

Citizen's 2009

FINANCIAL REPORT

Year Ended September 30, 2009



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



ADRIAN M. FENTY
Mayor



NATWAR M. GANDHI
Chief Financial Officer

March 17, 2010

Dear Citizens of the District of Columbia:

We are pleased to present to you the Citizen's Financial Report on the financial condition of the Government of the District of Columbia (District). The purpose of this report, which is referred to as the Popular Annual Financial Report (PAFR), is to summarize the financial information presented in the District of Columbia's Fiscal Year 2009 Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and is independently audited. This PAFR is intended to simplify but not replace the CAFR.

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

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

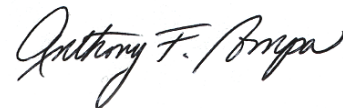
Respectfully submitted,



Adrian M. Fenty
Mayor



Natwar M. Gandhi
Chief Financial Officer



Anthony F. Pompa
Deputy CFO
Financial Operations & Systems



**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

PRESENTED TO

District of Columbia

for the Fiscal Year Ended

September 30, 2008



President

Jeffrey L. Esser
Executive Director

District of Columbia Citizen's Financial Report



Fiscal Year Ended September 30, 2009

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Introduction

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

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

The **fiscal year (FY)** of the District begins on October 1 and ends on September 30. This report presents summary financial information for the District's fiscal year ended September 30, 2009, in a more understandable format and language that includes fewer technical tables than are presented in the CAFR. Below are some explanations to assist you:

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

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

Glossary: Certain technical financial terms must be used to accurately present the financial information in this report. For that reason, a Glossary is included on pages 20 and 21 to provide definitions of these technical terms.

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

A copy of the District's FY 2009 CAFR or PAFR may be obtained from:

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

The FY 2009 CAFR and PAFR may also be viewed on the District's web site at: www.cfo.dc.gov .

Financial Reporting Entity

The financial reporting entity of the District includes all of the government's agencies and its five (5) discretely presented **component units**. However, this popular report does not include financial information for the District's component units. For additional information on these component units, please refer to the contact information below:

DC Sports and Entertainment Commission
 General Manager
 Walter E. Washington Convention Center Authority
 801 Mount Vernon Place, N.W.
 Washington, D. C. 20001
 202-249-3000

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

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

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

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

Elected Officials
 September 30, 2009

Name	Position	First Took Office	Term Expires
Chief Executive Officer			
Adrian M. Fenty	Mayor	2007	2011
Council			
Vincent C. Gray	Chairman	2007	2011
Kwame R. Brown	At Large	2005	2013
Michael A. Brown	At Large	2009	2013
David A. Catania	At Large	1997	2011
Phil Mendelson	At Large	1999	2011
Jim Graham	Ward 1	1999	2011
Jack Evans	Ward 2	1991	2013
Mary C. Cheh	Ward 3	2007	2011
Muriel Bowser	Ward 4	2007	2013
Harry Thomas, Jr.	Ward 5	2007	2011
Tommy Wells	Ward 6	2007	2011
Yvette M. Alexander	Ward 7	2007	2013
Marion Barry, Jr.	Ward 8	2005	2013
House of Representatives			
Eleanor Holmes Norton	Delegate	1991	2011

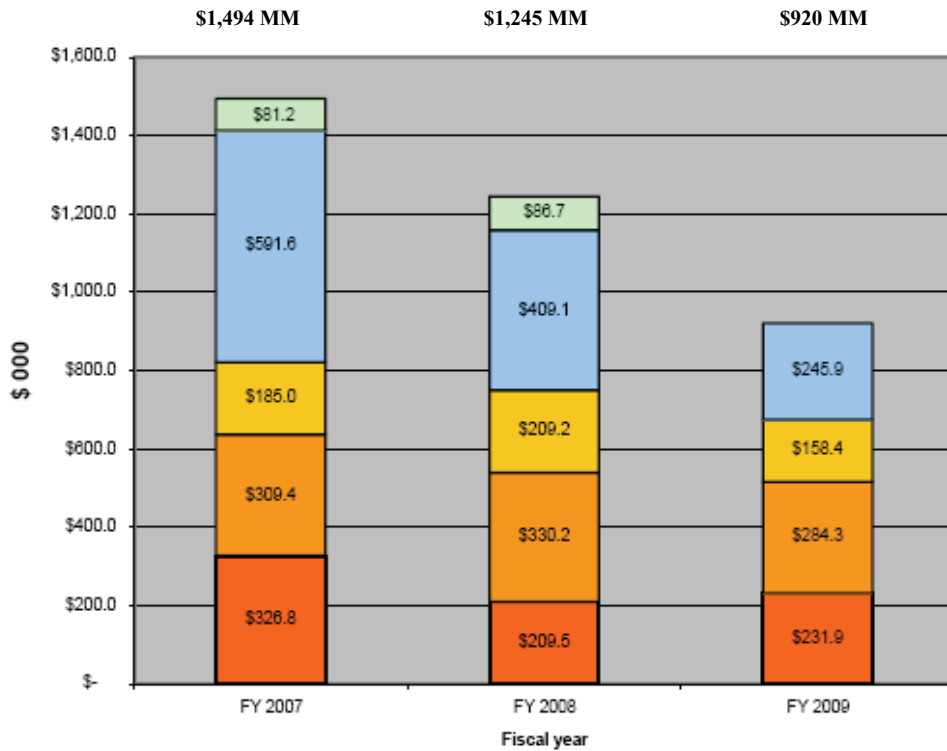
Financial Condition

FY 2009 Highlights:

- The District again earned an **unqualified** or **“clean” audit opinion** on its financial statements.
- This is the 13th consecutive balanced budget.
- The **General Fund**, which accounts for all taxes, fees and charges for services, ended the year with a budgetary surplus of \$139.9 million.
- The District’s general obligation bond ratings remained steady at: **A+** for *Standard & Poor’s*; **A1** for *Moody’s Investors Service*; and **A+** for *Fitch Ratings*.
- The District’s new income tax secured revenue bonds were rated as follows: **AAA** by *Standard & Poor’s*; **Aa2** by *Moody’s Investors Service*; and **AA** by *Fitch Ratings*.
- The General Fund showed an accumulated **fund balance** of \$920.5 million, which includes \$284.3 million in an emergency/contingency cash reserve. The fund balance is down from the previous \$1.2 billion reported in FY 2008, but still a solid figure and far better than many other state and local governments.
- The District is restricted by law to spend no more than 17% of total general fund revenues for general obligation **debt service** each year. However, the actual debt service for FY 2009 was only 6.9% of total revenues, or about 40.7% of the debt service ceiling.
- Effective in FY 2009, the District self imposed a more stringent annual debt service limit of 12% of general fund expenditures on all District bonds.

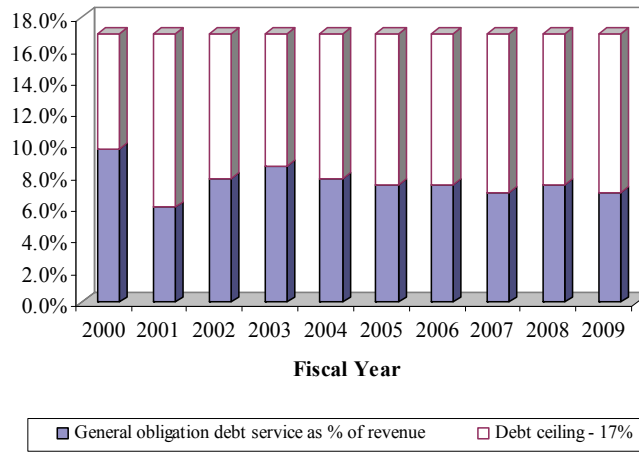
FY 2009 General Fund Budgetary Surplus			
(\$ in millions)			
	Revised Budget	Actual	Variance
Revenues			
Taxes	\$ 4,797.7	\$ 4,854.4	\$ 56.7
Non Taxes	788.0	807.9	19.9
Fund Balance Release	574.1	476.6	(97.5)
All other general fund sources	121.1	99.1	(22.0)
Total revenues	\$ 6,280.9	\$ 6,238.0	\$ (42.9)
Expenditures			
FY2009	\$ 6,173.2	\$ 5,995.4	
FY2010 Advance to Public Education	102.7	102.7	
Total expenditures	\$ 6,275.9	\$ 6,098.1	
	SURPLUS	\$ 139.9	

Composition of General Fund Balance FY 2007 – FY 2009



	Unreserved & Undesignated
	Policy Decisions Reserved Designated
	Reserved by External Factors
	Emergency/Contingency Cash Reserve
	Reserve for Debt Service

General Obligation Debt Service as a Percentage of Revenues



Economic Condition

The impact of the continuing U.S. recession on the District's economy showed mixed results in fiscal year 2009.

- Sales and use taxes collected were \$1.05 billion, a 4.8% decrease over the \$1.1 billion collected in 2008.
- Property taxes collected were \$1.9 billion, a 5.6% increase over the \$1.8 billion collected in 2008.
- Total taxable property value was \$153.0 billion, a 7% increase over the \$143.0 value in 2008.
- The real property market showed some signs of recovery in FY 2009:
 - Sales of single family houses increased by 17%, reversing four years in a row of declining total sales.
 - Condominium sales decreased by 2.5%.
 - The amount of commercial office space increased by 3.1%, however, the vacancy rate increased to 10.2% in FY 2009 compared to 6.6% in FY 2008.

The District is a diverse economic community which hosts more than 188 foreign embassies and recognized diplomatic missions. More than 400 museums and historical landmarks attract millions of visitors to the District each year. In calendar year 2008, approximately 15.2 million domestic visitors and 1.4 million international visitors traveled to the District. The 2009 calendar year visitor figures are not yet available. The District was the eighth most visited destination in the U.S. for international travelers. Visitors to the District continue to sustain the local and regional economy. The District's hospitality industry generated an estimated \$5.64 billion in visitor spending on hotels, retail, transportation and entertainment in 2008, which was an increase of 1.0% over the prior year. Hotel occupancy was approximately 74% at September 30, 2009. Travel and tourism supports more than 71,000 full-time jobs in the District, generating approximately \$2.7 billion in wages.

Structural Imbalance

In May 2003, the United States Government Accountability Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*" to address the District's known **structural imbalance**. The District provides, without any tax benefit, for the presence of the federal government and numerous non-profit organizations. The inability to tax revenue earned by non-residents, and the inability to tax federal properties, tax-exempt properties, and non-profit international entities put a severe strain on the District's limited resources.

Highlights from the report are listed below:

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

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

Population Trends

Population estimates are published each year for the current and past data. In July of each year, new estimates are released from the U.S. Census Bureau, and estimates for earlier years are revised. On July 1, 2009, the U.S. Census Bureau estimated that there were 599,657 residents in the District. This represents an increase of 9,583, or 1.6% from the revised July 1, 2008 estimate of 590,074.

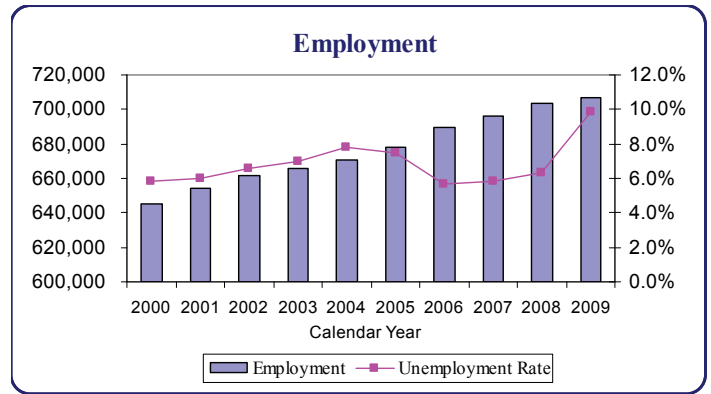
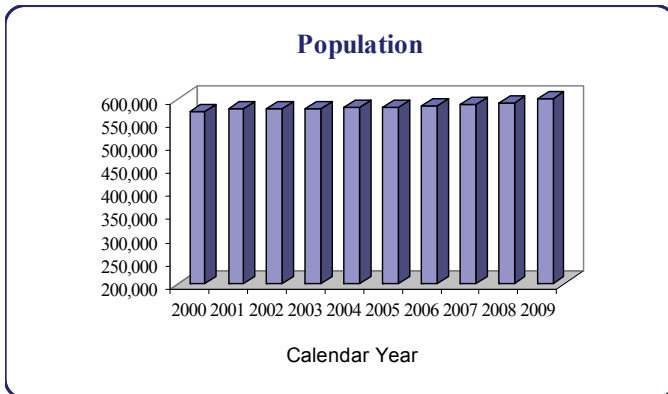
The Census Bureau estimates are determined from births, deaths, changes in tax return filings and estimates of the number of immigrants who move into the District each year. These estimates are used in federal funding allocations and in monitoring recent demographic changes.

Employment Trends

Total employment within the District increased slightly to 703,700 as of September 2009 from the revised 703,600 as of September 2008.

The unemployment rate in the District increased to 9.9% in FY 2009, compared to 6.3% in FY 2008.

As the nation's capital, Washington, D.C. is headquarters for most federal government departments and agencies. The total September 2009 federal workforce in the Washington metropolitan area totaled 360,900; with approximately 199,900 federal employees located in Washington, D.C. and 161,000 additional federal employees who worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer employees than 15 to 20 years ago, new business operations, especially in the service industry, have filled the void and strengthened the local economy. Increased spending by the Department of Homeland Security and the Department of Defense is also helping to stabilize federal employment in the region.



Minimum Wage

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 increased to \$7.55 per hour on July 24, 2008 and increased to \$8.25 per hour on July 24, 2009.

Neighborhood Revitalization

Reopening of Eastern Market

In June 2009, the District celebrated the grand reopening of the historic Eastern Market. The event marks the completion of a \$22 million renovation after a fire partially damaged the market in April 2007. All of the original vendors that served the community at Eastern Market prior to the fire have returned.

Located in the historic district of Capitol Hill, Eastern Market is the oldest continually operating market in the District which offers residents and tourists daily produce, meat, cheese and bakery vendors, a weekend farmers market and craft sales while also operating as an informal community center. The renovated market now has modern heating and air conditioning systems, free Wi-Fi internet access, new restrooms and sprinklers, and access ramps to comply with the Americans with Disabilities Act. The skylights and chimneys have been restored and new windows have been installed that protect against ultraviolet (UV) light.

To reduce energy costs, the interior lights can be dimmed to adjust to days of sufficient natural light. One of the most notable improvements to the newly renovated Eastern Market is new technology that will help avert a large-scale fire-related disaster from occurring in the future. A new fire monitoring system operates 24 hours a day and is programmed to automatically call 911 if a fire ever occurs on site.



Interior of Eastern Market on the weekend of grand reopening, June 2009.

DC Streetcar

During the first half of the twentieth century, the District had a robust streetcar network with more than 200 miles of track. But, like many US cities, the District shelved the streetcars in favor of buses and the last day of streetcar service in the city was January 28, 1962. Almost 50 years later, the return of streetcars is now within sight. The District Department of Transportation (DDOT) has started construction of a new 1.5-mile streetcar line in Anacostia that is expected to be in service by the fall of 2012. Tracks are being laid on H Street and Benning Road, and planning is underway for additional segments across the city.



14th St, NW, circa 1935 - A streetcar passes the once ubiquitous Peoples Drug Store on 14th Street, NW, one of the District's busiest streetcar lines, circa 1935.

The modern streetcars purchased by the District were manufactured by Skoda-Inekon in Plzen of the Czech Republic. In late 2009, the vehicles were shipped to the Port of Baltimore and then to the Metro Yard in Greenbelt, Maryland where they are currently stored, maintained and tested.

These cars are about 8 feet wide and 66 feet long, about 10 inches narrower and 1/3 the length of a light rail double car train. They are able to operate in mixed traffic and easily accommodate existing curbside parking and loading.

The streetcar will make it easier for residents to move between neighborhoods and will also spur economic development.



The Modern DC Streetcar

The Great Streets Initiative

The Great Streets Initiative is a partnership among the District Department of Transportation, the Office of the Deputy Mayor for Planning and Economic Development, the Office of Planning, the Department of Parks and Recreation, and Neighborhood Service Coordinators that targets major boulevards in the city to: improve the condition and function of the streets and roadways; promote local business enterprises; and improve neighborhood quality of life.

The targeted corridors:

- *7th Street & Georgia Ave., N.W.*
- *Benning Road, N.E.*
- *H Street, NE*
- *Martin Luther King, Jr. Avenue & South Capitol Street*
- *Pennsylvania Avenue, S.E.*
- *Minnesota Avenue*
- *Nannie Helen Burroughs Ave*

New Communities Initiative

The New Communities Initiative is a comprehensive partnership between the District government, neighborhoods, and other public and private stakeholders. The initiative focuses on neighborhoods where older public housing developments are located and where high concentrations of poverty and crime exist. The goal of the initiative is to redevelop the neighborhoods into healthy, vibrant communities for current and future residents.

The four new communities are:

1. *BarryFarm/Park Chester/Wade Road*
2. *Lincoln Heights/Richardson Dwellings*
3. *Northwest One*
4. *Park Morton*

Anacostia Waterfront Initiative

The Anacostia Waterfront Initiative is a multi-agency effort to revitalize the areas around the waterfront of the Anacostia River, transforming them into a hub of economic development and community revitalization. The Anacostia Waterfront Initiative is one of the most ambitious development plans in the District's history. In partnership with 19 regional and federal agencies, this \$8 - \$10 billion project, which will span approximately 30 years, will promote: environmentally responsible development; transformation of the many diverse waterfront areas into commercial, residential, recreational, and open-space uses; development and conservation of park areas; and increased access to the waterfront, surrounding communities, and business corridors.

Projects in Development

Waterfront Station

Waterfront Station is a new 2.5 million square foot mixed-use project on the site of the former Waterside Mall located at M and 4th Streets, Southwest. The \$760 million Waterfront Station will ultimately consist of 1.2 million square feet of new office space, about 1,000 new residential units, underground parking and a minimum of 110,000 square feet of retail space. The Waterfront-SEU Metrorail station is adjacent to the project site and the office buildings have been designed and are being constructed to LEED Silver standards.

The office component is fully leased to the District of Columbia. It will house employees of the Office of Chief Financial Officer, Office of Planning, District Department of Transportation and Department of Consumer and Regulatory Affairs. The retail component will include two existing retailers on the site—Safeway and CVS—along with several additional, new dining and neighborhood service-related retail tenants. In all, approximately 85,000 square feet of retail space will open as a part of the project's first phase. The buildings are expected to be completed in March 2010.



Architect rendering of the new Waterfront Station

The Convention Center Headquarters Hotel

The District and Marriott International are partnering to build a 1,167-room Marriott Marquis convention center headquarters hotel that will support the District's world-class Walter E. Washington Convention Center. This project is vital to the long-term success of the convention center and the District's robust hospitality industry.

In July 2009, the Council approved the public financing component for the hotel's construction. When completed, the new 4-Star Marriott Marquis hotel will include approximately 100,000 square feet of meeting space, a 30,000 square foot ballroom and two junior ballrooms, and an approximately 400 space underground parking garage. The hotel is slated to open during the first quarter of 2013.

CityCenterDC

CityCenterDC is an \$850 million retail, residential, and office project located on the site of the former Washington Convention Center, at 9th, H, and 11th Streets, and New York Avenue, N.W. The project will revitalize the vacant 10-acre area by creating 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; and 465,000 square feet of office space, parks, and entertainment areas.

This project is expected to: (1) generate 3,842 construction jobs and 3,885 direct permanent jobs; (2) generate more than \$30 million a year in direct tax revenues; (3) provide affordable housing for 20% of all units; 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.

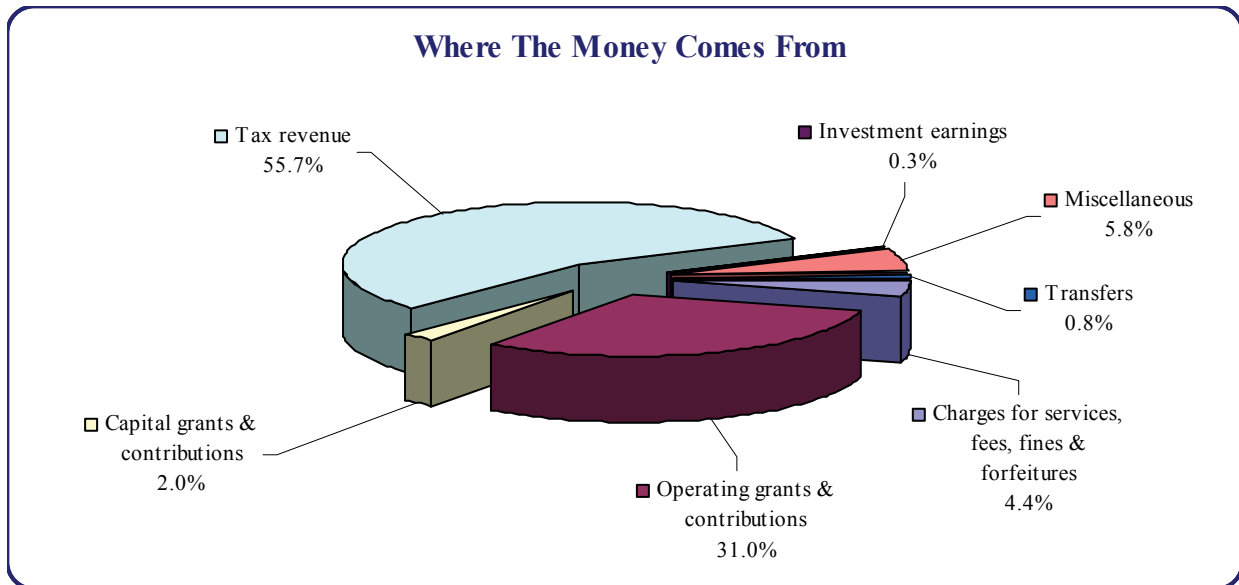
Financial Resources

District-Wide Revenues

The majority of the District's funds come from the collection of taxes which represented 56.1% of total revenues in FY 2009. This was a 5.8% decline compared to total revenues collected in FY 2008 due to the continuing national recession. The District collected over \$1.05 billion in Sales and Use taxes in FY 2009, which was \$50 million less than in FY 2008.

The District also collected \$1.95 billion in Property taxes, \$1.48 billion in Income and Franchise taxes, and \$0.67 billion in other taxes in FY 2009.

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

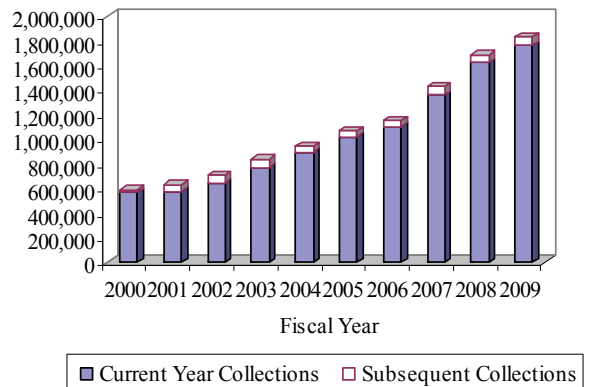


Real Property Tax

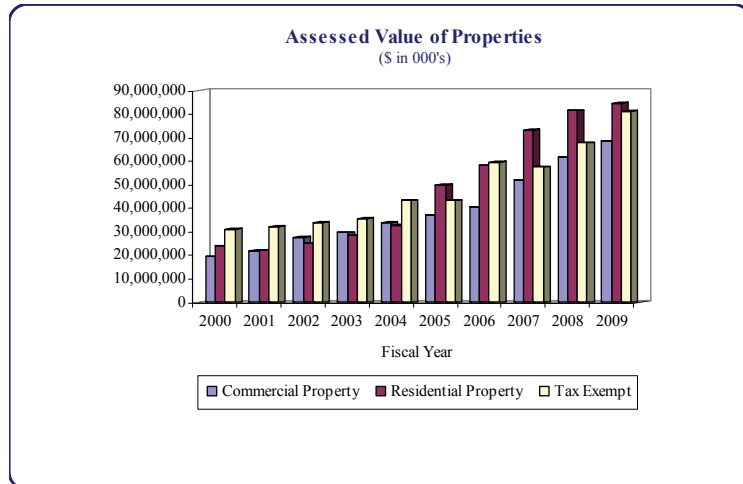
The increase in real property tax collections reflects the strength of the District's real estate market. As the demand for residential and commercial real estate soared in the last several years, prices climbed steeply, resulting in higher assessments and increased tax revenue. However, the slowdown in both the U.S. and District economies will result in increased pressure on the District's FY 2010 tax collections.

Real Property Tax Collections

(\$ in 000's)



The total assessed value of all taxable commercial and residential properties in the District at September 30, 2009 was \$153 billion compared with \$143 billion in the prior year. Tax-exempt properties accounted for \$81.2 billion or 34.7% of the total estimated actual values of \$234.2 billion in FY 2009.



General Fund Budget

The General Fund is the chief budgetary operating fund of the primary government. Total General Fund Revenues and Sources were originally budgeted to be \$6.4 billion. This budgeted amount was subsequently revised to \$6.3 billion, representing a decrease of \$(84.5 million). Total General Fund Expenditures and Uses for fiscal year 2009 were originally budgeted as \$6.4 billion. This budgeted amount was subsequently revised to \$6.3 billion, representing a decrease of \$(88.0 million). General Fund revenues are derived from local and other sources. More than 90% of the revenues and expenditures of the General Fund relate to funding derived through local sources.

FY 2009 General Fund Budget - Local and Other Sources
(\$ in 000's)

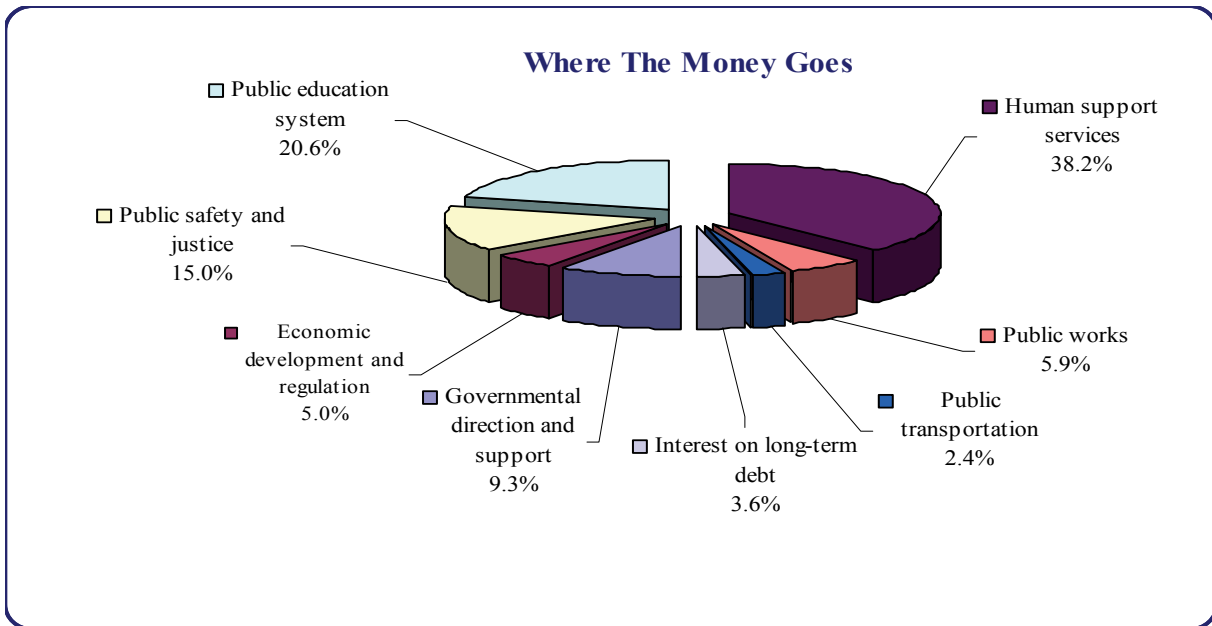
	Local Source			Other Source			Totals		
	Original	Revised	Actual	Original	Revised	Actual	Original	Revised	Actual
Revenue and Sources	\$ 5,833,868	\$ 5,769,233	\$ 5,753,651	\$ 531,526	\$ 511,658	\$ 484,333	\$ 6,365,394	\$ 6,280,891	\$ 6,237,984
Expenditures and Uses	5,832,415	5,764,270	5,712,923	531,526	511,658	385,139	6,363,941	6,275,928	6,098,062
Excess of Revenues and Sources Over Expenditures and Uses	\$ 1,453	\$ 4,963	\$ 40,728	\$ -	\$ -	\$ 99,194	\$ 1,453	\$ 4,963	\$ 139,922

Resource Allocation

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

In FY 2009, the District's total expenditures were \$9.4 billion. Human Support Services expenditures represented 38.2% of the total.

The majority of the Human Support Services expenditures were for the District's Medicaid and Medicare programs. Public Education, primarily D.C. Public Schools and Charter Schools, represented 20.6% of total expenditures. Public Safety and Justice, mainly the Police Department and Fire and EMS Services, were 15% of total expenditures.



Debt Management

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred. On December 2, 2008, the District issued \$400 million in Tax Revenue Anticipation Notes (TRANs), at an interest rate of 2.50%, priced to yield 1.09%, which was repaid on September 30, 2009.

Long-Term Debt

In the government-wide and proprietary funds financial statements, 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.

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 5.013%. The average interest rate on the District's variable-rate bonds for fiscal year 2009 is 1.593%. All general obligation bonds are backed by the full faith and credit of the District.

At September 30, 2009, the District had a total of \$6.2 billion in General Obligation Bonds, TIF Bonds, Ballpark Bonds, Qualified Zone Academy Bonds (QZAB), Tobacco Bonds, and Income Tax Secured Bonds outstanding. This represents an increase of \$222.8 million over the prior year. The District's borrowing has been increasing over the past few years because of the continuing need and demand for infrastructure improvements, such as roads, streets, and bridges.

Outstanding Bonds at September 30, 2009 and 2008
(\$ in 000's)

Long-Term Debt				
	2009	2008	Dollar Variance	Percentage Variance
General Obligation Bonds	\$ 3,766,628	\$ 4,592,518	\$ (825,890)	-18.0%
Ballpark Bonds	521,750	526,415	(4,665)	-0.9%
TIF Bonds	96,197	100,664	(4,467)	-4.4%
Qualified Zone Academy Bonds	6,044	6,713	(669)	-10.0%
Tobacco Bonds	711,239	724,484	(13,245)	-1.8%
Income Tax Secured Bonds	1,071,785	-	1,071,785	100.0%
Total	\$ 6,173,643	\$ 5,950,794	\$ 222,849	3.7%

Bond Rating Agencies

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

In FY 2009, the District's general obligation bond ratings remained stable at: **A+** by Standard & Poor's; **A1** by Moody's; and **A+** by Fitch for the third consecutive fiscal year. These ratings are the highest ratings in the city's history and are representative of the improved and strong financial standing of the District. Also, during FY 2009, the District issued its first two Income Tax Secured Revenue Bonds. These bonds were also assessed by the three primary agencies and at September 30, 2009, received credit ratings of: **AAA** by Standard & Poor's; **Aa2** by Moody's; and **AA** by Fitch. These are the highest ratings ever achieved by a District security. It is estimated that FY 2009 bond issuances will result in savings of approximately \$8 million over the next four fiscal years.

**Bond Rating History
Last Five Fiscal Years**

Rating Agencies	General Obligation Bonds					Income Tax Secured Revenue Bond *
	2005	2006	2007	2008	2009	2009
S&P	A+	A+	A+	A+	A+	AAA
Moody's	A2	A2	A1	A1	A1	Aa2
Fitch	A	A	A+	A+	A+	AA

*New for FY 2009

Government-Wide Financial Statements

Governmental Activities

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

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

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

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*.

The *Statement of Activities* summarizes both the gross and net cost of the governmental, business-type activities, and component units' activities. Governmental activities show the District's basic functional services, while business-type activities reflect enterprise operations where fees for services are expected to cover all or most of the costs of operations.

Financial Analysis of the Government as a Whole

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

Net Assets as of September 30, 2009
(\$ in 000's)

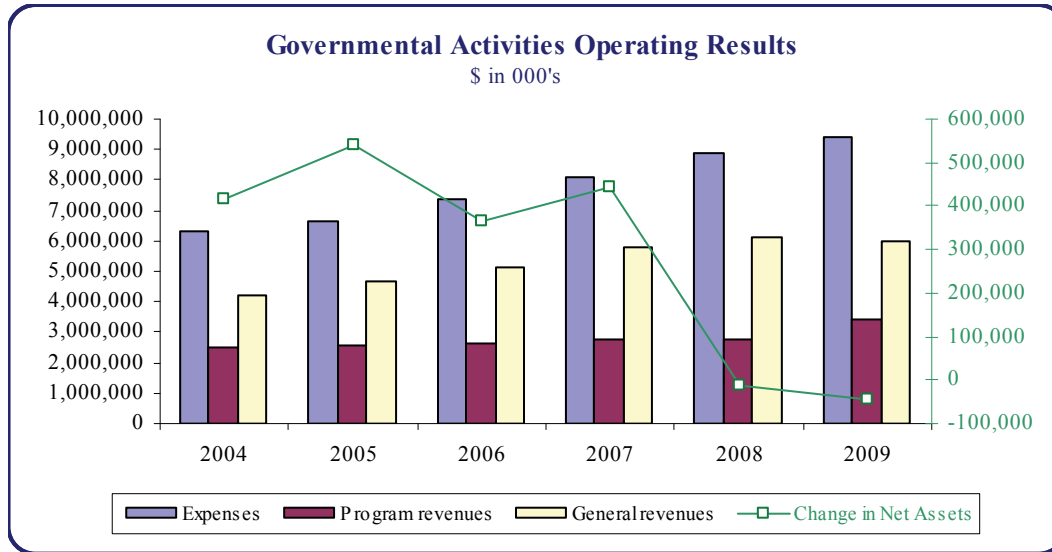
	Governmental activities		Business-type activities		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 3,483,849	\$ 4,016,319	\$ 451,471	\$ 501,051	\$ 3,935,320	\$ 4,517,370
Capital assets	8,114,819	7,243,637	16,012	16,747	8,130,831	7,260,384
Total assets	11,598,668	11,259,956	467,483	517,798	12,066,151	11,777,754
Long-term liabilities	7,545,839	7,128,989	35,153	41,379	7,580,992	7,170,368
Other liabilities	1,551,366	1,585,434	85,681	60,617	1,637,047	1,646,051
Total Liabilities	9,097,205	8,714,423	120,834	101,996	9,218,039	8,816,419
Net assets:						
Invested in capital assets, net of related debt	2,155,206	1,794,279	16,012	16,747	2,171,218	1,811,026
Restricted	852,061	1,156,213	304,773	374,282	1,156,834	1,530,495
Unrestricted	(505,804)	(404,959)	25,864	24,773	(479,940)	(380,186)
Total net assets	\$ 2,501,463	\$ 2,545,533	\$ 346,649	\$ 415,802	\$ 2,848,112	\$ 2,961,335

- Total assets increased by \$288.4 million mainly because the District invested more resources in **capital assets** such as new and rehabilitated infrastructure (roads and bridges), and the donation of land by the federal government
- The combined total net assets for the governmental activities and business-type activities decreased by 3.8% over the previous year.
- The increase of \$401.6 million in total liabilities was due to the issuance of debt to finance the construction of infrastructure and capital improvements.

Change in Net Assets as of September 30, 2009
(\$ in 000's)

	Governmental activities		Business-type		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 399,478	\$ 379,149	\$ 288,794	\$ 290,156	\$ 688,272	\$ 669,305
Operating grant and contributions	2,813,568	2,178,275	36,985	21,191	2,850,553	2,199,466
Capital grants and contributions	180,602	175,841	-	-	180,602	175,841
General revenues	5,618,398	5,915,708	265,844	130,405	5,884,242	6,046,113
Total revenues	9,012,046	8,648,973	591,623	441,752	9,603,669	9,090,725
Expenses	9,412,028	8,886,708	592,001	374,055	10,004,029	9,260,763
Other non-operating activities	68,775	70,300	(68,775)	(70,300)	-	-
Special item	287,137	153,640	-	-	287,137	153,640
Increase (decrease) in net assets	(44,070)	(13,795)	(69,153)	(2,603)	(113,223)	(16,398)
Net assets - Oct 1 Restated	2,545,533	2,559,328	415,802	418,405	2,961,335	2,977,733
Net assets - Sept 1	\$ 2,501,463	\$ 2,545,533	\$ 346,649	\$ 415,802	\$ 2,848,112	\$ 2,961,335

- The increase of \$651 million in operating grants and contributions was due primarily to increases in federal grants (including Stimulus funding).
- General revenues declined by \$161.8 million mainly because of reductions in income taxes and sales and use taxes.
- Each year, the D.C. Lottery transfers substantially all of its net income to the District. In FY 2009, it transferred \$68.8 million of its income, which was a \$1.5 million decrease from last year.
- The increase of \$743.2 million in expenses was due mainly to increased spending in education and human support services.



Governmental Funds

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

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the District uses to keep track of specific sources of funding and spending for a particular purpose. District laws, bond covenants, and other legal stipulations establish funds for specific purposes, and stipulate specific reporting

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

- *Governmental Funds* report short-term activities and measure cash and other financial assets that can be readily converted to cash. Most basic services are accounted for in this fund category and are reported as General, Federal and Private Resources, General Capital Improvements, Baseball Capital Projects, and Non-major Governmental Funds.

- *Proprietary Funds* are used to account for the District's business-type activities. These funds generate a significant portion of their revenues through user charges. The District recognizes two major proprietary funds: (1) Lottery and Charitable Games; (2) Unemployment Compensation and one non-major fund, Nursing Home Services, in this classification.
- *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. These funds are presented separately from the District's other funds because these resources are not available to finance the operations of the government. The District is the trustee, or fiduciary, for its employees' pension plans.

Assets and Liabilities

- Total assets and total liabilities decreased by \$645.4 million and \$151.1 million, respectively. These decreases were due principally to the use of additional resources to pay for public education, human support services, and capital improvements

Operating Results

- Revenue increased by \$368.4 million. This was due mainly to an increase in property taxes of \$175.5 million.
- Expenditures increased by \$81.3 million. This increase was due primarily to expenditures related to human support services, public safety, public education and capital improvements.
- Overall, total expenditures and other financial sources and uses exceed total revenues by \$494.4 million.

Fund Balance

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

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

- Over the past thirteen years, the District's fund balance in the general fund increased from a negative balance of \$518 million to a positive balance of \$920.5 million in FY 2009, an increase of over \$1.4 billion.
- The unreserved fund balance totaled \$216.8 million in FY 2009.
- The fund balance includes a rainy day (emergency/contingency cash reserve) fund of \$284.3 million. In addition, there is \$231.9 million in cash set aside for long term debt service and \$187.5 million reserved for specific programs and projects.

Miscellaneous Statistics

	<u>Last Two Fiscal Years</u>	
	<u>FY 2008</u>	<u>FY 2009</u>
Number of police officers	4,050	4,047
Number of police patrol cars	1,242	1,200
Police crime index offenses	35,351	34,977
Number of fire fighters & EMS personnel	1,958	1,958
Number of fire & EMS stations	34	34
Total number of fire/rescue/medical incidents	158,919	165,725
Number of DCPS teachers	4,328	3,722
Number of DCPS students	46,208	46,132
Number of DCPS high school graduates	2,555	2,679
Number of UDC teachers	247	241
Number of UDC students	5,595	5,260
Number of UDC graduates	599	711
Miles of street resurfaced; regular cover; pavement restoration	32.1	18.0
Potholes repaired	2,800	2,400
Tons of snow removed	674,225	808,732
Convention Center conventions held	183	204
Convention Center attendees	1,091,406	1,053,266

Outlook for FY 2010

Like most places in the United States, the District is being adversely affected by the national recession that started in December 2007. One measure of this is the rise in unemployment among District residents. The District's economy, however, has much strength to help mitigate the impact of severe economic downturns.

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

Glossary

Capital Assets	Assets (infrastructure, land, buildings, equipment) used in operations that have initial useful lives extending beyond a fiscal year.
Component Unit	A legally separate organization for which the primary government is financially accountable and is included as part of its financial reporting entity.
Comprehensive Annual Financial Report (CAFR)	An annual report issued by state and local governmental entities. A CAFR has three major sections: introductory, financial and statistical.
Debt Service	Cash required in a given period, usually one year, for payment of interest and principal on outstanding debt.
Fiscal Year	A financial reporting period of twelve months. The District's fiscal year commences October 1 and ends September 30.
Fund	A separate fiscal and accounting entity used to segregate and account for resources related to a specific activity.
Fund Balance	The difference between what is owned (assets) and what is owed (liabilities) in a governmental fund.
General Fund	The chief operating fund of the government. This fund is used to account for all financial resources except those required to be accounted for in other funds.
General Obligation Bonds	These are uninsured general obligations. The full faith and credit of the issuer is pledged for the payment of the principal and interest on these bonds.
Generally Accepted Accounting Principles (GAAP)	The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements.
Government-Wide Financial Statements	Financial statements that report governmental activities and business-type activities rather than funds or fund types.
Governmental Funds	Funds generally used to account for tax-supported activities.
Rating Agencies	<p>Independent sources of information and analysis for capital markets and debt instruments. These agencies are private and for profit entities that assist investors by providing rating and detailed research on credit factors. These factors determine the credit worthiness of municipalities, governments, and business entities.</p> <p>The three primary Rating Agencies that rate municipal debt are: Fitch Ratings; Moody's Investors Service; and Standard & Poor's Rating Services.</p>

Glossary

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

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

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

Reserved Fund Balance

The portion of fund balance that reflects financial assets that is not available for spending.

Structural Imbalance

Represents the inability to levy taxes on federal real property and non-municipal tax exempt property while providing state-like services, such as human services, mental health, and education.

Unqualified or "Clean" Audit Opinion

An unqualified or "clean" audit opinion is a written report issued by an independent auditor which states that the financial statements for the government present fairly the financial position and results of operations for the organization.

Unreserved Fund Balance

The portion of fund balance that is available for spending.



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YEAR ENDED SEPTEMBER 30, 2009