

## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2015

(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, 2015, 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, 2015, the District's assets plus deferred outflows of resources exceeded its liabilities plus deferred inflows of resources by \$4,416,371. The District had a negative unrestricted net position in fiscal year 2015 of \$130,159, an improvement of \$322,656 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 increased by \$715,300 as a result of increases in all revenue categories except nontax revenues. Decreases in nontax revenues unrelated to grants were largely offset by strong gains in income and franchise taxes, property taxes, and sales and use taxes. In addition, revenues derived from operating grants and contributions increased significantly over the one-year period. (See **Table MDA-2**)
- District expenses increased by \$715,478 during fiscal year 2015 due mainly to increased spending for Public Education, Public Safety and Justice and Human Support Services. (See **Table MDA-2**)
- The District's total net position (revenues over expenses) increased by \$105,515 (0.89% above expenses) indicating that revenues and expenses were positively balanced for the year. (See **Table MDA-2**)
- As of September 30, 2015, total governmental funds reported ending fund balances of \$2,992,686, an increase of \$583,935 in comparison with the prior year. The most significant fund balance increase within the governmental funds was in the General Fund, the District's primary operating fund. The General Fund reported an increase in fund balance of \$293,403 to \$2,167,062. The increase in the fund balance of total governmental funds is mostly related to activities of the general fund, including higher than anticipated tax revenues, and bond proceeds received to fund future capital projects. (See **Table MDA-3**)
- The District's total long-term liabilities increased by \$905,036, or 8.85%, during fiscal year 2015. This increase resulted, in large part, from the District's issuance of General Obligation Bonds during the year to fund infrastructure improvements and other 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 44 and 45 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 balances. 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 balance sheet of the governmental funds presents the District's nonspendable fund balance and further classifies 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 46 through 49 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 and 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 50 through 52 of this report.

**Financial statements of the fiduciary funds** (comprised of the Pension and OPEB Trust Funds, Private Purpose Trust Fund, and Agency 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 53 and 54 of this report.

### Component Units

Combining financial statements, presented on pages 55 and 56 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 57, 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 137 through 143 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. Financial statements of individual funds and combining statements and schedules can be found in the other supplementary information section presented on pages 145 through 171 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 2014 and 2015 is based on the government-wide financial statements presented on pages 44 and 45 of this report.

Table MDA-1 - Net Position as of September 30, 2015

	Governmental activities		Business-type activities		Totals	
	2015	2014, as restated	2015	2014	2015	2014, as restated
Current and other assets	\$ 5,007,806	\$ 4,904,586	\$ 363,154	\$ 317,918	\$ 5,370,960	\$ 5,222,504
Capital assets	11,917,024	11,410,052	169	270	11,917,193	11,410,322
Total assets	16,924,830	16,314,638	363,323	318,188	17,288,153	16,632,826
Deferred outflow of resources	593,369	55,067	-	-	593,369	55,067
Long-term liabilities	11,130,901	10,223,046	3,861	6,680	11,134,762	10,229,726
Other liabilities	2,244,928	2,065,207	42,539	46,581	2,287,467	2,111,788
Total liabilities	13,375,829	12,288,253	46,400	53,261	13,422,229	12,341,514
Deferred inflow of resources	42,922	35,523	-	-	42,922	35,523
Net position:						
Net investment in capital assets	2,639,069	2,830,199	169	270	2,639,238	2,830,469
Restricted	1,594,809	1,672,557	312,483	260,645	1,907,292	1,933,202
Unrestricted	(134,430)	(456,827)	4,271	4,012	(130,159)	(452,815)
Total net position	\$ 4,099,448	\$ 4,045,929	\$ 316,923	\$ 264,927	\$ 4,416,371	\$ 4,310,856

Table MDA- 2 - Change in Net Position for the year ended September 30, 2015

	Governmental activities		Business-type activities		Totals		Variance
	2015	2014, as restated	2015	2014	2015	2014, as restated	
Revenues:							
Program revenues:							
Charges for services	\$ 538,961	\$ 501,386	\$ 212,495	\$ 216,040	\$ 751,456	\$ 717,426	\$ 34,030
Operating grants and contributions	3,464,746	3,368,565	14,561	9,766	3,479,307	3,378,331	100,976
Capital grants and contributions	224,891	178,218	-	-	224,891	178,218	46,673
General revenues:							
Property taxes	2,315,693	2,118,198	-	-	2,315,693	2,118,198	197,495
Sales and use taxes	1,425,525	1,282,573	-	-	1,425,525	1,282,573	142,952
Income and franchise taxes	2,316,727	2,094,754	-	-	2,316,727	2,094,754	221,973
Other taxes	890,159	812,893	148,889	141,760	1,039,048	954,653	84,395
Non tax revenues	412,769	506,045	7,666	27,584	420,435	533,629	(113,194)
Total revenues	11,589,471	10,862,632	383,611	395,150	11,973,082	11,257,782	715,300
Expenses:							
Governmental direction and support	912,698	929,313	-	-	912,698	929,313	(16,615)
Economic development and regulation	474,493	416,670	-	-	474,493	416,670	57,823
Public safety and justice	1,715,161	1,568,899	-	-	1,715,161	1,568,899	146,262
Public education system	2,558,644	2,221,519	-	-	2,558,644	2,221,519	337,125
Human support services	4,484,943	4,336,730	-	-	4,484,943	4,336,730	148,213
Public works	705,766	651,221	-	-	705,766	651,221	54,545
Public transportation	335,703	309,436	-	-	335,703	309,436	26,267
Interest on long-term debt	404,130	396,754	-	-	404,130	396,754	7,376
Lottery and games	-	-	156,762	161,144	156,762	161,144	(4,382)
Unemployment compensation	-	-	119,267	160,403	119,267	160,403	(41,136)
Total expenses	11,591,538	10,830,542	276,029	321,547	11,867,567	11,152,089	715,478
Increase (decrease) in net position before transfers	(2,067)	32,090	107,582	73,603	105,515	105,693	(178)
Transfers in (out)	55,586	54,966	(55,586)	(54,966)	-	-	-
Change in net position	53,519	87,056	51,996	18,637	105,515	105,693	(178)
Net position - Oct 1, as restated	4,045,929	3,958,873	264,927	246,290	4,310,856	4,205,163	105,693
Net position - Sept 30	\$ 4,099,448	\$ 4,045,929	\$ 316,923	\$ 264,927	\$ 4,416,371	\$ 4,310,856	\$ 105,515

Please refer to Note 1W – Reconciliation of Government-Wide and Fund Financial Statements, on page 77 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 \$105,515 or 2.45%, from \$4,310,856 in fiscal year 2014 to \$4,416,371 in fiscal year 2015. Revenues increased by \$715,300 while expenses increased by \$715,478. Program revenues, which were approximately 37.21% of the District's total revenues in fiscal year 2015, increased by \$181,679, or 4.25%. This increase was due primarily to increases in operating and capital grants and contributions. Such grants and contributions were used in support of programs and services in three key areas: Public Education, Human Support Services, and Public Works.

The D.C. Public Schools received increased federal funding for school improvement from the U.S. Department of Education through the D.C. School Choice Incentive Program grant. In addition, the D.C. Public Charter Schools received increased financial support through certain federally funded programs offered by the Office of the State Superintendent for Education (OSSE). Such programs include the Credit Enhancement Fund, the Direct Loan Fund, the City Build Program, and the Incubator Initiative.

Increased grant revenues in fiscal year 2015 were also attributable to: increases in federal funds for Medicaid and other human support service programs, including the Temporary Assistance for Needy Families (TANF), Refugee Resettlement and Supplemental Nutrition Assistance programs; and a number of road, street and streetscape projects across the city.

General revenues, derived primarily from taxes, represented approximately 62.79% of the District's total revenues in fiscal year 2015. Such revenues increased by \$533,621, or 7.64%, due to higher assessed values of commercial properties and/or increased rate of collection of property taxes, sales and use taxes, and income and franchise taxes, compared to the prior year.

The most significant increase in expenses was in public education, which grew by \$337,125, or 15.18%, due to several factors including: higher equipment dispositions in fiscal year 2015 when compared to the prior year and the recognition of Teachers' pension expenses incurred due to the implementation of GASB Statement No. 68 in fiscal year 2015. Other contributing factors included increased enrollment and the resetting of the Uniform Per Student Funding Formula, which created a new category of expenses for At-Risk students. Using this formula, increased expenditures were incurred by the public schools and the public charter schools to address the needs of at-risk students and those with disabilities.

*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 \$1,907,292 in fiscal year 2015 and \$1,933,202 in fiscal year 2014, representing a decrease of \$25,910, or 1.34%.

Total net position of governmental activities was \$4,099,448 in fiscal year 2015, which was \$53,519, or 1.32% higher than prior year, indicating that revenues remained above expenses. This increase mainly resulted from increases in revenues from property taxes, sales and use taxes, and income and franchise taxes combined with effective management of expenses.

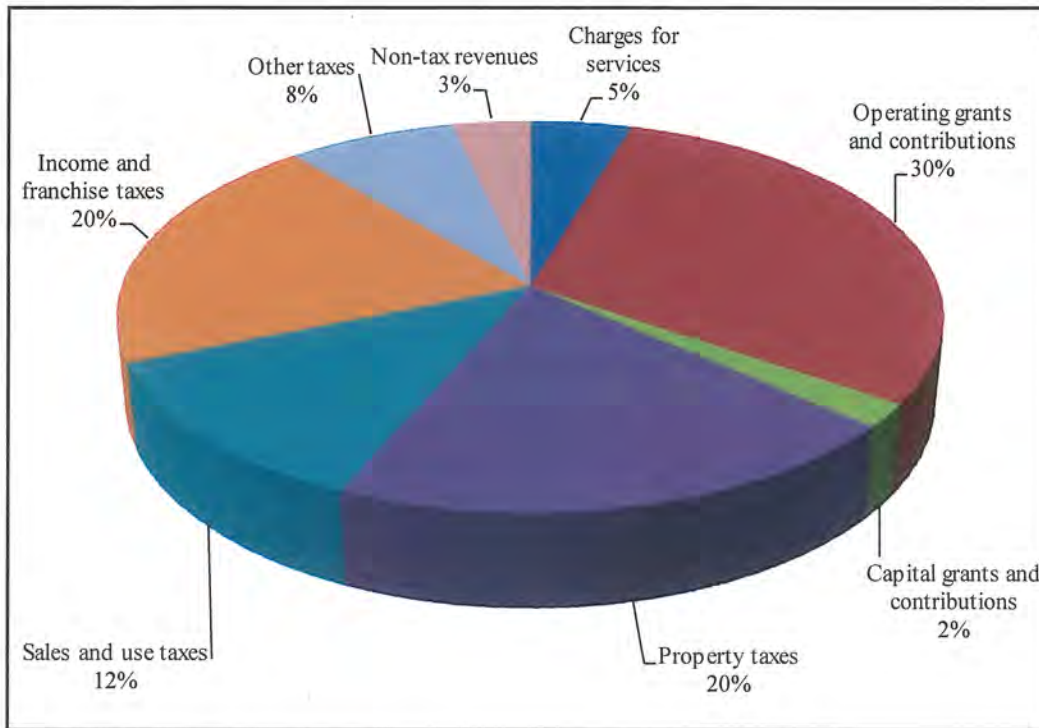
*Unrestricted net position* improved significantly in fiscal year 2015, by \$322,656 to negative \$130,159 in fiscal year 2015 compared to negative \$452,815 in fiscal year 2014. Even though unrestricted net position improved, it continued to be negative in fiscal year 2015 because the District has certain long-term liabilities such as compensated absences and claims and judgments, that are incurred in the current fiscal year but are not funded until they mature or come due for payment in future periods. In addition, the unrestricted net position is impacted by increases or decreases in the other components of net position, such as restricted net position and net investment in capital assets.

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 2015 and 2014, the Lottery transferred \$55,586 and \$54,966 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, 2015**, found on page 28.

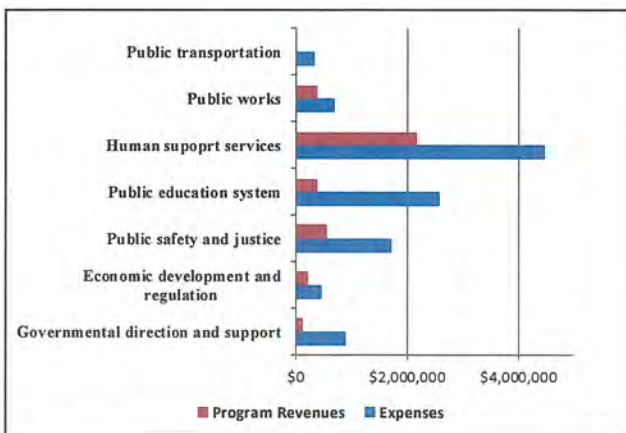


**Chart MDA-1 – Revenues by Source – Governmental Activities**



**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 system, 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 \$51,996, or 19.62%, between fiscal year 2014 and 2015. Net position increased principally as a result of increases in revenues from employer taxes and governmental

contributions combined with a decline in the payment of benefits resulting from a decrease in unemployment.

**Reporting on the District's Most Significant Funds**

Fund financial statements focus on major funds, instead of fund types. Other than the general fund, which is always classified as a major fund, any other 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 156 and 157 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. 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 46 and 47 for more detailed information about these funds.

and \$2,408,751 in fiscal year 2014, which represents an increase of \$583,935, or 24.24%, from the prior year. The components of the combined fund balance of the governmental funds are presented in **Table MDA-3**.

**Fund Balances:** The governmental funds reported a combined fund balance of \$2,992,686 in fiscal year 2015

**Table MDA-3 – Comparison of FY 2015 and FY 2014 Fund Balance**

Governmental Fund	FY 2015 Balance	FY 2014 Balance	Dollar Variance	Percentage Variance
General	\$ 2,167,062	\$ 1,873,659	\$ 293,403	15.66%
Federal and private resources	167,215	164,485	2,730	1.66%
Housing production trust	185,496	173,863	11,633	6.69%
General capital improvements	35,805	(114,248)	150,053	-131.34%
Nonmajor governmental funds	437,108	310,992	126,116	40.55%
<b>Total Fund Balance</b>	<b>\$ 2,992,686</b>	<b>\$ 2,408,751</b>	<b>\$ 583,935</b>	<b>24.24%</b>

Fund balance in the Federal and Private Resources Fund increased by \$2,730 or 1.66% between fiscal years 2014 and 2015. This relatively moderate increase in fund balance was due to a 2.42% increase in total revenues, primarily in operating grants, which was nearly offset by a 2.17% increase in expenditures, primarily in human support services. Total revenues in the Federal and Private Resources Fund increased by \$82,587 while expenditures increased by \$74,202.

Fund balance in the Housing Production Trust Fund increased by \$11,633, or 6.69% between fiscal years 2014 and 2015. This increase was due primarily to increases in deed recordation and deed transfer taxes which were dedicated to this Fund.

Fund balance in the General Capital Improvements Fund increased by \$150,053, from negative \$114,248 in fiscal year 2014 to positive \$35,805 in fiscal year 2015. This increase was due to a significant increase in grant funding received to support capital improvements as well as the issuance of bonds, the proceeds of which were used to fund capital projects.

The most significant fund balance increase within the governmental funds, which totaled \$293,403, 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 \$565,925 in fiscal year 2015. **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 2015	Fiscal Year 2014	Dollar Variance	Percentage Variance
Property taxes	\$ 2,316,147	\$ 2,104,902	\$ 211,245	10.04%
Sales and use taxes	1,373,066	1,245,015	128,051	10.29%
Income and franchise taxes	2,316,727	2,094,754	221,973	10.60%
<b>Total</b>	<b>\$ 6,005,940</b>	<b>\$ 5,444,671</b>	<b>\$ 561,269</b>	<b>10.31%</b>

**Property tax.** Increases in property tax revenues were due primarily to higher assessed values of commercial properties and an increased rate of collection of associated taxes. The District also experienced an upswing in personal property tax revenues. Although the national housing crisis, recession and slow economic recovery resulted in declines in residential property values and associated tax assessments, these conditions improved significantly in recent years. In fiscal year 2014, the District more than recovered the lost value in residential property. That recovery, along with modest economic growth, resulted in increased collections of residential property taxes in fiscal year 2015.

**Sales and use tax.** A significant portion of the increased sales and use taxes was related to hotel room taxes associated with a settlement reached by the District and online travel companies. Improved economic conditions, which resulted in increased consumer spending, also contributed to increased sales and use tax revenues in fiscal year 2015. In addition, revenues generated from some excise taxes, such as those imposed on purchases of alcoholic beverages and motor vehicles, also increased between fiscal year 2014 and 2015.

**Income and franchise taxes.** As evidenced by the decline in unemployment and an increase in population, more individuals joined the workforce during fiscal year 2015. This resulted in strong increases in total salaries and wages thereby increasing the amount of salary/wage-related taxes. Capital gains realizations also led to increases in individual income taxes. Moreover, strong growth in corporate profits during fiscal year 2015 contributed to increases in business franchise tax revenues.

#### 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 2015, the District dedicated a total of \$484,647 in tax revenues to fund the projects shown in **Table MDA-5**.

**Expenditures:** The District's general fund expenditures, excluding debt service, increased by \$341,482 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	Alcoholic Beverage Regulation Administration	HPTF Debt Service	Tax Increment Financing Program	PILOT Special Revenue	Baseball Project	Housing Production Trust Fund	
Property taxes	\$ 40,180	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,383	\$ 18,797	\$ -	\$ -	
Sales and use taxes	241,788	116,448	-	67,446	4,265	1,170	-	37,555	-	14,904	-	
Deed recordation	38,680	-	-	-	-	-	6,081	-	-	-	32,599	
Gross receipts taxes	46,304	-	-	-	-	-	-	-	-	46,304	-	
Deed transfers	29,747	-	-	-	-	-	1,748	-	-	-	27,999	
Motor fuel taxes	25,256	-	25,256	-	-	-	-	-	-	-	-	
Other taxes	62,692	-	62,692	-	-	-	-	-	-	-	-	
<b>Total taxes</b>	<b>\$ 484,647</b>	<b>\$ 116,448</b>	<b>\$ 62,692</b>	<b>\$ 25,256</b>	<b>\$ 67,446</b>	<b>\$ 4,265</b>	<b>\$ 1,170</b>	<b>\$ 7,829</b>	<b>\$ 58,938</b>	<b>\$ 18,797</b>	<b>\$ 61,208</b>	<b>\$ 60,598</b>



**Table MDA-6 – General Fund FY 2015 Expenditure Variances by Function**

Program/ Functional Area	Fiscal Year 2015	Fiscal Year 2014	Dollar Variance	Percentage Variance
Governmental direction and support	\$ 870,067	\$ 841,765	\$ 28,302	3.36%
Economic development and regulation	309,346	288,002	21,344	7.41%
Public safety and justice	1,044,356	1,049,808	(5,452)	-0.52%
Public education system	1,866,863	1,752,794	114,069	6.51%
Human support services	1,954,001	1,822,322	131,679	7.23%
Public works	328,787	303,514	25,273	8.33%
Public transportation	335,703	309,436	26,267	8.49%
<b>Total Functional Expenditures</b>	<b>\$ 6,709,123</b>	<b>\$ 6,367,641</b>	<b>\$ 341,482</b>	<b>5.36%</b>

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

**Governmental Direction and Support** – Increased expenditures in Governmental Direction and Support were largely the result of rising costs associated with managing and maintaining District properties, including providing protective services and the fixed energy costs in District facilities. In addition, spending in this functional area increased as a result of new and ongoing communications and technology projects and activities.

**Economic Development and Regulation** – Several factors contributed to increased Economic Development and Regulation expenditures, including resource and program enhancements designed to preserve and increase the supply of quality affordable housing for low income persons, particularly those with serious and persistent mental or emotional illness and senior citizens. A \$5.2 million expansion of the Marion Barry Summer Youth Employment Program up to the age of 24 years, the Contingency Fund repayment to the Workers' Compensation Fund for disallowed costs and increased staffing levels within the Department of Employment Services, Unemployment Insurance Division also contributed to the increased expenditures.

In addition, higher personnel costs also led to an overall increase in expenditures in this functional area. Additional resources were needed to improve the administration of the Community Development Block Grant and the Home Program Related Activities (HOME) grant. Other contributing factors were step increases and increased fringe benefits.

**Public Safety and Justice** – The decrease in Public Safety and Justice expenditures was due, in large part, to reductions in spending related to the Automated Traffic Enforcement Program and efforts made by the Metropolitan Police Department (MPD) to streamline its operations. A reduction in MPD's fixed costs also contributed to the decrease in public safety and justice

expenditures. Other reductions in personnel costs (salary lapses, reduced fringe benefits and the elimination of vacant positions) within public safety and justice agencies and a slight decrease in the actuarially required contribution to the Police Officers' and Fire Fighters' Retirement System also led to the overall decrease in expenditures in this functional area.

**Public Education** – Increases in Public Education expenditures were attributable to several factors, some of which included: the resetting of the Uniform Per Student Funding Formula, which now includes a category for At-Risk students; the effects of increased student enrollment; and other enhancements to educational services and support programs offered by the District's public schools and public charter schools.

**Human Support Services** – The agencies within the Human Support Services Agencies continue to provide an array of services to sustain, support and/or assist the District's most vulnerable residents. In fiscal year 2015, there was an increase in the following services: Medicaid, homelessness, substance and mental abuse, Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP) and the prevention and promotion of health and wellness which directly impacted the increase in expenditures.

**Public Works** – The increase in Public Works expenditures was due to several factors, including costs associated with cleaning public spaces throughout the District, purchasing equipment and software upgrades for the devices used by parking regulation enforcement personnel, and managing the city's fleet operations. Moreover, implementation of and other enhancements to programs designed to promote environmental stewardship, innovation, pollution prevention, and resource conservation also led to increased public works expenditures.

**Public Transportation** – The District, along with other jurisdictions in the metropolitan region, provide funding to support the operations of the Washington Metropolitan Area Transit Authority (WMATA). Public Transportation expenditures rose in fiscal year 2015 as a result of increases in WMATA's operating cost, thereby increasing the subsidies paid by the District. Expansion of Circulator bus services and the implementation of a number of streetscape improvements also contributed to increased public transportation expenditures.

#### 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, 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 \$1,172,725 on general capital improvements which exceeded the general capital improvements revenues of \$227,167 by \$945,558. This deficiency was subsequently financed with a total of \$1,095,611 from bond proceeds and other financing sources. The net change in the General Capital Improvements fund balance was an increase of \$150,053, which resulted in a fund balance of \$35,805.

#### **Proprietary Funds**

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

The total assets for the Lottery decreased by \$1,387 or 6.73%, over the prior year, due to scheduled payments to long-term prize winners.

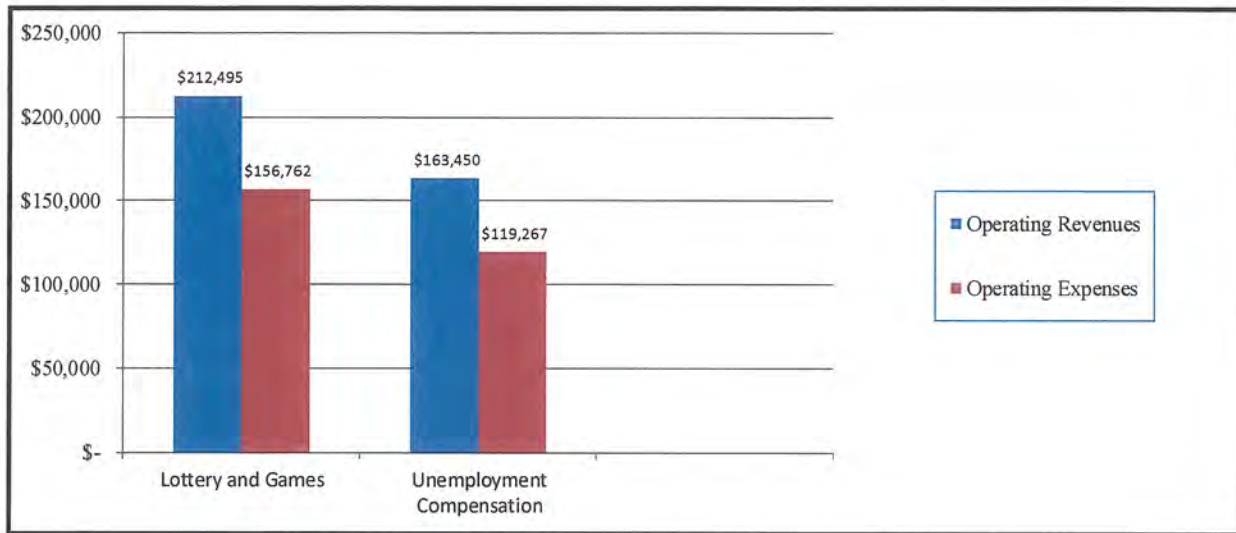
Total assets for Unemployment increased by \$39,801, or 12.07%, due primarily to cash receipts from employer taxes and governmental agencies exceeding the unemployment benefits payments while amounts due to the Fund from the federal government decreased.

Overall total net position of the District's proprietary funds increased by \$51,996, or 19.63%, over the prior year. Exhibits 3-a, 3-b, and 3-c on pages 50 through 52 present the financial statements of the proprietary funds.

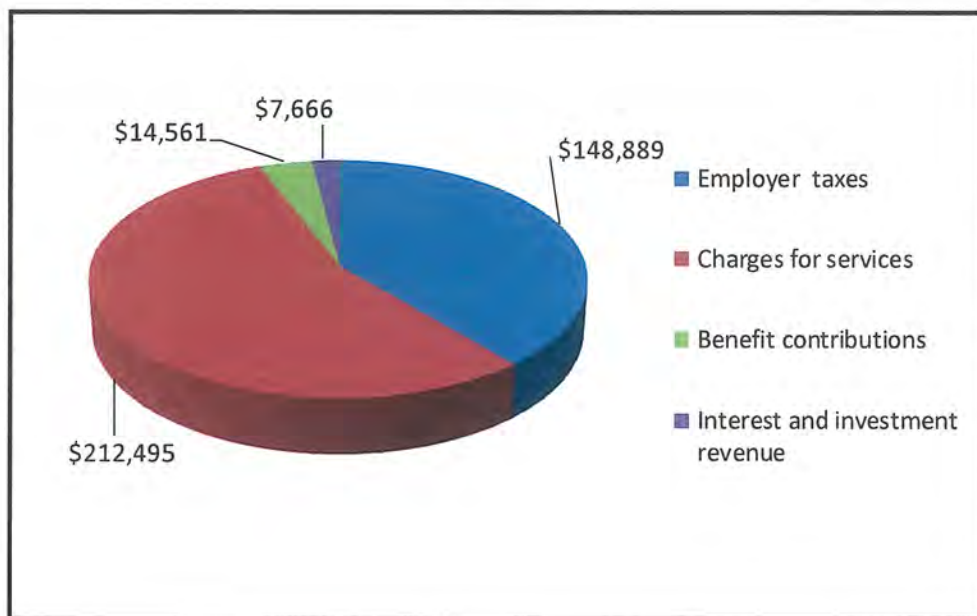
**Charts MDA-3 and MDA-4** graphically present comparisons of the revenues and expenses of the District's proprietary funds, based on information contained in the Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds, shown on page 51 of this report.



**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 53 and 54 respectively. Exhibits C-1, C-2, and C-3, presented on pages 160, 161, and 162 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**.

Net position of the fiduciary funds decreased due mainly to loss on investments.

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

Trust Fund	Fiscal Year 2015	Fiscal Year 2014	Dollar Variance	Percentage Variance
Police and Firefighters Pension	\$ 4,461,998	\$ 4,588,129	\$ (126,131)	-2.75%
Teachers Pension	1,670,638	1,745,961	(75,323)	-4.31%
Other Postemployment Benefits	1,076,551	1,051,359	25,192	2.40%
<b>Total Net Assets</b>	<b>\$ 7,209,187</b>	<b>\$ 7,385,449</b>	<b>\$ (176,262)</b>	<b>-2.39%</b>

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 (t/a Events DC); (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 primary government and the entity, or (b) the primary government 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 55 and 56 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 \$400,000 in Tax Revenue Anticipation Notes (TRANS) on November 18, 2014, at an interest rate of 1.50%. 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, 2015, 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 for the payment of the costs of acquiring capital assets or undertaking various capital projects and to refund indebtedness of the District. 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.

As of September 30, 2015, the District had \$11,134,762 (including business activities) in long term debt outstanding, of which \$9,483,682, or 85.17%, was in the form of bonds. Of the outstanding bonds, \$3,530,770, or 37.23%, were general obligation bonds, and \$4,327,855, or 45.63%, were income tax secured revenue bonds. **Table MDA-8** presents the District's outstanding bonds as of September 30, 2015.

**Table MDA-8 – Outstanding Bonds as of September 30, 2015 and 2014**

Outstanding Bond Debt				
Type of Bonds	2015	2014	Dollar Variance	Percentage Variance
General Obligation Bonds	\$ 3,530,770	\$ 2,790,935	\$ 739,835	26.51%
Income Tax Secured Revenue Bonds	4,327,855	4,465,820	(137,965)	-3.09%
Other Bonds:				
Qualified Zone Academy Bonds	4,791	5,736	(945)	-16.47%
Tobacco Bonds	616,404	631,294	(14,890)	-2.36%
TIF Bonds	100,895	104,809	(3,914)	-3.73%
Ballpark Bonds	467,360	474,420	(7,060)	-1.49%
GARVEE Revenue Bonds	104,395	111,110	(6,715)	-6.04%
HPTF Bonds	115,565	118,055	(2,490)	-2.11%
PILOT Revenue Bonds	215,647	70,030	145,617	207.94%
<b>Total</b>	<b>\$ 9,483,682</b>	<b>\$ 8,772,209</b>	<b>\$ 711,473</b>	<b>8.11%</b>

The \$739,835 increase in General Obligation Bonds is due primarily to the following bond issuances made in fiscal year 2015:

- 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 were 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 were used, together with other available funds of the District, to: (1) refund all of the District's outstanding Multimodal General Obligation Refunding Bonds (Variable Rate Demand Obligations), Series 2008A and Multimodal General Obligation Refunding Bonds (Variable Rate Demand Obligations), Series 2008D, and (2) pay the costs and expenses of issuing and delivering the Series 2014D Bonds.
- In June 2015, the District issued \$500,000 in General Obligation Bonds, Series 2015A and \$34,190 in General Obligation Refunding Bonds, Series 2015B. The proceeds of the Series 2015A Bonds were 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 2015A Bonds. The proceeds of the Series 2015B Bonds will be used to: (1) refund a portion of the District's outstanding General Obligation Refunding Bonds, Series 2005B and (2) pay the costs and expenses of issuing and delivering the Series 2015B Bonds.

The District also 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 which matured on December 1, 2014, and (b) pay the costs and expenses of issuing and delivering the Series 2014B Bonds. The payment of certain outstanding debt resulted in a reduction of \$137,965 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 103 through 119.

**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 2015, total net capital assets (capital assets less depreciation) increased by \$506,871, or 4.44%, 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.

As of September 30, 2015, total net capital assets (capital assets less depreciation) was \$11,917,193. Net capital assets of the governmental activities totaled \$11,917,024 and the net capital assets of the business-type activities totaled \$169. The governmental activities depreciation charges for fiscal year 2015 totaled \$391,147 compared to the prior year's amount of \$414,748. **Table MDA-9** presents more detailed information on the District's net capital assets.

**Table MDA-9 – Net Capital Assets as of September 30, 2015**

Asset Category	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 933,835	\$ 929,519	\$ -	\$ -	\$ 933,835	\$ 929,519
Buildings	5,991,316	5,765,400	-	-	5,991,316	5,765,400
Infrastructure	3,324,697	3,117,119	-	-	3,324,697	3,117,119
Equipment	341,558	354,552	169	270	341,727	354,822
Construction in progress	1,325,618	1,243,462	-	-	1,325,618	1,243,462
<b>Total net capital assets</b>	<b>\$ 11,917,024</b>	<b>\$ 11,410,052</b>	<b>\$ 169</b>	<b>\$ 270</b>	<b>\$ 11,917,193</b>	<b>\$ 11,410,322</b>

Note: For more detailed information on the District's capital asset activity, refer to Note 5, Capital Assets, found on pages 92 through 96.

**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, 2015.



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

	Original Budget	Revised Budget	Actual	Variance positive (negative)
<b>Revenues and Other Sources:</b>				
Taxes	\$ 6,440,052	\$ 6,679,732	\$ 6,717,301	\$ 37,569
Licenses and permits	74,156	78,772	88,788	10,016
Fines and forfeits	226,228	127,910	117,199	(10,711)
Charges for services	68,774	77,238	94,399	17,161
Miscellaneous	83,839	118,547	116,171	(2,376)
Other sources	585,045	480,197	524,826	44,629
Bond proceeds	6,000	6,000	4,894	(1,106)
Fund balance released from restrictions	120,291	268,531	60,410	(208,121)
Interfund transfer from lottery and games	66,000	54,967	55,586	619
Interfund transfer - others	25,815	69,352	57,583	(11,769)
<b>Total revenues and other sources</b>	<b>7,696,200</b>	<b>7,961,246</b>	<b>7,837,157</b>	<b>(124,089)</b>
<b>Expenditures and Other Uses:</b>				
Governmental direction and support	732,614	700,424	674,877	25,547
Economic development and regulation	373,644	359,194	320,080	39,114
Public safety and justice	1,060,064	1,062,644	1,045,398	17,246
Public education	1,879,150	1,867,669	1,853,130	14,539
Human support services	1,893,776	1,887,265	1,857,487	29,778
Public works	688,344	678,469	653,044	25,425
Repay bonds and interest	617,033	582,683	582,321	362
Other expenditures and uses	445,837	567,841	486,151	81,690
<b>Total expenditures and other uses</b>	<b>7,690,462</b>	<b>7,706,189</b>	<b>7,472,488</b>	<b>233,701</b>
<b>Excess of Revenues and Other Sources Over Expenditures and Other Uses - Budgetary Basis</b>	<b>\$ 5,738</b>	<b>\$ 255,057</b>	<b>\$ 364,669</b>	<b>\$ 109,612</b>

**Revenues and Other Sources**

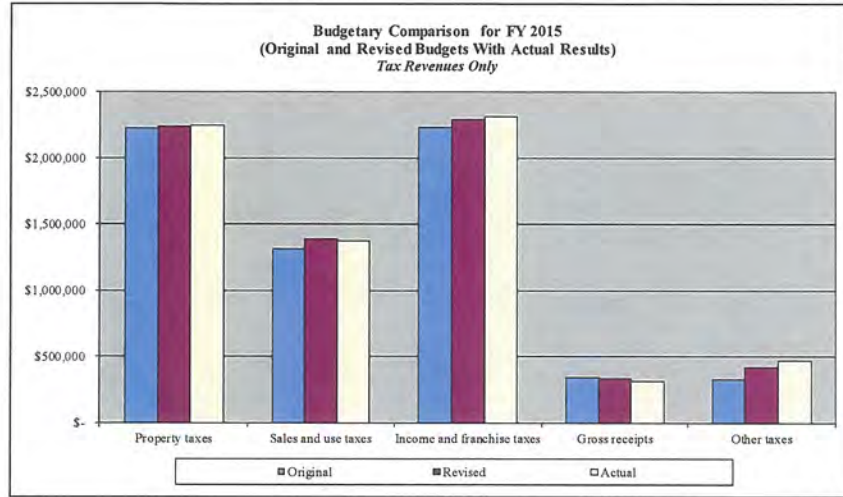
As presented in **Table MDA-10**, actual General Fund revenues and other sources were \$124,089 less than the revised budget. This variance was primarily due to the use of excess revenues instead of the planned use of fund balance to finance certain activities.

*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 \$208,121 less than anticipated for fiscal year 2015.

As presented in **Table MDA-10**, approximately 85.71% 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 2015.

**Chart MDA-5 – Budgetary Comparison – FY 2015 Tax Revenues**



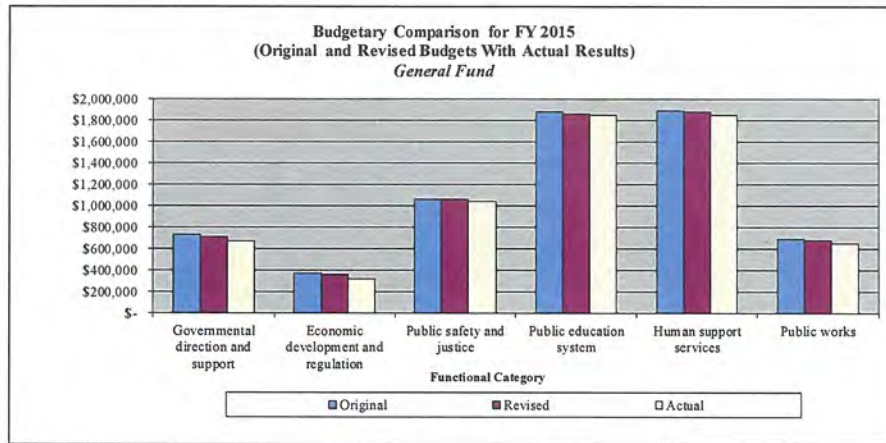
**Expenditures and Other Uses**

Actual General Fund expenditures and other uses were \$233,701 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, Human Support Services, Governmental Direction and Support, and Public Works.

More than 63.65% of the General Fund's expenditures were in the areas of Human Support Services, Public Education, 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 2015.

**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 151 through 153.



**SUBSEQUENT EVENTS****Short-Term Debt**

In December 2015, the District issued \$250,000 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 2016. These fixed rate TRANs were issued at an interest rate of 1.50% and mature on September 30, 2016. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year of issuance.

**Income Tax Secured Revenue Refunding Bonds**

In November 2015, the District issued \$95,575 in Income Tax Secured Revenue Refunding Bonds, Series 2015A, at a variable interest rate equal to the Adjusted SIFMA rates (the SIFMA rates plus the per annum spread of 12 basis points). The proceeds of the Series 2015A Bonds were used to: (a) currently refund \$39,900 of the District's Income Tax Secured Revenue Refunding Bonds, Series 2011B, maturing on December 1, 2015; (b) currently refund \$55,220 of the District's Income Tax Secured Revenue Refunding Bonds, Series 2011E, maturing on December 1, 2015; and (c) pay the costs and expenses of issuing and delivering the Series 2015A Bonds.

These and other subsequent events are presented in more detail in Note 16, found on pages 135 through 136.

**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:

**Office of the Chief Financial Officer**  
**John A. Wilson Building**  
**1350 Pennsylvania Avenue, N.W., Suite 209**  
**Washington, D.C. 20004**  
**(202) 727-2476**  
[www.cfo.dc.gov](http://www.cfo.dc.gov)