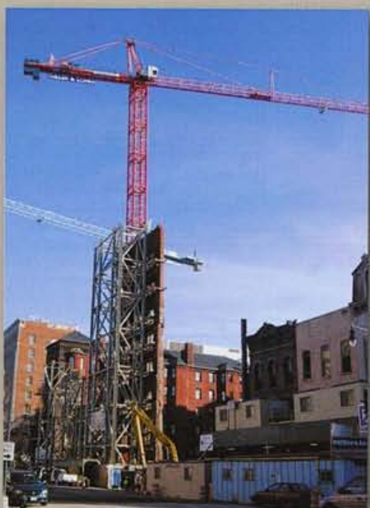
2004 CITIZEN'S

Financial Report

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



PREPARED BY THE OFFICE OF FINANCIAL OPERATIONS & SYSTEMS

Anthony F. Pompa DEPUTY CHIEF FINANCIAL OFFICER

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Office of the Chief Financial Officer

Year Ended September 30, 2004

March 18, 2005

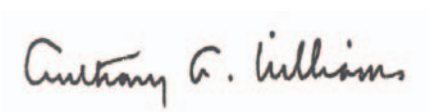
Dear Citizens of the District of Columbia:

We are pleased to present to you this Citizen's Financial Report on the fiscal 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 and simplify the presentation of financial information. Most of the information presented in this report is taken from the fiscal year 2004 Comprehensive Annual Financial Report (CAFR) of the District of Columbia. The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and is independently audited. The fiscal year of the District begins on October 1 and ends on September 30.

The PAFR contains reports and statements that do not present the entire financial reporting entity and may not conform to generally accepted accounting principles and governmental reporting standards. However, it meets the commitment to provide relevant disclosures to residents regarding our fiscal condition, general economy, and financial trends. This PAFR is intended to simplify but not replace the CAFR. If you would like to review or obtain a copy of the District's fiscal year 2004 CAFR, please contact the Office of Financial Operations & Systems at (202) 442-8200 or access our web site at www.cfo.dc.gov .

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,



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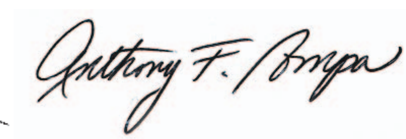

Anthony F. Pompa
Deputy CFO for
Financial Operations

Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

DISTRICT OF COLUMBIA

For the fiscal year ending
September 30, 2003

President

Executive Director

District of Columbia Citizens' Financial Report

Introduction

The Popular Annual Financial Report (PAFR) is a report for the citizens. It provides information about the District's financial condition without overwhelming detail and technical accounting terminology. The PAFR provides simplified information at the government-wide level and the major fund level, and includes certain selected statistical information cited in our Comprehensive Annual Financial Report (CAFR).

This PAFR summarizes the basic financial information about the District in an easy to understand format. The reports and statements are supported in more detail in the District's CAFR, which is prepared in accordance with generally accepted accounting principles. However, much of the information in the CAFR is necessarily technical and complex and geared toward trained financial professionals and business entities.

This report presents financial information for the District's fiscal year (FY) ended September 30, 2004.

Financial Reporting Entity

The financial reporting entity of the District includes all of the primary government's agencies and its component units. However, this popular report does not include financial information for the legally separate component units. The District's component units are:

- Water and Sewer Authority
- Washington Convention Center Authority
- Housing Finance Agency
- Sports and Entertainment Commission
- University of the District of Columbia

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Financial Condition

FY 2004 Highlights:

- The District finished the year with an unqualified or "clean" audit opinion.
- The General Fund, which accounts for all taxes, fees and charges for services, ended the year with a surplus of $317.7 million.
- The General Fund showed an accumulated fund balance of $1.2 billion, which includes $285.4 million in an emergency/contingency cash reserve. This cash reserve requirement totals 7% of the operating budget. The fund balance represents an increase of approximately $1.7 billion from the FY 1996 deficit of $518.2 million (restated).
- The District's legal debt limitation allows for the allocation of up to 17% of total revenues for debt service each year. However, the actual debt service for fiscal year 2004 was only 7.8% of total revenues, or about 46.1% of the debt service ceiling.
- The District received upgrades on its general obligation bond ratings. Moody's and Standard & Poor's ratings are now A2, and A respectively. Fitch revised its rating outlook from stable to positive. (See Bond Rating History on the next page.)

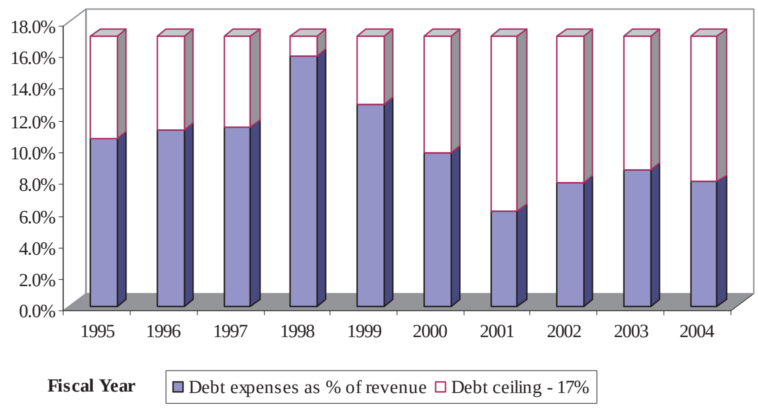
FY 2004 General Fund
Fund Balance

Reserved	**$ 607.9**	**mil.**
Emergency/contingency cash reserves: $285.4 mil.		
Bond escrow: $239.2 mil.		
Restricted use: $ 83.3 mil.		
Unreserved	**607.1**	**mil.**
Designated: $553.3 mil.		
Undesignated: $53.8 mil.		
TOTAL FUND BALANCE	**$ 1,215**	**mil.**

FY 2004 General Fund Surplus
($ in millions)

	Revised Budget	Actual	Variance
Revenues			
Taxes	$ 3,471.2	$ 3,665.2	$ 194.0
All other general fund sources	694.3	767.4	73.1
Total revenues	**4,165.5**	**4,432.6**	**267.1**
Expenditures	**4099.2**	**3,988.2**	
Revenues over expenditures		**444.4**	
Accounting adjustments		(126.7)	
SURPLUS		**$ 317.7**	

Debt Expenses as a Percentage of Revenues



Bond Rating History
Fiscal Year

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
S&P	B	B	B	BB	BBB	BBB	BBB+	BBB+	A-	A
Moody's	Ba	Ba	Ba2	Ba1	Baa3	Baa3	Baa1	Baa1	Baa1	A2
Fitch	BB	BB	BB	BB+	BBB	BBB	BBB+	BBB+	A-	A-

In FY 2004, the District issued $314.3 million in general obligation bonds. The entire amount was used to finance a portion of the District's capital improvements projects. The allocation was primarily for the repair and replacement of some of the District's bridges, roads, street traffic signals, and sidewalks.

Some of the major projects financed this past fiscal year are listed to the right:

Design/build 9th Street NE Bridge over New York Avenue and Amtrak railroad tracks	$32.3 million
Rehabilitation of the Anacostia Freeway	$11.5 million
Barney Circle asset preservation	$10.2 million
Street repair and management equipment/technical improvements	$5.8 million
Street lights maintenance	$5.5 million
Traffic signal maintenance	$5.3 million

Structural Imbalance

The D.C. Delegate to the U.S. Congress has announced her intention to introduce legislation in 2005 to eliminate the federally imposed structural imbalance with a formula-based annual federal contribution

The U.S. Senate passed the District of Columbia Budget Autonomy Act last year, which was sponsored by the D.C. Delegate. This Act is intended to move the District toward greater control of its local budget. The bill will be re-introduced in 2005. The Senate bill gives the District control of its taxpayer-raised funds after a brief period of oversight. This bill is to eliminate costly delays caused by the congressional budget process and removes the requirement that Congress enact the District's budget.

Background

On June 4, 2003, The U.S. Government Accountability Office (GAO) released its report "*District of Columbia: Structural Imbalance and Management Issues*," which confirmed that the District of Columbia has a structural imbalance that ranges from $470 million to more than $1.1 billion. The GAO report specifically states that, "Without changes in the underlying factors driving expenses and revenue capacity, the structural imbalance will remain."

The structural imbalance includes a prohibition on taxing federal real property, which comprises 42 percent of the District's property value, and other non-municipal tax-exempt property, such as universities, which comprise an additional 11 percent. Further constraining the District's tax base are restrictions on taxing income at source, which means that the District can tax just 34 percent of the income earned within its borders. The District also provides state-like functions such as human services, mental health, and higher education estimated at $500 million annually.

Over the past several years, the District has submitted balanced and responsible budgets during periods of increasing as well as stagnating and declining revenues. However, despite these balanced budgets, there is a serious long-term financial problem; a structural imbalance that transcends short-term challenges and cyclical revenue fluctuations. This imbalance creates a long-term gap between the District's ability to raise revenue at reasonable tax rates and the District's ability to provide services of reasonable quality to its residents.

There are few options. The District can increase the tax burden on businesses and residents even further. However, this could drive potential and current residents or businesses to locate in adjacent, lower-tax states and have an adverse impact on total tax receipts. This option forces the District to choose between tax levels that are higher than the national average and service levels that are lower than the national average, or a combination of both.

An alternative solution is federal compensation for the District's unique relationship with the federal government. The District has to fund itself with a federally restricted tax base and yet provide un-reimbursed services to the federal government.

The structural imbalance is a matter for District and congressional policymakers and should be addressed with urgency. A dialogue must continue that revisits the local/federal partnership and arrives at a long-term solution for equitable support of District services. The solution ensures the long-term financial viability of the nation's capital.

Economic Conditions

The District of Columbia, as the nation's capital, is the seat of the three branches of the federal government and headquarters for most federal departments and agencies. The federal work force in the District averaged approximately 192,400 employees in FY 2004. An additional 152,000 federal employees worked elsewhere in the Washington metropolitan area. The District and the federal government, over the past decade, had been downsizing their workforces. However, in the past few years there have been moderate increases, partially due to U.S. Department Homeland Security hiring and grants. In addition, new business operations, especially in the service industry, have continued to add to the strengthening of the local economy.

The District hosts, on a permanent basis, more than 170 foreign embassies and recognized diplomatic missions. Also, a number of international organizations have their headquarters in the District, including the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States. The United States' increasing involvement and leadership in international security, and economic, political and health affairs ensure that even more international organizations will either establish offices within the District or the Washington metropolitan area.

In calendar year 2003, approximately 16.4 million U.S. citizens visited Washington, D.C., an increase of about 3% from 2002. The estimate of international visitors for 2003 is placed at 845,000, representing a decrease of about 18% from 2002. The total spending by visitors to Washington, D.C. in 2003 is not yet available but is expected to be in excess of $7 billion. The direct visitor spending in the District generated additional business activities in related service industries and boosted local as well as regional economic growth.

Two new attractions on the National Mall opened in 2004. The National World War II Memorial, located on 17th Street between Constitution and Independence Avenues, opened to the public on April 29, 2004. The National Museum of the American Indian, located at 4th Street and Independence Avenue, opened to the public on September 21, 2004. These attractions are expected to lure additional visitors to the District.

Current development projects in retail, entertainment, tourism, and housing support the expectation of additional growth in private sector employment over the next several years. A number of national retail and food service chains have already moved into renovated commercial spaces across the central business district, and similar projects are appearing in surrounding areas.

Target Stores and Giant Food announced their agreement to build stores in the Columbia Heights neighborhood. These developments are near the recently opened 14th Street, N.W. Metrorail station.

The New York Avenue Technology Corridor is already home to XM Satellite Radio, FedEx and several District agencies. The construction of the headquarters for the United States Bureau of Alcohol, Tobacco, Firearms and Explosives is scheduled to be completed by the spring of 2006. Telecommunications companies are being encouraged to relocate to the corridor.

Negotiations are underway to develop a high-quality shopping center at Skyland in S.E. in Ward 7. Plans are also in the works to develop a Costco store within a shopping center to be located in the Fort Lincoln neighborhood in Ward 5. Within the past year, a Best Buy and a Container Store opened in the Tenleytown neighborhood in Ward 3.

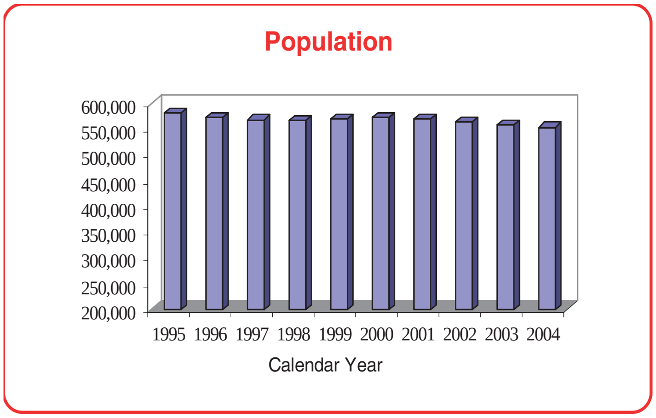
New residential construction is occurring in all sections of the District and ranges from single-family dwellings, to town houses, to apartment buildings and condominiums. The District helped finance a total of 525 housing units in fiscal year 2004.

Population Trends

The U.S. Census Bureau estimated that in July 2004 there were 553,523 permanent residents in the District. This represents a decrease of 4,097 from the revised July 2003 figure of 557,620. The 2000 census revealed that estimates of residents leaving the District had been overstated in census estimates during the previous decade.

The actual population loss was 5.7% from 1990 to 2000, which is almost 60% less than the estimated loss predicted by the previous 1990 census results. Those same census estimates predicted that the District population would not reach its current level for approximately five more years. In fact, the District's population decreased 16% between 1970 and 1980, but only experienced an additional 5% loss between 1980 and 1990 and 5.7% from 1990 to 2000.

The annual Census estimates are determined from birth and death records, changes in tax return filings and estimates of the number of immigrants who move into the District each year. District officials have disagreed with the current estimate based upon increased residential construction and property transfers. Errors in resident estimates affect the federal dollars allocated to the District, since that amount is based upon the Census Bureau's total population reports.

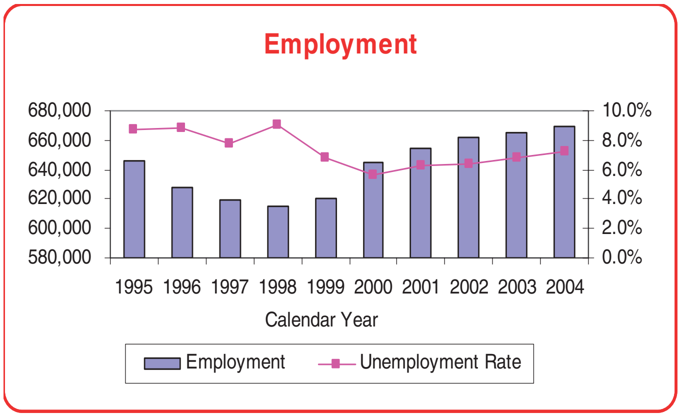


Employment Trends

District resident employment remained at approximately 23% of the metropolitan area totals during both years. The September 2004, seasonally adjusted, unemployment rate in Washington, D.C. was 7.2%, compared to the September 2003 rate of 6.8%. Total employment within Washington, D.C. increased to 669,200 in September 2004 from 665,000 in September 2003.

The total employment in the Washington metropolitan area was approximately 2,900,000 in FY 2004 compared to the revised 2,833,300 FY 2003 number, representing a slight increase. These numbers do not include the self-employed, domestic workers, military and foreign government personnel, which represent a significant portion of the actual work force of the region.

Washington, D.C. has evolved into a diverse economic community. The service industries now surpass the federal government as the largest employer. Expansion in legal services, high-speed Internet technology and communications provide new employment opportunities. Current development projects in retail, entertainment, tourism, and housing support the expectation of additional growth in private sector employment over the next several years.



Major Initiatives

District Department of Transportation (DDOT) Projects

DDOT manages multiple projects that maintain, upgrade or reconstruct local sidewalks, streets and bridges. There is a comprehensive infrastructure revitalization effort to enhance the general appearance of neighborhoods. The renewal projects add to the ability of the District to compete for new residents and businesses. New residents and businesses add to the tax base and translate into improved services for all.

DDOT continues work on the New York Avenue Corridor Study, which is intended to resolve current and future transportation needs of the corridor from the gateway at the intersection of New York Avenue and the Baltimore-Washington Parkway to the new convention center. The objective is to attract technology and other businesses to the corridor and to provide a magnificent entryway for all visitors to the nation's capital.

DDOT continues the planning and design process to upgrade the South Capitol Street Gateway to Washington, D.C., and to begin the process of revitalization of this area of the District that had been long neglected.

The District and the Washington Metropolitan Transit Authority recently broke ground on the Anacostia Light Rail Demonstration project, to serve the Anacostia area in Southeast, D.C. The project, which will consist of 2.7 miles of new track and six new stations, is scheduled to begin service in the fall of 2006.

Anacostia River

There are long-term plans to transform the Anacostia River and its banks into an area that will support recreational activities, such as swimming, boating and fishing, and to use adjoining space to create parks and accommodate cultural venues. The plans, as outlined by District officials, would cost billions and take at least 30 years to complete. The District has created a partnership with the federal government to transform the Anacostia River from the District's forgotten river to a world class urban waterfront.

The Anacostia Waterfront Corporation was created in August 2004 to oversee the design, planning and development of the entire Anacostia area within Washington, D.C.

The federal government is still planning to increase its employment presence in the Southeast Federal Center, which already houses a number of U.S. agencies. Plans under consideration also include the long awaited development of federal lands near and adjacent to the U.S. Navy Yard.

Convention Center Headquarters Hotel

The Board of Directors of the Washington Convention Center Authority decided in early-December 2004 to expand the meeting and ballroom capacity of the new convention center by 75,000 square feet and to develop and own a 1,200-room headquarters hotel with 100,000 square feet of meeting and ballroom space. The site of the old convention center is being prepared for development, and space has been set aside there for the convention center hotel. The hotel is to be located there, on the old convention center site, if the preferred site on 9th Street, N.W., between Massachusetts Avenue and M Street is not feasible.

Georgetown Project

The Georgetown Project is a joint effort by Pepco, Verizon, Washington Gas, the Water and Sewer Authority, and DDOT. It has resulted in a major upgrade of Georgetown's underground utility infrastructure and streetscape. The project began in October 2001 to modernize the utility system to meet present and future growth in demand. Georgetown has some of the oldest underground infrastructure in Washington, D.C., and various utility and service disruptions required this coordinated effort to improve the infrastructure and reduce disruptions. The project will be completed during the spring of 2005. The streetscape renovations, including the installation of street lights, benches and sidewalks will cost $7 million.

Business Improvement Districts

The District government has used a number of arrangements to fund other economic development ventures, including Business Improvement Districts (BIDs). BIDs are commercial areas of the District that collect a "self tax" from property owners to provide services and programs to the entire BID. These programs address cleanliness, maintenance, safety, economic development, and other collective business issues in their coverage areas. There are five major BIDs: 1) Capitol Hill; 2) Downtown DC; 3) Georgetown Partnership; 4) Golden Triangle, and; 5) Mount Vernon Triangle.

According to the District's Office of Tax and Revenue, more than $63 million has been collected from businesses in these areas between 1998 and November 2004.

Tivoli Square

A redevelopment project at Park Road and 14th Street, N.W. is in its final stages of completion. Tivoli Square, which houses the old Tivoli Theater, promises to breathe new economic and cultural life into this Columbia Heights community.

The Tivoli Theatre, constructed in 1924 at a cost of $1 million, was one of the most elegant movie houses in Washington, D.C. until its closing in 1976. Under this project, the exterior of this historic theater will be completely restored to its original grandeur and the interior will retain historic spaces and features.

Tivoli Square will also feature a 53,000 square foot full-service Giant Food supermarket, a 250-seat theatre managed by GALA Hispanic Theatre, 24,000 square feet of commercial space, 220 parking-garage spaces and 40 town homes. The openings of the theatre, supermarket and retail facilities are slated for early 2005.

Bureau of Alcohol, Tobacco, Firearms and Explosives National Headquarters Building

Construction has begun on a new Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) National Headquarters building to be located at New York and Florida Avenues, N.E. The ATF is a law enforcement agency within the U.S. Department of Justice. This $83 million project consists of a planned structure composed of two building wings arranged in an "L" shape which will include approximately 422,000 gross square feet of office space. The structure is to house approximately 1,100 employees. Also, 200 parking spaces will be provided. The building is expected to be completed in 2006.

Newseum

In 2000, The Freedom Forum, a nonpartisan foundation dedicated to free press, free speech and free spirit for all people, purchased the property at 6th & Pennsylvania Avenue, N.W. (former site of the District's Department of Employment Services). The Freedom Forum plans to use this site to relocate its Newseum, the world's first interactive museum of news, formerly located in Arlington, Virginia.

In addition to the Newseum and its support facilities, the 531,000 square foot development will contain office space for Newseum and Freedom Forum staff, a 9,000 square foot conference center, more than 30,000 square feet of retail space and approximately 100 condominium units. Construction of the Newseum began in February 2004 and is expected to be completed in 2007.

Newseum under construction.

Design for the Future Newseum

The front left of the building features the 45 words of the First Amendment to the U.S. Constitution, etched into a stone panel facing Pennsylvania Avenue. The front center of the building features a 57 by 78 foot "window on the world", which looks out on Pennsylvania Avenue while letting the public see inside to the visitors and displays.

The New "Washington Nationals" Baseball Team

On September 29, 2004, the District announced that an agreement had been reached with Major League Baseball that allowed the then-Montreal Expos baseball team to move to Washington, D.C. The team was renamed the Washington Nationals and will begin playing at Robert F. Kennedy Stadium in April 2005 for the 2005 baseball season, until a new stadium is constructed. The agreement requires that the District construct and totally finance a new baseball stadium by the 2008 baseball season.

The new 41,000 seat stadium is to be financed by a new gross receipts fee on large businesses, a utilities tax on businesses and federal users, and the projected stadium related revenue streams, such as dedicated sales taxes from baseball related items and stadium rent payments. The District has received a number of proposals for private financing of some, or all, of the stadium project. These proposals are being reviewed by the District's Chief Financial Officer (CFO).

The District will acquire the 21 acres of land in the area that has been selected for the new baseball stadium from the current owners. It is possible that the District will use its powers of eminent domain to assist in the acquisition of the needed properties, if any of the current owners refuse to sell. The District's CFO must complete a cost analysis of land acquisition for the stadium and construction of related infrastructure by May 15, 2005. The architect will be selected by mid-February 2005, and construction is to begin within a year. A land-use plan is scheduled to be completed by April 2005.

Accomplishments

New York Ave-Florida Ave-Gallaudet U Metrorail Station

For the first time in Metrorail's 28-year history, a new station opened between two existing stations on the Red Line. The new station, named New York Ave-Florida Ave-Gallaudet U, opened in November 2004. It is located at 200 Florida Avenue, N.E., and promises to expand economic development and promote prosperity to this Northeast sector. While the station does not add miles to the tracks in the rail system, it brings the total number of Metrorail stations in the regional system to 84.

The cost of the new Metrorail station was approximately $103.7 million. It was funded through a unique partnership that included the District government ($53.7 million), the federal government ($25 million), and a special assessment on area private land owners ($25 million).

Hotel Mandarin Oriental

A new luxury hotel called the Mandarin Oriental, Washington D.C. opened in March 2004. This five-star, 400-room hotel, located along the waterfront in Southwest, boasts approximately 33,000 square feet of associated meeting and banquet space, two restaurants, and a health spa with fitness center. It also houses 6,500 square feet of retail space, an art gallery, and an approximately 90,000-square-foot parking garage.

The cost to build Mandarin Hotel was $155 million. In March 2002, the District issued $46 million in Tax Increment Financing bonds to help fund the hotel project. The bonds are insured and the debt service on the bonds is payable from portions of the incremental sales taxes and real property taxes generated by the project.

Gallery Place

In 2004, the District welcomed a new groundbreaking downtown development, Gallery Place, located at 7th and H Streets, N.W. This new landmark, adjacent to the Gallery Place Metrorail station, consists of 230,000 square feet of office space, 250,000 square feet of prime retail space, a 14-screen Regal Cinema, Clyde's Restaurant, 192 luxury condominium units, and 700 parking spaces in a secure underground garage.

The cost of the Gallery Place project was $274 million. In 2002, the District entered into a bond purchase agreement to sell $73.6 million in TIF bonds to help fund the project. The bonds were insured, and the debt service on the bonds is payable from portions of the incremental sales taxes and real property taxes generated by the associated TIF district.

Financial Resources

The majority of the District's funds come from the collection of taxes. Other local sources of funds include fees for licenses and permits, fines and forfeitures, and charges for services. The two other main sources of revenues are federal and private resources, which include both contributions and operating grants.

Property, income and franchise, and other taxes collected in FY 2004 were $194 million more than in the revised FY 2004 budget. This difference is accounted for primarily by increases in collections from the following tax categories:

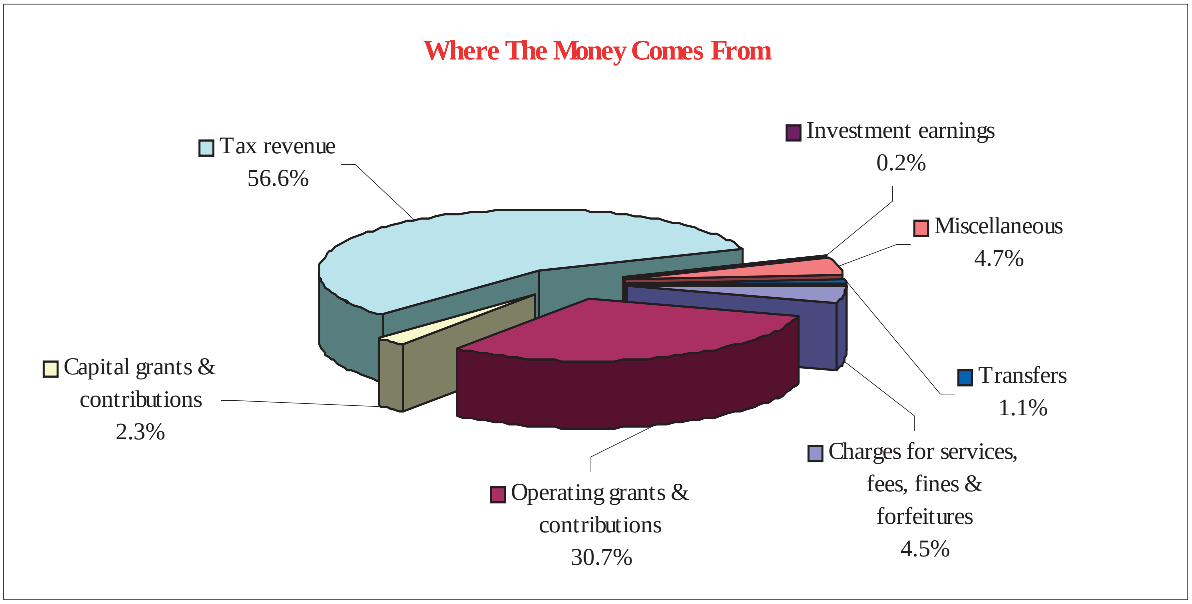
Property	$51.1 million
Income & Franchise	$91.3 million
Other	$70.6 million

The increase in individual income tax collections was due primarily to the strong recovery of the stock market in the last quarter of 2003. Individual income tax revenue also benefited from a much stronger than expected growth in the wages and salaries of Washington, D.C. residents. The increase in the corporation franchise tax was due mainly to the recovery in corporate profits in 2004.

Sales and use taxes were $19.1 million less than anticipated. Sales and use tax collections were down due to the weakened visitor traffic and reduced tourists spending.

Many of the District's revenue gains had the same underlying economic cause: the stronger than expected growth in the Washington, D.C. real estate market. Some of the gains came from the increased unit sales of single family homes and condominiums at higher sale and resale values. Commercial retail and office space growth continued, as vacancy rates declined.

Other factors were also at work, for example the higher level of federal spending on homeland security had an impact on demand for commercial real estate in Washington, D.C. On the residential side, the advantage of shorter commuting times have made the District a more attractive place to live than the suburbs.

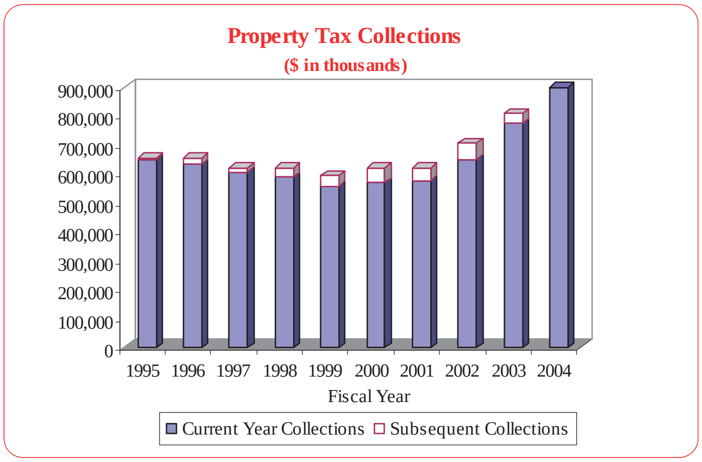


The FY 2004 actual results for the general fund showed that total revenues of $4.4 billion exceeded projections by $267.1 million. Total actual expenditures and other uses were $4 billion, which was $111 million less than the budgeted amount. Overall, the District ended the year with a general fund surplus of $317.7 million, on a basis consistent with generally accepted accounting principles.

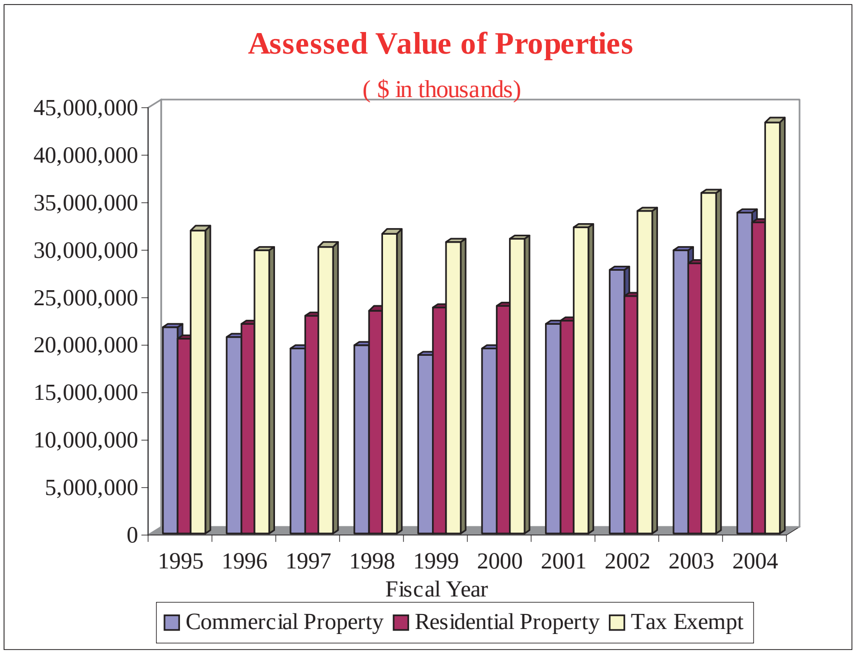
Fiscal Year 2004 General Fund Budgetary Highlights
($ in thousands)

	Budget			Variance
	Original	Revised	Actual	Over(under)
Revenues and Other Sources:				
Property taxes	$ 999,468	$ 976,837	$ 1,027,976	$ 51,139
Other taxes	2,373,904	2,494,380	2,637,219	142,839
Charges for services	294,501	286,672	323,699	37,027
Other sources and contributions	172,506	168,027	240,253	72,226
All other sources	219,293	239,537	203,422	(36,115)
Total revenues and other sources	4,059,672	4,165,453	4,432,569	267,116
Expenditures and Other Uses:				
Governmental direction and support	226,975	246,639	231,364	(15,275)
Economic development and regulation	185,445	189,275	148,949	(40,326)
Public safety and justice	735,659	764,186	746,066	(18,120)
Public education system	970,581	1,032,560	1,029,193	(3,367)
Human support services	1,109,607	1,132,128	1,117,035	(15,093)
Public works	321,772	322,423	314,620	(7,803)
Other	507,795	411,974	400,963	(11,011)
Total expenditures and other uses	4,057,834	4,099,185	3,988,190	(110,995)
Excess (deficit) -- budgetary basis	$ 1,838	$ 66,268	444,379	$ 378,111
Nonbudgetary adjustments, net			(126,721)	
Surplus			**$ 317,658**	

Real property tax increased due to higher property assessment rates on existing properties and on new construction. Deed recordation fees were also higher due to brisk real estate purchases and refinancing prompted by low mortgage interest rates.



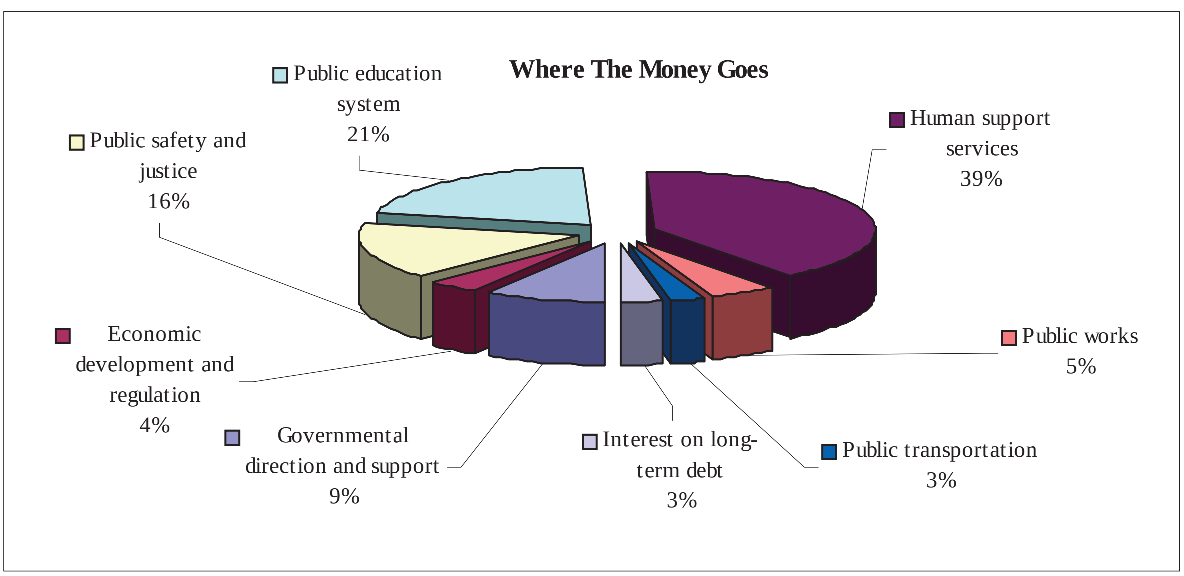
The total assessed value of all commercial and residential properties in the District at September 30, 2004 was $66.5 billion compared with $58.1 billion in the prior year. Tax-exempt properties accounted for $43.2 billion or 39.4% of the total estimated actual values in FY 2004.



Resource Allocation

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

In FY 2004, Human Support Services expenditures represented 39% of the District's total expenditures. Public Education and Public Safety and Justice were 21% and 16% of total expenditures, respectively.



Debt Management

The District's total outstanding long-term debt was $4 billion at September 30, 2004. This amount consisted of serial and term general obligation bonds, TIF notes and bonds, Tobacco bonds, and Qualified Zone Academy bonds. The table below shows the changes in long-term debt and the balances in each category.

On December 11, 2003, the District issued its fixed-rate Series 2003B general obligation bonds in the aggregate amount of $174 million and its variable-rate Series 2003C and 2003D multimodal general obligation bonds in the aggregate principal amount of $140 million. The proceeds finance a portion of the District's FY 2004 capital improvements projects. The final maturities of the Series 2003B, 2003C and 2003D Bonds are June 1, 2021, 2028, and 2026, respectively.

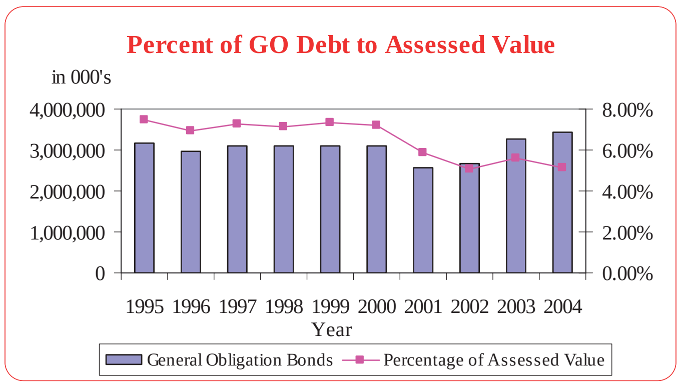
Long-Term Debt
($ in thousands)

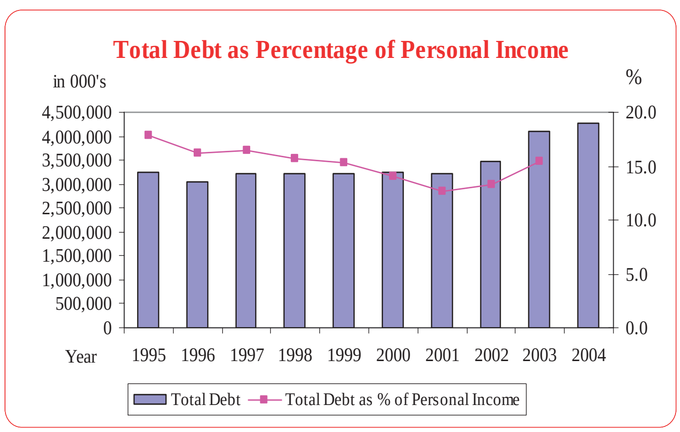
	2004	2003	Variance
General Obligation Bonds	$ 3,418,933	$ 3,251,118	$ 167,815
TIF Bonds and Notes	124,009	125,524	(1,515)
Qualified Zone Academy Bonds	3,071	3,327	(256)
Tobacco Bonds	502,740	506,550	(3,810)
Total	**$ 4,048,753**	**$ 3,886,519**	**$ 162,234**

The District's uninsured bonds were rated by Moody's Investor Services as A2, by Standard & Poor's Rating Services as A, and by Fitch Ratings as A-. These ratings are significantly higher than previous ratings and are representative of the improved financial condition of the District.

The improved bond ratings allow the District to either refinance outstanding debt, or to issue new debt, at more favorable rates. In the past, financial and operational difficulties required the District to pay substantially higher interest rates for its debt. Lower interest rates translate into lower debt service payments. The savings make a greater percentage of the District's budget available for the needed services and operations for its citizens.

The general obligation debt per capita (D.C. resident), as of September 30, 2004, was $6,177. This was an increase of $347, or 6% from the amount on September 30, 2003 of $5,830 debt per capita. The increase was due to the issuance of additional general obligation debt, and a decrease in the U.S. Census population estimate for Washington, D.C.





Government-Wide Financial Statements

Governmental Activities

Starting with the fiscal year that ended September 30, 2002, new accounting standards required that financial statements be prepared to present the District's finances as a single unified entity, similar to a private sector business. These new government-wide financial statements are prepared in addition to traditional fund based financial statements.

The traditional (fund based) reporting of governmental activities focuses on short term receipts, disbursements and balances of spendable resources. The government-wide statements, on the other hand, combine long-term information with the short-term to provide a complete picture of the District's finances. This new approach accounts for all revenues and expenses connected with 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 Statement of Activities summarizes both the gross and net cost of the governmental and business-type 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. Program or function expenses are reduced by program or function specific earned revenues.

Federal and private grants for specific programs or functions also reduce net expenses for these governmental and business-type activities. The District's general revenues (property, sales, income and franchise taxes) offset remaining program/function costs, resulting in an increase or decrease in net assets.

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 activities.

Net Assets as of September 30, 2004
($ in thousands)

	Governmental activities		Business-type activities		Totals	
	2004	2003 (restated) *	2004	2003	2004	2003 (restated) *
Current and other assets	$ 2,491,541	$ 2,187,604	$ 436,861	$ 415,645	$ 2,928,402	$ 2,603,249
Capital assets	4,716,538	4,379,361	17,927	4,032	4,734,465	4,383,393
Total assets	**7,208,079**	**6,566,965**	**454,788**	**419,677**	**7,662,867**	**6,986,642**
Long-term liabilities	4,710,163	4,365,833	66,481	64,906	4,776,644	4,430,739
Other liabilities	1,286,018	1,406,411	41,438	53,827	1,327,456	1,460,238
Total Liabilities	**5,996,181**	**5,772,244**	**107,919**	**118,733**	**6,104,100**	**5,890,977**
Net assets:						
Invested in capital assets, net of related debt	774,533	518,223	17,927	1,354	792,460	519,577
Restricted	807,839	870,284	294,476	262,148	1,102,315	1,132,432
Unrestricted	(370,474)	(593,786)	34,466	37,442	(336,008)	(556,344)
Total net assets	**$ 1,211,898**	**$ 794,721**	**$ 346,869**	**$ 300,944**	**$ 1,558,767**	**$ 1,095,665**

* Restated the FY 2003 fund balance as a result of the adoption of a new accounting standard relating to the Tobacco Corporation.

- The total assets from governmental activities amounted to $7.2 billion and $455 million from its business-type activities, for a grand total of $7.7 billion.

- The total liabilities associated with these amounts are $6 billion, $108 million and $6.1 billion respectively for governmental activities, business-type activities and the total of the two categories.

- By deducting the total liabilities from the total assets, the District is showing total net assets of $1.2 billion for governmental activities, $347 million for business type activities for total net assets of $1.6 billion.

- The District's combined net assets increased by $463.1 million in fiscal year 2004. Governmental activities increased by $417.2 million while business-type activities increased by $46 million.

- These changes represent an increase of 52.5% in governmental activities and an increase of 15.3% in business-type activities in fiscal year 2004.

- The combined total net assets for the governmental activities and business-type activities increased 42.3% from $1.1 billion at the beginning of the fiscal year.

- The D.C. Lottery transferred $73.5 million of its income to the District, which was a $450 thousand increase over last year's transfer. Each year, the D.C. Lottery transfers substantially all of its net income to the District.

Change in Net Assets as of September 30, 2004
($ in thousands)

	Governmental activities		Business-type		Total	
	2004	2003 (restated) *	2004	2003	2004	2003 (restated) *
Revenues:						
Program revenues:						
Charges for services	$ 300,110	$ 323,161	$ 271,677	$ 272,014	$ 571,787	$ 595,175
Operating grant and contributions	2,060,973	1,833,060	26,588	55,356	2,087,561	1,888,416
Capital grants and contributions	151,334	176,449	15,464	-	166,798	176,449
General revenues	4,151,821	3,745,811	120,545	102,219	4,272,366	3,848,030
Total revenues	**6,664,238**	**6,078,481**	**434,274**	**429,589**	**7,098,512**	**6,508,070**
Expenses	**6,320,561**	**6,219,742**	**314,849**	**365,917**	**6,635,410**	**6,585,659**
Other non-operating activities	**73,500**	**37,574**	**(73,500)**	**(37,574)**	**-**	**-**
Increase (decrease) in net assets	417,177	(103,687)	45,925	26,098	463,102	(77,589)
Net assets - Oct 1	794,721	898,408	300,944	274,846	1,095,665	1,173,254
Net assets - Sept 1	**$ 1,211,898**	**$ 794,721**	**$ 346,869**	**$ 300,944**	**$ 1,558,767**	**$ 1,095,665**

* Restated the FY 2003 fund balance as a result of the adoption on a new accouncting standard relating to the Tobacco Corporation

These improvements in the District's financial position were mainly the result of an increase in revenues and better expenditure management. The increase in business-type activities total net assets was the result of an increase in revenues from charges for services.

The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting. These differences may result in the government-wide statements reflecting negative unrestricted net assets. The $220.3 million improvement in the unrestricted net assets was due mainly to increased revenues.

Governmental Funds

The fund financial statements presentation will be 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 measure 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 cause funds to be established for specific purposes and to report on the activities and services that these funds provide to the general public. The District's funds are presented in three categories or groups:

- *Governmental Funds* relate to the governmental activities column in the government-wide statements. The focus is on a shorter-term basis and measures how money flows into and out of these funds and determines the balances left at year-end for future spending. Most basic services are found in this fund category and are reported as General, Federal and Private Resources, General Capital Improvements, and Non-major Governmental Funds. These funds report short-term activities and measure cash and other financial assets that can be readily converted to cash.

- *Proprietary Funds* are used to account for the District's business-type activities. These funds generate a significant portion of their funding through user charges. The District recognizes two major funds: Lottery and Charitable Games, Unemployment Compensation; and one non-major grouping of proprietary funds in this classification.

- The District is the *trustee,* or *fiduciary,* for its employees' pension plans. *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. These activities are presented separately from the District's other funds because these resources are not available to finance the operations of the government.

Assets and Liabilities

The District reported the following total assets in its governmental funds balance sheet: $1.9 billion in its general fund, $625.8 million in federal & private resources, $354.5 million in general capital improvements, and $130.9 million in non-major governmental funds, for total governmental fund assets of $3.1 billion as of September 30, 2004.

The following liabilities were reported in its governmental funds balance sheet: $741.9 million in its general fund, $486.2 million in federal & private resources, $604.7 million in general capital improvements, and $10.6 million in non-major governmental funds. The total governmental fund liabilities amounted to $1.8 billion.

Capital assets are increasing because the District is investing more resources in new and rehabilitated infrastructure, such as roads, bridges and buildings. This increase in assets is being funded primarily by the increase in revenues and debt issuance.

Operating Results

The District reported the following revenue amounts in its governmental funds: $4.3 billion in its general fund, $2.1 billion in federal & private resources, $190.4 million in general capital improvements, and $43.3 million in non-major governmental funds, for a total of $6.7 billion for the year ended September 30, 2004.

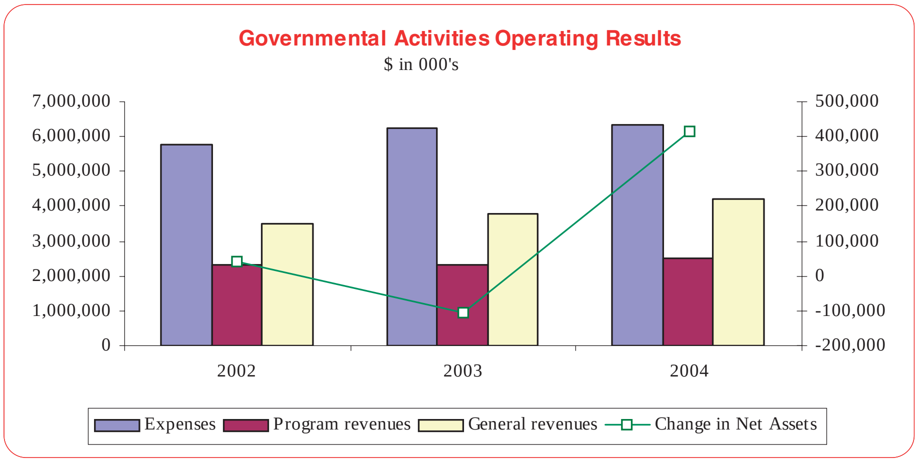
The following expenditure amounts were reported in its governmental funds: $4.1 billion in its general fund, $2.1 billion in federal &

private resources, $635.2 million in general capital improvements, and $74 million in non-major governmental funds. These amount to $6.9 billion in governmental fund expenditures for the year ended September 30, 2004.

The operating results measure the difference between revenues and expenditures during the year. The results showed a combined excess of expenditures over revenues which resulted in a deficiency of $235.4 million. This deficiency, however, was caused by the reporting of the $444.8 million cost of capital improvements without showing the matching financing assigned to these improvements. The funding (financing) was shown below the net of total revenues and expenditures as *other financing sources*. The proceeds from the sale of bonds and other long-term financing by the District amounted to $430.1 million in other financing sources. This amount offsets the revenue deficiency.

The Federal and Private Resources fund expenditures exceeded revenues by $10.6 million. This was primarily a timing difference. The federal government's appropriation of grants to the District for various purposes related to emergency preparedness were recorded as revenue in FY 2002 while the related expenditures were incurred and recorded in subsequent fiscal year budgets.

The majority of the revenues for federal and private resources were from federal contributions of $388.0 million and operating grants of $1.7 billion. The largest expenditure, $1.4 billion, in the federal and private resources funds, was related to human support services.



General Capital Improvements

General capital improvements expenditures of $635.2 million exceeded the general capital improvements revenues of $190.4 million by $444.8 million. This means that the District is investing more in capital improvements than the available associated revenues. The District's policy, to the extent allowed by limited funding, is to rapidly invest in infrastructure and other improvements to encourage residents to stay in the District and attract new residents.

The net change in the general capital improvements fund balance for fiscal year 2004 was an addition of $108.4 million once other financing sources of $336.5 million were added to the $444.8 million deficit mentioned in the proceeding paragraph.

The District authorizes agencies to spend their annual general capital improvements appropriated budget in advance of financing. The general fund advances the amount of the funding, which is then repaid with the proceeds from the bonds when the debt is issued. This allows the District to control when it will enter the market to issue bonds based upon cash flow needs, favorable market rates and the number of municipal deals and the types of credits that are in the market, thus minimizing its borrowing cost.

Fund Balance

The fund balance is the difference between the assets and liabilities. The 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 money available to spend in subsequent years' budgets. A negative unreserved fund balance represents an over-commitment of available resources.

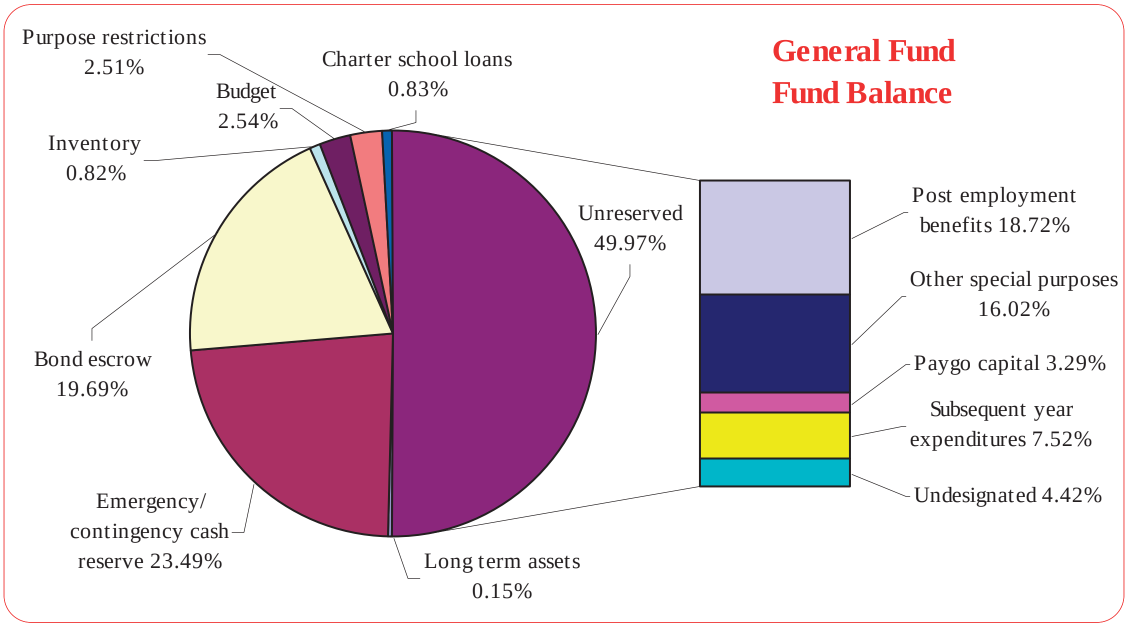
The fund balance does not consist entirely of cash. Cash is only one of the assets that enter into the calculation of fund balance (assets minus liabilities equal fund balance). Therefore, the fund balance may consist of cash and other resources or assets like receivables and inventories. In some cases,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

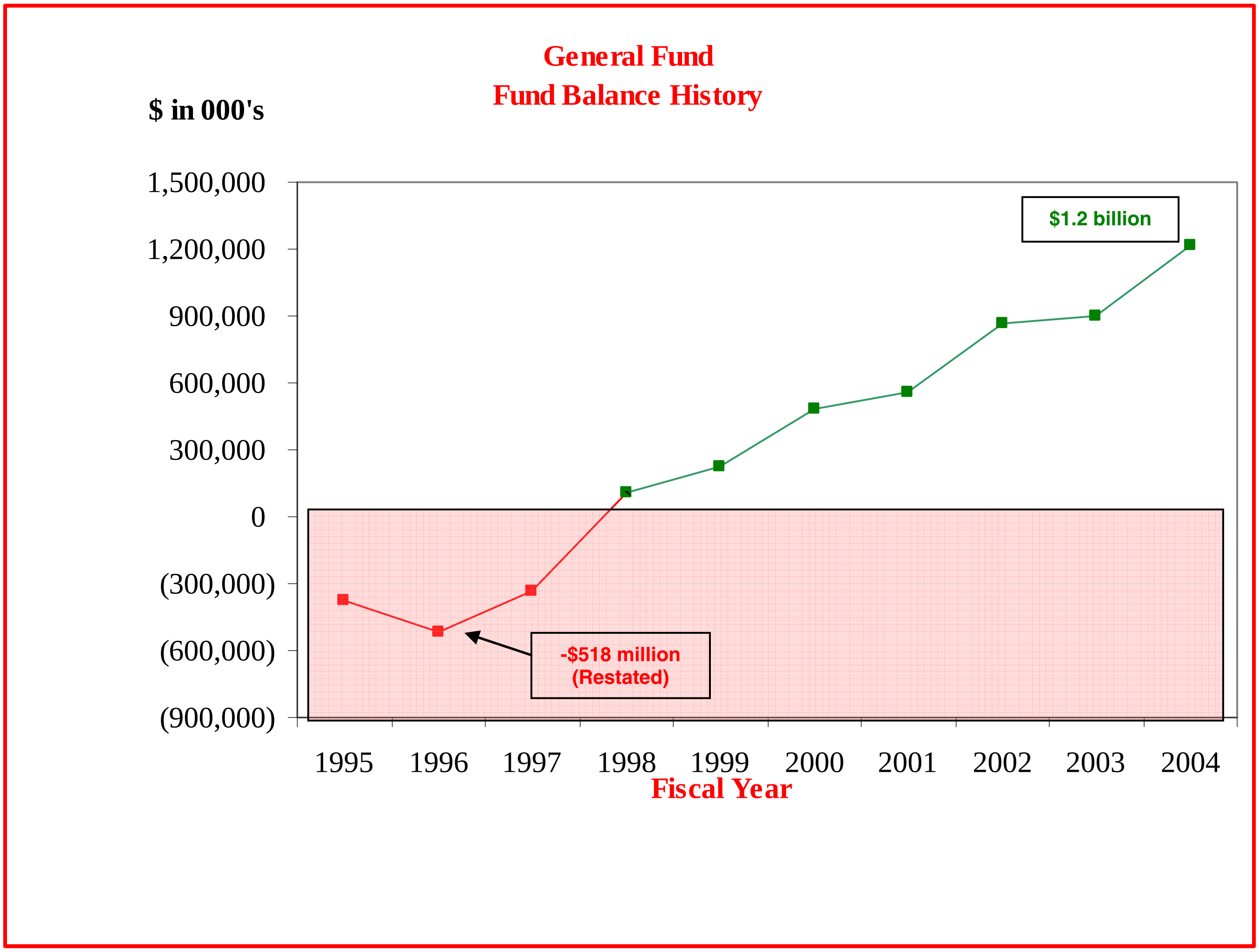
- In FY 2001, the fund balance in the General Fund stood at $837.9 million. Due to prudent management of the District's resources, the fund balance increased to $865.3 million in fiscal year 2002, to $897.4 million in fiscal year 2003, and to $1.2 billion in fiscal year 2004.

- The unreserved fund balance was $91.3 million, $320.0 million, $329.1 million, and $607.1 million in fiscal years 2001, 2002, 2003, and 2004 respectively.

- The fund balance includes a rainy day (emergency/contingency cash reserve) fund of $285.4 million. In addition, there is $239.2 million in cash set aside for long term debt service and $553.4 million designated by management for specific programs and projects.

- The unallocated fund balance of $53.8 million represents resources that the District's management intends to use to supplement the rainy day fund.




General Fund
Fund Balance History
$ in 000's
1,500,000
1,200,000
900,000
600,000
300,000
0
(300,000)
(600,000)
(900,000)
$1.2 billion
-$518 million
(Restated)
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
Fiscal Year

Miscellaneous Statistics
Last Two Fiscal Years

	2004	2003
ECONOMIC DEVELOPMENT AND REGULATION		
Taxable retail sales ($ millions)	8,342,682	7,683
Commercial construction units	115	59
Value	1,720,869	418,049
Residential construction units	506	499
Value	117,803	68,931
Bank deposits	N/A	15,637,000
Housing Finance Agency		
Number of Single-Family Units Financed	0	5
Amount of Single-Family Financing Provided ($ 000s)	0	612
Number of Multi-Family Units Financed	525	1,237
Amount of Multi-Family Financing Provided ($ 000s)	36,051	76,358
Total Number of Housing Units Financed	525	1,242
Total Amount of Housing Financing Provided ($ 000s)	36,051	76,970
PUBLIC SAFETY AND JUSTICE		
Police		
Crime Index Offenses	36,246	39,797
Number of Police Officers	3,800	3,711
Fire		
Number of Fire Fighters	1,426	1,388
Number of Fire Alarms	119,846	119,582
Inspections	26,703	13,055
EMS		
Number Emergency Medical Personnel	342	377
Number of Emergency Responses	N/A	89,817
PUBLIC EDUCATION SYSTEM		
D.C. Public School System		
Number of School Teachers	5,206	4,365
Number of School Students	62,306	65,093
Number of High School Graduates	2,740	2,723
University of the District of Columbia		
Number of Teachers	208	260
Number of Students	5,424	5,241
Number of Graduates	508	483
PUBLIC LIBRARY		
Number of Volumes	2,559,601	2,609,062
PUBLIC WORKS/PUBLIC TRANSPORTATION		
Street Resurfaced (includes reconstruction); regular cover; pavement restoration (miles)	36.5	27.8
Potholes Repaired	9,177	7,679
Refuse collected (tons per day)	506	511
Recyclables collected (tons per day)	84	83
Tons of Snow Removed	2,472,659	8,056,083
*Note: In FY's 1997 and 1998 recycling was suspended.		
Department of Motor Vehicles		
Number of motor vehicle registrations (1/1 - 12/31)	243,874	235,907
Number of operator licenses issued (1/1 - 12/31)	96,760	78,022
Number of operator licenses outstanding (1/1 - 12/31)	237,526	241,304
D.C. WATER AND SEWER AUTHORITY		
Number of Customer locations	122,802	122,502
Average daily water consumption (MGD)	87	86
Daily maximum sewer capacity (MGD)	370	370
Peak 4 Hour Flow, through complete process (MGD)	740	740
Excess Storm Flow, primary treatment only (MGD)	336	336
Peak Flow (MGD)	1,076	1,076
CONVENTION CENTER		
Conferences held	201	163
Attendees	1,023,072	891,008

N/A: Not Available

Glossary

Accounting and Financial Reporting for Impairment of Capital Assets (Statement No. 42)	Statement No 42 requires state and local governments to recognize the decrease (impairment) in the productive capacity of capital assets that are expected to remain in service. Tests of impairment are: 1) the event or condition is outside the normal life cycle of the asset and 2) the magnitude of the decrease in service utility is permanent and significant.
Assessed Valuation	A method established to assess real estate or other property by a government as a basis for levying taxes.
Capital Assets	Assets (infrastructure, land, buildings, equipment) used in operations that have initial useful lives extending beyond a fiscal year and that will not become available for spending.
Capital Expenditures	Costs incurred in the renovation and construction of capital assets.
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.
Defeasance	The use of proceeds from a new bond issuance or other funds to establish an irrevocable trust to provide for all future debt service payments on an existing bond.
Designated Fund Balance	The portion of unreserved fund balance that management intends to use for a specific purpose.
Economic Condition Reporting – Statistical Section (Statement No. 44)	The statistical section assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information. The objective is to improve the understandability and usefulness of the information presented in the CAFR.
Fiduciary Fund	A fund used to account for resources held for the benefit of outside parties as a trustee or agent and therefore not available to support governmental programs.
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 assets and 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.

Glossary

Generally Accepted Accounting Principles (GAAP)	The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements.
Government Accountability Office (GAO)	A federal governmental body responsible for promulgating standards used to guide public sector financial audits.
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.
Infrastructure Assets	Long-lived capital assets (roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems) that normally are stationary in nature.
Other Post Employment Benefits (OPEB)	OPEB are provided by an employer to plan participants, beneficiaries and covered dependents through a plan or arrangement that is separate from a plan to provide retirement income. OPEB may include health care benefits as well as life insurance, disability income, tuition assistance, legal services and other assistance programs.
Proprietary Funds	Funds used to account for business-type activities.
Qualified Zone Academy Bond (QZAB)	This is a financing arrangement for certain academic improvement plans authorized by Congress through the Taxpayer Relief Act of 1997. Through this special funding arrangement, the issuer does not incur any interest costs and is only obligated to pay the outstanding principal amount over time.
Reserved Fund Balance	The portion of fund balance that reflects financial assets that are not available for spending.
Statement of Activities	Summarizes the gross and net cost of both the governmental and business-type activities.
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.
Tax Increment Financing (TIF)	This is an economic development tool used to facilitate the financing of business investment activities within a locality. TIF financing is secured by the anticipated incremental tax revenues (sales and use and property taxes) resulting from the development of an area.
The Tobacco Settlement Financing Corporation (TSFC)	A separate legal entity and blended component unit of the District that issued tobacco bonds to purchase the District's rights to future tobacco settlement revenues. The resources provided to the District from the bond proceeds are held by a trustee to defease certain general obligations of the District.
Unreserved Fund Balance	The portion of fund balance that is available for spending.

2004 CITIZEN'S

Financial Report

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

PREPARED BY THE OFFICE OF FINANCIAL OPERATIONS & SYSTEMS

Anthony F. Pompa DEPUTY CHIEF FINANCIAL OFFICER

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CFO'S OFFICE OF COMMUNICATIONS

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

Year Ended September 30, 2004