

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2014

(Dollar amounts expressed in thousands)

The following is a discussion and analysis of the District of Columbia's (the District's) financial performance for the fiscal year ended September 30, 2014, which includes a narrative overview and analysis of the District's financial activities. This information should be read in conjunction with the transmittal letter, located in the Introductory Section of this report, and the District's basic financial statements and note disclosures, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

- As of September 30, 2014, the District's assets plus deferred outflow of resources exceeded its liabilities plus deferred inflow of resources by \$3,833,663. The District had negative unrestricted net position in fiscal year 2014 of \$452,815, an improvement of \$175,319 over the previous year. Negative unrestricted net position resulted from the recognition of certain long-term liabilities, such as compensated absences and claims and judgments, for which resources are appropriated only during the period when they become due for payment. (See Table MDA-1)
- Total District revenues decreased by \$18,192 as a result of decreases and increases in various categories. Decreases related to charges for services and nontax revenues associated with federal funding for extended unemployment benefits and capital grants, as well as declines in revenues from automated traffic enforcement and the lottery. These decreases were largely offset by strong gains in property taxes, deed and estate taxes, and sales and use taxes. Income and business franchise taxes remained flat as a result of strong wage-related income tax growth offset by significant decreases in capital gains taxes. (See Table MDA-2)
- District expenses increased by \$189,173 during fiscal year 2014 due mainly to increased spending for human support services. (See Table MDA-2)
- The District's total net position (revenues over expenses) increased by \$105,693 driven primarily by increases in revenues from property taxes and deed and estate taxes combined with the implementation of self-imposed cost reduction plans that reduced expenses below budgeted levels. (See Table MDA-2)
- As of September 30, 2014, the District's General Fund reported an increase in fund balance of \$124,731 to \$1,873,659. Total governmental funds reported combined ending fund balances of \$2,408,751, a decrease of \$57,841 in comparison with the prior year. The decrease is driven mainly by a decrease in capital fund balances that were drawn down to optimize the timing to issue new bonds for capital projects. (See Table MDA-3)
- The District's total long-term liabilities increased by \$309,063, or 3.1%, during fiscal year 2014. This increase resulted, in large part, from the District's issuance of General Obligation Bonds and Income Tax Secured Revenue Bonds during the year to fund infrastructure improvements/capital projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

In general, the purpose of financial reporting is to provide users of financial statements with information that will help them make decisions or reach conclusions about a reporting entity. Many parties use the District's financial statements; however, they do not always use them for the same purpose. In order to address the needs of as many

financial statement users as possible, the District, in accordance with generally accepted accounting principles (GAAP) presents: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements.

Government –Wide Financial Statements

The government-wide financial statements focus on the District's overall financial position and activities, and include a *statement of net position* and a *statement of activities*. These financial statements report on the primary government and its component units. The primary government is further divided into governmental activities and business-type activities.

The purpose of the *statement of net position* is to report all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the fiscal year. The difference between the District's total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources is classified as net position. Total net position is comprised of three components: 1) *net investment in capital assets*; 2) *restricted*; and 3) *unrestricted*. In general, gauging increases or decreases in net position is one way to assess the District's financial position over time. Other factors, such as changes in population, the property tax base, infrastructure conditions, and other non-financial matters, should also be considered when assessing the District's overall financial health.

The purpose of the *statement of activities* is to present the District's revenues and expenses. The difference between revenues and expenses is reported as "change in net position". All changes in net position 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 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 include the District's basic functional services which are generally financed through taxes, intergovernmental revenues and other revenues. Business-type activities include enterprise operations which are primarily funded by fees for services which are expected to cover all or most of the costs of operations, including depreciation. Program or functional expenses are reduced by program-specific earned revenues, and by grants and contributions.

The District's government-wide financial statements are presented on pages 42 and 43 of this report.

Fund Financial Statements

Unlike the government-wide financial statements, the fund financial statements focus on specific District activities rather than the District as a whole. Specific funds are established to maintain managerial control over

resources or to comply with legal requirements established by external parties, governmental statutes, or regulations. The District's fund financial statements are divided into three categories: (1) governmental funds; (2) proprietary funds; and (3) fiduciary funds.

Financial statements of the governmental funds consist of a balance sheet and a statement of revenues, expenditures, and changes in fund balance. These statements are prepared using a basis of accounting which differs from that used to prepare the government-wide statements. Financial statements of the governmental funds focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting. However, government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting. Financial statements of the governmental funds have a short-term emphasis, and generally measure and account for cash and other assets that can easily be converted to cash. As such, these statements present the District's financial position at the end of the fiscal year and how the governmental activities were financed during the year.

The balances and activities accounted for in governmental funds are also reported in the governmental activities column of the government-wide financial statements; however, because different accounting bases are used to prepare fund financial statements and government-wide financial statements, there are often significant differences in the totals presented in these statements. Therefore, an analysis is presented at the bottom of the balance sheet of the governmental funds, which reconciles the total fund balances to the amount of net position presented in the governmental activities column of the statement of net position. In addition, there is an analysis following the statement of revenues, expenditures, and changes in fund balances that reconciles the total net change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column of the government-wide statement of activities.

The District identified its nonspendable fund balance and further classified spendable fund balance as restricted, committed, assigned, or unassigned based on the relative strength of the constraints controlling how specific amounts may be used.

The District presents funds that are significant to the District (major funds) in separate columns. All other governmental funds are aggregated and reported in a single column (nonmajor funds).

The financial statements of the District's governmental funds are presented on pages 44 through 47 of this report.

Financial statements of the proprietary funds consist of a statement of net position; a statement of revenues, expenses, and changes in fund net position; and a statement of cash flows. These statements are prepared using the full accrual basis of accounting similar to that used to prepare the government-wide financial statements.

The District's proprietary funds are used to account for the activities of District entities that charge customers fees for the services provided. The financial statements of the District's proprietary funds present the changes in financial position and condition of the District's two major proprietary funds, the D.C. Lottery & Charitable Games Control Board and the Unemployment Compensation Fund.

The Unemployment Compensation Fund is reported as a proprietary fund similar to a public entity risk pool because the District is required by law to recover its costs.

The financial statements of the District's proprietary funds are presented on pages 48 through 50 of this report.

Financial statements of the fiduciary funds consist of a statement of fiduciary net position and a statement of changes in fiduciary net position. These statements are prepared using the full accrual basis of accounting similar to that used to prepare the government-wide financial statements. Assets held by the District (either as a trustee or as an agent) for other parties, that cannot be used to finance the District's operating programs, are reported in the fiduciary funds. The District is responsible for ensuring that the activities reported in the fiduciary funds are consistent with each fund's intended purpose.

The financial statements of the District's fiduciary funds are presented on pages 51 and 52 of this report.

Component Units

Combining financial statements, presented on pages 53 and 54 report the financial data for the District's discretely presented component units.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements, which begin on page 55, present additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress toward funding its obligation to provide pension and other postemployment benefits to District employees. Required supplementary information can be found on pages 129 through 132 of this report.

Financial statements of individual funds, combining statements (in connection with nonmajor governmental funds), and supporting schedules are presented immediately following the required supplementary information on postemployment benefits. Financial statements of individual funds and combining statements and schedules can be found in the other supplementary information section presented on pages 133 through 159 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND OPERATIONS

The District's overall financial position improved as a result of the year's activities. The District's financial position and operations for the past two fiscal years are summarized in **Tables MDA-1 and MDA-2**. The

information for fiscal years 2013 and 2014 is based on the government-wide financial statements presented on pages 42 and 43 of this report.

Table MDA-1 - Net Position as of September 30, 2014

	Governmental activities		Business-type activities		Totals	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 4,317,320	\$ 4,811,391	\$ 317,918	\$ 323,173	\$ 4,635,238	\$ 5,134,564
Capital assets	11,410,052	10,899,939	270	427	11,410,322	10,900,366
Total assets	15,727,372	15,711,330	318,188	323,600	16,045,560	16,034,930
Deferred outflow of resources	55,067	50,275	-	-	55,067	50,275
Long-term liabilities	10,223,046	9,910,463	6,680	10,200	10,229,726	9,920,663
Other liabilities	1,955,134	2,369,462	46,581	67,110	2,001,715	2,436,572
Total liabilities	12,178,180	12,279,925	53,261	77,310	12,231,441	12,357,235
Deferred inflow of resources	35,523	-	-	-	35,523	-
Net position:						
Net investment in capital assets	2,830,199	2,849,043	270	427	2,830,469	2,849,470
Restricted	1,195,364	1,264,682	260,645	241,952	1,456,009	1,506,634
Unrestricted	(456,827)	(632,045)	4,012	3,911	(452,815)	(628,134)
Total net position	\$ 3,568,736	\$ 3,481,680	\$ 264,927	\$ 246,290	\$ 3,833,663	\$ 3,727,970

Table MDA- 2 - Change in Net Position for the year ended September 30, 2014

	Governmental activities		Business-type activities		Totals		Variance
	2014	2013	2014	2013	2014	2013	
Revenues:							
Program revenues:							
Charges for services	\$ 501,386	\$ 531,215	\$ 216,040	\$ 242,460	\$ 717,426	\$ 773,675	\$ (56,249)
Operating grants and contributions	3,368,565	3,277,118	9,766	32,790	3,378,331	3,309,908	68,423
Capital grants and contributions	178,218	270,813	-	-	178,218	270,813	(92,595)
General revenues:							
Property taxes	2,118,198	2,012,788	-	-	2,118,198	2,012,788	105,410
Sales and use taxes	1,282,573	1,247,374	-	-	1,282,573	1,247,374	35,199
Income and franchise taxes	2,094,754	2,094,179	-	-	2,094,754	2,094,179	575
Other taxes	812,893	746,160	141,760	131,025	954,653	877,185	77,468
Non tax revenues	506,045	586,168	27,584	103,884	533,629	690,052	(156,423)
Total revenues	10,862,632	10,765,815	395,150	510,159	11,257,782	11,275,974	(18,192)
Expenses:							
Governmental direction and support	929,313	993,774	-	-	929,313	993,774	(64,461)
Economic development and regulation	416,670	460,082	-	-	416,670	460,082	(43,412)
Public safety and justice	1,568,899	1,497,016	-	-	1,568,899	1,497,016	71,883
Public education system	2,221,519	2,224,946	-	-	2,221,519	2,224,946	(3,427)
Human support services	4,336,730	4,086,722	-	-	4,336,730	4,086,722	250,008
Public works	651,221	603,423	-	-	651,221	603,423	47,798
Public transportation	309,436	284,851	-	-	309,436	284,851	24,585
Interest on long-term debt	396,754	382,530	-	-	396,754	382,530	14,224
Lottery and games	-	-	161,144	173,927	161,144	173,927	(12,783)
Unemployment compensation	-	-	160,403	255,645	160,403	255,645	(95,242)
Total expenses	10,830,542	10,533,344	321,547	429,572	11,152,089	10,962,916	189,173
Increase in net position before transfers	32,090	232,471	73,603	80,587	105,693	313,058	(207,365)
Transfers in (out)	54,966	68,314	(54,966)	(68,314)	-	-	-
Change in net position	87,056	300,785	18,637	12,273	105,693	313,058	(207,365)
Net position - Oct 1	3,481,680	3,180,895	246,290	234,017	3,727,970	3,414,912	313,058
Net position - Sept 30	\$ 3,568,736	\$ 3,481,680	\$ 264,927	\$ 246,290	\$ 3,833,663	\$ 3,727,970	\$ 105,693

Please refer to Note 1W – Reconciliation of Government-Wide and Fund Financial Statements, on page 75 for additional information on the differences between the two bases of accounting that the District used in this report.

Financial Analysis of the Government as a Whole

The District's combined net position (governmental and business-type activities) increased by \$105,693 or 2.8%, from \$3,727,970 in fiscal year 2013 to \$3,833,663 in fiscal year 2014. Revenues remained relatively flat over the one-year period, decreasing by \$18,192, from \$11,275,974 in fiscal year 2013 to \$11,257,782 in fiscal year 2014. Program revenues decreased by \$80,421, or 1.8% due to declines in revenues associated with certain traffic enforcement initiatives and grants for various transportation projects while general revenues increased by \$62,229, or 0.9% due to increases in property taxes. Expenses increased by \$189,173, or 1.7%. The most significant increase in expenses was in human support services, which grew by \$250,008 due to costs incurred as the District continued to implement the Patient Protection and Affordable Care Act. Costs associated with changes in Medicaid policy also contributed to increased human support services expenditures.

Restricted net position represents assets that are subject to use constraints imposed either: (a) externally by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments; or (b) by law, through constitutional provisions or enabling legislation. Restricted net position totaled \$1,456,009 in fiscal year 2014 and \$1,506,634 in fiscal year 2013, representing a decrease of \$50,625, or 3.4%.

Total net position of governmental activities was \$3,568,736 in fiscal year 2014, which was \$87,056 or 2.5% more than total net position of governmental activities in fiscal year 2013, indicating revenues remained above expenses although by a smaller margin than in the prior year. Governmental activities expenses increased by \$297,198 from the prior year, resulting from

increases associated with changes in Medicaid policy and implementation of provisions of the Affordable Care Act. Governmental activities revenues increased by \$96,817 as a result of increased property, sales and use, and deed recordation taxes.

Total net position increased mainly as a result of increases in revenues from property taxes, deed and estate taxes, and sales and use taxes combined with effective management of expenses below budgeted levels. Even though unrestricted net position improved, it continued to be negative in fiscal year 2014 because the District has certain long-term liabilities which are funded on a pay-as-you-go basis. Therefore, resources or assets were not accumulated in advance but were appropriated as these liabilities became due. More specifically, capital fund balances were drawn, together with short term advances from general fund, which are later reimbursed with bond proceeds to optimize the timing for the issuance of long-term bonds used to finance capital projects. Negative unrestricted net position improved by \$175,319 to \$452,815 in fiscal year 2014 compared to \$628,134 in fiscal year 2013.

The Lottery and Charitable Games Control Board (the Lottery), a proprietary fund of the primary government, transfers substantially all of its net income to the District at the end of each fiscal year. In fiscal years 2014 and 2013, the Lottery transferred \$54,966 and \$68,314 to the District's General Fund, respectively.

Chart MDA-1 graphically depicts the District's sources of revenues in its governmental activities as presented in **Table MDA-2, Change in Net Position for the year ended September 30, 2014**, found on page 28.

Chart MDA-1 – Revenues by Source – Governmental Activities

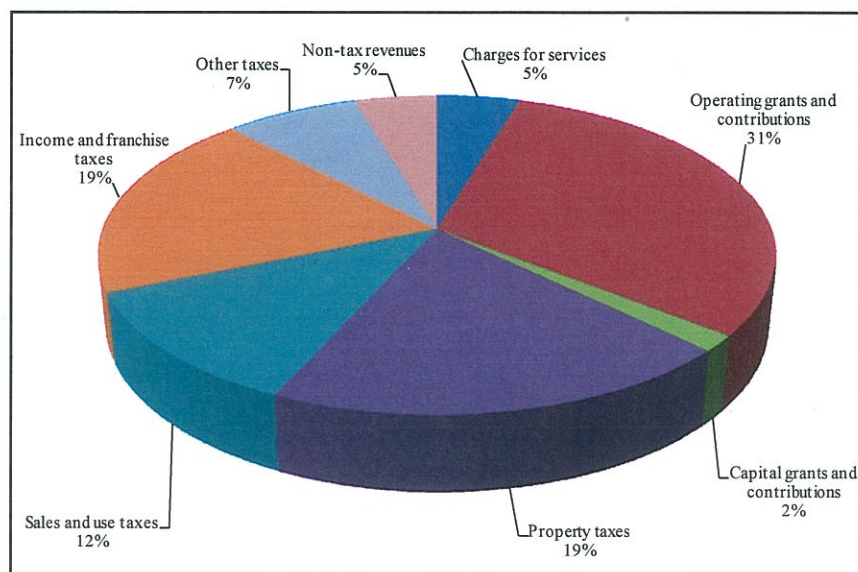
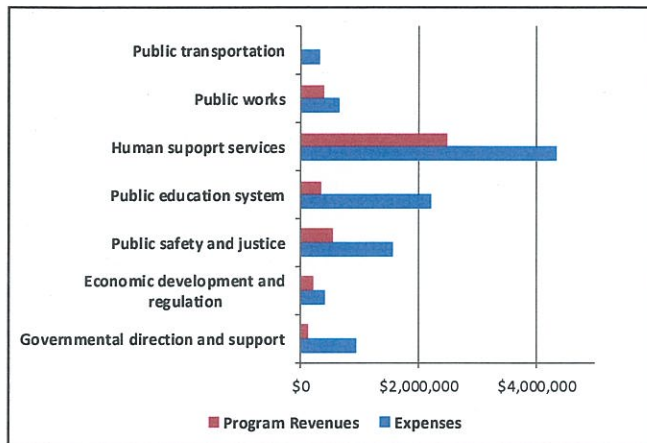


Chart MDA-2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities are: governmental direction and support, economic development and regulation, public safety and justice, public education, human support services, public works,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

Chart MDA-2 – Governmental Activities Expenses and Program Revenues



Net position of the business type activities increased by \$18,637, or 7.6%, between fiscal year 2013 and 2014. Net position increased principally because of a reduction in benefit payments in the unemployment compensation fund resulting from a decline in unemployment.

Reporting on the District's Most Significant Funds

Fund financial statements focus on major funds, instead of fund types. A governmental fund is classified as a major fund if the fund has revenues, expenditures/expenses, assets plus deferred outflows of resources, or liabilities (excluding extraordinary items) plus deferred inflows of resources that are at least 10% of the

corresponding totals for all governmental funds and at least 5% of the aggregate amount for all governmental and proprietary funds for the same item. Major funds, as required by generally accepted accounting principles (GAAP), are presented individually with nonmajor governmental funds combined in a single column. Detailed information for individual nonmajor governmental funds can be found in Other Supplementary Information, Exhibits B-1 and B-2, presented on pages 144 and 145 of this report.

Governmental Funds

The District's governmental funds provide information that is useful when assessing the District's financing needs, such as data pertaining to near-term inflows, outflows, and balances of spendable resources. For instance, the amount of unassigned fund balance may serve as a useful measure of the government's net resources that are available for appropriation/spending as of the end of the fiscal year.

Most basic services are reported in the governmental funds, which are further classified as General, Federal and Private Resources, Housing Production Trust, General Capital Improvements, and Nonmajor Governmental Funds. Please refer to Exhibits 2-a and 2-b presented on pages 44 and 45 for more detailed information about these funds.

Fund Balances: The governmental funds reported a combined fund balance of \$2,408,751 in fiscal year 2014 and \$2,466,592 in fiscal year 2013, which represents a decrease of \$57,841, or 2.3%, from the prior year. The components of the combined fund balance of the governmental funds are presented in **Table MDA-3**.

Table MDA-3 – Comparison of FY 2014 and FY 2013 Fund Balance

	FY 2014 Balance	FY 2013 Balance	Dollar Variance	Percentage Variance
General	\$ 1,873,659	\$ 1,748,928	\$ 124,731	7.1%
Federal and private resources	164,485	170,162	(5,677)	-3.3%
Housing production trust	173,863	139,731	34,132	24.4%
General capital improvements	(114,248)	102,434	(216,682)	-211.5%
Nonmajor governmental funds	310,992	305,337	5,655	1.9%
Total Fund Balance	\$ 2,408,751	\$ 2,466,592	\$ (57,841)	-2.3%

Fund balance in the Federal and Private Resources Fund decreased by \$5,677 or 3.3% between fiscal years 2013 and 2014. This relatively moderate decrease in fund balance was due to a 2.3% increase in total revenues, primarily in operating grants, which was nearly offset by a 2.2% increase in expenditures, primarily in Human Support Services. Total revenues in the Federal and Private Resources Fund increased by \$77,232 while expenditures increased by \$73,025.

Fund balance in the Housing Production Trust Fund increased by \$34,132, or 24.4% between fiscal years 2013 and 2014. This increase was due primarily to transfers in from the General Fund.

The General Capital Improvements Fund had the largest variance with a negative balance as of September 30, 2014, as capital funds were drawn down to optimize the timing to issue long-term bonds that were later issued to reimburse these fund balances.

The most significant increase within the governmental funds was in the General Fund, the District's primary operating fund. A more detailed discussion of the District's General Fund follows.

Revenues: General Fund revenues increased by \$240,807 in fiscal year 2014. **Table MDA-4** presents the most significant one-year variances in General Fund revenues.

Table MDA-4 – Changes in Major General Fund Revenues

Revenue Category	Fiscal Year 2014	Fiscal Year 2013	Dollar Variance	Percentage Variance
Property taxes	\$ 2,104,902	\$ 2,012,511	\$ 92,391	4.59%
Sales and use taxes	1,245,015	1,194,460	50,555	4.23%
Income and franchise taxes	2,094,754	2,094,179	575	0.03%
Total	\$ 5,444,671	\$ 5,301,150	\$ 143,521	2.71%

Property tax. Increases in property tax revenues were, in large part, attributable to higher assessed values of commercial properties and an increased rate of collection of such taxes. Over the last several years, as a result of the national housing crisis and recession, residential property values have declined and tax assessments have been lower. However, in recent years, collection of residential property taxes has increased moderately as housing prices began to rebound and stabilize.

Sales and use tax. When comparing budgeted and actual amounts for fiscal year 2014, the District's sales and use taxes were less than anticipated as a result of weakness in the economy, the federal government shutdown at the start of the fiscal year, and a relatively harsh winter, all of which deterred spending. However, comparisons of actual sales and use tax revenues for fiscal years 2013 and 2014 show that such taxes increased over the one-year period. This increase was due to stronger (improved) economic growth in fiscal year 2014, particularly growth in personal income, which resulted in increased spending.

Income and franchise taxes. As evidenced by the decline in unemployment and increases in population, more individuals joined the workforce during fiscal year 2014, which resulted in strong increases in total salaries and wages. This increase in the wage-related income taxes was completely offset by decreases in capital gains taxes in fiscal year 2014. In fiscal year 2013, higher than normal capital gains taxes were reported in response to Federal tax policy changes.

Dedicated Revenues

The dedicated portions of tax revenues related to the special revenue funds are recorded directly in those funds. However, dedicated taxes for the Convention Center, Healthcare Programs and Highway Trust Fund are transferred out of the local fund (the major component of the general fund). Healthcare Program activities are recorded in a segregated fund within the general fund. In fiscal year 2014, the District dedicated a total of \$456,323 in tax revenues to fund the projects shown in **Table MDA-5**.

Expenditures: The District's general fund expenditures, excluding debt service, increased by \$364,372 from the previous year. Variances by program or function are presented in **Table MDA-6**.

Table MDA-5 – Dedicated Local Tax Revenues

	Total Dedicated Taxes	General Fund							Special Revenue Funds			
		Convention Center	Healthcare Programs	Highway Trust Fund	WMATA	Healthy Schools	ABRA	HPTF Debt Service	Tax Increment Financing Program	PILOT Special Revenue	Baseball Project	Housing Production Trust Fund
Property taxes	\$ 30,135	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,202	\$ 13,933	\$ -	\$ -
Sales and use taxes	213,795	105,451	-	-	65,350	4,266	1,170	-	21,239	-	16,319	-
Deed recordation	31,227	-	-	-	-	-	-	5,374	-	-	-	25,853
Gross receipts taxes	44,908	-	-	-	-	-	-	-	-	-	44,908	-
Deed transfers	22,781	-	-	-	-	-	-	2,449	-	-	-	20,332
Motor fuel taxes	22,961	-	-	22,961	-	-	-	-	-	-	-	-
Other taxes	90,516	-	90,516	-	-	-	-	-	-	-	-	-
Total taxes	\$ 456,323	\$ 105,451	\$ 90,516	\$ 22,961	\$ 65,350	\$ 4,266	\$ 1,170	\$ 7,823	\$ 37,441	\$ 13,933	\$ 61,227	\$ 46,185

Table MDA-6 – General Fund Current Expenditure Variances by Function

Program/ Functional Area	Fiscal Year 2014	Fiscal Year 2013	Dollar Variance	Percentage Variance
Governmental direction and support	\$ 841,765	\$ 748,634	\$ 93,131	12.4%
Economic development and regulation	288,002	260,700	27,302	10.5%
Public safety and justice	1,049,808	982,461	67,347	6.9%
Public education system	1,752,794	1,681,634	71,160	4.2%
Human support services	1,822,322	1,783,940	38,382	2.2%
Public works	303,514	261,049	42,465	16.3%
Public transportation	309,436	284,851	24,585	8.6%
Total Functional Expenditures	\$ 6,367,641	\$ 6,003,269	\$ 364,372	6.1%

Explanations for significant variances in General Fund expenditures are presented below:

Governmental Direction and Support – Increased expenditures in Governmental Direction and Support were the result of rising costs associated with managing the maintenance of District properties. Such increases were, in large part, for contractual services for facilities maintenance and security. In addition, spending in this functional area increased as a result of new as well as ongoing communications and technology projects and activities, such as executing a new communications contract for fiber optics and purchasing equipment to enhance the DCNET system. Personnel costs also increased as a result of cost of living adjustments and increased fringe benefits costs.

Economic Development and Regulation - The increased expenditures in Economic Development and Regulation are, in large part, associated with Affordable Housing initiatives to preserve and increase the supply of quality affordable housing, increase homeownership opportunities, revitalize neighborhoods, promote

community development and provide economic opportunities. In addition to overall rising personnel costs, there has also been increased spending in the Great Streets Initiative program for the purpose of transforming nine under-invested areas into thriving business and neighborhood centers.

Public Safety and Justice – Increased Public Safety and Justice expenditures were mainly due to the pay-out associated with union contract increases made within the Metropolitan Police Department for police officers and within the Fire and Emergency Medical Services Department for firefighters. In addition, increased expenditures were for contractual services for ambulance billing; costs associated with the fire protection fee for fire hydrants; and the hiring of staff to maintain heavy fire and emergency medical services mobile equipment.

Public Education – Increases in Public Education expenditures were attributable to several factors, some of which included: an increase in the Uniform Per Student Funding Formula, taking into consideration the effects of inflation; the effects of increased student enrollment;

increased contractual services for instructional programs; and costs incurred to enhance library services at 26 public schools.

Human Support Services – During fiscal year 2014, the District continued its efforts to implement the requirements and mandates of the Patient Protection and Affordable Care Act. Consequently, expenditures increased as a result of those efforts. Changes in Medicaid policy also contributed to increased Human Support Services expenditures in fiscal year 2014.

Public Works – The increase in Public Works expenditures was due to several factors, including preparations for the initial rollout of the D.C. Streetcar, the start of the Parking Meter project and other measures taken to enhance transportation services (e.g., purchasing Bikeshare stations and planning the expansion of the Circulator routes.) Increased costs associated with providing snow removal and trash collection services to a growing population as well as maintaining the city's fleet of vehicles also led to increased expenditures in fiscal year 2014.

Public Transportation – Public transportation expenditures increased as a result of an increase in subsidy and grant payments to the Washington Metropolitan Area Transit Authority (WMATA). The District, along with other jurisdictions in the metropolitan region, provide funding to support WMATA's operations. Annual operating costs at WMATA increased in fiscal year 2014 due to the Silver Line expansion, increased pension costs, and increased demand for reduced fare programs and Circulator services.

Capital Expenditures and Financing

The District's investments in capital improvements are based on need rather than available current year revenues. It is the District's financial policy to issue 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 on the annual amount budgeted. However, 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 total amount of municipal debt financing and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximize the pool of potential investors for the District's debt issuances.

The District spent \$1,108,204 on general capital improvements which exceeded the general capital improvements revenues of \$189,094 by \$919,110. This deficiency was subsequently financed with a total of \$702,428 from bond proceeds and other financing sources. The net change in the capital project fund balance was a decrease of \$216,682, which resulted in a fund deficit of \$114,248.

Proprietary Funds

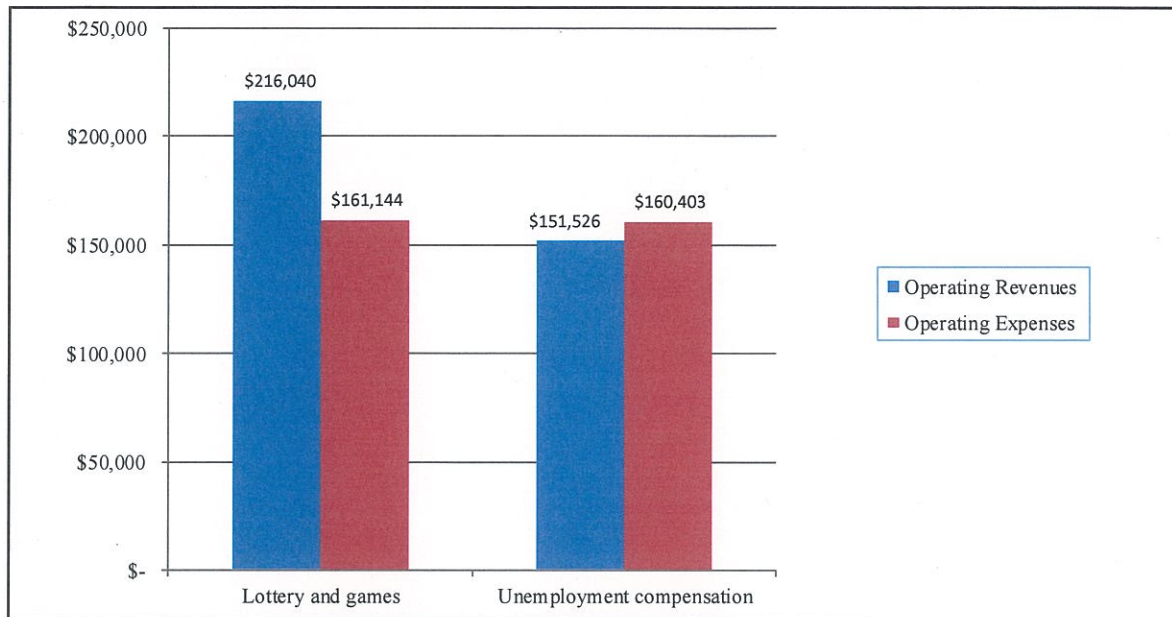
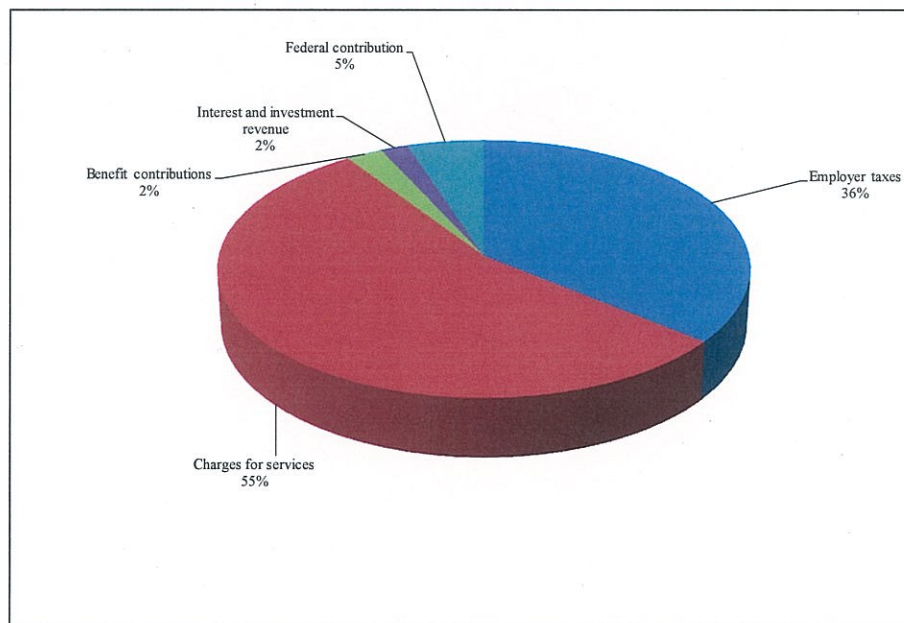
The District currently has two major Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery), and the Unemployment Compensation Fund (Unemployment).

The total assets for the Lottery decreased by \$5,490 or 21.0%, over the prior year, due to scheduled payments to long-term prize winners.

Total assets for Unemployment decreased by \$3,154, or 0.9%, due primarily to cash receipts from employer taxes and governmental agencies exceeding the unemployment benefits payments while amounts due to the Fund from the federal government decreased.

Overall total net position of the District's proprietary funds increased by \$18,637, or 7.6%, over the prior year. Exhibits 3-a, 3-b, and 3-c on pages 48 through 50 present the financial statements of the proprietary funds.

Charts MDA-3 and MDA-4 graphically present comparisons of the revenues and expenses of the District's proprietary funds, based on information contained in the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds, shown on page 49 of this report.

Chart MDA-3 – Operating Revenues and Expenses – Business-type Activities**Chart MDA-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 postemployment benefits (OPEB). All fiduciary activities are reported in Exhibit 4-a, *Statement of Fiduciary Net Position* and Exhibit 4-b, *Statement of*

Changes in Fiduciary Net Position on pages 51 and 52 respectively. Exhibits C-1, C-2, and C-3, presented on pages 148, 149, and 150 respectively, provide additional information. These activities are excluded from the District's governmental and business-type activities because resources of fiduciary funds are restricted and are not available to support the District's operations. The changes in the net position of the Pension Trust Funds and OPEB Trust Fund are presented in **Table MDA-7**.

Table MDA-7 - Variances in Net Position of Pension and OPEB Trust Funds

Trust Fund	Fiscal Year 2014	Fiscal Year 2013	Dollar Variance	Percentage Variance
Police and firefighters pension	\$ 4,588,129	\$ 4,168,457	\$ 419,672	10.1%
Teachers pension	1,745,961	1,622,375	123,586	7.6%
Other postemployment benefits	1,051,359	897,815	153,544	17.1%
Total Net Position	\$ 7,385,449	\$ 6,688,647	\$ 696,802	10.4%

Net position of the fiduciary funds increased due mainly to increases in the value of fixed income securities.

Private-purpose trust funds are used to report any trust arrangement not reported in the pension or OPEB trust funds under which principal and income benefit specific individuals, private organizations, or other governments. The District's 529 College Savings Investment Plan, which is designed to help families save for the higher education expenses of designated beneficiaries, comprises the Private-Purpose Trust Fund.

Component Units

Discretely presented component units are legally separate organizations that meet the following criteria: (a) the District appoints a voting majority of the entity's governing board and (b) there is a financial benefit/burden relationship between the District and the entity or the District is able to impose its will on the entity. Consistent with these criteria, the District reports five discretely presented component units: (1) Health Benefit Exchange Authority; (2) Washington Convention and Sports Authority; (3) Not-For-Profit Hospital Corporation (d/b/a United Medical Center); (4) Housing Finance Agency; and (5) University of the District of Columbia.

Other component units have operations that are so intertwined with those of the primary government that they function, for all practical purposes, as an integral part of the primary government. These are reported as blended component units. A component unit should be blended when the primary government and the component unit share a common governing body and (a) there is a financial benefit or burden relationship between the District and the entity, or (b) the District has operational responsibility for the entity. In addition, blending is required when the component unit either: (a) provides service entirely or almost entirely to the primary government; or otherwise exclusively or almost exclusively benefits the primary government, although it does not provide services directly to it; or (b) the entity's total debt outstanding is expected to be repaid entirely or almost entirely with District resources.

The District reports one blended component unit, the Tobacco Settlement Financing Corporation (Tobacco Corporation). The Tobacco Corporation is a blended component unit because: (a) the District appoints the Tobacco Corporation's board; (b) the District is legally entitled to and can otherwise access the Tobacco Corporation's resources which constitutes a benefit/burden relationship; and (c) the District has the ability to modify or approve the Tobacco Corporation's budget, which gives the District the ability to impose its will on the Tobacco Corporation. In addition, the Tobacco Corporation provides services entirely to the District.

Each of the component units prepares its own independently audited financial statements, which are accompanied by their respective Management's Discussion and Analysis. Exhibits 5-a and 5-b on pages 53 and 54, respectively, present more detailed financial information on the District's component units.

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. This need occurs due to time lags between the receipt of taxes, grants and other revenues, and the outflow of funds for governmental operations and required disbursements. The District issued \$405,000 in Tax Revenue Anticipation Notes (TRANs) on November 7, 2013, at an interest rate of 2.00%. The District is required by law to repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred. Accordingly, by September 30, 2014, the District had repaid these outstanding TRANs.

Long-Term Debt

The District is empowered by law (Section 461 of the District of Columbia Home Rule Act, as amended) to issue general obligation bonds to refund indebtedness of the District and to provide for the payment of the costs of acquiring capital assets or undertaking various capital projects. The District also issues income tax secured revenue bonds pursuant to the Bond Authorization Act of

2008 (D.C. Code §§ 47-340.26 to 47-340.36). The payment of principal and interest on these bonds comes solely from the associated trust estate and the available pledged tax revenues. The income tax secured revenue bonds are without recourse to the District, and are not a pledge of, and do not involve the full faith and credit or the taxing power of the District.

The District also issues, on a less frequent basis, other types of long term debt, including Tax Increment Financing (TIF) Bonds, Housing Production Trust Bonds (HPTF), Qualified Zone Academy Bonds, and other revenue bonds.

At September 30, 2014, the District had \$10,229,726 (including business activities) in long term debt outstanding, of which \$8,772,209, or 85.8%, was in the form of bonds. Of the outstanding bonds, \$2,790,935, or 31.8%, were general obligation bonds, and \$4,465,820, or 50.9%, were income tax secured revenue bonds. **Table MDA-8** presents the District's outstanding bonds as of September 30, 2014.

Table MDA-8 – Outstanding Bonds at September 30, 2014 and 2013

Type of Bonds	Outstanding Bonds			
	Fiscal Year 2014	Fiscal Year 2013	Dollar Variance	Percentage Variance
General obligation bonds	\$ 2,790,935	\$ 2,245,185	\$ 545,750	24.3%
Income tax secured revenue bonds	4,465,820	4,457,675	8,145	0.2%
Other bonds:				
Qualified zone academy bonds	5,736	6,682	(946)	-14.2%
Tobacco bonds	631,294	647,459	(16,165)	-2.5%
TIF bonds	104,809	108,782	(3,973)	-3.7%
Ballpark bonds	474,420	502,255	(27,835)	-5.5%
GARVEE revenue bonds	111,110	117,570	(6,460)	-5.5%
HPTF bonds	118,055	120,450	(2,395)	-2.0%
A WC PILOT revenue bonds	70,030	77,210	(7,180)	-9.3%
NCRC revenue bonds	-	4,997	(4,997)	-100.0%
Total	\$ 8,772,209	\$ 8,288,265	\$ 483,944	5.8%

The \$545,750 increase in General Obligation Bonds is due primarily to the District's issuance of \$495,425 in bonds, Series 2013A. The proceeds of the 2013A Bonds were used to finance capital project expenditures under the District's capital improvements plan and pay the costs and expenses of issuing and delivering the 2013A Bonds.

The District also issued \$97,145 in Income Tax Secured Revenue Refunding Bonds, Series 2013A. The proceeds of the Series 2013A Bonds were used to currently refund \$29,450 of the District's Income Tax Secured Revenue Refunding Bonds, Series 2010E (Adjusted SIFMA Rate); \$40,455 of the District's Income Tax Secured Revenue Refunding Bonds, Series 2011B (Adjusted SIFMA Rate); and \$26,640 of the District's Income Tax Secured Revenue Refunding Bonds, Series 2011D (Adjusted SIFMA Rate) each maturing on December 1, 2014 and pay the costs and expenses of issuing the Series 2013A Bonds. The refunding of certain outstanding issues with the Series 2013A Bonds resulted in the change of \$8,145 in the principal amount of outstanding Income Tax Secured Revenue Bonds.

For more detailed information on the District's long-term debt activity, refer to Note 8, Long-Term Liabilities, found on pages 100 through 113.

Capital Assets

The General Capital Improvements Fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants, and debt. Capital assets include, but are not limited to: land, buildings, police and fire equipment, office equipment, park facilities, roads, and bridges. In fiscal year 2014, total net capital assets (capital assets less depreciation) increased by \$509,956, or 4.7%, over the prior year. Total overall capital assets has continued to increase because the District has been investing resources in the construction of new assets and the rehabilitation of existing infrastructure, such as roads, streets, and bridges.

At September 30, 2014, total net capital assets (capital assets less depreciation) was \$11,410,322. Net capital assets of the governmental activities totaled \$11,410,052

and the net capital assets of the business-type activities totaled \$270. The governmental activities depreciation charges for fiscal year 2014 totaled \$414,748 compared to the prior year's amount of \$389,885. **Table MDA-9** presents more detailed information on the District's net capital assets.

Table MDA-9 – Net Capital Assets as of September 30, 2014

Asset Category	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 929,519	\$ 928,318	\$ -	\$ -	\$ 929,519	\$ 928,318
Buildings	5,765,400	5,641,749	-	-	5,765,400	5,641,749
Infrastructure	3,117,119	2,925,863	-	-	3,117,119	2,925,863
Equipment	354,552	379,243	270	427	354,822	379,670
Construction in progress	1,243,462	1,024,766	-	-	1,243,462	1,024,766
Total net capital assets	\$ 11,410,052	\$ 10,899,939	\$ 270	\$ 427	\$ 11,410,322	\$ 10,900,366

Note: For more detailed information on the District's capital asset activity, refer to Note 5, Capital Assets, found on pages 90 through 94.

REPORTING THE DISTRICT'S BUDGET

Overview in Brief

D.C. Code § 47-392.01(c) (1) (A) requires the District to prepare a balanced budget each year. Consistent with D.C. Code §47-392.02, the Mayor is required to submit the budget to Council for review, approval, and submission to Congress. The District's budget is subject to revision and approval by Congress and the President of the United States. As the budget moves through the budgetary process, there may be changes in both amounts and purposes.

The Chief Financial Officer is responsible for forecasting revenue for the District government. Each February, the Chief Financial Officer issues the official revenue estimate that is used to develop the District's budget for the next fiscal year. This estimate is revised as the new fiscal year begins and is periodically reviewed and

adjusted at regular intervals throughout the fiscal year to reflect current economic trends and outlook, new legislative mandates, and other similar factors. As the revenue estimates are revised, the District's expenditure budget is also revised to be consistent with the updated revenue estimates.

General Fund Budgetary Highlights

The General Fund is the chief budgetary operating fund of the primary government. **Table MDA-10** presents a Schedule of Budgetary Basis Revenues and Expenditures for the General Fund for the fiscal year ended September 30, 2014.

Table MDA-10 – Schedule of General Fund Budgetary Basis Revenues and Expenditures

	Original Budget	Revised Budget	Actual	Variance (Actual to Revised)
Revenues and Other Sources:				
Taxes	\$ 6,052,550	\$ 6,169,681	\$ 6,132,847	\$ (36,834)
Licenses and permits	66,392	73,434	79,210	5,776
Fines and forfeits	227,672	174,958	136,794	(38,164)
Charges for services	69,659	64,909	77,984	13,075
Miscellaneous	84,028	83,407	125,220	41,813
Other sources	516,392	459,090	463,735	4,645
Bond proceeds	6,000	6,000	584	(5,416)
Fund balance released from restrictions	99,539	246,748	98,417	(148,331)
Interfund transfer from lottery and games	63,175	63,175	54,967	(8,208)
Interfund transfer - others	4,527	55,188	66,048	10,860
Total revenues and other sources	7,189,934	7,396,590	7,235,806	(160,784)
Expenditures and Other Uses:				
Governmental direction and support	653,931	656,562	623,249	33,313
Economic development and regulation	341,221	397,949	338,198	59,751
Public safety and justice	1,035,064	1,064,998	1,050,890	14,108
Public education	1,724,425	1,753,461	1,737,858	15,603
Human support services	1,750,479	1,783,335	1,732,676	50,659
Public works	623,396	648,625	623,032	25,593
Repay bonds and interest	531,906	515,731	509,725	6,006
Other expenditures and uses	501,813	461,104	416,461	44,643
Total expenditures and other uses	7,162,235	7,281,765	7,032,089	249,676
Excess of Revenues and Other Sources Over Expenditures and Other Uses - Budgetary Basis				
	\$ 27,699	\$ 114,825	\$ 203,717	\$ 88,892

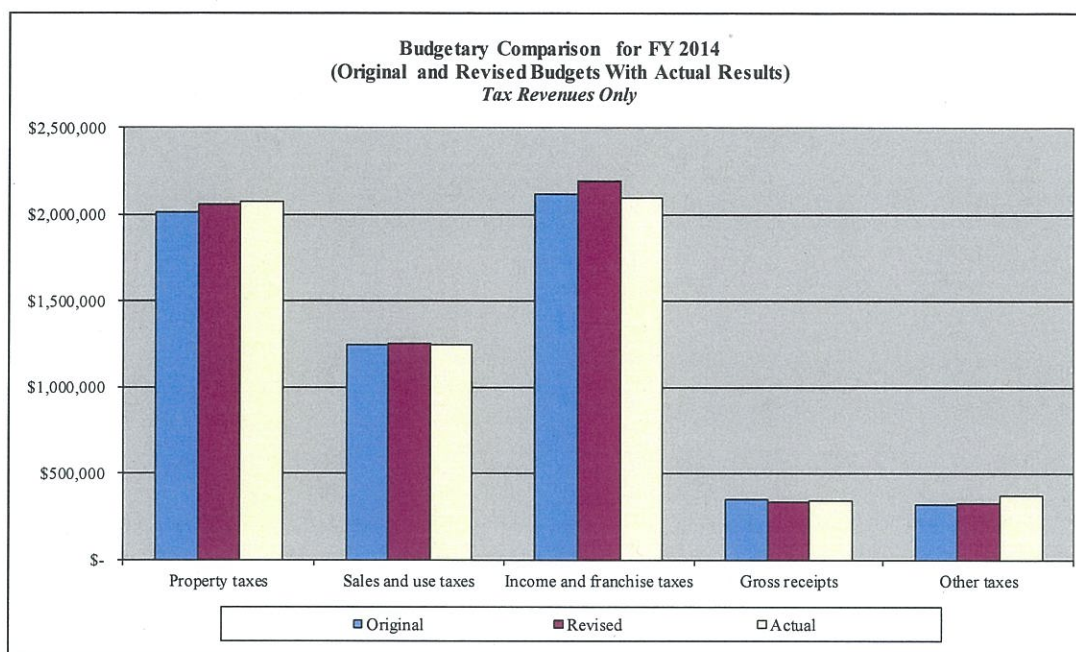
Revenues and Other Sources

Actual General Fund revenues and other sources were \$160,784 less than the revised budget. As presented in **Table MDA-10**, this variance was primarily due to the use of excess revenues instead of fund balance to finance certain activities.

Fund Balance Released from Restrictions - Fund balance released from restrictions represents the portion of assets that were restricted for either a period of time or for a particular purpose for which the imposed conditions have

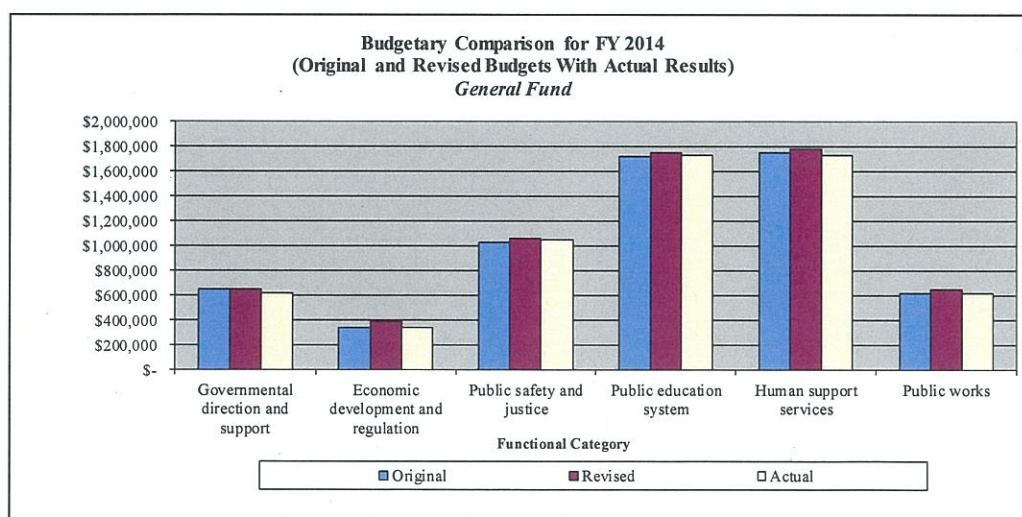
been met, allowing the assets to become available for use. In other words, this amount of fund balance was used to finance current year's operations. As shown in **Table MDA-10**, actual fund balance released from restrictions was \$148,331 less than anticipated for fiscal year 2014.

As presented in **Table MDA-10**, approximately 84.8% of the General Fund's revenues and other sources are derived from taxes. **Chart MDA-5** graphically presents differences between the General Fund's original budget, final revised budget and actual revenues (by type of tax) for fiscal year 2014.

Chart MDA-5 – Budgetary Comparison – FY 2014 Tax Revenues**Expenditures and Other Uses**

Actual General Fund expenditures and other uses were \$249,676 less than the revised budget. As presented in **Table MDA-10**, this variance was primarily due to underspending in the areas of Economic Development and Regulation and Human Support Services.

More than 64.3% of the General Fund's expenditures were in the areas of Public Education, Human Support Services, and Public Safety and Justice combined. **Chart MDA-6** graphically presents differences between the General Fund's original budget, revised budget, and actual expenditures (by functional category) for fiscal year 2014.

Chart MDA-6 – General Fund Expenditures (by Function)

For more detailed information, refer to the budgetary schedules for the General Fund, Exhibits A-4 to A-6 which are presented on pages 139 through 141.

SUBSEQUENT EVENTS

Short-Term Debt

In November 2014, the District issued \$400,000 in Tax Revenue Anticipation Notes (TRANs) as a means of financing, on a short-term basis, the District's general governmental expenses in anticipation of receiving or collecting revenues for fiscal year 2015. These fixed rate TRANs were issued at an interest rate of 1.50% and mature on September 30, 2015. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year of issuance.

General Obligation Bonds

In October 2014, the District issued \$379,355 in General Obligation Bonds, Series 2014C and \$136,190 in General Obligation Refunding Bonds, Series 2014D. The proceeds of the Series 2014C Bonds will be used to: (1) finance capital project expenditures under the District's capital improvements plan, and (2) pay the costs and expenses of issuing and delivering the Series 2014C Bonds. The proceeds of the Series 2014D Bonds will be used with other available District funds to: (1) refund all of the District's outstanding Multimodal General Obligation Refunding Bonds, Series 2008A and Series 2008D and (2) pay the costs and expenses of issuing and delivering the Series 2014D Bonds.

Interest rates range between 3.00% and 5.00% for the Series 2014C Bonds and 1.00% and 5.00% for the Series 2014D Bonds.

Income Tax Secured Revenue Refunding Bonds

In November 2014, the District issued \$60,875 in Income Tax Secured Revenue Refunding Bonds, Series 2014B. The proceeds of the Series 2014B Bonds were used to: (a) currently refund \$60,260 of the District's Income Tax Secured Revenue Refunding Bonds, Series 2013A and pay the costs of using and delivering the Series 2014B Bonds. The Series 2014B Bonds bear interest at a variable rate equal to Adjusted SIFMA rates, which equal the SIFMA rates plus the per annum spread at maturity.

PILOT Revenue Note (The Yards Project)

On December 18, 2014, the District executed its PILOT Revenue Note, Series 2014, in the amount of \$34,800, with U.S. Bank, N.A. This note was executed to help finance the cost of developing the public infrastructure associated with The Yards. This note, which matures on December 1, 2037, bears interest at the agreed upon bank interest rate as of each interest payment date, which shall be equal to the lesser of: (a) the LIBOR index rate then in effect plus the applicable spread and (b) the maximum rate.

These and other subsequent events are presented more fully in Note 16, found on pages 125 through 127.

D.C. Water Payment In Lieu of Taxes

On December 15, 2014, the District and the Water and Sewer Authority (D.C. Water) entered into a Memorandum of Understanding (MOU) which establishes the total amount of the payment in lieu of taxes (PILOT) to be paid by D.C. Water to the District for fiscal years 2015 to 2024.

Under the executed agreement, D.C. Water will pay the District \$15,337 in fiscal year 2015. In fiscal years 2016 through 2024, D.C. Water's PILOT will increase by 2.0% per annum, based on the amount of the prior year's annual PILOT payment.

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 demonstrate the effectiveness of the District's systems of accountability for the money it receives. If you have any questions regarding this report, suggestions for improvement, or need additional financial information, please contact:

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