

Citizen's 2008

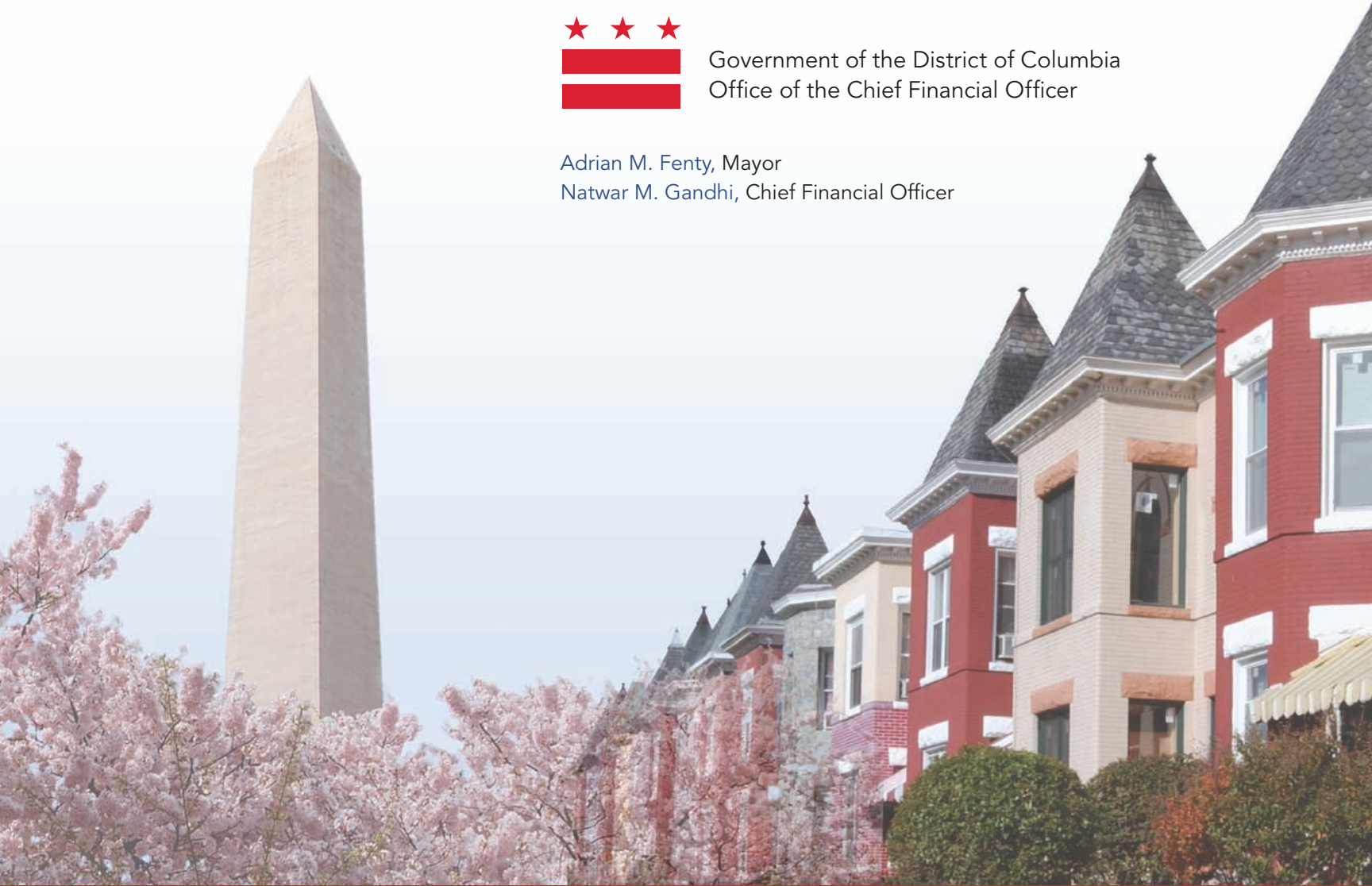
Financial Report

Year Ended September 30, 2008



Government of the District of Columbia
Office of the Chief Financial Officer

Adrian M. Fenty, Mayor
Natwar M. Gandhi, Chief Financial Officer



March 27, 2009

Dear Citizens of the District of Columbia:

We are pleased to present to you the Citizen's Financial Report on the financial condition of the Government of the District of Columbia (District). The purpose of this report, which is referred to as the Popular Annual Financial Report (PAFR), is to summarize the financial information presented in the District of Columbia's Fiscal Year 2008 Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and is independently audited. This PAFR is intended to simplify but not replace the CAFR.

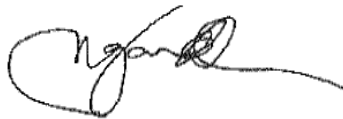
This is the District's sixth publication of the Citizen's Financial Report. In the previous five fiscal years, the District was honored with the prestigious "Award for Outstanding Achievement in Popular Annual Financial Reporting" by the Government Finance Officers Association. It is expected that this report would continue to conform to the Popular Annual Financial Reporting requirements.

We welcome any feedback regarding the contents of this report. If you desire more information concerning the District of Columbia Government and its various departments and agencies, please visit our web site at www.dc.gov.

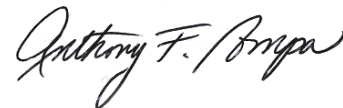
Respectfully submitted,



Adrian M. Fenty
Mayor



Natwar M. Gandhi
Chief Financial Officer



Anthony F. Pompa
Deputy CFO for
Financial Operations & Systems



**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

PRESENTED TO

District of Columbia

for the Fiscal Year Ended

September 30, 2007



Michael R. ...
President

Jeffrey L. Esser
Executive Director

District of Columbia Citizen's Financial Report



Fiscal Year Ended September 30, 2008

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Introduction

The Popular Annual Financial Report (PAFR) is a report for the citizens. It provides information about the District of Columbia (District) government's financial condition without overwhelming detail and technical accounting terminology. The information provided is derived from the District's **Comprehensive Annual Financial Report (CAFR)**, which is prepared in accordance with **generally accepted accounting principles (GAAP)**.

The PAFR is not required to present the same level of detail as the CAFR. The PAFR contains reports and statements that do not present the entire financial reporting entity and may not conform to GAAP and governmental reporting standards. However, it meets the commitment to provide relevant disclosures to residents regarding the District's financial condition, general economy, and financial trends. It contains summarized financial schedules and tables.

The **fiscal year (FY)** of the District begins on October 1 and ends on September 30. This report presents summary financial information for the District's fiscal year ended September 30, 2008 in a more understandable format and language that includes fewer technical tables than are presented in the CAFR. Below are some explanations to assist you:

Dollar (\$) Amounts: In the narrative and in some tables, the dollar amounts are expressed in millions or billions as indicated.

In other tables, to save space, dollar amounts are expressed as (\$000s); meaning that the amounts are expressed in thousands. Two examples are: (1) \$1,000 would be expressed as \$1 and (2) \$1,500,000 would be expressed as \$1,500.

Glossary: Certain technical financial terms must be used to accurately present the financial information in this report. For that reason, a Glossary is included on pages 20 and 21 to provide definitions of these technical terms.

The first time selected technical words or financial terms are used in this PAFR, in a non-title format, they will be presented in **green bold text** in the narrative. This indicates that the definition of that word or phrase is in the Glossary.

A copy of the District's FY 2008 CAFR or PAFR may be obtained at:

Office of Financial Operations & Systems
810 First Street N.E., Suite 200
Washington D.C. 20002
(202) 442-8200

The FY 2008 CAFR and PAFR may also be viewed on the District's web site at: www.cfo.dc.gov .

Financial Reporting Entity

The financial reporting entity of the District includes all of the government's agencies and its five (5) discretely presented **component units**. However, this popular report does not include financial information for the District's component units. For additional information on these component units, please refer to the contact information below:

DC Sports and Entertainment Commission
 General Manager
 2001 East Capitol Street, S.E.
 Washington, D. C. 20003
 202-547-9077

DC Water and Sewer Authority
 General Manager
 5000 Overlook Avenue, S.W.
 Washington, D. C. 20032
 202-787-2000

Housing Finance Agency
 Executive Director
 815 Florida Avenue, N.W.
 Washington, D. C. 20001
 202-777-1600

University of the District of Columbia
 President
 4200 Connecticut Avenue, N.W.
 Washington, D. C. 20008
 202-274-5000

Washington Convention Center Authority
 General Manager
 801 Mount Vernon Place, N.W.
 Washington, D. C. 20001
 202-249-3000

Elected Officials
 September 30, 2008

Name	Position	First Took Office	Term Expires
Chief Executive Officer			
Adrian M. Fenty	Mayor	2007	2011
Council			
Vincent C. Gray	Chairman	2007	2011
Carol Schwartz	At Large	1997	2009
David A. Catania	At Large	1997	2011
Phil Mendelson	At Large	1999	2011
Kwame R. Brown	At Large	2005	2009
Jim Graham	Ward 1	1999	2011
Jack Evans	Ward 2	1991	2009
Mary C. Cheh	Ward 3	2007	2011
Muriel Bowser	Ward 4 <i>Won May 1, 2007 Special Election</i>	2007	2009
Harry Thomas, Jr.	Ward 5	2007	2011
Tommy Wells	Ward 6	2007	2011
Yvette M. Alexander	Ward 7 <i>Won May 1, 2007 Special Election</i>	2007	2009
Marion Barry Jr.	Ward 8	2005	2009
House of Representatives			
Eleanor Holmes Norton	Delegate	1991	2009

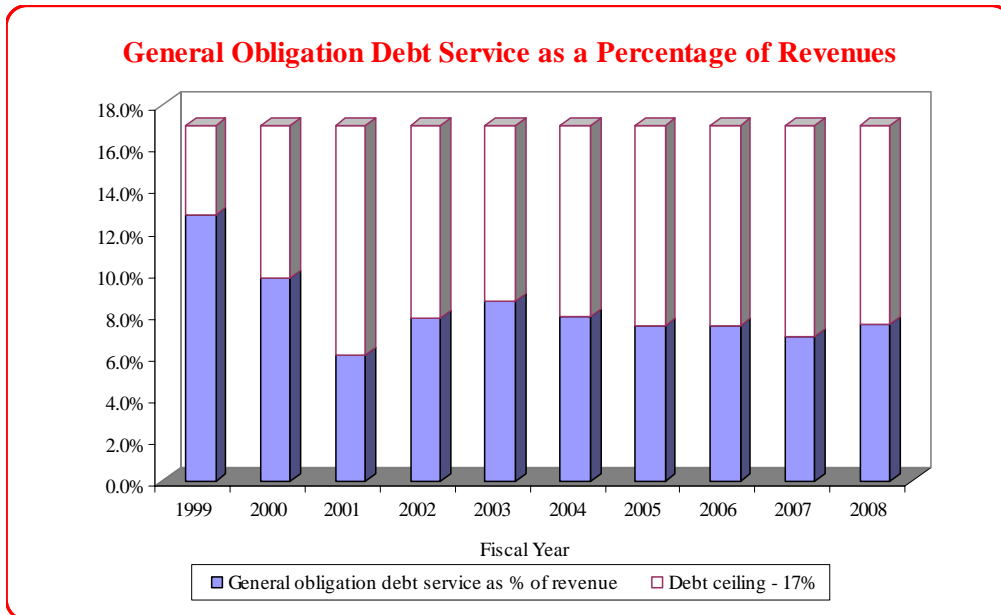
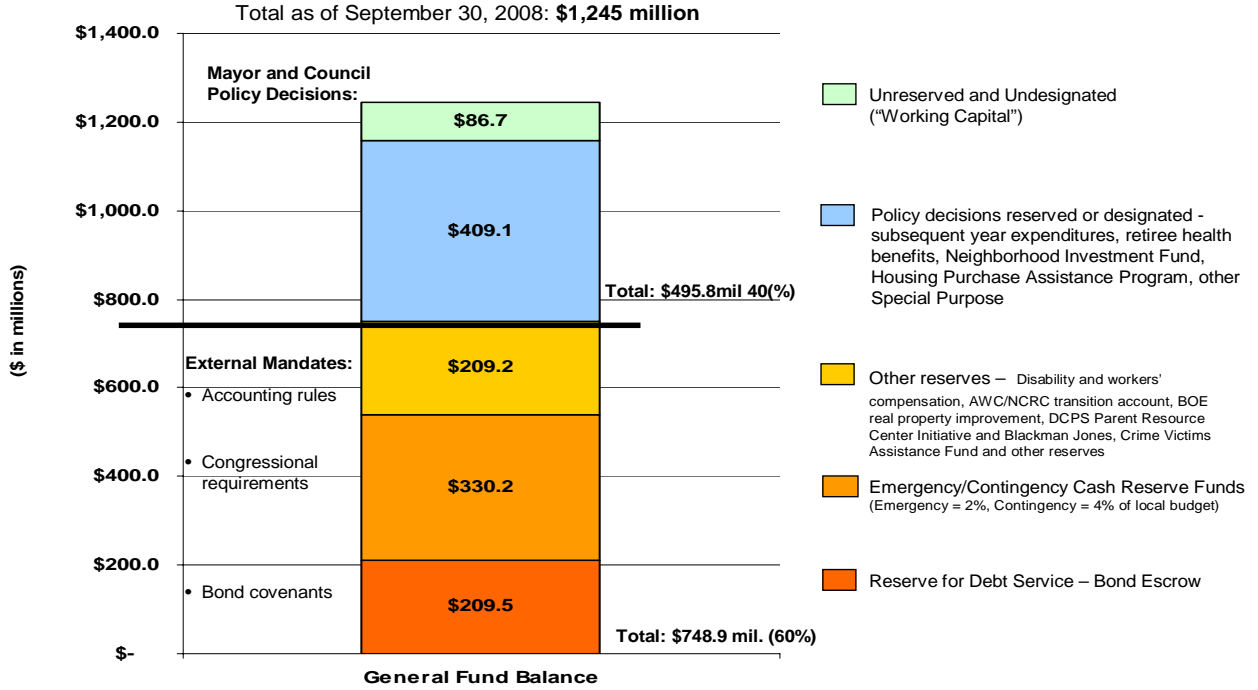
Financial Condition

FY 2008 Highlights:

- The District again earned an **unqualified** or **“clean” audit opinion** on its financial statements.
- 12th consecutive balanced budget.
- The **General Fund**, which accounts for all taxes, fees and charges for services, ended the year with a budgetary surplus of \$191.4 million.
- The District’s general obligation bond ratings remained steady at: **A+** for *Standard & Poor’s*; **A1** for *Moody’s Investors Service*; and **A+** for *Fitch IBCA, Inc.*
- The General Fund showed an accumulated **fund balance** of \$1.2 billion, which includes \$330.2 million in an emergency/contingency cash reserve. The fund balance represents an increase of more than \$1.7 billion since the FY 1996 deficit of \$518 million.
- The District is restricted by law to spend up to 17% of total general fund revenues for general obligation **debt service** each year. However, the actual debt service for FY 2008 was only 7.5% of total revenues, or about 43.9% of the debt service ceiling.

FY 2008 General Fund Budgetary Surplus			
(\$ in millions)			
	Revised Budget	Actual	Variance
Revenues			
Taxes	\$ 5,090.1	\$ 5,107.0	\$ 16.9
Non Taxes	909.1	851.3	(57.8)
Fund Balance Release	473.4	473.4	-
All other general fund sources	98.4	79.1	(19.3)
Total revenues	\$ 6,571.0	\$ 6,510.8	\$ (60.2)
Expenditures			
FY2008	\$ 6,466.0	\$ 6,227.6	
FY2009 Advance to Public Education	91.8	91.8	
Total expenditures	\$ 6,557.8	\$ 6,319.4	
SURPLUS		\$ 191.4	

FY 2008 General Fund Fund Balance



Economic Condition

The national recession, now having lasted over a year, shows little sign of recovery. In some ways the District's economy is doing better than the nation as a whole.

- Sales and use taxes collected were \$1.1 billion, a 5% increase over the \$1.06 billion collected in 2007.
- Property taxes collected were \$1.8 billion, a 20% increase over the \$1.5 billion collected in 2007.
- Total taxable property value was \$143.0 billion, a 14% increase over 2007.
- Hotel occupancy has remained level at 75% from 2007 to 2008.
- Unfortunately, the real property market continued to change in FY 2008:
 - Sales of single family houses declined by 15.6 %, the 4th year in a row of declining total sales.
 - Condominium sales decreased by 27.4%.
 - The amount of commercial office space increased by only 1% compared to 4% in 2007.
 - The vacancy rate increased from 5.8% in 2007 to 6.6% in 2008.

The District is a diverse economic community which hosts, on a permanent basis, more than 185 foreign embassies and recognized diplomatic missions. More than 400 museums and historical landmarks attract millions of visitors to the District each year. In calendar year 2007, approximately 15 million U.S. citizens visited the District, an increase of about 7.1% from the revised 2006 figure of 14 million. An estimated 1.2 million international visitors traveled to the District in 2007, an increase of 140,000 from the 2006 revised figure. Visitors are important to the District's economy because of the money spent on lodging, meals, retail purchases and other services. The District's tourism industry generated more than \$5.6 billion in direct spending in 2007 and directly supported 71,592 jobs. The 2008 calendar year visitor figures are not yet available.

Structural Imbalance

In May 2003, the United States Government Accountability Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*" to address the District's known **structural imbalance**. The District provides, without any tax benefit, for the presence of the Federal government and numerous non-profit organizations. The inability to tax revenue earned by non-residents, and the inability to tax Federal properties, tax-exempt properties, and non-profit international entities put a severe strain on the District's limited resources.

Highlights from the report are listed below:

- The District faces a substantial structural deficit because the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. The District's structural deficit is estimated to range from \$470 million to \$1.143 billion annually.
- The District's per capita total revenue capacity is higher than all other state fiscal systems. Revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax federal property or the income of nonresidents.
- Even though the District's tax burden is among the highest in the nation, the resulting revenues plus federal grants are only sufficient to fund an average level of public services.
- The District's underlying structural imbalance is determined by factors beyond the District's direct control.

Please visit GAO at www.gao.gov to view the full report or contact GAO on (202) 512-3000 to request a copy of report number GAO-03-666.

Population Trends

Population estimates are published each year for the current and past data. In July of each year, new estimates are released from the U.S. Census Bureau, and estimates for earlier years are revised. On July 1, 2008, the U.S. Census Bureau estimated that there were 591,833 permanent residents in the District. This represents an increase of 3,965 from the revised July 1, 2007 estimate of 587,868.

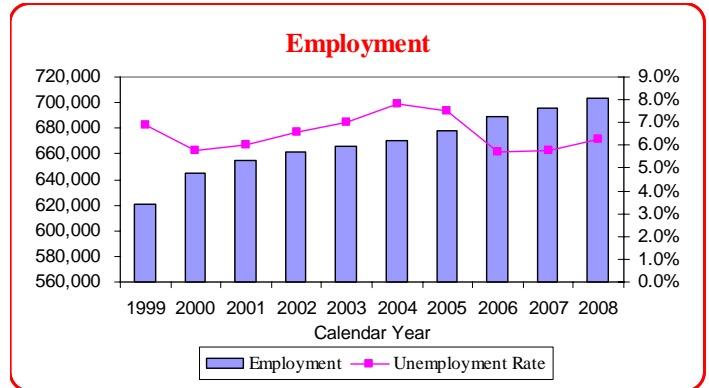
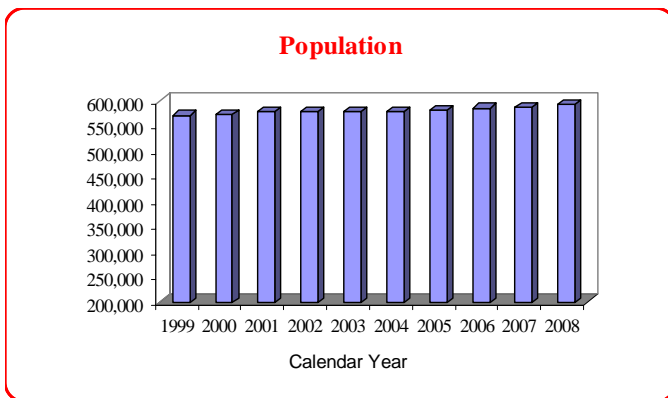
The Census Bureau estimates are determined from births, deaths, changes in tax return filings and estimates of the number of immigrants who move into the District each year. These estimates are used in federal funding allocations and in monitoring recent demographic changes.

Employment Trends

Total employment within the District in FY 2008 was 704,400, an increase from the revised figure of 690,700 in FY 2007.

The unemployment rate in the District was 6.3% in FY 2008, compared to 5.8% in FY 2007.

As the nation's capital, Washington, D.C. is headquarters for most federal government departments and agencies. The total September 2008 federal work force in the Washington metropolitan area totaled 345,200; with approximately 192,800 federal employees located in Washington, D.C.



Minimum Wage

District law requires that the minimum wage rate for Washington, D.C. employees be at least \$1.00 per hour greater than the minimum wage set by the federal government. In July 2007, the federal minimum wage rate was increased to \$5.85 per hour from \$5.15 per hour, where it had been since September 1, 1997. The President signed into law an increase in the federal minimum wage in three steps: \$5.85 per hour beginning on July 24, 2007; \$6.55 per hour beginning on July 24, 2008, and \$7.25 per hour beginning on July 24, 2009. Accordingly, the District's minimum wage increased to \$7.55 per hour beginning July 24, 2008 and will increase to \$8.25 per hour beginning on July 24, 2009.

Neighborhood Revitalization

The Great Streets Initiative

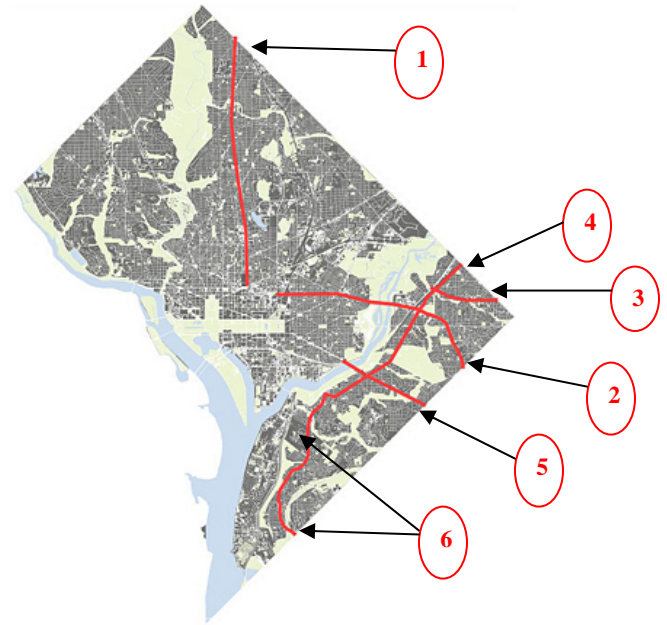
The Great Streets Initiative is a partnership among the District Department of Transportation (DDOT), the Office of the Deputy Mayor for Planning and Economic Development (ODMPED), the Office of Planning (OP), the Department of Parks and Recreation (DPR), and Neighborhood Service Coordinators (NSC) that targets major boulevards in the city to: improve the condition and function of the streets and roadways; promote local business enterprises; and improve neighborhood quality of life.

The Great Streets Initiative focuses on six target corridors:

1. *Georgia Avenue and 7th Street, N.W., from Eastern Avenue to New York Avenue*
2. *H Street, N.E., and Benning Road N.E./S.E., from North Capitol Street to Southern Avenue*
3. *Nannie Helen Burroughs Avenue, N.E., from Kenilworth Avenue to Eastern Avenue*
4. *Minnesota Avenue, N.E./S.E., from Sheriff Road, N.E., to Good Hope Road, S.E.*
5. *Pennsylvania Avenue, S.E., from the Sousa Bridge to Southern Avenue*
6. *Martin Luther King, Jr. Avenue and South Capitol Street from and including Good Hope Road to Southern Avenue*

DDOT has committed more than \$100 million over the next 4 years to define, improve, and maintain the public realm of the corridors. Public space improvements such as restored streets, sidewalks, transit services, lighting and trees reveal the promise of target neighborhoods, generate commerce, create jobs, expand the District's tax base, and improve the quality of life for the residents.

Please visit www.greatstreetsdc.com to view the plan and progress of this effort.



Map of Washington D.C.
The six target corridors are outlined in red.

New Communities Initiative

The New Communities Initiative is a comprehensive partnership between the District government, neighborhoods and other public and private stakeholders. The initiative focuses on neighborhoods where older public housing developments are located and where high concentrations of poverty and crime exist. The goal of the initiative is to redevelop the neighborhoods into healthy, vibrant communities for current and future residents.

The four new communities are:

1. **Barry Farm/Park Chester/Wade Road** – Suitland Parkway to the north, Martin Luther King, Jr. Avenue to the east, Firth Sterling Avenue to the west, and Saint Elizabeth's West Campus to the south.
2. **Lincoln Heights/Richardson Dwellings** – East Capitol Street to the south, Hayes Street including Nannie Helen Burroughs Avenue to the north, 48th Place to the west, and 57th Street to the east.

3. **Northwest One** – North Capitol Street on the east, New York Avenue on the north, New Jersey Avenue on the west, and K Street on the south.
4. **Park Morton** – Georgia Avenue on the west, Warder Street on the east, Lamont Street on the south, and Park Road on the north.

Northwest One is the District's first New Community project being developed. In December 2008, a long-troubled housing complex, known as Temple Courts, was demolished to make way for the new \$700 million Northwest One New Community. The District bought Temple Courts in 2007 for \$16.5 million. Immediately after closing on the purchase of the property, at the request of the residents, the District helped relocate 172 families to new housing around the city.

By early 2010, the District and its development

partners, the William C. Smith Cos. and the Jair Lynch Cos. expect to break ground on the first phase of the mixed-income, mixed-use community that will eventually include almost 1,600 new units of housing, 200,000 square feet of office space, 40,000 square feet of retail space and a one-acre park. At least 570 units will be reserved as affordable units for buyers and renters. Every family who left Temple Courts will have an opportunity to return to the new community after the project is finished.

Also, within the Northwest One neighborhood, the District is currently building the \$47 million Walker Jones complex. It will include a 100,000 square foot K-8 school, a 20,000 square foot community recreation center, a 5,000 square foot library and new athletic fields and playgrounds. The project is expected to be completed in time for the start of the 2009-2010 school year.

Projects in Development

The Convention Center Headquarters Hotel

The District and Marriott International are partnering to build a 1,125-room Marriott Marquis convention center headquarters hotel that will support the District's world-class Walter E. Washington Convention Center. This project is vital to the long-term success of the convention center and the District's robust hospitality industry. It is a necessary asset to ensure the District retains its competitive position as a top-tier destination for the convention and meetings industry.

The new 4-Star Marriott Marquis hotel will be located on 9th street, between Massachusetts Avenue and L Street, N.W., just west of the Walter E. Washington Convention Center, and will include street-level retail, additional meeting and ballroom space and an underground parking garage.

Construction is expected to begin in late 2009 with completion in early 2012 at a cost of \$550 million.

The Old Convention Center Site

The District has closed on its deal with developers Hines | Archstone-Smith, making way for an \$850 million redevelopment project on the former Washington Convention Center site. The project, named **CityCenterDC**, will revitalize the vacant 10-acre area, contained within 9th, H and 11th Streets and New York Avenue, and bring new life to downtown's East End. **CityCenterDC** will be a pedestrian-friendly neighborhood that will include 250,000 square feet of retail, 450,000 square feet of office space, 680 housing units, 1,700 parking spaces, civic/open space, parks and pedestrian alleys. It is a combination that will make the site a live/work/play environment unlike any other in D.C.

Construction is anticipated to begin in 2009, followed by a 35-month construction period, with initial occupancy to take place in 2011. For more information about **CityCenterDC**, please visit www.oldconventioncenter.com.

Historic Event – Inauguration of the 44th President

On January 20, 2009, the District of Columbia hosted the Inauguration of Barack Obama as the 44th President of the United States of America. The inauguration, which set a record attendance for any event held in Washington, D.C., marked the commencement of the four-year term of Barack Obama as President and Joseph Biden as Vice President. With his inauguration as President of the United States, Obama became the first African American to hold the office and the first President born in Hawaii.

Official events were held in Washington, D.C. from January 18 to 21, 2009, including two large concerts, a day of service on the federal observance of Martin Luther King, Jr. Day, the inaugural day ceremony, luncheon and parade, 10 official inaugural balls, and an inaugural prayer service. The theme of the 56th Inauguration was "A New Birth of Freedom", commemorating the 200th anniversary of the birth of Abraham Lincoln.

The inaugural ceremony took place at the West Front of the U.S. Capitol. The National Mall, stretching to the Lincoln Memorial, served as the public observation area to witness the inaugural ceremony with almost two dozen Jumbotron screens that broadcasted the event along the grassy area. A section of the Mall between 3rd and 4th Streets, N.W. was reserved for ticket holders.

Across the region, preparations were carried out for security, logistics and cold weather. The District requested and was granted emergency funding from the Federal government to help with the soaring costs of the events. The District estimated that the cost would total more than \$47 million due to the estimates of 1.5 million to 2 million people that were expected to attend, resulting in increased costs for public safety, transportation, and security related measures.

Government agencies and federal officials that coordinated security and traffic management determined the attendance count to be 1.8 million people, based on information collected by several cameras and individuals on the ground.



President-elect Barack Obama takes the oath of office from Chief Justice, John Roberts to become the 44th President of the United States on Capitol Hill in Washington D.C.



*Inauguration Ceremony
U.S. Capitol in Washington D.C.*

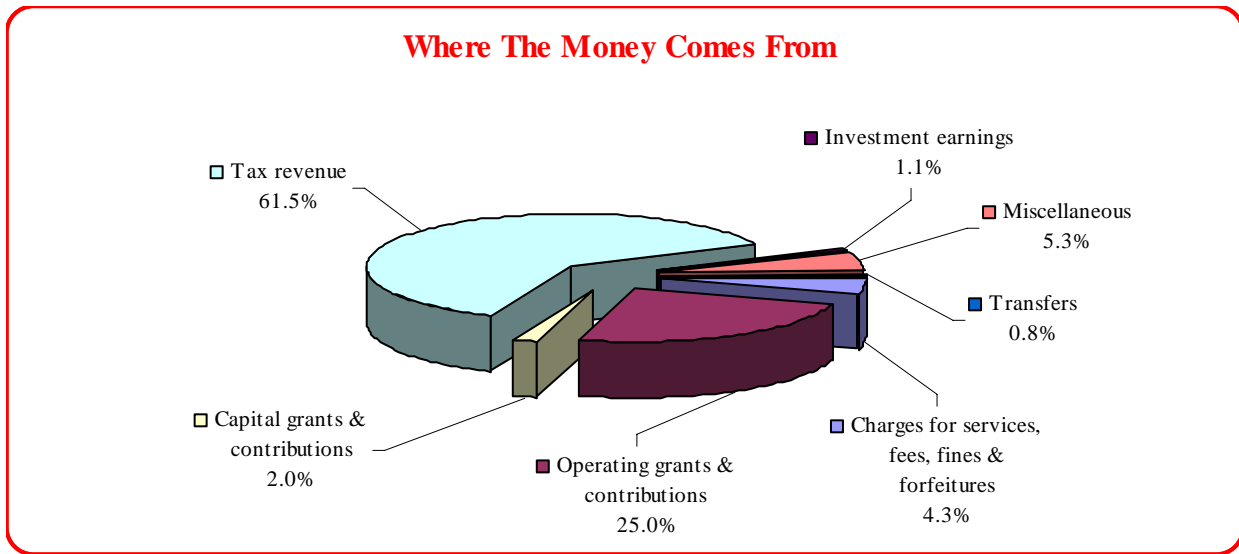
Financial Resources

District-Wide Revenues

The majority of the District's funds come from the collection of taxes which represents 61.5% of total revenues. Despite the decline in the U.S. economy, the collection of taxes and other revenues increased in FY 2008. The District collected over \$1.1 billion in Sales and Use taxes in FY 2008, which was \$45 million more than in FY 2007.

The District also collected \$1.8 billion in Property taxes, \$1.8 billion in Income and Franchise taxes, and \$0.7 billion in other taxes in FY 2008.

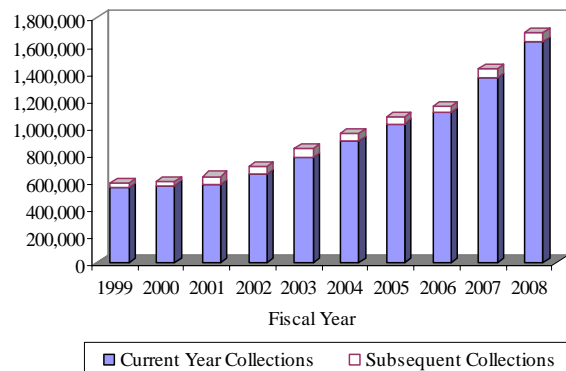
Two other main sources of revenues are federal and private resources, which include Operating Grants and Contributions.



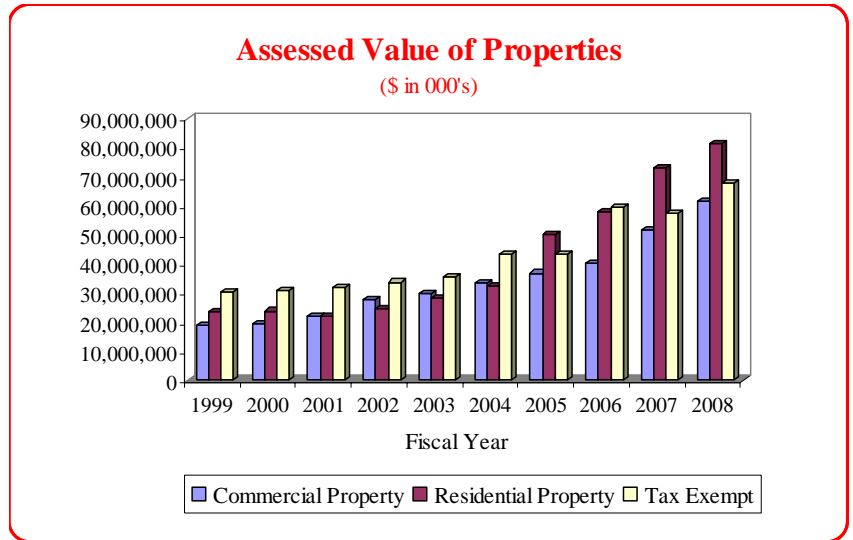
Real Property Tax

The increase in real property tax collections reflects the strength of the District's real estate market. As the demand for residential and commercial real estate soared in the last several years, prices have climbed steeply, resulting in higher assessments and increased tax revenue. However, the slowdown in both the U.S. and District economies will cause increased pressure on the District's FY 2009 tax collections.

Real Property Tax Collections (\$ in 000's)



The total assessed value of all commercial and residential properties in the District at September 30, 2008 was \$143 billion compared with \$125 billion in the prior year. Tax-exempt properties accounted for \$67.8 billion or 32.2% of the total estimated actual values of \$210.8 billion in FY 2008.



General Fund Budget

The FY 2008 general fund results of operations showed that total actual revenues of \$6.5 billion was \$60 million less than what was budgeted. Total actual expenditures and other uses of \$6.3 billion was \$238 million less than the budgeted amount.

FY 2008 General Fund Budgetary Highlights
(\$ in 000's)

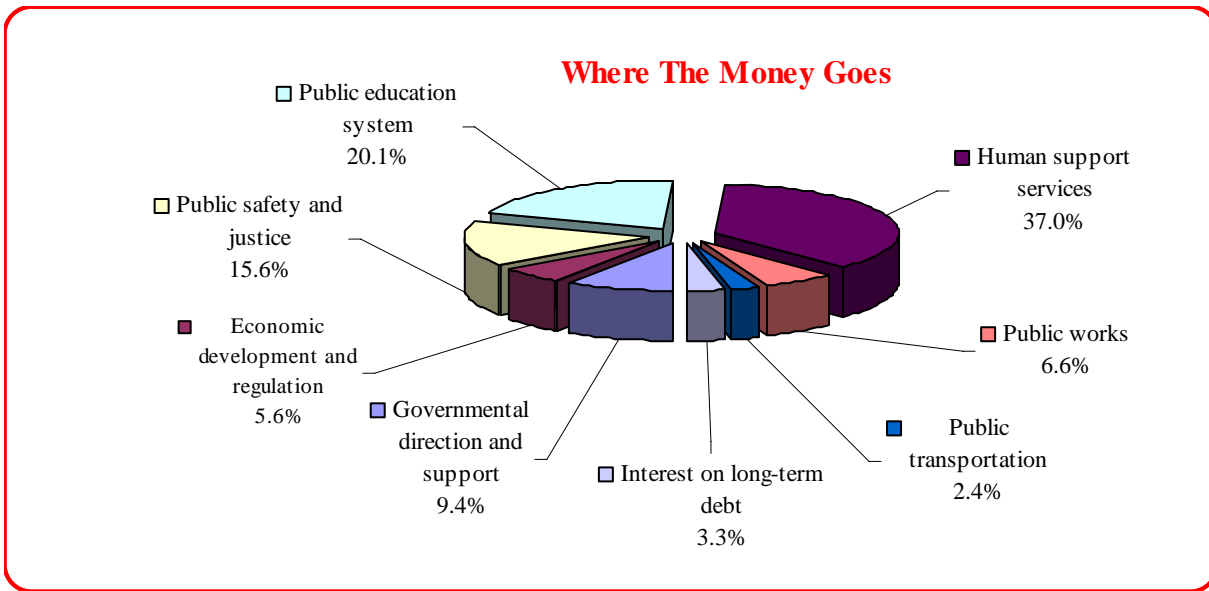
	Budget	Actual	Variance Over (under)
Revenues and Other Sources:			
Property taxes	\$ 1,756,694	\$ 1,726,005	\$ (30,689)
Other taxes	3,333,396	3,380,958	47,562
Charges for services	338,546	385,856	47,310
Other sources (O type)	510,542	448,972	(61,570)
All other sources	631,743	568,983	(62,760)
Total revenues and other sources	6,570,921	6,510,774	(60,147)
Expenditures and Other Uses:			
Governmental direction and support	403,947	382,071	21,876
Economic development and regulation	520,106	438,769	81,337
Public safety and justice	1,055,862	1,044,463	11,399
Public education system	1,370,411	1,355,633	14,778
AY08 public education expenditures	91,829	91,829	-
Human support services	1,572,877	1,606,979	(34,102)
Public works	581,827	563,777	18,050
Other	960,923	835,883	125,040
Total expenditures and other uses	6,557,782	6,319,404	238,378
Excess -- budgetary basis	\$ 13,139	\$ 191,370	\$ 178,231

Resource Allocation

The District provides a broad range of services to its residents, including those normally provided by states and counties. These services include: public safety and justice, public education, human support services, and public works.

In FY 2008, the District's total expenditures were \$8.8 billion. Human Support Services expenditures represented 37% of the total.

The majority of the Human Support Services expenditures were for the District's Medicaid and Medicare programs. Public Education, primarily D.C. Public Schools and Charter Schools, represents 20.1% of total expenditures. Public Safety and Justice, mainly the Police Department and Fire and EMS Services, represents 15.6% of total expenditures.



Debt Management

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred. On December 12, 2007, the District issued \$300 million in Tax Revenue Anticipation Notes (TRANs), at an interest rate of 4.00%, priced to yield 3.13%, which was repaid on September 30, 2008.

Long-Term Debt

In the government-wide financial statements and proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary funds statement of net assets. Long term debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the outstanding principal method. Long term debt payable is reported separately from the applicable premium or discount. The issuance cost for long term debt is reported as deferred charge.

The District's **general obligation bonds** are authorized and issued primarily to provide funds for certain capital projects and improvements. The average interest rate on the District's outstanding fixed-rate bonds is 5.069%. The average interest rate on the District's variable-rate bonds for fiscal year 2008 is 3.285%. All general obligation bonds are backed by the full faith and credit of the District.

The District's total outstanding long-term debt was \$6.4 billion at September 30, 2008 which was an increase of \$573 million from \$5.8 billion at September 30, 2007. The details of the District's long-term debt are listed in the following table.

Governmental Activities Long-Term Debt of Primary Government
(\$ in 000's)

Fiscal Year	Governmental Activities									
	General Obligation Bonds	TIF* Bonds	Qualified Zone Academy Bonds	Certificates of Participation	Capital Leases	Ballpark Bonds	HPTF* Bonds	PILOT* Revenue Bonds	Tobacco Bonds	Total Debt
2007	\$ 4,140,133	105,229	4,787	270,780	59,868	528,490	34,105	-	737,069	5,880,461
2008	4,592,518	100,664	6,713	261,375	52,403	526,415	33,570	\$ 155,630	724,484	6,453,772

* TIF=Tax Increment Financing HPTF=Housing Production Trust Fund PILOT=Payment In Lieu of Taxes

Bond Rating Agencies

Rating Agencies assess credit quality of municipal issuers and assign a credit rating based on their analyses. The three primary rating agencies that rate municipal debt are: (1) Standard & Poor's Rating Services; (2) Moody's Investors Service; and (3) Fitch IBCA, Inc. Each time the District issues new debt, the current debt rating is reviewed for the new issuance. At that time, the bond rating agencies assess the District's financial condition and underlying credit worthiness and change their rating as warranted.

In FY 2008, the District's bond ratings remained stable at: **A+** by Standard & Poor's; **A1** by Moody's; and **A+** by Fitch. These ratings are the highest ratings in the city's history and are representative of the improved and strong financial standing of the District. The improved bond ratings allow the District to either refinance outstanding debt, or to issue new debt, at more favorable rates. Lower interest rates translate into lower debt service payments, resulting in a greater percentage of the District's budget being available for the services and operations needed for its citizens.

Bond Rating History

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
S&P	BBB	BBB	BBB+	BBB+	A-	A	A+	A+	A+	A+
Moody's	Baa3	Baa3	Baa1	Baa1	Baa1	A2	A2	A2	A1	A1
Fitch	BBB	BBB	BBB+	BBB+	A-	A-	A	A	A+	A+

Government-Wide Financial Statements

Governmental Activities

The traditional (fund-based) reporting of governmental activities focuses on short term receipts, disbursements and balances of spendable resources. The **government-wide financial statements**, on the other hand, combine long-term information with the short-term to provide a complete picture of the District's finances.

This approach accounts for all revenues and expenses incurred in the fiscal year, regardless of when the cash is received or spent. The government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities.

The government-wide financial statements focus on all of the District's *economic* resources, while the **governmental funds** focus on the flow of current financial resources.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. This statement reports governmental activities, business-type activities, and component units' activities separately.

The *Statement of Activities* summarizes both the gross and net cost of the governmental, business-type activities, and component units' activities. Governmental activities show the District's basic functional services, while business-type activities reflect enterprise operations where fees for services are expected to cover all or most of the costs of operations, including depreciation.

Financial Analysis of the Government as a Whole

The "Net Assets" table below shows net assets from governmental activities and business-type activities, and the totals for these two types of activities.

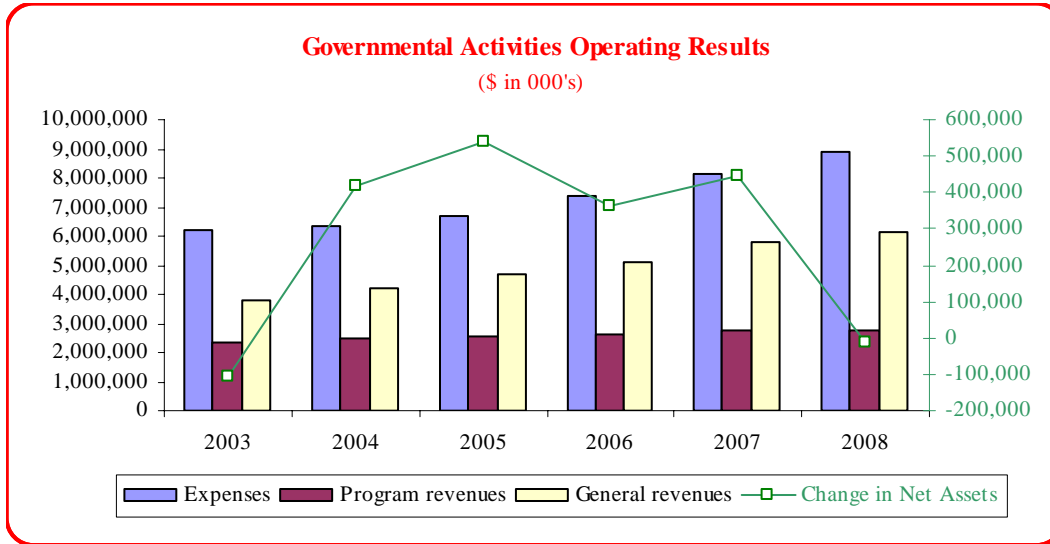
Net Assets as of September 30, 2008
(\$ in 000's)

	Governmental		Business-type		Totals	
	2008	2007	2008	2007 Restated	2008	2007 Restated
Current and other assets	\$ 4,016,319	\$ 4,181,473	\$ 501,051	\$ 489,123	\$ 4,517,370	\$ 4,670,596
Capital assets	7,243,637	6,139,898	16,747	17,211	7,260,384	6,157,109
Total assets	11,259,956	10,321,371	517,798	506,334	11,777,754	10,827,705
Long-term liabilities	7,128,989	6,416,109	41,379	46,725	7,170,368	6,462,834
Other liabilities	1,585,434	1,345,934	60,617	41,204	1,646,051	1,387,138
Total Liabilities	8,714,423	7,762,043	101,996	87,929	8,816,419	7,849,972
Net assets:						
Invested in capital assets, net of related debt	1,794,279	1,197,275	16,747	17,211	1,811,026	1,214,486
Restricted	1,156,213	1,269,708	374,282	375,148	1,530,495	1,644,856
Unrestricted	(404,959)	92,345	24,773	26,046	(380,186)	118,391
Total net assets	\$ 2,545,533	\$ 2,559,328	\$ 415,802	\$ 418,405	\$ 2,961,335	\$ 2,977,733

- Total assets increased by \$950 million; this was due to a decrease of \$153.2 million in cash and other assets and an increase of \$1,103.3 million in capital assets.
- The increase of \$966.4 million in total liabilities was due to the issuance of debt to finance the construction of infrastructure and capital improvements.
- The combined total net assets for the governmental activities and business-type activities decreased by -0.6% over the previous year.
- **Capital assets** increased because the District invested more resources in new and rehabilitated infrastructure, such as roads, bridges and buildings. This increase in assets was funded primarily by the increase in revenues and proceeds from debt issuance.
- Each year, the D.C. Lottery transfers substantially all of its net income to the District. In FY 2008, it transferred \$70.3 million of its income, which was a \$4.9 million increase from last year.

Change in Net Assets as of September 30, 2008
(\$ in 000's)

	Governmental activities		Business-type		Total	
	2008	2007	2008	2007 Restated	2008	2007 Restated
Revenues:						
Program revenues:						
Charges for services	\$ 379,149	\$ 334,977	\$ 290,156	\$ 288,673	\$ 669,305	\$ 623,650
Operating grant and contributions	2,178,275	2,309,495	21,191	18,358	2,199,466	2,327,853
Capital grants and contributions	175,841	130,557	-	-	175,841	130,557
General revenues	5,915,708	5,720,277	130,405	112,053	6,046,113	5,832,330
Total revenues	8,648,973	8,495,306	441,752	419,084	9,090,725	8,914,390
Expenses	8,886,708	8,106,542	374,055	329,746	9,260,763	8,436,288
Other non-operating activities	70,300	65,376	(70,300)	(65,376)	-	-
Special item	153,640	(8,838)	-	-	153,640	(8,838)
Increase (decrease) in net assets	(13,795)	445,302	(2,603)	23,962	(16,398)	469,264
Net assets - Oct 1 Restated	2,559,328	2,114,026	418,405	394,443	2,977,733	2,508,469
Net assets - Sept 1	\$ 2,545,533	\$ 2,559,328	\$ 415,802	\$ 418,405	\$ 2,961,335	\$ 2,977,733



Governmental Funds

The fund financial statements are more familiar to regular readers of the traditional Comprehensive Annual Financial Report (CAFR). The focus is on major funds and not on fund types. Major funds are presented individually. Non-major governmental funds and non-major proprietary funds are combined in separate columns. The sources (revenues) and uses (expenditures) of resources, assigned through the financial planning and budgeting process, focus on the District's ability to finance operations in the short-term.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the District uses to keep track of specific sources of funding and spending for a particular purpose. District laws, bond covenants, and other legal stipulations establish funds for specific purposes, and stipulate specific reporting requirements for the activities and public services accounted for in these funds. The District's funds are presented in three categories or groups:

- *Governmental Funds* report short-term activities and measure cash and other financial assets that can be readily converted to cash. Most basic services are accounted for in this fund category and are reported as

General, Federal and Private Resources, General Capital Improvements, Baseball Capital Projects, and Non-major Governmental Funds.

- *Proprietary Funds* are used to account for the District's business-type activities. These funds generate a significant portion of their revenues through user charges. The District recognizes two major proprietary funds: (1) Lottery and Charitable Games; (2) Unemployment Compensation and one non-major fund, Nursing Home Services, in this classification.
- *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. These funds are presented separately from the District's other funds because these resources are not available to finance the operations of the government. The District is the trustee, or fiduciary, for its employees' pension plans.

Assets and Liabilities

- Total assets decreased by \$18.8 million. This decrease was due mainly to cash reduction.
- The increase of \$361.0 million in liabilities was due mainly to an increase of due to other funds, accrual liabilities and deferred revenue.

Operating Results

- Revenue increased by \$130.2 million. This was due mainly to an increase in property taxes of \$207.1 million.
- Expenditures increased by \$1,139.0 million. This increase was due mainly to expenditures related to human support services, public safety, public education and capital improvements.
- The decrease of \$450.0 million in the net change in fund balance was due mainly to the increase in capital spending and human support service expenditures.

Fund Balance

Fund balance is divided into two major parts, *reserved* and *unreserved*. The **reserved fund balance** represents amounts that are already committed to specific programs and are not available for other uses. A positive **unreserved fund balance** represents resources available to fund subsequent years' activities.

The fund balance does not consist entirely of cash. Cash is only one of the assets that enter into the calculation of fund balance (assets minus liabilities equal fund balance). Therefore, the fund balance may consist of cash and other resources or assets like receivables and inventories. In some cases, the composition of financial assets may be such that it is possible to have a large positive fund balance with little or no cash.

- Over the past twelve years, the District's fund balance in the general fund increased from a negative balance of \$518 million to a positive balance of \$1.2 billion in FY 2008, an increase of over \$1.7 billion.
- The unreserved fund balance totaled \$286.7 million in FY 2008.
- The fund balance includes a rainy day (emergency/contingency cash reserve) fund of \$330.2 million. In addition, there is \$209.5 million in cash set aside for long term debt service and \$200.0 million designated by management for specific programs and projects.
- The unallocated fund balance of \$86.7 million represents resources that the District's management intends to use to supplement the rainy day fund.

Miscellaneous Statistics

	<u>Last Two Fiscal Years</u>	
	<u>FY 2007</u>	<u>FY 2008</u>
Number of police officers	3,907	4,050
Number of police patrol cars	1,222	1,242
Police crime index offenses	33,043	35,351
Number of fire fighters & EMS personnel	1,818	1,958
Number of fire & EMS stations	34	34
Total number of fire/rescue/medical incidents	153,788	158,919
Number of DCPS teachers	4,509	4,328
Number of DCPS students	52,945	46,208
Number of DCPS high school graduates	2,489	2,555
Number of UDC teachers	242	247
Number of UDC students	5,612	5,595
Number of UDC graduates	475	218
Miles of street resurfaced; regular cover; pavement restoration	52.3	32.1
Potholes repaired	6,262	2,800
Tons of snow removed	661,050	674,225
Convention Center conventions held	151	183
Convention Center attendees	1,028,953	1,091,406

Outlook for FY 2009

Like most places in the United States, the District is being adversely affected by the national recession that started in December 2007. One measure of this is the rise in unemployment among District residents. The District's economy, however, has much strength to help mitigate the impact of severe economic downturns.

- The District, as a place to live, is increasingly desirable because of a relatively strong job market compared to other jurisdictions.
- Employment declines have been slower in the District than in the nation as a whole due to the major service sectors of the District's economy (professional, health, education, and other services).
- D.C.'s hospitality sector continues to grow.
- The District is investing significantly to increase its housing stock.
- Federal government expenditures add stability to the District's economy.
- Investments in economic development are attracting new retail establishments and influencing the development of "nightlife" in the downtown area.

Glossary

Capital Assets	Assets (infrastructure, land, buildings, equipment) used in operations that have initial useful lives extending beyond a fiscal year.
Component Unit	A legally separate organization for which the primary government is financially accountable and includes as part of its financial reporting entity.
Comprehensive Annual Financial Report (CAFR)	An annual report issued by state and local governmental entities. A CAFR has three major sections: introductory, financial and statistical.
Debt Service	Cash required in a given period, usually one year, for payment of interest and principal on outstanding debt.
Fiscal Year	A financial reporting period of twelve months. The District's fiscal year commences October 1 and ends September 30.
Fund	A separate fiscal and accounting entity used to segregate and account for resources related to a specific activity.
Fund Balance	The difference between what is owned (assets) and what is owed (liabilities) in a governmental fund.
General Fund	The chief operating fund of the government. This fund is used to account for all financial resources except those required to be accounted for in other funds.
General Obligation Bonds	These are uninsured general obligations. The full faith and credit of the issuer is pledged for the payment of the principal and interest on these bonds.
Generally Accepted Accounting Principles (GAAP)	The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements.
Government-Wide Financial Statements	Financial statements that report governmental activities and business-type activities rather than funds or fund types.
Governmental Funds	Funds generally used to account for tax-supported activities.
Rating Agencies	<p>Independent sources of information and analysis for capital markets and debt instruments. These agencies are private and for profit entities that assist investors by providing rating and detailed research on credit factors. These factors determine the credit worthiness of municipalities, governments, and business entities.</p> <p>The three primary Rating Agencies that rate municipal debt are: Fitch IBCA, Inc.; Moody's Investors Service; and Standard & Poor's Rating Services.</p>

Glossary

The rating scale (shown to the right) represents a consistent framework for ranking and comparing the relative risks of different debt issues. Each agency has developed its own set of easily recognizable symbols to grade all debt consistently.

Explanation of municipal bond ratings	RATING SERVICE		
	<i>Fitch</i>	<i>Moody's</i>	<i>Standard & Poor's</i>
Highest quality	AAA	Aaa	AAA
High quality	AA	Aa	AA
Upper medium grade	A	A	A
Medium grade	BBB	Baa	BBB
Predominantly speculative	BB	Ba	BB
Speculative, low grade	B	B	B
Poor to default	CCC	Caa	CCC
Highest speculation	CC	Ca	CC
Lowest quality, no interest	C	C	C
In default	DDD		DDD
In arrears	DD		DD
Questionable value	D		D

Fitch and Standard & Poor's may use + or – to modify some ratings. Moody's uses the numerical modifiers 1 (highest), 2, and 3 in the range from Aa1 through Ca3.

Reserved Fund Balance

The portion of fund balance that reflects financial assets that is not available for spending.

Structural Imbalance

Represents the inability to levy taxes on federal real property, and non-municipal tax exempt property while providing state-like services, such as human services, mental health, and education.

Unqualified or "Clean" Audit Opinion

An unqualified or "clean" audit opinion is a written report issued by an independent auditor which states that the financial statements for the government present fairly, the financial position and results of operations for the organization.

Unreserved Fund Balance

The portion of fund balance that is available for spending.



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GOVERNMENT OF THE DISTRICT OF COLUMBIA

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YEAR ENDED SEPTEMBER 30, 2008