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COMPREHENSIVE

Annual Financial Report

Anthony A. Williams MAYOR
Natwar M. Gandhi CHIEF FINANCIAL OFFICER



**GOVERNMENT OF THE
DISTRICT OF COLUMBIA**
Office of the Chief Financial Officer

Year Ended September 30, 2004



ANTHONY A. WILLIAMS
MAYOR

January 24, 2005

Dear Citizens of the District of Columbia:

I am pleased to present the District of Columbia's Fiscal Year 2004 Comprehensive Annual Financial Report (CAFR). Once again the audit opinion is unqualified. We completed Fiscal Year 2004 with a surplus of \$317.7 million, resulting in a fund balance of \$1.2 billion in the General Fund.

These outcomes mark the eighth consecutive year that the District realized surpluses and earned an unqualified opinion on its financial statements. These accomplishments have significantly improved the District's access to more favorable financing rates in the credit markets, and have also created increased interest in investing in residential, retail and commercial projects throughout the District.

The District's successes have occurred in three major areas: (1) substantially improving the District's fiscal condition; (2) getting basic services functioning again, and; (3) stimulating sustained economic investment in the District. The District's general obligation bond rating was recently upgraded to "A" from "A-," by Standard & Poor's, while Fitch Ratings raised its rating outlook for the District to positive from stable. Services continue to improve, with increased immunizations for children, new units of affordable housing, more substance abusers treated, and more jobs for Washington, D.C., residents.

The new Gallery Place development is bringing more people to the neighborhood around Seventh and H Streets, N.W. – a neighborhood that had fallen on hard times, but is now well on the way to a full recovery. Many new residential units are being built nearby on Massachusetts Avenue, N.W. Not far away, on New York Avenue, N.E., the new headquarters for the federal Bureau of Alcohol, Tobacco and Firearms is on schedule for completion in 2006.

Thriving national businesses are also choosing the District's transit-friendly neighborhoods to open locations. These include Best Buy Co. Inc. and The Container Store in Ward 3, and a Target Store is on its way to Ward 1. Rhode Island Place in Ward 5, which includes a Home Depot and a Giant Food store, is an example of how we're bringing exciting new retail opportunities to residents in their neighborhoods. A similar effort is underway in Ward 8 with the redevelopment of the Skyland shopping center. And the redevelopment of the Tivoli Theatre in Columbia Heights is an example of how we can preserve our city's historic neighborhood developments while creating new shopping and entertainment options for our citizens. As these and many other projects succeed, it becomes easier to encourage further development, generate increased revenues and attract new residents to the District.

There are three major development projects that are priorities of my administration: (1) the development of the convention center hotel; (2) the redevelopment of the site of the old convention center, and; (3) the Anacostia Waterfront Initiative, which could result in \$7 billion worth of government and private sector investment in housing, retail, museums, and parks in sections of the city that currently are underdeveloped or blighted.

The announcement by Major League Baseball that the Montreal Expos baseball team will move to Washington, D.C., as the Washington Nationals, is a critical element in creating the same type of excitement and investment opportunity that the MCI Center created for the lower Seventh Street, N.W. neighborhood. This opportunity will cause some investments to occur along the Anacostia Waterfront, which is the location selected for the new baseball stadium, even sooner than expected. The Nationals will play at RFK Stadium beginning in April 2005, until the new stadium is completed in 2008.

The improved economic climate over the past few years has resulted in renewed challenges for the District to better manage its budget and operations, and also to improve service delivery. As impressive as our recent successes have been, we must continue to concentrate and to work even harder on the District's long-term viability. With your continued support, we hope to continue to spread the District's financial success to all of our neighborhoods and citizens and to the entire region.

Sincerely,

A handwritten signature in black ink that reads "Anthony A. Williams". The signature is written in a cursive, flowing style.

Anthony A. Williams
Mayor

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



Natwar M. Gandhi
Chief Financial Officer

January 24, 2005

The Honorable Anthony A. Williams
Mayor of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Williams:

I am pleased to present the District of Columbia's Fiscal Year 2004 Comprehensive Annual Financial Report (CAFR). The year ended with General Fund revenues exceeding expenditures by \$317.7 million and a fund balance of \$1.2 billion. I can also report that the District's financial statements again earned an unqualified "clean" audit opinion from its independent auditors. The District has just completed the eighth consecutive year of financial recovery. Each year ended with both a budget surplus and an unqualified audit opinion.

During Fiscal Year 2004, tax collections were \$194.0 million higher than expected, and revenues from all other sources were \$73.1 million more than expected. In total, the District received \$267.1 million more from total revenues and other sources. Expenditures and other uses were lower in every category, resulting in \$111.0 million less being spent than was budgeted. Actual revenues exceeded actual expenditures and other sources by \$444.4 million on a budgetary basis, and by \$317.7 million on a basis consistent with generally accepted accounting principles.

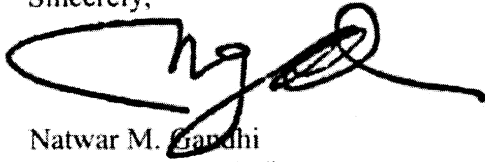
We have accumulated an emergency and contingency cash reserve of approximately \$285.4 million, and our financial condition has allowed the District to continue to improve its bond ratings. As a result, we enjoy lower borrowing costs on the District's outstanding debt.

On the other hand, the District remains vulnerable to unforeseen events that could place extreme stress on our resources. This condition exists because there is an imposed structural arrangement that unfairly limits the District's ability to generate revenue from its tax base. The federal government's restructuring in 1997 acknowledged the problem but failed to provide a long-term solution. The overall economic and structural position of the District remains a pressing issue that still needs to be addressed with the U.S. Congress and the President of the United States.

I would like to commend the many employees, both program and financial staff and especially the staff of the Office of Financial Operations and Systems, who have worked diligently to guarantee a successful closure of the District's books. They have again ensured that our records meet the highest standards required for an unqualified audit opinion. I am happy to report that the District has again been awarded the "*Certificate of Achievement for Excellence in Financial Reporting*" by the Government Finance Officers Association.

The many improvements that have been made in financial staffing, systems, and operations allow the program staff to more effectively manage government operations at all levels. The District is one of the few major city or state governments in the United States that prepares its own CAFR. As we have continued to refine and improve our financial systems and processes, it is now firmly established that the annual audit requirement has become a routine event in the District's overall financial management reporting.

Sincerely,

A handwritten signature in black ink, appearing to read 'Natwar M. Gandhi', with a large, stylized initial 'N' and a long horizontal stroke extending to the right.

Natwar M. Gandhi
Chief Financial Officer

**Government of the District of Columbia
Comprehensive Annual Financial Report
Year Ended September 30, 2004**

Prepared by:

**Office of the Chief Financial Officer
Office of Financial Operations and Systems**

**Anthony F. Pompa
Deputy Chief Financial Officer
810 First Street, NE, Suite 200
Washington, D.C. 20002**
