MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2023

(Dollar amounts expressed in thousands)

The following is a discussion and analysis of the financial performance of the District of Columbia (District) for the fiscal year ended September 30, 2023, which includes a narrative overview and analysis of the District's financial activities. This information should be read in conjunction with the letter of transmittal, located in the Introductory Section of this report, and the District's basic financial statements and notes to the basic financial statements, which follow this discussion and analysis.

During fiscal year 2023, the District continued to emerge from the public health emergency and its financial performance remained strong even as the city faced rising interest rates, inflationary pressures, and other challenges. As the District transitions from the emergency phase, its lingering economic, financial, and demographic effects have a less significant impact to the city. The District continues to plan for increasing population growth, and long-term financial challenges associated with future capital and infrastructure needs. Positive trends in the retail and hospitality sectors were tempered by activities within the real estate industry with an increase in vacant commercial office space and lower occupancy rates. District officials continue to strategize as workers make their way back to the office. Despite the financial challenges presented during the fiscal year, the District continued to fund the city's pensions and other postemployment benefits and maintain strong credit ratings on its obligations.

FINANCIAL HIGHLIGHTS

- During fiscal year 2023, total District revenues decreased by $101,038. This change was caused by an increase of $311,054 in general revenues which was offset by a decrease of $412,092 in program revenues. The most significant decreases in program revenues occurred in operating grants and contributions and charges for services, both of which fell by a combined total of $421,741. The decrease was due primarily to the expiration of certain stimulus funding provided through the American Rescue Plan Act of 2021 (ARPA) and a reduction in gross receipts and other tax revenues. (See **Table MDA-3**)

  As previously noted, general revenues increased by $311,054, or 2.87% in fiscal year 2023. The most significant dollar increases in general revenues were in sales and use tax, which increased by $197,711 or 10.90%, non-tax revenues, which increased by $196,654 or 25.30%, and property taxes, which increased by $173,604 or 6.04%. The increase in sales and use tax revenues was mainly due to steady performance of retail sales and an increase in motor fuel taxes. Further, a strong job market and high inflation rates have helped retail revenues achieve steady growth over the last year. Increases in interest income as a result of higher interest rates contributed to the increase in non-tax revenues while real, personal, and public space rentals contributed to the increase in property taxes for fiscal year 2023. These increases were partially offset by decreases in other taxes as a result of a decrease in deed taxes caused by a reduction in sales and the financing of real estate properties in the District. (See **Table MDA-3**)

- Total expenses increased by $1,131,376, or 6.21%, during fiscal year 2023. While most functions and funds experienced increases in expenses year over year, the most significant increases occurred in Public Education System, which rose by $479,107 or 12.18% over the one-year period, Human Support Services which increased by $262,757 or 3.89%, Economic Development and Regulation which increased by $144,812 or 16.87%, and interest on long-term debt, which increased by $129,952 or 34.75% over the same period. The overall increase in expenses in the Public Education System was driven by several factors, including increases in personal service costs from the new collective bargaining agreement for teachers, and increases in tuition assistance payments to support various childcare, tutoring and other programs. Increased expenses in Human Support Services resulted primarily from year over year growth in participant enrollment for Medicaid programs, as well as increased spending to support higher demands in several programs such as Emergency Rental Assistance, Family Re-Housing Stabilization and Temporary Assistance for Needy Families. Increased expenses in Economic Development and Regulation were mainly a result of higher costs to support a higher demand related to the home purchase assistance program, housing preservation fund grants and spending for single family rehabilitation projects. In connection with the Housing Production Trust Fund, increases in multi-family expenses due to increased program demand and higher costs for construction projects and bond capital also contributed to increased Economic Development and Regulation expenses. In addition, higher interest rates during fiscal year 2023 led to increased expense for interest on long-term debt. These expenses, along with other increases in total expenses, were partially offset by decreases in expenses in Governmental Direction and Support and the Not-for-Profit Hospital Corporation. Expenses for the Not-for-Profit Hospital Corporation decreased due to an overall reduction in operating costs stemming from a lessening of federal payments received from servicing low-income patients. Further, the downward trend in expenses was attributed to an overall reduction in variable expenses, primarily from lower professional fees and purchased services due to the gradual phase-out of hospital services in preparation for its dissolution. (See **Table MDA-3**)

- Total net position decreased by $82,691 to $8,402,677 or 0.97%, over the prior year. This decrease was due largely to a significant increase in total expenses while total revenues remained relatively flat. The increase in expenses was primarily due to the factors previously discussed. However, a higher volume of payments being made to claimants under the Unemployment Compensation Fund and increased operating costs associated with public transportation also contributed to this increase. Total revenues decreased due to lower collections from other taxes and charges for services. Overall, District expenses in all major functional areas increased during fiscal year 2023. However, revenues from taxes and other sources declined due to a recovering, yet slightly weakened economy. When combined, these factors led to the decreased net position of the District at the end of the fiscal year. (See **Table MDA-2**)

- The District's total long-term liabilities, which represents 84.94% of total liabilities, decreased minimally by $17,025, or 0.10%, from the prior year. This was mainly due to a decline in annual leave liabilities as a result of District employees utilizing more of their leave balance during fiscal year 2023 than the prior year. The overall decrease in long-term liabilities was partially offset by issuances of new debt during the fiscal year. (See **Table MDA-2**)

- The combined fund balances of the governmental funds decreased by $588,272, to $5,278,440 in fiscal year 2023. The most significant decrease in fund balance was due to a negative swing in the General Capital Improvements Fund and this was caused by higher capital outlays year over year. (See **Table MDA-4**)

OVERVIEW OF THE FINANCIAL STATEMENTS

Table MDA-1 summarizes the major features of the financial statements of the District. The overview section below also describes the structure and contents of each of the statements in more detail.

Table MDA-1
Summary of the Financial Statements of the District

	Government - wide Statements	Fund Financial Statements		
		Governmental	**Proprietary**	**Fiduciary**
Financial Statement Title	Statement of Net Position	Balance Sheet	Statement of Net Position	Statement of Fiduciary Net Position
	Statement of Activities	Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Revenues, Expenses, and Changes in Net Position	Statement of Changes in Fiduciary Net Position
		Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	Statement of Cash Flows	
		Budgetary Comparison Statement		
Scope	Entire District entity (except fiduciary funds)	The day-to-day operating activities of the District for basic governmental services	The day-to-day operating activities of the District for business-type enterprises	Instances in which the District administers resources on behalf of others in a trustee capacity, such as employee benefits
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of balance information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Balances of spendable resources	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	All resources held in a trustee or custodial capacity for others
Type of inflow and outflow of resources	All inflows and outflows during the year, regardless of when cash is received or paid	Near-term inflows and outflows of spendable resources	All inflows and outflows during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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 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 separate columns. The primary government is further divided into governmental activities and business-type activities. Governmental activities include the District's basic functional services which are mainly financed through taxes, intergovernmental revenues, and other revenues. Business-type activities include enterprise operations of the Office of Lottery and Gaming, the Unemployment Compensation Fund, and the Not-for-Profit Hospital Corporation, 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 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 as of September 30, 2023. 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 overall financial health of the District.

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 government-wide financial statements of the District are presented in Exhibits 1-a and 1-b on pages 54 and 55, respectively.

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

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 financial 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, the 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 the governmental funds are also reported in the governmental activities column of the government-wide financial statements; however, because the accounting basis used to prepare fund financial statements differs from that used to prepare 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, and unassigned, based on the relative strength of the constraints that control 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 in Exhibits 2-a, 2-b, and 2-c on pages 56 through 58.

Financial Statements of the Proprietary Funds

Financial statements of the proprietary funds consist of a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in 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 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 Office of Lottery and Gaming and the Not-for-Profit Hospital Corporation are the other two entities reported by the District as proprietary funds.

The financial statements of the District’s proprietary funds, which present the changes in financial position and condition of these three proprietary funds, are presented in Exhibits 3-a, 3-b, and 3-c on pages 60 through 62.

Financial Statements of the Fiduciary Funds

The fiduciary funds of the District include the Pension and Other Employee Benefits Trust Funds, Private-Purpose Trust Fund, and Custodial Fund. The financial statements of the fiduciary funds consist of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

The fiduciary fund statements are prepared using the full accrual basis of accounting which is also used to prepare the government-wide financial statements. Assets held by the District (either as a trustee or 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 in Exhibits 4-a and 4-b on pages 63 and 64, respectively.

Component Units

Financial data of the District’s discretely presented component units is reported in combining financial statements, which are presented in Exhibits 5-a and 5-b on pages 65 and 66, respectively. The District also reports two blended component units: the Not-for-Profit Hospital Corporation presented within the statements for proprietary funds; and the Tobacco Settlement Financing Corporation presented within the statements for nonmajor governmental funds.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements, which begin on page 67, 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 progress of the District toward funding its obligation to provide pension and other postemployment benefits to District employees. Required supplementary information can be found on pages 161 through 167.

Financial statements of individual funds, combining statements (including nonmajor governmental funds), and supporting schedules are presented in the other supplementary information section on pages 169 through 199.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND OPERATIONS

The District's overall financial position remained strong despite the economic impact of volatile inflationary conditions during fiscal year 2023 and the waning economic and financial impacts of COVID-19. The District's financial position and operations for the past two fiscal years are summarized in **Tables MDA-2** and **MDA-3**. The information for fiscal years 2023 and 2022 is based on the government-wide financial statements presented on pages 54 and 55.

Table MDA-2
Net Position as of September 30, 2023 and 2022 ($000s)

	Governmental activities		Business-type activities		Totals		
	2023	2022, as restated	2023	2022	2023	2022, as restated	Variance
ASSETS							
Current and other assets	$ 9,886,365	$ 10,917,043	$ 465,751	$ 288,659	$ 10,352,116	$ 11,205,702	$ (853,586)
Capital assets, net	18,056,666	17,508,240	42,663	52,142	18,099,329	17,560,382	538,947
Total assets	27,943,031	28,425,283	508,414	340,801	28,451,445	28,766,084	(314,639)
DEFERRED OUTFLOWS OF RESOURCES	1,017,936	1,363,465	-	-	1,017,936	1,363,465	(345,529)
LIABILITIES							
Long-term liabilities	16,832,446	16,841,575	12,239	20,135	16,844,685	16,861,710	(17,025)
Other liabilities	2,884,169	3,396,333	103,485	89,939	2,987,654	3,486,272	(498,618)
Total liabilities	19,716,615	20,237,908	115,724	110,074	19,832,339	20,347,982	(515,643)
DEFERRED INFLOWS OF RESOURCES	1,234,365	1,296,199	-	-	1,234,365	1,296,199	(61,834)
NET POSITION							
Net investment in capital assets	3,540,003	3,138,401	41,335	49,487	3,581,338	3,187,888	393,450
Restricted	1,763,997	2,341,832	334,712	165,212	2,098,709	2,507,044	(408,335)
Unrestricted	2,705,987	2,774,408	16,643	16,028	2,722,630	2,790,436	(67,806)
Total net position	**$ 8,009,987**	**$ 8,254,641**	**$ 392,690**	**$ 230,727**	**$ 8,402,677**	**$ 8,485,368**	**$ (82,691)**

Table MDA-3
Change in Net Position for the Fiscal Year Ended September 30, 2023 and 2022 ($000s)

	Governmental activities		Business-type activities		Totals		
	2023	2022	2023	2022	2023	2022	Variance
REVENUES							
Program revenues							
Charges for services	$ 778,156	$ 948,767	$ 384,212	$ 383,985	$ 1,162,368	$ 1,332,752	$ (170,384)
Operating grants and contributions	6,701,581	6,941,860	14,186	25,264	6,715,767	6,967,124	(251,357)
Capital grants and contributions	219,345	209,696	-	-	219,345	209,696	9,649
General revenues							
Property taxes	3,049,854	2,876,250	-	-	3,049,854	2,876,250	173,604
Sales and use taxes	2,011,790	1,814,079	-	-	2,011,790	1,814,079	197,711
Income and franchise taxes	4,157,773	4,102,718	-	-	4,157,773	4,102,718	55,055
Other taxes	842,340	1,145,764	127,721	136,267	970,061	1,282,031	(311,970)
Non-tax revenues	966,714	774,483	7,272	2,849	973,986	777,332	196,654
Total revenues	18,727,553	18,813,617	533,391	548,365	19,260,944	19,361,982	(101,038)
EXPENSES							
Governmental direction and support	1,566,494	1,648,275	-	-	1,566,494	1,648,275	(81,781)
Economic development and regulation	1,003,128	858,316	-	-	1,003,128	858,316	144,812
Public safety and justice	2,365,404	2,242,005	-	-	2,365,404	2,242,005	123,399
Public education system	4,412,973	3,933,866	-	-	4,412,973	3,933,866	479,107
Human support services	7,022,388	6,759,631	-	-	7,022,388	6,759,631	262,757
Operations and infrastructure	1,516,730	1,531,347	-	-	1,516,730	1,531,347	(14,617)
Public transportation	479,610	447,069	-	-	479,610	447,069	32,541
Interest on long-term debt	503,930	373,978	-	-	503,930	373,978	129,952
Office of lottery and gaming	-	-	258,014	234,895	258,014	234,895	23,119
Unemployment compensation	-	-	89,251	39,994	89,251	39,994	49,257
Not-for-profit hospital corporation	-	-	125,713	142,883	125,713	142,883	(17,170)
Total expenses	18,870,657	17,794,487	472,978	417,772	19,343,635	18,212,259	1,131,376
Increase (decrease) in net position before transfers	(143,104)	1,019,130	60,413	130,593	(82,691)	1,149,723	(1,232,414)
Transfers in (out)	(101,550)	18,670	101,550	(18,670)	-	-	-
Change in net position	(244,654)	1,037,800	161,963	111,923	(82,691)	1,149,723	(1,232,414)
Net position - October 1, as restated	8,254,641	7,216,841	230,727	118,804	8,485,368	7,335,645	1,149,723
Net position - September 30	**$ 8,009,987**	**$ 8,254,641**	**$ 392,690**	**$ 230,727**	**$ 8,402,677**	**$ 8,485,368**	**$ (82,691)**

Note:
Refer to Note 1X - Reconciliation of Government-Wide and Fund Financial Statements, on page 89 for additional information on the differences between the full accrual basis of accounting and the modified accrual basis of accounting that the District used in this report.

Financial Analysis of the Government as a Whole

Revenues decreased by $101,038 while expenses increased by $1,131,376 in fiscal year 2023 compared to the prior year.

General revenues, which are derived primarily from taxes and represented 57.96% of the District's total revenues in fiscal year 2023, increased by $311,054, or 2.87%, over the prior fiscal year. The increase resulted primarily from higher sales and use tax revenues and property tax revenues during fiscal year 2023, as well as increases in investment earnings. As the District began witnessing the impact of the prevailing inflationary environment while it continued to recover from the COVID-19 pandemic, the city experienced increases in all tax categories, except other taxes. Sales and use tax revenues grew as a result of strong retail revenue performance and a greater than expected rebound in the hospitality industry, primarily in hotel and restaurant tax collections. A robust job market in the District continued to help retail revenue achieve steady growth over the last two years along with a growing number of conventions and visitors to the District. General revenues also increased in fiscal year 2023 as a result of a rise in property tax collections. The increase in property tax revenues was driven by stronger collections of residential property taxes which, since the start of the COVID-19 pandemic, has experienced stronger than usual collections of tax revenues over the District's commercial markets. However, the increase in general revenues was offset by a reduction in other tax revenues, which comprises deed taxes and inheritance and estate taxes, caused by a decline in deed taxes. The negative revenue growth in deed taxes, which includes deed recordation, deed transfer and economic interest taxes, occurred due to a reduction in sales and financing of real estate which was compounded by higher borrowing rates during the fiscal year.

Program revenues, which accounted for 42.04% of the District's total revenues in fiscal year 2023, decreased by $412,092, or 4.84%. Operating grants and contributions decreased as a result of the expiration of federal Coronavirus relief funding and financial resources provided under ARPA. These funds were used to support the city's response to and recovery from the COVID-19 public health emergency. Decreased revenues from charges for services contributed more so to the overall decline in program revenues. A reduction in emergency ambulance fees along with reductions in collections, year over year, from the Universal Paid Leave Fund contributed to the decreased revenues. The Universal Paid Leave Fund is funded by a 0.26% payroll tax on District businesses.

The District's expenses grew by $1,131,376 in fiscal year 2023 because of increases in expenses across most of the governmental activities functional areas. The most significant increases were reported in the areas of Public Education System, Human Support Services, and Economic Development and Regulation although minimal decreases in expenses in Governmental Direction and Support, and Operations and Infrastructure tempered the overall increase. Expenses in business-type activities also grew in fiscal year 2023. The most significant increase was in the Unemployment Compensation Fund with a smaller increase in the Office of Lottery and Gaming. These increases, however, were countered by a decrease in expenses of 12.02% for the Not-for-Profit Hospital Corporation.

Public Education System expenses increased to support programming needs, specific to students and student support services. A primary driver of the increased costs was attributed to expenses related to increases in personal services costs and additional employees being funded by private grants. Further increases were also driven by spending in student activity funds for extracurricular activities. An increase in spending through the DC Tuition Assistance Program (DC TAG) and increased grant funding resulted in higher expenses to support Back-to-Work Child Care, high impact tutoring, Out of School Time program expenses, and various other programs. Increased spending also occurred on the Teachers Incentive Fund grant as well as the Technology Modernization Initiative by DC Public Schools and a data infrastructure project coordinated by the Office of the State Superintendent of Education (OSSE). Contractual changes contained in the collective bargaining agreement between the teachers' union and the DC Public Schools, negotiated in November 2022, resulted in higher operational expenses including increased teacher pay, bonuses, and retroactive salaries. Lastly, higher enrollment in District schools led to increases in per pupil funding.

Spending growth for Human Support Services was driven mainly by an increase in the average enrollment of participants in the Medicaid program year over year, thereby increasing payments to providers for eligible services. Although the average enrollment of participants has increased, since the May 2023 expiration of the public health emergency, the rate of participant enrollment in the Medicaid program has declined due to the consequent expiration of grants and other funding that were available during the declared emergency period. Increased participation in and expansion of certain disability waiver programs during the fiscal year resulted in higher expenses. These waiver programs offer a wide range of health and clinical services that help persons with complex support needs and their families. Other factors that contributed to increased expenses were increases in the local Medicaid match for Medicaid-eligible District residents receiving mental health and substance use disorder services, school-based behavioral health services, and other development programs for housing and construction.

Economic Development and Regulation expenses increased due to several factors including significantly increased benefit disbursements under the Homeowner Assistance Fund, which was in the pilot phase in the prior fiscal year. Payment of one-time acquisition costs related to affordable housing using ARPA funding provided through the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program also contributed to the increase in expenses. Additionally, Economic Development and Regulation expenses were higher due to increased demand and costs under the home purchase assistance program, a one-time multi-family development project, and costs for a one-time acquisition project using HOME ARPA funds. Spending also increased for single family rehabilitation projects and the use of increased funding directed to the Housing Production Trust Fund to provide housing for low- and extremely low-income families.

The District's combined net position (governmental and business-type activities) decreased by $82,691, or 0.97%, to $8,402,677 in fiscal year 2023 from $8,485,368 in fiscal year 2022. This decrease, which was attributed to governmental activities, was largely minimized by the net position for business-type activities which increased by 70.20%, mainly due to a one-time subsidy of $113,000 from the District to ensure the Unemployment Compensation Fund had adequate funding for individuals on unemployment insurance during fiscal year 2023. The decrease in the net position of governmental activities was caused by a lower rate of increase in total revenues over total expenses mainly due to a decline in deed taxes and revenues from operating grants and contributions.

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 decreased by $408,335, or 16.29%, in fiscal year 2023. The most significant decreases in restricted net position were due to reductions in the Universal Paid Leave Fund and amounts set aside for expenses related to pension and OPEB funds. The amount set aside for Universal Paid Leave decreased as funds were transferred to the General Fund in fiscal year 2023. Meanwhile, investment gains on pension and OPEB funds during fiscal year 2023 meant that a lesser amount of future funds should be restricted, and thus a reduction in the net position restricted for payments related to the pension and OPEB funds. The overall decrease in restricted net position was offset, however, by an increase in restricted net position related to the Unemployment Compensation Fund. This increase in amounts set aside for benefit payments was a direct result of increases in cash receipts from employment taxes and government contributions significantly exceeding the unemployment benefit payments and transfers in of funds from the General Fund of the District.

Unrestricted net position decreased by $67,806 to $2,722,630 in fiscal year 2023. The decrease is mostly due to overall expenses exceeding revenues for the fiscal year.

The Office of Lottery and Gaming (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 2023 and 2022, the Lottery transferred $33,450 and $40,670 to the District's General Fund, respectively.

Chart MDA-1 graphically depicts the District's sources of revenues in its governmental activities.

Chart MDA-1
Revenues by Source: Governmental Activities ($000s)

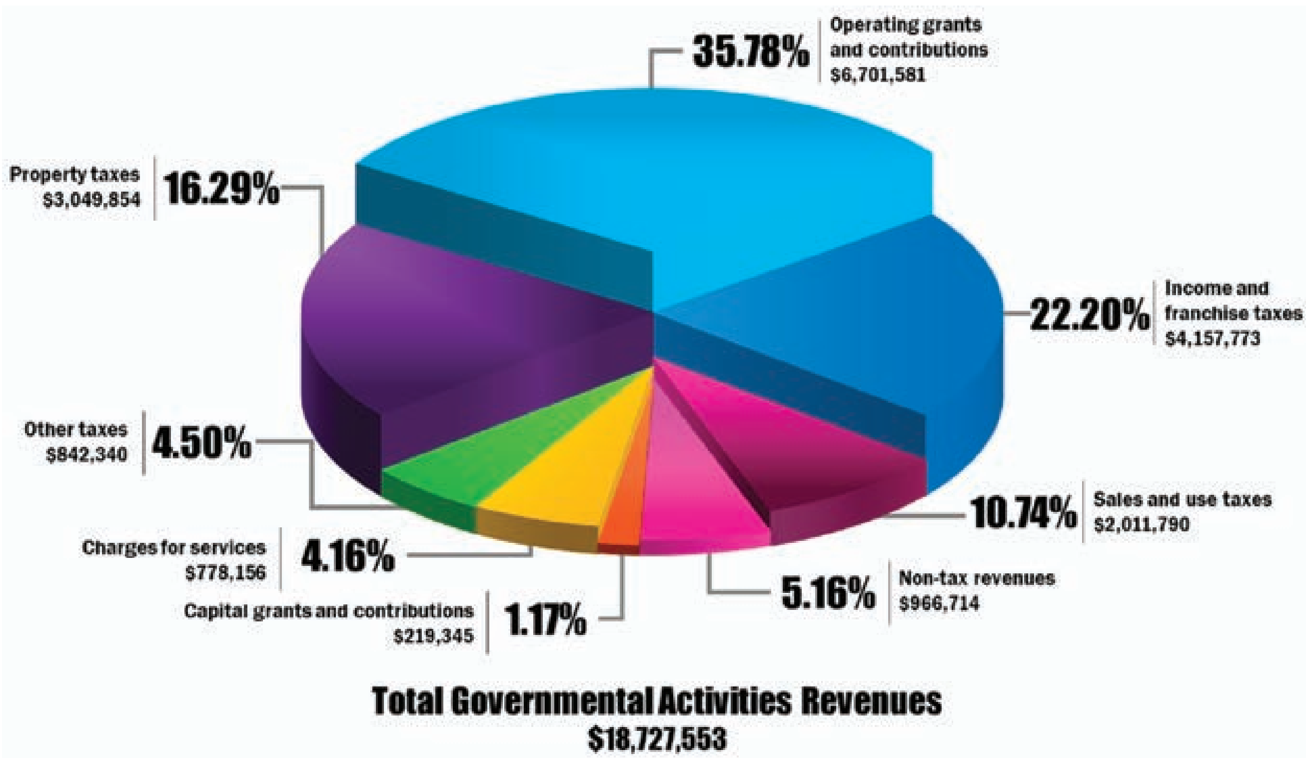
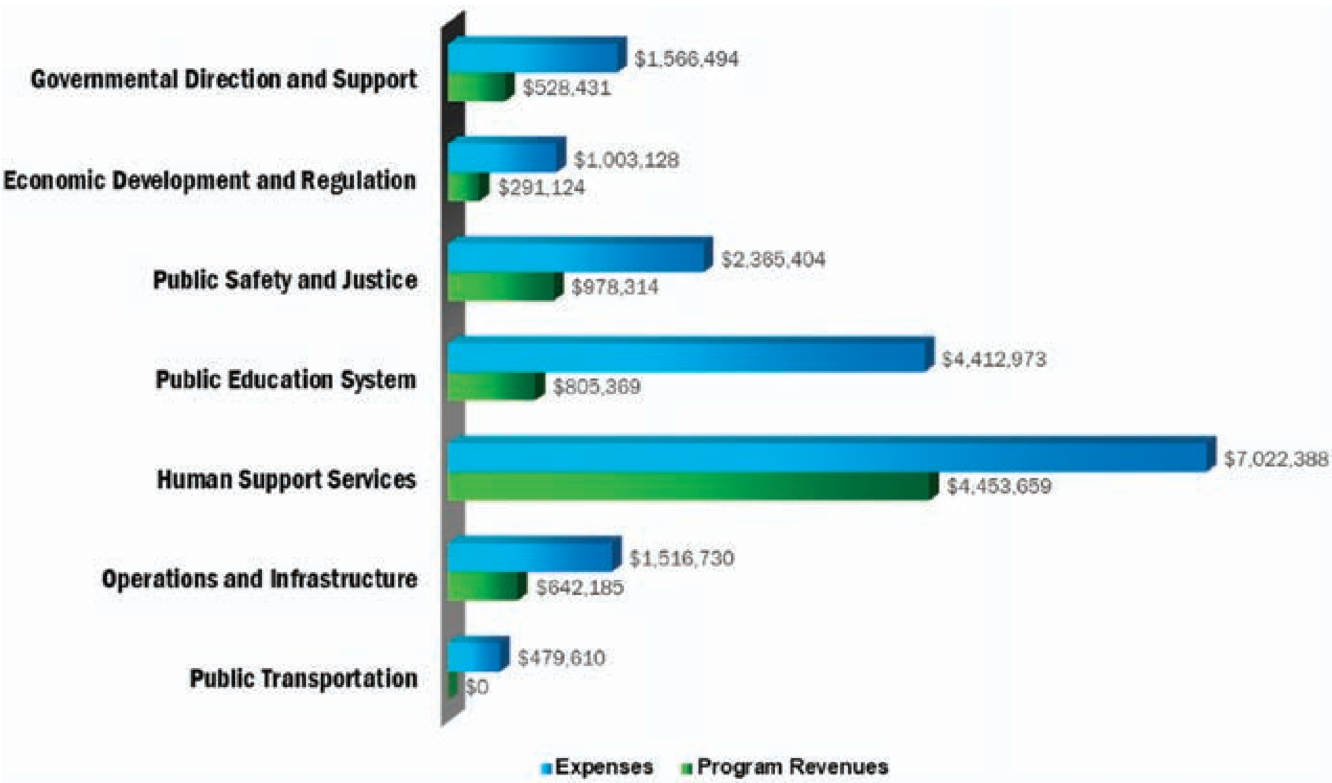


Chart MDA-2 graphically displays both expenses and program revenues of the governmental activities for fiscal year 2023. Functional areas of the governmental activities are Governmental Direction and Support, Economic Development and Regulation, Public Safety and Justice, Public Education System, Human Support Services, Operations and Infrastructure, and Public Transportation.

Chart MDA-2
Governmental Activities Expenses and Program Revenues ($000s)



Changes in Net Position

Total net position of governmental activities was $8,009,987 in fiscal year 2023, which was $244,654, or 2.96%, lower than the amount in the prior year. This decrease was due to several competing factors, resulting in an overall marginal decrease (less than 1.00%) in total revenues led by reductions in charges for services, as well as deed and property-related taxes due to a reduction in sales and financing of real estate in the District. Conversely, total expenses grew by 6.05% due to an increase in Public Education System expenses to support several projects, including: District Recovery Plan initiatives, Re-imagining High Schools, Access-2-Quality project, College Rising project, Childcare Worker Fund Scholarships, and mental health initiatives. In addition, expenses rose due to increased spending for interest on long-term debt, spending to provide housing for residents meeting program needs, and contractual services for new and continuing programs.

Net position of business-type activities increased by $161,963, or 70.20%, between fiscal year 2023 and 2022. The increase in net position was mainly attributed to an increase in net position of $171,122 from the Unemployment Compensation Fund, which was driven by a subsidy totaling $113,000 to support an increase in new unemployment claims in the District during the fiscal year.

The Office of Lottery and Gaming contributed marginally to the overall increase in net position. Prizes paid and other related expenses, which represented 85.57% of the Lottery's operating expenses, increased by $23,995 or 12.21%. The Lottery's change in net position was $35 for fiscal year 2023, after transferring $33,450 to the General Fund of the District.

The Not-For-Profit Hospital Corporation experienced a decrease in its net position which was attributed to a decrease in operating revenues of $15,364 or 13.98% compared to the prior year, driven mainly by a decrease in charges for services by $14,906, or 13.65%. Also, expenses exceeded revenues and transfers by $9,194.

In fiscal year 2023, the General Fund of the District transferred $22,000 to the Hospital. The vast majority of the revenues from patient care services, which comprises 85.29% of its total operating revenues for fiscal year 2023, is received from governmental payors (Medicare and Medicaid). Patient service revenues, net of provision for bad debt, increased from the prior year. However, operating revenues decreased by 13.98% due to a significant reduction in funding received for the treatment of indigent patients and a reduction in federal grants.

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 or proprietary fund is classified as a major fund if the fund has revenues, expenditures/ expenses, assets plus deferred outflows of resources, or liabilities plus deferred inflows of resources that are at least 10% of the corresponding totals for all governmental or proprietary funds, and at least 5% of the aggregate amount for all governmental and proprietary funds for the same item. Major funds, as required by GAAP, are presented individually while nonmajor funds are 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 180 and 181.

Governmental Funds

Governmental Funds provide information that is useful when assessing the financing needs of the District, 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. Exhibits 2-a and 2-b, presented on pages 56 and 57, provide information about these funds.

Fund Balances

The governmental funds reported a combined fund balance of $5,278,440 in fiscal year 2023 and $5,866,712 in fiscal year 2022, which represents a decrease of $588,272, or 10.03%, from the prior year.

Table MDA-4 presents the components of the combined fund balances of the governmental funds.

Table MDA-4
Comparison of Fiscal Year 2023 and FY 2022 Fund Balances: Governmental Funds ($000s)

Governmental funds	2023	2022	Variance	Variance %
General	$ 4,916,905	$ 4,892,305	$ 24,600	0.50%
Federal and private resources	(410,876)	(333,650)	(77,226)	(23.15)
Housing production trust	641,452	403,002	238,450	59.17
General capital improvements	(311,488)	153,058	(464,546)	(303.51)
Nonmajor governmental funds	442,447	751,997	(309,550)	(41.16)
Total fund balances	**$ 5,278,440**	**$ 5,866,712**	**$ (588,272)**	(10.03)

The negative fund balance in the Federal and Private Resources Fund increased by $77,226, or 23.15%, between fiscal years 2023 and 2022. Similar to the prior fiscal year, the Federal and Private Resources Fund ended fiscal year 2023 with an excess of revenues over expenditures; however, transfers made to the General Fund for FEMA Public Assistance and ARPA programs increased the deficit. The increase in the deficit was mainly caused by reimbursements for eligible expenditures not being received within the time frame for inclusion in the financial statements for fiscal year 2023. Those amounts are included in the deferred inflows of resources (unavailable revenues) in this fund. As a result, the balance in the deferred inflows of resources related to the grants increased by $37,534, or 6.04% compared to the prior year.

During fiscal year 2023, revenues of the Federal and Private Resources Fund decreased by $83,899 or 1.22% over the one-year period and expenditures decreased even faster by $194,854 or 3.03%. However, the decrease in revenues, which was mainly due to a reduction in operating grant revenues totaling $296,897, combined with the decrease in expenditures, still resulted in excess revenue over expenditures in fiscal year 2023. However, the fund reimbursed the General Fund in the amount of $625,716 for the replacement of ARPA revenues due to the expiration of the public health emergency and for eligible FEMA Public Assistance related costs that were covered by the General Fund in fiscal year 2022.

Expenditures in Human Support Services, which account for 71.38% of the total expenditures in the Federal and Private Resources Fund, increased minimally by $4,336 or 0.10%. This was primarily related to spending for project initiatives under various grants, including the Housing and Urban Development grant, the Equal Justice grant, and implementation of the Department of Youth Rehabilitation Services/ Department of Justice Emergency Planning grant. Another factor driving the increase was due to higher numbers of enrollees in Medicaid programs which saw an increase of approximately 12,000 beneficiaries during fiscal year 2023, up from 296,000 beneficiaries from the prior year. Further increases were a result of additional spending of ARPA funding for mental health establishment, expansion and response project services, and spending funded by the Medicaid Provider Recovery grant and behavioral health grants.

The most significant increase in fund balance within the governmental funds was in the Housing Production Trust Fund. Fund balance in the Housing Production Trust Fund increased by $238,450, or 59.17%, between fiscal years 2023 and 2022. This increase was primarily due to a transfer from the General Fund to the Housing Production Trust Fund to fund housing projects and services.

The largest change in the governmental fund balance was in the General Capital Improvements Fund, which reported a negative fund balance of $311,488 as of September 30, 2023. This significant decrease of $464,546, or 303.51%, from the prior year's positive fund balance of $153,058, was a consequence of the District issuing less General Obligation Bonds and no Income Tax Secured Revenue Bonds in fiscal year 2023 than in the prior year, and therefore, generating less revenues to cover expenditures for this fund.

Fund balance in the Nonmajor Governmental Funds decreased by $309,550 or 41.16% between fiscal years 2023 and 2022. The overall decrease was primarily due to a reduction in fund balance in the Universal Paid Leave Fund but offset by fund balance increases mainly in the PILOT fund, the Baseball Project and Tax Increment Financing Program. The increase in fund balance for the Tax Increment Financing Program and the PILOT project was due to the expiration of certain bonds in fiscal year 2022, and thus a reduction in debt service payments in fiscal year 2023. The increase in fund balance for the Baseball Project was caused by higher collections from property taxes and gross receipts taxes over the related expenditures. These increases in fund balance, however, were not sufficient to offset the decrease in fund balance for the Universal Paid Leave program which was attributed to reduced revenue collections in fiscal year 2023 and a significant amount transferred to the General Fund.

Fund balance in the General Fund, which is the primary operating fund of the District, increased by $24,600, or 0.50% over the one-year period. A detailed discussion of the District's General Fund follows.

Revenues

General Fund revenues totaled $11,282,783, which represents an increase of $156,013, or 1.40%, in fiscal year 2023. The increase was mainly due to higher investment earnings in fiscal year 2023 compared to the prior year. **Table MDA-5** presents other changes in major General Fund revenues.

Table MDA-5
Changes in Major General Fund Revenues ($000s)

Revenue category	2023	2022	Variance	Variance %
Property taxes	$ 2,981,536	$ 2,952,304	$ 29,232	0.99%
Sales and use taxes	1,948,315	1,769,133	179,182	10.13
Income and franchise taxes	4,174,533	4,108,313	66,220	1.61
Other taxes	386,716	642,691	(255,975)	(39.83)
Total	**$ 9,491,100**	**$ 9,472,441**	**$ 18,659**	0.20

Property Taxes

In fiscal year 2023, there was a minimal rise in real property tax revenues compared to fiscal year 2022. This growth primarily stems from the stronger collection of residential property taxes. The residential market has notably outperformed the commercial market since the COVID-19 pandemic began.

Sales and Use Taxes

In fiscal year 2023, the District experienced an increase in sales and use taxes. This increase, primarily driven by a stronger-than-anticipated rebound in hotel and restaurant taxes compared to pre-pandemic levels, constitutes the bulk of the growth in general sales taxes. The resurgence of tourism and conventions has been a contributing factor to this growth. Conversely, there was a slight decrease in cigarette sales taxes, largely attributed to a ban on flavored cigarettes and electronic cigarettes within a quarter mile of any middle or high school. Additionally, a minor decline in motor vehicle excise taxes, influenced by higher interest rates, offset the rise in sales and use taxes.

Income and Franchise Taxes

The District saw a modest increase in corporation franchise taxes in fiscal year 2023, primarily attributed to the prevailing inflationary environment. Businesses, largely able to pass increased costs on to their customers, sustained their profitability, contributing to this growth. However, there was a decrease in individual income tax, influenced by a decline in the non-withholding component of income taxes, notably affected by the S&P's decrease from its previous year highs. Additionally, a decline in unincorporated franchise taxes was observed due to a slowdown in the commercial property rental market within the District.

Other Taxes

Other tax revenues, which includes deed taxes and inheritance and estate taxes, decreased significantly in fiscal year 2023 compared to fiscal year 2022 due to a decline in deed taxes. The decline in deed taxes, which consists of deed recordation, deed transfer, and economic interest taxes resulted from reduced sales and financing of real estate properties in the District, influenced by the higher interest rate environment. Furthermore, the sale and transfer value of commercial property transactions notably decreased from pre-pandemic levels due to increased vacancy rates and reduced demand for office space within the city. However, there was a slight rise in estate taxes, attributed to the settlement of estates belonging to high net-worth residents in fiscal year 2023 relative to the previous year.

Dedicated Tax Revenues

The dedicated portions of tax revenues related to the special revenue funds are recorded directly in those funds. However, dedicated taxes for the Washington Convention and Sports Authority and the Highway Trust Fund are transferred out of the local fund. Healthcare Program activities are recorded in a segregated fund within the General Fund. In fiscal year 2023, the District dedicated a total of $768,442 in tax revenues, which was 1.96% lower compared to the prior year, to fund the projects presented in **Table MDA-6**. The decrease, which was caused by lower tax revenues dedicated for healthcare programs and the Housing Production Trust Fund, was offset by the increase in taxes dedicated to the Washington Convention and Sports Authority. The dedicated sales and use tax revenues significantly increased due to the resurgence of tourism and conventions. During fiscal year 2023, taxes dedicated to the Washington Convention and Sports Authority, which consist of separate sales and use taxes assessed on hotel rooms, restaurant meals, alcoholic beverages consumed on-premises, and rental vehicle charges, increased by $54,513 or 44.58%, compared to fiscal year 2022.

Table MDA-6
Dedicated Tax Revenues ($000s)

	Property	Sales and Use	Gross Receipts	Deed Recordation	Deed Transfers	Motor Fuel	Other	Total Taxes
General fund								
Washington Convention and Sports Authority	$ -	$ 176,794	$ -	$ -	$ -	$ -	$ -	$ 176,794
Department of General Services	-	-	-	246	247	-	-	493
Walter Reed Development Fund	752	135	-	-	-	-	-	887
Healthcare programs	-	-	-	-	-	-	40,132	40,132
Highway Trust Fund	-	-	-	-	-	33,282	-	33,282
WMATA	-	254,146	-	-	-	-	-	254,146
Healthy schools	-	5,690	-	-	-	-	-	5,690
Alcoholic Beverage Regulation Administration	-	1,170	-	-	-	-	-	1,170
Arts and Humanities	-	42,200	-	-	-	-	-	42,200
Sports Wagering - DBH Gambling Addiction Treatment	-	-	200	-	-	-	-	200
HPTF debt service	-	-	-	3,765	-	-	-	3,765
Total general fund	752	480,135	200	4,011	247	33,282	40,132	558,759
Special revenue funds								
Tax increment financing program	15,198	24,663	-	-	-	-	-	39,861
PILOT special revenue	27,782	23,064	-	-	-	-	-	50,846
Baseball project	-	15,748	56,782	-	-	-	-	72,530
Housing Production Trust	-	-	-	28,042	18,404	-	-	46,446
Total special revenue funds	42,980	63,475	56,782	28,042	18,404	-	-	209,683
Total dedicated taxes	**$ 43,732**	**$ 543,610**	**$ 56,982**	**$ 32,053**	**$ 18,651**	**$ 33,282**	**$ 40,132**	**$ 768,442**

Expenditures

The District's General Fund expenditures, excluding debt service, increased by $122,405 from the previous year.

Table MDA-7 presents General Fund expenditure variances by function.

Table MDA-7
General Fund Expenditure Variances by Function ($000s)

Function	2023	2022	Variance	Variance %
Governmental direction and support	$ 1,452,649	$ 2,427,677	$ (975,028)	(40.16)%
Economic development and regulation	460,286	436,343	23,943	5.49
Public safety and justice	1,560,949	1,358,284	202,665	14.92
Public education system	3,345,632	2,834,576	511,056	18.03
Human support services	2,464,052	2,165,073	298,979	13.81
Operations and infrastructure	713,783	685,534	28,249	4.12
Public transportation	479,610	447,069	32,541	7.28
Total functional expenditures	**$ 10,476,961**	**$ 10,354,556**	**$ 122,405**	1.18

Explanations for variances between fiscal years 2023 and 2022 in General Fund functional expenditures are presented below:

Governmental Direction and Support

The decrease in Governmental Direction and Support expenditures in fiscal year 2023 was primarily due to the one-time impact of implementing Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, in fiscal year 2022. Implementation of this Statement resulted in significantly increased expenditures in fiscal year 2022. The Department of General Services centrally administers the majority of property lease contracts of the District and, as a result of implementing GASB Statement No. 87, recorded an increase of $1,160,566 in non-budgetary lease expenditures in fiscal year 2022. Similarly, expenditures incurred in fiscal year 2022 in preparation for the General Election that was held in November 2022 were not repeated during fiscal year 2023. Consequently, overall costs which are typically incurred to facilitate fair elections in the District declined in fiscal year 2023. Further, the continuing decline in spending for emergency supplies and services related to COVID-19 and the permanent closure of COVID-19 centers in the District during fiscal year 2023 factored into the decrease in expenditures when compared to the prior fiscal year. The overall decrease in Governmental Direction and Support expenditures was offset by increases in the following areas:

- A one-time increase of $65,847 to record the impact of implementing GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). The Office of the Chief Technology Officer transacts the majority of these SBITAs and recorded an increase in non-budgetary SBITA expenditures that represented the present value of all future SBITA payments;
- Personal service expenditures, which were driven by increased staffing levels, and salary and cost of living adjustments across all programs, rose during fiscal year 2023;
- Higher costs in energy (electricity, natural gas, steam), rent, construction and procurement programs; and
- Increases in contractual services mainly for the following programs: Development and Operation, Enablement, Web Service, Human Capital Application Support, Security Operations, and Governance and Risk Compliance.

Economic Development and Regulation

The increase in expenditures in Economic Development and Regulation resulted mostly from the use of increased funding directed to the Housing Production Trust Fund to provide housing for low- and extremely low-income families. In fiscal year 2023, spending increased for existing projects supported under the American Rescue Plan Act (ARPA). Spending also rose to support a higher demand and associated costs related to the home purchase assistance program (HPAP), housing preservation fund grants to residents, and expenditures for single family rehabilitation projects. However, the increase in expenditures was partially offset by a decrease in spending, due to timing, for projects such as the Food and Access Fund, the Vibrant Places Recovery Fund, the Small and Medium Business Growth Program and the Equity Impact Fund.

Public Safety and Justice

Public Safety and Justice expenditures increased during fiscal year 2023 primarily due to premium pay for essential workers, those who have and will bear the greatest health risks because of their service in critical sectors, like Metropolitan Police Department and Fire and Emergency Medical Services (FEMS) Department. Personal service expenditures for these employees also consisted of a pay increase resulting from a new collective bargaining agreement which included a two-year retroactive payout, back pay settlement payouts, and parity pay for non-union employees. Other increases in Public Safety and Justice expenditures resulted from spending to complete a digitization and record retention system and a legal investigation services project. Additional contributing factors to the overall increase in Public Safety and Justice expenditures included:

- Additional spending for multiple programs within the neighborhood safety and engagement portfolio which provide general support to families, grief and loss counseling, rental assistance, and training for District residents; and
- Additional spending under victim services and justice programs which assist returning citizens, provide safe housing for domestic violence victims, provide at-risk gun violence programs, and loan repayment assistance.

Public Education System

Public Education System expenditures rose in fiscal year 2023 largely due to an increase in the Uniform Per Student Funding Formula rate and increased student enrollment, as well as increased personal services costs and retroactive payments driven by the new Washington Teachers' Union contract signed during the fiscal year. Increased spending for grants and programs around the District Recovery Plan initiatives, Reimagining High Schools, Access-2-Quality project, College Rising project, Childcare Worker Fund Scholarships and mental health initiatives, as well as increased funding driven by one-time grants and gratuity-related expenditures for Out of School Time programs also contributed to the overall increase in Public Education System expenditures.

Human Support Services

The District, through Human Support Services agencies, provides an array of services to sustain, support, and assist the most vulnerable residents in the District with programs including but not limited to Medicaid, Behavioral Health Services, Temporary Assistance for Needy Families, the Supplemental Nutrition Assistance Program (SNAP), Adoption and Foster Care services, recreational programming, care for youth in pre- and post-court adjudication, and mental health services provided by Saint Elizabeths Hospital and other community-based providers. The increase in expenditures in Human Support Services was primarily due to higher Medicaid provider payments caused by an increase in the average enrollment of participants from fiscal year 2022 to fiscal year 2023. With the termination of the federal public health emergency (PHE) for COVID-19 in May 2023, enrollment in the Medicaid program began declining in June 2023, however, the average enrollment in the Medicaid program still grew, though at a slower rate, from approximately 296,000 beneficiaries in fiscal year 2022 to approximately 308,000 beneficiaries in fiscal year 2023. Further, an additional 6.20% of enhanced federal Medicaid reimbursements that were available to the District during the PHE began to phase down in April 2023, resulting in the District providing more local funding and increased expenditures to replace the federal funding. Another impact of the end of the PHE, which resulted in higher District expenditures, was an increase in the cost of the Individual and Family Support (IFS) waiver program and the intellectual and developmental disabilities (IDD) waiver program. These waiver programs offer a full range of health and clinical services necessary to help persons with complex support needs and their families. Additional factors contributing to increased expenditures were increases in the local Medicaid match for Medicaid-eligible District residents receiving mental health and substance use disorder services, school-based behavioral health services, and housing development; spending for construction on the District's first Stabilization Center, and other capital budget projects.

Operations and Infrastructure

Overall, expenditures for Operations and Infrastructure increased during fiscal year 2023 primarily due to additional operational, administrative, and programming costs resulting from the split of the Department of Consumer and Regulatory Affairs into two separate agencies, the Department of Licensing and Consumer Protection and the Department of Buildings, as mandated by the Department of Buildings Establishment Act of 2020 (DC Law 23-269). This law required the transition into the two new agencies as of October 1, 2022. In total, 47 new full-time equivalents (FTEs) were added to implement the creation of these two agencies. Consequently, systems and technology costs increased as well as equipment, supplies and support costs to meet the new resource needs. FTEs were added mainly in agency management (such as IT, customer service, legal, risk management and property management) and in the Building Inspections and Code Enforcement Divisions, the latter of which were mandated by the Department of Buildings Establishment Act of 2020. Expenditures for Operations and Infrastructure also increased due to additional funding sources that became available to support a pilot matched savings program for Park Morton residents as part of the Park Morton Redevelopment Plan.

Public Transportation

The District, along with other jurisdictions in the metropolitan region, provides funding to support the operations of the Washington Metropolitan Area Transit Authority (WMATA). The overall transfers to WMATA from the District in fiscal year 2023 were higher than in previous years due to annual inflationary increases.

Capital Expenditures and Financing

During fiscal year 2023, the District spent $1,811,941 on general capital improvements which exceeded the general capital improvements revenues of $222,460 by $1,589,481. This deficiency was partially financed with a net total of $1,124,935 from bond proceeds and other financing sources. The net change in fund balance was a decrease of $464,546, which resulted in a cumulative negative fund balance of $311,488.

The District's investments in capital improvements are based on need rather than available current year resources. It is the District's financial policy to issue bonds to support the expenditures associated with its Capital Improvements Plan. 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, and 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.

Housing Production Trust Fund

At the end of fiscal year 2023, the Housing Production Trust Fund (HPTF) long-term gross loans receivable balance was $1,305,592, an increase of $144,441 or 12.44% from the balance at the end of the preceding fiscal year. Repayment of most of the HPTF loans has been deferred for extended periods of time in accordance with the associated loan agreements, in some instances up to 40 years. Deferring the repayment for that many years in the future makes it difficult to assess and reasonably estimate the collectability and net realizable value of the loans. For this reason, 100% of the deferred portion of the HPTF loans is reserved as potentially unrealizable. The gross balance of the long-term loans receivable is reported net of the related allowance for doubtful accounts as other long-term assets. As of September 30, 2023, the net balance was $60,288.

Table MDA-8 presents the Housing Production Trust Fund long-term loan receivable balances and the corresponding allowance for doubtful accounts for fiscal years 2019 through 2023.

Table MDA-8
Housing Production Trust Fund Long-Term Loan Receivable Balances ($000s)

	2019	2020	2021	2022	2023
HPTF long-term loans receivable	$ 850,280	$ 1,054,156	$ 1,055,668	$ 1,161,151	$ 1,305,592
Less: allowance for doubtful accounts	756,321	954,974	964,025	1,097,349	1,245,304
Net long-term loans receivable (other long-term assets)	**$ 93,959**	**$ 99,182**	**$ 91,643**	**$ 63,802**	**$ 60,288**

Proprietary Funds

The District has three Proprietary Funds: the Office of Lottery and Gaming (the Lottery), the Unemployment Compensation Fund and the Not-for-Profit Hospital Corporation.

The operating revenues of the Lottery increased by $15,133, or 5.51%, compared to the prior year, primarily due to an increase in revenues from licenses and permit fees from lottery and sports wagering gaming activities. Also, operating expenses increased by $23,170, or 9.88% from the prior year due to higher prize payouts.

During fiscal year 2023, the operating revenues of the Unemployment Compensation Fund decreased by $19,166, or 11.92%, primarily as a result of decreases in employer tax collections and governmental contributions. However, operating expenses increased by $49,257, or 123.16%, due to increases in claims filed in the fiscal year.

The operating revenues of the Not-for-Profit Hospital Corporation decreased by $15,364, or 13.98%, primarily as a result of a decrease in charges for services related to disproportionate share payments for servicing certain low income patients. Operating expenses were also lower by $17,170, or 12.02%, compared to the prior year, due to several factors, including a reduction in professional fees and purchased services due to the gradual phase-out of hospital services in preparation for its dissolution.

Total net position of the District's proprietary funds increased by $161,963, or 70.20%, over the prior year. Exhibits 3-a, 3-b, and 3-c on pages 60 through 62 present the financial statements of the proprietary funds.

Charts MDA-3 and **MDA-4** graphically present comparisons of revenues and expenses of District proprietary funds for the fiscal year ended September 30, 2023 based on information contained in the Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds, shown on page 61.

Chart MDA-3
Operating Revenues and Expenses: Business-Type Activities ($000s)

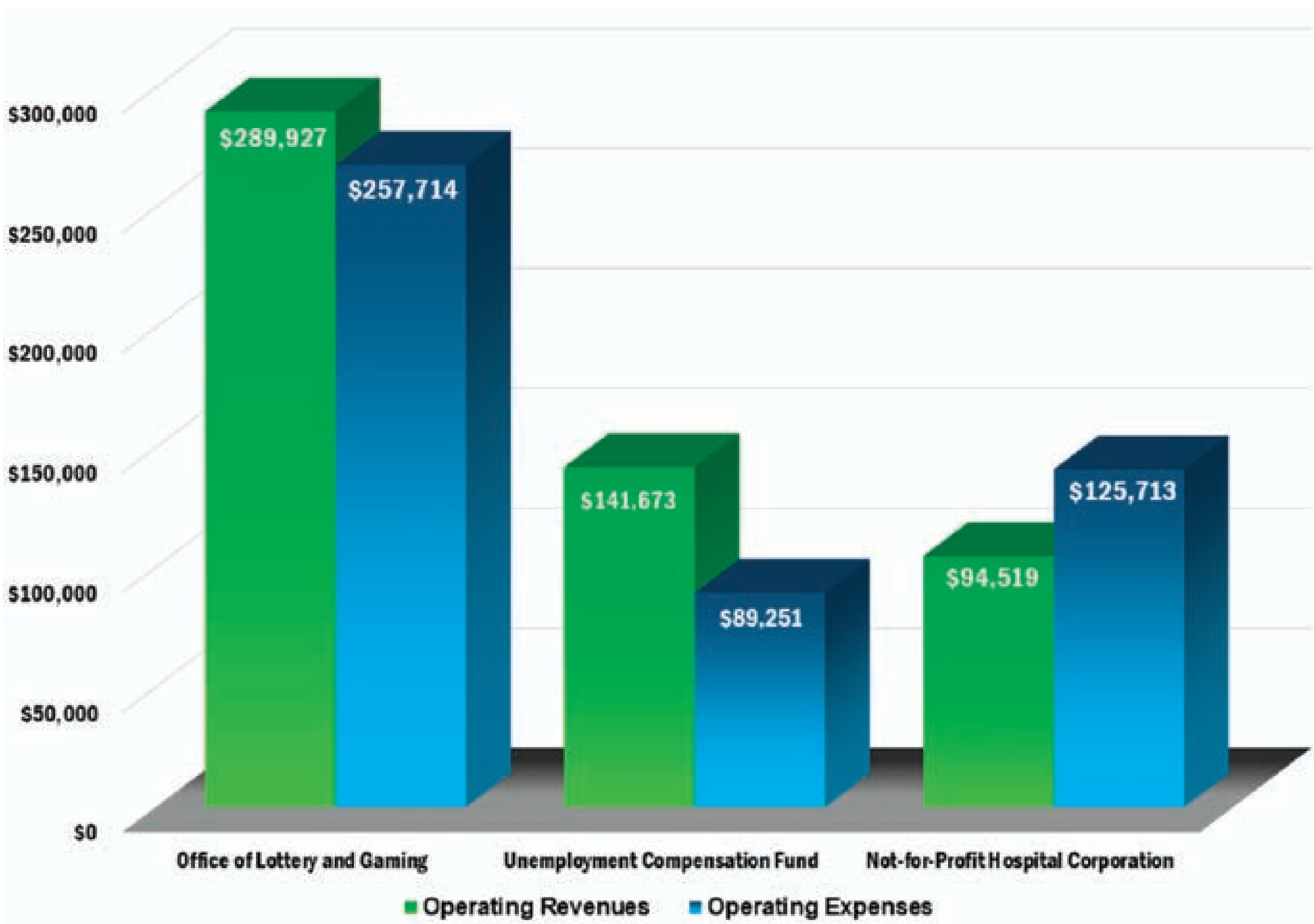
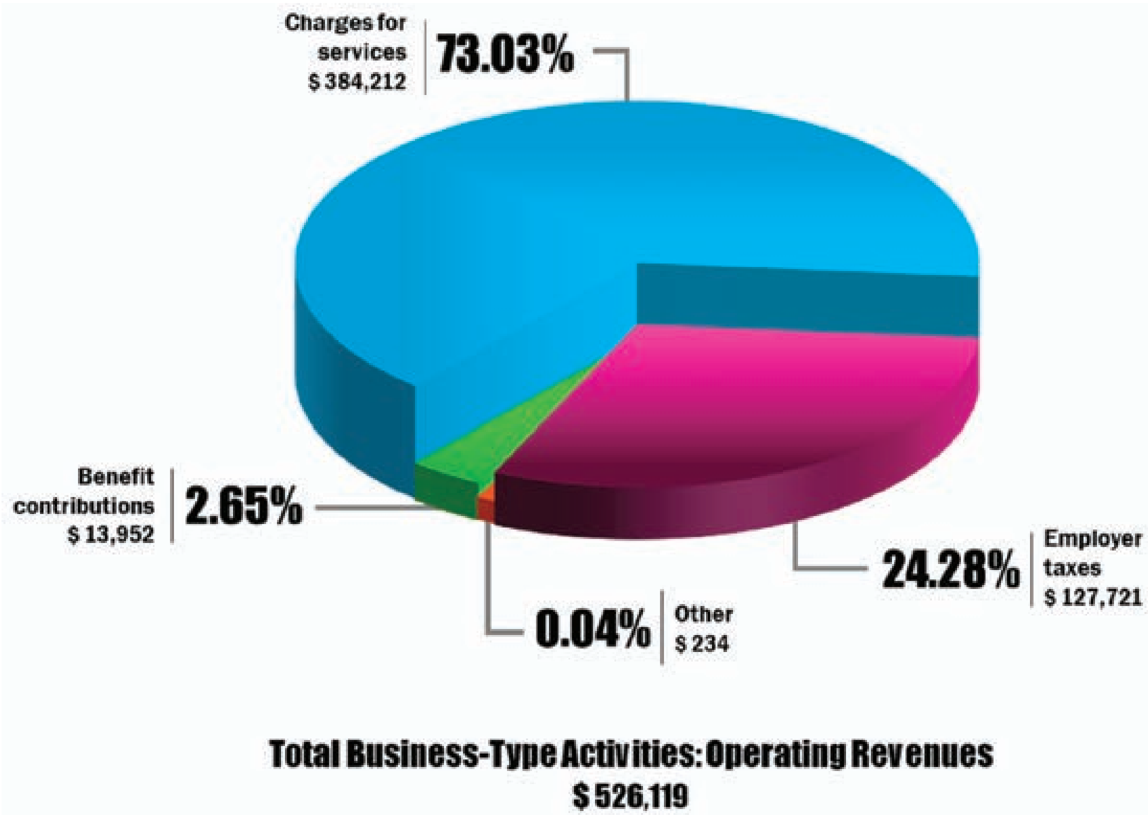


Chart MDA-4
Operating Revenues by Source: Business-Type Activities ($000s)



Fiduciary Funds

The Fiduciary 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 has the fiduciary responsibility for ensuring these assets are used for their intended purposes. 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 63 and 64, respectively. Exhibits C-1 and C-2, presented on pages 184 and 185, respectively, provide additional information related to the fiduciary activities. 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 District operations.

Table MDA-9 presents the net position restricted for Pension and Other Employee Benefit Trust Funds.

Table MDA-9
Net Position Restricted for Pension and Other Employee Benefit Trust Funds ($000s)

Pension and Other Employee Benefit Trust Funds	2023	2022	Variance	Variance %
Police officers and fire fighters pension	$ 7,654,185	$ 6,900,445	$ 753,740	10.92%
Teachers pension	2,883,895	2,572,925	310,970	12.09
Other postemployment benefits	1,843,482	1,650,287	193,195	11.71
401(a) Defined Contribution Plan	1,430,364	1,242,464	187,900	15.12
457(b) Deferred Compensation Plan	1,310,981	1,118,750	192,231	17.18
403(b) Tax-Sheltered Annuity Plan	355,927	318,887	37,040	11.62
Total	**$ 15,478,834**	**$ 13,803,758**	**$ 1,675,076**	12.13

Net position of the fiduciary funds increased mainly because of higher-than-expected returns due to improved market conditions and performance compared to fiscal year 2022.

A Private-Purpose Trust Fund is used to report any trust arrangement not reported in the Pension or Other Employee Benefit 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, or (c) the District holds majority equity interest, which does not meet the definition of investment in 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) District of Columbia Green Finance Authority, (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 meets any one of the following criteria: (a) the entity 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; (b) the entity's total debt outstanding is expected to be repaid entirely or almost entirely with the primary government's resources; or (c) the organization is a not-for-profit corporation, in which the primary government is the sole corporate member.

The District reports two blended component units: (1) the Tobacco Settlement Financing Corporation (Tobacco Corporation) and (2) the Not-for-Profit Hospital Corporation (d/b/a United Medical Center). 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. The Not-for-Profit Hospital Corporation is a blended component unit because: (a) there is a financial benefit/burden relationship between the District and the Not-for-Profit Hospital Corporation because the District has assumed the obligation to provide financial support to the Not-for-Profit Hospital Corporation to help sustain its operations; (b) the District is able to impose its will on the Not-for-Profit Hospital Corporation because the District has the ability to modify or approve the Not-for-Profit Hospital Corporation's budget; and (c) it is organized as a not-for-profit corporation, in which the District is the sole corporate owner.

Each of the District's 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 65 and 66, respectively, present the component units' financial information for fiscal year 2023. Information presented in these exhibits was extracted from each entity's separately issued financial statements.

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 Income Tax Secured Bond Authorization Act of 2008 (DC Code § 47-340.26 et seq.). 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 Fund (HPTF) Bonds, and other revenue bonds.

As of September 30, 2023, the District (including its business-type activities) had $16,844,685 in long-term debt outstanding, of which $12,449,410, or 73.91%, was in the form of bonds and notes. Of the outstanding bonds, $6,329,085, or 50.84% were General Obligation Bonds, and $4,984,250, or 40.04% were Income Tax Secured Revenue Bonds.

Table MDA-10 presents the outstanding bonds and notes of the District as of September 30, 2023.

Table MDA-10
Outstanding Bonds and Notes as of September 30, 2023 ($000s)

Type of bonds and notes	2023	2022	Variance	Variance %
General obligation bonds - publicly offered	$ 5,546,840	$ 5,169,010	$ 377,830	7.31%
General obligation bonds - direct placements	782,245	833,300	(51,055)	(6.13)
Income tax secured revenue bonds	4,984,250	5,216,810	(232,560)	(4.46)
Other bonds:				
Qualified zone academy bonds (QZAB) - direct placements	552	829	(277)	(33.41)
Tobacco settlement asset-backed bonds	430,369	458,029	(27,660)	(6.04)
Tax increment financing bonds - publicly offered	83,948	88,088	(4,140)	(4.70)
Tax increment financing bonds - direct placements	18,314	18,778	(464)	(2.47)
Ballpark revenue bonds	174,680	179,205	(4,525)	(2.53)
Federal highway grant anticipation revenue bonds (GARVEE)	251,625	266,505	(14,880)	(5.58)
Deed tax revenue bonds (housing production trust fund program)	30,260	32,795	(2,535)	(7.73)
PILOT revenue bonds - publicly offered	127,090	132,060	(4,970)	(3.76)
PILOT revenue bonds and notes - direct placements	19,237	24,214	(4,977)	(20.55)
Total outstanding bonds and notes - governmental activities	**$ 12,449,410**	**$ 12,419,623**	**$ 29,787**	0.24

In March 2023, the District issued $581,140 Series 2023A General Obligation Bonds and $239,055 Series 2023B General Obligation Refunding Bonds. The proceeds of the Series 2023A Bonds, together with other funds of the District, were used to pay or reimburse the General Fund of the District under its capital improvements plan, refund the General Obligation Commercial Paper Notes, and pay the costs and expenses of issuing and delivering the Series 2023A Bonds. The Series 2023B Bonds were issued to current refund the Series 2013A General Obligation Bonds and pay the costs and expenses of issuing and delivering the Series 2023B Bonds.

For more information on the long-term debt activity of the District, refer to Note 7, Long-Term Liabilities, on pages 124 through 138.

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, bridges, and right-to-use leased and subscription assets. In fiscal year 2023, total net capital assets (capital assets less accumulated depreciation and amortization) increased by $538,947, or 3.07%, over the prior year. Total capital assets increased overall because the District invested resources in the construction of new assets and the rehabilitation of existing infrastructure, such as roads, streets, and bridges. The implementation of GASB Statement No. 96 in fiscal year 2023 caused the addition of right-to-use subscription assets to the capital assets and resulted in the restatement of the fiscal year 2022 net capital assets.

As of September 30, 2023, net capital assets totaled $18,099,329. Net capital assets of the governmental activities totaled $18,056,666 and net capital assets of the business-type activities totaled $42,663. The governmental activities depreciation and amortization charges for fiscal year 2023 totaled $709,587 compared to the prior year's amount of $675,923. The business-type activities depreciation and amortization charges for fiscal year 2023 totaled $12,244 compared to the prior year's amount of $15,683.

Table MDA-11 presents information on the net capital assets of the District by class as of September 30, 2023.

Table MDA-11
Net Capital Assets by Asset Class as of September 30, 2023 ($000s)

	Governmental Activities		Business-type Activities		Totals	
Asset class	**2023**	**2022, as restated**	**2023**	**2022**	**2023**	**2022, as restated**
Land	$ 1,007,507	$ 966,846	$ 8,100	$ 8,100	$ 1,015,607	$ 974,946
Buildings	8,714,009	8,660,741	28,763	35,621	8,742,772	8,696,362
Infrastructure	4,506,355	4,468,913	-	-	4,506,355	4,468,913
Right-to-use leased buildings	1,072,169	1,053,207	-	-	1,072,169	1,053,207
Right-to-use leased equipment	9,472	13,401	1,328	2,655	10,800	16,056
Right-to-use subscription assets	92,976	97,902	-	-	92,976	97,902
Equipment	621,321	628,559	4,472	5,766	625,793	634,325
Construction in progress	2,032,857	1,618,671	-	-	2,032,857	1,618,671
Total net capital assets	**$ 18,056,666**	**$ 17,508,240**	**$ 42,663**	**$ 52,142**	**$ 18,099,329**	**$ 17,560,382**

Note:
Additional information on the District's capital assets is presented in Note 5, Capital Assets, on pages 114 through 118.

REPORTING THE DISTRICT BUDGET

Overview

DC 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 quarterly 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-12** presents variances between revised budget amounts and actual expenditures for the fiscal year ended September 30, 2023.

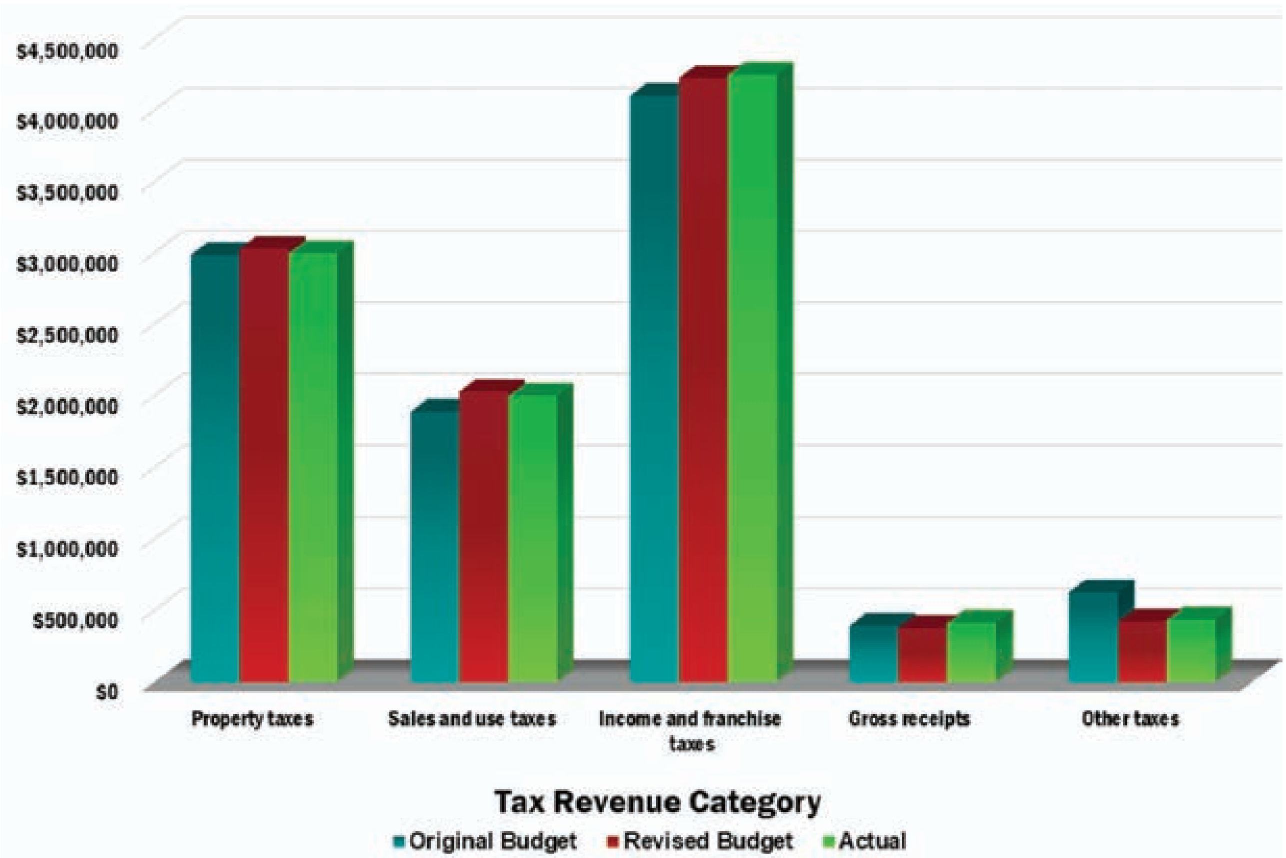
Table MDA-12
Schedule of General Fund Budgetary Basis Revenues and Expenditures ($000s)

	Original Budget	Revised Budget	Actual	Variance (Actual to Revised Budget)
Revenues and other sources				
Taxes	$ 9,488,729	$ 9,725,319	$ 9,780,967	$ 55,648
Licenses and permits	146,085	136,860	146,979	10,119
Fines and forfeitures	151,232	159,998	156,576	(3,422)
Charges for services	68,172	62,057	70,544	8,487
Miscellaneous	118,325	367,065	407,949	40,884
Other sources	725,546	754,827	741,206	(13,621)
Bond proceeds	11,000	11,000	4,149	(6,851)
Fund balance released from restrictions	533,749	812,844	812,844	-
Interfund transfer - from office of lottery and gaming	43,731	43,731	33,450	(10,281)
Interfund transfer - others	813,649	1,018,810	1,102,424	83,614
Total revenues and other sources	12,100,218	13,092,511	13,257,088	164,577
Expenditures and other uses				
Governmental direction and support	1,101,070	1,125,145	1,090,467	34,678
Economic development and regulation	798,934	819,779	814,775	5,004
Public safety and justice	1,416,130	1,573,767	1,551,434	22,333
Public education system	3,150,361	3,372,012	3,355,178	16,834
Human support services	2,531,604	2,511,214	2,478,326	32,888
Operations and infrastructure	1,259,590	1,226,810	1,194,857	31,953
Repayment of bonds and interest	1,025,478	978,982	978,766	216
Other expenditures and uses	809,959	812,685	804,708	7,977
Total expenditures and other uses	12,093,126	12,420,394	12,268,511	151,883
Excess of revenues and other sources over expenditures and other uses - budgetary basis	**$ 7,092**	**$ 672,117**	**$ 988,577**	**$ 316,460**

Revenues and Other Sources

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 2023.

Chart MDA-5
FY 2023 Budgetary Comparison – Tax Revenues
Original and Revised Budgets with Actual Results ($000s)



Note:
For more detailed information, refer to the Schedule of Local Source Revenues for the General Fund, Exhibit A-4, presented on page 176.

As presented in **Table MDA-12**, actual General Fund revenues and other sources were $164,577, or 1.26%, more than the revised budget. This variance was primarily attributable to higher-than-expected gross receipts and other taxes, individual and franchise tax, transfer from other funds, and growth in non-tax revenues that came from the miscellaneous revenue component which consists of interest income, unclaimed property proceeds and other sources.

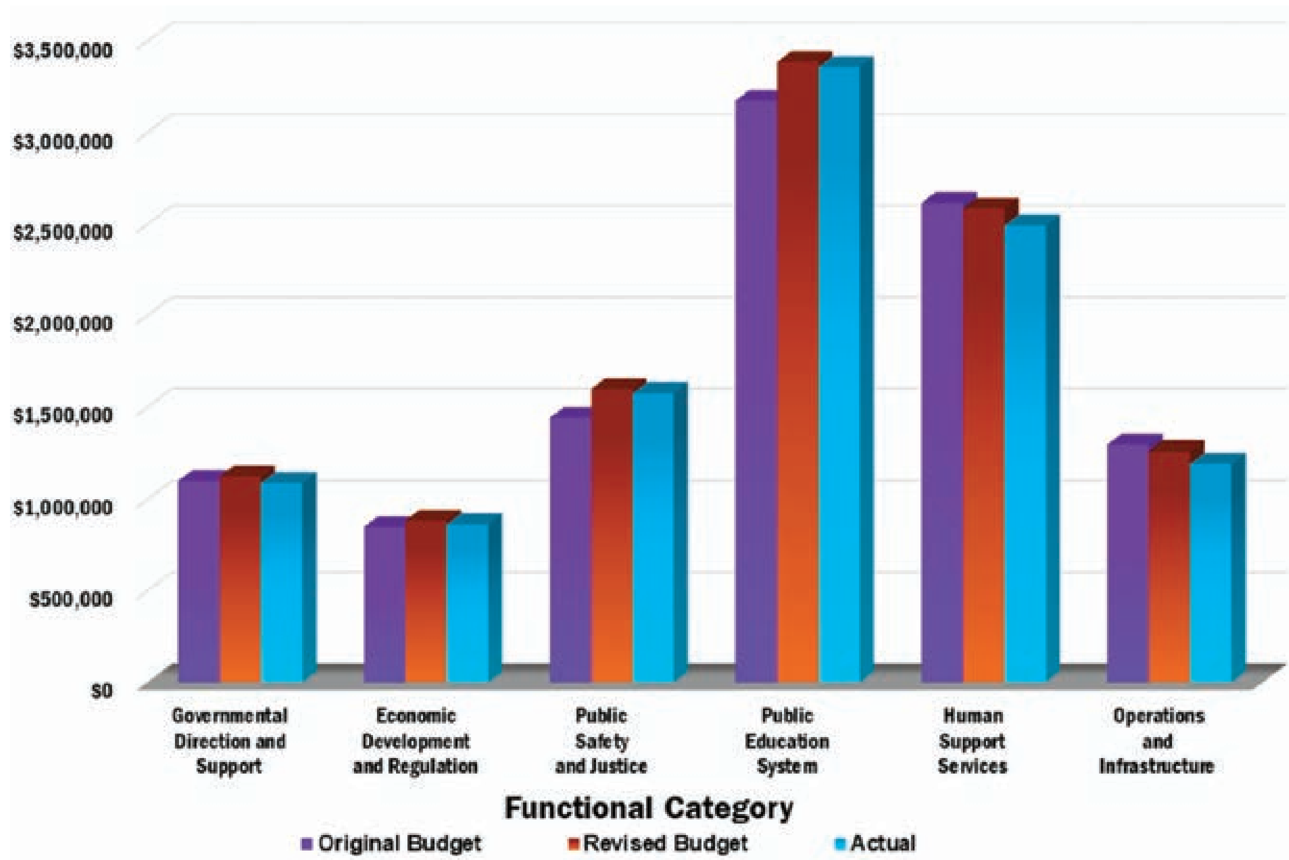
Fund balance released from restrictions is defined as the portion of assets that was restricted for either a period of time or for a particular purpose for which the imposed conditions have been met, allowing the assets to become available for use. In other words, this amount of fund balance was budgeted to help finance current year's operations. As presented in **Table MDA-12**, the District utilized the fund balance by drawing on its available reserves to finance costs associated with activities that were not covered from the revenues generated during the fiscal year.

During fiscal year 2023, actual tax revenues comprised 73.78% of the General Fund's total revenues and other sources.

Expenditures and Other Uses

Chart MDA-6 graphically presents differences between the General Fund's original budget, revised budget, and actual expenditures (by functional category) for fiscal year 2023.

Chart MDA-6
FY 2023 Budgetary Comparison – General Fund Expenditures (by Function)
Original and Revised Budgets with Actual Results ($000s)



Note:
For more detailed information, refer to the budgetary schedule for the General Fund, Exhibit A-6, which is presented on page 178.

Actual General Fund expenditures and other uses were $151,883, or 1.22%, less than the revised budget. As presented in **Table MDA-12**, this variance is primarily attributable to underspending in areas of Governmental Direction and Support, Human Support Services, Operations and Infrastructure, and Public Safety and Justice.

Notably, expenditures in Public Education System, Human Support Services, and Public Safety and Justice areas collectively constituted 60.19% of the total actual General Fund expenditures and other uses.

SUBSEQUENT AND OTHER EVENTS

Income Tax Secured Revenue Bonds and Income Tax Secured Revenue Refunding Bonds

In December 2023, the District issued an aggregate par amount of $1,183,930 of Income Tax Secured Revenue and Refunding Bonds, which were comprised of $467,220 of Income Tax Secured Revenue Bonds, Series 2023A, $250,345 of Income Tax Secured Revenue and Refunding Bonds, Series 2023B (Taxable), and $189,615 of Income Tax Secured Revenue Refunding Bonds, Series 2023C.

The proceeds of the Series 2023A Bonds were used to (1) pay or reimburse the District for capital project expenditures on a tax-exempt basis under the District's capital improvement plan, and (2) pay the cost and expenses of issuing and delivering the Series 2023A Bonds. The proceeds of the Series 2023B Bonds were used to (1) pay or reimburse the District for capital project expenditures on a taxable basis under the District's capital improvement plan, (2) defease the District's General Obligation Bond Series 2015A Refunded Bonds, (3) refund the Refunded Income Tax Secured BANs, and (4) pay the costs and expenses of issuing and delivering the Series 2023B Bonds. The proceeds of the Series 2023C Bonds were used to (1) purchase the Tender Offer Bonds (which include a portion of the District's General Obligations Bonds Series 2014C, 2014D, 2015A, 2016A, 2016D, and 2020D), and (2) pay the costs and expenses of issuing and delivering the Series 2023C Bonds.

The Series 2023A, Series 2023B and Series 2023C bonds all bear interest at a fixed rate ranging from 4.89% to 5.25% and have final maturity dates of May 1, 2048, May 1, 2037, and October 1, 2033, respectively.

Going Concern

The Not-for-Profit Hospital Corporation (d/b/a United Medical Center) is a blended component unit of the District. In May 2019, the DC Council voted to reduce funding for the Not-for-Profit Hospital Corporation (Corporation) and close the facilities due to a decline in the number of patients and increasing costs to support and maintain the Corporation. The going concern assumption contemplates the realization of assets and satisfaction of liabilities in the normal course of business. However, substantial doubt about the ability of the Corporation to continue as a going concern exists.

The District plans to replace the Not-for-Profit Hospital Corporation with a new hospital in Southeast, DC, the Cedar Hill Regional Medical Center - GW Health, which is currently under construction. The Not-for-Profit Hospital Corporation expects to cease admitting new patients and cease patient operations by the end of the second quarter of fiscal year 2025. In accordance with DC Code § 44-951.19, the Not-for-Profit Hospital Corporation is expected to dissolve on September 30, 2025 and all of its assets, positions, personnel, and records, and the unexpended balances of appropriations, allocations, and other funds available or to be made available to it, shall revert to the District.

Washington Convention and Sports Authority

In fiscal year 2022, the Washington Convention and Sports Authority (Authority) was unable to sufficiently access its financial data and records due to a ransomeware attack. As a result, the independent auditors of the Authority were unable to audit its financial statements as of and for the year ended September 30, 2022. Consequently, the District of Columbia Annual Comprehensive Financial Report as of and for the fiscal year ended September 30, 2022 contained unaudited data for the Authority. The Authority has since completed and issued its audited financial statements as of and for the fiscal year ended September 30, 2022. Amounts reported in the Annual Comprehensive Financial Report of the District as of and for the fiscal year ended September 30, 2023 include these updated audited numbers. The Authority has also completed and issued its audited financial statements as of and for the year ended September 30, 2023.

CONTACT INFORMATION FOR THE OFFICE OF THE CHIEF FINANCIAL OFFICER

This ACFR is designed to provide a general overview of District finances and to demonstrate the effectiveness of the systems of accountability for the resources the District receives. If you have any questions regarding this report, suggestions for improvement, or need additional financial information, please contact:

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