

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

(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, 2016, 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, 2016, the District's assets plus deferred outflows of resources exceeded its liabilities plus deferred inflows of resources by \$4,815,418. The District has a positive unrestricted net position in fiscal year 2016 of \$174,499, an improvement of \$304,658 over the previous year. This improvement in unrestricted net position resulted primarily from significant increases in revenues over expenses. (See **Table MDA-1**)
- As a result of continued economic recovery and growth in the District, total District revenues increased by \$523,995, primarily those generated through property taxes, income and franchise taxes, and operating grants and contributions, which increased by \$188,924, \$100,479, and \$109,812, respectively. This significant increase in total revenues in fiscal year 2016 was directly attributable to certain economic factors such as: higher assessed values of commercial properties; a rise in residential home prices and sales; a decline in unemployment; an increase in population; and higher corporate profits. In spite of these significant increases in revenues, capital grants and contributions (received to fund infrastructure improvements/public works) and other taxes decreased over the one-year period. (See **Table MDA-2**)
- District expenses increased by \$230,463 during fiscal year 2016 due mainly to increased spending for Governmental Direction and Support, Economic Development and Regulation, Public Safety and Justice and Human Support Services, while Public Education expenses declined. (See **Table MDA-2**)
- The District's total net position (revenues over expenses) increased by \$399,047 (3.30% above expenses) indicating that revenues and expenses were, for the most part, positively balanced for the year. (See **Table MDA-2**)
- The District's total long-term liabilities increased slightly by \$11,452, or 0.10%, during fiscal year 2016. This increase, which is relatively small when compared to prior years, is also due to the timing of bond issuances, with a smaller amount of bonds having been issued in fiscal year 2016. (See **Table MDA-1**)
- As of September 30, 2016, the District reported an increase in fund balance in its General Fund of \$222,027 to \$2,389,089. Total governmental funds reported combined ending fund balances of \$2,914,250, a decrease of \$78,436 in comparison with the prior year. The decrease in fund balance within the governmental funds resulted from a decrease in the Capital Improvements Fund. During fiscal year 2016, capital projects were financed internally through the use of the capital fund balance and short-term advances from the General Fund. This financing strategy allowed the District to optimize the timing of the issuance of new debt to finance capital projects and reimburse internal financing resources. (See **Table MDA-3**)

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, which are aggregated into a separate column. 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. Such fees 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 District of Columbia 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 are comprised of the Pension and OPEB Trust Funds, Private Purpose Trust Fund, and an Agency Fund. All of the fiduciary funds, except the agency fund, consist of a statement of fiduciary net position and a statement of changes in fiduciary net position. The agency fund reports only assets and liabilities and does not report net position, since it accounts for funds held by the government in a purely custodial capacity.

The fiduciary fund 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 139 through 144 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 2015 and 2016 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, 2016

	Governmental activities		Business-type activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 4,891,340	\$ 5,007,806	\$ 414,112	\$ 363,154	\$ 5,305,452	\$ 5,370,960
Capital assets	12,431,889	11,917,024	330	169	12,432,219	11,917,193
Total assets	17,323,229	16,924,830	414,442	363,323	17,737,671	17,288,153
Deferred outflows of resources	459,144	593,369	-	-	459,144	593,369
Long-term liabilities	11,143,435	11,130,901	2,779	3,861	11,146,214	11,134,762
Other liabilities	1,931,955	2,244,928	42,912	42,539	1,974,867	2,287,467
Total liabilities	13,075,390	13,375,829	45,691	46,400	13,121,081	13,422,229
Deferred inflows of resources	260,316	42,922	-	-	260,316	42,922
Net position:						
Net investment in capital assets	2,835,463	2,639,069	330	169	2,835,793	2,639,238
Restricted	1,440,889	1,594,809	364,237	312,483	1,805,126	1,907,292
Unrestricted	170,315	(134,430)	4,184	4,271	174,499	(130,159)
Total net position	\$ 4,446,667	\$ 4,099,448	\$ 368,751	\$ 316,923	\$ 4,815,418	\$ 4,416,371

Table MDA - 2 – Change in Net Position for the Year Ended September 30, 2016

	Governmental activities		Business-type activities		Totals		Variance
	2016	2015	2016	2015	2016	2015	
Revenues:							
Program revenues:							
Charges for services	\$ 598,747	\$ 538,961	\$ 228,183	\$ 212,495	\$ 826,930	\$ 751,456	\$ 75,474
Operating grants and contributions	3,577,091	3,464,746	12,028	14,561	3,589,119	3,479,307	109,812
Capital grants and contributions	167,948	224,891	-	-	167,948	224,891	(56,943)
General revenues:							
Property taxes	2,504,617	2,315,693	-	-	2,504,617	2,315,693	188,924
Sales and use taxes	1,451,441	1,425,525	-	-	1,451,441	1,425,525	25,916
Income and franchise taxes	2,417,206	2,316,727	-	-	2,417,206	2,316,727	100,479
Other taxes	863,466	890,159	145,887	148,889	1,009,353	1,039,048	(29,695)
Non-tax revenues	521,931	412,769	8,532	7,666	530,463	420,435	110,028
Total revenues	12,102,447	11,589,471	394,630	383,611	12,497,077	11,973,082	523,995
Expenses:							
Governmental direction and support*	1,228,553	1,144,379	-	-	1,228,553	1,144,379	84,174
Economic development and regulation	548,314	474,493	-	-	548,314	474,493	73,821
Public safety and justice	1,799,670	1,715,161	-	-	1,799,670	1,715,161	84,509
Public education system*	2,271,561	2,326,963	-	-	2,271,561	2,326,963	(55,402)
Human support services	4,507,123	4,484,943	-	-	4,507,123	4,484,943	22,180
Public works	701,559	705,766	-	-	701,559	705,766	(4,207)
Public transportation	359,097	335,703	-	-	359,097	335,703	23,394
Interest on long-term debt	392,638	404,130	-	-	392,638	404,130	(11,492)
Lottery and games	-	-	174,882	156,762	174,882	156,762	18,120
Unemployment compensation	-	-	114,633	119,267	114,633	119,267	(4,634)
Total expenses	11,808,515	11,591,538	289,515	276,029	12,098,030	11,867,567	230,463
Increase (decrease) in net position before transfers	293,932	(2,067)	105,115	107,582	399,047	105,515	293,532
Transfers in (out)	53,287	55,586	(53,287)	(55,586)	-	-	-
Change in net position	347,219	53,519	51,828	51,996	399,047	105,515	293,532
Net position - Oct 1	4,099,448	4,045,929	316,923	264,927	4,416,371	4,310,856	105,515
Net position - Sept 30	\$ 4,446,667	\$ 4,099,448	\$ 368,751	\$ 316,923	\$ 4,815,418	\$ 4,416,371	\$ 399,047

Please refer to Note 1W - Reconciliation of Government-Wide and Fund Financial Statements, on page 76 for additional information on the differences between the two bases of accounting that the District used in this report.

* FY 2015 governmental activities expenses revised to reflect reclassification.

Financial Analysis of the Government as a Whole

The District's combined net position (governmental and business-type activities) increased by \$399,047 or 9.04% from \$4,416,371 in fiscal year 2015 to \$4,815,418 in fiscal year 2016. Revenues increased by \$523,995 while expenses increased by \$230,463. Program revenues, which were approximately 36.68% of the District's total revenues in fiscal year 2016, increased by \$128,343, or 2.88%. This increase was due primarily to increases in operating grants and contributions and charges for services. The grants comprising this increase were used primarily in support of programs and services in the area of Human Support.

Increased Human Support Services grant revenues resulted from increased program enrollment by District residents and the federal government's matching of District expenditures for Medicaid-eligible healthcare services. The availability of Temporary Assistance for Needy Families (TANF) carryover funds also contributed to this increase.

General revenues, derived primarily from taxes, represented approximately 63.32% of the District's total revenues in fiscal year 2016. Such revenues increased by \$395,652, or 5.26%, due to higher assessed values of commercial properties, increased rate of collection of property taxes, and increases in non-tax revenues, compared to the prior year. Increases in income and franchise taxes in fiscal year 2016 resulted from improvement in business conditions and profitability within the District, which caused corporate income taxes to rise.

The most significant increases in expenses were in Governmental Direction and Support, and Public Safety and Justice, which grew by \$84,174, or 7.36% and \$84,509, or 4.93%, respectively. Governmental Direction and Support expenses increased due to rising costs associated with managing the maintenance of District properties, increases in fixed costs (including utilities, telecommunications, and other similar expenses) and the implementation of enhancements to improve overall District operations. Public Safety and Justice expenses increased as a result of the: acquisition of body worn cameras for the Metropolitan Police Department and other enhancements to third-party medical transport services at the Fire and Emergency Medical Services and crime scene sciences at the Department of Forensic Sciences. However, the decreases reflected in Public Education expenses resulted from the reporting of higher equipment disposition expenses in fiscal year 2015.

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 \$1,805,126 in fiscal year 2016 and \$1,907,292 in fiscal year 2015, representing a decrease of \$102,166, or 5.36%. The most significant decreases in restricted net position related to pensions, purpose restrictions, and a settlement involving Fire and Emergency Medical Services (FEMS). The decrease in restricted net position related to pensions resulted from activity in deferred inflow and deferred outflow of resources. Between fiscal years 2015 and 2016, deferred outflow of resources related to pensions decreased by \$131,832 while deferred inflow of resources increased by \$219,371. The net effect of these balances contributed to the decrease in restricted net position. In addition, due to declines in grants which have limitations on the use of funding, net position associated with purpose restrictions also decreased in fiscal year 2016. The payment of a settlement in the amount of \$47 million related to overtime at FEMS also contributed to the decrease in restricted net position.

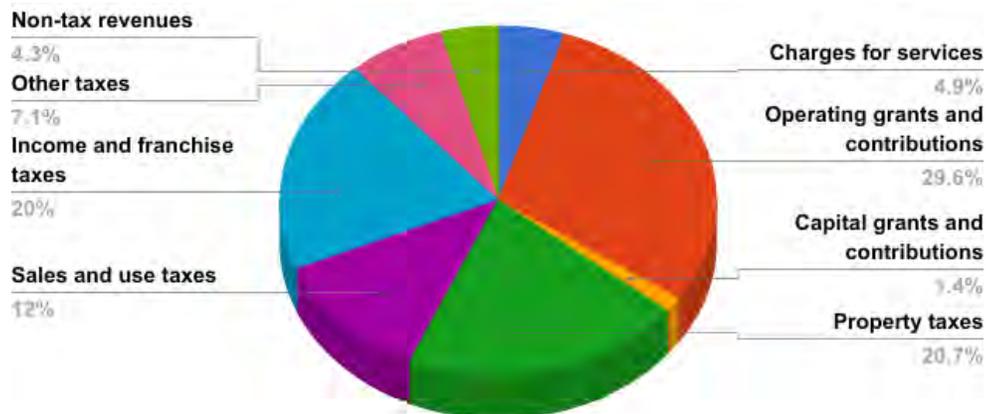
Total net position of governmental activities was \$4,446,667 in fiscal year 2016, which was \$347,219, or 8.47% higher than the amount in the prior year. This increase mainly resulted from increases in revenues from property taxes, income and franchise taxes, and certain non-tax revenues combined with effective management of expenses.

Unrestricted net position improved significantly in fiscal year 2016, by \$304,658 to \$174,499 in fiscal year 2016 compared to negative \$130,159 in fiscal year 2015. This improvement in unrestricted net position occurred because certain long-term liabilities (compensation payable and other accrued liabilities), decreased by \$247,147 in fiscal year 2016. Such liabilities are incurred in the current fiscal year but are not funded until they mature or come due for payment in future periods. In addition, total revenues increased by \$523,995. This increase in revenues as well as a decrease in restricted net position also contributed to the improvement in unrestricted net position.

The District of Columbia 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 2016 and 2015, the Lottery transferred \$53,287 and \$55,586 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, 2016, found on page 28.

Chart MDA-1 – Revenue by Source – Governmental Activities

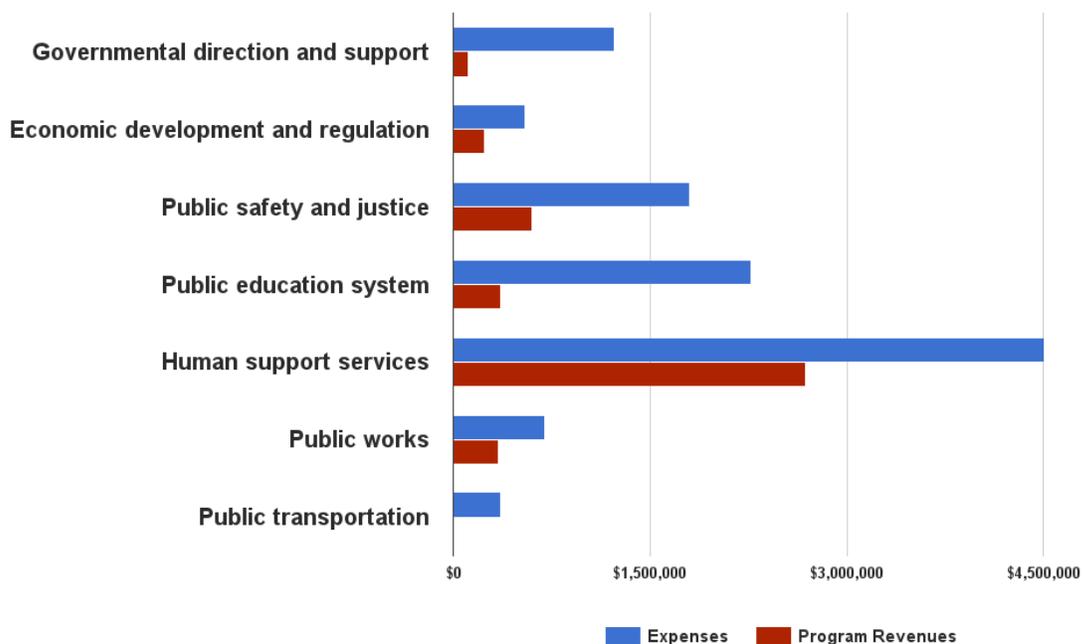


Charges for services	\$	598,747
Operating grants and contributions		3,577,091
Capital grants and contributions		167,948
Property taxes		2,504,617
Sales and use taxes		1,451,441
Income and franchise taxes		2,417,206
Other taxes		863,466
Non-tax revenues		521,931
Total Governmental Activities Revenues	\$	12,102,447

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 \$51,828, or 16.35%, between fiscal year 2015 and 2016. 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 5.00% 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.

Fund Balances:

The governmental funds reported a combined fund balance of \$2,914,250 in fiscal year 2016 and \$2,992,686 in fiscal year 2015, which represents a decrease of \$78,436, or 2.62%, 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 2016 and FY 2015 Fund Balance

Governmental Fund	2016	2015	Dollar Variance	Percentage Variance
General	\$ 2,389,089	\$ 2,167,062	\$ 222,027	10.25%
Federal and private resources	160,142	167,215	(7,073)	(4.23%)
Housing production trust	250,311	185,496	64,815	34.94%
General capital improvements	(228,870)	35,805	(264,675)	(739.21%)
Nonmajor governmental funds	343,578	437,108	(93,530)	(21.40%)
Total Fund Balance	\$ 2,914,250	\$ 2,992,686	\$ (78,436)	(2.62%)

Fund balance in the Federal and Private Resources Fund decreased by \$7,073 or 4.23% between fiscal years 2015 and 2016. This decrease in fund balance was due to a 3.43% increase in total expenditures, primarily in human support services, which was not quite offset by a 3.14% increase in total revenues, primarily in operating grants. Total revenues in the Federal and Private Resources Fund increased by \$109,830 while expenditures increased by \$119,781.

Fund balance in the Housing Production Trust Fund increased by \$64,815, or 34.94% between fiscal years 2015 and 2016. This increase was due primarily to transfers of local funds from the General Fund to the Housing Production Trust Fund to fully fund it at \$100 Million, as requested by the Mayor, to finance the Affordable Housing Initiative. This initiative provides financial assistance to non-profit and for-profit developers that support the rehabilitation and acquisition of affordable housing for rental or homeownership in the District. In addition, \$40 Million derived from the excess deed recordation and deed transfer taxes, which were transferred to the Housing

Production Trust Fund, contributed to the increase.

Fund balance in the General Capital Improvements Fund decreased by \$264,675, from positive \$35,805 in fiscal year 2015 to negative \$228,870 in fiscal year 2016. Due to improved General Fund cash reserves, the Capital Improvements Fund borrowed from the General Fund to fund current activities, and to optimize the timing of the issuance of long-term bonds, which were later issued to reimburse the General Fund.

The most significant fund balance increase within the governmental funds, which totaled \$222,027, 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 \$412,531 in fiscal year 2016. **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	2016	2015	Dollar Variance	Percentage Variance
Property taxes	\$ 2,470,004	\$ 2,316,147	\$ 153,857	6.64%
Sales and use taxes	1,401,058	1,373,066	27,992	2.04%
Income and franchise taxes	2,464,330	2,316,727	147,603	6.37%
Total	\$ 6,335,392	\$ 6,005,940	\$ 329,452	5.49%

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, the District's residential market continued to show solid improvement in fiscal year 2016, with residential home prices and sales increasing significantly. The continued recovery and economic growth resulted in increased collections of residential property taxes in fiscal year 2016.

Sales and use tax:

Improved economic conditions, which resulted in increased consumer spending, contributed to increased sales and use tax revenues in fiscal year 2016. 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 2015 and 2016.

Income and franchise taxes:

As evidenced by the decline in unemployment and an increase in population, more individuals joined the workforce during fiscal year 2016. This resulted in 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 2016 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 the 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 2016, the District dedicated a total of \$501,562 in tax revenues to fund the projects shown in **Table MDA-5**.

Expenditures:

The District's general fund expenditures, excluding debt service, increased by \$387,207 from the previous year. Variances by program or function are presented in **Table MDA-6**.

Table MDA-5 – Dedicated Local Tax Revenues

	General Fund							Special Revenue Funds				
	Total Dedicated Taxes	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	\$ 33,887	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,086	\$ 16,801	\$ -	\$ -
Sales and use taxes	251,725	123,551	-	-	72,355	4,266	1,170	-	33,963	-	16,420	-
Deed recordation	37,504	-	-	-	-	-	-	6,711	-	-	-	30,793
Gross receipts taxes	43,155	-	-	-	-	-	-	-	-	-	43,155	-
Deed transfers	26,196	-	-	-	-	-	-	1,111	-	-	-	25,085
Motor fuel taxes	25,333	-	-	25,333	-	-	-	-	-	-	-	-
Other taxes	83,762	-	83,762	-	-	-	-	-	-	-	-	-
Total taxes	\$ 501,562	\$ 123,551	\$ 83,762	\$ 25,333	\$ 72,355	\$ 4,266	\$ 1,170	\$ 7,822	\$ 51,049	\$ 16,801	\$ 59,575	\$ 55,878

Table MDA-6 – General Fund Expenditure Variances by Function

Function/Program	2016	2015	Dollar Variance	Percentage Variance
Governmental direction and support	\$ 957,151	\$ 870,067	\$ 87,084	10.01%
Economic development and regulation	404,313	309,346	94,967	30.70%
Public safety and justice	1,227,558	1,044,356	183,202	17.54%
Public education system	1,947,968	1,866,863	81,105	4.34%
Human support services	1,860,387	1,954,001	(93,614)	(4.79%)
Public works	339,856	328,787	11,069	3.37%
Public transportation	359,097	335,703	23,394	6.97%
Total Expenditures by Function	\$ 7,096,330	\$ 6,709,123	\$ 387,207	5.77%

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

Governmental Direction and Support – Increased expenditures in Governmental Direction and Support resulted primarily from significant increases in overtime costs due to the “epic” snowstorm in 2016 and the implementation of a lead filter and testing initiative in response to DCPS’s water levels testing within District schools. Certain increases in expenditures resulted from rising fixed costs associated with managing and maintaining District leased and owned properties: utilities, facility maintenance and protective security services. In addition, spending in this functional area also increased as a result of a mass work order reduction initiative initiated by the Department of General Services, new and ongoing communications and technology projects and activities, and other initiatives designed to further enhance government operations and management.

Economic Development and Regulation – The increase in Economic Development and Regulation expenditures resulted mostly from 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. In addition, implementation and expansion of certain workforce development and youth employment initiatives within the Department of Employment Services also contributed to the increased expenditures.

Public Safety and Justice – Increased expenditures in Public Safety and Justice expenditures were associated with additional funding appropriated for body worn cameras for the Metropolitan Police Department; third-party emergency medical-transport services for the Fire and Emergency Medical Services Department; crime scene sciences for the Department of Forensic Sciences; and synthetic drug testing for the Office of the Chief Medical Examiner, all of which were designed to enhance operational efficiency and the quality of services provided.

Public Education – Public Education expenditures increased due to several factors, some of which included: the effects of an increase in the Uniform Per Student Funding Formula (UPSFF), increased student enrollment and other enhancements to

educational services and support programs offered by the District’s public schools and public charter schools. Such enhancements include an increase in expenditures for students with Individualized Education Programs (IEPs), At-Risk students and Special Education enrollment.

Human Support Services – Human Support Services Agencies continued to provide an array of services to sustain, support and assist the District’s most vulnerable residents. Such services were provided to assist residents in the following areas: homelessness, substance and mental abuse, the prevention and promotion of health and wellness, and other human welfare issues through such programs as Medicaid, Temporary Assistance for Needy Families (TANF), and the Supplemental Nutrition Assistance Program (SNAP). Human Support Services expenditures decreased over the one-year period due to reductions in certain grant-funded programs such as Healthy Start; Maternal, Infant, and Early Childhood Home Visitation; HIV Emergency Relief Projects; and the implementation of certain programmatic efficiencies.

Public Works – Public Works expenditures increased due to several factors, including costs associated with cleaning public spaces throughout the District and managing the city’s fleet operations. Moreover, implementation of 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). Increases in Public Transportation expenditures in fiscal year 2016 resulted from increased WMATA’s operating cost, which led to increased subsidies being paid by the District. The implementation of initiatives such as a traffic congestion management study (designed to identify strategies for preventing and better managing the flow of traffic in the District) and a project designed to reduce the risk of flooding in the Bloomingdale area of the District also contributed to the increased expenditures in fiscal year 2016.

Capital Expenditures and Financing

The District spent \$1,095,464 on general capital improvements which exceeded the general capital improvements revenues of \$175,949 by \$919,515. This deficiency was subsequently financed with a total of \$654,840 from bond proceeds and other financing sources. The net change in fund balance was a decrease of \$264,675, which resulted in a negative fund balance of \$228,870.

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.

Proprietary Funds

The District has two major Proprietary Funds: the District of Columbia Lottery and Charitable Games Control Board (Lottery), and the Unemployment Compensation Fund (Unemployment).

The total assets for the Lottery decreased by \$417, or 2.17%, compared to the prior year, due to scheduled payments to long-term prize winners.

Total assets for Unemployment increased by \$47,928, or 12.97%, due primarily to cash receipts from employer taxes and governmental agencies exceeding the unemployment benefits payments.

Overall total net position of the District’s proprietary funds increased by \$51,828, or 16.35%, 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

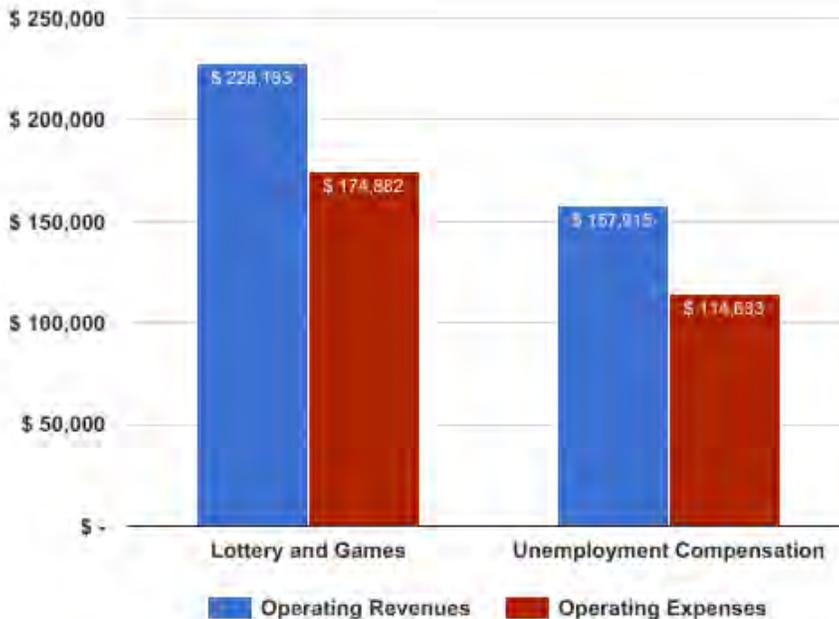
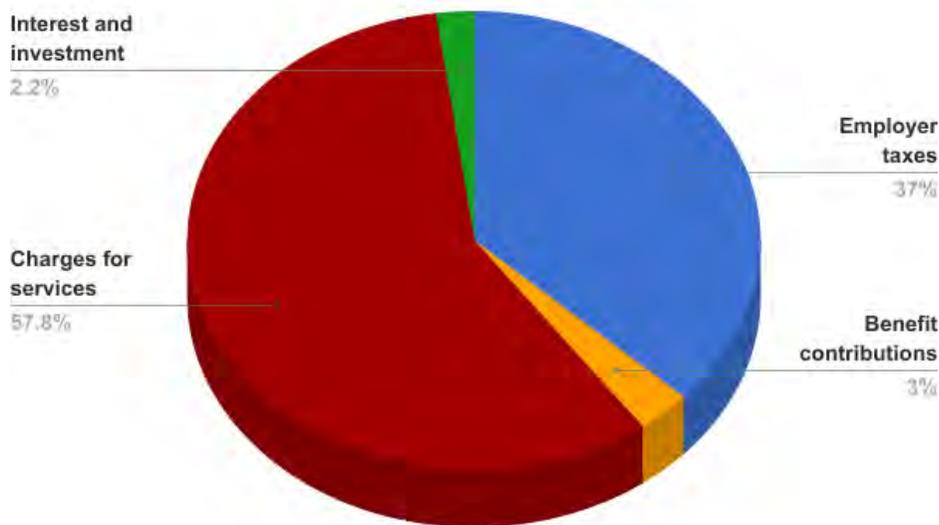


Chart MDA-4 – Revenues by Source – Business-Type Activities



Employer taxes	\$ 145,887
Benefit contributions	12,028
Charges for services	228,183
Interest and investment	8,532
Total Business-Type	\$ 394,630

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 and OPEB Trust Funds are presented in **Table MDA-7**.

Net position of the fiduciary funds increased mainly as a result of higher investment returns in fiscal year 2016.

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

Trust Fund	2016	2015	Dollar Variance	Percentage Variance
Police and Firefighters Pension	\$ 4,954,631	\$ 4,461,998	\$ 492,633	11.04%
Teachers Pension	1,821,949	1,670,638	151,311	9.06%
Other Postemployment Benefits	1,197,441	1,076,551	120,890	11.23%
Total Net Assets	\$ 7,974,021	\$ 7,209,187	\$ 764,834	10.61%

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 \$250,000 in Tax Revenue Anticipation Notes (TRANs) on December 2, 2015, 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, 2016, the District had repaid these outstanding TRANs.

Historically, during the first quarter of each fiscal year, the District has issued TRANs to fund seasonal cash flow needs for that year. Due to the District's improved cash management practices and the build-up of reserves, the use of short-term borrowing to sustain operations during fiscal year 2017 was not needed.

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 (QZAB), and other revenue bonds.

As of September 30, 2016, the District had \$11,146,214 (including business activities) in long-term debt outstanding, of which \$9,567,004, or 85.83% was in the form of bonds. Of the outstanding bonds, \$3,829,305, or 40.03%, were General Obligation Bonds, and \$4,240,155, or 44.32%, were Income Tax Secured Revenue Bonds. **Table MDA-8** presents the District's outstanding bonds as of September 30, 2016.

Table MDA-8 – Outstanding Bonds as of September 30, 2016 and 2015

Outstanding Bond Debt					
Type of Bonds	2016	2015	Dollar Variance	Percentage Variance	
General Obligation Bonds	\$ 3,829,305	\$ 3,530,770	\$ 298,535	8.46%	
Income Tax Secured Revenue Bonds	4,240,155	4,327,855	(87,700)	(2.03%)	
Other Bonds:					
Qualified Zone Academy Bonds	3,845	4,791	(946)	(19.75%)	
Tobacco Bonds	600,974	616,404	(15,430)	(2.50%)	
TIF Bonds	96,822	100,895	(4,073)	(4.04%)	
Ballpark Bonds	371,305	467,360	(96,055)	(20.55%)	
GARVEE Revenue Bonds	97,420	104,395	(6,975)	(6.68%)	
HPTF Bonds	112,965	115,565	(2,600)	(2.25%)	
PILOT Revenue Bonds	214,213	215,647	(1,434)	(0.66%)	
Total	\$ 9,567,004	\$ 9,483,682	\$ 83,322	0.88%	

The \$298,535 increase in General Obligation Bonds is due primarily to the following bond issuance made in fiscal year 2016:

- In June 2016, the District issued \$431,815 in General Obligation Bonds, Series 2016A. The proceeds of the Series 2016A 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 Bonds. The interest rates pertaining to the Series 2016A Bonds range between 1.75% and 5.00%.

The District also issued \$95,575 in Income Tax Secured Revenue Refunding Bonds, Series 2015A, in November 2015. 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 (Adjusted SIFMA Rate) maturing on December 1, 2015, (b) currently refund \$55,220 of the District's Income Tax Secured Revenue Refunding, Series 2011E (Adjusted SIFMA Rate) maturing December 1, 2015 and (c) pay the costs and expenses of issuing and delivering the Series 2015A Bonds. The Series 2015A Bonds bear interest at a variable rate equal to the Adjusted SIFMA rates, which equal the SIFMA rate plus 0.12% (12 basis points).

In fiscal year 2016, the District paid \$96,055 toward the Ballpark Revenue Bonds, Series 2006A and 2006B-1. The District's payment includes \$88,130 in addition to

the minimum annual debt service requirement, as a result of collecting increased Ballpark Revenue Bonds dedicated revenues.

For more detailed information on the District's long-term debt activity, refer to Note 8, Long-Term Liabilities, found on pages 109 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 2016, total net capital assets (capital assets less depreciation) increased by \$515,026, or 4.32%, 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, 2016, total net capital assets (capital assets less depreciation) was \$12,432,219. Net capital assets of the governmental activities totaled \$12,431,889 and the net capital assets of the business-type activities totaled \$330. The governmental activities depreciation charges for fiscal year 2016 totaled \$413,125 compared to the prior year's amount of \$391,147. **Table MDA-9** presents more detailed information on the District's net capital assets.

Table MDA-9 – Net Capital Assets as of September 30, 2016

Asset Category	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 948,412	\$ 933,835	-	-	\$ 948,412	\$ 933,835
Buildings	6,425,147	5,991,316	-	-	6,425,147	5,991,316
Infrastructure	3,523,083	3,324,697	-	-	3,523,083	3,324,697
Equipment	315,339	341,558	330	169	315,669	341,727
Construction in progress	1,219,908	1,325,618	-	-	1,219,908	1,325,618
Total net capital assets	\$ 12,431,889	\$ 11,917,024	\$ 330	\$ 169	\$ 12,432,219	\$ 11,917,193

Note: For more detailed information on the District's capital asset activity, refer to Note 5, Capital Assets, found on pages 98 through 102.

REPORTING THE DISTRICT BUDGET

Overview in Brief

D.C. Code § 47-392.01(c) (1) (A) requires the District to prepare a balanced budget each year. After approval of the adopted budget, the Mayor submits the Federal Portion Budget Request Act to the President of the United States (the President) and then to Congress for approval. The Local Budget Act is forwarded by the Chairman of the Council to Congress. Congress can: (1) take no action on the Budget Act, in which case it becomes law after 30 Congressional days in the same manner as other District legislation; (2) reject the Budget Act; (3) affirmatively approve the Budget Act with or without Congressional amendments; or (4) adopt an appropriation for the District in the federal appropriations bill, in a continuing resolution, or as a stand-alone piece of legislation, in which case, that action controls.

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 may also be 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 variances between revised budget amounts and actual expenditures in a Schedule of Budgetary Basis Revenues and Expenditures for the General Fund for the fiscal year ended September 30, 2016.

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

	Original Budget	Revised Budget	Actual	Variance
Revenues and Other Sources:				
Taxes	\$ 6,756,594	\$ 6,718,502	\$ 7,050,284	\$ 331,782
Licenses and permits	77,667	85,960	90,432	4,472
Fines and forfeitures	136,616	151,536	197,439	45,903
Charges for services	75,429	78,365	80,251	1,886
Miscellaneous	95,375	106,221	140,886	34,665
Other sources	587,345	463,547	533,557	70,010
Bond proceeds	6,000	6,000	2,600	(3,400)
Fund balance released from restrictions	121,079	402,830	63,812	(339,018)
Interfund transfer from lottery and games	62,500	55,000	53,287	(1,713)
Interfund transfer - others	66,410	80,492	27,216	(53,276)
Total revenues and other sources	7,985,015	8,148,453	8,239,764	91,311
Expenditures and Other Uses:				
Governmental direction and support	756,798	775,065	761,189	13,876
Economic development and regulation	440,032	493,807	470,338	23,469
Public safety and justice	1,158,185	1,231,093	1,227,294	3,799
Public education	1,908,453	1,948,880	1,933,142	15,738
Human support services	1,913,748	1,877,617	1,855,731	21,886
Public works	735,893	710,223	698,217	12,006
Repay bonds and interest	614,323	574,955	571,900	3,055
Other expenditures and uses	443,251	432,729	420,785	11,944
Total expenditures and other uses	7,970,683	8,044,369	7,938,596	105,773
Excess of Revenues and Other Sources Over Expenditures and Other Uses -Budgetary Basis	\$ 14,332	\$ 104,084	\$ 301,168	\$ 197,084

Revenues and Other Sources

As presented in **Table MDA-10**, actual General Fund revenues and other sources were \$91,311 more than the revised budget. This variance was primarily due to excess revenues being generated and as a result, the planned use of fund balance to fund certain activities was not necessary.

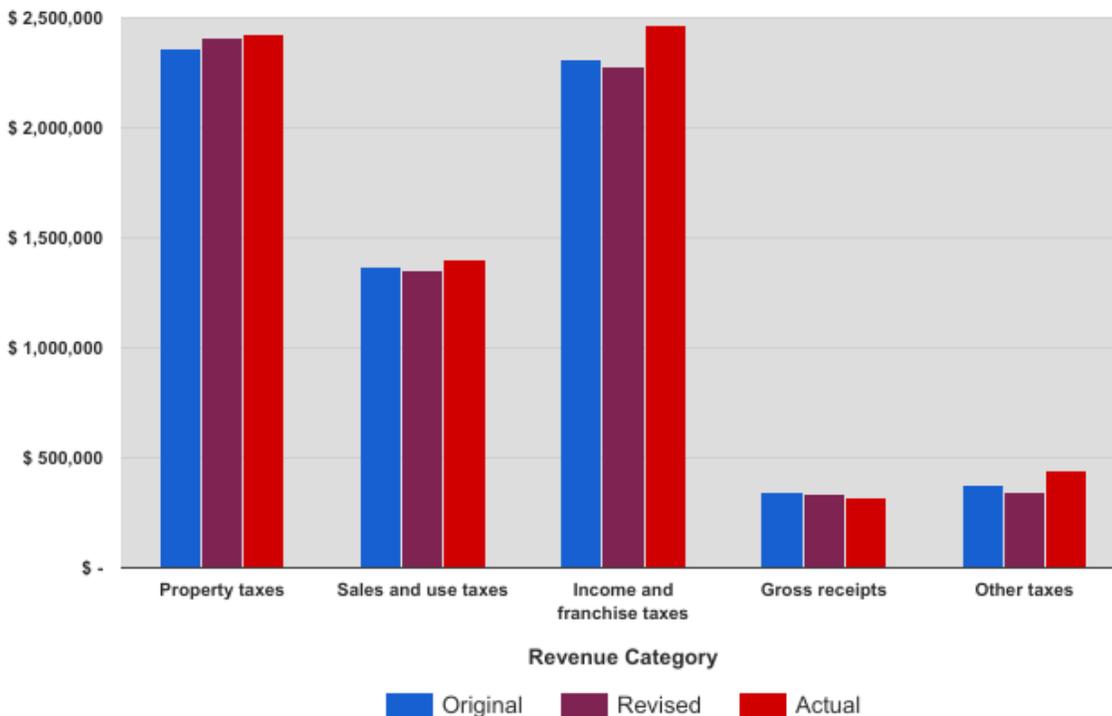
Fund Balance Released from Restrictions - Fund balance released from restrictions represents the portion of assets that were restricted for either a period of time or for a particular purpose for which the imposed conditions have been met, allowing the assets to become available for use. In other words, 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

\$339,018 less than anticipated for fiscal year 2016. Approximately 85.56% 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 2016.

Chart MDA-5 – Budgetary Comparison – Tax Revenues

Budgetary Comparison for FY 2016
 (Original and Revised Budgets With Actual Results)
Tax Revenues Only



Expenditures and Other Uses

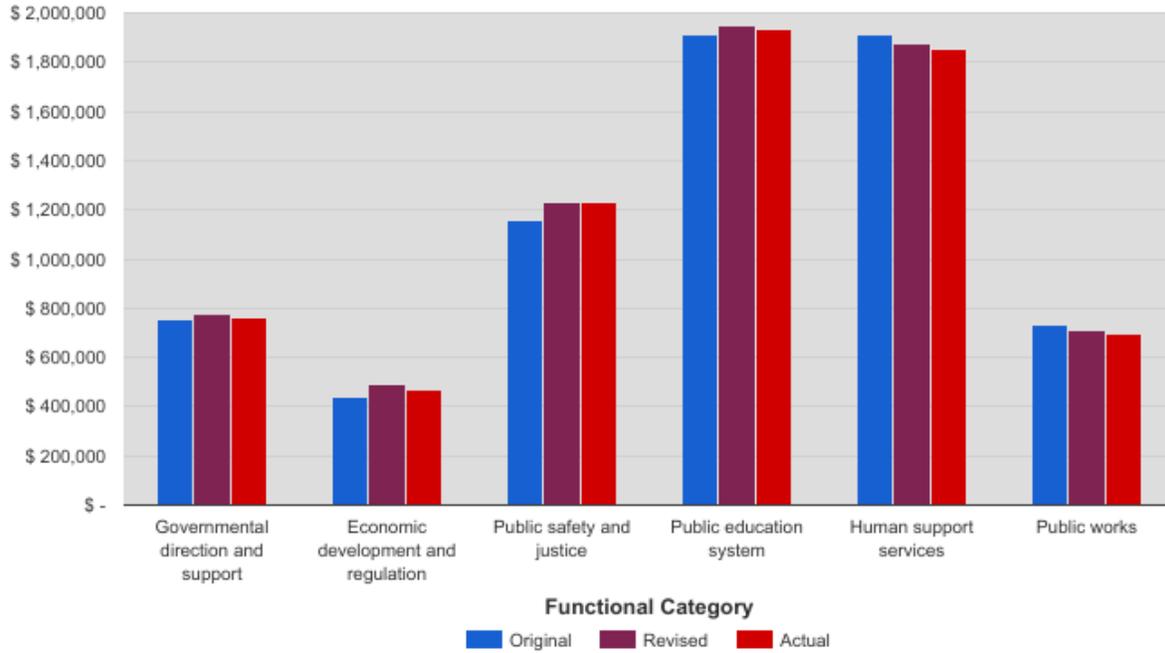
Actual General Fund expenditures and other uses were \$105,773 less than the revised budget. As presented in **Table MDA-10**, this variance was primarily due to underspending in the areas of Economic Development and Regulation, Human Support Services, Governmental Direction and Support, and Public Education.

Approximately 63% 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 2016.

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

**Budgetary Comparison for FY 2016
(Original and Revised Budgets With Actual Results)
General Fund**



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

General Obligation Bonds

In December 2016, the District issued \$398,910 in General Obligation Bonds, Series 2016D and \$190,635 in General Obligation Refunding Bonds, Series 2016E. The proceeds of the Series 2016D 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 2016D Bonds. The proceeds of the Series 2016E Bonds will be used to: (1) advance refund a portion of the District's outstanding General Obligation Bonds, Series 2007C and (2) pay the costs and expenses of issuing and delivering the Series 2016E Bonds. The assumed interest rate pertaining to the Series 2016D is 3.00% at the first maturity date of June 1, 2019, then 5.00% to the end of the bond term. The interest rate related to the Series 2016E Bonds is 5.00%.

General Obligation Direct Purchase Bonds

In November 2016, the District issued \$190,145 in Multimodal General Obligation Refunding Bonds, Series 2016B and \$224,315 in Series 2016C. The Series 2016B Bonds were issued to currently refund the Multimodal General Obligation Bonds, Series 2014A and the Income Tax Secured Revenue Bonds (SIFMA Notes), Series 2015A. The Series 2016C Bonds were issued to currently refund the Multimodal General Obligation Refunding Bonds, Series 2014B. The Series 2016B and 2016C Multimodal General Obligation Refunding Bonds were issued in the LIBOR Index Mode as authorized under the Ninth Supplemental Indenture by and between the District of Columbia and Wells Fargo Bank, N.A., as trustee, dated as of November 1, 2016. The interest on the bonds is payable monthly on the first business day of each month, commencing December 1, 2016.

These and other subsequent events are presented in more detail in Note 16, found on pages 137 through 138.

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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