | (29,107) |
| Accounts receivable allowance | (1,034) | - |
| Debt related adjustments | (372) | - |
| Fund balance released from restrictions - a funding source for budgetary purposes but is not revenue on a GAAP basis | (122,412) | (17,837) |
| State education loan program | (1,472) | 855 |
| Housing Related Expenses | (48,397) | - |
| Entity differences: | | |
| Operating cost from enterprise funds that are excluded on a budgetary basis | (22,960) | - |
| EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES - GAAP BASIS | \$ <u>58,858</u> | \$ <u>(27,061)</u> |

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Z. RESTATEMENT

Component Units

Certain errors were discovered in the prior year financial statement of the Housing Finance Agency (HFA), a component unit. The errors were related to the calculation of the outstanding accreted interest. As a result of these errors, the net assets of the HFA unit were restated.

During fiscal year 2007, NCRC and EDFC which were excluded from component units in the previous year were included in the fiscal year ended September 30, 2007. Consequently, the net assets were restated (See Note 1B).

The beginning assets of the aforementioned component units were restated as follows:

| | |
|--|----------------------------|
| October 1, 2006, as previously reported | \$ 1,470,063 |
| Housing Finance Agency | (3,470) |
| National Capital Revitalization Corporation (NCRC) | 156,986 |
| Economic Development Finance Corporation (EDFC) | 10,557 |
| October 1, 2006, as restated | <u>\$ 1,634,136</u> |

Proprietary Fund

During fiscal year 2007, the J. B. Johnson Nursing Center discovered that it incorrectly recorded depreciation expense in prior years. As a result of these errors, the net assets of the proprietary fund were restated as follows:

| | |
|---|--------------------------|
| October 1, 2006, as previously reported | \$ 394,329 |
| Error due to depreciation expense | 114 |
| October 1, 2006, as restated | <u>\$ 394,443</u> |

Pension Funds

During fiscal year 2007, the Teachers Retirement Board was engaged to review active participant data in order to verify eligibility. The actuary noted a number of participants who should have been enrolled in the Plan, but were wrongly enrolled in the defined contribution plan of the District. The actuary also noted a number of active participants whose contribution rates were wrongly coded and those who should not have enrolled in the Plan. The actuary used the Entry Age Normal method to estimate the accrued liabilities. The total actuarial impact is estimated to be approximately \$7,464. As a result of these errors, the net assets of the pension funds were restated as follows:

| | |
|---|----------------------------|
| October 1, 2006, as previously reported | \$ 3,589,350 |
| Error due to actuarial studies | 7,464 |
| October 1, 2006, as restated | <u>\$ 3,596,814</u> |

NOTE 2. CASH AND INVESTMENTS

A. CASH

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operating efficiency and to maximize investment opportunities. Of \$4,491,775 within the custody of the District, in accordance with District policies, substantially all deposits as of September 30, 2007 were insured or collateralized with securities held by the District or by its agent in the District's name. At September 30, 2007, the carrying amounts of cash for the primary government and fiduciary funds were \$3,762,341 and the bank balances were \$3,306,379. The carrying amount of cash (deposits) for the component units was \$729,434 and the bank balance was \$729,486.

B. INVESTMENTS

District of Columbia laws authorize the Treasurer to invest funds in a manner that will provide preservation of principal and meet anticipated daily cash requirements of the District, while maximizing investment earnings. The District purchases legally authorized investments consistent with the provisions of the "Financial Institutions Deposit and Investment Act of 1997" (D.C. Law 12-56), which became effective March 18, 1998. The District's current investment policy limits investments to obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities. During the fiscal year, the District's investments (other than those held by the Retirement Board) consisted primarily of money market funds and/or obligations backed by United States

NOTE 2. CASH AND INVESTMENTS

government or its agencies. The Retirement Board is authorized to invest in a variety of investments including fixed income, equity securities and other types of investments. As prescribed in D.C. Code 1-907.01 (2001 Ed), the Board may not invest in debt instruments of the District, the Commonwealth of Virginia or State of Maryland governments, political subdivisions thereof, or any entity subject to control by them; debt instruments fully guaranteed by those governments; real property in those jurisdictions; or debt instruments secured by real property in those jurisdictions.

The District and its discretely presented component units' investments are subject to interest rate, credit, custodial credit, and foreign currency risks as described below:

- *Interest Rate Risk* - The District limits exposure to fair value losses arising from rising interest rates. During the fiscal year, the District's investments, other than those held by the Retirement Board, were limited to U.S. government and agency securities and money market funds with original maturities of 90 days or less. The Retirement Board's fixed income managers must construct and actively manage a portfolio of fixed income and related securities that maintains a weighted average duration within +/-2 years of the duration of the fixed income benchmark.
- *Credit Risk* - The District invests in obligations of the United States government and agencies securities, prime commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's, banker's acceptances, and repurchase agreements. During the fiscal year, the District's investments (other than those held by the Retirement Board) were limited to U.S. government and agency securities and money market funds with original maturities of 90 days or less. For the Retirement Board, fixed income managers are permitted to invest in eligible long-term instruments rated investment grade (top four ratings) by nationally recognized rating organizations.
- *Custodial Credit Risk* - Custodial credit risk occurs in the event that investment securities are uninsured and/or not registered in the name of the government, and there is failure of the counterparty. In such a case, the government will not be able to recover the value of its investments or collateral securities held in the possession of an outside party. The District had no custodial credit risk exposure during the fiscal year. The District collateralized all required investments during fiscal year 2007. All collateral for investments is held in the District's name by the Federal Reserve in a custodial account. Any funds not invested at the end of the day are placed in overnight investments in the District's name.
- *Foreign Currency Risk* - As a general policy of the Retirement Board, the Board managers, with authority to invest in a portfolio consisting primarily of non-U.S. securities, structure optional currency positions which minimize tracking error and enhance risk-adjusted returns relative to the benchmark.

In connection with its Public Charter Schools Credit Enhancement and Direct Loan Program, the District invested a net amount of approximately \$9.7 million with Geneva Capital Partners, LLC. Geneva subsequently executed an agreement with the District through which it pledged certain mortgage notes with a total face value of approximately \$15.3 million as collateral for the District's investment. However, based on certain on-going legal proceedings involving Geneva, the disposition of the District's assets owned by or in the custody of Geneva is uncertain, and the market value, negotiability and liquidity of the notes pledged by Geneva as collateral for the District's investment are uncertain. Since the Authority investigating the issues surrounding the investment would not disclose the amount the District would recover if any, the District considered the value of this investment to be zero and therefore decided to write off the carrying value of the investment.

- *Concentration of Credit Risk* - The District's investment policy does not allow for an investment in any one institution that is in excess of five percent of the District's total investment.

| |
|-------------------------------------|
| NOTE 2. CASH AND INVESTMENTS |
|-------------------------------------|

Table 2a – Cash and Investments Details

| | <u>Total Carrying Value</u> |
|--|-----------------------------|
| INVESTMENTS | |
| Primary Government: | |
| U. S. government securities | \$ 31,155 |
| Corporate securities | 285 |
| Mutual funds | <u>26,994</u> |
| Total Primary Government | \$ 58,434 |
| Fiduciary Funds: | |
| Pension trust funds investments held by Board's agent in Board's name: | |
| Equities (of which \$381,826 is on securities loan with securities and other collateral) | 3,189,331 |
| Fixed income securities (of which \$82,020 is on securities loan with securities and other collateral) | 600,779 |
| Pension trust funds investments held by broker-dealer under securities loans with cash collateral: | |
| Equity securities | 527,947 |
| Fixed income securities | 153,612 |
| Securities lending collective investment pool | 478,716 |
| Private purpose trust funds investments | <u>101,241</u> |
| Total Fiduciary Funds | 5,051,626 |
| Component Units: | |
| U. S. government securities | 62,190 |
| Corporate securities | 276,161 |
| Investment contracts | 425,056 |
| Mutual funds | <u>202,611</u> |
| Total Component Units | 966,018 |
| Total reporting entity investments | \$ <u>6,076,078</u> |
| CASH BALANCES | |
| Primary government | \$ 3,454,254 |
| Fiduciary Funds | 308,087 |
| Component units | <u>729,434</u> |
| Total cash balances | \$ <u>4,491,775</u> |

NOTE 2. CASH AND INVESTMENTS

Table 2b – Reconciliation of the District’s deposit and investment balances

| | | | | |
|--|----------------------------|-----------|-------------------------|-----------------------------|
| Total investments per Table 2a | | | \$ | 6,076,078 |
| Total cash balances | | | | 4,491,775 |
| Total | | | \$ | <u>10,567,853</u> |
| | <u>Exhibit 1-a</u> | | <u>Exhibit 4-a</u> | <u>Total</u> |
| Cash and cash equivalents | \$ 882,025 | \$ | - | \$ 882,025 |
| Investments | 92,212 | - | - | 92,212 |
| Cash and cash equivalents (restricted) | 3,301,663 | | 308,087 | 3,609,750 |
| Investments (restricted) | 932,240 | | 5,051,626 | 5,983,866 |
| Total | \$ <u>5,208,140</u> | \$ | <u>5,359,713</u> | \$ <u>10,567,853</u> |

Derivative Financial Instruments

In accordance with the policies of the Retirement Board and pursuant to D. C. Code Section 1-741(a)(2)(C), during 2007, the Pension Trust Funds held certain derivative investments to increase potential earnings or to hedge against potential losses. Derivative investments are defined as financial instruments, the values of which depend on or are derived from the value of an underlying asset, reference rate, or index. Derivative investments often contain exposure to market risk resulting from fluctuations in interest and currency exchange rates or changes in the price or principal value of a security. The investment credit risk results from the creditworthiness of the counterparties to the contracts and, for asset backed securities and collateralized mortgage obligations, the creditworthiness of the related consumers and mortgages. The Retirement Board maintains that all contracts are legally permissible in accordance with its policy.

In fiscal year 2007, these derivatives included asset-backed securities (ABS), collateralized mortgage-backed securities (CMOs), mortgage-backed pools and securities, floating rate notes, structured notes, stripped/zero coupon bonds, inflation index bonds, forward mortgage-backed security contracts (TBAs), foreign currency forward and futures contracts, equity index futures, bond futures, bond options, currency options, and warrants.

The Pension Trust Funds used asset backed securities (ABS), collateralized mortgage obligations (CMOs), mortgage-backed pools and securities, structured notes, stripped/zero coupon bonds, inflation index bonds, mortgage backed security forward contracts, foreign currency futures/forward contracts, and options primarily to increase potential returns. ABS and mortgage-backed pools and securities offer higher potential yields than comparable duration U. S. Treasury Notes with higher credit and market risks. CMOs also offer higher potential yields than comparable duration U. S. Treasury Notes,

with higher market risks, although the market risks may be higher or lower than comparable mortgage-backed pools. Market risk for asset backed and mortgage backed pools and securities are managed by monitoring the duration of the investments. Credit risk is managed by monitoring credit ratings, the underlying collateral for each security and any related guarantee.

The Pension Trust Funds invest in structured notes with step-up coupons that offer higher yields than comparable U. S. Treasury Notes in exchange for higher market and/or credit risks. Securities with step-up coupons pay interest according to a pre-set series of interest rates, which start at one rate and then step-up to higher rates on specific dates. The Funds also contain stripped/zero coupon bonds, which are purchased at a discount and do not pay an interest rate.

Foreign currency forward and futures contracts and foreign currency options are used by the Retirement Funds for defensive purposes. These contracts hedge a portion of the Retirement Funds’ exposure to particular currencies on occasion when significant adverse short-term movement in exchange rate levels are expected. Foreign currency forward and futures contracts can pose market risk when the maximum potential loss on a particular contract is greater than the value of the underlying investment. Market risks arise due to movements in the foreign exchange rates underlying the contracts used by the Retirement Funds. Credit risk is managed by limiting transactions to counterparties with short-term credit ratings of A1 or P1 or by trading on organized exchanges. Market risk for currency options is limited to the purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

Exchange-traded and over-the-counter bond futures and options are used by the Retirement Funds to gain exposure to fixed income markets in a more efficient and

NOTE 2. CASH AND INVESTMENTS

liquid manner than by purchasing the underlying bonds. Market risk for these options is limited to purchase cost. Credit risk is managed by limiting transactions to counterparties with investment grade ratings or by trading on organized exchanges.

The Pension Trust Funds also hold derivative investments indirectly by participating in pooled, commingled, mutual or short-term funds that hold derivatives. Information regarding any risks associated with these holdings is not generally available.

At September 30, 2007, the Pension Trust Funds' portfolio included \$367,688 of derivative investments, or 7.55% of the pension investment portfolio. The proportion of derivative investments varied at times throughout the year.

Derivative investments by type at September 30, 2007 are shown in **Table 3**.

Table 3 – Derivative Investments by Type

| <u>Derivative Instrument Type</u> | |
|---|-------------------|
| Asset-backed securities | \$ 52,220 |
| Collateralized mortgage obligations | 81,638 |
| Mortgage-backed security pools and securities | 197,649 |
| Inflation index bonds | 31,156 |
| Total Return Swaps, net | 17 |
| Interest rate swaps | 4,266 |
| Options | 442 |
| Total Derivatives | \$ 367,388 |

C. SECURITIES LENDING

During the fiscal year 2007, the master custodian, at the direction of the Retirement Board, lent the Retirement Funds equity and fixed income securities and received collateral in the form of cash (United States and foreign currency), securities issued or guaranteed by the United States government, the sovereign debt of Organization of Economic Cooperation and Development countries and irrevocable letters of credit issued by a bank insured by the FDIC. The collateral could not be pledged or sold unless the borrower defaulted on the loan. Borrowers delivered collateral for each loan equal to (i) at least 102% of the market value of the loaned securities if these securities were sovereign debt issued by a foreign government denominated in U.S. dollars or their primary trading market was located in the United States; or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States.

The Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool (the Quality D Fund).

Because the Quality D Fund does not meet the requirements of Securities and Exchange Commission Rule 2a-7 of the Investment Company Act of 1940, the master custodian has valued the Fund's investments at fair value for reporting purposes.

The Quality D Fund is not registered with the Securities and Exchange Commission. The master custodian, and consequently the investment vehicles it sponsors (including the Quality D Fund), are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Funds' position in the Quality D Fund is not the same as the value of the Retirement Funds' shares.

There was no involuntary participation in an external investment pool by the Quality D Fund and there was no income from one fund that was assigned to another fund by the master custodian during fiscal year 2007.

During fiscal year 2007, the Board did not restrict the amount of the loans that the master custodian made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses resulting from a default of the borrowers or the master custodian during 2007.

NOTE 2. CASH AND INVESTMENTS

The Quality D Fund invests qualified cash collateral from loans of U.S. and non-U.S. equities, U.S. corporate fixed income securities, U.S. Government securities and sovereign debt. It had a weighted average maturity of 55 days and an average expected maturity of 514 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

Investments are restricted to issuers with a short-term credit rating not lower than A1/P1, or long-term ratings not lower than A-/A3, or the equivalent thereof. The Quality D Fund may invest in other investment vehicles managed by the master custodian provided they conform to fund guidelines. On September 30, 2007, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the

Board was \$543,784 and \$526,687, respectively, as of September 30, 2007.

The collateral held is included in cash and investments shown in Table 2a and Exhibit 4-a, and the securities on loan are reported at their carrying amounts also in Table 2a and Exhibit 4-a.

During fiscal year 2007, the Master Trust's gross earnings from securities lending transactions totaled \$26,764. The income (net of amortization and accretion), the net realized/unrealized gain attributable to discount and premium, and the net increase in net assets resulting from operations totaled \$28,643, \$667, and \$29,310 respectively, in 2007. The Fund's share of the net earnings on securities lending transactions totaled \$815 in fiscal year 2007.

NOTE 3. RESTRICTED ASSETS

At September 30, 2007, restricted assets of the primary government, component units, and fiduciary funds totaled \$9,593,616 as summarized in Table 4.

Table 4 – Summary of Restricted Assets

| | Governmental Funds/Governmental Activities | | | | | |
|-------------------------|--|-----------------------------|------------------------------|-------------------|-------------------|---------------------|
| | General | Federal & Private Resources | General Capital Improvements | Baseball | Non-Major | Total |
| Bond Escrow Accounts | \$ 326,768 | \$ - | \$ - | \$ - | \$ - | \$ 326,768 |
| Public Transportation | - | - | 1,045,481 | - | 19,565 | 1,065,046 |
| Emergency Cash Reserves | 309,383 | - | - | - | - | 309,383 |
| Others | 310,879 | - | - | 184,385 | 231,402 | 726,666 |
| Total | \$ 947,030 | \$ - | \$ 1,045,481 | \$ 184,385 | \$ 250,967 | \$ 2,427,863 |

| | Proprietary Funds/Business-Type Activities | | | | Fiduciary Funds | Component Units |
|-------------------------------|--|---------------------------|-----------------|-------------------|---------------------|---------------------|
| | Lottery & Games | Unemployment Compensation | Nonmajor | Total | | |
| Bond Escrow Accounts | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,310,574 |
| Unpaid Prizes | 46,725 | - | - | 46,725 | - | - |
| University Endowment Benefits | - | 405,244 | - | 405,244 | 5,359,713 | 39,065 |
| Other | - | - | 4,432 | 4,432 | - | - |
| Total | \$ 46,725 | \$ 405,244 | \$ 4,432 | \$ 456,401 | \$ 5,359,713 | \$ 1,349,639 |

The bond escrow accounts include bond escrow for capital lease payment of \$16,822.

NOTE 4. COMPONENT UNITS AND RECEIVABLES AND INTERFUND BALANCE**A. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS**

Due to/due from and interfund receivable and payable balances for each fund and individual component unit at September 30, 2007 are shown in **Table 5**.

Table 5 – Summary of Due To /Due From and Interfund Balances

| Fund or Component Unit | Primary Government/ Component Units | | Interfund | |
|---|--|------------------|-------------------|-------------------|
| | Receivables | Payables | Receivables | Payables |
| General | \$ 5,165 | \$ 15,785 | \$ 368,507 | \$ 30,409 |
| Federal & Private Resources | - | 21,267 | 12,268 | 52,056 |
| General Capital Improvements | 1,073 | - | 845 | 251,315 |
| Capital Projects, Highway | - | - | 6,660 | 845 |
| Capital Projects, Baseball Fund | 3,678 | 26,985 | - | 47,982 |
| Nursing Homes | - | - | 151 | - |
| Baseball Fund | 87 | - | 3,865 | - |
| Housing Production Trust Fund | - | - | 11,563 | - |
| Community Healthcare Fund | - | - | 45,195 | - |
| Unemployment Compensation | - | - | 1,245 | 12,439 |
| Pension Trust Funds | - | - | - | 5,900 |
| Tax Increment Financing Fund - Community Fund | - | - | 2,230 | - |
| National Capital Revitalization Corporation | 21,267 | - | - | - |
| Agency | - | - | 4,694 | - |
| Other Post-Employment Benefits | - | - | - | 56,277 |
| Water and Sewer Authority | 6,564 | 1,017 | - | - |
| Sports and Entertainment Commission | 26,985 | 7,913 | - | - |
| Washington Convention Center | 7,184 | - | - | - |
| University of the District of Columbia | 2,037 | 1,073 | - | - |
| Total | \$ 74,040 | \$ 74,040 | \$ 457,223 | \$ 457,223 |

The above balances represent the impact of transactions among the funds and component units which will be settled during fiscal year 2008.

B. RECEIVABLES

Receivables are valued at their estimated collectible amounts. These receivables are presented in various funds as shown in **Table 6**.

Table 6 – Receivables

| | General | Federal & Private Resources | General Capital Improvements | Baseball Capital | Nonmajor Governmental Funds | Lottery & Games | Unemployment Compensation | Nonmajor Proprietary Fund | Fiduciary Funds |
|--------------------------------------|-------------------|-----------------------------------|---------------------------------|---------------------|-----------------------------------|--------------------|------------------------------|---------------------------------|--------------------|
| Gross Receivable | | | | | | | | | |
| Taxes | \$ 395,826 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest | - | - | - | - | 116 | - | - | - | 13 |
| Accounts | 202,528 | 236,019 | 8,683 | 122 | 34,822 | 5,728 | 19,972 | 5,938 | 2,658 |
| Federal | 18,317 | 357,619 | 39,781 | - | - | - | - | - | - |
| Total gross receivable | 616,671 | 593,638 | 48,464 | 122 | 34,938 | 5,728 | 19,972 | 5,938 | 2,671 |
| Less-allowance for uncollectibles | 279,984 | 151,330 | 6,136 | - | - | - | 12,845 | 1,269 | - |
| Total net receivable | \$ 336,687 | \$ 442,308 | \$ 42,328 | \$ 122 | \$ 34,938 | \$ 5,728 | \$ 7,127 | \$ 4,669 | \$ 2,671 |

| |
|--|
| NOTE 4. COMPONENT UNITS AND RECEIVABLES AND INTERFUND BALANCE |
|--|

C. INTERFUND TRANSFERS

Table 7 shows a summary of interfund transfers for the fiscal year ended September 30, 2007.

Table 7 – Summary of Interfund Transfers

| TRANSFER FROM (OUT) | TRANSFER TO (IN) | PURPOSE | AMOUNT |
|---------------------------------------|---------------------------------|---|--------------------------|
| General Fund | Highway Trust Fund | Motor fuel taxes dedicated to the Highway Trust Fund | \$ 26,776 |
| Lottery and Games | General Fund | DC Lottery and Games excess revenues, after operating cost, to the General Fund | 65,376 |
| Capital Projects-Community Healthcare | Community Healthcare Fund | Tobacco Settlement bonds for Operating Expenditures | 45,195 |
| Capital Projects-Community Healthcare | General Fund | Tobacco Settlement bonds for Operating Expenditures | 3,806 |
| General Fund | Capital Projects | PAYGO - Capital Projects Financed by the General Fund | 218,861 |
| General Fund | Ballpark Fund | Taxes imposed for the Baseball Stadium Project | 45,952 |
| Federal & Private Resources Fund | General Fund | General Fund monies transferred from Federal & Private Funds | 4,707 |
| General Fund | Tax Increment Financing Program | Tax imposed to pay bonds on economic development tasks | 19,301 |
| Capital Projects- Ballpark | General Fund - Contingency | Replenishment of the Contingency Fund | 7,337 |
| Ballpark Fund | General Fund - Contingency | Replenishment of the Contingency Fund | 7,534 |
| Ballpark Fund | Baseball Debt Service | Funds of debt service payments | 34,366 |
| General Fund | Housing Production Trust Fund | Housing Production Trust Fund | 123,997 |
| General Fund | Housing Production Trust Fund | Housing Production Trust Fund - Allocated Funds | 10,750 |
| Federal & Private Resources Fund | Housing Production Trust Fund | Housing Production Trust Fund | 24,400 |
| General Fund | Tax Increment Financing Program | Ballpark Community Fund | 2,230 |
| General Fund | Capital Projects | Taxes imposed for Capital Projects | 32,550 |
| General Fund | Highway Trust Fund | Taxes imposed for Capital Projects | 13,942 |
| General Fund | Highway Trust Fund | Transfer funds for DDOT Operating Fund | 7,149 |
| TOTAL INTERFUND TRANSFERS | | | \$ <u>694,229</u> |

NOTE 5. CAPITAL ASSETS**Capital Outlays**

Capital outlays totaled \$1,024,541 for the fiscal year ended September 30, 2007, which are reported in the General Capital Improvements, Baseball Capital Project and Other Nonmajor Governmental Funds. As construction progresses, the cumulative expenditures are capitalized as construction in progress in the Governmental Activities column of the Government-Wide Financial Statements. Upon completion of the project, the balance in the Construction in Progress account is transferred to an appropriate descriptive capital asset account such as building, equipment or infrastructure.

Impaired Capital Assets

On April 30, 2007, the Eastern Market and the Georgetown library were both damaged by fire. The building housing the Eastern Market was totally destroyed. The carrying value of Eastern Market, which was the amount of the impaired loss, was \$298 as of September 30, 2007. The Georgetown library sustained

extensive water and smoke damage though the structural integrity of the building remained intact. It was estimated that the impaired loss was 10% of the carrying value of the building. The amount was \$19 and the carrying value after the loss was \$174. The building is currently undergoing renovations.

In FY06, the public school administration closed three buildings. These closures were classified as temporary impairments pending a review of their disposition. During FY07, the status of two of the schools remained unchanged, while one of the schools – R.H. Terrell Jr. HS will be razed and rebuilt. The carrying value of the R.H. Terrell building was \$1,973, and was recognized as impaired loss.

Due to the immateriality of the total loss, we classified these losses as functional expenses in the statement of activities in accordance with paragraph 17 of the GASB Statement no. 42.

A. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY CLASS

Table 8 presents the changes in the governmental activities capital assets by category for the primary government:

Table 8 - Changes in the Governmental Activities Capital Assets by Asset Class

| Asset Class | Balance October 1, 2006 | Additions | Transfers/ Dispositions | Transfers from CIP | Balance September 30, 2007 |
|---|----------------------------|-------------------|----------------------------|-----------------------|-------------------------------|
| Non-depreciable: | | | | | |
| Land | \$ 219,938 | \$ - | \$ (18) | \$ - | \$ 219,920 |
| Construction in progress | 1,320,483 | 833,088 | (88) | (300,721) | 1,852,762 |
| Total non-depreciable | 1,540,421 | 833,088 | (106) | (300,721) | 2,072,682 |
| Depreciable: | | | | | |
| Infrastructure | 3,274,598 | - | - | 176,080 | 3,450,678 |
| Buildings | 2,676,224 | - | (4,781) | 28,688 | 2,700,131 |
| Equipment | 968,568 | 24,651 | (36,548) | 95,953 | 1,052,624 |
| Total depreciable | 6,919,390 | 24,651 | (41,329) | 300,721 | 7,203,433 |
| Less accumulated depreciation for: | | | | | |
| Infrastructure | 1,481,671 | 84,612 | - | - | 1,566,283 |
| Buildings | 975,062 | 47,671 | (2,275) | - | 1,020,458 |
| Equipment | 456,337 | 128,538 | (35,399) | - | 549,476 |
| Total accumulated depreciation | 2,913,070 | 260,821 | (37,674) | - | 3,136,217 |
| Total depreciable, net | 4,006,320 | (236,170) | (3,655) | 300,721 | 4,067,216 |
| Net governmental activities capital assets | \$ 5,546,741 | \$ 596,918 | \$ (3,761) | \$ - | \$ 6,139,898 |

NOTE 5. CAPITAL ASSETS

B. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS BY FUNCTION

Table 9 presents the changes in the governmental activities capital assets by function for the primary government:

Table 9- Governmental Activities Capital Assets by Function

| Function | Balance October 1, 2006 | Additions | Transfers/ Dispositions | CIP Transfers in (out) | Balance September 30, 2007 |
|-------------------------------------|-------------------------------|-------------------|----------------------------|------------------------------|----------------------------------|
| Governmental direction and support | \$ 698,211 | \$ 3,858 | \$ (2,490) | \$ 65,292 | \$ 764,871 |
| Economic development and regulation | 95,413 | 2,688 | (703) | 5,216 | 102,614 |
| Public safety and justice | 646,019 | 6,547 | (20,253) | 17,523 | 649,836 |
| Public education system | 1,219,891 | 8,515 | (8,244) | 8,191 | 1,228,353 |
| Human support services | 638,740 | 2,797 | (6,780) | 16,070 | 650,827 |
| Public works | 3,841,054 | 246 | (2,877) | 188,429 | 4,026,852 |
| Construction in progress (CIP) | 1,320,483 | 833,088 | (88) | (300,721) | 1,852,762 |
| Total | \$ 8,459,811 | \$ 857,739 | \$ (41,435) | \$ - | \$ 9,276,115 |

C. GOVERNMENTAL ACTIVITIES CAPITAL ASSETS ACCUMULATED DEPRECIATION BY FUNCTION

A summary of changes in governmental activities capital assets depreciation by function for the primary government is shown in Table 10.

Table 10 – Governmental Activities Capital Assets Accumulated Depreciation By Function

| Function | Balance October 1, 2006 | Additions | Transfers/ Dispositions | Balance September 30, 2007 |
|-------------------------------------|-------------------------------|-------------------|----------------------------|----------------------------------|
| Government direction and support | \$ 190,306 | \$ 79,480 | \$ (2,071) | \$ 267,715 |
| Economic development and regulation | 24,418 | 3,846 | (472) | 27,792 |
| Public safety and justice | 275,032 | 27,895 | (21,071) | 281,856 |
| Public education system | 471,741 | 28,894 | (5,551) | 495,084 |
| Human support services | 278,888 | 15,034 | (5,911) | 288,011 |
| Public works | 1,672,685 | 105,672 | (2,598) | 1,775,759 |
| Total | \$ 2,913,070 | \$ 260,821 | \$ (37,674) | \$ 3,136,217 |

NOTE 5. CAPITAL ASSETS**D. BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS**

Business-Type Activities Capital Assets are presented in Table 11.

Table 11 - Business-Type Activities Capital Assets

| Asset Class | 2006 Restated | Additions | Dispositions/ Adjustments | Balance 2007 |
|--|------------------|-----------------|------------------------------|------------------|
| Lottery: | | | | |
| Depreciable: | | | | |
| Equipment | \$ 3,242 | \$ 129 | \$ - | \$ 3,371 |
| Total | 3,242 | 129 | - | 3,371 |
| Nonmajor business-type | | | | |
| Non-depreciable: | | | | |
| Land | 1,264 | - | - | 1,264 |
| Depreciable: | | | | |
| Building | 44,743 | 1,280 | - | 46,023 |
| Equipment | 4,921 | 562 | - | 5,483 |
| Total Depreciable, nonmajor business-type | 49,664 | 1,842 | - | 51,506 |
| Total Business-Type | 54,170 | 1,971 | - | 56,141 |
| Less: accumulated depreciation for: | | | | |
| Equipment, as restated | (6,386) | (502) | 578 | (6,310) |
| Building | (30,279) | (1,768) | (573) | (32,620) |
| Total accumulated depreciation | (36,665) | (2,270) | 5 | (38,930) |
| Net capital assets | \$ 17,505 | \$ (299) | \$ 5 | \$ 17,211 |

E. DISCRETELY PRESENTED COMPONENT UNITS CAPITAL ASSETS

A summary of capital assets by class for the discretely presented component units is shown in Tables 12 and 13.

Table 12 - Capital Assets by Class for the Discretely Presented Component Units

| Asset Class | Balance October 1, 2006 Restated | Additions | Transfers/ Dispositions | CIP Transfers in (out) | Balance September 30, 2007 |
|-------------------------------------|--|-------------------|----------------------------|------------------------------|----------------------------------|
| Land | \$ 89,350 | \$ 19,851 | \$ (5,275) | \$ - | \$ 103,926 |
| Utility plant | 2,330,358 | 1,592 | - | 201,141 | 2,533,091 |
| Buildings | 981,458 | 15,520 | (7,276) | - | 989,702 |
| Equipment | 157,841 | 3,208 | (5,726) | 10,993 | 166,316 |
| Artwork | 2,725 | 16 | - | - | 2,741 |
| Construction in progress | 577,294 | 198,470 | - | (212,134) | 563,630 |
| Total | 4,139,026 | 238,657 | (18,277) | - | 4,359,406 |
| Less: accumulated depreciation for | | | | | |
| Utility plant | (675,192) | (39,396) | - | - | (714,588) |
| Buildings | (207,835) | (36,226) | 503 | - | (243,558) |
| Equipment | (120,277) | (14,162) | 1,185 | - | (133,254) |
| Total accumulated depreciation | (1,003,304) | (89,784) | 1,688 | - | (1,091,400) |
| Net Capital Assets, restated | \$ 3,135,722 | \$ 148,873 | \$ (16,589) | \$ - | \$ 3,268,006 |

NOTE 5. CAPITAL ASSETS

Table 13 - Capital Assets by Component Unit

| Component Units | Balance October 1, 2006 Restated | Additions | Transfers/ Dispositions | Balance September 30, 2007 |
|---|--|-------------------|----------------------------|----------------------------------|
| University of the District of Columbia | \$ 170,983 | \$ 4,175 | \$ (157) | \$ 175,001 |
| Washington Convention Center | 845,474 | 5,324 | - | 850,798 |
| Water and Sewer Authority | 2,945,662 | 180,471 | - | 3,126,133 |
| Sports and Entertainment Commission | 63,381 | 201 | (534) | 63,048 |
| Anacostia Waterfront Corporation | 214 | 17,543 | - | 17,757 |
| Housing Finance Agency | 5,182 | 180 | - | 5,362 |
| National Capital Revitalization Corporation | 108,130 | 30,763 | (17,586) | 121,307 |
| Total capital assets, restated | 4,139,026 | 238,657 | (18,277) | 4,359,406 |
| Less-accumulated depreciation for: | | | | |
| University of the District of Columbia | (105,609) | (5,173) | (482) | (111,264) |
| Washington Convention Center | (103,676) | (28,090) | - | (131,766) |
| Water and Sewer Authority | (753,028) | (49,355) | - | (802,383) |
| Sports and Entertainment Commission | (36,489) | (4,930) | 534 | (40,885) |
| Anacostia Waterfront Corporation | (71) | (1,836) | - | (1,907) |
| Housing Finance Agency | (2,689) | (191) | - | (2,880) |
| National Capital Revitalization Corporation | (1,742) | (209) | 1,636 | (315) |
| Total accumulated depreciation | (1,003,304) | (89,784) | 1,688 | (1,091,400) |
| Net component units capital assets, restated | \$ 3,135,722 | \$ 148,873 | \$ (16,589) | \$ 3,268,006 |

The beginning balances include the capital assets of the NCRC which was not regarded as discretely presented component unit as of September 30, 2006.

NOTE 5. CAPITAL ASSETS**F. CONSTRUCTION IN PROGRESS**

Construction in progress by function for governmental activities capital assets is shown in **Table 14**.

Table 14 – Construction in Progress by Function

| Function and Subfunction | Number of Projects | Authorizations | Expenditures | | | | Unexpended Balance |
|--|--------------------|---------------------|---------------------|-------------------|--------------------------------|---------------------|---------------------|
| | | | Prior Year | Current Year | Transfers from CIP/Disposition | Total | |
| PRIMARY GOVERNMENT | | | | | | | |
| Governmental Direction and Support | | | | | | | |
| Legislative | 2 | \$ 18,030 | \$ 1,861 | \$ 1,515 | \$ - | \$ 3,376 | \$ 14,654 |
| Finance | 13 | 196,944 | 2,745 | 33,711 | (35,786) | 670 | 196,274 |
| Personnel | 1 | 8,829 | 8,204 | 152 | - | 8,356 | 473 |
| Administrative | 62 | 1,276,319 | 326,434 | 333,226 | (51,079) | 608,581 | 667,738 |
| Total | 78 | 1,500,122 | 339,244 | 368,604 | (86,865) | 620,983 | 879,139 |
| Public Safety and Justice | | | | | | | |
| Police | 7 | 34,281 | 583 | 8,027 | (7,833) | 777 | 33,504 |
| Medical Examiner | 2 | 28,772 | 1,616 | 3,736 | - | 5,352 | 23,420 |
| Fire | 27 | 79,578 | 34,506 | 5,213 | (652) | 39,067 | 40,511 |
| Corrections | 5 | 39,256 | 8,920 | 1,307 | - | 10,227 | 29,029 |
| Courts | 1 | 558 | 78 | - | (78) | - | 558 |
| Total | 42 | 182,445 | 45,703 | 18,283 | (8,563) | 55,423 | 127,022 |
| Economic Development and Regulation | | | | | | | |
| Zoning | 1 | 316 | 316 | - | - | 316 | - |
| Housing and Comm. Dev. | 6 | 61,326 | 22,583 | 567 | (317) | 22,833 | 38,493 |
| Planning & Econ. Dev. | 10 | 131,718 | 460 | 1,798 | (1,762) | 496 | 131,222 |
| Total | 17 | 193,360 | 23,359 | 2,365 | (2,079) | 23,645 | 169,715 |
| Public Education System | | | | | | | |
| Libraries | 11 | 94,128 | 3,894 | 1,612 | (142) | 5,364 | 88,764 |
| Public Education System | 63 | 1,888,315 | 305,299 | 139,401 | (7,793) | 436,907 | 1,451,408 |
| Total | 74 | 1,982,443 | 309,193 | 141,013 | (7,935) | 442,271 | 1,540,172 |
| Human Support Services | | | | | | | |
| Health and Welfare | 20 | 101,026 | 39,727 | 6,790 | (12,101) | 34,416 | 66,610 |
| Human Services | 10 | 11,118 | 7,755 | 943 | (126) | 8,572 | 2,546 |
| Youth Rehabilitation Services | 1 | 44,393 | 792 | 3,300 | - | 4,092 | 40,301 |
| Aging | 5 | 19,190 | 7,274 | 3,191 | (1,232) | 9,233 | 9,957 |
| Mental Health Services | 12 | 269,184 | 55,603 | 43,495 | - | 99,098 | 170,086 |
| Recreation | 19 | 257,906 | 73,044 | 22,301 | (3,843) | 91,502 | 166,404 |
| Total | 67 | 702,817 | 184,195 | 80,020 | (17,302) | 246,913 | 455,904 |
| Public Works | | | | | | | |
| Environmental | 131 | 974,113 | 418,789 | 222,803 | (178,065) | 463,527 | 510,586 |
| Total | 131 | 974,113 | 418,789 | 222,803 | (178,065) | 463,527 | 510,586 |
| Totals | 409 | \$ 5,535,300 | \$ 1,320,483 | \$ 833,088 | \$ (300,809) | \$ 1,852,762 | \$ 3,682,538 |

NOTE 6. CONDUIT DEBT TRANSACTIONS

A. INDUSTRIAL REVENUE BOND PROGRAM

The District has issued, under its Industrial Revenue Bond Program, private activity bonds for which the principal and interest are payable solely from defined revenues of private entities, such as non-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. Organizations participating in the Industrial Revenue Bond Program are allowed to borrow at the prevailing municipal bond rate. These private activity bonds provide economic incentive to construct, modernize or enhance private entity facilities in the District, thereby supporting the District's economic base. As of September 30, 2007, the aggregate outstanding principal amount for these conduit debt obligations was approximately \$4.5 billion.

B. ENTERPRISE ZONE FACILITY BONDS

Beginning January 1, 1998, businesses located in the District of Columbia Enterprise Zone (D.C. Zone) are eligible to obtain up to \$15 million of tax-exempt financing. Similar to Industrial Revenue Bonds, the principal and interest are payable solely from defined revenues of private entities, including non-profit and for-profit organizations. The District has no obligation for this debt beyond resources that may have been provided by related leases or loans. As of September 30, 2007, the aggregate outstanding principal amount for Enterprise Zone Facility Bonds was \$95 million.

NOTE 7. SHORT-TERM LIABILITIES

TAX REVENUE ANTICIPATION NOTES

The District issued \$300,000 in Tax Revenue Anticipation Notes (TRANs) on December 21, 2006. The note is a short term financing method used to provide for seasonal cash flow needs, and the proceeds were used to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2007.

The TRANs are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. Operational and other disbursement costs are covered by the TRANs proceeds until periodic taxes, grants and other revenues are received. The notes were issued as fixed-rate notes with an interest rate of 4.25%, priced to yield 3.5%, and matured on September 28, 2007.

Table 15 - Changes in Short-Term Liabilities

| Account | Balance October 1, 2006 | Additions | Deductions | Balance September 30, 2007 |
|--------------------------------|-------------------------------|------------|------------|----------------------------------|
| Governmental Activities | | | | |
| Tax Revenue Anticipation Notes | \$ - | \$ 300,000 | \$ 300,000 | \$ - |

NOTE 8. LONG-TERM LIABILITIES**A. LONG-TERM DEBT**

In the government-wide financial statements and proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary funds statement of net assets. Long term debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the outstanding principal method. Long term debt payable is reported separately from the applicable premium or discount. The issuance cost for long term debt is reported as deferred charge.

Governmental funds recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

General Obligation Bonds

The District's general obligation bonds are authorized and issued primarily to provide funds for certain capital projects and improvements. The average interest rate on the District's outstanding fixed-rate bonds is 5.142%. The average interest rate on the District's variable-rate bonds for fiscal year 2007 is 3.82%. All general obligation bonds are backed by the full faith and credit of the District. In addition, the bonds are secured by a security interest in and lien on the funds derived from a Special Real Property Tax levied annually by the District on portions of certain real property. These tax revenues have been dedicated for the payment of bond principal and interest. Amounts collected are deposited in banks and held in escrow for payment of bond principal and interest when due. A summary of the outstanding debt totaling \$4,140,133 at September 30, 2007 is shown in **Table 16**.

Table 16- Changes in Governmental Activities Long-Term Debt of Primary Government

| | General Obligation Bonds | TIF Bonds | Tobacco Bonds | Ballpark Bonds | COPs | Housing Production Trust Fund Bonds | QZAB | Total |
|---|--------------------------------|-------------------|-------------------|-------------------|-------------------|--|-----------------|---------------------|
| Debt payable at October 1, 2006 | \$ 3,773,863 | \$ 109,895 | \$ 742,284 | \$ 534,800 | \$ 278,100 | \$ - | \$ 5,221 | \$ 5,444,163 |
| Bond and note issued: | | | | | | | | |
| Series 2007A | 576,475 | - | - | - | - | - | - | 576,475 |
| Series 2007B | 251,155 | - | - | - | - | - | - | 251,155 |
| House Production Trust Fund 2007A | - | - | - | - | - | 34,105 | - | 34,105 |
| Total | 4,601,493 | 109,895 | 742,284 | 534,800 | 278,100 | 34,105 | 5,221 | 6,305,898 |
| Debt payments: | | | | | | | | |
| Principal matured | 202,805 | 4,666 | 5,215 | 6,310 | 7,320 | - | 434 | 226,750 |
| Principal defeased | 258,555 | - | - | - | - | - | - | 258,555 |
| Debt payable at September 30, 2007 | \$ 4,140,133 | \$ 105,229 | \$ 737,069 | \$ 528,490 | \$ 270,780 | \$ 34,105 | \$ 4,787 | \$ 5,820,593 |

On June 7, 2007 the District issued its Series 2007A General Obligation Bonds in the principal amount of \$576,475 (the "2007A Bonds"). The proceeds of these bonds will be used to finance capital project expenditures in the District's capital improvements program and to pay the costs and expenses of issuing and delivering the bonds. Also, on June 7, 2007, the District issued its 2007B General Obligation Refunding Bonds in the principal amount of \$251,155 (the "2007B Bonds"). The

proceeds of these bonds are being used to redeem or defease a portion of the Districts' outstanding general obligation bonds at a savings to the District and to pay the costs and expenses of issuing and delivering the bonds.

The 2007A and 2007B bonds together with other outstanding general obligation bonds and bonds to be issued in the future are general obligations of the District, secured by the Districts' full faith and credit and further

NOTE 8. LONG-TERM LIABILITIES

secured by the Special Real Property Tax, and are issued under Section 461 of the Home Rule Act. The 2007A Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.69%. The 2007B Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.47%. The final maturities of the 2007A and 2007B bonds are June 1, 2037 and 2030, respectively.

Prior to the creation of the Water and Sewer Authority as an independent entity, the District issued general obligation bonds to fund improvements to the water and wastewater system. The Water and Sewer Authority is responsible for this debt. While the Water and Sewer Authority is not directly liable for the general obligation bonds, it is required by enabling legislation to transfer to the District the funds necessary to pay its portion of the debt service on these bonds. Accordingly, District general obligation bonds totaling \$15,060 are reflected in the financial statements of the Water and Sewer Authority.

Advance Refunding

On June 7, 2007 the District issued \$251,155 in Series 2007 B General Obligation Refunding Bonds with a weighted average interest rate yield of 4.47% to advance refund \$258,555 of outstanding 2001B, 2003A, 2003B, 2005A, bonds with an average coupon yield of 5.02%. The general obligation bonds were issued at par plus a premium of \$15,168 and after paying issuance costs of \$1,988, the net proceeds were \$264,334. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. Treasury Securities (State and Local Government Series) which were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are fully called on June 1, 2015. The District completed the advance refunding to reduce its present value total debt service payment over the next 15 years by approximately \$9,202. The result of the 2007B GO refunding produced a reduction of \$16,233 of future debt service with an economic gain of \$9,202.

TIF Notes and Bonds

The Tax Increment Financing (TIF) Notes and Bonds are special limited obligations of the District. It is an economic development tool used to facilitate the financing of business investment activities within a locality. The sole source of repayment of the TIF Notes is the incremental sales and real property tax revenues from the Project, and the District has no obligation to make any payments on the TIF Notes other than through the remittance of the incremental revenues to the Paying Agent.

F Street Development

In 2001, the District promised to pay an aggregate principal amount of \$6,900 to the House on F Street Development Sponsor. The interest rate on this TIF note ranges from 2.13% to 6.26%. This debt was retired in June 2007.

Gallery Place and Mandarin Hotel

In 2002, the District promised to pay an aggregate principal amount of \$73,650 to the Gallery Place Development Sponsor and \$45,995 to the Mandarin Hotel Development Sponsor. Two Tax Increment Financing (TIF) Bonds were issued pursuant to the District of Columbia Tax Increment Financing Authorization Act of 1998, as amended, and the Trust Indenture dated as of April 1, 2002. Interest rate yields on the Gallery Place and Mandarin Hotel TIF Bonds range from 3.28% to 5.43%. These two bond issuances are supported by the pledge of incremental sales and real property tax revenues from the respective projects and secondarily by incremental tax revenues from a Downtown TIF Area.

Embassy Suites Hotel and H&M Retail Development

In 2006, the District used TIF to finance the Embassy Suites Hotel and the H&M retail development. The \$11,000 Embassy Suites Hotel TIF Notes has an interest rate of 5%. Similar to the House on F Street Notes, the sole source of repayment of the TIF Notes is the incremental sales and real property tax revenues from the Project and any repayment shortfalls do not constitute a default. The Woodies retail development TIF Notes are approximately \$2,996 with an 8% interest rate. The TIF Notes are a pledge of the incremental sales tax revenue only. If the incremental revenue is insufficient to pay the principal and interest due on the TIF Notes when due, the payment shortfall does not constitute a default. When the incremental revenues are sufficient, the District must pay the amount of any previous shortfall to the Development Sponsor without any penalty interest or premium thereon.

Capitol Hill Towers

On December 20, 2006, the District released the tax increment financing (TIF) note of the Capitol Hill Towers from escrow. The note matures on January 1, 2029 with an interest rate of 7.5% compounded semiannually on unpaid principal.

NOTE 8. LONG-TERM LIABILITIES

The following **Tables 17 – 21** show the summary of debt service requirements for *Gallery Place, Mandarin Oriental Hotel, Embassy Suites Hotel, H&M Development and Capitol Hill Towers TIF Bonds*. Tables 19, 20 and 21 are included for informational purposes only and are not included in Table 16 as long-term debt of the District because no incremental sales and real property tax revenues from the projects have been collected.

Table 17 - Summary of Debt Service Requirements for Gallery Place TIF Bond

| Year Ending September 30 | GALLERY PLACE | | |
|-----------------------------|------------------|------------------|-------------------|
| | Principal | Interest | Total |
| 2008 | \$ 1,495 | \$ 3,708 | \$ 5,203 |
| 2009 | 1,570 | 3,633 | 5,203 |
| 2010 | 1,655 | 3,551 | 5,206 |
| 2011 | 1,740 | 3,464 | 5,204 |
| 2012 | 1,835 | 3,370 | 5,205 |
| 2013-2017 | 10,780 | 15,236 | 26,016 |
| 2018-2022 | 14,060 | 11,959 | 26,019 |
| 2023-2027 | 18,125 | 7,887 | 26,012 |
| 2028-2032 | 18,280 | 2,533 | 20,813 |
| Total | \$ 69,540 | \$ 55,341 | \$ 124,881 |

Table 18 - Summary of Debt Service Requirement for Mandarin Oriental Hotel TIF Bond

| Year Ending September 30 | MANDARIN ORIENTAL HOTEL | | |
|-----------------------------|-------------------------|------------------|------------------|
| | Principal | Interest | Total |
| 2008 | \$ 3,070 | \$ 1,439 | \$ 4,509 |
| 2009 | 2,897 | 1,612 | 4,509 |
| 2010 | 2,735 | 1,769 | 4,504 |
| 2011 | 2,583 | 1,921 | 4,504 |
| 2012 | 2,434 | 2,070 | 4,504 |
| 2013-2017 | 10,094 | 12,437 | 22,531 |
| 2018-2022 | 11,876 | 10,655 | 22,531 |
| Total | \$ 35,689 | \$ 31,903 | \$ 67,592 |

Table 19 - Summary of Debt Service Requirement for Embassy Suites Hotel TIF Note

| Year Ending September 30 | EMBASSY SUITES HOTEL | | |
|-----------------------------|----------------------|-----------------|-----------------|
| | Principal | Interest | Total |
| 2008 | \$ 878 | \$ 352 | \$ 1,230 |
| 2009 | 923 | 307 | 1,230 |
| 2010 | 969 | 261 | 1,230 |
| 2011 | 1,018 | 212 | 1,230 |
| 2012 | 1,070 | 160 | 1,230 |
| 2013-2017 | 2,395 | 157 | 2,552 |
| Total | \$ 7,253 | \$ 1,449 | \$ 8,702 |

Table 20 - Summary of Debt Service Requirement for H & M Development TIF Note

| Year Ending September 30 | H & M DEVELOPMENT | | |
|-----------------------------|-------------------|---------------|-----------------|
| | Principal | Interest | Total |
| 2008 | \$ 300 | \$ 186 | \$ 486 |
| 2009 | 300 | 161 | 461 |
| 2010 | 299 | 138 | 437 |
| 2011 | 300 | 113 | 413 |
| 2012 | 299 | 90 | 389 |
| 2013-2017 | 898 | 126 | 1,024 |
| Total | \$ 2,396 | \$ 814 | \$ 3,210 |

Table 21 - Summary of Debt Service Requirement for Capitol Hill Towers TIF Note

| Year Ending September 30 | CAPITOL HILL TOWERS | | |
|-----------------------------|---------------------|-----------------|------------------|
| | Principal | Interest | Total |
| 2008 | \$ 254 | \$ 681 | \$ 935 |
| 2009 | 274 | 661 | 935 |
| 2010 | 294 | 641 | 935 |
| 2011 | 317 | 618 | 935 |
| 2012 | 341 | 594 | 935 |
| 2013-2017 | 2,139 | 2,536 | 4,675 |
| 2018-2022 | 3,091 | 1,584 | 4,675 |
| 2023-2027 | 2,430 | 324 | 2,754 |
| Total | \$ 9,140 | \$ 7,639 | \$ 16,779 |

NOTE 8. LONG-TERM LIABILITIES**Tobacco Bonds**

In November 1998, the District (along with a number of other States and various jurisdictions) signed a Master Settlement Agreement with the major U.S. tobacco companies that ended litigation over health care treatment costs incurred for smoking-related illnesses. Under the settlement, the District is scheduled to receive total annual payments aggregating an estimated \$1.2 billion by 2025. There are a number of potential adjustments to this schedule, including an inflation adjustment and a cigarette volume adjustment. In addition, there are numerous risks regarding whether the District will receive the full amount to which it is entitled under the terms of the Master Settlement Agreement, including various lawsuits outside the District alleging that the Master Settlement Agreement is void or voidable.

In 2001, the Tobacco Corporation issued \$521,105 principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2001, of which \$488,805 was outstanding as of September 30, 2007.

In 2006, the Tobacco Corporation issued \$248,264 principal amount of its Tobacco Settlement Asset-Backed Bonds, Series 2007. Since no payment was made in 2007, the amount outstanding as of September 30, 2007 was \$248,264. The payment of these bonds is secured by the distribution under the Master Settlement Agreement. Payments received by the Tobacco Corporation under the Master Settlement Agreement in excess of the annual debt service requirements for the Tobacco Bonds may revert to the General Fund. There was no transfer of funds from Tobacco proceeds to the General Fund in fiscal year 2007. The Tobacco Bonds are neither general nor moral obligations of the District and are not secured by a pledge of the full faith and credit of the District.

As of September 30, 2007, the total outstanding balance for all Tobacco bonds as shown in **Table 22** was \$737,069.

Summary of debt service requirements for general obligation and tobacco bonds to maturity is shown in **Table 22**.

Table 22 - Summary of Debt Service Requirements for General Obligation and Tobacco Bonds to Maturity

| Year Ending September 30 | General Obligation Bonds | | Tobacco Bonds | | Total |
|-----------------------------|--------------------------|---------------------|-------------------|---------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 2008 | \$ 213,640 | \$ 192,255 | \$ 12,585 | \$ 31,602 | \$ 450,082 |
| 2009 | 221,255 | 181,861 | 13,245 | 30,877 | 447,238 |
| 2010 | 237,005 | 169,156 | 14,305 | 30,112 | 450,578 |
| 2011 | 191,055 | 157,437 | 15,450 | 29,278 | 393,220 |
| 2012 | 174,283 | 166,185 | 16,515 | 28,330 | 385,313 |
| 2013 - 2017 | 697,525 | 657,542 | 99,055 | 125,262 | 1,579,384 |
| 2018 - 2022 | 687,325 | 470,875 | 139,180 | 88,789 | 1,386,169 |
| 2023 - 2027 | 821,980 | 303,648 | 178,470 | 34,816 | 1,338,914 |
| 2028 - 2032 | 419,010 | 159,889 | - | - | 578,899 |
| 2033 - 2037 | 477,055 | 67,465 | - | - | 544,520 |
| 2043 - 2047 | - | - | 159,733 | 1,697,592 | 1,857,325 |
| 2053 - 2057 | - | - | 88,531 | 2,478,469 | 2,567,000 |
| Total | \$ 4,140,133 | \$ 2,526,313 | \$ 737,069 | \$ 4,575,127 | \$ 11,978,642 |

NOTE 8. LONG-TERM LIABILITIES**Defeased Bonds**

In prior years, the District has defeased certain bond issues by issuing refunding bonds. As of September 30, 2007, the total amount of defeased debt outstanding but removed from the government-wide financial statement was \$595,522.

Table 23 - Summary of Defeased Bonds in FY 2007

**SUMMARY OF DEFEASED BONDS IN FY2007
Defeased by Refunding Bond 2007B**

| Bond Series Refunded | Interest Rate | Refunded Amount |
|---------------------------------|--------------------------|----------------------------|
| 2001B | 5%-5.125% | \$ 28,615 |
| 2003A | 5% | 125,880 |
| 2003B | 5%-5.125% | 59,430 |
| 2005A | 5% | 44,630 |
| | | \$ 258,555 |

Ballpark Revenue Bonds

On May 15, 2006, the District issued Ballpark Revenue Bonds in the principal amount of \$534,800. This offering includes the issuance of Taxable Series 2006A-1 in the principal amount of \$78,425 and the issuance of Taxable Series 2006A-2 bonds in the principal amount of \$76,410 (the "Series 2006A-1 Bond and together with the Series 2006A-2 bond, the "Series 2006A Bonds").

This offering also includes the issuance of Series 2006B-1 in the principal amount of \$354,965 and Series 2006B-2 (Auction Rate Securities) in the principal amount of \$25,000 (the "Series 2006B-1 Bond and together with the Series 2006B-2 bond, the "Series 2006B Bonds"). Series 2006B is tax-exempt.

The weighted average interest rate yield on 2006A and 2006B Bonds is 5.35%.

The proceeds of the Series 2006 Ballpark Bonds is being used to finance a portion of the cost of construction of a new baseball stadium. The stadium will be owned by the District of Columbia.

Table 24 - Summary of Debt Service Requirements for Ballpark Revenue Bonds

| Year Ending September 30 | BALLPARK BONDS | | |
|-------------------------------------|-----------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2008 | \$ 2,075 | \$ 28,072 | \$ 30,147 |
| 2009 | 4,665 | 27,913 | 32,578 |
| 2010 | 4,360 | 27,690 | 32,050 |
| 2011 | 4,540 | 27,472 | 32,012 |
| 2012 | 4,915 | 27,237 | 32,152 |
| 2013-2017 | 38,275 | 131,029 | 169,304 |
| 2018-2022 | 64,040 | 117,668 | 181,708 |
| 2023-2027 | 98,690 | 96,304 | 194,994 |
| 2028-2032 | 145,730 | 63,854 | 209,584 |
| 2033-2037 | 161,200 | 17,858 | 179,058 |
| Total | \$ 528,490 | \$ 565,097 | \$ 1,093,587 |

NOTE 8. LONG-TERM LIABILITIES

Housing Production Trust Fund Program

The District established the Housing Production Trust Fund Act of 1988, D. C. Law 7-202 and amended it on May 7, 2003 with the administration authority vested in the D. C. Department of Housing and Community Development (DHCD). The purpose of the fund is to provide financial assistance to non-profit and for-profit developers for the planning and production of low, very low, and extremely low income housing and related facilities. In fiscal year 2007, budget authority was established for \$150 million for the New Communities projects (which the District planned to finance with bond proceeds). To pay the debt service on these bonds, the Council authorized up to \$16 million annually to be transferred from the Allocated Fund of the Housing Production Trust Fund (“HPTF”), which was funded by dedicated revenue from deed recordation and transfer taxes. The District issued approximately \$34.1 million of revenue bonds in 2007 for a major investment in the “Northwest One New Communities Project Area.” The bonds were issued with an average coupon rate of 4.68%. The District budgeted \$12 million for debt service for fiscal year 2008 and intends to issue additional HPTF revenue bonds in fiscal year 2008 or beyond to fund other New Communities projects. The following schedule details the annual funding requirements necessary to repay these bonds:

Table 25 - Summary of Housing Production Trust Fund

| Year Ending September 30 | HOUSING PRODUCTION TRUST FUND | | |
|-----------------------------|-------------------------------|------------------|------------------|
| | Principal | Interest | Total |
| 2008 | \$ 535 | \$ 1,605 | \$ 2,140 |
| 2009 | 560 | 1,584 | 2,144 |
| 2010 | 585 | 1,561 | 2,146 |
| 2011 | 605 | 1,538 | 2,143 |
| 2012 | 630 | 1,514 | 2,144 |
| 2013-2017 | 3,630 | 7,097 | 10,727 |
| 2018-2022 | 4,630 | 6,094 | 10,724 |
| 2023-2027 | 5,905 | 4,815 | 10,720 |
| 2028-2032 | 7,545 | 3,183 | 10,728 |
| 2033-2037 | 9,480 | 1,242 | 10,722 |
| Total | \$ 34,105 | \$ 30,233 | \$ 64,338 |

Qualified Zone Academy Bond

The District issued the Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received \$4,665 and is obligated to deposit a total amount of \$3,583 into a sinking fund in fourteen equal amounts of \$256 beginning December 1, 2002.

On December 28, 2005, the District issued another Qualified Zone Academy Bond (QZAB) as a taxable general obligation bond without incurring interest expense. The District received \$3,191 and is obligated to deposit a total amount of \$2,662 into a sinking fund in fifteen equal amounts of \$177 beginning December 1, 2007.

A summary of Debt Service Requirements to Maturity for QZAB is shown in Table 26.

Table 26 - Summary of Debt Service Requirements for QZAB

| Year Ending September 30 | Qualified Zone Academy Bond (QZAB) | | |
|-----------------------------|---------------------------------------|-----------------|-----------------|
| | Principal | Interest | Total |
| 2008 | \$ 433 | \$ 65 | \$ 498 |
| 2009 | 433 | 81 | 514 |
| 2010 | 433 | 98 | 531 |
| 2011 | 433 | 115 | 548 |
| 2012 | 434 | 132 | 566 |
| 2013-2017 | 1,911 | 747 | 2,658 |
| 2018-2022 | 710 | 255 | 965 |
| Total | \$ 4,787 | \$ 1,493 | \$ 6,280 |

NOTE 8. LONG-TERM LIABILITIES**COMPONENT UNITS****Water and Sewer Authority**

The Water and Sewer Authority (WASA) derives its funding for future capital projects from the issuance of revenue bonds, District general obligation bonds, notes payable to the federal government and various other non-debt sources of financing. The public utility revenue bonds and notes payable to the federal government for the Washington Aqueduct are considered senior debt. Notes payable to the federal government for the Washington Aqueduct are specifically secured by user charges assessed on retail customers. During the year ended September 30, 2007, the highest rate on these notes was 6.75% and the lowest rate was 5.05%. Debt outstanding at September 30, 2007 totaling \$1,053,880 included net unamortized bond premiums and discounts of (\$7,691) and a remaining principal balance of \$1,046,189.

Commercial Paper Note Payable

The Board of Directors of the Authority approved WASA's commercial paper program on November 1, 2001, with the Series A and B notes, not to exceed \$50,000 each at any one time. Proceeds from the sale of the notes are used to finance costs incurred in connection with the construction of capital improvements to WASA's wastewater treatment collection and disposal system, its water distribution system and capital equipment.

Series A and B notes are secured by separate letters of credit, issued by Westdeutsche Landesbank Girozentrale (WestLB) and are rated P1, A1+ and F1+ by Moody's, S&P and Fitch respectively. The letter of credit expires on November 30, 2015. WASA had no balance payable in Commercial paper.

Table 27 – Water and Sewer Authority Debt Service Requirements to Maturity

| Year Ending September 30 | Principal | Interest | Total |
|-----------------------------------|---------------------|-------------------|---------------------|
| 2008 | \$ 13,956 | \$ 51,473 | \$ 65,429 |
| 2009 | 15,277 | 50,771 | 66,048 |
| 2010 | 16,246 | 49,739 | 65,985 |
| 2011 | 17,083 | 48,815 | 65,898 |
| 2012 | 18,016 | 47,535 | 65,551 |
| 2013 - 2017 | 105,142 | 223,776 | 328,918 |
| 2018 - 2022 | 135,720 | 192,294 | 328,014 |
| 2023 - 2027 | 174,130 | 151,417 | 325,547 |
| 2028 - 2032 | 195,034 | 104,707 | 299,741 |
| 2033 - 2037 | 189,442 | 59,213 | 248,655 |
| 2038 - 2042 | 166,143 | 18,974 | 185,117 |
| Sub-total | 1,046,189 | 998,714 | 2,044,903 |
| Add: Unamortized Net Bond Premium | 7,691 | - | 7,691 |
| Total | \$ 1,053,880 | \$ 998,714 | \$ 2,052,594 |

NOTE 8. LONG-TERM LIABILITIES

Washington Convention Center Authority

On February 1, 2007, the Washington Convention Center Authority (WCCA) issued \$492,525 of refunding Series 2007A Bonds, with a net premium of \$15,625 to effect a refunding for Series 1998 Bonds. These refunding Bonds were dated February 1, 2007, with maturities ranging from October 2008 to October 2036, at a variable interest rate ranging from 3.75% to 5%. The net proceeds of these refunding bonds were used to pay or refund all the Series 1998 Bonds in the aggregate principal amount of \$480,640, refinance a portion of the land acquisition cost of WCCA related to the Headquarters Hotel and to

pay the premium for the Reserve Credit Facility that will fund the Series 2007A Bonds, including the premium for the Financials Guaranty Insurance Policy. As a result, the previously outstanding refunded bonds are considered to be defeased and liability for those bonds has been extinguished. The net present value of the aggregate difference in debt service between the refunded debt and the refunding debt was \$9,687.

A summary of WCCA's debt service requirements to maturity for principal and interest is shown in **Table 28**.

Table 28 – Washington Convention Center Authority Debt Service Requirements to Maturity

| Year Ending September 30 | Principal | Interest | Total |
|---------------------------------|-------------------|-------------------|-------------------|
| 2008 | \$ 11,690 | \$ 23,228 | \$ 34,918 |
| 2009 | 12,160 | 22,761 | 34,921 |
| 2010 | 12,700 | 22,222 | 34,922 |
| 2011 | 13,265 | 21,655 | 34,920 |
| 2012 | 13,865 | 21,055 | 34,920 |
| 2013 - 2017 | 79,985 | 94,621 | 174,606 |
| 2018 - 2022 | 101,750 | 72,852 | 174,602 |
| 2023 - 2027 | 128,850 | 45,755 | 174,605 |
| 2028 - 2032 | 100,590 | 14,026 | 114,616 |
| 2033 - 2037 | 17,670 | 2,032 | 19,702 |
| Sub-total | 492,525 | 340,207 | 832,732 |
| Less: Unamortized Bond Discount | (3,753) | - | (3,753) |
| Total | \$ 488,772 | \$ 340,207 | \$ 828,979 |

Housing Finance Agency

Bonds payable consists of term and serial bonds which are subject to redemption at the option of the Housing Finance Agency, in accordance with the terms of the respective bond indenture and bond resolution, in whole or in part, on various dates at prescribed redemption prices. Interest rates on these bonds range from 3.60% to 7.75%. Included in certain bond issues are capital appreciation bonds. The principal amount of these bonds appreciates either annually or semi-annually, compounding on the original principal balance. These bonds are recorded in the financial statements at their current appreciated amounts.

Bonds have been issued to provide financing for the Housing Finance Agency's housing programs and are collateralized by: (a) mortgage loans made on the related developments or single-family residential mortgage loans purchased, (b) substantially all revenues, mortgage payments, and recovery payments received by the agency from mortgage loans made on related developments or (c) certain accounts, generally debt service reserve funds, established pursuant to the indenture authorizing issuance of the bonds.

A summary of Housing Finance Agency's debt service requirements to maturity for principal and interest is shown in **Table 29**.

NOTE 8. LONG-TERM LIABILITIES**Table 29 - Housing Finance Agency Debt Service Requirements to Maturity**

| Year Ending September 30 | Principal | Interest | Total |
|---------------------------------|---------------------|---------------------|---------------------|
| 2008 | \$ 105,595 | \$ 56,138 | \$ 161,733 |
| 2009 | 45,090 | 53,712 | 98,802 |
| 2010 | 27,640 | 52,414 | 80,054 |
| 2011 | 4,150 | 51,243 | 55,393 |
| 2012 | 6,320 | 50,974 | 57,294 |
| 2013-2017 | 31,585 | 250,573 | 282,158 |
| 2018-2022 | 43,335 | 241,387 | 284,722 |
| 2023-2027 | 96,170 | 225,896 | 322,066 |
| 2028-2032 | 50,353 | 211,030 | 261,383 |
| 2033-2037 | 182,451 | 179,149 | 361,600 |
| 2038-2042 | 138,705 | 128,950 | 267,655 |
| 2043-2047 | 104,029 | 96,879 | 200,908 |
| 2048-2052 | 118,263 | 67,828 | 186,091 |
| 2053-2057 | 199,740 | 32,981 | 232,721 |
| Subtotal | 1,153,426 | 1,699,154 | 2,852,580 |
| Unamortized Bond Premium, net | 8,572 | - | 8,572 |
| Total | \$ 1,161,998 | \$ 1,699,154 | \$ 2,861,152 |

National Capital Revitalization Corporation

On February 15, 2006, the National Capital Revitalization Corporation ("NCRC") issued a revenue bond in the amount of \$46.9 million with 4.949% interest rate. The bonds were issued to finance the development and construction of a multi-level retail and entertainment

complex anchored by a Target retail store. Included in the bond issues are \$39.3 million cost of acquisition of the parking garage and \$5.85 million in capitalized interest. A summary of the NCRC's debt service requirements to maturity for principal and interest is shown in **Table 30**.

Table 30 - National Capital Revitalization Corporation Debt Service Requirements to Maturity

| Year Ending September 30 | Principal | Interest | Total |
|---------------------------------|------------------|------------------|------------------|
| 2008 | \$ 2,600 | \$ 1,990 | \$ 4,590 |
| 2009 | 1,100 | 2,190 | 3,290 |
| 2010 | 1,156 | 2,134 | 3,290 |
| 2011 | 1,216 | 2,075 | 3,291 |
| 2012 | 1,278 | 2,012 | 3,290 |
| 2013-2017 | 7,439 | 9,012 | 16,451 |
| 2018-2022 | 32,111 | 4,979 | 37,090 |
| Total | \$ 46,900 | \$ 24,392 | \$ 71,292 |

NOTE 8. LONG TERM LIABILITIES

Anacostia Waterfront Corporation

In September of 2007, the Anacostia Waterfront Corporation ("AWC") issued \$111.55 million of PILOT revenue bonds ("the AWC bonds") with 4.47% interest rate. The bond was issued to finance, refinance and reimburse AWC for development costs. The AWC was a discretely presented component unit of the District at the time of issuance of the AWC bonds. Since the issuance of

such bonds, however, the District has, dissolved the AWC and assumed its assets and obligations, including the payment of the AWC bonds, effective October 1, 2007.

A summary of AWC's debt service requirement to maturity for principal and interest is shown in **Table 31**.

Table 31 – Anacostia Waterfront Corporation Debt Service Requirements to Maturity

| Year Ending September 30 | Principal | Interest | Total |
|--------------------------|-------------------|------------------|-------------------|
| 2008 | \$ 2,820 | \$ 3,471 | \$ 6,291 |
| 2009 | 5,760 | 4,790 | 10,550 |
| 2010 | 6,020 | 4,530 | 10,550 |
| 2011 | 6,290 | 4,258 | 10,548 |
| 2012 | 6,575 | 3,974 | 10,549 |
| 2013-2017 | 37,610 | 15,144 | 52,754 |
| 2018-2022 | 46,475 | 5,753 | 52,228 |
| Total | \$ 111,550 | \$ 41,920 | \$ 153,470 |

B. OTHER LONG-TERM LIABILITIES

Certificates of Participation

In 2002, the Certificates of Participation (COPs) obligations were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District agreed in the Lease Agreement to make lease payments (the "Lease Payments"), which are expected to be sufficient to pay the principal of and interest on the Certificates. The District has approximately \$40.8 million of outstanding Certificates of Participation issued by a trust in 2002 with a final maturity of 2013. The 2002 COPs were used to finance the acquisition of certain real property located at 441 Fourth Street, N.W., in the District. The debt service requirements on these COPs are included in capital leases payable (See Note 14C).

In 2003, the Certificates of Participation (COPs) obligations were issued under an Indenture of Trust between Wells Fargo Delaware Trust Company (the "Lessor") and Wells Fargo Bank Minnesota, N.A. (the "Trustee"). The District has approximately \$63.8 million of outstanding Certificates of Participation issued by a

trust in 2003 with a final maturity of 2023, as shown in **Table 32A**. The 2003 COPs were used to provide funds to finance a portion of the design and construction of a public safety and emergency preparedness communications and command center and a portion of the design, construction and installation of a high-speed telecommunications network. In each case, the District's payment obligations are subject to and dependent upon both inclusion of sufficient funds in annual District budgets and annual appropriations being made by the United States Congress for such purpose.

In 2006, a COPs obligation was issued under an Indenture of Trust between M&T Trust Company of Delaware (the "Lessor") and Manufacturers and Traders (the "Trustee"). The aggregate principal amount of this issuance was \$211.7 million to fund the Saint Elizabeth and DMV Projects as shown in **Table 32B**. The proceeds of the certificates are being used to fund a portion of the cost of the design and construction of the Hospital, which is estimated to cost approximately \$208 million. Of this amount, \$184.2 million will be financed with the proceeds of the certificates and interest earning thereon. In addition, the certificates are being used to fund the purchase of the DMV Building from its current owner for approximately \$15.3 million and approximately

NOTE 8. LONG-TERM LIABILITIES

\$3.1 million of improvements to include: improved parking, window replacement, elevators, a loading dock and provision for access to the adjacent inspection facility. The District has approximately \$207 million of outstanding Certificates of Participation issued by trust in 2006 with a final maturity of 2026.

The weighted average interest rate yield on these COPs is 5.00%.

Table 32A - Summary of Debt Service Requirements for COP- Public Safety Communications Center

| Year Ending September 30 | Principal | Interest | Total |
|-----------------------------|------------------|------------------|------------------|
| 2008 | \$ 2,735 | \$ 3,063 | \$ 5,798 |
| 2009 | 2,850 | 2,949 | 5,799 |
| 2010 | 2,960 | 2,840 | 5,800 |
| 2011 | 3,100 | 2,703 | 5,803 |
| 2012 | 3,255 | 2,544 | 5,799 |
| 2013-2017 | 18,750 | 10,255 | 29,005 |
| 2018-2022 | 24,470 | 4,533 | 29,003 |
| 2023-2027 | 5,665 | 135 | 5,800 |
| Total | \$ 63,785 | \$ 29,022 | \$ 92,807 |

Table 32B - Summary of Debt Service Requirements for COP- St Elizabeth/DMV Building

| Year Ending September 30 | Principal | Interest | Total |
|-----------------------------|-------------------|-------------------|-------------------|
| 2008 | \$ 6,670 | \$ 10,149 | \$ 16,819 |
| 2009 | 7,010 | 9,807 | 16,817 |
| 2010 | 7,370 | 9,447 | 16,817 |
| 2011 | 7,750 | 9,070 | 16,820 |
| 2012 | 8,145 | 8,672 | 16,817 |
| 2013-2017 | 47,650 | 36,446 | 84,096 |
| 2018-2022 | 61,410 | 22,691 | 84,101 |
| 2023-2027 | 60,990 | 6,290 | 67,280 |
| Total | \$ 206,995 | \$ 112,572 | \$ 319,567 |

A summary of changes in other long-term liabilities for governmental activities is shown in Table 33.

Table 33 - Changes in Other Long-Term Liabilities

| Account | Balance October 1, 2006 | Additions | Deductions | Balance September 30, 2007 |
|---|-------------------------------|-------------------|--------------------|----------------------------------|
| Governmental Activities: | | | | |
| Accrued disability compensation (Note 15) | \$ 93,165 | \$ 24,069 | \$ (27,292) | \$ 89,942 |
| Accumulated annual leave | 131,533 | 13,106 | (1,649) | 142,990 |
| Grant disallowances | - | 3,217 | - | 3,217 |
| Claims & judgments (Note 15) | 58,876 | 33,109 | (31,523) | 60,462 |
| Equipment financing program (Note 14) | 60,553 | 42,470 | (23,301) | 79,722 |
| Accreted interest | 38,992 | 21,413 | - | 60,405 |
| Capital leases payable (Note 14) | 67,942 | 541 | (8,615) | 59,868 |
| Total | \$ 451,061 | \$ 137,925 | \$ (92,380) | \$ 496,606 |
| Business-Type Activities: | | | | |
| Obligation for unpaid prizes | \$ 52,584 | \$ 2,772 | \$ (8,631) | \$ 46,725 |

NOTE 8. LONG-TERM LIABILITIES

C. CURRENT & LONG-TERM PORTIONS OF LONG-TERM LIABILITIES

Table 34 presents the current and long-term portions of long-term liabilities.

Table 34 – Current & Long-Term Portions of Long-Term Liabilities

| Type of Liability | Current Portion | Long-Term Portion | Total |
|------------------------------------|--------------------|----------------------|---------------------|
| Government-Wide Activities: | | | |
| General obligation bonds | \$ 213,640 | \$ 3,926,493 | \$ 4,140,133 |
| Premium on long-term debt | 6,760 | 80,192 | 86,952 |
| TIF bonds | 4,565 | 100,664 | 105,229 |
| QZAB | 433 | 4,354 | 4,787 |
| Capital leases | 7,465 | 52,403 | 59,868 |
| Tobacco bonds | 12,585 | 724,484 | 737,069 |
| Baseball bonds | 2,075 | 526,415 | 528,490 |
| Annual leave | 93,419 | 49,571 | 142,990 |
| Disability compensation | 32,284 | 57,658 | 89,942 |
| Equipment financing program | 23,011 | 56,711 | 79,722 |
| Accreted interest | - | 60,405 | 60,405 |
| Grant disallowances | - | 3,217 | 3,217 |
| Claims and judgements | - | 60,462 | 60,462 |
| Housing production trust fund | 535 | 33,570 | 34,105 |
| Verizon | - | 4,494 | 4,494 |
| Unfunded pension expenses | - | 7,464 | 7,464 |
| COPs | 9,405 | 261,375 | 270,780 |
| Total | \$ 406,177 | \$ 6,009,932 | \$ 6,416,109 |
| Business-Type Activities: | | | |
| Obligation for unpaid prizes | \$ 8,631 | \$ 38,094 | \$ 46,725 |

Obligation for Unpaid Prizes

The Lottery is a member of the Multi-State Lottery Association (MUSL), which is responsible for payments to Lotto-America and Powerball winners. MUSL is responsible for providing cash to the Lottery for funding these installment payments. As of September 30, 2007, MUSL purchased for the Lottery, U.S. government securities totaling \$54,244 to fund future installment payments to winners.

The market value of these securities at September 30, 2007 was \$46,725. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statement of net assets.

NOTE 9. RETIREMENT PROGRAMS

A. DEFINED BENEFIT PENSION PLANS

District full-time employees receive pension benefits either through the federally administered Civil Service Retirement System or the District’s Retirement Programs and the Social Security System.

Plan Descriptions

Civil Service Retirement and Social Security Systems

The Civil Service Retirement System (5 U.S.C. 8331), a cost sharing multiple employer public employee

retirement system, covers permanent full-time employees hired before October 1, 1987 (except those covered by the District Retirement Program).

District contributions to the pension plans administered by the federal government, for the years ended September 30, 2007, 2006, and 2005, were as shown in **Table 35**. Financial statements for the Civil Service Plan are available from the U.S. Office of Personnel Management at www.opm.gov.

The District has no further liability to the plans.

Table 35 - Summary of District Contributions to Federally Administered Pension Plans

| <u>Plan</u> | <u>Rate</u> | <u>Employees</u> | | <u>2007</u> | | <u>2006</u> | | <u>2005</u> |
|----------------------|-------------|------------------|----|------------------|----|------------------|----|------------------|
| Civil Service | 7% | 5,060 | \$ | 21,943 | \$ | 22,568 | \$ | 24,011 |
| Social Security | 7.65% | 29,410 | | 77,478 | | 67,772 | | 63,966 |
| Total | | | \$ | 99,421 | \$ | 90,340 | \$ | 87,977 |
| Total Payroll | | | \$ | 2,081,984 | \$ | 1,906,173 | \$ | 1,861,771 |

District Retirement Programs

The Retirement Board administers the District’s Retirement Programs (D.C. Code 4-601, 11-1561, 31-120), which are single employer defined benefit pension plans, one established for police and firefighters and the other for teachers.

Each of the two plans provides retirement, death and disability benefits, and annual cost of living adjustments to plan members and beneficiaries. Each pension trust fund issues a publicly available financial report that includes financial statements and required supplementary information. These reports can be obtained from the District of Columbia Retirement Board, Executive Director, 900 7th Street, N.W., 2nd Floor, Washington, D.C. 20001.

Funding Policy

The Retirement Board establishes, for each pension trust fund, the contribution requirements of plan members and the District government. The Retirement Board, when deemed necessary, may amend these requirements. A summary of the actuarial assumptions is shown in **Table 36**.

Members contribute by salary deductions on the basis of a normal rate of contributions, which is assigned by the

Fund at membership. Members contribute 7% (or 8% for teachers hired on or after November 16, 1996) of annual pay minus any pay received for summer school. Members may also contribute up to 10% of annual pay toward an annuity in addition to any vested pension.

The District is required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined amounts in accordance with the provisions of the Replacement Act. The Replacement Act defines the eligibility and the calculation of the amount of the benefit payment for covered District employees for service accrued after June 30, 1997. The District’s contributions for fiscal years 2007, 2006 and 2005 were equal to the Fund’s independent actuary’s recommendation.

Under P. L. 105-33, the federal government makes annual contributions to the Police and Firefighters’ Plan and to the Teachers’ plan on behalf of District employees and retirees. These on-behalf payments totaled \$345,400 for the year ended September 30, 2007 and have been reported as intergovernmental revenue. Related expenditures of \$272,866 and \$72,534 have been reported in the public safety and justice and the public education systems functions, respectively.

NOTE 9. RETIREMENT PROGRAMS

Table 36 - Actuarial Assumptions

| | Police and Fire | Teachers |
|---------------------------------|------------------------|-----------------|
| Contribution rates plan members | 7% - 8% | 7% - 8% |
| Actuarial valuation date | 10/01/05 | 10/01/05 |
| Actuarial cost method | Aggregate* | Aggregate* |
| Asset valuation method | Market value | Market value |
| Actuarial assumptions: | | |
| Investment rate of return | 7.25% | 7.25% |
| Projected salary increases | 5% | 5% |
| Inflation rate | 5% | 5% |
| Cost of living adjustments | 5% | 5% |

*The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities.

Actuarially Required Contributions

The District made its actuarially required contribution of \$140.1 million to the Police and Fire Pension Plan (Table 37) and \$14.6 million to the Teachers Pension Plan (Table 38) during the year ended September 30, 2007.

Table 37 – Police and Fire Pension Plan

| Year Ended | Annual Pension Cost (APC) (millions) | Percentage of APC Contributed | Net Pension Obligation |
|------------|---|----------------------------------|------------------------|
| 09/30/07 | \$ 140.1 | 100% | \$ 0 |
| 09/30/06 | 117.5 | 100% | 0 |
| 09/30/05 | 112.1 | 100% | 0 |

Table 38 – Teachers Pension Plan

| Year Ended | Annual Pension Cost (APC) (millions) | Percentage of APC Contributed | Net Pension Obligation |
|------------|---|----------------------------------|------------------------|
| 09/30/07 | \$ 14.6 | 100% | \$ 0 |
| 09/30/06 | 15.5 | 100% | 0 |
| 09/30/05 | 9.2 | N/A | 0 |

NOTE 9. RETIREMENT PROGRAMS

B. DEFINED CONTRIBUTION PENSION PLANS

District of Columbia

Under the provisions of D. C. Code 1-627, the District sponsors a defined contribution pension plan with a qualified trust under Internal Revenue Code section 401(a) for permanent full-time employees covered under the Social Security System. Employees do not contribute to the plan and are eligible to participate after one year of service. The District contributes 5% of base salaries for eligible employees each pay period. This contribution rate is 5.5% of base salaries for detention officers. Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the District, and the District has no further liability to this plan. For the fiscal year ended September 30, 2007, District contributions to the plan were \$32,532. This plan also covers employees of the Sports and Entertainment Commission, D. C. Housing Authority and Water and Sewer Authority, while the employees of the Housing Finance Agency, Washington Convention Center and the University are covered under their own separate defined contribution plans.

C. DEFERRED COMPENSATION PLANS

Internal Revenue Code Section 403 Plan

The District sponsors an annuity purchase plan (D. C. Code 31-1252) with insurance companies and other issuers in accordance with IRC Section 403 for public teachers covered by the District Retirement Program. The District does not contribute to this plan and has no liability to the plan. Under this annuity purchase plan, eligible employees were able to defer up to \$15.5 of their annual compensation for calendar year 2007. Employees with more than fifteen years of service may defer up to \$18.5 for the calendar year 2007. Also an additional deferral of \$5 was available to participants who were at least 50 years old before the end of the calendar year. Contributions vest immediately and are not assets of the District.

Internal Revenue Code Section 457 Plan

The District offers its employees a deferred compensation plan (D. C. Code 47-3601) created in accordance with Internal Revenue Code Section 457. Employees, including teachers, were able to defer the lesser of \$15.5 or 100% of includable compensation in calendar year 2007. Also, an additional deferral of \$5 was available to participants who were at least 50 years old before the end of the calendar year. Compensation deferred and income earned are taxable when paid, or made available to the participant or beneficiary, upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the District, which has no further liability to the plan.

NOTE 10. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, which requires additional reporting and disclosures for OPEB Plans. The statement became effective for the D.C. Office of Human Resources (DCHR) and the Office of Finance and Treasury (OFT) which administered OPEB plans beginning with the fiscal year ended September 30, 2007. The assets and actuarial accrued liabilities for the DCHR-OFT administered OPEB plans were determined through an actuarial valuation performed as of September 30, 2007 by Cheiron. The first actuarial valuation was prepared in 2007 using the required parameters of GASB Statement No. 43. There is no Schedule of Employer Contributions included in this report since the first contributions paid based on the valuation using GASB Statement No. 43 parameters would not occur until fiscal year 2008. These results will be included in the fiscal year 2008 CAFR and Schedule of Employer Contributions. However, the District contributed a total amount of \$147,199 to the OPEB plan in fiscal year 2007.

As required by GASB 43, par. 30, the District is disclosing the following OPEB information:

a) Plan Description:

The Plan is a single-employer defined benefit plan that is being administered as an irrevocable trust through which assets are accumulated and benefits are paid as they become due in accordance with the substantive plan. All employees hired after September 30, 1987 and employees who retire under the Teachers Retirement Systems and Police and Fire Retirement Systems or who are eligible for retirement benefits under the Social Security Act, are eligible to participate in the Plan. The benefits consist of post-retirement healthcare and life insurance.

b) Summary of significant accounting policies

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investments are reported at fair value determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities.

c) Long-term contracts for contributions to the Plan

As of September 30, 2007, there were no long-term contracts for contributions to the Plan. Consequently, no amount was outstanding.

The Plan issued a stand-alone Plan financial report which can be obtained from the following location:

Office of Finance and Treasury.
D.C. Treasurer
1275 K Street,
6th floor
Washington, DC, 20005

Schedule of Funding Progress

An independent actuary performed an analysis of the Plan's liabilities as of October 1, 2007 to determine the funding status of the Plan. The analysis was based on retiree data as of October 1, 2006 and is presented in **Table 39**.

Table 39 - Schedule of OPEB Plan Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | Unfunded AAL as a percentage of covered payroll ([b-a] /c) |
|--------------------------|-------------------------------|---------------------------------------|--------------------|--------------------|---------------------|--|
| 10/1/2007 | \$ 164 | \$ 600 | \$ 436 | 27.33% | \$ 1,091 | 39.97% |

NOTE 11. FUND BALANCE/NET ASSETS

Reserved and unreserved at September 30, 2007 are shown in Table 40a.

Table 40a - Schedule of FY 2007 Reserved and Unreserved Fund Balance

| | General Fund | Federal & Private Resources | General Capital Improvement | Baseball Capital Project | Nonmajor Governmental Funds |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
| Reserved | | | | | |
| Long term assets | \$ 6,704 | \$ 14,296 | \$ - | \$ - | \$ - |
| Emergency/contingency cash | 309,383 | - | - | - | - |
| Bond escrow | 326,768 | - | - | - | - |
| Capital Lease Payment | 16,822 | - | - | - | - |
| Other Post Employment Benefits | 34,906 | - | - | - | - |
| Subsequent Years' Expenditure | 246,233 | - | - | - | - |
| Inventory | 15,998 | 1,116 | - | - | - |
| Budget | 43,005 | - | - | - | - |
| Purpose restrictions | 128,063 | 118,837 | - | - | - |
| Charter School Enrollment Expansion | 7,577 | - | - | - | - |
| Capital projects | - | - | 703,763 | 113,042 | - |
| Tobacco settlement | - | - | - | - | 105,277 |
| Tax increment financing | - | - | - | - | 21,180 |
| Housing Production | - | - | - | - | 99,961 |
| Community Healthcare | - | - | - | - | 45,195 |
| Baseball | - | - | - | - | 54,694 |
| Highway projects | - | - | - | - | 18,219 |
| Total Reserved Fund Balances | \$ 1,135,459 | \$ 134,249 | \$ 703,763 | \$ 113,042 | \$ 344,526 |
| Unreserved | | | | | |
| Designated: | | | | | |
| Other post employment benefits | \$ 13,288 | \$ - | \$ - | \$ - | \$ - |
| Integrated Service Fund | 6,009 | - | - | - | - |
| Budget Support Act | 12,194 | - | - | - | - |
| Supplemental | 99,498 | - | - | - | - |
| Fixed Cost | 4,137 | - | - | - | - |
| Other Special purposes | 142,173 | - | - | - | - |
| Undesignated | 81,242 | - | - | - | - |
| Total Unreserved Fund Balances | \$ 358,541 | \$ - | \$ - | \$ - | \$ - |
| Total Fund Balances | \$ 1,494,000 | \$ 134,249 | \$ 703,763 | \$ 113,042 | \$ 344,526 |

Net assets at September 30, 2007 are shown in Table 40b.

Table 40b - Schedule of FY 2007 Net Assets

| | Unemployment Compensation Fund | Lottery & Games | Nonmajor Proprietary Fund | Fiduciary Funds |
|--------------------------------------|--------------------------------------|-----------------------|---------------------------------|---------------------|
| Net Assets | | | | |
| Invested in capital assets | \$ - | \$ 311 | \$ 16,900 | \$ - |
| Restricted for worker's compensation | 375,148 | - | - | - |
| Restricted for future benefits | - | - | - | 4,636,785 |
| Unrestricted | - | 3,442 | 22,538 | - |
| Total Net Assets | \$ 375,148 | \$ 3,753 | \$ 39,438 | \$ 4,636,785 |

NOTE 12. JOINT VENTURE

Washington Metropolitan Area Transit Authority

The Washington Metropolitan Area Transit Authority (WMATA) was created by Interstate Compact by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774. The District's commitment or obligation to provide financial assistance to WMATA is established by annual appropriations, as approved by Congress. The District supports the Transit Authority through operating, debt service and capital grants. The District places the amounts to be provided to WMATA in an escrow account until such time when the funds are drawn down for use by WMATA. Operating grants may be in the form of operating and interest subsidies. WMATA records the District's operating grants as advanced contributions when received and as nonoperating revenues when the related expenses are incurred. WMATA recognizes the District's capital grants as additions to construction in progress and investment in capital assets when the grant resources are expended for capital acquisitions. A summary of the grants provided to WMATA during the year ended September 30, 2007 is shown in **Table 41a**.

The WMATA issues separate audited financial statements that can be requested from the Washington Metropolitan Area Transit Authority, General Manager, 600 5th Street, NW, Washington, D. C. 20001. Information that would allow users of the financial statements to evaluate whether the joint venture is accumulating significant financial resources, or is experiencing fiscal stress that may cause additional financial benefits to or burden to the District and other participating governments in the future is presented in **Table 41b**.

Table 41a - Summary of Grants Provided to WMATA

| Account | Amount |
|---------------------|-------------------|
| Operating grants | \$ 178,951 |
| Debt service grants | 19,533 |
| Capital grants | 46,654 |
| Total | \$ 245,138 |

Table 41b - Summary of Financial Statements for WMATA as of and for the year ended June 30, 2007

| Financial Position | |
|---------------------------------------|---------------------|
| Total assets | \$ 10,504,921 |
| Total liabilities | (2,358,869) |
| Net assets | \$ 8,146,052 |
| Operating Results | |
| Operating revenues | \$ 625,092 |
| Operating expenses | (1,606,408) |
| Nonoperating revenues (expenses), net | 620,175 |
| Revenue from capital contributions | 223,371 |
| Change in net assets | \$ (137,770) |
| Change in Net Assets | |
| Net assets, beginning of year | \$ 8,283,822 |
| Change in net assets | (137,770) |
| Net assets, end of year | \$ 8,146,052 |

NOTE 13. TRANSACTIONS WITH THE FEDERAL GOVERNMENT

A. FEDERAL CONTRIBUTION

In accordance with the National Capital Revitalization and Self-Government Improvement Act of 1997 (Public Law 105-33), the annual federal payment was repealed and replaced with a federal contribution to cover special purpose and other unusual costs imposed on the District by the federal government. Federal contributions to the District for the year ended September 30, 2007 totaled \$440,962.

B. EMERGENCY PREPAREDNESS

The District, as the nation's capital, serves as the command post and the source of first response to any national threat or terrorist act against the nation. The District did not receive any federal payment for emergency preparedness in fiscal year 2007. In prior years, these funds were made available to assist the District to prepare itself and its citizens to more effectively respond to any threat or possible terrorist attack. Of the \$155,900 received in fiscal year 2002, \$629 was spent in fiscal year 2007. As of September 30, 2007, a total amount of \$151,659 has been spent.

NOTE 13. TRANSACTIONS WITH THE FEDERAL GOVERNMENT**C. GRANTS**

The District participates in a number of federal award programs, which are funded through formula and project grants, direct payments for specified and unrestricted use, food stamps and other pass-through grants and direct and guaranteed loans.

The federal government also provides capital grants, which are used for the purchase or construction of fixed assets. Capital grants are recorded as intergovernmental revenue in the General Capital Improvements Fund. Federal grants and contributions are shown by function on the government-wide financial statements.

D. WATER AND SEWER SERVICES

The District exercises no oversight responsibility over the Washington Aqueduct, which is owned by the Federal government and operated by the U. S. Army Corps of Engineers. Historically, the District issued long-term debt to finance most of the Aqueduct's capital facilities and the Water and Sewer Authority recorded this debt and related

capital costs in its financial statements. In 1997, the Water and Sewer Authority and the other Northern Virginia customers entered into an agreement with the federal government, which provided for the funding of the Washington Aqueduct's capital improvement program directly through borrowings. The Water and Sewer Authority is now responsible for funding only its portion of this debt, other related capital projects, and operating costs calculated as the pro rata share of water purchased. The Water and Sewer Authority records payments for capital costs related to the Washington Aqueduct as purchased capacity. Such costs, which are allocable to other jurisdictions, but funded by the Water and Sewer Authority prior to April 1, 1997, are reported as due from other jurisdictions.

Capital outlays are capitalized and depreciated over 60-years by the Water and Sewer Authority. Total capital outlays including capitalized interest from the U.S. Treasury draw-downs and pay-as-you-go financing were \$1,545 for the fiscal year ended September 30, 2007.

NOTE 14. LEASES**A. CAPITAL LEASES**

The District leases buildings and equipment under various agreements that are accounted for as capital leases that have varying terms. Capital lease commitments are recorded in the government-wide financial statements.

Capital lease payments are classified as debt service expenditures in the governmental funds. Such expenditures totaled \$12,443 in fiscal year 2007.

Equipment Financing Program

The District began its Master Equipment Lease Purchase Program (the "Program") in 1998 to provide tax-exempt financing for assets with short-term to intermediate-term useful lives.

As of September 30, 2007, the District financed approximately \$200 million of its capital equipment needs through the Program, and had approximately \$80 million in principal outstanding. During the year, the average interest rate used to finance equipment through the Program was 4.5%. Payments on the liability are made on a quarterly basis.

Equipment procured under this program included such items as fire apparatus (trucks) and other emergency medical services equipment (ambulances); trucks and cranes used by the Department of Public Works; vehicles used by the Metropolitan Police Department; and other heavy equipment items.

Table 42 shows the schedule of equipment financing program payments.

NOTE 14. LEASES

Table 42 – Schedule of Equipment Financing Program Payments

| Year Ending September 30 | Principal | Interest | Total |
|--------------------------|------------------|-----------------|------------------|
| 2008 | \$ 23,001 | \$ 3,175 | \$ 26,176 |
| 2009 | 21,115 | 2,211 | 23,326 |
| 2010 | 17,774 | 1,312 | 19,086 |
| 2011 | 13,477 | 560 | 14,037 |
| 2012 | 4,355 | 76 | 4,431 |
| Total | \$ 79,722 | \$ 7,334 | \$ 87,056 |

B. OPERATING LEASES

Operating leases are not recorded in the statement of net assets. These leases contain various renewal options, the effects of which are reflected in the minimum lease payments only if the options will be exercised. Certain other operating leases contain escalation clauses and contingent rentals that are not included in the calculation of the future minimum lease payments. Operating lease expenditures recorded in governmental funds were \$117,180 in 2007.

C. SCHEDULE OF FUTURE MINIMUM LEASE COMMITMENTS

The present value of future minimum lease payments under capital leases and minimum lease payments for all operating leases having non-cancelable terms in excess of one year at September 30, 2007 are shown in **Table 43**.

Table 43 - Schedule of Future Minimum Lease Payments

| Year Ending September 30 | Primary Government | | |
|----------------------------------|--------------------|-------------------|-----------------|
| | Capital Leases | Operating Leases | |
| | Leases | Facilities | Equipment |
| 2008 | \$ 10,925 | \$ 91,581 | \$ 3,180 |
| 2009 | 10,923 | 66,598 | 1,167 |
| 2010 | 10,920 | 43,985 | 718 |
| 2011 | 10,714 | 33,309 | 359 |
| 2012 | 10,710 | 23,221 | 97 |
| 2013-2017 | 20,489 | 71,043 | - |
| 2018-2022 | - | 32,976 | - |
| 2023-2027 | - | 14,120 | - |
| Minimum lease payments | 74,681 | \$ 376,833 | \$ 5,521 |
| Less - imputed interest | 14,813 | | |
| Present value of payments | \$ 59,868 | | |

NOTE 15. COMMITMENTS AND CONTINGENCIES**A. RISK MANAGEMENT**

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District pays all claim settlements and judgments out of its General Fund resources and reports all of its risk management activities as governmental activities in the government-wide financial statements. There are no non-incremental claims adjustment expenses included in the liability for claims and judgments. Claims expenditures and liabilities are reported in the government-wide financial statements when it is probable that loss has occurred and the amount of that loss can be reasonably estimated and in the General Fund when due and payable. These losses include an estimate of claims that have been incurred but not reported.

B. GRANTS AND CONTRACTS

The District has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of the District. The audits of these federally assisted programs have not been conducted for the year ended September 30, 2007. As such, the District's compliance with applicable grant and federal requirements will be assessed and established at some future date. An accrual of \$3,217 has been provided in the government-wide financial statements to reflect the probable cumulative expenditures that may be disallowed by the granting agencies based on prior experience. Furthermore, an additional \$21,300 was recognized as part of the accrued liability in the government-wide financial statements for grants already disallowed by grantors.

C. LITIGATION

The District is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations. Although the ultimate outcome of these legal proceedings and investigations is unknown, the District is vigorously defending its position in each case. All amounts in connection with lawsuits in which a loss is probable have been included in the liability for claims and judgments at September 30, 2007.

The accrued liability is based on estimates of the payments that will be made upon judgment or resolution

of the claim. This accrued amount is the minimum amount in the range of estimates that have the same probability of occurrence. The sum of excess of the range of probable losses and the minimum range of losses that are reasonably possible which are not accrued is estimated to be \$87,346.

A summary of the changes in the accrued liability for claims and judgments in the government-wide financial statements is shown in **Table 44**.

Table 44 - Summary of Changes in Claims and Judgments Accrual

| Description | 2007 | 2006 |
|----------------------------------|------------------|------------------|
| Liability at October 1 | \$ 58,876 | \$ 50,734 |
| Incurring claims | 33,109 | 34,425 |
| Less: | | |
| claims payments/adjustments | (31,523) | (26,283) |
| Liability at September 30 | <u>\$ 60,462</u> | <u>\$ 58,876</u> |

D. DISABILITY COMPENSATION

The District, through its risk management department, administers a disability compensation program under Title XXIII of the District of Columbia Comprehensive Merit Personnel Act of 1978 (CMPA). This program, which covers all District employees hired under the authority of CMPA, provides compensation for lost wages, medical expenses, and other limited rehabilitation expenses to eligible employees and/or their dependents, where a work-related injury or illness results in disability or death. The benefits are funded on a pay-as-you-go basis. The present value discounted at 3% of projected disability compensation is accrued in the government-wide financial statements.

A summary of changes in this accrual is shown in **Table 45**.

Table 45 - Summary of Changes in Disability Compensation Accrual

| Description | 2007 | 2006 |
|-----------------------------------|------------------|------------------|
| Liability at October 1 | \$ 93,165 | \$ 210,670 |
| Claims incurred | 24,069 | 50,046 |
| Less-benefit payments/adjustments | (27,292) | (167,551) |
| Liability at September 30 | <u>\$ 89,942</u> | <u>\$ 93,165</u> |

NOTE 15. COMMITMENTS AND CONTINGENCIES**E. INTEREST RATE SWAP AGREEMENTS****Objectives:**

Part of the District's debt strategy is to have a diversified portfolio of fixed-rate and variable-rate debt to take advantage of market fluctuations. In order to manage its exposure to interest rates, the District has executed Interest Rate Swap Agreements in connection with existing or proposed debt issuances as discussed below.

Terms**2004B Swap**

On December 8, 2004, the District entered into a series of floating-to-fixed rate swaps in connection with its \$38,250 General Obligation Bonds, Series 2004B ("2004B Swap"). The original total notional amount of the swaps was \$38,250. Under the terms of the swaps, scheduled to terminate in 2014, 2015, 2016 and 2020, the District pays fixed-rates of 4.598%, 4.701%, 4.794% and 5.121%, respectively and receives variable rate payments equivalent to the Consumer Price Index published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor (CPI Index). The notional value of the swap and the principal amount of the associated debt service begin to decline in fiscal year 2014.

2002D Swap

On October 31, 2002, the District entered into a floating-to-fixed rate swap in connection with its \$124,995 Multimodal General Obligation Refunding Bonds, Series 2002D ("2002D Swap"). The original notional amount of the swap was \$124,995. Under the terms of the swap, scheduled to terminate in 2031, the District pays a fixed-rate of 3.617% and receives variable rate payments equivalent to the Bond Market Association Municipal Swap Index (BMA) until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begin to decline in fiscal year 2015.

2002B Swap

On October 15, 2002, the District entered into a floating-to-fixed rate swap in connection with its \$224,300 Multimodal General Obligation Bonds, Series 2002B ("2002B Swap"). The original notional amount of the swap was \$224,300. Under the terms of the swap, scheduled to terminate in 2027, the District pays a fixed-rate of 3.615% and receives variable rate payments equivalent to BMA until December 1, 2004 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service begin to

decline in fiscal year 2020.

2001C/D Swap

On December 6, 2001, the District entered into a floating-to-fixed rate swap in connection with its \$214,155 Multimodal General Obligation Bonds, Series 2001C and its \$69,715 Multimodal General Obligation Refunding Bonds, Series 2001D ("2001C/D Swap"). The original notional amount of the swap was \$283,870. Two firms, Bear, Stearns & Co. Inc. ("Bear Stearns") and UBS PaineWebber, Inc. ("UBS PaineWebber"), negotiated the split of this swap transaction. As a result, Bear Stearns and UBS PaineWebber received 62.5% and 37.5% of the notional amount of the swap, respectively. Under the terms of the swap, scheduled to terminate in 2029, the District pays a fixed-rate of 4.004% and receives variable rate payments equivalent to BMA until June 2, 2003 and at 67% of LIBOR thereafter. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 2003.

On June 2, 2003, the District entered into an enhanced interest rate swap agreement for the 2001C/D Bond issue ("2001C/D Enhanced Swap"). Based on the 2001C/D Enhanced Swap, the District pays the counterparty 67% of LIBOR and the counterparty pays the District a variable rate as a percentage of the actual LIBOR reset each month. The purpose of this swap is to reduce the basis risk to the District by providing a closer match between the District underlying variable rate bonds and the variable rate swap receipt from the counterparty. Only the net difference in interest payments is actually exchanged between the counterparties.

1992A/2001A Swap

On March 26, 1992, the District entered into a floating-to-fixed rate swap in connection with its \$299,800 General Obligation Variable Rate Refunding Bonds, Series 1992A ("1992A/2001A Swap"). The 1992A Bonds were refunded by the District's \$114,150 Multimodal General Obligation Refunding Bonds, Series 2001A. The original notional amount of the swap was \$299,800. Under the terms of the swap, which matured in October of 2007, the District paid a fixed-rate of 6.02% and received variable rate payments equivalent to the J.J. Kenny Index. The notional value of the swap and the principal amount of the associated debt service began to decline in fiscal year 1992.

2007 AWC Swap

In connection with the issuance of the AWC Bonds in September 2007, the AWC entered into a swap agreement with Wachovia Bank, N.A. which has a current notional

NOTE 15. COMMITMENTS AND CONTINGENCIES

amount of \$111,550 and provides for a fixed rate payment by the District at 4.46%. The AWC also entered into a floating to fixed interest rate swap with Wachovia Bank, N.A., under which the AWC pays a fixed rate and receives a variable rate which matches the rate on the bond purchased by Wachovia Bank, N.A. The notional amount of the swap is equal to the principal amount of the AWC Bonds.

Fair Market Value

As of September 30, 2007, the 2004B, 2002D, 2002B, 2001C/D Swaps, 1992A/2001A and the 2007 AWC Swap ("Swaps") had fair market values as shown in **Table 46**:

Table 46 – Swap Fair Market Values

| Swaps Fair Market Values | |
|---------------------------------|--------------------|
| 2004B Swaps | \$ (1,131) |
| 2002D Swap | (1,514) |
| 2002B Swap | (1,628) |
| 2001C/D (Enhanced Swap) | (3,753) |
| 2001C/D (Bear Stearns) | (7,292) |
| 2001C/D (UBS PaineWebber) | (4,371) |
| 1992A/2001A (Merrill) | (13) |
| 2007 AWC Swap | (662) |
| Total | \$ (20,364) |

The market value was provided by the counterparty to each respective swap and confirmed by the District's Financial Advisor, Phoenix Capital Partners, LLP.

Credit Risk

The swaps' fair market value represents the District's obligation to the counterparties if the swaps were terminated. As of September 30, 2007, the District was not exposed to any credit risk because the swaps had a negative fair value. Should the counterparty to these transactions fail to perform according to the terms of the swaps' contracts, the District faces a maximum possible loss equivalent to the swaps' fair market value \$(20,364) in aggregate. Standard & Poor's and Moody's rated counterparty to each swap as of September 30, 2007 is presented in **Table 47**.

Table 47 – Swap Counterparty Credit Ratings

| Swap | Counterparty | Credit Rating |
|-------------|---------------------------------|----------------------|
| 2004B | Bear Stearns Capital Markets | A+/A1 |
| 2002D | Lehman Brothers | A+/A1 |
| 2002B | Morgan Stanley | AA-/Aa3 |
| 2001C/D | Bear Stearns Financial Products | AAA/Aaa |
| 2001C/D | UBS Paine Webber | AA+/Aaa |
| 2001C/D | Bear Stearns Financial Products | AAA/Aaa |
| 1992A/2001A | Merrill Lynch | A+/A1 |
| 2007 AWC | Wachovia Bank | Aa1/AA- |

Basis Risk

The District is subject to basis risk if the variable payment received from the counterparty does not equal the rate on the bonds.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap uses the International Swap Dealers Association Master Agreement, which includes standard termination events. The Schedule to the Master Agreement defines an "additional termination event." That is, the swap may be terminated if the counterparty or its Credit Support Provider, or the District has one or more outstanding issues of rated unsecured, unenhanced senior debt and none of such issues has a rating of at least (i) Baa3 or higher as determined by Moody's Investors Service, Inc., (ii) BBB- or higher as determined by Standard & Poor's Ratings Service, A Division of the McGraw-Hill Companies, Inc. or (iii) an equivalent investment grade rating determined by a nationally recognized rating service acceptable to both parties.

Swap Payments and Associated Debt

Using interest rates as of September 30, 2007, principal and interest requirements of the fixed-rate debt and net swap payments are shown in **Table 48**. As rates vary, net swap payments will vary. As the principal on the variable rate bonds matures, the swaps' notional amount likewise diminishes, or amortizes as well.

NOTE 15. COMMITMENTS AND CONTINGENCIES**Table 48 – Swaps Interest Requirements**

| Primary Government Year Ending September 30 | Governmental Activities General Obligation | | Interest Rate | Total |
|--|---|-------------------|------------------|---------------------|
| | Principal | Interest | Swaps, Net | |
| 2008 | \$ 13,010 | \$ 24,698 | \$ 2,197 | \$ 39,905 |
| 2009 | 7,350 | 24,311 | 2,097 | 33,758 |
| 2010 | 7,635 | 24,031 | 2,055 | 33,721 |
| 2011 | 7,945 | 23,741 | 2,011 | 33,697 |
| 2012 | 27,660 | 23,439 | 1,965 | 53,064 |
| 2013-2017 | 85,260 | 105,599 | 8,470 | 199,329 |
| 2018-2022 | 201,900 | 82,369 | 6,333 | 290,602 |
| 2023-2027 | 275,390 | 34,314 | 2,549 | 312,253 |
| 2028-2032 | 19,845 | 1,788 | 135 | 21,768 |
| Total | \$ 645,995 | \$ 344,290 | \$ 27,812 | \$ 1,018,097 |

F. DEBT SERVICE DEPOSIT AGREEMENTS

The District entered into debt service deposit agreements effective through 2014 that exchanged future cash flows of certain special tax fund escrow accounts for a fixed amount received by the District upon entering into the agreements, thus increasing the predictability of cash flows from the earnings on escrow account investments.

Upon early termination of an agreement and depending upon the then current interest rates, a termination amount may be owed by the District. At September 30, 2007, unearned revenue of \$2,193 related to this agreement was recorded in the government-wide financial statements.

NOTE 16. SUBSEQUENT EVENTS**A. TAX REVENUE ANTICIPATION NOTES**

The District issued \$300,000 in Tax Revenue Anticipation Notes (TRANs) on December 12, 2007. The note is a short term financing method used to provide for seasonal cash flow needs, and the proceeds were used to finance general governmental expenses of the District in anticipation of the collection or receipt of revenues for fiscal year 2008.

The TRANs are general obligations of the District, secured by the District's full faith and credit, and payable from available revenues, including tax revenues, of the District. Operational and other disbursement costs are covered by the TRANs proceeds until periodic taxes, grants and other revenues are received. The notes were issued as fixed-rate notes with an interest rate of 4.00%, priced to yield 3.13%, and will mature on September 30, 2008.

B. SPECIAL ITEM – PROPERTY TAX REFUND FRAUD

On November 7, 2007, federal authorities filed charges against two employees of the Office of Tax and Revenues (OTR) for alleged theft of more than \$20 million in property tax refunds. Federal authorities claimed that the scheme, which allegedly relied on a coterie of tax employees using phony paperwork and sham companies, had been going on for as long as seven years. In fiscal year 2007, the approximate amount allegedly stolen amounted to \$8.8 million. Even though the amounts involved are not quantitatively material, considering the total revenues generated either in a single year or in all the years involved, the inherent interest generated by the scandal would have made it a significant omission were it not separately reflected in the financial statements and disclosed in the notes to the financial statements. Hence, the loss was displayed under a special item on the face of the financial statements because this naturally significant activity was within the control of the management who failed to uncover the fraudulent activities.

NOTE 16. SUBSEQUENT EVENTS**C. VERIZON CENTER NOTES**

In December 2007, the District issued \$50 million in taxable financing notes to finance upgrades at the Verizon Center in the District of Columbia. The 2007A note was issued in the amount of \$43,570 at a fixed interest rate of 6.734% and matures on August 15, 2047. The 2007B note was issued in the amount of \$6,430 at a fixed interest rate of 6.584% with a maturity date of August 15, 2027. These notes are a special limited obligation of the District and will be secured by a portion of the taxes on certain on-site personal property, services and public ticket sales at Verizon Center. In the event such taxes are not sufficient, the notes are further secured by incremental increases in certain dedicated real property and sales tax revenues, which are subordinate to the pledge of such revenues to the TIF Bonds that were issued to finance Gallery Place and the Mandarin Oriental Hotel.

D. GENERAL OBLIGATION BONDS

On December 19, 2007, the District issued its Series 2007C General Obligation Bonds in the principal amount of \$333,840 (the "2007C Bonds"). The proceeds of these bonds will be used to finance capital project expenditures in the District's capital improvements program and to pay the costs and expenses of issuing and delivering the bonds. The 2007C bonds, together with other outstanding general obligation bonds, and bonds to be issued in the future are general obligations of the District, secured by the District's full faith and credit and further secured by the Special Real Property Tax, and were issued under Section 461 of the Home Rule Act. The 2007C Bonds were issued as fixed-rate bonds with a weighted average interest rate yield of 4.38%. The maturity of the 2007C bonds is June 1, 2033.

E. COMPONENT UNITS

- *Housing Finance Agency*

On October 25, 2007, the Agency made a draw of \$17.195 million on its single family mortgage revenue bonds draw down series 2005. On November 9, 2007, the Agency issued single family revenue bonds Series 2007 A & B for \$100 million. On November 28, 2007, the Agency made an additional draw of \$1.6 million on its single family mortgage revenue bonds draw down series 2005. On

December 28, 2007, the Agency redeemed \$27.115 million of its multifamily draw down series 2005. On December 31, 2007, the Agency issued multifamily housing revenue bonds of \$36.8 million for Parkside Terrace. On January 22, 2008, the Agency issued Multifamily housing revenue bonds of \$5.7 million for Henson Ridge II UFAS.

- *Sports and Entertainment Commission*

On January 30, 2008, D.C. United Soccer Team signed a letter of commitment for the 2008 soccer season.

- *Washington Convention Center Authority*

On October 31, 2007, the Office of the Deputy Mayor for Planning and Economic Development and Square 370 LLC (Gould LLC) executed an exchange agreement. The agreement stipulated the swapping of certain land owned by Gould, LLC adjacent to the Plumbers Building (i.e. Lots 18, 21, 801-806, 830-836, 838, 839, 843, and 845 in Square 370, collectively, the Gould Property) for other property owned by the District. The exchange was authorized by the Council of the District of Columbia on April 4, 2006, through "the Convention Center Hotel Parcel Exchange Approval Resolution of 2006", R16-0595.

F. DISSOLUTION OF COMPONENT UNITS

The District dissolved the boards of directors of the National Capital Revitalization Corporation (NCRC), the Anacostia Waterfront Corporation (AWC), and the Economic Development Finance Corporation (EDFC) effective September 30, 2007. The dissolution was made effective by the National Capital Revitalization Corporation and Anacostia Waterfront Corporation Reorganization Congressional Review Emergency Act of 2007. The Act empowers the Mayor to succeed to the powers, duties and responsibilities of the boards of directors of these component units. Effective October 1, 2007, legal and equitable title to all real property, personal property, capital and intangible assets of the NCRC, AWC, and EDFC shall transfer, vest, and be titled in the name of the District. In fiscal year 2008, these entities will be incorporated into the primary government and will no longer be reported as component units.



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OTHER SUPPLEMENTARY INFORMATION

This subsection includes the combining and individual fund statements and schedules for the following:

General Fund

Nonmajor Governmental Funds

Fiduciary Funds

Supporting schedules

Discretely Presented Component Unit Cash Flow Schedules



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GENERAL FUND

The General Fund is used to account for all financial resources that are not required to be accounted for in another fund.

Exhibit A-1

**GENERAL FUND
BALANCE SHEET
September 30, 2007
(With Comparative Totals at September 30, 2006)
(\$000s)**

| | 2007 | 2006 |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Cash and cash equivalents (unrestricted) | \$ 602,923 | \$ 362,193 |
| Investments | - | 5,000 |
| Receivables (net of allowances for uncollectibles): | | |
| Taxes | 288,700 | 274,748 |
| Accounts | 29,670 | 96,696 |
| Intergovernmental | 18,317 | 9,966 |
| Due from component units | 5,165 | 4,762 |
| Interfund | 368,507 | 645,351 |
| Inventories | 15,998 | 9,640 |
| Other current assets | 3,435 | 2,612 |
| Cash and cash equivalents (restricted) | 947,030 | 783,705 |
| Investments (restricted) | - | 28,782 |
| Total current assets | <u>2,279,745</u> | <u>2,223,455</u> |
| Long Term Assets: | | |
| Loans | <u>6,704</u> | <u>8,177</u> |
| Total assets | <u>\$ 2,286,449</u> | <u>\$ 2,231,632</u> |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Payables: | | |
| Accounts | \$ 402,870 | \$ 400,617 |
| Compensation: | | |
| Salaries and wages | 86,047 | 116,716 |
| Employee benefits | 6,414 | 610 |
| Payroll taxes | 14,533 | 12,561 |
| Other deductions | 2,651 | 3,226 |
| Due to component units | 15,785 | 20,535 |
| Interfund | 30,409 | 11,668 |
| Accrued liabilities: | | |
| Grant disallowances | 1,300 | 11,529 |
| Medicaid | 59,107 | 46,984 |
| Tax refunds | 54,956 | 54,534 |
| Deferred revenue: | | |
| Property taxes | 75,117 | 78,001 |
| Other | 36,003 | 31,982 |
| Other current liabilities | <u>7,257</u> | <u>7,527</u> |
| Total liabilities | <u>792,449</u> | <u>796,490</u> |
| Fund Balance: | | |
| Reserved | 1,135,459 | 1,045,560 |
| Unreserved | <u>358,541</u> | <u>389,582</u> |
| Total fund balance | <u>1,494,000</u> | <u>1,435,142</u> |
| Total liabilities and fund balance | <u>\$ 2,286,449</u> | <u>\$ 2,231,632</u> |

See Accompanying Independent Auditors' Report

Exhibit A-2

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Year Ended September 30, 2007
(With Comparative Totals for the Year Ended September 30, 2006)
(\$000s)

| | 2007 | 2006 |
|---|----------------------------|----------------------------|
| Revenues: | | |
| Taxes | \$ 5,146,007 | \$ 4,472,845 |
| Licenses and permits | 89,072 | 81,222 |
| Fines and forfeits | 101,971 | 112,919 |
| Charges for services: | | |
| Public | 135,834 | 122,865 |
| Intergovernmental | 6,049 | 8,214 |
| Miscellaneous: | | |
| Public | 315,477 | 290,352 |
| Investment income | 89,425 | 63,655 |
| Operating grants | 2,539 | - |
| Total revenues | <u>5,886,374</u> | <u>5,152,072</u> |
| Expenditures: | | |
| Current: | | |
| Governmental direction and support | 532,140 | 499,289 |
| Economic development and regulation | 323,267 | 218,210 |
| Public safety and justice | 960,766 | 896,460 |
| Public education system | 1,250,769 | 1,177,362 |
| Human support services | 1,512,095 | 1,532,296 |
| Public works | 223,891 | 176,027 |
| Public transportation | 198,484 | 187,615 |
| Debt service: | | |
| Principal | 216,198 | 193,715 |
| Interest | 193,808 | 181,590 |
| Fiscal charges | 15,002 | 18,514 |
| Total expenditures | <u>5,426,420</u> | <u>5,081,078</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | <u>459,954</u> | <u>70,994</u> |
| Other Financing Sources (Uses): | | |
| Debt issuance | 256,595 | 133,937 |
| Premium on sale of bonds | 16,063 | 18,232 |
| Payment to refunded bond escrow agent | (264,334) | (122,141) |
| Transfers in | 88,759 | 91,675 |
| Transfers out | (501,509) | (342,238) |
| Sale of capital assets | 12,168 | - |
| Total other financing sources (uses) | <u>(392,258)</u> | <u>(220,535)</u> |
| Special item-real property loss | <u>(8,838)</u> | <u>-</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES | 58,858 | (149,541) |
| Fund Balance at October 1 | <u>1,435,142</u> | <u>1,584,683</u> |
| Fund Balance at September 30 | <u>\$ 1,494,000</u> | <u>\$ 1,435,142</u> |

See Accompanying Independent Auditors' Report.

Exhibit A-3

GENERAL FUND
SCHEDULE OF EXPENDITURES AND NET FINANCING (SOURCES) USES
FUNCTION AND OBJECT --GAAP BASIS
Year Ended September 30, 2007
(With Comparative Totals for the Year Ended September 30, 2006)
(\$000s)

| Function and Subfunction | Personal Services | Contractual Services | Supplies | Occupancy | Miscellaneous * | Totals | |
|---|---------------------|----------------------|------------------|-------------------|---------------------|---------------------|---------------------|
| | | | | | | 2007 | 2006 |
| Governmental Direction and Support: | | | | | | | |
| Legislative | \$ 15,902 | \$ 1,679 | \$ 175 | \$ 391 | \$ 1,651 | \$ 19,798 | \$ 18,977 |
| Executive | 70,556 | 42,781 | 345 | 5,728 | 16,149 | 135,559 | 125,869 |
| Finance | 77,001 | 39,714 | 759 | 12,155 | 95,888 | 225,517 | 207,724 |
| Personnel | 11,995 | 19,853 | 196 | 2,337 | 2,269 | 36,650 | 30,666 |
| Administrative | 40,149 | 24,916 | 448 | 16,889 | 24,756 | 107,158 | 110,016 |
| Elections | 4,194 | 2,370 | 184 | 528 | 182 | 7,458 | 6,037 |
| Total | <u>219,797</u> | <u>131,313</u> | <u>2,107</u> | <u>38,028</u> | <u>140,895</u> | <u>532,140</u> | <u>499,289</u> |
| Economic Development and Regulation: | | | | | | | |
| Community development | 13,519 | 12,924 | 217 | 1,580 | 146,494 | 174,734 | 91,425 |
| Economic regulation | 50,571 | 14,632 | 678 | 10,949 | 1,449 | 78,279 | 78,049 |
| Employment services | 15,462 | 11,788 | 392 | 8,307 | 34,305 | 70,254 | 48,736 |
| Total | <u>79,552</u> | <u>39,344</u> | <u>1,287</u> | <u>20,836</u> | <u>182,248</u> | <u>323,267</u> | <u>218,210</u> |
| Public Safety and Justice: | | | | | | | |
| Police | 403,110 | 53,831 | 5,474 | 18,553 | 104,500 | 585,468 | 554,743 |
| Fire | 157,782 | 5,778 | 2,449 | 5,209 | 40,421 | 211,639 | 190,401 |
| Corrections | 67,840 | 71,040 | 2,508 | 5,663 | 617 | 147,668 | 136,083 |
| Protection | 5,826 | 2,189 | 91 | 2,290 | 191 | 10,587 | 9,303 |
| Law | 4,506 | 246 | 66 | 135 | 77 | 5,030 | 5,580 |
| Judicial | 300 | 57 | 1 | 3 | 13 | 374 | 350 |
| Total | <u>639,364</u> | <u>133,141</u> | <u>10,589</u> | <u>31,853</u> | <u>145,819</u> | <u>960,766</u> | <u>896,460</u> |
| Public Education System: | | | | | | | |
| Schools | 520,000 | 74,466 | 20,373 | 50,061 | 518,572 | 1,183,472 | 1,121,859 |
| Culture | 29,092 | 9,164 | 609 | 3,478 | 24,954 | 67,297 | 55,503 |
| Total | <u>549,092</u> | <u>83,630</u> | <u>20,982</u> | <u>53,539</u> | <u>543,526</u> | <u>1,250,769</u> | <u>1,177,362</u> |
| Human Support Services: | | | | | | | |
| Health and welfare | 261,150 | 242,963 | 9,492 | 68,421 | 824,559 | 1,406,585 | 1,296,179 |
| Human relations | 3,832 | 1,949 | 88 | 249 | 16,831 | 22,949 | 20,654 |
| Employment benefits | - | - | - | - | 34,801 | 34,801 | 171,807 |
| Recreation | 30,486 | 10,337 | 936 | 5,342 | 659 | 47,760 | 43,656 |
| Total | <u>295,468</u> | <u>255,249</u> | <u>10,516</u> | <u>74,012</u> | <u>876,850</u> | <u>1,512,095</u> | <u>1,532,296</u> |
| Public Works | <u>106,755</u> | <u>76,151</u> | <u>3,008</u> | <u>18,503</u> | <u>19,474</u> | <u>223,891</u> | <u>176,027</u> |
| Public Transportation | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>198,484</u> | <u>198,484</u> | <u>187,615</u> |
| Debt Service | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>425,007</u> | <u>425,007</u> | <u>393,819</u> |
| Net Financing Uses | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>401,096</u> | <u>401,096</u> | <u>220,535</u> |
| Total expenditures and net sources | <u>\$ 1,890,028</u> | <u>\$ 718,828</u> | <u>\$ 48,489</u> | <u>\$ 236,771</u> | <u>\$ 2,933,399</u> | <u>\$ 5,827,515</u> | <u>\$ 5,301,613</u> |

See Accompanying Independent Auditors' Report.

*Miscellaneous column includes transfers, subsidies and other payments totaling \$2,397,716.

Transfers to: Convention Center [\$83,312], Charter Schools [\$277,159], UDC [\$62,636], Baseball [\$45,952], PAYGO [\$218,861], TIF [\$21,531], DC Contribution to Retirement Pension Plans for Police, Fire & Teachers [\$154,700], Mass Transit [\$198,484], Other Post Employment Benefits [\$4,700], Housing Production [\$134,747], Motor Fuel [\$26,776], Other [\$21,091], Taxes imposed for Capital Projects [\$32,550], Housing Authority [\$22,730], Anacostia Waterfront [\$13,653]

Payments for: Medicaid & Other Human Support Services [\$790,062], Medicaid Reserve [\$13,930], Special Education [\$163,938], Economic Development [\$57,950], Youth Rehabilitation Services [\$19,502], Disability Compensation [\$14,168], Dept. of the Environment [\$10,446], Fraudulent Taxes Loss [\$8,838]

Exhibit A-4

GENERAL FUND
SCHEDULE OF LOCAL SOURCE REVENUES
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended September 30, 2007
(\$000s)

| Source | Budget | | Actual | Variance Positive (Negative) |
|--|---------------------|------------------|------------------|------------------------------------|
| | Original | Revised | | |
| Taxes: | | | | |
| Property: | | | | |
| Real | \$ 1,311,082 | 1,364,820 | 1,443,601 | 78,781 |
| Personal | 55,165 | 57,083 | 57,395 | 312 |
| Total | 1,366,247 | 1,421,903 | 1,500,996 | 79,093 |
| Sales and use: | | | | |
| General | 753,866 | 716,660 | 717,089 | 429 |
| Alcoholic beverages | 4,977 | 4,977 | 5,150 | 173 |
| Cigarette | 19,724 | 21,234 | 21,205 | (29) |
| Motor vehicles | 46,431 | 46,303 | 43,681 | (2,622) |
| Total | 824,998 | 789,174 | 787,125 | (2,049) |
| Income and franchise: | | | | |
| Individual income | 1,236,486 | 1,210,306 | 1,313,826 | 103,520 |
| Corporation franchise | 219,064 | 252,702 | 255,511 | 2,809 |
| Unincorporated business | 138,264 | 173,420 | 167,024 | (6,396) |
| Total | 1,593,814 | 1,636,428 | 1,736,361 | 99,933 |
| Gross receipts: | | | | |
| Public utility | 156,739 | 147,239 | 153,289 | 6,050 |
| Toll telecommunication | 51,447 | 54,967 | 56,786 | 1,819 |
| Insurance companies | 56,500 | 56,500 | 55,016 | (1,484) |
| Total | 264,686 | 258,706 | 265,091 | 6,385 |
| Other: | | | | |
| Deed recordation | 214,414 | 177,108 | 226,743 | 49,635 |
| Deed transfers | 183,511 | 114,123 | 152,411 | 38,288 |
| Inheritance and estate | 20,072 | 55,575 | 54,250 | (1,325) |
| Economic interests | 8,000 | 52,111 | 64,794 | 12,683 |
| Total | 425,997 | 398,917 | 498,198 | 99,281 |
| Total taxes | 4,475,742 | 4,505,128 | 4,787,771 | 282,643 |
| Licenses and Permits: | | | | |
| Business licenses | 39,658 | 40,951 | 49,848 | 8,897 |
| Nonbusiness permits | 31,187 | 31,190 | 28,435 | (2,755) |
| Total | 70,845 | 72,141 | 78,283 | 6,142 |
| Fines and Forfeits | 107,336 | 111,920 | 101,436 | (10,484) |
| Charges for Services: | | | | |
| Right of way | - | - | 50 | 50 |
| Other | 53,218 | 49,846 | 52,371 | 2,525 |
| Total | 53,218 | 49,846 | 52,421 | 2,575 |
| Miscellaneous: | | | | |
| Interest | 38,000 | 41,800 | 82,505 | 40,705 |
| Other | 64,458 | 61,854 | 109,230 | 47,376 |
| Total | 102,458 | 103,654 | 191,735 | 88,081 |
| Total local revenues | 4,809,599 | 4,842,689 | 5,211,646 | 368,957 |
| Transfers and Other sources: | | | | |
| General obligation bonds | 30,000 | 30,000 | 6,335 | (23,665) |
| Fund balance released from restrictions | 176,330 | 261,342 | 39,467 | (221,875) |
| Interfund transfer | 72,100 | 72,100 | 80,247 | 8,147 |
| Total transfers and other sources | 278,430 | 363,442 | 126,049 | (237,393) |
| Total Local Revenues and Sources | \$ 5,088,029 | 5,206,131 | 5,337,695 | 131,564 |

See Accompanying Independent Auditors' Report.

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES BY SOURCE OF FUNDS
 Year Ended September 30, 2007
 (\$000s)

| | Local Source | | | | Other Source | | | | Totals | | | |
|--|-----------------|----------------|----------------|----------------|-----------------|----------------|---------------|---------------|-----------------|----------------|----------------|----------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance |
| Revenues and Sources: | | | | | | | | | | | | |
| Taxes | | | | | | | | | | | | |
| Property | \$ 1,366,247 | 1,421,903 | 1,500,996 | 79,093 | - | - | - | - | 1,366,247 | 1,421,903 | 1,500,996 | 79,093 |
| Sales and uses | 824,998 | 789,174 | 787,125 | (2,049) | - | - | - | - | 824,998 | 789,174 | 787,125 | (2,049) |
| Income and franchise | 1,593,814 | 1,636,428 | 1,736,361 | 99,933 | - | - | - | - | 1,593,814 | 1,636,428 | 1,736,361 | 99,933 |
| Gross receipts and other taxes | 690,683 | 657,623 | 763,289 | 105,666 | - | - | - | - | 690,683 | 657,623 | 763,289 | 105,666 |
| Total taxes | 4,475,742 | 4,505,128 | 4,787,771 | 282,643 | - | - | - | - | 4,475,742 | 4,505,128 | 4,787,771 | 282,643 |
| Licenses and permits | 70,845 | 72,141 | 78,283 | 6,142 | - | - | - | - | 70,845 | 72,141 | 78,283 | 6,142 |
| Fines and forfeits | 107,336 | 111,920 | 101,436 | (10,484) | - | - | - | - | 107,336 | 111,920 | 101,436 | (10,484) |
| Charges for services | 53,218 | 49,846 | 52,421 | 2,575 | - | - | - | - | 53,218 | 49,846 | 52,421 | 2,575 |
| Miscellaneous | 102,458 | 103,654 | 191,735 | 88,081 | - | - | - | - | 102,458 | 103,654 | 191,735 | 88,081 |
| Other | - | - | - | - | 525,614 | 446,201 | 366,511 | (79,690) | 525,614 | 446,201 | 366,511 | (79,690) |
| General obligation bonds | 30,000 | 30,000 | 6,335 | (23,665) | - | - | - | - | 30,000 | 30,000 | 6,335 | (23,665) |
| Fund balance released from restrictions | 176,330 | 261,342 | 39,467 | (221,875) | - | 82,945 | 82,945 | - | 176,330 | 344,287 | 122,412 | (221,875) |
| Interfund transfer-from lottery and games | 72,100 | 72,100 | 65,376 | (6,724) | - | - | - | - | 72,100 | 72,100 | 65,376 | (6,724) |
| Interfund transfer-from baseball project | - | - | 14,871 | 14,871 | - | - | - | - | - | - | 14,871 | 14,871 |
| Total Revenues and Sources | 5,088,029 | 5,206,131 | 5,337,695 | 131,564 | 525,614 | 529,146 | 449,456 | (79,690) | 5,613,643 | 5,735,277 | 5,787,151 | 51,874 |
| Expenditures and Uses: | | | | | | | | | | | | |
| Governmental direction and support | 330,100 | 345,085 | 334,990 | 10,095 | 103,658 | 87,441 | 31,268 | 56,173 | 433,758 | 432,526 | 366,258 | 66,268 |
| Economic development and regulation | 194,206 | 212,257 | 205,850 | 6,407 | 215,188 | 225,688 | 174,773 | 50,915 | 409,394 | 437,945 | 380,623 | 57,322 |
| Public safety and justice | 888,003 | 921,770 | 912,310 | 9,460 | 55,290 | 55,290 | 49,119 | 6,171 | 943,293 | 977,060 | 961,429 | 15,631 |
| Public education system | 1,203,492 | 1,147,103 | 1,141,029 | 6,074 | 20,479 | 27,357 | 14,600 | 12,757 | 1,223,971 | 1,174,460 | 1,155,629 | 18,831 |
| Public education AY08 expenditure | - | 85,047 | 85,047 | - | - | - | - | - | - | 85,047 | 85,047 | - |
| Human support services | 1,369,566 | 1,488,529 | 1,472,405 | 16,124 | 53,572 | 44,705 | 33,484 | 11,221 | 1,423,138 | 1,533,234 | 1,505,889 | 27,345 |
| Write off mental health receivable | - | - | 6,813 | (6,813) | - | - | - | - | - | - | 6,813 | (6,813) |
| Public works | 351,396 | 359,882 | 353,590 | 6,292 | 53,922 | 87,910 | 76,381 | 11,529 | 405,318 | 447,792 | 429,971 | 17,821 |
| Workforce investments | 38,500 | 7,873 | - | 7,873 | - | - | - | - | 38,500 | 7,873 | - | 7,873 |
| Wilson building | 4,211 | 3,961 | 3,763 | 198 | - | - | - | - | 4,211 | 3,961 | 3,763 | 198 |
| Repay bonds and interest | 405,114 | 389,016 | 386,245 | 2,771 | - | - | - | - | 405,114 | 389,016 | 386,245 | 2,771 |
| Repay revenue bonds and interest | 6,000 | 4,750 | - | 4,750 | - | - | - | - | 6,000 | 4,750 | - | 4,750 |
| Bond fiscal charge | 30,000 | 30,000 | 6,406 | 23,594 | - | - | - | - | 30,000 | 30,000 | 6,406 | 23,594 |
| Interest on short term borrowing | 8,000 | 8,460 | 8,455 | 5 | - | - | - | - | 8,000 | 8,460 | 8,455 | 5 |
| Certificates of participation | 31,225 | 30,575 | 30,448 | 127 | - | - | - | - | 31,225 | 30,575 | 30,448 | 127 |
| Settlements and judgments fund | 15,655 | 25,047 | 25,029 | 18 | - | - | - | - | 15,655 | 25,047 | 25,029 | 18 |
| Real property tax loss | - | - | 8,838 | (8,838) | - | - | - | - | - | - | 8,838 | (8,838) |
| Equipment lease operating | 43,955 | 22,028 | 21,893 | 135 | - | - | - | - | 43,955 | 22,028 | 21,893 | 135 |
| Pay-go capital | 87,987 | 118,861 | 118,861 | - | - | - | - | - | 87,987 | 118,861 | 118,861 | - |
| Schools modernization fund | 1,650 | - | - | - | - | - | - | - | 1,650 | - | - | - |
| District retiree health contribution | 4,700 | 4,700 | 4,700 | - | - | - | - | - | 4,700 | 4,700 | 4,700 | - |
| Cash reserve | 50,000 | 500 | - | 500 | - | - | - | - | 50,000 | 500 | - | 500 |
| Non-departmental agency | 22,437 | 191 | - | 191 | 23,505 | 755 | - | 755 | 45,942 | 946 | - | 946 |
| Total Expenditures and Uses | 5,086,197 | 5,205,635 | 5,126,672 | 78,963 | 525,614 | 529,146 | 379,625 | 149,521 | 5,611,811 | 5,734,781 | 5,506,297 | 228,484 |
| Excess of Revenues and Sources Over Expenditures and Uses | \$ 1,832 | 496 | 211,023 | 210,527 | - | - | 69,831 | 69,831 | 1,832 | 496 | 280,854 | 280,358 |

See Accompanying Independent Auditors' Report.

Exhibit A-6

GENERAL FUND
SCHEDULE OF BUDGETARY BASIS REVENUES AND EXPENDITURES
Year Ended September 30, 2007
(\$000s)

| | Original Budget | Revisions | Revised Budget | Actual | Variance (Actual To Original Budget) |
|--|------------------------|-----------------------|-------------------|-----------------------|---|
| Revenues and Sources: | | | | | |
| Taxes: | | | | | |
| Property | \$ 1,366,247 | 55,656 | 1,421,903 | 1,500,996 | 134,749 |
| Sales and use | 824,998 | (35,824) | 789,174 | 787,125 | (37,873) |
| Income and franchise | 1,593,814 | 42,614 | 1,636,428 | 1,736,361 | 142,547 |
| Other taxes | 690,683 | (33,060) | 657,623 | 763,289 | 72,606 |
| Total taxes | <u>4,475,742</u> | <u>29,386</u> | <u>4,505,128</u> | <u>4,787,771</u> | <u>312,029</u> |
| Licenses and permits | 70,845 | 1,296 | 72,141 | 78,283 | 7,438 |
| Fines and forfeits | 107,336 | 4,584 | 111,920 | 101,436 | (5,900) |
| Charges for services | 53,218 | (3,372) | 49,846 | 52,421 | (797) |
| Miscellaneous | 102,458 | 1,196 | 103,654 | 191,735 | 89,277 |
| Other | 525,614 | (79,413) | 446,201 | 366,511 | (159,103) |
| General obligation bonds | 30,000 | - | 30,000 | 6,335 | (23,665) |
| Fund balance released from restriction | 176,330 | 167,957 | 344,287 | 122,412 | (53,918) |
| Interfund transfer-from lottery and game | 72,100 | - | 72,100 | 65,376 | (6,724) |
| Interfund transfer-from baseball project | - | - | - | 14,871 | 14,871 |
| Total Revenues and Sources | <u>5,613,643</u> | <u>121,634</u> | <u>5,735,277</u> | <u>5,787,151</u> | <u>173,508</u> |
| Expenditures and Uses: | | | | | |
| Governmental direction and support | 433,758 | (1,232) | 432,526 | 366,258 | 67,500 |
| Economic development and regulation | 409,394 | 28,551 | 437,945 | 380,623 | 28,771 |
| Public safety and justice | 943,293 | 33,767 | 977,060 | 961,429 | (18,136) |
| Public education system | 1,223,971 | (49,511) | 1,174,460 | 1,155,629 | 68,342 |
| Public education AY08 expenditure | - | 85,047 | 85,047 | 85,047 | (85,047) |
| Human support services | 1,423,138 | 110,096 | 1,533,234 | 1,505,889 | (82,751) |
| Write off mental health receivable | - | - | - | 6,813 | (6,813) |
| Public works | 405,318 | 42,474 | 447,792 | 429,971 | (24,653) |
| Workforce investments | 38,500 | (30,627) | 7,873 | - | 38,500 |
| Wilson building | 4,211 | (250) | 3,961 | 3,763 | 448 |
| Repay bonds and interest | 405,114 | (16,098) | 389,016 | 386,245 | 18,869 |
| Repay revenue bonds and interest | 6,000 | (1,250) | 4,750 | - | 6,000 |
| Bond fiscal charge | 30,000 | - | 30,000 | 6,406 | 23,594 |
| Interest on short term borrowing | 8,000 | 460 | 8,460 | 8,455 | (455) |
| Certificates of participation | 31,225 | (650) | 30,575 | 30,448 | 777 |
| Settlements and judgments fund | 15,655 | 9,392 | 25,047 | 25,029 | (9,374) |
| Real property tax loss | - | - | - | 8,838 | (8,838) |
| Equipment lease operating | 43,955 | (21,927) | 22,028 | 21,893 | 22,062 |
| Pay-go capital | 87,987 | 30,874 | 118,861 | 118,861 | (30,874) |
| Schools modernization fund | 1,650 | (1,650) | - | - | 1,650 |
| District retiree health contribution | 4,700 | - | 4,700 | 4,700 | - |
| Cash reserve | 50,000 | (49,500) | 500 | - | 50,000 |
| Non-departmental agency | 45,942 | (44,996) | 946 | - | 45,942 |
| Total Expenditures and Uses | <u>5,611,811</u> | <u>122,970</u> | <u>5,734,781</u> | <u>5,506,297</u> | <u>105,514</u> |
| Excess of Revenues and Sources Over Expenditures and Uses | \$ <u>1,832</u> | <u>(1,336)</u> | <u>496</u> | <u>280,854</u> | <u>279,022</u> |

See Accompanying Independent Auditors' Report.



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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

The **Tax Increment Financing (TIF) Program Fund** is used to account for activities relating to various TIF development initiatives. These activities support new economic development projects.

The **Tobacco Settlement Financing Corporation (TSFC) Fund** is used to account for the tobacco litigation settlement activities of the District of Columbia.

The **Community Health Care Financing Fund** is used to reserve funding to construct health care facilities, a comprehensive assessment to improve the District's urgent and emergent care delivery system and to recommend investments in that system.

The **Housing Production Trust Fund** is to provide financial assistance to non-profit and for-profit developers for the planning and production of low, very low, and extremely low income housing and related facilities.

The **Baseball Project Fund** under the Special Revenue Funds is used to account for the proceeds of baseball related revenue sources that are legally restricted to expenditures for baseball project purposes.

Debt Service Fund

The **Debt Service Fund** is used to account for the accumulation of resources for, and the payment of ballpark revenue bonds.

Capital Project Fund

The **Highway Trust Fund** is used to account for the motor vehicle fuel taxes and other fees collected and used by the District for highway projects.

Exhibit B-1

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
 September 30, 2007
 (With Comparative Totals at September 30, 2006)
 (\$000s)

| | Special Revenue Funds | | | | | | Capital Project Fund Highway Trust | Totals | |
|---|---------------------------------------|---|---------------------------------------|--------------------------------|---------------------|-------------------------|--|-------------------|-------------------|
| | Tax Increment Financing Program | Tobacco Settlement Financing Corporation | Community Health Care Financing | Housing Production Trust | Baseball Project | Debt Service Fund | | 2007 | 2006 |
| ASSETS | | | | | | | | | |
| Current Assets: | | | | | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,287 |
| Receivables (net of allowances for uncollectibles): | | | | | | | | | |
| Accounts | 17 | 33,750 | - | - | 1,055 | - | - | 34,822 | 30,820 |
| Due from other District entities | - | - | - | - | 87 | - | - | 87 | 490 |
| Interfund | 2,230 | - | 45,195 | 11,563 | 3,865 | - | 6,660 | 69,513 | 11,881 |
| Accrued interest | - | 116 | - | - | - | - | - | 116 | 108 |
| Other current assets | - | - | - | - | - | - | - | - | 127 |
| Restricted cash and cash equivalents | 20,822 | 71,479 | - | 88,964 | 50,137 | - | 19,565 | 250,967 | 134,694 |
| Other long term assets | - | - | - | 92,961 | - | - | - | 92,961 | - |
| Total assets | <u>\$ 23,069</u> | <u>\$ 105,345</u> | <u>\$ 45,195</u> | <u>\$ 193,488</u> | <u>\$ 55,144</u> | <u>\$ -</u> | <u>\$ 26,225</u> | <u>\$ 448,466</u> | <u>\$ 179,407</u> |
| LIABILITIES AND FUND BALANCE | | | | | | | | | |
| Current Liabilities: | | | | | | | | | |
| Payables: | | | | | | | | | |
| Accounts | \$ 1,889 | \$ - | \$ - | \$ 546 | \$ - | \$ - | \$ 6,798 | \$ 9,233 | \$ 7,680 |
| Compensation payable | - | - | - | 20 | - | - | 195 | 215 | 133 |
| Deferred revenue | - | - | - | 92,961 | 450 | - | 168 | 93,579 | 219 |
| Due to other funds | - | - | - | - | - | - | 845 | 845 | 3,538 |
| Accrued liabilities | - | 68 | - | - | - | - | - | 68 | 68 |
| Total liabilities | <u>1,889</u> | <u>68</u> | <u>-</u> | <u>93,527</u> | <u>450</u> | <u>-</u> | <u>8,006</u> | <u>103,940</u> | <u>11,638</u> |
| Fund Balance: | | | | | | | | | |
| Reserved for special revenue funds | 21,180 | 105,277 | 45,195 | 99,961 | 54,694 | - | - | 326,307 | 160,568 |
| Reserved for capital project fund | - | - | - | - | - | - | 18,219 | 18,219 | 7,201 |
| Total fund balances | <u>21,180</u> | <u>105,277</u> | <u>45,195</u> | <u>99,961</u> | <u>54,694</u> | <u>-</u> | <u>18,219</u> | <u>344,526</u> | <u>167,769</u> |
| Total liabilities and fund balances | <u>\$ 23,069</u> | <u>\$ 105,345</u> | <u>\$ 45,195</u> | <u>\$ 193,488</u> | <u>\$ 55,144</u> | <u>\$ -</u> | <u>\$ 26,225</u> | <u>\$ 448,466</u> | <u>\$ 179,407</u> |

See Accompanying Independent Auditors' Report.

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Year Ended September 30, 2007
(With Comparative Totals for the Year Ended September 30, 2006)
(\$000s)**

| | Special Revenue Funds | | | | | | Capital Project Fund | Totals | |
|---|---------------------------------|--|---------------------------------|--------------------------|------------------|-------------------|----------------------|------------------|-------------------|
| | Tax Increment Financing Program | Tobacco Settlement Financing Corporation | Community Health Care Financing | Housing Production Trust | Baseball Project | Debt Service Fund | Highway Trust | 2007 | 2006 |
| Revenues: | | | | | | | | | |
| Interest | \$ 937 | \$ 3,452 | \$ - | \$ 7,440 | \$ 1,118 | \$ - | \$ 857 | \$ 13,804 | \$ 7,135 |
| Other | 1,422 | 43,779 | - | 3,115 | - | - | 6,716 | 55,032 | 49,781 |
| Total revenues | <u>2,359</u> | <u>47,231</u> | <u>-</u> | <u>10,555</u> | <u>1,118</u> | <u>-</u> | <u>7,573</u> | <u>68,836</u> | <u>56,916</u> |
| Expenditures: | | | | | | | | | |
| Governmental direction and support | - | 160 | - | - | - | - | - | 160 | 158 |
| Capital outlay | - | - | - | - | - | - | 44,422 | 44,422 | 45,520 |
| Bond principal payment | 4,666 | 5,215 | - | - | - | 6,310 | - | 16,191 | 11,939 |
| Interest | 5,042 | 31,929 | - | - | - | 27,990 | - | 64,961 | 43,605 |
| Fiscal charges | - | - | - | - | 27 | 66 | - | 93 | 13,444 |
| Other | 8,247 | - | - | 69,742 | 422 | - | - | 78,411 | 1,105 |
| Total expenditures | <u>17,955</u> | <u>37,304</u> | <u>-</u> | <u>69,742</u> | <u>449</u> | <u>34,366</u> | <u>44,422</u> | <u>204,238</u> | <u>115,771</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(15,596)</u> | <u>9,927</u> | <u>-</u> | <u>(59,187)</u> | <u>669</u> | <u>(34,366)</u> | <u>(36,849)</u> | <u>(135,402)</u> | <u>(58,855)</u> |
| Other Financing Sources (Uses): | | | | | | | | | |
| Bond issuance | - | - | - | - | - | - | - | - | 267,546 |
| Premium on sale of bonds | - | - | - | - | - | - | - | - | 8,314 |
| Other charge | - | - | - | - | - | - | - | - | (13,996) |
| Transfers in | 21,531 | - | 45,195 | 159,148 | 45,952 | 34,366 | 47,867 | 354,059 | 81,233 |
| Transfers out | - | - | - | - | (41,900) | - | - | (41,900) | (269,168) |
| Total other financing sources | <u>21,531</u> | <u>-</u> | <u>45,195</u> | <u>159,148</u> | <u>4,052</u> | <u>34,366</u> | <u>47,867</u> | <u>312,159</u> | <u>73,929</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES | <u>5,935</u> | <u>9,927</u> | <u>45,195</u> | <u>99,961</u> | <u>4,721</u> | <u>-</u> | <u>11,018</u> | <u>176,757</u> | <u>15,074</u> |
| Fund Balances at October 1 | <u>15,245</u> | <u>95,350</u> | <u>-</u> | <u>-</u> | <u>49,973</u> | <u>-</u> | <u>7,201</u> | <u>167,769</u> | <u>152,695</u> |
| Fund Balances at September 30 | <u>\$ 21,180</u> | <u>\$ 105,277</u> | <u>\$ 45,195</u> | <u>\$ 99,961</u> | <u>\$ 54,694</u> | <u>\$ -</u> | <u>\$ 18,219</u> | <u>\$344,526</u> | <u>\$ 167,769</u> |

See Accompanying Independent Auditors' Report.



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FIDUCIARY FUNDS
(Combining Statements)

The Fiduciary Funds are used to account for assets held by the District in a trustee or agency capacity. These assets cannot be used to support the District's programs.

The **Pension Trust Funds** are used to account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future for police officers, fire fighters and public school teachers of the District. Resources are contributed by employees and by the District and Federal Government at amounts determined by an annual actuarial study. The funds are administered by a thirteen member Retirement Board. Three of these members are appointed by the Mayor and three by the Council. The other members include one each active and retired police officers, fire fighters, and teachers. The administrative costs of the board are accounted for in the funds.

The **Agency Funds** are used to account for refundable deposits required of various licensees, monies held in escrow as an agent for individuals, private organizations or other governments.

Exhibit C-1

PENSION TRUST FUNDS
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
September 30, 2007
(With Comparative Totals at September 30, 2006)
(\$000s)

| | Police and Fire | Teachers | Totals | |
|---|---------------------|---------------------|---------------------|---------------------|
| | | | 2007 | 2006 Restated |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents - restricted | \$ 96,915 | \$ 51,606 | \$ 148,521 | \$ 147,585 |
| Investments - restricted | 3,088,203 | 1,644,442 | 4,732,645 | 3,897,684 |
| Receivables: | | | | |
| Benefit contribution | 1,052 | 1,419 | 2,471 | 10,049 |
| Other current assets | - | 6 | 6 | - |
| Due from other funds | 11 | 7,464 | 7,475 | 170 |
| Capital assets | 15 | 9 | 24 | 81 |
| Total assets | 3,186,196 | 1,704,946 | 4,891,142 | 4,055,569 |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Payables: | | | | |
| Accounts | 16,880 | 18,273 | 35,153 | 30,527 |
| Securities lending | 311,864 | 166,852 | 478,716 | 428,228 |
| Due to other funds | 3,844 | 2,056 | 5,900 | - |
| Total liabilities | 332,588 | 187,181 | 519,769 | 458,755 |
| NET ASSETS | | | | |
| Net Assets | | | | |
| Held in trust for pension benefits | \$ 2,853,608 | \$ 1,517,765 | \$ 4,371,373 | \$ 3,596,814 |

See Accompanying Independent Auditors' Report.

Exhibit C-2

PENSION TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended September 30, 2007
(With Comparative Totals for the Year Ended September 30, 2006)
(\$000s)

| | Police and Fire | Teachers | Totals | |
|---|---------------------|---------------------|---------------------|---------------------|
| | | | 2007 | 2006 Restated |
| Additions: | | | | |
| Benefit contributions: | | | | |
| Employer | \$ 140,100 | \$ 14,600 | \$ 154,700 | \$ 133,000 |
| Plan members | 27,489 | 26,793 | 54,282 | 50,949 |
| Investment income: | | | | |
| <i>From investment activities</i> | | | | |
| Interest and dividends | 72,403 | 38,419 | 110,822 | 107,836 |
| Net appreciation in fair value of investments | 335,006 | 183,224 | 518,230 | 234,259 |
| Less - investment expenses | (8,170) | (4,373) | (12,543) | (10,828) |
| Net income from investing activities | <u>399,239</u> | <u>217,270</u> | <u>616,509</u> | <u>331,267</u> |
| <i>From securities lending activities</i> | | | | |
| Securities lending income | 17,438 | 9,326 | 26,764 | 20,164 |
| Less: securities lending expenses | (16,244) | (8,865) | (25,109) | (19,228) |
| Net income from securities lending activities | <u>1,194</u> | <u>461</u> | <u>1,655</u> | <u>936</u> |
| Total net investment income | <u>400,433</u> | <u>217,731</u> | <u>618,164</u> | <u>332,203</u> |
| Total additions | <u>568,022</u> | <u>259,124</u> | <u>827,146</u> | <u>516,152</u> |
| Deductions: | | | | |
| Administrative expenses | 4,037 | 2,161 | 6,198 | 2,827 |
| Benefit payments | 20,588 | 25,801 | 46,389 | 39,588 |
| Total deductions | <u>24,625</u> | <u>27,962</u> | <u>52,587</u> | <u>42,415</u> |
| Change in net assets | 543,397 | 231,162 | 774,559 | 473,737 |
| Net assets held in trust for pension benefits: | | | | |
| October 1, as restated | <u>2,310,211</u> | <u>1,286,603</u> | <u>3,596,814</u> | <u>3,123,077</u> |
| September 30 | <u>\$ 2,853,608</u> | <u>\$ 1,517,765</u> | <u>\$ 4,371,373</u> | <u>\$ 3,596,814</u> |

See Accompanying Independent Auditors' Report.

Exhibit C-3

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
For the Year Ended September 30, 2007
(\$000s)

| | Balance October 1 2006 | Additions | Deductions | Balance September 30 2007 |
|--|------------------------------|---------------------|---------------------|---------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents - restricted | \$ 279,095 | \$ 1,008,156 | \$ 1,130,403 | \$ 156,848 |
| Due from other funds | 2,639 | 2,057 | 2 | 4,694 |
| Other receivables | 523 | 761,080 | 761,300 | 303 |
| Total assets | <u>\$ 282,257</u> | <u>\$ 1,771,293</u> | <u>\$ 1,891,705</u> | <u>\$ 161,845</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 152,554 | \$ 36,952 | \$ 179,148 | \$ 10,358 |
| Due to other funds | - | 81 | 81 | - |
| Other current liabilities | 129,703 | 349,217 | 327,433 | 151,487 |
| Total liabilities | <u>\$ 282,257</u> | <u>\$ 386,250</u> | <u>\$ 506,662</u> | <u>\$ 161,845</u> |

See Accompanying Independent Auditors' Report.

SUPPORTING SCHEDULES

Supporting schedules are financial presentations used to aggregate and present in greater detail information contained in the financial statements and to present additional information not disclosed in the basic financial statements.

Exhibit D-1

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES
Year Ended September 30, 2007
(\$000s)

| | Budget | | Actual | Variance |
|--|----------------|----------------|----------------|---------------|
| | Original | Revised | | |
| Governmental direction and support: | | | | |
| City Council | \$ 14,667 | 17,154 | 16,665 | 489 |
| DC Auditor | 2,178 | 2,178 | 1,949 | 229 |
| Advisory neighborhood commissions | 994 | 997 | 883 | 114 |
| Mayor | 63,501 | 62,014 | 15,462 | 46,552 |
| Executive secretary | 4,294 | 4,022 | 3,515 | 507 |
| Citywide call center | 363 | 402 | 246 | 156 |
| City administrator | 151,550 | 124,156 | 114,590 | 9,566 |
| Risk management | 1,567 | 1,650 | 1,550 | 100 |
| Personnel | 11,608 | 11,887 | 9,427 | 2,460 |
| Human resource development | 2,073 | 2,103 | 1,804 | 299 |
| Finance and resource management | 11,087 | 8,134 | 8,120 | 14 |
| Contracts and procurement | 12,221 | 12,548 | 12,185 | 363 |
| Chief technology officer | 38,015 | 38,960 | 38,140 | 820 |
| Property management | 24,386 | 27,751 | 26,045 | 1,706 |
| Contract appeals | 849 | 871 | 776 | 95 |
| Elections and ethics | 5,210 | 6,708 | 6,342 | 366 |
| Campaign finance | 1,502 | 1,543 | 1,495 | 48 |
| Public employee relations | 881 | 897 | 807 | 90 |
| Employee appeals | 1,677 | 1,722 | 1,652 | 70 |
| Council of governments | 421 | 421 | 421 | - |
| Corporation counsel | 77,863 | 80,259 | 71,346 | 8,913 |
| Inspector general | 13,727 | 14,613 | 13,706 | 907 |
| Chief financial officer | 150,870 | 134,280 | 134,115 | 165 |
| Total governmental direction and support | 591,504 | 555,270 | 481,241 | 74,029 |
| Economic development and regulation: | | | | |
| Business services and economic development | 85,661 | 97,622 | 71,214 | 26,408 |
| Office of planning | 7,088 | 7,545 | 7,055 | 490 |
| Local business development | 2,662 | 3,000 | 2,047 | 953 |
| Motion picture and television development | 594 | 630 | 543 | 87 |
| Office of zoning | 2,998 | 3,064 | 3,055 | 9 |
| Housing and community development | 108,713 | 116,806 | 95,946 | 20,860 |
| Alcoholic beverage regulation administration | 4,533 | 4,283 | 3,523 | 760 |
| Employment services | 98,439 | 119,761 | 100,262 | 19,499 |
| Real property assessment and appeals | 563 | 578 | 519 | 59 |
| Consumer and regulatory affairs | 38,693 | 44,354 | 41,690 | 2,664 |
| Commission on arts & humanities | 10,697 | 11,168 | 10,643 | 525 |
| Anacostia waterfront corp | 5,000 | 5,000 | 5,000 | - |
| Public services commission | 8,000 | 8,036 | 7,917 | 119 |
| Office of people's counsel | 4,596 | 4,596 | 4,384 | 212 |
| Insurance regulation | 16,184 | 16,334 | 13,971 | 2,363 |
| Housing authority subsidy | 22,730 | 22,730 | 22,730 | - |
| Housing production trust fund subsidy | 120,418 | 105,411 | 105,411 | - |
| Office of cable TV | 5,566 | 7,566 | 6,565 | 1,001 |
| Total economic development and regulation | 543,135 | 578,484 | 502,475 | 76,009 |
| Public safety and justice: | | | | |
| Police | 434,563 | 453,677 | 448,227 | 5,450 |
| Fire and emergency medical services | 169,231 | 174,200 | 172,775 | 1,425 |
| Police and firefighter retirement contribution | 140,100 | 140,100 | 140,100 | - |
| Corrections | 137,147 | 147,650 | 147,162 | 488 |
| National guard | 4,493 | 5,567 | 4,920 | 647 |
| Emergency preparedness | 6,696 | 5,377 | 5,120 | 257 |
| Judicial disabilities and tenure | 233 | 264 | 238 | 26 |
| Judicial nomination | 131 | 144 | 135 | 9 |
| Citizen complaint review board | 2,312 | 2,384 | 2,191 | 193 |
| Advisory commission on sentencing | 700 | 716 | 643 | 73 |
| Office of the chief medical examiner | 8,989 | 8,989 | 8,338 | 651 |
| Office of administrative hearings | 6,171 | 6,775 | 5,031 | 1,744 |
| Corrections information council | 118 | 105 | - | 105 |
| Criminal justice coordinating council | 1,576 | 2,071 | 1,726 | 345 |
| Forensic health and science laboratory | 1,238 | 838 | 811 | 27 |
| Office of unified communications | 36,981 | 37,860 | 32,064 | 5,796 |
| Total public safety and justice | 950,679 | 986,717 | 969,481 | 17,236 |

(Continued)

Exhibit D-1

FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS EXPENDITURES
Year Ended September 30, 2007
(\$000s)

| | Budget | | Actual | Variance |
|---|---------------------|------------------|------------------|----------------|
| | Original | Revised | | |
| Public education system: | | | | |
| Public schools | 991,970 | 985,895 | 968,472 | 17,423 |
| AY08 public school expenditure | - | 4,956 | 4,956 | - |
| Teachers' retirement system | 14,600 | 14,600 | 14,540 | 60 |
| State education office | 99,761 | 127,803 | 85,217 | 42,586 |
| Public charter schools | 266,066 | 199,645 | 197,068 | 2,577 |
| AY08 public charter school expenditure | - | 80,091 | 80,091 | - |
| Public education facilities modernization | - | 2,569 | 1,281 | 1,288 |
| University | 59,546 | 62,636 | 62,636 | - |
| Public library | 41,998 | 44,654 | 43,695 | 959 |
| Total public education system | 1,473,941 | 1,522,849 | 1,457,956 | 64,893 |
| Human support services: | | | | |
| Human development | 443,566 | 466,946 | 450,142 | 16,804 |
| Child and family services | 209,673 | 214,847 | 214,078 | 769 |
| Dept of mental health | 181,818 | 201,543 | 193,805 | 7,738 |
| Health | 1,879,758 | 1,849,170 | 1,801,550 | 47,620 |
| Recreation and parks | 44,718 | 50,198 | 48,643 | 1,555 |
| Aging | 23,220 | 23,547 | 23,132 | 415 |
| Unemployment compensation contribution | 5,800 | 5,800 | 5,250 | 550 |
| Employee disability compensation | 30,280 | 24,851 | 24,851 | - |
| Human rights | 2,725 | 2,908 | 2,731 | 177 |
| Children investment trust | 8,507 | 13,092 | 13,092 | - |
| Latino affairs | 4,247 | 4,285 | 4,130 | 155 |
| Energy | 21,548 | - | (1) | 1 |
| Asian and pacific islander affairs | 813 | 858 | 815 | 43 |
| Veterans' affairs | 302 | 326 | 306 | 20 |
| Medical reserve | - | 26,927 | 26,927 | - |
| Depart of youth rehabilitation services | 67,929 | 74,644 | 73,936 | 708 |
| Write off mental health receivable | - | - | 6,813 | (6,813) |
| Total human support services | 2,924,904 | 2,959,942 | 2,890,200 | 69,742 |
| Public works: | | | | |
| Public works | 109,116 | 118,289 | 113,659 | 4,630 |
| Department of transportation | 63,056 | 60,716 | 60,145 | 571 |
| Department of motor vehicles | 42,931 | 43,536 | 38,015 | 5,521 |
| Taxicab commission | 1,515 | 1,515 | 1,266 | 249 |
| Washington metropolitan area transit commission | 110 | 110 | 110 | - |
| Washington metropolitan area transit authority | 198,487 | 198,487 | 198,484 | 3 |
| Department of environment | 25,314 | 48,792 | 40,853 | 7,939 |
| School transit subsidy | 5,169 | 5,169 | 5,092 | 77 |
| Total public works | 445,698 | 476,614 | 457,624 | 18,990 |
| Other: | | | | |
| Repay revenue bonds and interest | 6,000 | 4,750 | - | 4,750 |
| Repayment of bonds and interest | 405,114 | 389,016 | 386,245 | 2,771 |
| Bond fiscal charge paid from bond proceeds | 30,000 | 30,000 | 6,406 | 23,594 |
| Interest on short term borrowing | 8,000 | 8,460 | 8,455 | 5 |
| Certificates of participation | 31,225 | 30,575 | 30,448 | 127 |
| Settlements and judgments | 15,655 | 25,047 | 25,029 | 18 |
| Emergency planning and security costs | - | 4,691 | 4,691 | - |
| Wilson Building | 4,211 | 3,961 | 3,763 | 198 |
| Workforce investment | 38,500 | 7,873 | - | 7,873 |
| One-time expenditures | - | - | 8,838 | (8,838) |
| Equipment lease operating | 43,955 | 22,028 | 21,893 | 135 |
| Pay-go capital | 87,987 | 118,861 | 118,861 | - |
| Schools modernization fund | 1,650 | - | - | - |
| District retiree health contribution | 4,700 | 4,700 | 4,700 | - |
| Cash reserve | 50,000 | 500 | - | 500 |
| Non-departmental agency | 45,942 | 946 | - | 946 |
| Storm water | 7,000 | - | - | - |
| Retirement board administration | 34,423 | 34,423 | 22,960 | 11,463 |
| Housing finance agency | 6,529 | 6,529 | - | 6,529 |
| National capital revitalization corporation | 51,592 | 51,592 | - | 51,592 |
| Total other | 872,483 | 743,952 | 642,289 | 101,663 |
| Total budget | \$ 7,802,344 | 7,823,828 | 7,401,266 | 422,562 |

See Accompanying Independent Auditors' Report.

Exhibit D-2

**FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2007
(\$000s)**

| | Local Source | | | | Federal Source | | | |
|--|-----------------|----------------|----------------|---------------|-----------------|----------------|----------------|---------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance |
| Governmental direction and support: | | | | | | | | |
| City Council | \$ 14,667 | 17,154 | 16,665 | 489 | - | - | - | - |
| DC Auditor | 2,178 | 2,178 | 1,949 | 229 | - | - | - | - |
| Advisory neighborhood commissions | 994 | 997 | 883 | 114 | - | - | - | - |
| Mayor | 8,409 | 10,026 | 8,841 | 1,185 | 6,092 | 2,935 | 2,764 | 171 |
| Executive secretary | 3,878 | 3,592 | 3,247 | 345 | - | - | (5) | 5 |
| Citywide call center | 363 | 402 | 246 | 156 | - | - | - | - |
| City administrator | 10,673 | 12,567 | 11,447 | 1,120 | 132,726 | 99,738 | 96,955 | 2,783 |
| Risk management | 1,567 | 1,650 | 1,550 | 100 | - | - | - | - |
| Personnel | 11,031 | 11,310 | 9,386 | 1,924 | - | - | - | - |
| Human resource development | 2,073 | 2,103 | 1,804 | 299 | - | - | - | - |
| Finance and resource management | 8,046 | 8,134 | 8,120 | 14 | - | - | - | - |
| Contracts and procurement | 11,337 | 11,664 | 11,523 | 141 | - | - | - | - |
| Chief technology officer | 38,015 | 38,764 | 38,140 | 624 | - | - | - | - |
| Property management | 19,888 | 21,758 | 21,577 | 181 | - | - | - | - |
| Contract appeals | 849 | 871 | 776 | 95 | - | - | - | - |
| Electrons and ethics | 5,210 | 6,308 | 5,964 | 344 | - | 400 | 378 | 22 |
| Campaign finance | 1,502 | 1,543 | 1,495 | 48 | - | - | - | - |
| Public employee relations | 881 | 897 | 807 | 90 | - | - | - | - |
| Employee appeals | 1,677 | 1,722 | 1,652 | 70 | - | - | - | - |
| Council of governments | 421 | 421 | 421 | - | - | - | - | - |
| Corporation counsel | 55,189 | 57,292 | 55,291 | 2,001 | 16,641 | 16,934 | 12,656 | 4,278 |
| Inspector general | 12,372 | 12,779 | 12,365 | 414 | 1,355 | 1,834 | 1,341 | 493 |
| Chief financial officer | 118,880 | 120,953 | 120,841 | 112 | 932 | 836 | 836 | - |
| Total governmental direction and support | 330,100 | 345,085 | 334,990 | 10,095 | 157,746 | 122,677 | 114,925 | 7,752 |
| Economic development and regulation: | | | | | | | | |
| Business services and economic development | 13,050 | 25,486 | 24,273 | 1,213 | 350 | 213 | 47 | 166 |
| Office of planning | 6,623 | 6,897 | 6,563 | 334 | 450 | 633 | 492 | 141 |
| Local business development | 2,662 | 2,662 | 1,860 | 802 | - | - | - | - |
| Motion picture and television development | 594 | 630 | 543 | 87 | - | - | - | - |
| Office of zoning | 2,998 | 3,064 | 3,055 | 9 | - | - | - | - |
| Housing and community development | 2,186 | 2,240 | 1,734 | 506 | 98,019 | 98,058 | 90,403 | 7,655 |
| Alcoholic beverage regulation administration | - | - | - | - | - | - | - | - |
| Employment services | 37,120 | 48,007 | 46,115 | 1,892 | 34,039 | 40,474 | 30,010 | 10,464 |
| Real property assessment and appeals | 563 | 578 | 519 | 59 | - | - | - | - |
| Consumer and regulatory affairs | 25,574 | 26,085 | 24,695 | 1,390 | - | - | - | - |
| Commission on arts & humanities | 9,368 | 10,147 | 10,032 | 115 | 529 | 621 | 611 | 10 |
| Anacostia waterfront corp | 5,000 | 5,000 | 5,000 | - | - | - | - | - |
| Public services commission | - | - | - | - | 137 | 173 | 158 | 15 |
| Office of people's counsel | - | - | - | - | - | - | - | - |
| Insurance regulation | - | - | - | - | - | - | - | - |
| Housing authority subsidy | 22,730 | 22,730 | 22,730 | - | - | - | - | - |
| Housing production trust fund subsidy | 65,738 | 58,731 | 58,731 | - | - | - | - | - |
| Office of cable TV | - | - | - | - | - | - | - | - |
| Total economic development and regulation | 194,206 | 212,257 | 205,850 | 6,407 | 133,524 | 140,172 | 121,721 | 18,451 |
| Public safety and justice: | | | | | | | | |
| Police | 420,044 | 436,487 | 434,599 | 1,888 | 2,345 | 4,725 | 3,877 | 848 |
| Fire and emergency medical services | 169,202 | 174,171 | 172,775 | 1,396 | - | - | - | - |
| Police and firefighter retirement contribution | 140,100 | 140,100 | 140,100 | - | - | - | - | - |
| Corrections | 111,392 | 121,864 | 121,417 | 447 | - | 31 | 31 | - |
| National guard | 2,657 | 3,244 | 2,846 | 398 | 1,836 | 2,323 | 2,074 | 249 |
| Emergency preparedness | 4,792 | 4,992 | 4,739 | 253 | 1,904 | 385 | 381 | 4 |
| Judicial disabilities and tenure | 228 | 259 | 238 | 21 | - | - | - | - |
| Judicial nomination | 131 | 144 | 135 | 9 | - | - | - | - |
| Citizen complaint review board | 2,312 | 2,384 | 2,191 | 193 | - | - | - | - |
| Advisory commission on sentencing | 700 | 716 | 643 | 73 | - | - | - | - |
| Office of the Chief Medical Examiner | 8,854 | 8,854 | 8,219 | 635 | - | - | - | - |
| Office of administrative hearings | 5,988 | 6,592 | 4,848 | 1,744 | - | - | - | - |
| Correctious information council | 118 | 105 | - | 105 | - | - | - | - |
| Criminal justice coordinating council | 289 | 307 | 285 | 22 | 1,287 | 1,638 | 1,410 | 228 |
| Forensic health and science laboratory | 1,238 | 838 | 811 | 27 | - | - | - | - |
| Office of unified communications | 19,958 | 20,713 | 18,464 | 2,249 | - | - | - | - |
| Total public safety and justice | 888,003 | 921,770 | 912,310 | 9,460 | 7,372 | 9,102 | 7,773 | 1,329 |

(Continued)

Exhibit D-2

**FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2007
(\$000s)**

| | Private Grants | | | | Other Source | | | |
|--|-----------------|----------------|------------|------------|-----------------|----------------|----------------|---------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance |
| Governmental direction and support: | | | | | | | | |
| City Council | \$ - | - | - | - | - | - | - | - |
| DC Auditor | - | - | - | - | - | - | - | - |
| Advisory neighborhood commissions | - | - | - | - | - | - | - | - |
| Mayor | - | 53 | 52 | 1 | 49,000 | 49,000 | 3,805 | 45,195 |
| Executive secretary | - | 14 | 6 | 8 | 416 | 416 | 267 | 149 |
| Citywide call center | - | - | - | - | - | - | - | - |
| City administrator | - | - | - | - | 8,151 | 11,851 | 6,188 | 5,663 |
| Risk management | - | - | - | - | - | - | - | - |
| Personnel | - | - | - | - | 577 | 577 | 41 | 536 |
| Human resource development | - | - | - | - | - | - | - | - |
| Finance and resource management | - | - | - | - | 3,041 | - | - | - |
| Contracts and procurement | - | - | - | - | 884 | 884 | 662 | 222 |
| Chief technology officer | - | - | - | - | - | 196 | - | 196 |
| Property management | - | - | - | - | 4,498 | 5,993 | 4,468 | 1,525 |
| Contract appeals | - | - | - | - | - | - | - | - |
| Elections and ethics | - | - | - | - | - | - | - | - |
| Campaign finance | - | - | - | - | - | - | - | - |
| Public employee relations | - | - | - | - | - | - | - | - |
| Employee appeals | - | - | - | - | - | - | - | - |
| Council of governments | - | - | - | - | - | - | - | - |
| Corporation counsel | - | - | - | - | 6,033 | 6,033 | 3,399 | 2,634 |
| Inspector general | - | - | - | - | - | - | - | - |
| Chief financial officer | - | - | - | - | 31,058 | 12,491 | 12,438 | 53 |
| Total governmental direction and support | - | 67 | 58 | 9 | 103,658 | 87,441 | 31,268 | 56,173 |
| Economic development and regulation: | | | | | | | | |
| Business services and economic development | - | - | - | - | 72,261 | 71,923 | 46,894 | 25,029 |
| Office of planning | - | - | - | - | 15 | 15 | - | 15 |
| Local business development | - | - | - | - | - | 338 | 187 | 151 |
| Motion picture and television development | - | - | - | - | - | - | - | - |
| Office of zoning | - | - | - | - | - | - | - | - |
| Housing and community development | - | - | - | - | 8,508 | 16,508 | 3,809 | 12,699 |
| Alcoholic beverage regulation administration | - | - | - | - | 4,533 | 4,283 | 3,523 | 760 |
| Employment services | 80 | 80 | - | 80 | 27,200 | 31,200 | 24,137 | 7,063 |
| Real property assessment and appeals | - | - | - | - | - | - | - | - |
| Consumer and regulatory affairs | - | - | - | - | 13,119 | 18,269 | 16,995 | 1,274 |
| Commission on arts & humanities | - | - | - | - | 800 | 400 | - | 400 |
| Anacostia waterfront corp | - | - | - | - | - | - | - | - |
| Public services commission | 137 | 137 | 131 | 6 | 7,726 | 7,726 | 7,628 | 98 |
| Office of people's counsel | - | - | - | - | 4,596 | 4,596 | 4,384 | 212 |
| Insurance regulation | - | 150 | - | 150 | 16,184 | 16,184 | 13,971 | 2,213 |
| Housing authority subsidy | - | - | - | - | - | - | - | - |
| Housing production trust fund subsidy | - | - | - | - | 54,680 | 46,680 | 46,680 | - |
| Office of cable TV | - | - | - | - | 5,566 | 7,566 | 6,565 | 1,001 |
| Total economic development and regulation | 217 | 367 | 131 | 236 | 215,188 | 225,688 | 174,773 | 50,915 |
| Public safety and justice: | | | | | | | | |
| Police | - | 291 | 248 | 43 | 12,174 | 12,174 | 9,503 | 2,671 |
| Fire and emergency medical services | 9 | 9 | - | 9 | 20 | 20 | - | 20 |
| Police and firefighter retirement contribution | - | - | - | - | - | - | - | - |
| Corrections | - | - | - | - | 25,755 | 25,755 | 25,714 | 41 |
| National guard | - | - | - | - | - | - | - | - |
| Emergency preparedness | - | - | - | - | - | - | - | - |
| Judicial disabilities and tenure | 5 | 5 | - | 5 | - | - | - | - |
| Judicial nomination | - | - | - | - | - | - | - | - |
| Citizen complaint review board | - | - | - | - | - | - | - | - |
| Advisory commission on sentencing | - | - | - | - | - | - | - | - |
| Office of the Chief Medical Examiner | - | - | - | - | 135 | 135 | 119 | 16 |
| Office of administrative hearings | - | - | - | - | 183 | 183 | 183 | - |
| Corrections information council | - | - | - | - | - | - | - | - |
| Criminal justice coordinating council | - | 126 | 31 | 95 | - | - | - | - |
| Forensic health and science laboratory | - | - | - | - | - | - | - | - |
| Office of unified communications | - | 124 | - | 124 | 17,023 | 17,023 | 13,600 | 3,423 |
| Total public safety and justice | 14 | 555 | 279 | 276 | 55,290 | 55,290 | 49,119 | 6,171 |

(Continued)

Exhibit D-2

**FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2007
(\$000s)**

| | Local Source | | | | Federal Source | | | |
|---|---------------------|------------------|------------------|---------------|------------------|------------------|------------------|----------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance |
| Public education systems: | | | | | | | | |
| Public schools | \$ 808,331 | 809,752 | 808,946 | 806 | 168,930 | 148,980 | 137,416 | 11,564 |
| AY08 public school expenditure | - | 4,956 | 4,956 | - | - | - | - | - |
| Teachers' retirement contribution | 14,600 | 14,600 | 14,540 | 60 | - | - | - | - |
| State education office | 14,507 | 15,072 | 14,423 | 649 | 75,465 | 102,892 | 70,589 | 32,303 |
| Public charter schools | 266,066 | 199,645 | 197,068 | 2,577 | - | - | - | - |
| AY08 public charter school expenditure | - | 80,091 | 80,091 | - | - | - | - | - |
| Public education facilities modernization | - | 2,569 | 1,281 | 1,288 | - | - | - | - |
| University | 59,546 | 62,636 | 62,636 | - | - | - | - | - |
| Public library | 40,442 | 42,829 | 42,135 | 694 | 790 | 848 | 711 | 137 |
| Total public education system | 1,203,492 | 1,232,150 | 1,226,076 | 6,074 | 245,185 | 252,720 | 208,716 | 44,004 |
| Human support services: | | | | | | | | |
| Human development | 244,776 | 278,198 | 272,198 | 6,000 | 191,936 | 180,494 | 174,110 | 6,384 |
| Child and family services | 173,702 | 181,298 | 181,226 | 72 | 35,203 | 32,607 | 31,950 | 657 |
| Dept of mental health | 173,304 | 188,022 | 186,058 | 1,964 | 4,706 | 9,629 | 4,217 | 5,412 |
| Health | 594,624 | 623,881 | 618,367 | 5,514 | 1,253,358 | 1,195,422 | 1,159,041 | 36,381 |
| Recreation and parks | 42,085 | 47,065 | 46,431 | 634 | - | - | - | - |
| Aging | 16,729 | 16,784 | 16,460 | 324 | 6,491 | 6,763 | 6,672 | 91 |
| Unemployment compensation contribution | 5,800 | 5,800 | 5,250 | 550 | - | - | - | - |
| Employee disability compensation | 30,280 | 24,851 | 24,851 | - | - | - | - | - |
| Human rights | 2,487 | 2,499 | 2,359 | 140 | 238 | 409 | 372 | 37 |
| Children investment trust | 8,507 | 13,092 | 13,092 | - | - | - | - | - |
| Latino affairs | 4,247 | 4,285 | 4,130 | 155 | - | - | - | - |
| Energy | 3,981 | - | - | - | 8,700 | - | - | - |
| Asian and pacific islander affairs | 813 | 857 | 814 | 43 | - | - | - | - |
| Veterans' affairs | 302 | 326 | 306 | 20 | - | - | - | - |
| Depart of youth rehabilitation services | 67,929 | 74,644 | 73,936 | 708 | - | - | - | - |
| Medical reserve | - | 26,927 | 26,927 | - | - | - | - | - |
| Write off mental health receivable | - | - | 6,813 | (6,813) | - | - | - | - |
| Total human support services | 1,369,566 | 1,488,529 | 1,479,218 | 9,311 | 1,500,632 | 1,425,324 | 1,376,362 | 48,962 |
| Public works: | | | | | | | | |
| Public works | 105,361 | 109,534 | 106,156 | 3,378 | - | - | - | - |
| Department of transportation | - | - | (6) | 6 | 28,504 | 13,286 | 13,277 | 9 |
| Department of motor vehicles | 32,658 | 32,798 | 31,528 | 1,270 | - | 465 | 465 | - |
| Taxicab commission | 857 | 857 | 805 | 52 | - | - | - | - |
| Washington metropolitan area transit commission | 110 | 110 | 110 | - | - | - | - | - |
| Washington metropolitan area transit authority | 198,487 | 198,487 | 198,484 | 3 | - | - | - | - |
| Department of environment | 8,754 | 12,927 | 11,421 | 1,506 | 11,176 | 15,071 | 13,911 | 1,160 |
| School transit subsidy | 5,169 | 5,169 | 5,092 | 77 | - | - | - | - |
| Total public works | 351,396 | 359,882 | 353,590 | 6,292 | 39,680 | 28,822 | 27,653 | 1,169 |
| Others: | | | | | | | | |
| Repay revenue bonds and interest | 6,000 | 4,750 | - | 4,750 | - | - | - | - |
| Repayment of bonds and interest | 405,114 | 389,016 | 386,245 | 2,771 | - | - | - | - |
| Bond fiscal charge paid from bond proceeds | 30,000 | 30,000 | 6,406 | 23,594 | - | - | - | - |
| Interest on short term borrowing | 8,000 | 8,460 | 8,455 | 5 | - | - | - | - |
| Certificates of participation | 31,225 | 30,575 | 30,448 | 127 | - | - | - | - |
| Settlements and judgments | 15,655 | 25,047 | 25,029 | 18 | - | - | - | - |
| Emergency planning and security costs | - | - | - | - | - | 4,691 | 4,691 | - |
| Wilson Building | 4,211 | 3,961 | 3,763 | 198 | - | - | - | - |
| Workforce investment | 38,500 | 7,873 | - | 7,873 | - | - | - | - |
| One-time expenditures | - | - | 8,838 | (8,838) | - | - | - | - |
| Equipment lease operating | 43,955 | 22,028 | 21,893 | 135 | - | - | - | - |
| Pay-go capital | 87,987 | 118,861 | 118,861 | - | - | - | - | - |
| Schools modernization fund | 1,650 | - | - | - | - | - | - | - |
| District referee health contribution | 4,700 | 4,700 | 4,700 | - | - | - | - | - |
| Cash reserve | 50,000 | 500 | - | 500 | - | - | - | - |
| Non-departmental agency | 22,437 | 191 | - | 191 | - | - | - | - |
| Storm water | - | - | - | - | - | - | - | - |
| Retirement board administration | - | - | - | - | - | - | - | - |
| Housing finance agency | - | - | - | - | - | - | - | - |
| National capital revitalization corporation | - | - | - | - | - | - | - | - |
| Total other | 749,434 | 645,962 | 614,638 | 31,324 | - | 4,691 | 4,691 | - |
| Total budget | \$ 5,086,197 | 5,205,635 | 5,126,672 | 78,963 | 2,084,139 | 1,983,508 | 1,861,811 | 121,667 |

See Accompanying Independent Auditors' Report.

Exhibit D-2

**FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGETARY BASIS OPERATIONS BY SOURCE OF FUNDS
Year Ended September 30, 2007
(\$000s)**

| | Private Grants | | | | Other Source | | | |
|---|-----------------|----------------|---------------|--------------|-----------------|----------------|----------------|----------------|
| | Original Budget | Revised Budget | Actual | Variance | Original Budget | Revised Budget | Actual | Variance |
| Public education system: | | | | | | | | |
| Public schools | \$ 4,675 | 10,251 | 8,216 | 2,035 | 10,034 | 16,912 | 13,894 | 3,018 |
| AY08 public school expenditure | - | - | - | - | - | - | - | - |
| Teachers' retirement contribution | - | - | - | - | - | - | - | - |
| State education office | - | 50 | 50 | - | 9,789 | 9,789 | 155 | 9,634 |
| Public charter schools | - | - | - | - | - | - | - | - |
| AY08 public charter school expenditure | - | - | - | - | - | - | - | - |
| Public education facilities modernization | - | - | - | - | - | - | - | - |
| University | - | - | - | - | - | - | - | - |
| Public library | 110 | 321 | 298 | 23 | 656 | 656 | 551 | 105 |
| Total public education system | 4,785 | 10,622 | 8,564 | 2,058 | 20,479 | 27,357 | 14,600 | 12,757 |
| Human support services: | | | | | | | | |
| Human development | 83 | 83 | 71 | 12 | 6,771 | 8,171 | 3,763 | 4,408 |
| Child and family services | 18 | 192 | 152 | 40 | 750 | 750 | 750 | - |
| Dept of mental health | - | 84 | 8 | 76 | 3,808 | 3,808 | 3,522 | 286 |
| Health | - | 91 | 74 | 17 | 31,776 | 29,776 | 24,068 | 5,708 |
| Recreation and parks | 1,033 | 933 | 831 | 102 | 1,600 | 2,200 | 1,381 | 819 |
| Aging | - | - | - | - | - | - | - | - |
| Unemployment compensation contribution | - | - | - | - | - | - | - | - |
| Employee disability compensation | - | - | - | - | - | - | - | - |
| Human rights | - | - | - | - | - | - | - | - |
| Children investment trust | - | - | - | - | - | - | - | - |
| Latino affairs | - | - | - | - | - | - | - | - |
| Energy | - | - | (1) | 1 | 8,867 | - | - | - |
| Asian and pacific islander affairs | - | 1 | 1 | - | - | - | - | - |
| Veterans' affairs | - | - | - | - | - | - | - | - |
| Depart of youth rehabilitation services | - | - | - | - | - | - | - | - |
| Medical reserve | - | - | - | - | - | - | - | - |
| Waive of mental health receivable | - | - | - | - | - | - | - | - |
| Total human support services | 1,134 | 1,384 | 1,136 | 248 | 53,572 | 44,705 | 33,484 | 11,221 |
| Public works: | | | | | | | | |
| Public works | - | - | - | - | 3,755 | 8,755 | 7,503 | 1,252 |
| Department of transportation | 700 | - | - | - | 33,852 | 47,430 | 46,874 | 556 |
| Department of motor vehicles | - | - | - | - | 10,273 | 10,273 | 6,022 | 4,251 |
| Taxicab commission | - | - | - | - | 658 | 658 | 461 | 197 |
| Washington metropolitan area transit commission | - | - | - | - | - | - | - | - |
| Washington metropolitan area transit authority | - | - | - | - | - | - | - | - |
| Department of environment | - | - | - | - | 5,384 | 20,794 | 15,521 | 5,273 |
| School transit subsidy | - | - | - | - | - | - | - | - |
| Total public works | 700 | - | - | - | 53,922 | 87,910 | 76,381 | 11,529 |
| Other: | | | | | | | | |
| Repay revenue bonds and interest | - | - | - | - | - | - | - | - |
| Repayment of bonds and interest | - | - | - | - | - | - | - | - |
| Bond fiscal charge paid from bond proceeds | - | - | - | - | - | - | - | - |
| Interest on short term borrowing | - | - | - | - | - | - | - | - |
| Certificates of participation | - | - | - | - | - | - | - | - |
| Settlements and judgments | - | - | - | - | - | - | - | - |
| Emergency planning and security costs | - | - | - | - | - | - | - | - |
| Wilson Building | - | - | - | - | - | - | - | - |
| Workforce investment | - | - | - | - | - | - | - | - |
| One-time expenditures | - | - | - | - | - | - | - | - |
| Equipment lease operating | - | - | - | - | - | - | - | - |
| Pay-go capital | - | - | - | - | - | - | - | - |
| Schools modernization fund | - | - | - | - | - | - | - | - |
| District retiree health contribution | - | - | - | - | - | - | - | - |
| Cash reserve | - | - | - | - | - | - | - | - |
| Non-departmental agency | - | - | - | - | 23,505 | 755 | - | 755 |
| Storm water | - | - | - | - | 7,900 | - | - | - |
| Retirement board administration | - | - | - | - | 34,423 | 34,423 | 22,960 | 11,463 |
| Housing finance agency | - | - | - | - | 6,529 | 6,529 | - | 6,529 |
| National capital revitalization corporation | - | - | - | - | 51,592 | 51,592 | - | 51,592 |
| Total other | - | - | - | - | 123,049 | 93,299 | 22,960 | 70,339 |
| Total budget | \$ 6,850 | 12,995 | 10,168 | 2,827 | 625,158 | 621,690 | 402,585 | 219,105 |

Exhibit D-3

**FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS
Year Ended September 30, 2007
(\$000s)**

| | Local Source | | | Federal Resources | | |
|--|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|
| | Original Budget | Repro- gramming | Revised Budget | Original Budget | Repro- gramming | Revised Budget |
| Revenues and Sources: | | | | | | |
| Taxes: | | | | | | |
| Property taxes | \$ 1,366,247 | 55,656 | 1,421,903 | - | - | - |
| Sales and use taxes | 824,998 | (35,824) | 789,174 | - | - | - |
| Income taxes | 1,593,814 | 42,614 | 1,636,428 | - | - | - |
| Other taxes | 690,683 | (33,060) | 657,623 | - | - | - |
| Total taxes | 4,475,742 | 29,386 | 4,505,128 | - | - | - |
| Licenses and permits | 70,845 | 1,296 | 72,141 | - | - | - |
| Fines and forfeits | 107,336 | 4,584 | 111,920 | - | - | - |
| Charges for services | 53,218 | (3,372) | 49,846 | - | - | - |
| Miscellaneous | 102,458 | 1,196 | 103,654 | - | - | - |
| Other | - | - | - | - | - | - |
| Federal contributions | - | - | - | 82,618 | 4,232 | 86,850 |
| Operating grant | - | - | - | 2,001,521 | (122,700) | 1,878,821 |
| General obligation bonds | 30,000 | - | 30,000 | - | - | - |
| Fund balance released from restrictions | 176,330 | 85,012 | 261,342 | - | 17,837 | 17,837 |
| Transfer in from Lottery Board | 72,100 | - | 72,100 | - | - | - |
| Total revenues and sources | 5,088,029 | 118,102 | 5,206,131 | 2,084,139 | (100,631) | 1,983,508 |
| Expenditures and Uses: | | | | | | |
| Governmental direction and support | 330,100 | 14,985 | 345,085 | 157,746 | (35,069) | 122,677 |
| Economic development and regulation | 194,206 | 18,051 | 212,257 | 133,524 | 6,648 | 140,172 |
| Public safety and justice | 888,003 | 33,767 | 921,770 | 7,372 | 1,730 | 9,102 |
| Public education system | 1,203,492 | (56,389) | 1,147,103 | 245,185 | 7,535 | 252,720 |
| Public education AY08 expenditure | - | 85,047 | 85,047 | - | - | - |
| Human support services | 1,369,566 | 118,963 | 1,488,529 | 1,500,632 | (75,308) | 1,425,324 |
| Public works | 351,396 | 8,486 | 359,882 | 39,680 | (10,858) | 28,822 |
| Workforce investments | 38,500 | (30,627) | 7,873 | - | - | - |
| Wilson Building | 4,211 | (250) | 3,961 | - | - | - |
| Repay revenue bonds and interest | 6,000 | (1,250) | 4,750 | - | - | - |
| Repayment of bonds and interest | 405,114 | (16,098) | 389,016 | - | - | - |
| Bond fiscal charge paid from bond proceeds | 30,000 | - | 30,000 | - | - | - |
| Interest on short term borrowing | 8,000 | 460 | 8,460 | - | - | - |
| Certificates of participation | 31,225 | (650) | 30,575 | - | - | - |
| Equipment lease operating | 43,955 | (21,927) | 22,028 | - | - | - |
| Pay-go capital | 87,987 | 30,874 | 118,861 | - | - | - |
| Schools modernization fund | 1,650 | (1,650) | - | - | - | - |
| District retiree health contribution | 4,700 | - | 4,700 | - | - | - |
| Cash reserve | 50,000 | (49,500) | 500 | - | - | - |
| Non departmental | 22,437 | (22,246) | 191 | - | - | - |
| Emergency planning and security costs | - | - | - | - | 4,691 | 4,691 |
| Storm water | - | - | - | - | - | - |
| Retirement board administration | - | - | - | - | - | - |
| Housing finance agency | - | - | - | - | - | - |
| Settlements and judgments | 15,655 | 9,392 | 25,047 | - | - | - |
| National capital revitalization corporation | - | - | - | - | - | - |
| Total expenditures and uses | 5,086,197 | 119,438 | 5,205,635 | 2,084,139 | (100,631) | 1,983,508 |
| Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses | \$ 1,832 | (1,336) | 496 | - | - | - |

See Accompanying Independent Auditors' Report.

Exhibit D-3

**FINANCIAL REPORTING ENTITY
SCHEDULE OF BUDGET REVISIONS
Year Ended September 30, 2007
(\$000s)**

| | Private and Other | | | Totals | | |
|---|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|
| | Original Budget | Repro- gramming | Revised Budget | Original Budget | Repro- gramming | Revised Budget |
| Revenues and Sources: | | | | | | |
| Taxes: | | | | | | |
| Property taxes | \$ - | - | - | 1,366,247 | 55,656 | 1,421,903 |
| Sales and use taxes | - | - | - | 824,998 | (35,824) | 789,174 |
| Income taxes | - | - | - | 1,593,814 | 42,614 | 1,636,428 |
| Other taxes | - | - | - | 690,683 | (33,060) | 657,623 |
| Total taxes | - | - | - | 4,475,742 | 29,386 | 4,505,128 |
| Licenses and permits | - | - | - | 70,845 | 1,296 | 72,141 |
| Fines and forfeits | - | - | - | 107,336 | 4,584 | 111,920 |
| Charges for services | - | - | - | 53,218 | (3,372) | 49,846 |
| Miscellaneous | - | - | - | 102,458 | 1,196 | 103,654 |
| Other | 625,158 | (86,413) | 538,745 | 625,158 | (86,413) | 538,745 |
| Federal contributions | - | - | - | 82,618 | 4,232 | 86,850 |
| Operating grant | 6,850 | 6,145 | 12,995 | 2,008,371 | (116,555) | 1,891,816 |
| General obligation bonds | - | - | - | 30,000 | - | 30,000 |
| Fund balance released from restrictions | - | 82,945 | 82,945 | 176,330 | 185,794 | 362,124 |
| Transfer in from Lottery Board | - | - | - | 72,100 | - | 72,100 |
| Total revenues and sources | 632,008 | 2,677 | 634,685 | 7,804,176 | 20,148 | 7,824,324 |
| Expenditures and Uses: | | | | | | |
| Governmental direction and support | 103,658 | (16,150) | 87,508 | 591,504 | (36,234) | 555,270 |
| Economic development and regulation | 215,405 | 10,650 | 226,055 | 543,135 | 35,349 | 578,484 |
| Public safety and justice | 55,304 | 541 | 55,845 | 950,679 | 36,038 | 986,717 |
| Public education system | 25,264 | 12,715 | 37,979 | 1,473,941 | (36,139) | 1,437,802 |
| Public education FY08 expenditure | - | - | - | - | 85,047 | 85,047 |
| Human support services | 54,706 | (8,617) | 46,089 | 2,924,904 | 35,038 | 2,959,942 |
| Public works | 54,622 | 33,288 | 87,910 | 445,698 | 30,916 | 476,614 |
| Workforce investments | - | - | - | 38,500 | (30,627) | 7,873 |
| Wilson Building | - | - | - | 4,211 | (250) | 3,961 |
| Repay revenue bonds and interest | - | - | - | 6,000 | (1,250) | 4,750 |
| Repayment of bonds and interest | - | - | - | 405,114 | (16,098) | 389,016 |
| Bond fiscal charge paid from bond proceeds | - | - | - | 30,000 | - | 30,000 |
| Interest on short term borrowing | - | - | - | 8,000 | 460 | 8,460 |
| Certificates of participation | - | - | - | 31,225 | (650) | 30,575 |
| Equipment lease operating | - | - | - | 43,955 | (21,927) | 22,028 |
| Pay-go capital | - | - | - | 87,987 | 30,874 | 118,861 |
| Schools modernization fund | - | - | - | 1,650 | (1,650) | - |
| District retiree health contribution | - | - | - | 4,700 | - | 4,700 |
| Cash reserve | - | - | - | 50,000 | (49,500) | 500 |
| Non departmental | 23,505 | (22,750) | 755 | 45,942 | (44,996) | 946 |
| Emergency planning and security costs | - | - | - | - | 4,691 | 4,691 |
| Storm water | 7,000 | (7,000) | - | 7,000 | (7,000) | - |
| Retirement board administration | 34,423 | - | 34,423 | 34,423 | - | 34,423 |
| Housing finance agency | 6,529 | - | 6,529 | 6,529 | - | 6,529 |
| Settlements and judgments | - | - | - | 15,655 | 9,392 | 25,047 |
| National capital revitalization corporation | 51,592 | - | 51,592 | 51,592 | - | 51,592 |
| Total expenditures and uses | 632,008 | 2,677 | 634,685 | 7,802,344 | 21,484 | 7,823,828 |
| Excess (Deficiency) of Revenues and Sources Over (Under) Expenditures and Uses | \$ - | - | - | 1,832 | (1,336) | 496 |



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DISCRETELY PRESENTED COMPONENT UNIT CASH FLOW SCHEDULES

These cash flow schedules are for the component units NCRC and EDFC which did not issue separately audited financial statements.

Exhibit E-1

District of Columbia
Discretely Presented Component Units
Statement of Cash Flows
For the Year Ended September 30, 2007
(\$000s)

| | National Capital Revitalization | Economic Development | Total |
|--|--|---------------------------------|--------------|
| Operating activities: | | | |
| Cash receipts from customers | \$ 13,330 | \$ (91) | \$ 13,239 |
| Other cash receipts | 49 | - | 49 |
| Cash payments to vendors | (14,260) | (16) | (14,276) |
| Other cash payments | (19,307) | - | (19,307) |
| Net cash used in operating activities | (20,188) | (107) | (20,295) |
| Noncapital financing activities: | | | |
| Payments of long term debt | (5,729) | - | (5,729) |
| Payments for noncurrent assets | 17,870 | - | 17,870 |
| Transfer to other funds | (279) | - | (279) |
| Net cash provided by noncapital financing activities | 11,862 | - | 11,862 |
| Capital and related financing activities: | | | |
| Acquisitions of capital assets | (14,961) | - | (14,961) |
| Net cash used in capital and related financing activities | (14,961) | - | (14,961) |
| Investing activities: | | | |
| Receipts of interest and dividends | 2,580 | 163 | 2,743 |
| Net cash provided by investing activities | 2,580 | 163 | 2,743 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (20,707) | 56 | (20,651) |
| Cash and cash equivalents at October 1 | 39,043 | 3,253 | 42,296 |
| Cash and cash equivalents at September 30 | \$ 18,336 | \$ 3,309 | \$ 21,645 |
| Reconciliation of operating income (loss) to net cash used in operating activities: | | | |
| Operating income (loss) | \$ (5,022) | \$ 155 | \$ (4,867) |
| Depreciation/amortization expenses | 329 | - | 329 |
| Miscellaneous nonoperating revenues | (19,307) | (163) | (19,470) |
| Decrease (increase) in assets: | | | |
| Accounts receivable | 5,662 | (91) | 5,571 |
| Other current assets | 49 | - | 49 |
| Increase (decrease) in liabilities: | | | |
| Accounts payable | (333) | (8) | (341) |
| Accrued liabilities | (307) | - | (307) |
| Deferred revenue | (1,259) | - | (1,259) |
| Net cash used in operating activities: | \$ (20,188) | \$ (107) | \$ (20,295) |

The accompanying notes are an integral part of this statement.

CAFR 2007

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Government of the District of Columbia
Office of the Chief Financial Officer

YEAR ENDED SEPTEMBER 30, 2007

STATISTICAL SECTION



PUBLIC SAFETY



ECONOMIC GROWTH



CHILDREN AND YOUTH



PARKS AND MONUMENTS

Statistical Section (Unaudited)

This section contains statistical tables that reflect financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information. These tables differ from the financial statements because they usually cover more than two fiscal years and may present non accounting data.

The Statistical Section is divided into 5 sections as follows:

| Section | <u>Page</u> |
|--|--------------------|
| 1. Financial Trends | 147 |
| 2. Revenue Capacity..... | 153 |
| 3. Debt Capacity | 159 |
| 4. Demographic and Economic Information | 163 |
| 5. Operating Information | 165 |



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1. Financial Trends

These schedules contain trend information to better understand how the District's financial performance and well-being have changed over time.

Net Assets By Component
Last Six Fiscal Years

(accrual basis of accounting, dollars in thousands)

| NET ASSETS | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Governmental activities | | | | | | |
| Invested in capital assets, net of related debt | \$ 656,901 | \$ 518,223 | \$ 774,533 | \$ 1,069,731 | \$ 958,597 | \$ 1,197,275 |
| Restricted | 834,006 | 870,284 | 807,839 | 930,021 | 987,650 | 1,269,708 |
| Unrestricted | (625,908) | (593,786) | (370,474) | (249,088) | 167,779 | 92,345 |
| Total governmental activities net assets | <u>864,999</u> | <u>794,721</u> | <u>1,211,898</u> | <u>1,750,664</u> | <u>2,114,026</u> | <u>2,559,328</u> |
| Business-type activities | | | | | | |
| Invested in capital assets, net of related debt | 1,495 | 1,354 | 17,927 | 16,183 | 17,505 | 17,211 |
| Restricted | 271,361 | 262,148 | 288,224 | 322,893 | 347,938 | 375,148 |
| Unrestricted | 1,990 | 37,442 | 34,829 | 34,968 | 29,000 | 25,980 |
| Total business-type activities net assets | <u>274,846</u> | <u>300,944</u> | <u>340,980</u> | <u>374,044</u> | <u>394,443</u> | <u>418,339</u> |
| Primary government | | | | | | |
| Invested in capital assets, net of related debt | 658,396 | 519,577 | 792,460 | 1,085,914 | 976,102 | 1,214,486 |
| Restricted | 1,105,367 | 1,132,432 | 1,096,063 | 1,252,914 | 1,335,588 | 1,644,856 |
| Unrestricted | (623,918) | (556,344) | (335,645) | (214,120) | 196,779 | 118,325 |
| Total primary government net assets | <u>\$ 1,139,845</u> | <u>\$ 1,095,665</u> | <u>\$ 1,552,878</u> | <u>\$ 2,124,708</u> | <u>\$ 2,508,469</u> | <u>\$ 2,977,667</u> |

Note: As a result of GASB 34 implementation in FY2002, only six fiscal years are presented.

Source: Information was extracted from Exhibit I-a, Statement of Net Assets, Page 46.

| Changes in Net Assets | | Exhibit S-1B | | | | | |
|--|----|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Last Six Fiscal Years | | | | | | | |
| <i>(accrual basis of accounting, dollars in thousands)</i> | | | | | | | |
| | | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| Governmental activities | | | | | | | |
| Expenses | | | | | | | |
| Governmental direction and support | \$ | 471,609 | \$ 525,072 | \$ 554,614 | \$ 641,964 | \$ 574,097 | \$ 787,392 |
| Economic development and regulation | | 323,804 | 252,716 | 253,311 | 283,186 | 391,203 | 509,874 |
| Public safety and justice | | 920,599 | 936,797 | 1,007,755 | 1,036,120 | 1,124,896 | 1,264,715 |
| Public education system | | 1,153,719 | 1,168,545 | 1,301,807 | 1,374,538 | 1,486,112 | 1,589,652 |
| Human support services | | 2,267,597 | 2,572,881 | 2,537,195 | 2,663,556 | 2,967,372 | 2,992,805 |
| Public works | | 279,506 | 312,704 | 313,580 | 307,247 | 351,917 | 481,702 |
| Public transportation | | 184,883 | 272,726 | 162,602 | 167,783 | 187,615 | 198,484 |
| Interest on long-term debt | | 175,241 | 178,301 | 189,697 | 201,882 | 269,725 | 281,918 |
| Total governmental activities expenses | | 5,776,958 | 6,219,742 | 6,320,561 | 6,676,276 | 7,352,937 | 8,106,542 |
| Program revenues | | | | | | | |
| Charges for services, fees, fines & forfeitures: | | | | | | | |
| Economic development and regulation | | 60,636 | 75,540 | 83,866 | 92,198 | 94,487 | 102,230 |
| Public works | | 129,441 | 129,251 | 134,875 | 132,533 | 146,628 | 151,957 |
| Others | | 95,967 | 118,370 | 81,369 | 102,431 | 84,298 | 80,790 |
| Operating grants & contributions | | 1,890,544 | 1,833,060 | 2,060,973 | 2,098,723 | 2,155,035 | 2,309,495 |
| Capital grants & contributions | | 161,450 | 176,449 | 151,334 | 112,704 | 119,715 | 130,557 |
| Total governmental activities program revenues | | 2,338,038 | 2,332,670 | 2,512,417 | 2,538,589 | 2,600,163 | 2,775,029 |
| Net expenses | | (3,438,920) | (3,887,072) | (3,808,144) | (4,137,687) | (4,752,774) | (5,331,513) |
| General revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | 809,069 | 899,665 | 1,017,653 | 1,150,672 | 1,272,998 | 1,545,325 |
| Sales and use taxes | | 750,060 | 779,920 | 828,391 | 957,394 | 1,004,471 | 1,056,780 |
| Income and franchise taxes | | 1,160,423 | 1,167,452 | 1,299,009 | 1,472,432 | 1,591,483 | 1,736,361 |
| Gross receipts taxes | | 231,786 | 261,643 | 271,897 | 295,819 | 278,453 | 302,768 |
| Other taxes | | 283,146 | 273,191 | 379,521 | 377,213 | 390,542 | 498,198 |
| Grants and contributions - unrestricted | | - | 25,070 | 24,543 | - | - | - |
| Investment earnings | | 19,283 | 13,341 | 16,211 | 39,811 | 73,207 | 124,420 |
| Miscellaneous | | 333,943 | 325,529 | 314,596 | 311,662 | 431,182 | 456,425 |
| Special items | | (171,094) | - | - | - | - | (8,838) |
| Transfers | | 63,000 | 37,574 | 73,500 | 71,450 | 73,800 | 65,376 |
| Total governmental activities general revenues | | 3,479,616 | 3,783,385 | 4,225,321 | 4,676,453 | 5,116,136 | 5,776,815 |
| Change in net assets --- governmental activities | \$ | 40,696 | \$ (103,687) | \$ 417,177 | \$ 538,766 | \$ 363,362 | \$ 445,302 |
| Business activities | | | | | | | |
| Expenses | | | | | | | |
| Lottery and games | \$ | 148,670 | \$ 166,185 | \$ 167,938 | \$ 164,066 | \$ 193,907 | \$ 192,336 |
| Unemployment compensation | | 191,043 | 165,045 | 113,888 | 92,728 | 102,749 | 99,920 |
| Nursing home services | | - | 34,687 | 33,023 | 35,066 | 35,434 | 37,556 |
| Total business-type activities expenses | | 339,713 | 365,917 | 314,849 | 291,860 | 332,090 | 329,812 |
| Program revenues | | | | | | | |
| Charges for services, fees, fines & forfeitures: | | | | | | | |
| Lottery and games | | 211,151 | 237,890 | 241,133 | 234,931 | 266,391 | 256,824 |
| Nursing home services | | - | 34,124 | 30,907 | 32,184 | 29,154 | 31,849 |
| Operating grants & contributions | | 49,308 | 55,356 | 26,588 | 16,707 | 14,825 | 18,358 |
| Capital grants & contributions | | - | - | 15,464 | - | - | - |
| Total business-type activities program revenues | | 260,459 | 327,370 | 314,092 | 283,822 | 310,370 | 307,031 |
| Net expenses | | (79,254) | (38,547) | (757) | (8,038) | (21,720) | (22,781) |
| General revenues | | | | | | | |
| Taxes: | | | | | | | |
| Other taxes | | 104,945 | 82,626 | 97,196 | 92,985 | 95,888 | 90,117 |
| Investment earnings | | 18,978 | 19,332 | 16,847 | 18,887 | 19,321 | 20,841 |
| Miscellaneous | | - | 261 | 250 | 680 | 710 | 1,095 |
| Transfers | | (63,000) | (37,574) | (73,500) | (71,450) | (73,800) | (65,376) |
| Total business-type activities general revenues | | 60,923 | 64,645 | 40,793 | 41,102 | 42,119 | 46,677 |
| Change in net assets --- business-type activities | \$ | (18,331) | \$ 26,098 | \$ 40,036 | \$ 33,064 | \$ 20,399 | \$ 23,896 |
| Total primary government | | | | | | | |
| Expenses | \$ | 6,116,671 | \$ 6,585,659 | \$ 6,635,410 | \$ 6,968,136 | \$ 7,685,027 | \$ 8,436,354 |
| Program revenues | | 2,598,497 | 2,660,040 | 2,820,257 | 2,822,411 | 2,910,533 | 3,082,060 |
| Net (expenses)/revenues | | (3,518,174) | (3,925,619) | (3,815,153) | (4,145,725) | (4,774,494) | (5,354,294) |
| General revenues | | 3,540,539 | 3,848,030 | 4,272,366 | 4,717,555 | 5,158,255 | 5,823,492 |
| Change in net assets --- primary government | \$ | 22,365 | \$ (73,090) | \$ 457,213 | \$ 571,830 | \$ 383,761 | \$ 469,198 |

Note: As a result of GASB 34 implementation in FY2002, only six fiscal years are presented.
Source: Information was extracted from Exhibit I-b, Statement of Activities, Page 47

**Fund Balances, Governmental Funds
Last Six Fiscal Years**

Exhibit S-1C

(modified accrual basis of accounting, dollars in thousands)

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-----------------|-------------------|------------------|------------------|---------------------|---------------------|
| General Fund | | | | | | |
| Reserved | \$ 545,414 | \$ 568,243 | \$ 607,903 | \$ 1,110,770 | \$ 1,045,560 | \$ 1,135,459 |
| Unreserved | 319,914 | 329,114 | 607,112 | 473,913 | 389,582 | 358,541 |
| Total general fund | <u>865,328</u> | <u>897,357</u> | <u>1,215,015</u> | <u>1,584,683</u> | <u>1,435,142</u> | <u>1,494,000</u> |
| All other governmental funds | | | | | | |
| Reserved, reported in: | | | | | | |
| Special revenue funds | 324,687 | 249,434 | 239,291 | 249,911 | 321,878 | 460,556 |
| Capital project funds | 148,760 | 52,607 | 43,914 | 86,530 | 732,602 | 835,024 |
| Unreserved, reported in: | | | | | | |
| Capital project funds | (472,305) | (169,287) | (273,432) | (312,161) | - | - |
| Total all other governmental funds | <u>\$ 1,142</u> | <u>\$ 132,754</u> | <u>\$ 9,773</u> | <u>\$ 24,280</u> | <u>\$ 1,054,480</u> | <u>\$ 1,295,580</u> |

Note: As a result of GASB Statement No. 34 implementation in FY2002, only six fiscal years are presented.

Source: Information was extracted from Exhibit 2-a, Balance Sheet - Governmental Funds, Page 48.

**Changes in Fund Balances, Governmental Funds
Last Six Fiscal Years**

Exhibit S-1D

(modified accrual basis of accounting, dollars in thousands)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| REVENUES | | | | | | |
| Taxes | \$ 3,229,809 | \$ 3,384,093 | \$ 3,806,906 | \$ 4,251,191 | \$ 4,472,845 | \$ 5,146,007 |
| Fines and forfeits | 88,495 | 90,238 | 102,828 | 111,146 | 112,919 | 101,971 |
| Licenses and permits | 52,003 | 62,189 | 62,968 | 82,093 | 81,222 | 89,072 |
| Charges for services | 145,546 | 170,736 | 134,314 | 133,923 | 131,273 | 143,934 |
| Investment earnings | 19,283 | 13,341 | 16,211 | 39,811 | 73,206 | 124,420 |
| Miscellaneous | 332,861 | 320,460 | 305,039 | 311,573 | 489,067 | 444,262 |
| Federal contributions | 490,373 | 380,100 | 393,928 | 382,966 | 362,075 | 440,962 |
| Operating grants | 1,561,621 | 1,555,404 | 1,842,922 | 1,828,461 | 1,912,675 | 1,999,090 |
| Total revenues | 5,919,991 | 5,976,561 | 6,665,116 | 7,141,164 | 7,635,282 | 8,489,718 |
| EXPENDITURES | | | | | | |
| Governmental direction and support | 366,981 | 415,591 | 483,185 | 590,344 | 611,620 | 651,974 |
| Economic development and regulation | 223,760 | 224,811 | 236,220 | 267,335 | 348,091 | 444,508 |
| Public safety and justice | 899,116 | 907,670 | 984,062 | 1,034,456 | 1,133,800 | 1,241,684 |
| Public education system | 1,143,281 | 1,155,297 | 1,284,448 | 1,340,767 | 1,439,510 | 1,541,194 |
| Human support services | 2,249,303 | 2,445,336 | 2,563,646 | 2,657,848 | 2,952,637 | 2,975,821 |
| Public works | 149,302 | 164,753 | 164,231 | 175,300 | 184,200 | 329,942 |
| Public transportation | 184,883 | 272,726 | 162,602 | 167,783 | 187,615 | 198,484 |
| Debt service: | | | | | | |
| Principal | 138,575 | 149,792 | 152,086 | 183,845 | 205,654 | 232,389 |
| Interest and other charges | 189,006 | 178,301 | 189,697 | 202,387 | 225,195 | 258,769 |
| Fiscal charges | - | 15,338 | 13,721 | 9,277 | 31,958 | 15,095 |
| Total debt service | <u>327,581</u> | <u>343,431</u> | <u>355,504</u> | <u>395,509</u> | <u>462,807</u> | <u>506,253</u> |
| Subtotal expenditures | 5,544,207 | 5,929,615 | 6,233,898 | 6,629,342 | 7,320,280 | 7,889,860 |
| Capital outlay | 905,418 | 762,145 | 666,649 | 615,089 | 901,204 | 1,024,541 |
| Total expenditures | 6,449,625 | 6,691,760 | 6,900,547 | 7,244,431 | 8,221,484 | 8,914,401 |
| Excess (deficiency) of revenues over (under) expenditures | (529,634) | (715,199) | (235,431) | (103,267) | (586,202) | (424,683) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds from sale of bonds | 408,180 | 1,019,873 | 325,726 | 386,370 | 1,459,087 | 861,735 |
| Premium on sale of bonds | - | - | - | 14,478 | 39,944 | 16,063 |
| Payment to escrow agent | (69,487) | (234,179) | - | - | (136,137) | (264,334) |
| Proceeds from bond escrow restructuring | - | - | 9,557 | 89 | - | - |
| Proceeds from capital lease | - | - | 503 | 19 | - | - |
| Equipment financing program | 51,944 | 17,094 | 20,822 | 15,036 | 30,167 | 42,471 |
| Transfers in | 63,000 | 77,119 | 109,717 | 193,439 | 685,206 | 694,229 |
| Transfers out | - | (34,476) | (36,217) | (121,989) | (611,406) | (628,853) |
| Sale of capital assets | - | - | - | - | - | 12,168 |
| Total other financing sources | 453,637 | 845,431 | 430,108 | 487,442 | 1,466,861 | 733,479 |
| Special item - real property loss | - | - | - | - | - | (8,838) |
| Net change in fund balances | \$ (75,997) | \$ 130,232 | \$ 194,677 | \$ 384,175 | \$ 880,659 | \$ 299,958 |
| Other capital expenditures beside capital outlay | 31,262 | 49,529 | 23,960 | 33,706 | 65,197 | 24,651 |
| Total capital expenditures | 936,680 | 811,674 | 690,609 | 648,795 | 771,069 | 857,739 |
| Debt service as a percentage of noncapital expenditures | 5.94% | 5.58% | 5.50% | 5.86% | 5.78% | 6.10% |

Note: As a result of GASB Statement No. 34 implementation in FY2002, only six fiscal years are presented.

Source: Information was extracted from Exhibit 2-b, Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, Page 49.

Tax Revenues by Source, Governmental Funds
Last Six Fiscal Years
(modified accrual basis of accounting, dollars in thousands)

| Fiscal Year | Property Tax | | | Sales and Use | Income and Franchise | Gross Receipts | Other Taxes | Total |
|-------------|--------------|-----------|-----------|---------------|----------------------|----------------|-------------|--------------|
| | Real | Personal | Rental | | | | | |
| 2002 | \$ 726,014 | \$ 65,208 | \$ 13,172 | \$ 750,060 | \$ 1,160,423 | \$ 231,786 | \$ 283,146 | \$ 3,229,809 |
| 2003 | 822,845 | 67,294 | 11,749 | 779,920 | 1,167,452 | 261,643 | 273,191 | 3,384,094 |
| 2004 | 947,690 | 63,558 | 16,840 | 828,391 | 1,299,009 | 271,897 | 379,521 | 3,806,906 |
| 2005 | 1,058,100 | 72,068 | 18,165 | 957,394 | 1,472,432 | 295,819 | 377,213 | 4,251,191 |
| 2006 | 1,163,598 | 55,548 | 22,336 | 970,885 | 1,591,483 | 278,453 | 390,542 | 4,472,845 |
| 2007 | 1,452,267 | 67,394 | 32,239 | 1,056,780 | 1,736,361 | 302,768 | 498,198 | 5,146,007 |

Note: As a result of GASB Statement No. 34 implementation in FY2002, only six fiscal years are presented.

Source: Information was extracted from Exhibit 2-b, Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, Page 49.

2. Revenue Capacity

These schedules contain information regarding the District's most significant local revenue sources: property, income, and sales and use taxes.

**Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years**
(dollars in thousands)

Exhibit S-2A

| Fiscal Year | Estimated Actual Value | | Total Taxable | Tax Exempt | Total Value | Total Direct Tax Rate | Tax Exempt as a % of Total Value |
|-------------|------------------------|-------------------------|---------------|---------------|---------------|--------------------------|--|
| | Commercial Property | Residential Property | | | | | |
| | | (1) (2) (3) (4) | | | | | |
| 1998 | \$ 19,726,319 | \$ 23,461,404 | \$ 43,187,723 | \$ 31,517,981 | \$ 74,705,704 | N/A | 42.2% |
| 1999 | 18,734,933 | 23,710,565 | 42,445,498 | 30,620,782 | 73,066,280 | N/A | 41.9% |
| 2000 | 19,357,631 | 23,912,435 | 43,270,066 | 30,900,682 | 74,170,748 | 1.43 | 41.7% |
| 2001 | 21,960,148 | 22,268,968 | 44,229,116 | 32,086,134 | 76,315,250 | 1.45 | 42.0% |
| 2002 | 27,619,604 | 24,902,543 | 52,522,147 | 33,812,037 | 86,334,184 | 1.39 | 39.2% |
| 2003 | 29,684,430 | 28,379,237 | 58,063,667 | 35,728,289 | 93,791,956 | 1.38 | 38.1% |
| 2004 | 33,752,889 | 32,701,220 | 66,454,109 | 43,234,068 | 109,688,177 | 1.35 | 39.4% |
| 2005 | 36,905,213 | 49,982,554 | 86,887,767 | 43,219,725 | 130,107,492 | 1.37 | 33.2% |
| 2006 | 40,400,447 | 58,090,888 | 98,491,335 | 59,664,865 | 158,156,200 | 1.34 | 37.7% |
| 2007 | 51,748,487 | 73,126,786 | 124,875,273 | 57,690,545 | 182,565,818 | 1.31 | 31.6% |

Note: Assessed value is 100 percent of estimated actual value.
Total direct tax rate for years 1997 - 1999 could not be determined

- (1) After deduction of homestead exemption and credits against tax
- (2) Does not reflect the 2002 & 2003 Cap Assessment of 25% for Class 01 with Homestead Exemptions
- (3) Does not reflect the 2004 & 2005 Cap Assessment of 12% for Class 01 with Homestead Exemptions
- (4) Does not reflect the 2006 Cap Assessment of 10% for Class 01 with Homestead Exemptions

Source: Office of Tax and Revenue

**Direct Property Tax Rates
Last Eight Fiscal Years**

Exhibit S-2B

| Fiscal Year | Direct Property Tax Rate (Per \$100 Assessed Valuation) | | | | Total Direct |
|-------------|--|------------------------------------|--------------------------|------|--------------|
| | Basic Rate | General Obligation Debt Service | Redevelopment Program | | |
| 2000 | 0.73 | 0.70 | - | 1.43 | |
| 2001 | 0.75 | 0.70 | - | 1.45 | |
| 2002 | 0.79 | 0.60 | - | 1.39 | |
| 2003 | 0.78 | 0.60 | - | 1.38 | |
| 2004 | 0.90 | 0.45 | - | 1.35 | |
| 2005 | 0.92 | 0.45 | - | 1.37 | |
| 2006 | 0.94 | 0.40 | - | 1.34 | |
| 2007 | 0.86 | 0.45 | - | 1.31 | |

Note:
Information prior to FY2000 is not available.
The total direct rate is the weighted rate of all taxable real property. The basic rate is the direct rate, less general obligation debt service and redevelopment program costs per \$100.

Source: Office of Tax and Revenue

Major Tax Rates
Last Ten Fiscal Years

Exhibit S-2C

| Fiscal Year | Property (per \$100 of assessed value) | | | | | | Sales and Use | | | Income and Franchise | | Gross Receipt Public Utility (6) | |
|-------------|--|--------------------|------------|----------|------------|----------|---------------|---------------|-------------------|----------------------|--------------|-------------------------------------|-------------|
| | Residential | | Commercial | | | Personal | General (1) | Cigarette (2) | Motor Fuel (3) | Individual (4) | Business (5) | Commercial | Residential |
| | Owner occupied | Tenant occupied | Hotels | Improved | Unimproved | | | | | | | | |
| 1998 | 0.96 | 1.54 | 1.85 | 2.15 | 5.00 | 3.40 | 0.0575 | 0.65 | 0.20 | .060-.095 | 0.09975 | 0.10 | 0.10 |
| 1999 | 0.96 | 1.54 | 1.85 | 2.15 | 5.00 | 3.40 | 0.0575 | 0.65 | 0.20 | .060-.095 | 0.09975 | 0.10 | 0.10 |
| 2000 | 0.96 | 1.34 | 1.85 | 2.05 | 2.05 | 3.40 | 0.0575 | 0.65 | 0.20 | .050-.095 | 0.09975 | 0.10 | 0.10 |
| 2001 | 0.96 | 1.15 | 1.85 | 1.95 | 1.95 | 3.40 | 0.0575 | 0.65 | 0.20 | .050-.093 | 0.09975 | 0.10 | 0.10 |
| 2002 | 0.96 | 0.96 | 1.85 | 1.85 | 1.85 | 3.40 | 0.0575 | 0.65 | 0.20 | .050-.093 | 0.09975 | 0.10 | 0.10 |
| 2003 | 0.96 | 0.96 | 1.85 | 1.85 | 5.00 | 3.40 | 0.0575 | 1.00 | 0.20 | .050-.093 | 0.09975 | 0.11 | 0.11 |
| 2004 | 0.96 | 0.96 | 1.85 | 1.85 | 5.00 | 3.40 | 0.0575 | 1.00 | 0.20 | .050-.093 | 0.09975 | 0.11 | 0.11 |
| 2005 | 0.96 | 0.96 | 1.85 | 1.85 | 5.00 | 3.40 | 0.0575 | 1.00 | 0.20 | .050-.090 | 0.09975 | 0.11 | 0.10 |
| 2006 | 0.92 | 0.92 | 1.85 | 1.85 | 5.00 | 3.40 | 0.0575 | 1.00 | 0.20 | .045-.087 | 0.09975 | 0.11 | 0.10 |
| 2007 | 0.88 | 0.88 | 1.85 | 1.85 | 5.00 | 3.40 | 0.0575 | 1.00 | 0.20 | .040-.085 | 0.09975 | 0.11 | 0.10 |

Source: Office of Tax and Revenue

(1) Of sales value

(2) Per package of 20

(3) Per gallon

(4) Of taxable income

(5) Of net income

(6) Of gross charges (gas, lighting, telephone)

Principal Property Taxpayers
Current Year and Nine Years Ago
(dollars in thousands)

Exhibit S-2D

| Taxpayer | 2007 | | | 1998 | | |
|--|---------------------------|------|--|-----------------------------|------|--|
| | Taxable Assessed Value | Rank | % of Total Taxable Assessed Value | * Taxable Assessed Value | Rank | % of Total Taxable Assessed Value |
| JBG/FEDERAL CENTER LLC | \$ 454,296 | 1 | 0.364% | \$ *** | | |
| MANUFACTURERS LIFE INSURANCE | 437,667 | 2 | 0.350% | 114,481 | 4 | 0.265% |
| 13TH & F ASSOCIATES LP | 342,827 | 3 | 0.275% | 137,008 | 3 | 0.317% |
| CARR CRHP PROPERTIES LLC | 340,780 | 4 | 0.273% | 154,366 | ** 2 | 0.357% |
| WARNER INVESTMENTS LP | 333,000 | 5 | 0.267% | 101,383 | ** | 0.235% |
| WASHINGTON SQUARE LIMITED PARTNERSHIP | 318,155 | 6 | 0.255% | 173,702 | 1 | 0.402% |
| SECOND ST HOLDING LLC | 296,019 | 7 | 0.237% | *** | | |
| LINCOLN CIRCLE ASSOCIATES LLC | 264,500 | 8 | 0.212% | 11,299 | ** 7 | 0.026% |
| TEACHERS INSURANCE & ANNUITY ASSOCIATION | 262,736 | 9 | 0.210% | 90,069 | ** 6 | 0.209% |
| METROPOLITAN SQUARE ASSOCIATES LLC | 260,000 | 10 | 0.208% | 113,070 | ** 5 | 0.262% |

* Source 1998 RPT Account Status Report (Folio)

** Different ownership in 1998

*** 1998 exact rank can not be determined

Source: Office of Tax and Revenue

Ten Highest Assessed Values For Tax Exempt Properties
Current Year
(dollars in thousands)

Exhibit S-2E

| Property | Value |
|---|--------------|
| INTERNATIONAL FINANCE CORPORATION | \$ 445,120 |
| INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT | 382,544 |
| INTER-AMERICAN DEVELOPMENT BANK | 339,163 |
| GEORGETOWN UNIVERSITY | 299,688 |
| INTERNATIONAL MONETARY FUND | 253,246 |
| INTERNATIONAL MONETARY FUND | 240,591 |
| THE FREEDOM FORUM INC | 221,051 |
| PROTESTANT EPISCOPAL CATHEDRAL FND DC | 202,483 |
| AMERICAN UNIVERSITY | 180,711 |
| WASHINGTON HOSPITAL CENTER | 172,357 |

Source: Office of Tax and Revenue

Note: Duplicate property listings resulted from properties with multiple addresses.

Property Tax Levies and Collections
Last Ten Fiscal Years
(dollars in thousands)

Exhibit S-2F

| Fiscal Year Ended Sep 30 | Tax Levy | Tax Collections (1) | | | Percent of Collections to Levy | |
|-------------------------------------|-----------------|----------------------------|-------------------------|------------|---|-------|
| | | Current | Subsequent Years (2) | Total | Current | Total |
| 1998 | \$ 638,569 | \$ 590,249 | \$ 30,548 | \$ 620,797 | 92.4% | 97.2% |
| 1999 | 637,647 | 554,064 | 29,078 | 583,142 | 86.9% | 91.5% |
| 2000 | 613,385 | 569,190 | 23,587 | 592,777 | 92.8% | 96.6% |
| 2001 | 669,016 | 576,965 | 58,359 | 635,324 | 86.2% | 95.0% |
| 2002 | 740,387 | 649,895 | 57,729 | 707,624 | 87.8% | 95.6% |
| 2003 | 847,980 | 774,989 | 63,110 | 838,099 | 91.4% | 98.8% |
| 2004 | 1,011,891 | 898,352 | 47,701 | 946,053 | 88.8% | 93.5% |
| 2005 | 1,198,319 | 1,021,836 | 46,314 | 1,068,150 | 85.3% | 89.1% |
| 2006 | 1,234,062 | 1,102,954 | 47,422 | 1,150,376 | 89.4% | 93.2% |
| 2007 | 1,525,002 | 1,361,132 | 66,500 | 1,427,632 | 89.3% | 93.6% |

(1) Approximately 45% of real property tax collections are deposited with fiscal agents, such as commercial banks, for payment of matured bonds and interest.

(2) Subsequent year collections related to collections on prior year levies.

Current year tax levy amounts include new billings for prior year penalties and interest.

Subsequent year collections relate to collections on prior year levies.

Source: Office of Tax and Revenue

**Personal Income Tax Rates
Last Ten Fiscal Years**

Exhibit S-2G

| Year | Top Rate | Top Income Tax Rate Is Applied to Taxable Income in Excess of | | | * Average Effective Rate |
|------|----------|---|------------------------|-------------------|--------------------------|
| | | Single | Married Filing Jointly | Head of Household | |
| 1998 | 9.50% | \$ 20,000 | \$ 20,000 | \$ 20,000 | 6.39% |
| 1999 | 9.50% | 20,000 | 20,000 | 20,000 | 6.47% |
| 2000 | 9.50% | 20,000 | 20,000 | 20,000 | 6.39% |
| 2001 | 9.30% | 30,000 | 30,000 | 30,000 | 6.60% |
| 2002 | 9.30% | 30,000 | 30,000 | 30,000 | 6.55% |
| 2003 | 9.30% | 30,000 | 30,000 | 30,000 | 6.66% |
| 2004 | 9.30% | 30,000 | 30,000 | 30,000 | 6.65% |
| 2005 | 9.00% | 30,000 | 30,000 | 30,000 | 6.68% |
| 2006 | 8.70% | 40,000 | 40,000 | 40,000 | 6.45% |
| 2007 | 8.50% | 40,000 | 40,000 | 40,000 | N/A |

N/A: Not Available

* Fiscal year personal income tax collections divided by prior-year personal income.

Source: Office of Tax and Revenue

**Personal Income Tax Filers and Liability by Income Level
Current Year and Nine Years Ago**

Exhibit S-2H

| Income Level | 2007 | | | | 1998 | | | |
|-----------------------|------------------|---------------------|-------------------------------|---------------------|------------------|---------------------|-------------------------------|---------------------|
| | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total | Number of Filers | Percentage of Total | Personal Income Tax Liability | Percentage of Total |
| \$100,001 and higher | 39,029 | 12.91% | \$ 880,991,794 | 67.42% | 20,032 | 6.78% | \$ 329,589,907 | 45.47% |
| \$75,001 -- \$100,000 | 18,979 | 6.28% | 96,360,960 | 7.37% | 12,070 | 4.08% | 73,823,272 | 10.18% |
| \$50,001 -- \$75,000 | 36,644 | 12.12% | 120,192,078 | 9.20% | 25,859 | 8.75% | 105,266,050 | 14.52% |
| \$25,001 -- \$50,000 | 78,407 | 25.94% | 131,052,362 | 10.03% | 74,615 | 25.24% | 153,579,878 | 21.19% |
| \$10,001 -- \$25,000 | 64,225 | 21.25% | 36,546,777 | 2.80% | 80,038 | 27.07% | 56,511,287 | 7.80% |
| \$10,000 and lower | 64,977 | 21.50% | 41,589,468 | 3.18% | 83,044 | 28.09% | 6,101,461 | 0.84% |
| Total | 302,261 | 100.00% | \$ 1,306,733,439 | 100.00% | 295,658 | 100.00% | \$ 724,871,855 | 100.00% |

Source: Office of Tax and Revenue



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3. Debt Capacity

These schedules present information showing the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

**Ratios of General Obligation Bonds Outstanding
Last Ten Fiscal Years**
(dollars in thousands, except per capita)

Exhibit S-3A

| Fiscal Year | General Obligation Bonds (GO) | Actual Value of Taxable Property | GO Bonds as a Percentage of Actual Value of Taxable Property | GO Debt Per Capita * |
|--------------------|--|---|---|-------------------------------------|
| 1998 | \$ 3,091,403 | \$ 43,187,723 | 7.16% | \$ 5,469 |
| 1999 | 3,098,582 | 42,445,498 | 7.30% | 5,426 |
| 2000 | 3,109,728 | 43,270,066 | 7.19% | 5,438 |
| 2001 | 2,582,017 | 44,229,116 | 5.84% | 4,470 |
| 2002 | 2,670,573 | 52,522,147 | 5.08% | 4,611 |
| 2003 | 3,251,118 | 58,063,667 | 5.60% | 5,630 |
| 2004 | 3,418,933 | 66,454,109 | 5.14% | 5,899 |
| 2005 | 3,632,198 | 86,887,767 | 4.18% | 6,240 |
| 2006 | 3,773,863 | 98,491,335 | 3.83% | 6,446 |
| 2007 | 4,140,133 | 124,875,273 | 3.32% | 7,038 |

* The prior year per capita amounts were updated to reflect the revised census population estimates.

**Pledged-Revenue Coverage
Last Six Fiscal Years**
(dollars in thousands)

Exhibit S-3B

| Fiscal Year | Tax Increment Financing Debts | | | | Coverage |
|--------------------|--------------------------------------|--|---------------------|-----------------|-----------------|
| | Sales Tax Increment | Real Property Tax Increment | Debt Service | | |
| | | | Principal | Interest | |
| 2002 | \$ 33 | \$ - | \$ - | \$ 33 | 100.00% |
| 2003 | 1,236 | - | 1,104 | 132 | 100.00% |
| 2004 | 2,222 | 112 | 1,515 | 4,265 | 40.38% |
| 2005 | 6,733 | 2,537 | 6,484 | 4,933 | 81.19% |
| 2006 | 11,562 | 1,652 | 7,219 | 5,348 | 105.15% |
| 2007 | 14,205 | 5,095 | 4,666 | 5,042 | 198.81% |

Note: Details regarding the District's outstanding debt can be found in the Notes to the Basic Financial Statements.

**Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**
(dollars in thousands, except per capita)

Exhibit S-3C

| Fiscal Year | Governmental Activities | | | | | | | | | Personal Income | Total Debt as a Percentage of | | Total Debt Per Capita | Total "Tax Supported Debt" Per Capita** |
|-------------|--------------------------|-----------|------------------------------|-------------------------------|----------------|----------------|-----------|----------------|--------------|-----------------|-------------------------------|------------|-----------------------|---|
| | General Obligation Bonds | TIF Bonds | Qualified Zone Academy Bonds | Certificates of Participation | Capital Leases | Baseball Bonds | HPTF | Tobacco Bonds* | Total Debt | | Personal Income | Population | | |
| 1998 | \$ 3,091,403 | - | - | - | \$ 124,181 | - | - | - | \$ 3,215,584 | \$ 20,562,335 | 15.6% | 565,230 | \$ 5,689 | \$ 5,689 |
| 1999 | 3,098,582 | - | - | - | 132,189 | - | - | - | 3,230,771 | 21,114,995 | 15.3% | 571,042 | 5,658 | 5,658 |
| 2000 | 3,109,728 | - | - | - | 131,167 | - | - | - | 3,240,895 | 23,102,223 | 14.0% | 571,799 | 5,668 | 5,668 |
| 2001 | 2,582,017 | \$ 6,900 | - | - | 121,564 | - | - | \$ 521,105 | 3,231,586 | 25,525,115 | 12.7% | 577,648 | 5,594 | 4,692 |
| 2002 | 2,670,573 | 126,545 | \$ 3,582 | - | 157,057 | - | - | 514,280 | 3,472,037 | 25,786,286 | 13.5% | 579,190 | 5,995 | 5,107 |
| 2003 | 3,251,118 | 125,524 | 3,327 | \$ 129,530 | 90,458 | - | - | 506,550 | 4,106,507 | 26,913,785 | 15.3% | 577,467 | 7,111 | 6,234 |
| 2004 | 3,418,933 | 124,009 | 3,071 | 128,345 | 84,456 | - | - | 502,740 | 4,261,554 | 29,219,504 | 14.6% | 579,621 | 7,352 | 6,485 |
| 2005 | 3,632,198 | 117,525 | 2,815 | 120,760 | 76,390 | - | - | 498,740 | 4,448,428 | 31,194,523 | 14.3% | 582,049 | 7,643 | 6,786 |
| 2006 | 3,773,863 | 109,895 | 5,221 | 278,100 | 67,942 | \$ 534,800 | - | 742,284 | 5,512,105 | 33,355,583 | 16.5% | 585,459 | 9,415 | 8,147 |
| 2007 | 4,140,133 | 105,229 | 4,787 | 270,780 | 59,868 | 528,490 | \$ 34,105 | 737,069 | 5,880,461 | NA | N/A | 588,292 | 9,996 | 8,743 |

Note: There are no business type activities with outstanding debt.
 Convention Center bonds are neither reported nor included in this table.
 * Tobacco bonds are not supported by general tax revenues and are not included in the Total "Tax Supported Debt" Per Capita calculation.
 ** The prior year per capita amounts were updated to reflect the revised census population estimates.

Legal Debt Margin Information

Last Ten Fiscal Years

(dollars in thousands)

Debt Service Cost Margin Calculation for Fiscal Year 2007:

| | | | |
|--|----|----|-----------------------|
| General fund revenue | | \$ | <u>5,886,374</u> |
| Debt service cost limitation (17% of general fund revenue) | | | 1,000,684 |
| Debt expenditure applicable to limit: | | | |
| Principal | \$ | | 202,805 |
| Interest | | | <u>178,161</u> |
| Subtotal for current year | | | <u>380,966</u> |
| Highest future year debt service cost | \$ | | <u>406,161</u> |
| Total debt service cost subject to the limitation | | | 406,161 |
| Debt service cost margin | \$ | | <u><u>594,523</u></u> |

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|
| Debt service cost limitation | \$ 573,851 | \$ 608,902 | \$ 688,754 | \$ 718,024 | \$ 622,331 | \$ 627,516 | \$ 735,472 | \$ 823,558 | \$ 875,852 | \$ 1,000,684 |
| Highest future year debt service cost | 400,504 | 346,992 | 327,044 | 270,910 | 284,114 | 319,160 | 339,003 | 359,735 | 383,659 | 406,161 |
| Debt service cost margin | \$ 173,347 | \$ 261,910 | \$ 361,710 | \$ 447,114 | \$ 338,217 | \$ 308,356 | \$ 396,469 | \$ 463,823 | \$ 492,193 | \$ 594,523 |
| Total debt service cost subject to the limit as a percentage of debt service cost limit | 69.8 % | 57.0 % | 47.5 % | 37.7 % | 45.7 % | 50.9 % | 46.1 % | 43.7 % | 43.8 % | 40.6 % |
| Debt limit ratio | 15.8 % | 12.7 % | 9.7 % | 6 % | 7.8 % | 8.6 % | 7.8 % | 7.4 % | 7.4 % | 6.9 % |

Note: Under the District of Columbia Self-Government and Governmental Reorganization Act, no long term general obligation debt (other than refunding debt) may be issued during any fiscal year in an amount which would cause the amount of the principal and interest paid in any fiscal year on all long term debt to exceed 17 percent of the revenues of the fiscal year in which the debt is issued. The debt service percent is calculated using the highest fiscal year debt service divided by the total revenues. The debt service percent limitation was increased from 14 to 17 percent in fiscal year 1998 as a result of the National Capital Revitalization and Self-Government Improvement Act of 1997, accounting for the decrease in revenues from the repeal of the Federal payment in lieu of taxes and the loss of court revenues.

4. Demographic and Economic Information

These schedules offer demographic and economic data to help explain the environment within which the District's financial activities take place. This information also facilitates comparisons of financial statement information over time and among governments.

Demographic and Economic Statistics
Last Ten Fiscal Years

Exhibit S-4A

| Fiscal Year | Popula- tion (1) | Personal Income (2)(3) | Per Capita Income (2) | Median Age (1) | Employ- ment (4) | Unemploy- ment Rate (4) | Claims | |
|-------------|---------------------|---------------------------|--------------------------|-------------------|---------------------|----------------------------|--------------|--------------|
| | | | | | | | Accepted (5) | Rejected (5) |
| 1998 | 565,230 | \$ 20,562,335 | \$ 36,379 | 36.3 | 614,600 | 8.2% | 28,202 | 8,412 |
| 1999 | 571,042 | 21,114,995 | 37,030 | 37.2 | 620,600 | 6.9% | 22,440 | 7,475 |
| 2000 | 571,799 | 23,102,223 | 40,456 | 35.6 | 645,200 | 5.8% | 22,113 | 6,002 |
| 2001 | 577,648 | 25,525,115 | 44,210 | 35.7 | 654,400 | 6.0% | 18,189 | 6,514 |
| 2002 | 579,190 | 25,786,286 | 44,543 | 35.7 | 661,800 | 6.6% | 26,166 | 10,706 |
| 2003 | 577,467 | 26,913,785 | 46,606 | 35.7 | 665,900 | 7.0% | 21,527 | 7,342 |
| 2004 | 579,621 | 29,219,504 | 50,403 | 35.7 | 670,500 | 7.8% | 18,554 | 6,450 |
| 2005 | 582,049 | 31,194,523 | 53,594 | 35.7 | 677,900 | 7.5% | 17,223 | 6,074 |
| 2006 | 585,459 | 33,355,583 | 57,358 | 35.8 | 689,300 | 5.7% | 17,021 | 6,212 |
| 2007 | 588,292 | N/A | N/A | N/A | 695,900 | 5.8% | 17,111 | 5,918 |

N/A: Not Available

(1) Source: Federal Bureau of the Census (As of July 1 - Updated each year for all of the years after the 2000 census)

(2) Source: Federal Department of Commerce, Bureau of Economic Analysis (BEA). BEA does not incorporate the latest census population estimates in its calculation of per capita income. Updates are made each year to prior year numbers, which will not match prior year CAFR figures.

(3) In thousands

(4) Source: D.C. Department of Employment Services

(5) Source: D.C. Unemployment Compensation Office

Principal Employers
Current Year and Nine Years Ago **

Exhibit S-4B

| Employer | 2006 ** | | | 1997 | | |
|---------------------------------------|---------------|------|--------------------------|---------------|------|--------------------------|
| | Employees | Rank | % of Total Employment | Employees | Rank | % of Total Employment |
| Howard University | * | 1 | * | * | 4 | * |
| Georgetown University | * | 2 | * | * | 1 | * |
| The George Washington University | * | 3 | * | * | 2 | * |
| Washington Hospital Center | * | 4 | * | * | 3 | * |
| Children's National Medical Center | * | 5 | * | * | 6 | * |
| Fannie Mae | * | 6 | * | * | 10 | * |
| Georgetown University Hospital | * | 7 | * | * | 11 | * |
| American University | * | 8 | * | * | 12 | * |
| Providence Hospital | * | 9 | * | * | 9 | * |
| Howard University Hospital | * | 10 | * | * | 13 | * |
| Washington Post | * | 11 | * | * | 5 | * |
| George Washington University Hospital | * | 16 | * | * | 7 | * |
| Potomac Electric Power Company | * | 37 | * | * | 8 | * |
| Total | <u>48,386</u> | | <u>7.2%</u> | <u>47,250</u> | | <u>7.7%</u> |

* This data is produced through the Quarterly Covered Employment and Wage (QCEW) Program, a Bureau of Labor Statistics federal/state cooperative statistical program. Release of data under this program is subject to the Confidential Information Protection and Statistical Efficiency Act of 2002. The District cannot release company specific employment information without the written consent of each of the companies that are included in the release of such data. As a result, we are only presenting rank and total employment information for the top ten principal employers.

** 2007 data will not be available until fiscal year 2008

5. Operating Information

These schedules contain service and infrastructure data to better understand how the information in the District's financial reports relates to the services the District provides and the activities it performs.

**Operating Indicators by Function/Program
Last Ten Fiscal Years**

Exhibit S-5A

| Function/Program | Operating Indicators | | | | | | | | | |
|--|----------------------|------------|------------|------------|------------|------------|--------------|--------------|--------------|--------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| <u>GOVERNMENTAL DIRECTION AND SUPPORT</u> | | | | | | | | | | |
| Bond rating by S&P | BB | BBB | BBB | BBB+ | BBB+ | A- | A | A+ | A+ | A+ |
| Bond rating by Moody's | Ba1 | Baa3 | Baa3 | Baa1 | Baa1 | Baa1 | A2 | A2 | A2 | A1 |
| Bond rating by Fitch | BB+ | BBB | BBB | BBB+ | BBB+ | A- | A- | A | A | A+ |
| <u>ECONOMIC DEVELOPMENT AND REGULATION</u> | | | | | | | | | | |
| Taxable retail sales (\$ millions) | \$ 6,892 | \$ 7,730 | \$ 8,298 | \$ 7,367 | \$ 7,485 | \$ 7,683 | \$ 8,343 | \$ 10,487 | \$ 10,051 | \$ 9,971 |
| Commercial construction units | 127 | 45 | 36 | 38 | 59 | 59 | 115 | 125 | 121 | 173 |
| Value | \$ 343,121 | \$ 362,692 | \$ 301,372 | \$ 889,830 | \$ 919,252 | \$ 418,049 | \$ 1,720,869 | \$ 1,466,587 | \$ 1,366,931 | \$ 1,300,454 |
| Residential construction units | 165 | 40 | 42 | 422 | 448 | 499 | 506 | 861 | 815 | 664 |
| Value | \$ 35,851 | \$ 6,746 | \$ 8,217 | \$ 100,366 | \$ 102,861 | \$ 68,931 | \$ 117,803 | \$ 192,609 | \$ 186,685 | \$ 182,298 |
| <u>Housing Finance Agency</u> | | | | | | | | | | |
| Number of Single-Family Units Financed | 314 | 486 | 527 | 503 | 161 | 5 | 0 | 0 | 67 | 273 |
| Amount of Single-Family Financing Provided (\$ 000s) | \$ 31,217 | \$ 56,200 | \$ 67,922 | \$ 61,300 | \$ 19,600 | \$ 612 | \$ 0 | \$ 0 | \$ 16,820 | \$ 59,070 |
| Number of Multi-Family Units Financed | 736 | 1,509 | 1,115 | 1,555 | 1,893 | 1,237 | 525 | 7,623 | 1,165 | 1,198 |
| Amount of Multi-Family Financing Provided (\$ 000s) | \$ 53,160 | \$ 70,870 | \$ 45,647 | \$ 98,534 | \$ 101,205 | \$ 76,358 | \$ 36,051 | \$ 133,510 | \$ 71,543 | \$ 118,978 |
| Total Number of Housing Units Financed | 1,050 | 1,995 | 1,642 | 2,058 | 2,054 | 1,242 | 525 | 7,623 | 1,232 | 1,471 |
| Total Amount of Housing Financing Provided (\$ 000s) | \$ 84,377 | \$ 127,070 | \$ 113,569 | \$ 159,834 | \$ 120,805 | \$ 76,970 | \$ 36,051 | \$ 133,510 | \$ 88,363 | \$ 178,048 |
| <u>PUBLIC SAFETY AND JUSTICE</u> | | | | | | | | | | |
| <u>Police</u> | | | | | | | | | | |
| Crime Index Offenses | 48,819 | 42,671 | 39,651 | 40,305 | 40,213 | 39,797 | 36,246 | 32,678 | 32,311 | 33,043 |
| Number of Police Officers | 3,537 | 3,484 | 3,599 | 3,601 | 3,666 | 3,711 | 3,800 | 3,800 | 3,800 | 3,907 |
| <u>Fire</u> | | | | | | | | | | |
| Number of Fire Fighters | 1,206 | 1,179 | 1,204 | 1,282 | 1,294 | 1,388 | 1,426 | 1,500 | 1,536 | 1,586 |
| Number of Fire Alarms | 146,457 | 155,497 | 115,601 | 125,371 | 118,416 | 119,582 | 119,846 | 187,242 | 161,361 | 153,778 |
| Inspections | 34,978 | 18,595 | 22,983 | 23,923 | 20,303 | 13,055 | 26,703 | 29,072 | 28,636 | 19,282 |
| <u>EMS</u> | | | | | | | | | | |
| Number Emergency Medical Personnel | 304 | 328 | 321 | 331 | 354 | 377 | 342 | 331 | 264 | 232 |
| Number of Emergency Responses | 70,196 | 72,337 | 71,998 | 75,008 | 86,175 | 89,817 | N/A | 114,823 | 149,395 | 339,400 |
| <u>PUBLIC LIBRARY</u> | | | | | | | | | | |
| Number of Volumes | 2,562,452 | 2,562,452 | 2,756,244 | 2,715,332 | 2,721,119 | 2,609,062 | 2,559,601 | 2,333,957 | 2,873,518 | 3,037,696 |

Operating Indicators by Function/Program
Last Ten Fiscal Years
(Continued)

Exhibit S-5A

| Function/Program | Operating Indicators | | | | | | | | | |
|--|----------------------|-----------|-----------|-----------|---------|-----------|-----------|-----------|---------|-----------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| <u>PUBLIC EDUCATION SYSTEM</u> | | | | | | | | | | |
| <u>D.C. Public School System</u> | | | | | | | | | | |
| Number of School Teachers | 5,482 | 5,267 | 5,030 | 4,850 | 4,938 | 4,365 | 5,206 | 4,938 | 4,614 | 4,509 |
| Number of School Students | 77,111 | 71,899 | 70,762 | 68,925 | 67,522 | 65,093 | 62,306 | 62,306 | 56,943 | 52,945 |
| Number of High School Graduates | 2,777 | 2,675 | 2,695 | 2,808 | 2,894 | 2,723 | 2,740 | 2,680 | 2,450 | 2,489 |
| <u>University of the District of Columbia</u> | | | | | | | | | | |
| Number of Teachers | N/A | 233 | 223 | N/A | 260 | 260 | 208 | 219 | 215 | 242 |
| Number of Students | 5,284 | 5,181 | 5,358 | 5,456 | 5,468 | 5,241 | 5,424 | 5,364 | 5,772 | 5,612 |
| Number of Graduates | 692 | 576 | 581 | 511 | 466 | 483 | 508 | 503 | 573 | 475 |
| <u>PUBLIC WORKS/PUBLIC TRANSPORTATION</u> | | | | | | | | | | |
| Street Resurfaced (includes reconstruction); regular cover; pavement restoration (miles) | 31.8 | 31.9 | 39.4 | 78.8 | 103.1 | 27.8 | 36.5 | 90.0 | 65.2 | 52.3 |
| Potholes Repaired | N/A | N/A | 5,354 | 5,802 | 7,005 | 7,679 | 9,177 | 5,272 | 3,649 | 6,262 |
| Refuse collected (tons per day) | 538 | 505 | 526 | 466 | 491 | 511 | 506 | 485 | 425 | 406 |
| Recyclables collected (tons per day) | * 0 | 80 | 79 | 82 | 78 | 83 | 84 | 85 | 86 | 95 |
| Tons of Bulk Trash Removed | N/A | N/A | N/A | N/A | 4,898 | 4,994 | 5,362 | 4,956 | 4,610 | 4,831 |
| Tons of Leaves Removed | N/A | N/A | N/A | N/A | 8,983 | 8,014 | 6,651 | 9,569 | 9,588 | 7,834 |
| Tons of Snow Removed | 1,994 | 2,313,133 | 3,070,883 | 1,475,619 | 638,106 | 8,056,083 | 2,472,659 | 880,000 | 855,712 | 661,050 |
| * In FY 1998 recycling was suspended. | | | | | | | | | | |
| <u>Department of Motor Vehicles</u> | | | | | | | | | | |
| Number of motor vehicle registrations (1/1 - 12/31) | 270,242 | 237,832 | 288,866 | N/A | 231,848 | 235,907 | 243,874 | 250,602 | 260,662 | 271,243 |
| Number of operator licenses issued (1/1 - 12/31) | 102,095 | 120,755 | 148,216 | N/A | 70,491 | 78,022 | 96,760 | 80,765 | 90,456 | 117,902 |
| Number of operator licenses outstanding (1/1 - 12/31) | N/A | N/A | N/A | N/A | N/A | 241,304 | 237,526 | 314,650 | 357,569 | 396,193 |
| <u>D.C. WATER AND SEWER AUTHORITY</u> | | | | | | | | | | |
| Number of Customer locations | 130,920 | 130,000 | 127,882 | 124,749 | 130,000 | 122,502 | 122,802 | 123,062 | 123,465 | 124,109 |
| Average daily water consumption (MGD) | 133 | 139 | 134 | 132 | 135 | 86 | 87 | 86 | 87 | 87 |
| Daily maximum sewer capacity (MGD) | 740 | 740 | 740 | 740 | 1,076 | 370 | 370 | 370 | 370 | 370 |
| Peak 4 Hour Flow, through complete process (MGD) | 740 | 740 | 740 | 740 | 740 | 740 | 740 | 740 | 740 | 740 |
| Excess Storm Flow, primary treatment only (MGD) | 336 | 336 | 336 | 336 | 336 | 336 | 336 | 336 | 336 | 336 |
| Peak Flow (MGD) | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 | 1,076 |
| <u>CONVENTION CENTER</u> | | | | | | | | | | |
| Conferences held | 115 | 139 | 116 | 165 | 162 | 163 | 201 | 185 | 106 | 151 |
| Attendees | 989,787 | 840,590 | 935,763 | 985,196 | 915,088 | 891,008 | 1,023,072 | 1,153,250 | 935,485 | 1,028,953 |

N/A: Not Available

**Capital Asset Statistics by Function/Program
Last Ten Fiscal Years**

Exhibit S-5B

| Function/Program | Fiscal Years | | | | | | | | | |
|--|--------------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| <u>Police</u> | | | | | | | | | | |
| Police Stations Including Satellites | 10 | 11 | 13 | 13 | 14 | 14 | 16 | 16 | 16 | 16 |
| Number of Patrol Cars | N/A | N/A | N/A | N/A | N/A | N/A | 1,207 | 1,199 | 1,234 | 1,222 |
| <u>Fire</u> | | | | | | | | | | |
| Number of Fire stations | 33 | 33 | 34 | 34 | 34 | 34 | 34 | 34 | 33 | 34 |
| Number of Fire Fighting Equipment | 62 | 62 | 70 | 78 | 78 | 91 | 92 | 92 | 107 | 130 |
| <u>EMS</u> | | | | | | | | | | |
| Number of Ambulances | 57 | 57 | 53 | 53 | 53 | 65 | 62 | 62 | 91 | 78 |
| <u>D.C. Public School System</u> | | | | | | | | | | |
| Schools | 149 | 149 | 146 | 146 | 146 | 147 | 147 | 165 | 144 | 144 |
| Number of school buses | N/A | N/A | N/A | N/A | N/A | N/A | 650 | 669 | 712 | 727 |
| <u>Public Library</u> | | | | | | | | | | |
| Number of Main and Branch Buildings | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 |
| Number of Community and Kiosk Facilities | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| <u>Parks and Recreation</u> | | | | | | | | | | |
| Acreage | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 832 | 836 |
| Number of Recreation & Community Centers | 77 | 77 | 77 | 77 | 78 | 75 | 75 | 72 | 70 | 73 |
| Number of Day Camps | 3 | 3 | 3 | 3 | 78 | 57 | 70 | 51 | 86 | 86 |
| Number of Outdoor Swimming Pools | 34 | 35 | 35 | 35 | 22 | 32 | 27 | 26 | 24 | 26 |
| Number of Indoor Swimming Pools | 7 | 6 | 7 | 7 | 7 | 6 | 6 | 8 | 6 | 8 |
| <u>Public Works/Public Transportation</u> | | | | | | | | | | |
| Number of Refuse collection trucks | 52 | 52 | 52 | 52 | 52 | 52 | 52 | 71 | 71 | 77 |
| Primary Street Miles | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 |
| Secondary Street Miles | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 | 1,007 |
| Number of Street Lights | 66,429 | 66,507 | 76,565 | 64,349 | 66,089 | 66,570 | 66,562 | 66,650 | 66,630 | 68,000 |
| Number of Signalized Intersections | 1,504 | 1,510 | 1,519 | 1,519 | 1,529 | 1,533 | 1,534 | 1,538 | 1,563 | 1,570 |
| Number of Trees | N/A | N/A | N/A | N/A | 106,000 | 110,000 | 114,000 | 118,000 | 120,934 | 128,540 |
| <u>D.C. Water & Sewer Authority</u> | | | | | | | | | | |
| Miles of water mains | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 |
| Miles of sewer mains | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 | 1,800 |

Full-Time Equivalent General Fund District Government Employees by Function/Program *
Last Ten Fiscal Years
(Year ended Sept 30)

Exhibit S-5C

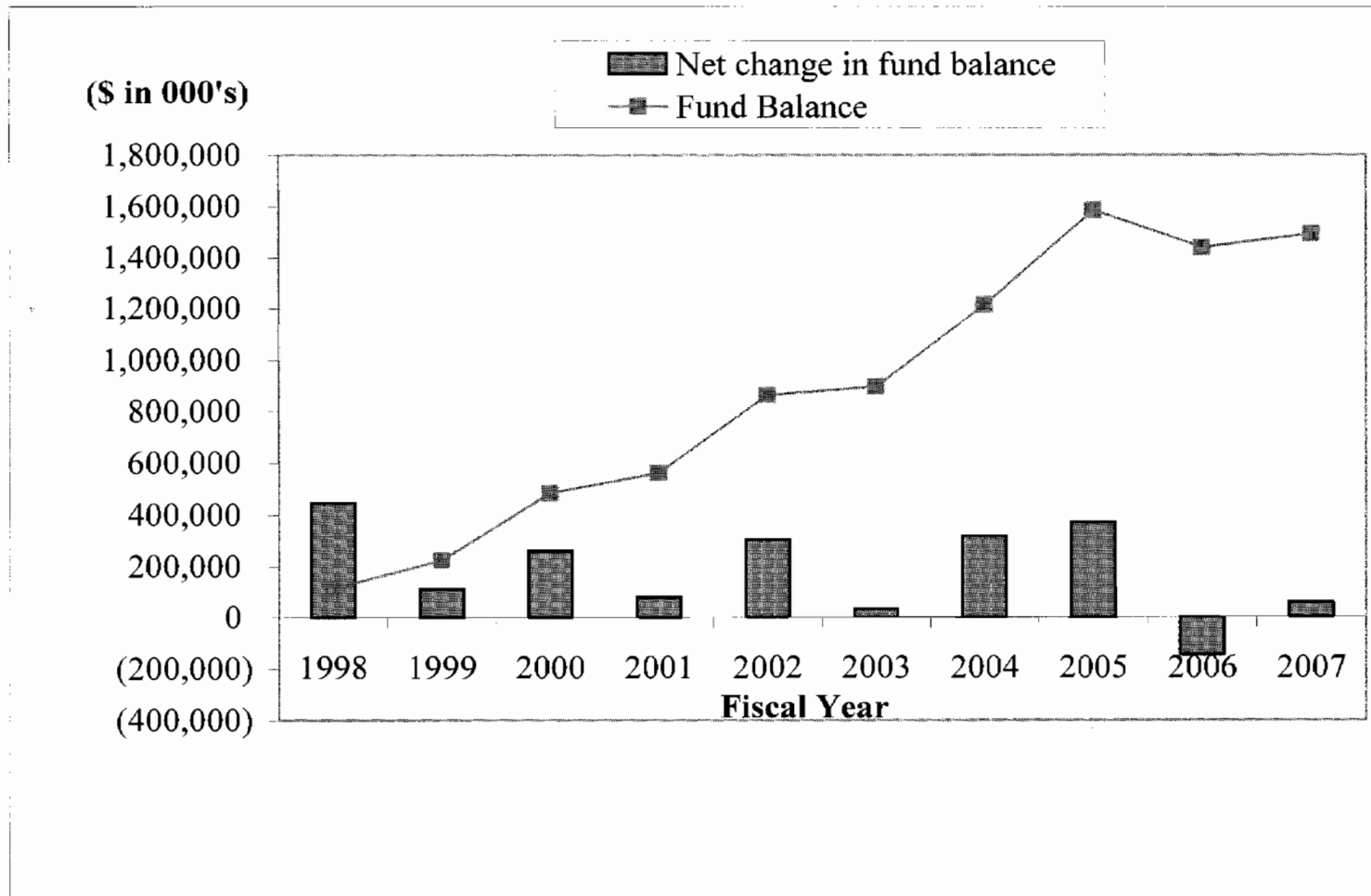
| Function/Program | Full-time Equivalent District Government Employees | | | | | | | | | |
|-------------------------------------|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 ** |
| Governmental direction and support | 1,700 | 2,187 | 1,953 | 2,659 | 2,647 | 2,417 | 2,358 | 2,419 | 2,475 | 2,613 |
| Economic development and regulation | 584 | 1,014 | 1,205 | 597 | 556 | 538 | 1,000 | 986 | 1,104 | 1,157 |
| Public safety and justice | 8,738 | 8,548 | 8,244 | 7,328 | 7,169 | 7,379 | 7,547 | 7,963 | 7,919 | 8,234 |
| Public education system | 8,636 | 8,495 | 9,662 | 10,824 | 11,344 | 10,818 | 10,770 | 9,211 | 9,714 | 9,367 |
| Human support services | 3,224 | 3,086 | 4,666 | 1,957 | 4,095 | 4,280 | 4,211 | 4,555 | 4,611 | 4,571 |
| Public works | 2,225 | 1,235 | 1,718 | 2,071 | 1,585 | 1,454 | 1,624 | 1,752 | 1,789 | 1,889 |
| Total | 25,107 | 24,565 | 27,448 | 25,436 | 27,396 | 26,886 | 27,510 | 26,886 | 27,612 | 27,831 |

* Full-time equivalent general fund District Government employees by function/program is obtained from the District's annual "Proposed Budget and Financial Plan".

** The statistics for FY 2007 were obtained from the Plan's "Executive Summary, Exhibit P - FY 2007 Proposed Full-Time Equivalent Employment Authority - General Funds."

Exhibit S-5D

General Fund Fund Balance Trend Chart





Government of the District of Columbia

Office of the Chief Financial Officer

OFFICE OF THE CHIEF FINANCIAL OFFICER

Room 203, John A. Wilson Building

1350 Pennsylvania Avenue, NW

Washington, DC 20004

TEL 202.727.2476

FAX 202.727.1643

<http://cfo.dc.gov>

PHOTOS

Ernest Grant

CFO's Office of Communications

YEAR ENDED SEPTEMBER 30, 2007