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COMPREHENSIVE ANNUAL
FINANCIAL REPORT



VINCENT C. GRAY
MAYOR

NATWAR M. GANDHI
CHIEF FINANCIAL OFFICER
JUNE 2000–JANUARY 2014

JEFF DEWITT
CHIEF FINANCIAL OFFICER
PRESENT

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

Year Ended September 30, 2013



MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2013

(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, 2013, 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, 2013, the District's assets plus deferred outflow of resources exceeded its liabilities plus deferred inflow of resources by \$3,727,970. The District had negative unrestricted net position totaling \$628,134 at the end of fiscal year 2013. (See Table MDA-1)
- The District's total net position increased by \$313,058 primarily as a result of an increase of \$308,938 in revenues in fiscal year 2013.
- General revenues increased by approximately \$221,014 due to increases in income and franchise taxes, and property taxes totaling \$137,589 and \$67,717, respectively. Expenses increased by \$357,674 over the one-year period due mainly to increased spending for economic development, education, and human support services. Higher than expected increases in revenues from property taxes and deed and estate taxes combined with the implementation of self-imposed cost reduction plans also contributed to the increase in net position. (See Table MDA-2)
- As of September 30, 2013, the District's governmental funds reported combined ending fund balances of \$2,466,592, an increase of \$534,698 in comparison with the prior year. (See Table MDA-3)
- The District's total long-term liabilities increased by \$739,991, or 8.1%, during fiscal year 2013. This increase resulted, in large part, from the District's issuance of Income Tax Secured Revenue Bonds during the year to fund infrastructure improvements/capital projects and refund certain series of outstanding bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

In general, the purpose of financial reporting is to provide users of financial statements with information that will help them make decisions or reach conclusions about a reporting entity. Many parties use the District's financial statements; however, they do not always use them for the same purpose. In order to address the needs of as many financial statement users as possible, the District, in accordance with generally accepted accounting principles (GAAP) presents: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the basic financial statements.

Government –Wide Financial Statements

The government-wide financial statements focus on the District's overall financial position and activities, and include a *statement of net position* and a *statement of activities*. These financial statements report on the

primary government and its component units. The primary government is further divided into governmental activities and business-type activities.

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

The purpose of the *statement of activities* is to present the District's revenues and expenses. The difference between revenues and expenses is reported as "change in net position". All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement also include items that will result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The *statement of activities* summarizes both the gross and net cost of the governmental activities and business-type activities. Governmental activities include the District's basic functional services which are generally financed through taxes, intergovernmental revenues and other revenues. Business-type activities include enterprise operations which are primarily funded by fees for services which are expected to cover all or most of the costs of operations, including depreciation. Program or functional expenses are reduced by program-specific earned revenues, and by grants and contributions.

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

Fund Financial Statements

Unlike the government-wide financial statements, the fund financial statements focus on specific District activities rather than the District as a whole. Specific funds are established to maintain managerial control over resources or to comply with legal requirements established by external parties, governmental statutes, or regulations. The District's fund financial statements are divided into three categories: (1) governmental funds; (2) proprietary funds; and (3) fiduciary funds.

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

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

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

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

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

Financial statements of the proprietary funds consist of a statement of net position; a statement of revenues, expenses, and changes in fund net position; and a statement of cash flows. These statements are prepared using the full accrual basis of accounting similar to that used to prepare the government-wide financial statements. The District's proprietary funds are used to account for the activities of District entities that charge customers fees for the services provided. The financial statements of the District's proprietary funds present the changes in financial position and condition of the District's two major proprietary funds, the D.C. Lottery & Charitable Games Board and the Unemployment Compensation Fund.

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

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

Financial statements of the fiduciary funds consist of a statement of fiduciary net position and a statement of changes in fiduciary net position. These statements are

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

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

Component Units

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

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements, which begin on page 55, present additional information that is essential

to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress toward funding its obligation to provide pension and other postemployment benefits to District employees. Required supplementary information can be found on pages 129 through 131 of this report.

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

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND OPERATIONS

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

information for fiscal years 2012 and 2013 is based on the government-wide financial statements presented on pages 42 and 43 of this report.

Table MDA-1 - Net Position as of September 30, 2013

| | Governmental activities | | Business-type activities | | Totals | |
|----------------------------------|-------------------------|---------------|--------------------------|---------------|--------------|---------------|
| | 2013 | 2012 Restated | 2013 | 2012 Restated | 2013 | 2012 Restated |
| Current and other assets | \$ 4,811,391 | \$ 4,045,445 | \$ 323,173 | \$ 324,372 | \$ 5,134,564 | \$ 4,369,817 |
| Capital assets | 10,899,939 | 10,424,959 | 427 | 480 | 10,900,366 | 10,425,439 |
| Total assets | 15,711,330 | 14,470,404 | 323,600 | 324,852 | 16,034,930 | 14,795,256 |
| Deferred outflow of resources | 50,275 | 73,597 | - | - | 50,275 | 73,597 |
| Long-term liabilities | 9,910,463 | 9,164,291 | 10,200 | 16,381 | 9,920,663 | 9,180,672 |
| Other liabilities | 2,369,462 | 2,198,815 | 67,110 | 74,454 | 2,436,572 | 2,273,269 |
| Total liabilities | 12,279,925 | 11,363,106 | 77,310 | 90,835 | 12,357,235 | 11,453,941 |
| Net position: | | | | | | |
| Net investment in capital assets | 2,849,043 | 2,872,272 | 427 | 480 | 2,849,470 | 2,872,752 |
| Restricted | 1,264,682 | 1,057,582 | 241,952 | 229,930 | 1,506,634 | 1,287,512 |
| Unrestricted | (632,045) | (748,959) | 3,911 | 3,607 | (628,134) | (745,352) |
| Total net position | \$ 3,481,680 | \$ 3,180,895 | \$ 246,290 | \$ 234,017 | \$ 3,727,970 | \$ 3,414,912 |

Table MDA- 2 - Change in Net Position for the year ended September 30, 2013

| | Governmental activities | | Business-type activities | | Totals | | Variance |
|--|-------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|-------------------|
| | 2013 | 2012 Restated | 2013 | 2012 Restated | 2013 | 2012 Restated | |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 531,215 | \$ 537,403 | \$ 242,460 | \$ 249,675 | \$ 773,675 | \$ 787,078 | \$ (13,403) |
| Operating grants and contributions | 3,277,118 | 3,190,038 | 32,790 | 27,945 | 3,309,908 | 3,217,983 | 91,925 |
| Capital grants and contributions | 270,813 | 261,411 | - | - | 270,813 | 261,411 | 9,402 |
| General revenues: | | | | | | | |
| Property taxes | 2,012,788 | 1,945,071 | - | - | 2,012,788 | 1,945,071 | 67,717 |
| Sales and use taxes | 1,247,374 | 1,218,576 | - | - | 1,247,374 | 1,218,576 | 28,798 |
| Income and franchise taxes | 2,094,179 | 1,956,590 | - | - | 2,094,179 | 1,956,590 | 137,589 |
| Other taxes | 746,160 | 723,102 | 131,025 | 133,618 | 877,185 | 856,720 | 20,465 |
| Non tax revenues | 586,168 | 536,534 | 103,884 | 187,073 | 690,052 | 723,607 | (33,555) |
| Total revenues | 10,765,815 | 10,368,725 | 510,159 | 598,311 | 11,275,974 | 10,967,036 | 308,938 |
| Expenses: | | | | | | | |
| Governmental direction and support | 993,774 | 987,978 | - | - | 993,774 | 987,978 | 5,796 |
| Economic development and regulation | 460,082 | 353,618 | - | - | 460,082 | 353,618 | 106,464 |
| Public safety and justice | 1,497,016 | 1,490,423 | - | - | 1,497,016 | 1,490,423 | 6,593 |
| Public education system | 2,224,946 | 2,113,955 | - | - | 2,224,946 | 2,113,955 | 110,991 |
| Human support services | 4,086,722 | 3,925,613 | - | - | 4,086,722 | 3,925,613 | 161,109 |
| Public works | 603,423 | 587,002 | - | - | 603,423 | 587,002 | 16,421 |
| Public transportation | 284,851 | 221,339 | - | - | 284,851 | 221,339 | 63,512 |
| Interest on long-term debt | 382,530 | 397,216 | - | - | 382,530 | 397,216 | (14,686) |
| Lottery and games | - | - | 173,927 | 183,185 | 173,927 | 183,185 | (9,258) |
| Unemployment compensation | - | - | 255,645 | 344,913 | 255,645 | 344,913 | (89,268) |
| Total expenses | 10,533,344 | 10,077,144 | 429,572 | 528,098 | 10,962,916 | 10,605,242 | 357,674 |
| Increase in net position before transfers | 232,471 | 291,581 | 80,587 | 70,213 | 313,058 | 361,794 | (48,736) |
| Transfers in (out) | 68,314 | 66,404 | (68,314) | (66,404) | - | - | - |
| Change in net position | 300,785 | 357,985 | 12,273 | 3,809 | 313,058 | 361,794 | (48,736) |
| Net position - Oct 1 | 3,180,895 | 2,822,910 | 234,017 | 230,208 | 3,414,912 | 3,053,118 | 361,794 |
| Net position - Sept 30 | \$ 3,481,680 | \$ 3,180,895 | \$ 246,290 | \$ 234,017 | \$ 3,727,970 | \$ 3,414,912 | \$ 313,058 |

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.

Financial Analysis of the Government as a Whole

- The District's combined net position (governmental and business-type activities) increased by \$313,058 or 9.2%, from \$3,414,912 in fiscal year 2012 to \$3,727,970 in fiscal year 2013. Revenues increased by \$308,938, or 2.8%, between fiscal year 2012 and 2013. The most significant increases were in operating grants and contributions and income and franchise taxes, which grew by \$91,925 and \$137,589, respectively. Expenses also increased by \$357,674, or 3.4%. The most significant increases in expenses were in economic development and regulation, public education, and human support services, which grew by \$106,464, \$110,991, and 161,109, respectively.

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 \$1,506,634 in fiscal year 2013 and \$1,287,512 in fiscal year 2012, representing an increase of \$219,122, or 17.0%.

Total net position of governmental activities was \$3,481,680 in fiscal year 2013, which was \$300,785 or 9.5%, more than total net position of governmental activities in fiscal year 2012. Governmental activities expenses increased by \$456,200 from the prior year and governmental activities revenues increased by \$397,090.

Total net position increased mainly as a result of effective management of expenditures, and increases in revenues from income and franchise taxes, and property taxes. Negative unrestricted net position improved by \$117,218 to \$628,134 in fiscal year 2013 compared to \$745,352 in fiscal year 2012. Unrestricted net position remained negative at September 30, 2013, because the District has certain long-term liabilities which are funded on a pay-as-you-go basis. Therefore, resources or assets were not accumulated in advance but were appropriated as these liabilities became due.

The Lottery and Charitable Games Control Board (the Lottery), a proprietary fund of the primary government, transfers substantially all of its net income to the District at the end of each fiscal year. In fiscal years 2013 and 2012, the Lottery transferred \$68,314 and \$66,404 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, 2013**, found on page 28.

Chart MDA-1 – Revenues by Source – Governmental Activities

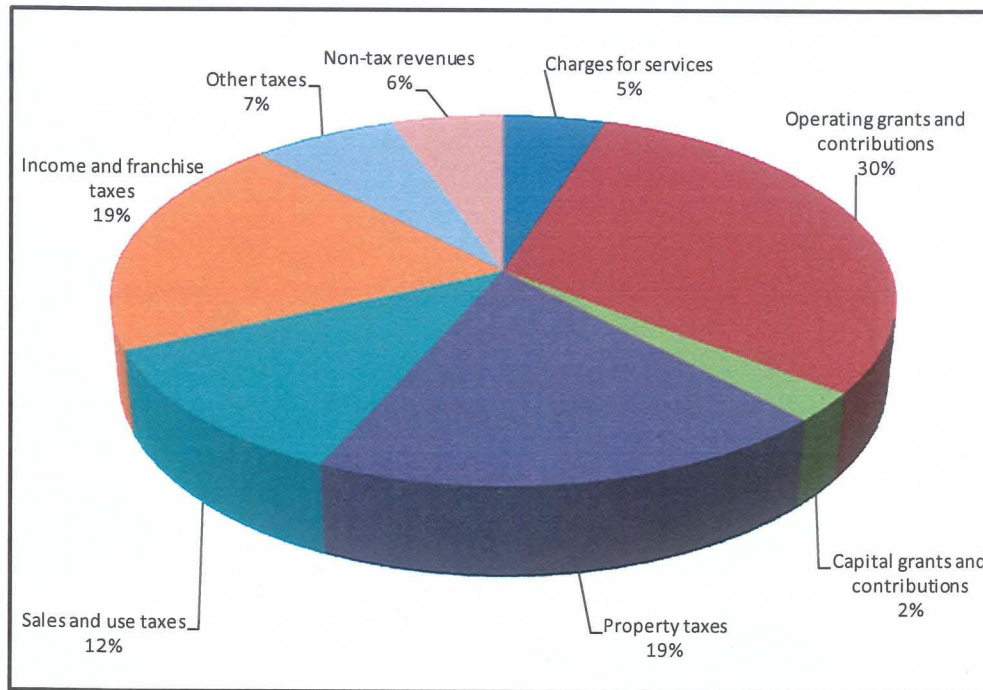
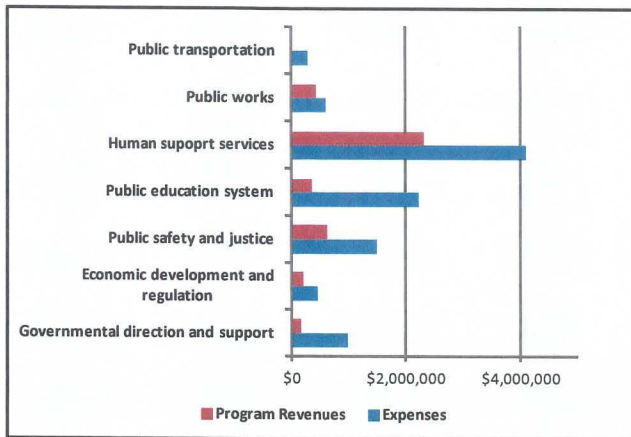


Chart MDA-2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities are: governmental direction and support, economic development and regulation, public safety and justice, public education, human support services, public works,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

Chart MDA-2 – Governmental Activities Expenses and Program Revenues



Total net position of the business-type activities increased by \$12,273, or 5.2%, between fiscal year 2012 and 2013. Business-type activities experienced an increase in net position because expenses decreased by \$98,526, or 18.7% and revenues also decreased but at a lesser rate of 14.7%, or \$88,152. The decrease in expenses was due primarily to the decrease of \$89,268, or 25.9%, in unemployment benefit payments. This reduction in benefit payments arose as a result of the decline in the average overall unemployment rate whereby fewer individuals were paid benefits.

Reporting on the District's Most Significant Funds

Fund financial statements focus on major funds, instead of fund types. A governmental fund is classified as a major fund if the fund has revenues, expenditures/expenses, assets plus deferred outflows of resources, or liabilities (excluding extraordinary items) plus deferred inflows of resources that are at least 10% of the corresponding totals for all governmental funds and at least 5% of the aggregate amount for all governmental and proprietary funds for the same item. Major funds, as required by generally accepted accounting principles (GAAP), are presented individually with nonmajor governmental funds combined in a single column. Detailed information for individual nonmajor governmental funds can be found in Other Supplementary Information, Exhibits B-1 and B-2, presented on pages 144 and 145 of this report.

Governmental Funds

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

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

Fund Balances: The governmental funds reported a combined fund balance of \$2,466,592 in fiscal year 2013 and \$1,931,894 in fiscal year 2012, which represents an increase of \$534,698, or 27.7%, 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 2013 and FY 2012 Fund Balance

| | FY 2013 Balance | FY 2012 Balance | Dollar Variance | Percentage Variance |
|-------------------------------|---------------------|---------------------|--------------------|------------------------|
| General | \$ 1,748,928 | \$ 1,506,521 | \$ 242,407 | 16.1% |
| Federal and Private Resources | 170,162 | 180,921 | (10,759) | -5.9% |
| Housing Production Trust | 139,731 | 74,379 | 65,352 | 87.9% |
| General Capital Improvements | 102,434 | (116,269) | 218,703 | -188.1% |
| Nonmajor governmental funds | 305,337 | 286,342 | 18,995 | 6.6% |
| Total Fund Balance | \$ 2,466,592 | \$ 1,931,894 | \$ 534,698 | 27.7% |

Fund balance in the Federal and Private Resources Fund decreased by \$10,759 or 5.9% between fiscal years 2012 and 2013. This relatively moderate decrease in fund balance was due to significant increases in operating grant revenue that were offset by increased expenditures primarily in the areas of Public Safety and Justice and Human Support Services. Total revenues in the Federal and Private Resources Fund increased by \$97,041 and \$87,021 or 89.7%, of that increase was due to operating grants. Expenditures in the Federal and Private Resources Fund also increased by a larger amount over the one-year period. Total expenditures in this fund increased by \$104,226.

Fund balance in the Housing Production Trust Fund increased by \$65,352, or 87.9% between fiscal years 2012 and 2013. This increase was due primarily to transfers in from the General Fund.

The most significant changes in the total fund balance of the governmental funds were in the General Capital Improvements Fund and 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 \$270,125 in fiscal year 2013. **Table MDA-4** presents the most significant one-year variances in General Fund revenues.

Table MDA-4 – Changes in Major General Fund Revenues

| Revenue Category | Fiscal Year 2013 | Fiscal Year 2012 | Dollar Variance | Percentage Variance |
|----------------------------|---------------------|---------------------|--------------------|------------------------|
| Property taxes | \$ 2,012,511 | \$ 1,902,541 | \$ 109,970 | 5.8% |
| Income and franchise taxes | 2,094,179 | 1,956,590 | 137,589 | 7.0% |
| Total | \$ 4,106,690 | \$ 3,859,131 | \$ 247,559 | 6.4% |

Property tax. Personal property tax collections increased between fiscal years 2012 and 2013 as a result of several factors. Although in fiscal year 2013 the District continued to experience some effects of the recent national economic recession, residential property values stabilized with slight increases in total residential values. Therefore, certain classes of property tax collections grew due to rising property values. Increased property tax collections also resulted from the effect of the assessment cap for many homestead properties. For such properties, the assessment cap caused the annual tax liability to increase 10% annually, although the respective home values did not increase at the same rate.

Income and franchise tax. Wages and salaries earned by District residents continued to increase in fiscal year 2013. The non-withholding component of income tax revenue, which includes declarations (estimated payments), increased in fiscal year 2013. The behavior of the declarations component is related to the performance

of the stock market which continued to gain strength in fiscal year 2013.

Dedicated Revenues

The dedicated portions of tax revenues related to the special revenue funds are recorded directly in those funds. However, dedicated taxes for the Convention Center, Healthcare Programs and Highway Trust Fund are transferred out of the local fund (the major component of the general fund). Healthcare Program activities are recorded in a segregated fund within the general fund. In fiscal year 2013, the District dedicated a total of \$331,966 in tax revenues to fund the projects shown in Table MDA-5.

Expenditures: The District's general fund expenditures, excluding debt service, increased by \$329,080 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 | Tax Increment Financing Program | PILOT Special Revenue | Baseball Project | Housing Production Trust Fund |
| Property taxes | \$ 27,986 | \$ - | \$ - | \$ - | \$ 15,802 | \$ 12,184 | \$ - | \$ - |
| Sales and use taxes | 157,022 | 104,108 | - | - | 37,506 | - | 15,408 | - |
| Gross receipts taxes | 40,120 | - | - | - | - | - | 40,120 | - |
| Motor fuel taxes | 22,389 | - | - | 22,389 | - | - | - | - |
| Other taxes | 84,449 | - | 37,895 | - | - | - | - | 46,554 |
| Total taxes | \$ 331,966 | \$ 104,108 | \$ 37,895 | \$ 22,389 | \$ 53,308 | \$ 12,184 | \$ 55,528 | \$ 46,554 |

Table MDA-6 – General Fund Expenditure Variances by Function

| Program/ Functional Area | Fiscal Year 2013 | Fiscal Year 2012 | Dollar Variance | Percentage Variance |
|--------------------------------------|---------------------|---------------------|-------------------|---------------------|
| Governmental direction and support | \$ 748,634 | \$ 694,011 | \$ 54,623 | 7.9% |
| Economic development and regulation | 260,700 | 194,458 | 66,242 | 34.1% |
| Public safety and justice | 982,461 | 954,077 | 28,384 | 3.0% |
| Public education system | 1,681,634 | 1,571,264 | 110,370 | 7.0% |
| Human support services | 1,783,940 | 1,727,072 | 56,868 | 3.3% |
| Public works | 261,049 | 311,968 | (50,919) | -16.3% |
| Public transportation | 284,851 | 221,339 | 63,512 | 28.7% |
| Total Functional Expenditures | \$ 6,003,269 | \$ 5,674,189 | \$ 329,080 | 5.8% |

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

Economic Development and Regulation – Several factors contributed to the increased expenditures in this functional area in fiscal year 2013. The Housing Authority's subsidy increased significantly in fiscal year 2013 in support of the Local Rent Supplement Program, which provides rental assistance to low-income families throughout the District. In addition, the District's Housing Production Trust Fund's Subsidy also increased substantially over the one year period.

Public Education – Increased expenditures in Public Education were attributable to efforts made to improve operations within schools and educational facilities and comply with legal mandates.

Several factors, which contributed to increased Public Education expenditures, included but were not limited to the following:

- Increased fringe benefits as a result of the District's contribution for employee health insurance being adjusted back to 75% of the associated premiums from the rate of 72% applied in recent years;
- Increased enrollment in the District of Columbia Public Schools (DCPS) and the creation of several new initiatives, such as an intensive algebra program for DCPS students and a journalism mentoring program for DCPS high school students;
- Increased enrollment in the District of Columbia Public Charter Schools;
- Increase in the Uniform Per Student Funding Formula;
- Increased costs associated with conducting: (a) an annual enrollment audit of DCPS; (b) grants management and compliance activities associated with the Common Core movement, child care eligibility and the development and maintenance of a child care data management system; and
- Increased number of term employees and overtime pay to align branch positions within the DC Public Library (DCPL) system to DCPL's staffing patterns.

Public Transportation - Subsidy payments made to the Washington Metropolitan Area Transit Authority increased in fiscal year 2013 as a result of increased operating costs of the Metro system.

Public Works – Decreased expenditures in Public Works resulted primarily from cost saving initiatives implemented by the Department of Public Works (DPW). One such initiative was the DPW Waste Collection

Division's adoption of the Gainsharing Program in fiscal year 2013. In addition, the elimination of stimulus funding and the loss of the Centers for Disease Control and Prevention grant at the District Department of the Environment also contributed to the reduced spending in fiscal year 2013.

Capital Expenditures and Financing

The District's investments in capital improvements are based on need rather than available current year revenues. It is the District's financial policy to issue bonds to support the expenditures associated with its Capital Improvements Program. In order to minimize the cost of carrying debt, the District has instituted the practice of issuing bonds based on actual expenditures, in some cases, as well as on the annual amount budgeted. However, agencies are authorized to spend their annual appropriated capital budget in advance of financing. The General Fund advances the amount of the funding, and is repaid with the proceeds from the bonds when issued. This allows the District to determine when it will enter the market to issue bonds, based upon cash flow needs, favorable market rates, and the total amount of municipal debt financing and the types of credits that are available. This flexibility helps to minimize borrowing costs and maximize the pool of potential investors for the District's debt issuances.

The District spent \$1,181,289 on general capital improvements which exceeded the general capital improvements revenues of \$280,258 by \$901,031, which is reported as a deficiency in the capital projects fund. This deficiency was subsequently financed with a total of \$1,119,734 from bond proceeds and other financing sources. The net change in the fund balance was an increase of \$218,703.

Proprietary Funds

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

The total assets for the Lottery decreased by \$5,046 or 16.2%, over the prior year, due to scheduled payments to long-term prize winners.

Total assets for Unemployment increased by \$5,133, or 1.6%, due primarily to an increase in the amount due from the federal government for extended benefits. District residents who have exhausted regular District benefits may also participate in the federally funded Emergency Unemployment Compensation (EUC) Program. Pursuant to the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, the EUC program was extended until March 6, 2012 and

subsequently extended by Congress until January 1, 2014. Between 2012 and 2013, there was a \$9,760 increase in the amount owed to Unemployment by the federal government for extended benefits.

Overall total net position of the District's proprietary funds increased by \$12,273, or 5.2%, over the prior year. Exhibits 3-a, 3-b, and 3-c on pages 48 through 50 present the financial statements of the proprietary funds.

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

Chart MDA-3 – Operating Revenues and Expenses – Business-type Activities

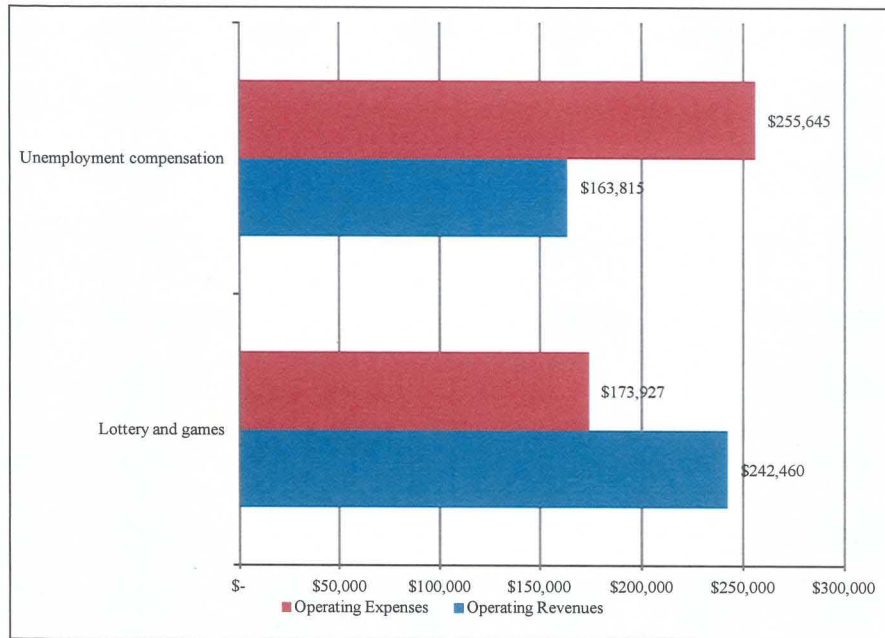
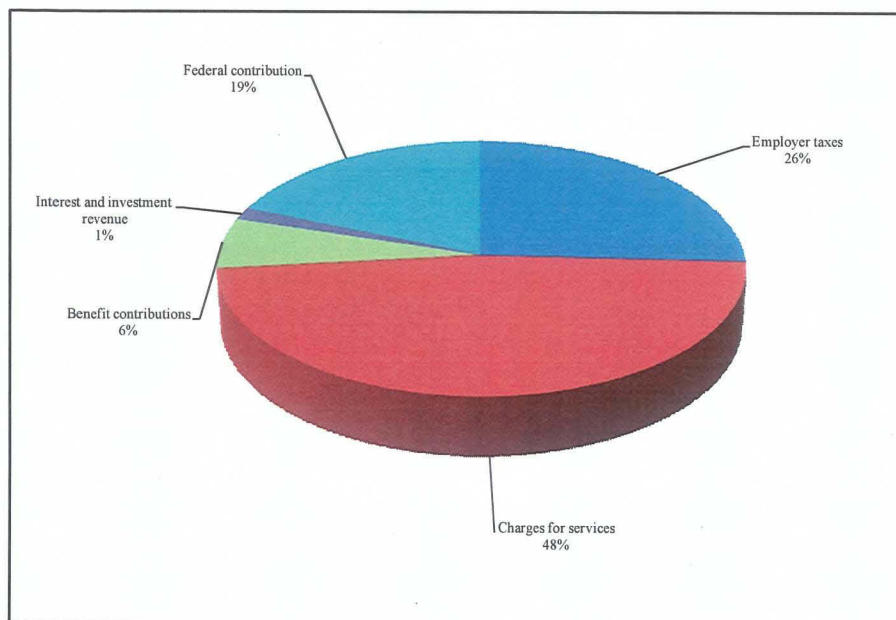


Chart MDA-4 – Revenues by Source – Business-type Activities



Fiduciary Funds

The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. The District is the *trustee or fiduciary* for its employees' pension plans and other postemployment benefits (OPEB). All fiduciary activities are reported in Exhibit 4-a, *Statement of Fiduciary Net Position* and Exhibit 4-b, *Statement of*

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

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

| Trust Fund | Fiscal Year 2013 | Fiscal Year 2012 | Dollar Variance | Percentage Variance |
|---------------------------------|---------------------|---------------------|--------------------|------------------------|
| Police and Firefighters Pension | \$ 4,168,457 | \$ 3,681,854 | \$ 486,603 | 13.2% |
| Teachers Pension | 1,622,375 | 1,503,486 | 118,889 | 7.9% |
| Other Postemployment Benefits | 897,815 | 693,344 | 204,471 | 29.5% |
| Total Net Position | \$ 6,688,647 | \$ 5,878,684 | \$ 809,963 | 13.8% |

Net position of the fiduciary funds increased due to increases in the value of equity investments.

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

Component Units

Discretely presented component units are legally separate organizations that meet the following criteria: (a) the District appoints a voting majority of the entity's governing board and (b) there is a financial benefit/burden relationship between the District and the entity or the District is able to impose its will on the entity. Consistent with these criteria, the District reports five discretely presented component units: (1) Health Benefit Exchange Authority; (2) Washington Convention and Sports Authority; (3) Not-For-Profit Hospital Corporation (d/b/a United Medical Center); (4) Housing Finance Agency; and (5) University of the District of Columbia. In prior fiscal years, the Water and Sewer Authority (WASA) was also reported as a discretely presented component unit of the District because the District was responsible for debt service on certain general obligation bonds issued by the District on behalf of WASA. These bonds matured in fiscal year 2012 and no further debt service payments were owed by WASA. Accordingly, WASA no longer meets the financial benefit/burden criterion for inclusion as a discretely presented component unit.

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

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

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

53 and 54, respectively, present more detailed financial information on the District's component units.

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. This need occurs due to time lags between the receipt of taxes, grants and other revenues, and the outflow of funds for governmental operations and required disbursements. The District issued \$675,000 in Tax Revenue Anticipation Notes (TRANS) on October 23, 2012, at an interest rate of 2.00%. The District is required by law to repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred. Accordingly, by September 30, 2013, the District had repaid these outstanding TRANS.

Long-Term Debt

The District is empowered by law (Section 461 of the District of Columbia Home Rule Act, as amended) to issue general obligation bonds to refund indebtedness of the District and to provide for the payment of the costs of acquiring capital assets or undertaking various capital

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

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

At September 30, 2013, the District had \$9,920,663 in long term debt outstanding, of which \$8,288,265, or 83.5%, was in the form of bonds. Of the outstanding bonds, \$2,245,185, or 27.1%, were general obligation bonds, and \$4,457,675, or 53.8%, were income tax secured revenue bonds. **Table MDA-8** presents the District's outstanding bonds as of September 30, 2013.

Table MDA-8 – Outstanding Bonds at September 30, 2013 and 2012

| Outstanding Bond Debt | | | | |
|----------------------------------|---------------------|---------------------|-------------------|---------------------|
| Type of Bonds | 2013 | 2012 | Dollar Variance | Percentage Variance |
| General Obligation Bonds | \$ 2,245,185 | \$ 2,295,225 | \$ (50,040) | -2.2% |
| Income Tax Secured Revenue Bonds | 4,457,675 | 3,799,645 | 658,030 | 17.3% |
| Other Bonds: | | | | |
| Qualified Zone Academy Bonds | 6,682 | 7,628 | (946) | -12.4% |
| Tobacco Bonds | 647,459 | 677,219 | (29,760) | -4.4% |
| TIF Bonds | 108,782 | 112,985 | (4,203) | -3.7% |
| Ballpark Bonds | 502,255 | 507,935 | (5,680) | -1.1% |
| GARVEE Revenue Bonds | 117,570 | 78,775 | 38,795 | 49.2% |
| HPTF Bonds | 120,450 | 82,805 | 37,645 | 45.5% |
| A W C PILOT Revenue Bonds | 77,210 | 84,085 | (6,875) | -8.2% |
| NCRC Revenue Bonds | 4,997 | 14,839 | (9,842) | -66.3% |
| Total | \$ 8,288,265 | \$ 7,661,141 | \$ 627,124 | 8.2% |

The \$658,030 increase in Income Tax Secured Revenue Bonds is due to the following bond issuances made in fiscal year 2013:

- Issued in November 2012, \$750,765 in Income Tax Secured Revenue Bonds, Series 2012C and \$25,005 in Income Tax Secured Revenue Refunding Bonds, Series 2012D, which were used to pay for the costs of capital projects and the costs of issuing and delivering the bonds. These bonds were also used to refund the 4.00% PILOT Revenue Bond Anticipation

Notes (Arthur Capper/Carrollburg Public Improvement Issue), Series 2010.

The total debt per capita as of September 30, 2013, was \$13,158 (not in thousands). This represents a decrease of \$620 (not in thousands), or 4.9%, over the prior year. This decrease is due to an increase in the District's population between fiscal years 2012 and 2013. Exhibit S-3C, on page 180 presents ratios of total outstanding debt for the last ten fiscal years.

For more detailed information on the District's long-term debt activity, refer to Note 8, Long-Term Liabilities, found on pages 101 through 115.

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 2013, total net capital assets (capital assets less depreciation) increased by \$474,927, or 4.6%, over the prior year. Total overall capital assets has continued to increase because the District has been investing resources in the construction of new assets and the rehabilitation of existing infrastructure, such as roads, streets, and bridges.

At September 30, 2013, total net capital assets (capital assets less depreciation) was \$10,900,366. Net capital assets of the governmental activities totaled \$10,899,939 and the net capital assets of the business-type activities totaled \$427. The governmental activities depreciation charges for fiscal year 2013 totaled \$389,885 compared to the prior year's amount of \$385,230. **Table MDA-9** presents more detailed information on the District's net capital assets.

Table MDA-9 – Net Capital Assets as of September 30, 2013

| Asset Category | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------|-------------------------|----------------------|--------------------------|---------------|----------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | Land | \$ 928,318 | \$ 936,234 | \$ - | \$ - | \$ 928,318 |
| Buildings | 5,641,749 | 5,125,146 | - | - | 5,641,749 | 5,125,146 |
| Infrastructure | 2,925,863 | 2,731,450 | - | - | 2,925,863 | 2,731,450 |
| Equipment | 379,243 | 422,756 | 427 | 480 | 379,670 | 423,236 |
| Construction in progress | 1,024,766 | 1,209,373 | - | - | 1,024,766 | 1,209,373 |
| Total net capital assets | \$ 10,899,939 | \$ 10,424,959 | \$ 427 | \$ 480 | \$ 10,900,366 | \$ 10,425,439 |

Note: For more detailed information on the District's capital asset activity, refer to Note 5, Capital Assets, found on pages 93 through 97.

REPORTING THE DISTRICT'S BUDGET

Overview in Brief

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

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

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

General Fund Budgetary Highlights

The General Fund is the chief budgetary operating fund of the primary government. **Table MDA-10** presents a Schedule of Budgetary Basis Revenues and Expenditures for the General Fund for the fiscal year ended September 30, 2013.

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

| | Original Budget | Revised Budget | Actual | Variance (Actual to Revised) |
|--|--------------------|-------------------|-------------------|------------------------------------|
| Revenues and Other Sources: | | | | |
| Taxes | \$ 5,605,495 | \$ 5,954,300 | \$ 5,920,692 | \$ (33,608) |
| Licenses and permits | 77,940 | 69,029 | 78,857 | 9,828 |
| Fines and forfeits | 178,522 | 165,122 | 145,509 | (19,613) |
| Charges for services | 63,223 | 68,026 | 75,416 | 7,390 |
| Miscellaneous | 115,900 | 106,070 | 166,268 | 60,198 |
| Other sources | 455,488 | 433,273 | 469,143 | 35,870 |
| Bond proceeds | 6,000 | 6,000 | 4,079 | (1,921) |
| Fund balance released from restrictions | 51,468 | 132,587 | 18,442 | (114,145) |
| Interfund transfer from lottery and games | 63,175 | 63,175 | 68,314 | 5,139 |
| Interfund transfer - others | 35,326 | 46,026 | 46,168 | 142 |
| Total revenues and other sources | 6,652,537 | 7,043,608 | 6,992,888 | (50,720) |
| Expenditures and Other Uses: | | | | |
| Governmental direction and support | 602,430 | 587,627 | 570,726 | 16,901 |
| Economic development and regulation | 291,790 | 329,801 | 299,942 | 29,859 |
| Public safety and justice | 995,574 | 992,170 | 981,755 | 10,415 |
| Public education | 1,620,002 | 1,682,971 | 1,664,513 | 18,458 |
| Human support services | 1,643,872 | 1,698,469 | 1,675,504 | 22,965 |
| Public works | 569,939 | 576,926 | 550,524 | 26,402 |
| Repay bonds and interest | 467,424 | 463,279 | 459,628 | 3,651 |
| Other expenditures and uses | 457,201 | 493,322 | 469,403 | 23,919 |
| Total expenditures and other uses | 6,648,232 | 6,824,565 | 6,671,995 | 152,570 |
| Excess of Revenues and Other Sources Over Expenditures and Other Uses - Budgetary Basis | \$ 4,305 | \$ 219,043 | \$ 320,893 | \$ 101,850 |

Revenues and Other Sources

Actual General Fund revenues and other sources were \$50,720 less than the revised budget. As presented in **Table MDA-10**, this variance was primarily due to the use of excess revenues instead of fund balance to finance certain activities; and a shortfall in taxes.

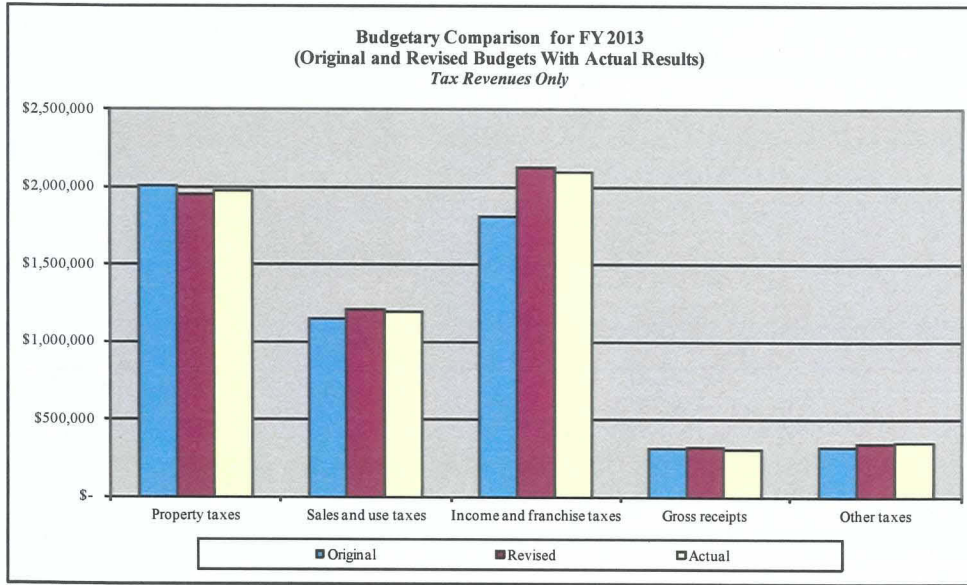
Fund Balance Released from Restrictions - Fund balance released from restrictions represents the portion of assets that were restricted for either a period of time or for a particular purpose for which the imposed conditions have been met, allowing the assets to become available for use. In other words, 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 \$114,145 less than anticipated for fiscal year 2013.

Taxes – The shortfalls in taxes when compared to the revised budget were primarily in Income and Franchise Taxes and Sales and Use Taxes. Income and Franchise Taxes were \$35,190 less than the revised budget due to actual withholding collections being less than anticipated for fiscal year 2013. Sales and Use Taxes were \$12,915 less than the revised budget. Corporate franchise taxes declined as businesses began to be impacted by cutbacks in federal spending. In addition, businesses were adjusting to several tax law changes first introduced in 2011 (e.g., requirement for combined reporting and adjustments to minimum tax rates) which also contributed to declines in business franchise taxes. Shortfalls in the above-noted tax categories were partially offset by overages in property taxes, deed taxes and inheritance and estate taxes.

These shortfalls in revenues were offset by significant overages in miscellaneous revenues and other sources, which exceeded the revised budget by \$60,198 and \$35,870, respectively.

As presented in **Table MDA-10**, approximately 85% of the General Fund's revenues is 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 2013.

Chart MDA-5 – Budgetary Comparison – FY 2013 Tax Revenues

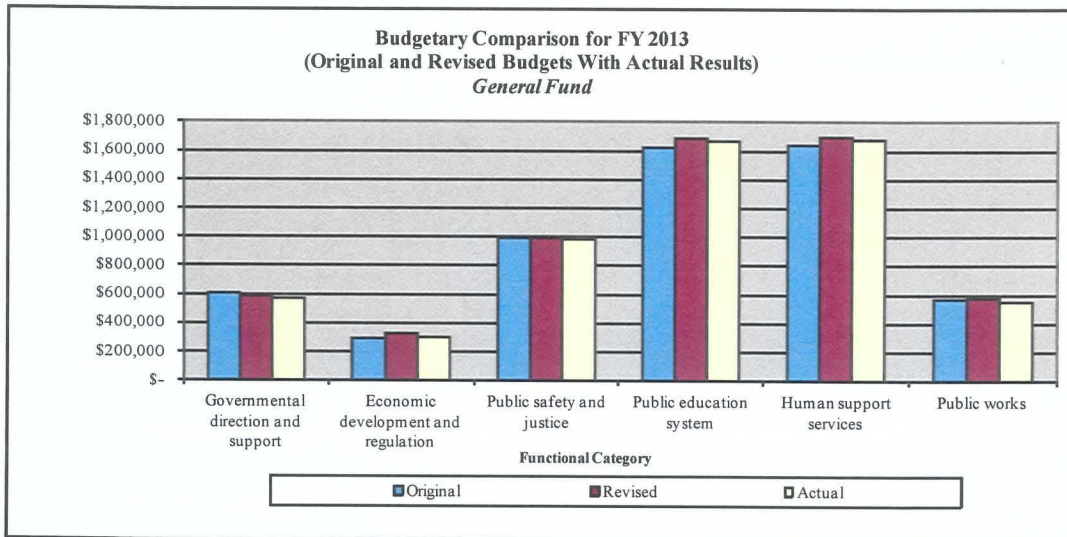


Expenditures and Other Uses

Actual General Fund expenditures and other uses were \$152,570 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, and Public Works.

More than 64.8% 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 2013.

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



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

SUBSEQUENT EVENTS

Short-Term Debt

On November 7, 2013, the District issued \$405,000 in Tax Revenue Anticipation Notes (TRANS) as a means of financing, on a short-term basis, the District's general governmental expenses in anticipation of receiving or collecting revenues for fiscal year 2014. These fixed rate TRANS were issued at an interest rate of 2.00% and mature on September 30, 2014. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year of issuance.

General Obligation Bonds

On December 18, 2013, the District issued \$495,425 in General Obligation Bonds, Series 2013A, with interest rates ranging from 2.00% to 5.00%. The proceeds of the 2013A Bonds will be used to: (a) finance capital project expenditures; and (b) pay the costs and expenses of issuing and delivering the 2013A Bonds.

Income Tax Secured Revenue Refunding Bonds

On November 26, 2013, the District issued \$97,145 in Income Tax Secured Revenue Refunding Bonds, Series 2013A. The proceeds of these bonds will be used to: (a) currently refund \$96,545 of the District's Income Tax Secured Revenue Refunding Bonds (Series 2010E, Series 2011B, and Series 2011D), each maturing on December 1, 2013 and (b) pay the costs of issuing and delivering the 2013A Bonds. These bonds bear interest at a variable rate equal to an Adjusted SIFMA Rate.

These and other subsequent events are presented more fully in Note 16, found on pages 127 through 128.

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 the following:

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