GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF FINANCIAL OPERATIONS AND SYSTEMS
810 FIRST STREET, NORTHEAST, SUITE 200
WASHINGTON, D.C. 20002
202-442-8200
(FAX) 202-442-8201

March 31, 2008

Dr. Natwar M. Gandhi
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2007, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District.

This report includes all disclosures necessary for readers to gain a useful understanding of the District's financial activities. The city of Washington, D.C. is referred to in this CAFR as Washington, as D.C., and as the City. This Transmittal Letter does not discuss the District's financial operations and results. To obtain a better understanding of the District's financial condition, refer to the Management's Discussion & Analysis (MD&A), which begins on page 23 of this CAFR.

Report Sections

The CAFR is presented in three sections: introductory, financial, and statistical.

Introductory Section

The introductory section includes this letter of transmittal, a list of principal officials, the District's organizational chart, and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting.

Financial Section

The financial section includes the independent auditors' report, Management's Discussion & Analysis (MD&A), the basic financial statements, the notes to the basic financial statements, and other supplementary information which includes combining and individual fund statements and schedules. The MD&A is an analysis of the financial condition and operating results of the District and is intended to introduce the basic financial statements and notes. The MD&A must be presented as required supplementary information in every financial report that includes basic financial statements presented in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America.

Statistical Section

The statistical section presents detailed information that assists readers of the CAFR in assessing the overall economic condition of the District. The tables in the statistical section differ from the financial statements, because they usually cover more than two fiscal years and may present non accounting data.

Financial Reporting Entity

The financial reporting entity consists of the primary government and its component units. The primary government is the District, which consists of all the agencies that make up its legal entity. Component units are legally separate organizations for which the primary government is financially accountable.

The District currently has eight (8) discretely presented component units: (1) Anacostia Waterfront Corporation; (2) District of Columbia Economic Development Finance Corporation (EDFC); (3) Housing Finance Agency; (4) National Capital Revitalization Corporation (NCRC); (5) Sports and Entertainment Commission; (6) University of the District of Columbia; (7) Washington Convention Center Authority; and (8) Water and Sewer Authority. The financial data for these discretely presented component units are reported separately from the financial data of the primary government. During FY 2007, the D.C. Council passed an act which dissolved NCRC and EDFC, and incorporated them into the Deputy Mayor's Office of Planning and Economic Development. These entities are being reported as component units of the District in FY 2007 and will be reported as part of the District's general fund in FY 2008.

The Tobacco Settlement Financing Corporation is presented as a blended component unit, as required by GAAP for state and local governments. The District of Columbia Housing Authority and the District of Columbia Courts are related organizations, because the District is not financially accountable for their operations.

A Brief History of Washington, D.C.

The Creation of the District of Columbia

Article I, Section 8, Clause 17 of the U.S. Constitution states: "*To exercise exclusive Legislation in all Cases whatsoever, over such District (not exceeding ten Miles square) as may, by Cession of Particular States, and the Acceptance of Congress, become the Seat of the Government of the United States, and to exercise like Authority over all Places purchased by the Consent of the Legislature of the State in which the Same shall be, for the Erection of Forts, Magazines, Arsenals, dock-Yards, and other needful Buildings;*"

First, a little history is important to understanding why the creation of Washington, D.C. was considered so vitally important to the nation's destiny and well-being. In 1783, after a delegation of Continental Army officers complained to Congress about their unpaid salaries and pensions, Congress had no adequate response or quick solution. If its grievance was ignored, some members of the army were prepared to revolt against Congress. Some eighty soldiers from Pennsylvania, unpaid and weary, armed and angry, marched on the Congress, sitting in Philadelphia, surrounded Independence Hall demanding their pay. Physically threatened and verbally abused, the Congress flees the city when neither municipal nor state authorities would take action to protect them.

James Madison noted in the Federalist Papers in January 1788 that *"[t]he indispensable necessity of complete authority at the seat of government, carries its own evidence with it... Without it, not only the public authority might be insulted and its proceedings interrupted with impunity, but a dependence of the members of the general government on the State comprehending the seat of government, for protection in the exercise of their duty, might bring on the national council an imputation of awe or influence, equally dishonorable to the government and dissatisfactory to the other members of the confederacy."* James Madison became the fourth President of the United States (1809-1817).

As a direct result of this incident, Washington, D.C, was established by President George Washington in 1791. Congress assumes jurisdiction over the District of Columbia from territory ceded by Maryland and Virginia, and does not provide for voting representation for residents. Residents of the fledgling Nation's Capital District were denied the right to representation that they had shared with their fellow countrymen up until then. In February 1801, Congress enacts the Organic Act of 1801, that divided the capital district into the counties of Washington (former Maryland area) and Alexandria (former Virginia area).

In 1846, as a result of the contentious debates concerning State power versus Federal power and the issue of Slavery, Congress passed a law that allowed for the returning of the City of Alexandria and Alexandria County to the State of Virginia. In 1871, Congress consolidated the three remaining municipal governments of the District of Columbia – Georgetown, Washington City and Washington County – into one territorial government. A territorial governor and council were appointed by the President. An elected House of Delegates and a non-voting delegate to Congress were also created. Thus the District of Columbia became another creation of the Congress.

In 1874, the territorial government of the District of Columbia was abolished after Alexander "Boss" Shepherd, an appointee of President Grant, spent triple the amount he projected to spend on the 1871 Comprehensive Plan to improve local infrastructure, which had become dilapidated during the Civil War. The non-voting delegate to Congress was also eliminated at that time. The power to elect a mayor and council was eliminated in 1878.

The U.S. Constitution did not automatically deny residents of the District of Columbia the right to vote for an elected government of D.C., or for elected representatives to the United States Congress or the U.S. President. Those acts of disenfranchisement required specific acts of the Congress.

Limited Home Rule and Its Imposed Costs

It was not until the 23rd Amendment to the U.S. Constitution was ratified in 1961 that Washington, D.C. citizens are granted the right to vote in a presidential election. President Lyndon B. Johnson appointed Walter E. Washington mayor in 1967, making him the first African American to govern a major U.S. city. It was part of a reorganization of city government that included an appointed council. In 1970, Congress passed the District of Columbia Delegate Act, and in 1971, Walter Faunteroy became the city's first congressional representative in almost 100-years. In 1973, Congress passed, and President Lyndon Johnson signs, the Home Rule Act, which provides for a popularly elected mayor and a 13-member D.C. Council. On January 2, 1975, the Honorable Walter

E. Washington became the first elected mayor of the District of Columbia in more than 100-years.

The Home Rule Act, passed in 1973, prohibits the taxing of federal property, any property exempted from taxation by federal law and the income of non-District of Columbia residents who work in the District of Columbia. It also prohibits changing height limitation for buildings and altering the courts system or changing the criminal code until 1977. After 1977, any proposed changes could be defeated by a veto from a single House of Congress. In the 1983 U.S. Supreme Court decision, *INS v. Chada*, it was held that the single house veto was unconstitutional.

As a result of *Chada*, this removed the concern over whether the District could legally issue its own debt. The District issued municipal debt for the first time, on its own, on October 15, 1984. The District issued $150 million in Tax Revenue Anticipation Notes, which were paid in full on September 30, 1985. On all legislative acts of the D.C. Council, Congress continues to retain the right to review and overturn such acts if both houses vote within 30 legislative days. The District Government budget also requires the approval of Congress and the President, even over revenues raised entirely by the District Government.

Washington, D.C. residents pay federal taxes just like other American citizens and they fight and die to protect America against foreign and domestic threats, and yet are denied the sovereign and constitutional right to elect voting representatives to the U.S. House of Representatives and to the U.S. Senate. Actually, in fiscal year 2005, Washington, D.C. residents and companies paid more total federal taxes than nineteen states.

Congressional Representation

Delegate to the House of Representatives from the District of Columbia.

The District of Columbia Delegate Act , U.S. Public Law 91-405, Title II, September 22, 1970, 84 Stat. 848, allows:

D.C. Official Code, Section 1-401 (a) The people of the District of Columbia shall be represented in the House of Representatives by a Delegate, to be known as the "*Delegate to the House of Representatives from the District of Columbia*", who shall be elected by the voters of the District of Columbia in accordance with subchapter I of Chapter 10 of this title:

> The Delegate shall have a seat in the House of Representatives, with the right of debate, but not of voting, shall have all the privileges granted a Representative by § 6 of Article I of the Constitution, and shall be subject to the same restrictions and regulations as are imposed by law or rules on Representatives. The Delegate shall be elected to serve during each Congress.

Although the D.C. Delegate, Eleanor Holmes Norton, is not allowed to vote, she has been able to accomplish a great deal for the citizens of Washington, D.C. and for all U.S. citizens. Some of the recent accomplishments of her office are:

- The D.C. Tuition Assistance Grant Program, which provides grants of up to $10,000 for D.C. students to cover the difference between in-state and out-of-state tuition at most public colleges, or up to $2,500 to attend private institutions in the city and region.
- The D.C. Homebuyers Tax Credit of $5,000 for qualified purchasers of a principal residence in Washington, D.C.
- Passage of a needle exchange program for D.C. residents.
- Obtaining funds to help build road infrastructure at the Southeast Federal Center, the Frederick Douglass Bridge, and the South Capitol Street Corridor.
- Eliminating a longstanding rider to District legislation and funding that prohibited the use of local funds for D.C. voting rights lobbying efforts, or for pursuing relief in court.
- Passage of legislation allowing for the creation and circulation of a D.C. quarter coin.
- Working with other Members on the Lily Ledbetter Fair Pay Act, passed by the House, overturning a Supreme Court decision that limited damages under the Equal Pay Act.

For more information on the accomplishments and current objectives of our D.C. Delegate, you may visit Congresswoman Eleanor Holmes Norton's website at: www.norton.house.gov.

Current Economic Condition and Outlook

Washington, D.C. Attractions and Tourism

Millions of visitors are attracted to the more than 400 museums and historical landmarks in Washington, D.C. each year. Tourists also visit other popular attractions located within the Washington Metropolitan area. Citizens of the United States and international visitors enjoy the many popular attractions along the National Mall as well as the monuments to U.S. presidents and the war memorials. Tourists also discover reminders of their American heritage at the National Arboretum and the Kenilworth Aquatic Gardens in Northeast Washington, at

Fort Stevens and at the National Museum of Health and Medicine at the Walter Reed Army Medical Center.

Washington, D.C. hosts, on a permanent basis, more than 175 foreign embassies and recognized diplomatic missions, according to the U.S. State Department's "*Diplomatic List – Spring 2007.*" In addition, a number of international organizations such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States call the District home. (Source: U.S. State Department web site: www.state.gov)

In calendar year 2006, approximately 13.9 million U.S. citizens visited Washington D.C., a decrease of about 1.4% from the revised 2005 figure of 14.1 million. An estimated 1.2 million international visitors traveled to Washington, D.C. in 2006, unchanged from the 2005 revised figure. Overall, visitors to Washington, D.C., both foreign and domestic, decreased from the revised figure of 15.3 million in 2005 to 15.1 million in 2006, or about -1.3%. The 2007 calendar year visitor figures are not yet available.

Hotel occupancy has remained level at 75% from 2005 to 2006. The city's tourism industry generated more than $5.2 billion in direct spending in 2006 and directly supports 60,107 jobs. This direct visitor spending continues to generate additional business activity in related industries and is boosting local as well as regional economic growth. This trend is expected to continue. (Source: Washington Convention & Tourism Corporation web site: www.washington.org)

Employment

Total wage and salary employment in the Washington metropolitan area increased to approximately 3,012,500 in FY2007 from the revised 2,969,200 for FY2006, representing a slight increase. However, these numbers exclude the self-employed, domestic workers, and military and foreign government personnel, which represent a significant portion of the actual work force of the region.

Total wage and salary employment within Washington, D.C. has remained at approximately 23% of the metropolitan area's total wage and salary employment during the past three years. The seasonally adjusted September 2007 unemployment rate in Washington, D.C. was 5.8%, compared to the September 2006 rate of 5.7%.

September 2007 - Labor Market ('000s)

	District of Columbia		Metropolitan area	
	Level	1 yr. ch.	Level	1 yr. ch.
Employed residents	298.9	4.0	2,906.0	26.0
Labor force	317.7	3.8	2,996.7	20.4
Total wage and salary employment	696.3	10.8	3,012.5	43.3
Federal government	193.7	0.2	341.2	-0.1
Local government	38.1	0.9	297.4	3.1
Leisure & hospitality	55.0	0.8	257.3	4.2
Trade	22.8	0.4	342.8	6.1
Education and Health	92.4	0.2	318.1	2.0
Professional, business and other services	220.9	7.1	868.5	23.6
Other private	73.4	1.2	587.2	4.4
Unemployed	18.9	-0.2	90.7	-5.6
New unemployment claims (D.C.)	1.5	-0.3	N/A	N/A

Sources: U.S. Bureau of Labor Statistics (BLS) and D.C. Department of Employment Services (DOES)

Total employment within Washington, D.C. increased to 696,300 in September 2007 from 685,500 in September 2006. Some of the references to the 2006 employment numbers may be different from those shown in the FY2006 CAFR because of updates and revisions.

As the Nation's Capital, Washington, D.C. is the seat of the three branches of the federal government and headquarters for most federal departments and agencies. The total September 2007 federal work force in the Washington metropolitan area totaled 341,200; with approximately 193,700 federal employees located in Washington, D.C. and 147,500 additional federal employees who worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer employees than in the past, new business operations, especially in the service industry, continue to fill the void and are strengthening the local economy. The increased spending by the Department of Homeland Security is also helping to stabilize federal employment in the region.

Minimum Wage

Effective January 1, 2006, the standard minimum wage for employees in Washington, D.C. increased from $6.60 to $7.00 per hour. 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 will be increased to $7.55 per hour beginning July 24, 2008 and to $8.25 per hour beginning on July 24, 2009.

U.S. Census Bureau

The U.S. Census Bureau estimated that on July 1, 2007 there were 588,292 permanent residents in Washington, D.C., an increase of 2,833 from the revised July 1, 2006 estimate of 585,459, or 0.5%. The annual census estimates are based on birth and death records, changes in tax return filings and estimates of the number of immigrants who move into Washington, D.C. each year. District officials have consistently disagreed with the Census Bureau because these estimates do not take fully into account the effect of increased residential construction, property transfers and undocumented individuals.

There is credible evidence that the U.S. Census Bureau has been historically low in its estimates of Washington, D.C.'s population. These estimates can seriously affect the amount of Federal dollars that the District receives, which is based on the Census Bureau's total population reports. As a result of the District's challenge to the July 2005 estimate, the U.S. Census Bureau increased its estimate of D.C.'s population for July 1, 2005 from 550,521 to 582,048, an increase of 31,527, or 5.7%.

Factors Affecting the District's Financial Condition

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. Structural imbalance is defined as the fiscal and economic imbalance caused by being required to fund the services of both a state and city. The District also 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 place a severe strain on the District's limited resources.

The following bullets provide highlights from the report:

- The cost of delivering an average level of services per capita in Washington, D.C. far exceeds that of the average state fiscal system due to factors such as high poverty, crime, and the high cost of living.

- The District's per capita total revenue capacity is higher than all other state fiscal systems but not to the same extent that its costs are higher. Revenue capacity would be larger without constraints on its taxing authority, such as the inability to tax federal property or the income of nonresidents.

- 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 was estimated to range from $470 million to $1.143 billion annually.

- 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, if those services were delivered with average efficiency.

- 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 at (202) 512-3000 to request a copy of GAO-03-666 report.

Income Trends

In a report prepared by the Center on Budget and Policy Priorities and the Economic Policy Institute issued in early 2006, "*Pulling Apart: A State-by-State Analysis of Income Trends*," it was concluded that the gap between the highest and lowest income families in the city grew substantially between the early 1980s and the early 2000s. Middle-income families experienced only modest growth in salaries. These findings demonstrate that increasing economic growth will not, by itself, reduce economic inequality. The District continues to request that the federal government address the District's revenue limitations. The District must target and manage programs and services directed at the poorest and at-risk families more effectively, while also making it more attractive for middle-income families to remain, or to move into the city.

Major Projects and Initiatives

The New "Washington Nationals" Baseball Stadium

Construction of a new baseball stadium to house the Washington Nationals Baseball Team was completed in early 2008. The District marked this monumental accomplishment to a sold out crowd at the Washington National's Home Opener held on March 30, 2008 against the Atlanta Braves Baseball Team. The new stadium is located in the Southeast sector of Washington, DC along the Anacostia River in a new mixed-use entertainment zone. It is accessible by both the highway and Metrorail and is one of the main centerpieces in the development of the Southeast D.C. Waterfront.

Renovation of the Nationals temporary stadium, Robert F. Kennedy (RFK) Stadium and construction of the new stadium, plus land acquisition and infrastructure, were originally estimated to cost $630.8 million and were planned to be paid by a combination of funds from a bond issuance, taxes collected at RFK Stadium during the 2005 baseball season, interest earnings on the construction proceeds and a $20 million team contribution. On May 15, 2006, the District issued the Ballpark Revenue Bonds, which included $355 million in tax-exempt, fixed rate bonds, $25 million in tax-exempt, auction rate certificates and $154.8 million in taxable, fixed rate bonds. The fixed rate bonds were issued at an interest rate of 4.97% and 6.4% respectively, for a blended rate of 5.37%, to be paid over 30-years.

The Ballpark Revenue Bonds are backed by a fee on District businesses with over $5 million in annual gross receipts, a percentage of the gross receipts tax collected from utilities for non-residential services, rent payments from the team owners, and a sales tax on baseball goods and merchandise sold at the stadium. Since the bond issuance, land acquisition and environmental remediation costs have increased by approximately $43.2 million, bringing the overall project cost to approximately $674.0 million. The additional expenditures have been funded from excess taxes collected from baseball activities not needed to pay debt service on the bonds.

The new stadium occupies more than 1 million gross square feet and includes: 41,000 seats; a 500 seat Founder's Club; a 1,300 seat Diamond Club; a conference center; a team store; a kids training area; an arcade; a family area; and 30,000 square-feet of office space. Also, the stadium is an environmentally friendly facility. It received the LEED® Silver Certification from the US Green Building Council, making it the first major stadium in the United States to achieve LEED Certification.

Stadium construction supports 3,500 jobs and will generate $5 million in new tax revenues. Over $200 million in contracts have been awarded to Local, Small, and Disadvantaged Business Enterprises (LSDBE) contractors.

Navy Yard Metro Station

To accommodate the high volume of traffic around the new baseball stadium and surrounding new developments, the Navy Yard Metro Station underwent a $20 million expansion. This effort increased its capacity from 5,000 riders an hour to 15,000 riders per hour. The expansion details include (1) increasing the number of fare gate and fare card machines; (2) relocating the West entrance to the street level; (3) installing a new elevator from the street level to the mezzanine, and; (4) installing a new stairway between the mezzanine and the platform. Funding for this project was provided by the District in anticipation of being refunded by the federal government.

The Walter E. Washington Convention Center Headquarters Hotel

The Board of Directors of the Washington Convention Center Authority (WCCA) announced on September 24, 2007 that it had reached a new agreement with Marriott International to build a 1,150-room Marriott Marquis, which will serve as the headquarters hotel. The hotel will be located on 9th and L Streets, N.W., and will include additional meeting space and approximately 400 parking spaces. To move the deal forward, the District completed a land swap on November 1, 2007 with local developer Kingdon Gould III for property located within the old convention center site. That decision allowed the District to move forward with plans for a mix of housing, office, retail, and cultural facilities on the site of the old convention center.

On November 5, 2007, the Washington Convention Center, was renamed the "Walter E. Washington Convention Center" after the District of Columbia's first elected mayor.

The Old Convention Center Site

On December 17, 2007, the Mayor announced that the District had closed on its deal with Hines | Archstone-Smith, making way for an $850 million retail, residential and office project on the site of the former Washington Convention Center. The Hines | Archstone-Smith team expects to break ground on the site by January 2009. Located on a 10-acre parcel bounded by New York Avenue and 9th, H and 11th Streets in downtown, the project will create a pedestrian-friendly neighborhood with 250,000 square feet of retail; more than 670 apartments and condos including at least 134 units of affordable housing; 465,000 square feet of office space and parks and entertainment areas—a combination that will make the site a live/work/play environment unlike any other in D.C.

The District awarded Hines | Archstone-Smith development rights to the site in June 2005, after the team prevailed in a competitive selection process. The master-plan was approved in October 2006, at which time the schematic design phase of the project began. The team is working to finalize design, bidding and permitting by November 2008. It is anticipated that a 35-month construction period will begin in January 2009, with initial occupancy in July 2011.

This project is expected to: (1) generate 3,000 development-related jobs and 2,500 direct permanent jobs; (2) generate more than $32 million a year in direct tax revenues; (3) provide affordable housing for 20 percent of all units at a range of incomes for buyers and renters earning 30 percent, 60 percent and 80 percent of the Area Median Income, and; (4) create significant opportunities for Certified Business Entities (CBE). CBEs will also own 20 percent of developer equity, and at least 35 percent of construction and operations will go to CBE contractors. District residents will be given priority for at least 51 percent of all new jobs created in relation to the project.

Neighborhood Revitalization

D.C. Department of Transportation

The District of Columbia Department of Transportation's (DDOT) mission is to enhance the quality of life for residents and visitors by ensuring that people, goods, and information move efficiently and safely, with minimal adverse impact on residents and the environment.

DDOT currently has three major initiatives in the city; the *Anacostia Waterfront Initiative,* the *Fredrick Douglass Memorial Bridge* and the *Great Streets Initiative.*

The *Anacostia Waterfront Initiative* (AWI) is a broad-based project to improve access to, across, and along the Anacostia River and to improve neighborhood connections to this valuable natural resource. Currently, the Anacostia River is the District's most undervalued and underutilized natural resource. The plan is to transform the Anacostia River and its banks into an area that will support recreational activities, such as swimming, boating and fishing, and the creation of parks, neighborhoods and cultural venues.

This initiative created the Anacostia Waterfront Corporation (AWC) in 2004 to oversee the development of the Anacostia River and its banks. The AWI seeks to ensure that the social and economic benefits derived from a revitalized waterfront are shared by those neighborhoods and people living along the Anacostia River. Early projections show that the cost would be approximately $8 billion and take at least 25 years to complete. Please visit www.anacostiawaterfront.net to follow the progress of this exciting and monumental task.

The *Fredrick Douglass Memorial Bridge Initiative* began a major renovation of the Frederick Douglass Memorial Bridge in January 2007. Constructed in 1950, the Frederick Douglass Memorial Bridge has served as a major thoroughfare into our nation's capital for both Southern Maryland, and Northern Virginia commuters. However, a study and evaluation conducted by DDOT in late 2001 deemed the bridge to be a major barrier to pedestrian, bicycle, motorist and commercial access in and around the Anacostia Waterfront area. DDOT determined that extensive renovation of the bridge is necessary to accelerate the transformation of the South Capitol Street Corridor and Anacostia Waterfront.

The preliminary stages of renovation began in January 2007 but the most critical phase was reserved for July and August, months with the lowest amount of traffic. Utilizing the DDOT mantra of "**Get In, Get Out and Stay Out**," the bridge was completely shutdown to traffic and pedestrians to allow for efficient and safe completion of work. The project consisted of two types of rehabilitation being done simultaneously: 1) the repair of existing structures and 2) the creation of new buildings and designs for the bridge. The most notable work was the lowering of approximately 200 feet of the bridge's northern approach by up to 10 feet from its then-elevated position to create an at-grade roadway with a new intersection at South Capitol Street and Potomac Avenue. This "extreme makeover" will transform the South Capitol Street Corridor into a grand urban boulevard that will improve mobility and access and provide a fitting and beautiful gateway into the nation's capital.

The *Great Streets Initiative* targets major boulevards in the city to improve the condition and function of the streets and roadways and to promote local business enterprises and improve neighborhood quality of life. It is a multidisciplinary approach to corridor improvement. DDOT has committed more than $100 million over the next four years to define, improve, and maintain the public realm of the corridors. The six target corridors are:

1) Georgia Avenue and 7th Street, N.W., from Eastern Avenue to New York Avenue
2) H Street, NE, 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

By uniting infrastructure investments "between the curbs" with economic development support "behind the curb," DDOT and its program partners aim to reposition the Great Streets corridors as vibrant and unique community centers that meet the needs of local residents, visitors, workers and entrepreneurs. Public space improvements such as restored streets, sidewalks, transit services, lighting and trees reveal the promise of target neighborhoods - places that will soon bring population back to Washington, 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.

D.C. Housing Finance Agency

The D.C. Housing Finance Agency (HFA) was established in 1979 to stimulate and expand homeownership and rental housing opportunities in Washington, D.C. HFA accomplishes its mission by issuing mortgage revenue bonds that lower the homebuyers' costs of purchasing and rehabilitating homes and the developers' costs of acquiring, constructing and rehabilitating rental housing. HFA embraces its responsibility with conviction and pledges its best efforts to serve as the city's champion for homeowners and renters and to act as the city's principal catalyst for neighborhood investment.

New residential construction is occurring in all sections of Washington, D.C., and ranges from single family dwellings, to townhouses, to apartment buildings and condominiums. HFA helped finance a total 273 affordable single family units and 1,198 affordable multifamily units in fiscal year 2007. The total number of housing units financed was 1,471, with the total amount of financing totaling $178.0 million. These various ongoing efforts are creating more vibrant downtown residential neighborhoods, in addition to expanding residential development throughout Washington, D.C. Rapidly increasing construction activity in the form of the rehabilitation of vacant warehouses, commercial buildings and residential structures, and new construction in all areas provide incentives and very strong marketing tools for attracting new residents and workers to the Nation's Capital.

Since 1999, HFA has issued more than $2.5 billion in mortgage revenue bonds to finance more than 25,971 affordable rental units and single family homes throughout the city. The HFA works closely and collaboratively with its government housing partners to help increase developers' ability to access various government resources to assist with their development plans. HFA financed seven multifamily housing developments during FY 2007 and issued $118.8 million in tax exempt and taxable mortgage revenue bonds for multifamily rental housing. Companion financing in the amount of $91.7 million in low income housing tax credit and historic tax credit equity was raised and invested by institutional and private financiers in FY 2007. These tax exempt bond deals supported the construction or preservation of new and existing affordable housing units.

D.C. Office of Planning

The District's Office of Planning is involved in projects that impact just about every area and neighborhood. Among these are projects from each of the city's eight wards, listed respectively by ward: (1) the Park Morton Redevelopment Initiative Plan; (2) the Development Framework for a Cultural Destination District Within Washington, D.C.'s Greater Shaw/U Street; (3) the Glover Park Commercial District Study; (4) the Kennedy Street Corridor Revitalization Plan; (5) the Northeast Gateway Revitalization Strategy and Implementation Plan; (6) Pennsylvania Avenue, S.E.; (7) the Benning Road Corridor Redevelopment Framework, and; (8) the Barry Farm/Park Chester/Wade Road Redevelopment Plan.

Washington enjoys a remarkable wealth of parks—from the large forested areas of Rock Creek Park to small neighborhood parks, playgrounds and ball fields. Washington, D.C. has more than 7,800 acres of public parks, or open space, which is the most park land of any of the country's most populous cities.

To protect and enhance this great resource, the Office of Planning and the D.C. Department of Parks and Recreation (DPR) have joined forces with the National Park Service and the National Capital Planning Commission to launch CapitalSpace. By working together, CapitalSpace partners will improve park management, eliminate duplicated efforts, and maximize resources. The partners are also collaborating closely with D.C. Public Schools (DCPS), the District Department of Transportation (DDOT), and the U.S. Commission of Fine Arts.

The principal goals of CapitalSpace are to perform the following:

- Balance and reconcile intense demand for the parks and clarify appropriate uses.
- Enhance the quality of the city's parks and improve access to them.
- Establish a coordinated, connected citywide system of parks.
- Provide parks and open spaces that serve the needs of long-established neighborhoods as well as rapidly changing areas.
- Attract scarce resources for wise investments to design, operate, and maintain the city's parks and open spaces to the highest standards.

National Capital Revitalization Corporation

The National Capital Revitalization Corporation (NCRC) was a publicly chartered corporation which focused on stimulating real estate development, business investment and job creation in neighborhoods. NCRC helped to revitalize D.C. neighborhoods by attracting private sector investments that created jobs, generated revenue, attracted and retained businesses, and empowered citizens. Together with its affiliates, NCRC initiated more than $1.6 billion worth of investments to D.C. neighborhoods, developed two million square-feet of retail space, built 2,000 new homes, and provided 2,000 new jobs for D.C. residents. NCRC became a part of the District Government on October 1, 2007 and is now located in the Office of the Deputy Mayor for Planning and Economic Development.

The following are two development projects that NCRC is currently working on:

McMillan Site

The McMillan Water Filtration Plant served as Washington, D.C.'s water filtration plant for 80-years before it was closed in 1986 and later sold to the District for $9.3 million for development purposes in 1987. The District is working with the surrounding community to evaluate and select development options that will embrace the historical elements of the 25-acre site. These development options will include a mix of open green space, housing, retail and commercial developments.

Skyland Shopping Center Redevelopment

The District is finalizing plans to redevelop the former Skyland Shopping Center (Skyland), which it has recently acquired by eminent domain to increase the development potential and positive impact on the surrounding neighborhood. It is currently anticipated that the new Skyland will include: (1) over 250,000 sq ft. of retail; (2) 1,100 surface parking spaces; (3) $125 million in total development investment; (4) $3.3 million in new projected annual tax revenue, and (5) over 230 permanent new jobs projected. Skyland is located on Good Hope Road at Naylor Road and Alabama Avenue, S.E.

Federal Government Projects

The federal government continues to see the District as the prime location for consolidating agencies, functions and staff. The construction of the U.S. Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives' (ATF) new National Headquarters Building is complete, and employees have already moved in. Construction continues on another ATF building on the site. The decision to locate the 422,000 square foot building at the intersection of First Street and New York Avenue, N.E. helped the District obtain matching Federal and private commitments of $50 million to pay for the Metrorail station near that location.

The federal government has plans to increase its employment presence in the Southeast Federal Center (Center), which already houses a number of U.S. agencies. Plans are under consideration for the long awaited development of federal lands near and adjacent to the U.S. Navy Yard. The U.S. Department of Transportation (DOT) completed a new headquarters' building, covering 11 acres, at the Center. The new DOT headquarters provides 1.35 million square-feet of space for 7,000 employees. The redevelopment of the remaining 44 acres of the Center will include 1.8 million square-feet of office space, 2,800 residential units, and as much as 350,000 square-feet of retail space.

After decades of holding the St. Elizabeth's west campus, the Federal government has designated the site for the Homeland Security headquarters, beginning with the construction of a new Coast Guard headquarters. This project will be historic because it marks the first time the federal government has brought development east of the Anacostia River. The District believes that this project and other federal construction will stimulate long sought development along the Martin Luther King, Jr. Avenue.

In 2005, the federal government announced a proposal to transfer approximately 170 acres of federal land to the District. The proposal, approved by Congress, will allow the District to push forward several critical initiatives. These initiatives include a new state of the art hospital in Ward 6, recreational opportunities at Poplar Point, east of the Anacostia River, restoration of the old Naval Hospital in S.E., and better control of land near the Convention Center.

As part of the agreement, the District will surrender five abandoned buildings on the St. Elizabeth Hospital's campus to the federal government. In addition, the District will relinquish administrative control of a handful of smaller parcels, most of which are already being used as parkland and will not be altered in any way. The transfer has not yet taken place, as plans for environmental remediation of many of the properties must be completed, and funding for the remediation must be made available before the transfers will occur.

The Pentagon's Base Realignment and Closure Commission voted in 2005 to close the Walter Reed Army Hospital (Walter Reed). It is expected that the closure of Walter Reed will occur sometime after 2010, but future uses of the property have not yet been decided. The District is encouraging the federal government to move quickly to turn the property over for productive uses that will benefit the neighborhood, the city and the region. The Walter Reed site encompasses a 73-building complex over 113-acres. Walter Reed has been in operation on Georgia Avenue in N.W. Washington, D.C. since 1909.

Privately Funded Projects

Construction is in its final stages at 555 Pennsylvania Avenue, N.W. on a new and expanded Newseum – the world's first interactive museum of news. The Newseum, owned by the Freedom Forum, originally opened in Arlington, Virginia in 1997. In 2000, the Freedom Forum purchased the former site of the District's Department of Employment Services (DOES) with the purpose of building a much larger and more ambitious Newseum. It will feature six levels of displays and expand the exhibit area to 70,000 square feet, which is three times larger than the original Newseum.

This 600,000 square foot development is estimated to cost $400 million and will house the Freedom Forum's headquarters, an 11,000 square foot conference center, and 145,000 square feet of housing in addition to the Newseum. The Newseum is expected to be completed and opened to the public in early 2008. The Source Restaurant, a nationally branded dining experience operated under Wolfgang Puck has already opened. The two-story restaurant offers a "bar and grill" ambiance and a casual menu on the first floor, and a more leisurely dining experience on the second floor.

Giant Food opened a new store on Alabama Avenue, S.E. on November 30, 2007, at the old Camp Simms site, a former National Guard base. This store is the only full-service supermarket in Ward 8 since a Safeway closed in 1998. The absence of adequate shopping facilities East of the River, has caused residents to have to travel long distances to obtain goods and services that most D.C. residents could walk to. This lack of adequate shopping alternatives has forced residents to shop at suburban locations, depriving their own neighborhoods of the tax support that is so desperately needed.

Business Improvement Districts

A business improvement district (BID) is organized and established by property and business owners to enhance the economic vitality of a downtown or neighborhood commercial area. The cost of BID services is financed by a self-imposed tax on the businesses within the community. Often, the tax is a surcharge to the real property tax liability of commercial property. The tax is collected by the District and all revenues are returned entirely to the organization managing the BID. Business and property owners control the BID and how funds are spent. BID expenditures are used primarily for purchasing supplemental (e.g. maintenance, sanitation, security and branding activities) and capital improvements (e.g. street furniture and decorative lighting) beyond those services already provided by the city.

Justification for and benefits of a BID:

- Some parts of the District are used more intensively than others, and therefore require additional services.
- Supplemental services are better allocated on a very local level by a special-purpose organization with a thorough knowledge of the service needs.
- BIDs help a district present and maintain a consistent, customer-friendly, and clean public appearance.
- BIDs can work closely with elected officials and District agencies to voice collective concerns, monitor business regulations, and obtain funding and support for business development projects.

Washington, D.C. has the following eight (8) BIDs:

1) Adams Morgan Partnership BID
2) Capital Hill BID
3) Capitol Riverfront BID
4) Downtown D.C. BID
5) Georgetown BID
6) Golden Triangle BID
7) Mount Vernon Triangle BID
8) NoMa (North of Massachusetts Avenue) BID

Economic Tax Incentives

The District has created two annual sales tax holidays. The first sales tax holiday is in August, to assist families with their Back-to-School purchases, and the second one starts the day after Thanksgiving. These Sales Tax Holidays are available to both residents and non-residents.

The Taxpayer Relief Act of 1997 (PL 105-34) established the District of Columbia's Enterprise Zones. The zones consist of the previously existing enterprise zone communities plus all other census tracts for which the poverty rate is at least 20%. The law also increased the limitation on tax-exempt economic development bonds to $15 million. It eliminated the federal capital gains tax through December 31, 2007 on business stock, partnership interest, and business property held for more than five years in all census tracts for which the poverty rate is at least 10%. Another incentive to businesses has been the wage tax credit, allowing an employer a 20% credit for the first $15,000 (or $3,000) of an employee's wages if that employee is a D.C. resident. The federal Homebuyer Tax Credit provides a maximum $5,000 income tax credit for first-time buyers of principal residences. The Act was recently extended for purchases closed through December 31, 2007, and made retroactive for all of 2006.

The Tax Parity Act of 1999 created a schedule to lower District taxes on both income and real property by the end of FY 2004. The new tax rates make Washington, D.C. more competitive with the neighboring suburban jurisdictions. The Act streamlined the tax code and eliminated duplications and discrepancies. At the same time, the District moved from a property assessment schedule of every three years to an annual assessment of all properties.

The District uses the Tax Increment Financing (TIF) Program to encourage new economic development projects that may not occur without this program. TIFs are supported by the collection of increased sales and use and real property taxes in the areas associated with each TIF project. Once the TIF notes or bonds are repaid, these tax collections will go into the District's General Fund.

Accounting System

The District's accounting system is organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity, having its own assets, liabilities, equity, revenues, and expenditures/expenses. The types of funds used are determined in accordance with generally accepted accounting principles (GAAP) and the number of funds established within each type is guided by the "minimum number of funds principle" and sound financial administration. Specialized accounting and reporting principles and practices apply to governmental funds. Proprietary, component units and pension trust funds are accounted for in the same manner as business enterprises.

Measurement Focus and Basis of Accounting

Fund balances in the governmental fund financial statements will generally differ from net assets in the governmental activities of the government-wide financial statements due to the measurement focus and basis of accounting used in the respective financial statements.

- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.

- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.

- The District's financial statements are prepared in accordance with GAAP.

Internal Control

Management is responsible for establishing and maintaining internal controls designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are processed and summarized to allow for the preparation of financial statements in conformity with GAAP.

The internal controls are designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires the application of estimates and judgments by management.

The management of any entity – government, business, or nonprofit organization – is charged with providing the leadership needed for the entity to achieve its purpose. Moreover, management is not free simply to act in any way it chooses to achieve the entity's goals. Rather, management's options and actions are circumscribed by constraints and expectations, both implicit and explicit. Management's responsibilities may be summarized as follows:

- ***Effectiveness***: Ultimately, management's success must be judged on the basis of whether the entity is achieving its objectives.

- ***Efficiency***: Because there are legitimate and conflicting demands for scarce resources, management is expected to make optimal use of the resources placed under its control. An activity can only be truly efficient if it is first effective.

- ***Compliance***: Management does not have unlimited authority over the resources under its control. Rather, management's control over resources normally is limited by policy, law, or regulation, particularly in the public sector. A condition of management's stewardship of resources is that it strictly complies with all such restrictions.

- ***Reporting***: Managers must be accountable to those who have provided the resources in their care. An essential part of meeting this responsibility is the regular preparation of financial reports for the benefit of interested parties.

The greatest challenge to effective internal control is ensuring that the control established by management is ***comprehensive*** – that is, broad enough to fully achieve its intended purpose. It is generally recognized that any truly comprehensive framework of internal control must possess five essential elements. The framework must provide for:

- A favorable ***control environment***;

- The ***continuing assessment of risk***;

- The design, implementation, and maintenance of effective ***control-related policies and procedures***;

- Effective ***communication*** of information; and

- Ongoing ***monitoring*** of the effectiveness of control-related policies and procedures, as well as the resolution of any potential problems identified.

The cost of internal control, of course, should never exceed related benefits. Thus, a key limitation on internal control is that cost considerations will prevent management from ever installing a "***perfect***" system. Instead, management will deliberately choose to run certain risks because the cost of preventing such risks cannot be justified.

A second important limitation of internal control is that control-related policies and procedures are potentially subject to management override. That is, if management has the power to establish a control-related policy or procedure, management probably has the ability to override that same policy or procedure.

The risk of collusion is a third limitation of internal control. Often, control-related policies and procedures are designed so that one employee functions as a check on another employee's work (segregation of incompatible duties). Consequently, there is always the risk that employees who are supposed to serve as a check on one another may instead work together to circumvent control.

Budgetary Control

The District maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the D.C. Council and the U.S. Congress. A project-length financial plan is adopted for Capital Projects Funds. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by function within the General Fund. The District also maintains an encumbrance recording system as one technique of accomplishing budgetary control. Generally, encumbered amounts lapse at year-end in the General Fund but not in the Capital Projects Funds.

By law, the budgetary general fund includes both the general fund and the federal and private resources funds. However, for reporting purposes, the federal and private resources fund is reported separately as a special revenue fund. Additionally, the budgetary basis of accounting used to prepare the budgetary comparison statement presented in Exhibit 2-d differs from the GAAP – basis general fund and federal and private resources fund due to the basis, entity, perspective and timing differences, as follows:

- *Basis Differences* - The District uses the purchases method for budgetary purposes, and the consumption method to account for inventories on a GAAP basis. Under the consumption method, a governmental expenditure is recognized only when the inventory items are used. Under the purchase method, purchases of inventories are recognized as expenditures when the goods are received and transaction is vouchered.

- *Entity Differences* - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those on a GAAP basis for reporting purposes. Such activities primarily include the following as detailed in Exhibit 2-d:
  - Fund balance released from restrictions
  - Proceeds from debt restructuring
  - Accounts receivable allowance
  - Operating cost from enterprise funds

- *Perspective Differences* – Perspective differences exist when the structure of financial information for budgetary purposes differs from the fund structure that is used to construct the basic financial statements. If there were significant budgetary perspective differences that resulted in the District's not being able to present budgetary comparisons for the District's general fund and major special revenue funds as part of the basic financial statements, then the District would have to present its budgetary comparisons as required supplementary information (RSI). The District does not have any significant budgetary perspective differences, and its *Budgetary Comparison Statement*, Exhibit 2-d, is presented as part of the basic financial statements on page 51.

- *Timing Differences* – Timing differences can exist when there are significant variances between budgetary practices and GAAP, which may include continuing appropriations, project appropriations, automatic reappropriations, and biennial budgeting. The District has no significant timing differences between its budgetary practices and its GAAP presentation of its financial statements. GAAP requires that all jurisdictions recognize property tax revenues when they become available. The "*availability criteria*" means collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. GAAP has determined that this period shall not exceed 60 days. As a result, the District was required to include property tax revenues collected within 60-days of September 30, 2007 as FY 2007 revenues.

The "*District Anti-Deficiency Act of 2002*" (the Act) became effective on April 4, 2003. The Act requires District managers to develop spending projections, by source of funds, on a monthly basis, which show year-to-date spending, approved budget, year-end projected spending, explanations of variances greater than 5%, and in the occurrence of overspending, corrective action plans. Spending projections are required to be submitted to the agency head and the agency chief financial officer (CFO). Summarized spending projections must be submitted to the District's CFO no more than 30-days after the end of each month.

The District's CFO is required to submit reports to the D.C. Council and the Mayor on a quarterly basis indicating each agency's actual expenditures, obligations, and commitments, each by source of funds, compared to their approved spending plan. This report is required to be accompanied by the CFO's observations regarding spending patterns and steps being taken to assure that spending remains within the approved budget.

Congressional mandate required the District to accumulate and maintain an emergency cash reserve equaling 4% of the total budget allocated for operating expenditures by the end of FY 2004. An additional contingency cash reserve was also established, which equaled 3% of the total budget allocated for operating expenditures. The District met both of these requirements. Beginning in FY 2005, the District is only required to maintain a combined balance of 6% of the general fund expenditures less debt service. The 6% is comprised of a contingency cash reserve of 4% and an emergency cash reserve of 2%.

Cash Management

Generally, cash from all funds of the primary government is combined unless prohibited by law. Any cash that is not needed for immediate disbursement is invested in securities which are essentially guaranteed by the federal government, such as mutual funds consisting of federal government obligations or repurchase agreements collateralized by federal agency obligations.

The Financial Institutions Deposit and Investment Amendment Act of 1997 (D.C. Code 47-351.3) authorized the District to invest in certain obligations that may not be guaranteed by the federal government. Such deposits and investments are fully collateralized with approved securities that are held by the District or by its agent in the District's name.

Bond Rating Agencies

Rating agencies assess credit quality of municipal issuers and assign a credit rating based on their analyses. An acceptable credit rating enables the issuer to access the market. Because the municipal market contains so many issuers, rating agencies provide vital information to investors as to the relative risks associated with rated bond issues. The three primary Rating Agencies that rate municipal debt are: (1) Fitch, IBCA, Inc.; (2) Moody's Investors Service; and (3) Standard and Poor's Rating Service.

The District's bond ratings for the past four years are:

Bond Rating History

	Last Four Fiscal Years			
	2004	2005	2006	2007
S&P	A	A+	A+	A+
Moody's	A2	A2	A2	A1
Fitch	A-	A	A	A+

Risk Management

The District retains the risk of loss arising out of the ownership of property or from some other cause, except for health care and life insurance benefits for employees. A liability is established in the government-wide statement of net assets to reflect certain contingencies; however, this amount is not intended to include all assets that may be required to finance losses. Rather, certain losses are recognized in the affected funds when they occur. The District is self-insured for unemployment and disability, also known as worker's compensation, as well as for general liability.

Independent Audit

District law (D.C. Code 47-119) requires an annual financial audit of the District by independent certified public accountants. The audit must be conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* published by the U.S. Government Accountability Office (GAO). The financial statements must be prepared in conformity with Generally Accepted Accounting Principles (GAAP). The District has complied with these requirements and the independent auditors' report is included in the financial section of this report.

The D.C. Office of the Inspector General (OIG) is responsible for selecting the District's Independent Auditor (Auditor), after a thorough review of bids from qualified auditing firms. The winning Auditor is awarded a contract for the Base-Year, with up to Four-Option-Years, if the Auditor continues to meets the standards and criteria established by the OIG in the contract. The Auditor may not succeed itself at the conclusion of its term. The Auditor is responsible for conducting an annual financial audit, which is designed to assure the reliability of the financial statements used in the District's Comprehensive Annual Financial Report (CAFR). The audit is conducted to obtain reasonable assurance about whether the financial statements are free of material misstatement. The goal of the Auditor is to obtain *reasonable* – not absolute - *assurance* that the financial statements are fairly presented.

The definition of the term "*reasonable assurance*" has been changed by GAO to a *"High, but not absolute, level of assurance is expressed as obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud)."* In addition, the Auditor prepares a report, issued in conjunction with the CAFR, on its consideration of the District's internal control over financial reporting and on its tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

U.S. Office of Management & Budget Single Audit

The District is required by the U.S. Office of Management & Budget (OMB) to conduct a financial and compliance audit of all federal awards. OMB Circular A-133 (Revised) outlines these requirements, and sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. This Circular is issued pursuant to the Single Audit Act Amendments of 1996, P.L. 104-156.

All required A-133 Single Audits through fiscal year 2006 have been completed and the District is in full compliance with the Single Audit Act. The results of the District-wide Single Audits are presented in a separate report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District of Columbia for its comprehensive annual financial report for the fiscal year ended September 30, 2006. The District has received this award for twenty-three of the last twenty-five years. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards in the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

The District also earned an award from GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for fiscal year ended September 30, 2006 for the fourth consecutive year. The PAFR was prepared and submitted by the District for the first time for FY 2003. The PAFR presents the District's financial results in a format and language that are intended to be more easily understood by the general public. The PAFR is not required to present the same level of detail as the CAFR. It contains very few financial statements, and the use of graphics and photos is increased.

Both awards are valid for one fiscal year. The District believes that the FY 2007 CAFR continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate. The District also expects that the FY 2007 PAFR, which will be prepared within 30 days after the CAFR is completed, will conform to the Award for Popular Annual Financial Reporting Program requirements. It will also be submitted to the GFOA to determine its eligibility for another certificate.

Acknowledgments

I would like to thank the hundreds of accounting and financial personnel throughout the District who have cooperated with the Office of Financial Operations and Systems all year. I greatly appreciate their efforts, which have continued to be an important factor in our preparation of this CAFR publication. Most of all, I want to thank my immediate staff, *Michael Covington, Grace Crocker, Larry Daniels, Vanessa Jackson, Bill Slack,* and their respective team members. I am grateful for their dedicated efforts. I would also like to thank the Office of the Inspector General, and the District's independent auditors, *BDO Seidman, LLP,* who was assisted by *Bert Smith and Company,* and *Thompson, Cobb, Bazilio and Associates* for their efforts throughout the audit engagement.

Respectfully submitted,

Anthony F. Pompa
Deputy Chief Financial Officer
Financial Operations and Systems