

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2010

(Dollar amounts expressed in thousands)

The following is a discussion and analysis of the District of Columbia's (the District's) financial performance for the fiscal year ended September 30, 2010, which includes a narrative overview and analysis of the District's financial activities. This information should be read in conjunction with the transmittal letter, located in the Introductory Section of this report, and the District's basic financial statements and note disclosures, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

- The District's assets exceeded its liabilities as of September 30, 2010, by \$3,021,333. The District had negative unrestricted net assets totaling \$(771,735) at the end of fiscal year 2010. (See Table 1)
- The District's total net assets increased by \$173,221 as a result of an increase of \$506,627 in revenues in fiscal year 2010 and an increase in expenses of approximately \$199,988. General revenues declined by approximately \$(92,064); however, the District's revenues from operating grants and contributions increased by more than \$508,000, much of which was in the form of federal American Recovery and Reinvestment Act (or Stimulus) funding. In addition, in fiscal year 2010, the District implemented self-imposed cost reduction plans to address potential revenue shortfalls which proved to be successful in limiting expenses. (See Table 2)
- As of September 30, 2010, the District's governmental funds reported combined ending fund balances of \$1,583,524, a decrease of \$(261,849) in comparison with the prior year. (See Table 3)
- The District's total long-term liabilities increased by \$622,331, or 8.2%, during fiscal year 2010. This increase resulted, in large part, from the District's issuance of Income Tax Secured Revenue Bonds during the year. The District issued more than \$1 billion in Income Tax Secured Revenue Bonds to fund infrastructure improvements/capital projects and refund certain series of outstanding general obligation bonds. The amount of general obligation bonds defeased through the fiscal year 2010 refundings totaled \$828,735. Other factors which contributed to the increase in long-term liabilities include the issuance of Deed Transfer Bonds (Housing Production Trust Fund) totaling \$53,190 and increases in liabilities for disability compensation totaling \$18,197 and accreted interest totaling \$25,597.
- On July 9, 2010, the District acquired the United Medical Center (UMC) after foreclosing on UMC's assets for non-payment of loans owed to the District. The District established the Not-for-Profit Hospital Corporation (the Hospital Corporation) as a separate legal entity of the District government, to receive the assets of UMC (including land, buildings, equipment, furnishings, and accounts) and operate the hospital until such time that a buyer is identified. Upon the purchase of UMC, the District also assumed certain liabilities previously incurred by UMC. The District simultaneously transferred the foreclosed assets and the assumed liabilities to the Hospital Corporation. The fair market value of identifiable net assets acquired and transferred by the District to the Hospital Corporation was \$48,128. For further discussion on the hospital, refer to Note 1B, Financial Reporting Entity, on page 56.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

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

Government –Wide Financial Statements

The government-wide financial statements focus on the District's overall financial position and activities, and include a *statement of net assets* and a *statement of activities*. These financial statements report on the primary government and its component units. The primary government is further divided into governmental activities and business-type activities.

The purpose of the *statement of net assets* is to report all of the assets held and the liabilities owed by the District at the end of the fiscal year. The difference between the District's total assets and total liabilities is classified as net assets. Total net assets is comprised of three components: 1) *net assets invested in capital assets, net of related debt*; 2) *restricted net assets*; and 3) *unrestricted net assets (deficit)*. Although the focus of the District's operations is not to accumulate net assets, in general, gauging increases or decreases in this amount is one way to assess the District's financial position over time. Other factors, such as changes in population, the property tax base, infrastructure conditions, and other non-financial matters, should also be considered when assessing the District's overall financial health.

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

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

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

Fund Financial Statements

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

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

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

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

The District's governmental fund financial statements are presented on pages 44 and 45 of this report.

Proprietary fund financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. These statements are prepared using the full accrual basis of accounting similar to that used to prepare the government-wide financial statements. The District's proprietary funds account for the activities of District entities that charge customers fees for services provided. The District's proprietary fund financial statements present the changes in financial position and condition of the District's two major proprietary funds, the D.C. Lottery & Charitable Games Board and the Unemployment Compensation Fund, and its one non-major proprietary fund, Nursing Home Services. The Unemployment Compensation Fund is reported as a proprietary fund similar to a public entity risk pool because the District is required by law to recover its costs.

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

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

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

Component Units

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

Notes to the Basic Financial Statements

Notes to the Basic Financial Statements, beginning on page 55, present additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's progress in funding its obligation to provide pension and other postemployment benefits to District employees. Required supplementary information can be found on pages 121 through 123 of this report.

Individual fund financial statements, combining statements (in connection with nonmajor governmental funds), and supporting schedules are presented immediately following the required supplementary information on postemployment benefits. Individual fund statements and combining statements and schedules can be found in the other supplementary information presented on pages 125 through 151 of this report.

OVERVIEW OF THE DISTRICT'S FINANCIAL POSITION AND OPERATIONS

The District's overall financial position improved moderately as a result of the year's activities. The District's financial position and operations for the past two fiscal years are summarized in **Tables 1 and 2**. These tables are based on the information provided in the government-wide financial statements presented on pages 42 and 43 of this report.

Table 1 - Net Assets as of September 30, 2010

| | Governmental activities | | Business-type activities | | Totals | |
|--|-------------------------|--------------|--------------------------|------------|--------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Current and other assets | \$ 3,453,157 | \$ 3,483,849 | \$ 364,234 | \$ 451,471 | \$ 3,817,391 | \$ 3,935,320 |
| Capital assets | 9,228,531 | 8,114,819 | 4,827 | 16,012 | 9,233,358 | 8,130,831 |
| Total assets | 12,681,688 | 11,598,668 | 369,061 | 467,483 | 13,050,749 | 12,066,151 |
| Long-term liabilities | 8,174,105 | 7,545,839 | 29,218 | 35,153 | 8,203,323 | 7,580,992 |
| Other liabilities | 1,733,001 | 1,551,366 | 93,092 | 85,681 | 1,826,093 | 1,637,047 |
| Total liabilities | 9,907,106 | 9,097,205 | 122,310 | 120,834 | 10,029,416 | 9,218,039 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 2,437,385 | 2,155,206 | 4,827 | 16,012 | 2,442,212 | 2,171,218 |
| Restricted | 1,117,560 | 852,061 | 233,296 | 304,773 | 1,350,856 | 1,156,834 |
| Unrestricted | (780,363) | (505,804) | 8,628 | 25,864 | (771,735) | (479,940) |
| Total net assets | \$ 2,774,582 | \$ 2,501,463 | \$ 246,751 | \$ 346,649 | \$ 3,021,333 | \$ 2,848,112 |

Table 2 - Change in Net Assets for the year ended September 30, 2010

| | Governmental activities | | Business-type activities | | Total | | |
|---|-------------------------|--------------|--------------------------|------------|--------------|--------------|------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | Variance |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 450,022 | \$ 399,478 | \$ 250,150 | \$ 288,794 | \$ 700,172 | \$ 688,272 | \$ 11,900 |
| Operating grants and contributions | 3,321,671 | 2,813,568 | 36,998 | 36,985 | 3,358,669 | 2,850,553 | 508,116 |
| Capital grants and contributions | 259,277 | 180,602 | - | - | 259,277 | 180,602 | 78,675 |
| General revenues: | | | | | | | |
| Property taxes | 1,877,264 | 1,951,345 | - | - | 1,877,264 | 1,951,345 | (74,081) |
| Sales and use taxes | 1,081,005 | 1,052,011 | - | - | 1,081,005 | 1,052,011 | 28,994 |
| Income and franchise taxes | 1,434,131 | 1,478,068 | - | - | 1,434,131 | 1,478,068 | (43,937) |
| Other taxes | 560,490 | 577,885 | 129,471 | 94,622 | 689,961 | 672,507 | 17,454 |
| Non tax revenues | 466,524 | 559,089 | 243,293 | 171,222 | 709,817 | 730,311 | (20,494) |
| Total revenues | 9,450,384 | 9,012,046 | 659,912 | 591,623 | 10,110,296 | 9,603,669 | 506,627 |
| Expenses: | | | | | | | |
| Governmental direction and support | 871,240 | 878,219 | - | - | 871,240 | 878,219 | (6,979) |
| Economic development and regulation | 374,149 | 470,567 | - | - | 374,149 | 470,567 | (96,418) |
| Public safety and justice | 1,563,505 | 1,407,166 | - | - | 1,563,505 | 1,407,166 | 156,339 |
| Public education system | 1,989,518 | 1,937,238 | - | - | 1,989,518 | 1,937,238 | 52,280 |
| Human support services | 3,677,405 | 3,598,570 | - | - | 3,677,405 | 3,598,570 | 78,835 |
| Public works | 497,027 | 553,233 | - | - | 497,027 | 553,233 | (56,206) |
| Public transportation | 243,668 | 230,499 | - | - | 243,668 | 230,499 | 13,169 |
| Interest on long-term debt | 324,319 | 336,536 | - | - | 324,319 | 336,536 | (12,217) |
| Lottery and games | - | - | 163,393 | 176,625 | 163,393 | 176,625 | (13,232) |
| Unemployment compensation | - | - | 480,976 | 370,775 | 480,976 | 370,775 | 110,201 |
| Nursing home services | - | - | 18,817 | 44,601 | 18,817 | 44,601 | (25,784) |
| Total expenses | 9,540,831 | 9,412,028 | 663,186 | 592,001 | 10,204,017 | 10,004,029 | 199,988 |
| Special item | 266,942 | 287,137 | - | - | 266,942 | 287,137 | (20,195) |
| Increase in net assets before transfers | 176,495 | (112,845) | (3,274) | (378) | 173,221 | (113,223) | 286,444 |
| Transfer in (out) | 96,624 | 68,775 | (96,624) | (68,775) | - | - | - |
| Change in net assets | 273,119 | (44,070) | (99,898) | (69,153) | 173,221 | (113,223) | 286,444 |
| Net assets - Oct 1 | 2,501,463 | 2,545,533 | 346,649 | 415,802 | 2,848,112 | 2,961,335 | (113,223) |
| Net assets - Sept 30 | \$ 2,774,582 | \$ 2,501,463 | \$ 246,751 | \$ 346,649 | \$ 3,021,333 | \$ 2,848,112 | \$ 173,221 |

Please refer to Note 1W – Reconciliation of Government-Wide and Fund Financial Statements, on page 70, for additional information on the differences between the two bases of accounting that the District used in this report.

Financial Analysis of the Government as a Whole (Government-Wide Financial Statements)

- The District's combined net assets (governmental and business-type activities) increased by \$173,221, or 6.1%, from \$2,848,112 in fiscal year 2009 to \$3,021,333 in fiscal year 2010. This increase in net assets resulted from an increase of \$199,988 in expenses, primarily in the area of public safety and justice and an increase of \$506,627 in revenues, primarily operating grants and contributions. In fiscal year 2010, the District's debt service costs decreased as a result of refundings of certain outstanding bonds. In addition, the District also benefitted from the receipt of federal Stimulus funding.
- *Restricted net assets* are assets that are subject to use constraints imposed either: (a) externally by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments; or (b) by law, through constitutional provisions or enabling legislation. Restricted net assets totaled \$1,350,856 in fiscal year 2010 and \$1,156,834 in fiscal year 2009, representing an increase of \$194,022, or 16.8%. Most of this increase is due to more funds being held for debt services, grants, and special purposes.

Total net assets of governmental activities was \$2,774,582 in fiscal year 2010, which was \$273,119 or 10.9%, more than total net assets of governmental activities in fiscal year 2009. Expenses increased by \$128,803 from the prior year and revenues increased by \$438,338.

- As a result of the District using current resources to finance capital projects, absorbing Medicaid disallowances, and utilizing available net assets to finance operations, there was a negative unrestricted net asset amount of \$(780,363) for governmental activities for fiscal year 2010. This amount, combined with the unrestricted net assets for business-type activities totaling \$8,628, resulted in negative total unrestricted net assets for fiscal year 2010 of \$(771,735).

The Lottery and Charitable Games Control Board (the Lottery), an enterprise fund of the primary government, transfers substantially all of its net income to the District at the end of each fiscal year. In fiscal years 2010 and 2009, the Lottery transferred \$66,750 and \$68,775 to the District's General Fund, respectively. Additionally, in fiscal year 2010, with the closure of the Washington Center for Aging Services, \$29,874 was transferred from that entity to the District's General Fund. Total transfers from the proprietary funds to the primary government were \$96,624 in fiscal year 2010.

Chart 1 graphically depicts the District's sources of revenues as presented in Table 2, *Change in Net Assets* for the year ended September 30, 2010, found on page 26.

Chart 1 – Revenues by Source – Governmental Activities

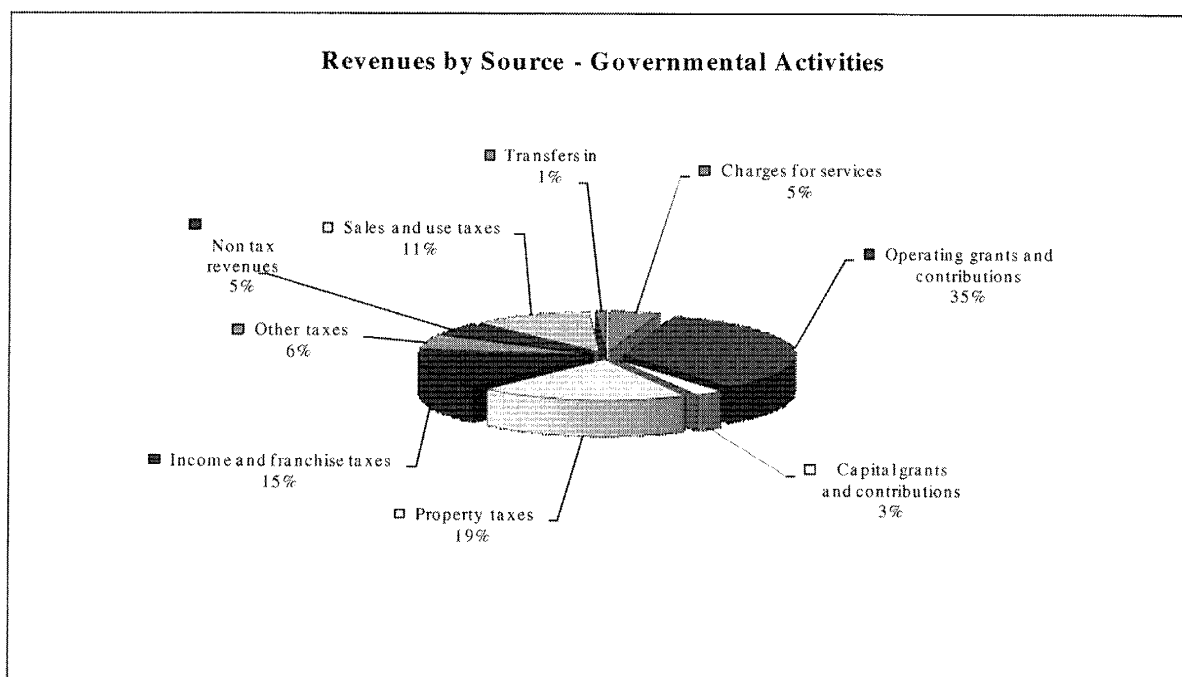
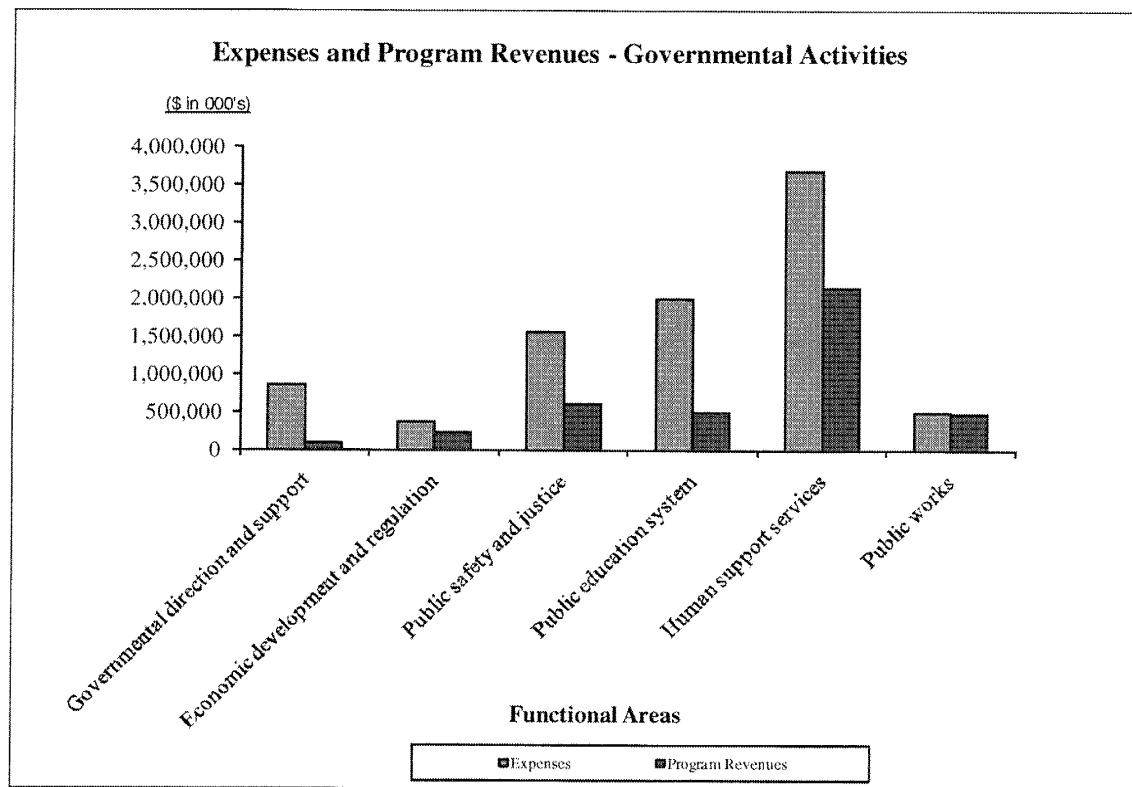


Chart 2 displays both expenses and program revenues of selected governmental activities for the fiscal year. The governmental activities are: governmental direction and support, economic development and regulation, public safety and justice, public education, human support services and public works.

Chart 2 – Governmental Activities Expenses and Program Revenues



Reporting on the District's Most Significant Funds

Fund financial statements focus on major funds, instead of fund types. A governmental fund is classified as a major fund if the fund has revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) that are at least 10% of the corresponding totals for all governmental or enterprise funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. Major funds, as required by generally accepted accounting principles (GAAP), are presented individually with nonmajor governmental funds combined in a single column. Detailed information for individual nonmajor governmental funds can be found in Other Supplementary Information, Exhibits B-1 and B-2, presented on pages 136 and 137 of this report.

Governmental Funds

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

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

- **Fund Balances:** The governmental funds reported a combined fund balance of \$1,583,524 in fiscal year 2010 and \$1,845,373 in fiscal year 2009, which represents a decrease of \$(261,849), or -14.2%, from the prior year. The components of the combined fund balance of the governmental funds are presented in **Table 3**.

Table 3 – Comparison of FY 2010 and FY 2009 Fund Balance

| Governmental Fund | FY 2010 Balance | FY 2009 Balance | Dollar Variance | Percentage Variance |
|------------------------------|----------------------------|----------------------------|----------------------------|--------------------------------|
| General | \$ 890,126 | \$ 920,483 | \$ (30,357) | -3.3% |
| Federal and Private Sources | 191,023 | 142,566 | 48,457 | 34.0% |
| General Capital Improvements | 133,438 | 406,854 | (273,416) | -67.2% |
| Nonmajor governmental funds | 368,937 | 375,470 | (6,533) | -1.7% |
| Total Fund Balance | \$ 1,583,524 | \$ 1,845,373 | \$ (261,849) | -14.2% |

The most significant change in the total fund balance of the governmental funds was in the General Capital Improvements Fund. The fund balance of the General Capital Improvements Fund decreased by more than \$273 million primarily because the capital outlays increased by \$253 million in fiscal year 2010. At the end of fiscal year 2010, cash and cash equivalents totaled approximately \$566 million, which was \$174 million less than the prior year balance of \$740 million. In addition, the General Capital Improvements Fund owed \$302 million to other funds which was \$98 million higher than the \$204 million owed to other funds at the end of fiscal year 2009. Debt issuances increased by approximately \$211 million in fiscal year 2010 to finance capital projects. Although capital outlays increased sharply by \$253 million, total revenues and other financing sources and uses of the General Capital Improvements Fund only increased by \$160 million.

The largest portion of the fund balance of the governmental funds is in the General Fund, the District's primary operating fund. A more detailed discussion of the District's General Fund is provided below:

- **Revenues:** General Fund revenues decreased by \$148,911 in fiscal year 2010. The collection of taxes and other revenues decreased as the District continued to be impacted in fiscal year 2010 by the economic decline over the last three years. Property taxes and income and franchise taxes decreased while sales and use taxes increased. **Table 4** presents the most significant one-year variances in General Fund revenues.

Table 4 – Changes in Major General Fund Revenues (Taxes)

| Tax Category | Fiscal Year 2010 | Fiscal Year 2009 | Dollar Variance | Percentage Variance |
|---------------------------------|-----------------------------|-----------------------------|----------------------------|--------------------------------|
| Property | \$ 1,876,815 | \$ 1,934,523 | \$ (57,708) | -3.0% |
| Sales and Use | 1,081,005 | 1,052,011 | 28,994 | 2.8% |
| Income and Franchise | 1,434,131 | 1,478,068 | (43,937) | -3.0% |
| Total (These Categories) | \$ 4,391,951 | \$ 4,464,602 | \$ (72,651) | -1.6% |

Property tax. There is a two year lag between the time real property values are assessed and when the revenue from the assessments is realized. Prior to fiscal year 2009, the District experienced significant increases in tax collections as a result of robust growth in property values, as evidenced by a growing number of property sales, and increases in average sales prices. As the housing market declined and the recession worsened, both the number and sales prices of residential and commercial property sales declined in late 2008 and 2009. The effect of these declines resulted in lower real property tax collections in fiscal year 2010.

Personal property tax collections also declined as a result of a stalled economy, as the level of business activity and new business investment decreased.

Sales and use tax. The increase in the sales and use tax was driven primarily by an increase in the general sales tax rate to 6.00% from 5.75%. Sales tax revenues began to rebound in fiscal year 2010 as the national and local economy began to show signs of recovery.

Income and franchise tax. Income tax collections through withholdings increased by \$49 million over the prior year. However, the non-withholding component of income tax revenue, which includes declarations (estimated payments), declined by \$75 million. The behavior of the declarations component is related to the performance of the stock market which declined sharply in recent years. In addition, losses from steep declines of recent years continued to affect amounts collected through non-withholdings and contributed to weakness in the corporate and unincorporated franchise taxes.

Although corporate franchise tax revenues increased in fiscal year 2010 due to a rebound in the equity markets, overall economic recovery has been slow and the markets remained relatively flat. Continued weakness in fiscal year 2010, due to depressed real estate activity, led to declines in unincorporated business franchise taxes.

Dedicated Revenues

Portions of the District's tax revenue streams are dedicated for specific purposes. The dedicated portion of tax revenues is transferred out of the local fund (the major component of the general fund), and is not available for general budgeting. In fiscal year 2010, the District dedicated a total of \$304,400 in tax revenues to fund the projects shown in **Tables 5a** and **5b**. There were \$76,982 non-budgetary dedicated tax revenues and \$227,418 budgetary dedicated tax revenues.

Table 5a – Dedicated Local Tax Revenues

| <u>Non-Budgetary Dedicated Taxes</u> | | | | | | | |
|--------------------------------------|---------------------|-------------------------------|--------------------|-------------------|-------------------------------|--------------------|---------------------|
| Source | Gross Collection | Housing Production Trust Fund | DDOT | Convention Center | Baseball Special Revenue Fund | Highway Trust Fund | Net Collection |
| Public Space Rental | \$ 34,264 | | \$ (31,170) | | | \$ (3,094) | \$ - |
| General Sales | 976,690 | | (9,476) | \$ (1,306) | \$ (3,042) | (985) | 961,881 |
| Public Utility | 149,877 | | | | (10,301) | | 139,576 |
| Toll Telecommunications | 62,826 | | | | (489) | | 62,337 |
| Deed Recordation | 113,198 | \$ (9,034) | | | | | 104,164 |
| Deed Transfer | 94,202 | (8,085) | | | | | 86,117 |
| Total | \$ 1,431,057 | \$ (17,119) | \$ (40,646) | \$ (1,306) | \$ (13,832) | \$ (4,079) | \$ 1,354,075 |

Table 5b – Dedicated Local Tax Revenues

| <u>Budgetary Dedicated Taxes</u> | | | | | | | | | | |
|----------------------------------|---------------------|--------------------|--------------------|-------------------------------|-----------------------|--------------------|-------------------------------|--------------------|------------------------------|--------------------------------|
| Source | Local Collection | TIF | DDOT | Baseball Special Revenue Fund | Nursing Facility Fund | Convention Center | Housing Production Trust Fund | Highway Trust Fund | Neighborhood Investment Fund | Available for General Fund Use |
| Real Property | \$ 1,821,459 | \$ (11,145) | | | | | | | | \$ 1,810,314 |
| Personal Property | 52,032 | | | | | | | | \$ (2,588) | 49,444 |
| General Sales | 961,881 | (22,995) | \$ (17,800) | \$ (6,935) | | \$ (93,054) | | \$ (113) | | 820,984 |
| Motor Fuel Tax | 22,180 | | | | | | | (22,180) | | - |
| Toll Telecommunications | 62,337 | | | (1,434) | | | | | | 60,903 |
| Healthcare Provider Tax | 12,423 | | | | \$ (12,423) | | | | | - |
| Baseball gross receipts | 23,712 | | | (23,712) | | | | | | - |
| Deed Recordation | 104,164 | | | | | | \$ (7,389) | | | 96,775 |
| Deed Transfer | 86,117 | | | | | | (5,650) | | | 80,467 |
| Total | \$ 3,146,305 | \$ (34,140) | \$ (17,800) | \$ (32,081) | \$ (12,423) | \$ (93,054) | \$ (13,039) | \$ (22,293) | \$ (2,588) | \$ 2,918,887 |

- **Expenditures:** The District's general fund expenditures, excluding debt service, decreased by \$253,592 from the previous year. Variances by program or function are presented in **Table 6**:

Table 6 – General Fund Expenditure Variances by Function

| Program/Functional Area | Fiscal Year 2010 | Fiscal Year 2009 | Dollar Variance | Percentage Variance |
|--------------------------------------|-----------------------------|-----------------------------|----------------------------|--------------------------------|
| Governmental direction and support | \$ 579,457 | \$ 589,492 | \$ (10,035) | -1.7% |
| Economic development and regulation | 247,355 | 339,783 | (92,428) | -27.2% |
| Public safety and justice | 1,018,335 | 984,892 | 33,443 | 3.4% |
| Public education system | 1,400,832 | 1,497,302 | (96,470) | -6.4% |
| Human support services | 1,564,143 | 1,643,779 | (79,636) | -4.8% |
| Public works | 276,990 | 298,625 | (21,635) | -7.2% |
| Public transportation | 243,668 | 230,499 | 13,169 | 5.7% |
| Total Functional Expenditures | \$ 5,330,780 | \$ 5,584,372 | \$ (253,592) | -4.5% |

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

Economic Development and Regulation - The one-year variance in spending was due to the implementation of cost-saving measures across all agencies within the Economic Development and Regulation cluster. However, some of the more significant reductions in expenditures over the one-year period occurred in the Office of the Deputy Mayor for Planning and Economic Development (ODMPED), Department of Employment Services (DOES), Housing Production Trust Fund Subsidy, and the Commission on Arts and Humanities (CAH).

- ODMPED expenditures decreased by approximately \$43 million as a result of the budget and associated expenditures for Business Improvement Districts being transferred to a separate agency in fiscal year 2010. In addition, ODMPED expenditures were approximately \$23 million less in the local fund because pass-through grants were removed from the Mayor's budget in fiscal year 2010. However, these variances were offset by a higher pace of spending in the Neighborhood Investment Fund in fiscal year 2010.
- DOES expenditures were approximately \$18 million less in fiscal year 2010 when compared to fiscal year 2009 due to program cost savings in the Summer Youth Employment and Transitional Employment Programs.
- Housing Production Trust Fund Subsidy expenditures were approximately \$15 million less in fiscal year 2010 than in the prior year due to lower revenue collections. Expenditures cannot exceed the amount of revenues collected.
- CAH expenditures accounted for approximately \$8 million of the cluster's one-year expenditure variance. During fiscal year 2010, CAH's budget for grants to local artists was reduced as part of the District's city-wide cost-savings plan; therefore, CAH had fewer resources available to spend for this purpose.

Public Education – Much of the reductions in Public Education resulted from organizational and operational changes made within the Office of the State Superintendent for Education (OSSE). Throughout fiscal year 2010, OSSE continued to assess its operations and purpose and as a result reduced or otherwise eliminated functions and contractual expenses more directly related to local education agencies. OSSE reduced the number of administrative staff in several units across the agency and reduced costs associated with direct educational services more appropriately provided at the local school level. In addition, OSSE delayed office furniture purchases and other non-essential equipment acquisitions, eliminated duplicative information technology contracts, and reduced costs for supplies, materials, and travel.

Human Support Services – The decrease in Human Support Services expenditures was due, in large part, to reductions within the Department of Human Services (DHS), Department of Health (DOH), Department of Mental Health (DMH), and the Child and Family Services Agency (CFSA).

- The decrease in DHS expenditures was primarily associated with the provision of Temporary Assistance for Needy Families (TANF) benefits to program recipients. Local costs associated with providing TANF cash assistance was reduced by approximately \$10.3 million without reducing the overall benefits to clients. The mandated local Maintenance of Effort (MOE) was achieved through partnerships with other agencies. In addition, DHS's Family Services Administration had cost reductions of approximately \$7.5 million associated with homeless services, including the Housing First Initiative. Other cost savings totaling approximately \$1.7 million resulted from the reallocation of local personnel costs to federal grants.
- DOH expenditures decreased approximately \$22.9 million over the one-year period. Approximately \$6.5 million of this variance resulted from the Addiction, Prevention and Recovery Administration (APRA): (a) outsourcing its detoxification center and its referral and assessment services; and (b) realigning APRA's administrative staff. In addition, in fiscal year 2010, DOH's Health Care Regulation and Licensing Administration was legally mandated to transfer the function of licensing of day care facilities to the Office of the State Superintendent for Education (OSSE). Transferring this function to OSSE resulted in a decrease in Human Support Services expenditures of approximately \$1.6 million. DOH also experienced cost savings of approximately \$9.4 million in its Community Health Administration (CHA) as a result of the outsourcing of the Commodity Supplemental Food Program and the realignment of CHA's administrative staff. Other reductions of approximately \$3.4 million were realized in the HIV/AIDS Administration through the elimination of the Ticket to Work Project. Moreover, like other agencies within the cluster, DOH reduced spending for utilities, telecommunications, rent and janitorial services across multiple programs within the agency resulting in additional savings.
- The reduction in DMH expenditures resulted from the closing of the D.C. Community Services Agency (DCCSA) which was a component of DMH. The services previously provided by DCCSA are now being provided through community-based agencies through contractual services. The cost savings associated with the closing of DCCSA were approximately \$17.2 million.
- On a comparative basis, CFSA's expenditures were lower than the previous years due to a write-off of \$32 million in uncollectible Medicaid receivables. A Medicaid receivable write-off was not necessary in fiscal year 2010.

Capital Expenditures and Financing

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

The District spent \$1,307,946 on general capital improvements which exceeded the general capital improvements revenues of \$264,296 by \$1,043,650, which is reported as a deficiency in the capital projects fund. This deficiency was subsequently financed with a total of \$770,234 from bond proceeds and other financing sources. The net change in the general capital improvements fund balance was a decrease of (\$273,416).

Proprietary Funds

The District currently has two major Proprietary Funds: the D.C. Lottery & Charitable Games Board (Lottery), and the Unemployment Compensation Fund (Unemployment). There is one nonmajor proprietary fund, Nursing Home Services, which includes the operations of the JB Johnson Nursing Center.

The total assets for the Lottery decreased by \$4,981, or 9.8%, over the prior year, due to scheduled payments to long-term prize winners. Total assets for Unemployment decreased by \$(44,915), or -11.4%, due to decreases in restricted cash. Due to the economic decline in recent years, the District paid a high level of unemployment compensation benefits to eligible

recipients in fiscal year 2010. Overall total net assets of the District's proprietary funds decreased by \$(99,898), or -28.8%, over the prior year, due in large part to these factors. Exhibits 3-a, 3-b, and 3-c on pages 48 through 50 present the financial statements of the proprietary funds.

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

Chart 3 – Expenses and Program Revenues – Business-type Activities

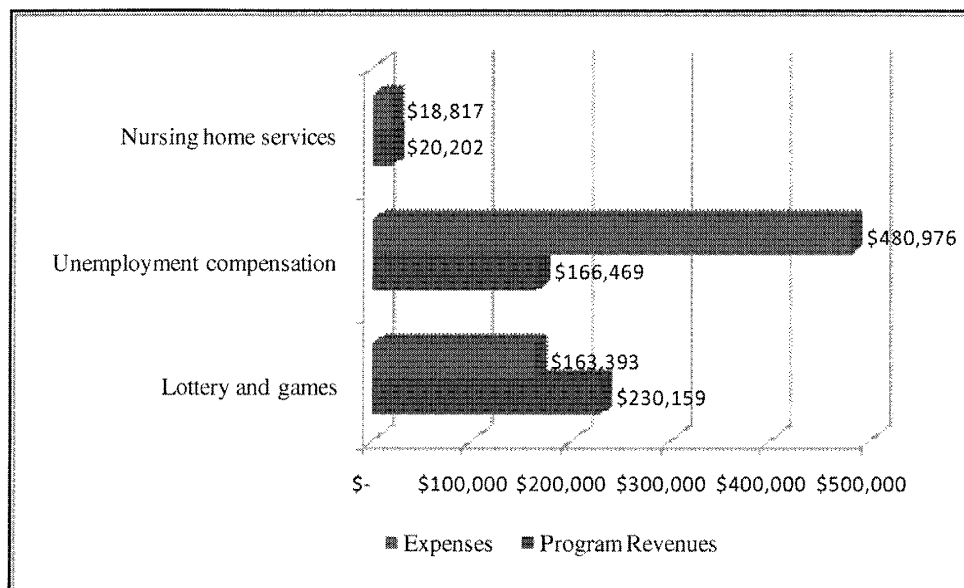
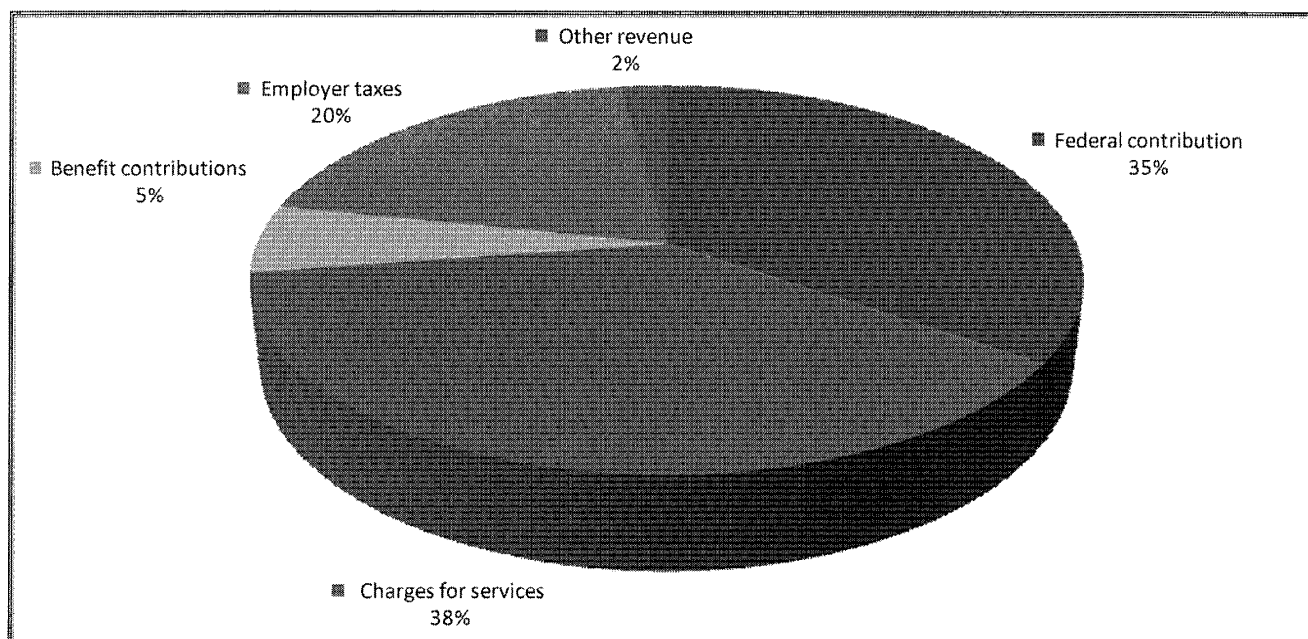


Chart 4 – Revenues by Source – Business-type Activities



Fiduciary Funds

The *Trust and Agency Funds* are used to account for assets held by the District as trustee for individuals, private organizations, or other governments. The District is the *trustee* or *fiduciary* for its employees' pension plans and other postemployment benefits (OPEB). All fiduciary activities are reported in Exhibit 4-a, *Statement of Fiduciary Net Assets* and Exhibit 4-b, *Statement of Changes in Fiduciary Net Assets* on pages 51 and 52, respectively. Exhibits C-1, C-2, and C-3, presented on pages 140, 141, and 142 respectively, provide additional information. These activities are excluded from the District's governmental and business-type activities because these resources are restricted and are not available to support the District's operations.

The changes in the net assets of the Pension Trust Funds and OPEB Trust Fund are presented in **Table 7**.

Table 7 – Variances in Net Assets of Pension and OPEB Trust Funds

| Trust Fund | Fiscal Year 2010 | Fiscal Year 2009 | Dollar Variance | Percentage Variance |
|---------------------------------------|---------------------|---------------------|--------------------|------------------------|
| Police and Firefighters Pension | \$2,925,742 | \$2,524,994 | \$ 400,748 | 15.9% |
| Teachers Pension | 1,317,470 | 1,204,391 | 113,079 | 9.4% |
| Other Postemployment Benefits | 424,254 | 309,136 | 115,118 | 37.2% |
| Total Net Assets (End of Year) | \$4,667,466 | \$4,038,521 | \$ 628,945 | 15.6% |

Net assets of the fiduciary funds increased due to contributions received and increases in the value of equity investments. In addition, there were significant reductions in accounts payable and other current liabilities in these funds.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. The District has five discretely presented component units: (1) Water and Sewer Authority; (2) Washington Convention and Sports Authority; (3) Not-For-Profit Hospital Corporation, which was established in July 2010; (4) Housing Finance Agency; and (5) University of the District of Columbia. Effective October 1, 2009, the Sports and Entertainment Commission was abolished and its operations were merged with those of the Washington Convention Center Authority, thereby creating the Washington Convention and Sports Authority. The District established the Not-For-Profit Hospital Corporation (the Hospital Corporation) as an independent instrumentality of the District government in fiscal year 2010. As a legally separate entity, the Hospital Corporation is a discretely presented component unit because the Mayor and Council appoint a voting majority of the Hospital Corporation's governing board and the District is able to impose its will on the Hospital Corporation. In addition, the Hospital Corporation operates as the United Medical Center, and as such, provides healthcare services to District residents and the general public.

The District is financially accountable for these organizations because the Mayor, with the consent of the Council, appoints a voting majority of the governing bodies of these organizations. In addition, the District has an obligation to provide financial support to the Washington Convention and Sports Authority, and the University of the District of Columbia.

Other component units have operations that are so intertwined with those of the primary government that they function, for all practical purposes, as an integral part of the primary government. These are reported as blended component units. A component unit should be blended when the primary government and the component unit share a common governing body or when the component unit either: (1) provides service entirely or almost entirely to the primary government; or (2) otherwise exclusively or almost exclusively benefits the primary government although it does not provide services directly to it. The District has one blended component unit, the Tobacco Settlement Financing Corporation (Tobacco Corporation). The Tobacco Corporation is a blended component unit because it provides services exclusively to the District.

Each of the component units prepares its own independently audited financial statements, which are accompanied by their respective Management's Discussion and Analysis. Exhibits 5-a and 5-b on pages 53 and 54, respectively, present more detailed financial information on the District's component units.

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. This need occurs due to time lags between the receipt of taxes, grants and other revenues and the outflow of funds for governmental operations and required disbursements. The District issued \$500,000 in Tax Revenue Anticipation Notes (TRANs) on October 30, 2009, at an interest rate of 2.50%. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred. Accordingly, the District repaid the TRANs on September 30, 2010.

Long-Term Debt

The District is empowered by law (Section 461 of the District of Columbia Home Rule Act, as amended) to issue general obligation bonds to refund indebtedness of the District and to provide for the payment of the cost of acquiring or undertaking the District's various capital projects. The District also issues income tax secured revenue bonds pursuant to the Bond Authorization Act of 2008 (D.C. Code §§ 47-340.26 to 47-340.36). The payment of principal and interest on these bonds comes solely from the associated trust estate and the available pledged tax revenues. The income tax secured revenue bonds are without recourse to the District, and are not a pledge of, and do not involve the full faith and credit or the taxing power of the District.

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

At September 30, 2010, the District had \$8,174,105 in long term debt outstanding, of which \$6,883,433, or 84.2%, was in the form of bonds. Of the outstanding bonds, \$2,781,053, or 40.4%, were general obligation bonds, and \$2,570,650, or 37.3%, were income tax secured revenue bonds. **Table 8** presents the District's outstanding bonds as of September 30, 2010.

Table 8 – Outstanding Bonds at September 30, 2010 and 2009

| Type of Bonds | 2010 | 2009 | Dollar Variance | Percentage Variance |
|----------------------------------|---------------------|---------------------|--------------------|------------------------|
| General Obligation Bonds | \$ 2,781,053 | \$ 3,766,628 | \$ (985,575) | -26.2% |
| Income Tax Secured Revenue Bonds | 2,570,650 | 1,071,785 | 1,498,865 | 139.8% |
| Other Bonds: | | | | |
| Tobacco Bonds | 699,779 | 711,239 | (11,460) | -1.6% |
| Ballpark Bonds | 517,390 | 521,750 | (4,360) | -0.8% |
| AWC PILOT Revenue Bonds | 96,950 | 102,970 | (6,020) | -5.8% |
| TIF Bonds | 91,807 | 96,197 | (4,390) | -4.6% |
| HPTF Bonds | 85,615 | 33,010 | 52,605 | 159.4% |
| NCRC Revenue Bonds | 30,671 | 39,168 | (8,497) | -21.7% |
| Qualified Zone Academy Bonds | 9,518 | 6,044 | 3,474 | 57.5% |
| Total | \$ 6,883,433 | \$ 6,348,791 | \$ 534,642 | 8.4% |

As presented in **Table 8**, the amount of general obligation bonds outstanding at September 30, 2010, decreased significantly from the prior year while the amount of income tax secured revenue bonds increased dramatically. In fiscal year 2010, the District refunded \$828,735 of its outstanding general obligation bonds through the issuance of Income Tax Secured Revenue Refunding Bonds. In March 2010, the District issued \$694,300 in Income Tax Secured Revenue Refunding Bonds, Series 2010A (Tax-Exempt), to refund the following outstanding general obligation bonds: Series 1998B, Series 1999A, Series 2001B, Series 2001C, Series 2001D, Series 2002D, Series 2003A, Series 2003B, Series 2004A, Series 2005A, Series 2007C, Series 2008E, and Series 2008F. In April 2010, the District issued \$126,670 in Income Tax Secured Revenue Refunding

Bonds, Series 2010C, to currently refund the outstanding principal amount of the District's Multimodal General Obligation Refunding Bonds, Series 2008B (Variable Rate Demand Obligations).

The total debt per capita as of September 30, 2010, was \$11,949 (not in thousands). This represents an increase of \$868 (not in thousands), or 7.8%, over the prior year. This increase is due to the District's issuance of additional Income Tax Secured Revenue Bonds in fiscal year 2010. Exhibit S-3C, on page 171, presents ratios of total outstanding debt for the last ten fiscal years.

For more detailed information on the District's long-term debt activity, refer to Note 8, Long-Term Liabilities, found on pages 89 through 106.

Capital Assets

The General Capital Improvements Fund is used to account for the purchase or construction of capital assets financed by transfers, capital grants, and debt. Capital assets include, but are not limited to, land, buildings, police and fire equipment, office equipment, park facilities, roads, and bridges. In fiscal year 2010, total capital assets increased by \$1,113,712, or 13.7%, over the prior year. Total overall capital assets has continued to increase because the District has been investing more resources in the construction of new assets and the rehabilitation of existing infrastructure, such as roads, streets, and bridges.

At September 30, 2010, total net capital assets (capital assets less depreciation) were \$9,233,358. Net capital assets of the governmental activities totaled \$ 9,228,531 and the net capital assets of the business-type activities totaled \$4,827. The governmental activities depreciation charges for fiscal year 2010 totaled \$314,938 compared to the prior year's amount of \$304,354. **Table 9** presents more detailed information on the District's net capital assets.

Table 9 – Net Capital Assets as of September 30, 2010

| Asset Category | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------|-------------------------|---------------------|--------------------------|------------------|---------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$ 916,721 | \$ 594,593 | \$ - | \$ 1,264 | \$ 916,721 | \$ 595,857 |
| Buildings | 3,429,054 | 3,035,186 | 3,192 | 12,000 | 3,432,246 | 3,047,186 |
| Infrastructure | 2,279,590 | 2,121,095 | - | - | 2,279,590 | 2,121,095 |
| Equipment | 427,976 | 502,961 | 1,635 | 2,748 | 429,611 | 505,709 |
| Construction in progress | 2,175,190 | 1,860,984 | - | - | 2,175,190 | 1,860,984 |
| Total net capital assets | \$ 9,228,531 | \$ 8,114,819 | \$ 4,827 | \$ 16,012 | \$ 9,233,358 | \$ 8,130,831 |

For more detailed information on the District's capital asset activity, refer to Note 5, Capital Assets, found on pages 83 through 88.

REPORTING THE DISTRICT'S BUDGET

Overview in Brief

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

The Chief Financial Officer is responsible for forecasting revenue for the District government. Each February, the Chief Financial Officer issues the official revenue estimate that is used to develop the District's budget for the next fiscal year. This estimate is revised as the new fiscal year begins and is periodically reviewed and adjusted at regular intervals throughout the fiscal year to reflect current economic trends and outlook, new legislative mandates, and other similar factors. As the revenue estimates are revised, the District's expenditure budget is also revised to be consistent with the updated revenue estimates.

General Fund Budgetary Highlights

The General Fund is the chief budgetary operating fund of the primary government. **Table 10** presents a Schedule of Budgetary Basis Revenues and Expenditures for the General Fund for the fiscal year ended September 30, 2010.

Table 10 – Schedule of Budgetary Basis Revenues and Expenditures

| | Original Budget | Revised Budget | Actual | Variance |
|--|----------------------------|---------------------------|------------------|------------------|
| Revenues and Sources: | | | | |
| Taxes | \$ 4,964,926 | \$ 5,044,968 | \$ 4,903,867 | (141,101) |
| Licenses and permits | 60,959 | 66,155 | 60,852 | (5,303) |
| Fines and forfeits | 180,411 | 147,203 | 111,488 | (35,715) |
| Charges for services | 45,901 | 37,774 | 46,125 | 8,351 |
| Miscellaneous | 122,069 | 83,185 | 119,743 | 36,558 |
| Other sources | 460,574 | 440,479 | 439,908 | (571) |
| General obligation bonds | 15,000 | 15,000 | 5,079 | (9,921) |
| Fund Balance released from restrictions | 129,047 | 214,852 | 138,421 | (76,431) |
| Interfund transfer from lottery and games | 65,775 | 67,350 | 66,750 | (600) |
| Interfund transfer - others | 3,497 | 23,897 | 24,287 | 390 |
| Total revenues and other sources | 6,048,159 | 6,140,863 | 5,916,520 | (224,343) |
| Expenditures and Other Uses: | | | | |
| Governmental direction and support | 373,596 | 388,565 | 375,801 | 12,764 |
| Economic development and regulation | 318,012 | 323,801 | 265,865 | 57,936 |
| Public safety and justice | 1,020,190 | 1,040,529 | 1,018,244 | 22,285 |
| Public education | 1,380,532 | 1,417,923 | 1,406,991 | 10,932 |
| Human support services | 1,410,425 | 1,479,115 | 1,461,272 | 17,843 |
| Public works | 579,216 | 592,453 | 565,731 | 26,722 |
| Repay bonds and interest | 476,922 | 375,656 | 353,965 | 21,691 |
| Other expenditures and uses | 434,332 | 484,752 | 410,522 | 74,230 |
| Total expenditures and other uses | 5,993,225 | 6,102,794 | 5,858,391 | 244,403 |
| Excess of Revenues and Other Sources Over Expenditures and Other Uses - Budgetary Basis | \$ 54,934 | \$ 38,069 | \$ 58,129 | \$ 20,060 |

Revenues and Other Sources

Actual General Fund revenues and other sources were \$(224,343) less than the revised budget. As presented in **Table 10**, this \$(224,343) variance was primarily due to shortfalls in taxes and fund balance released from restrictions which are discussed below.

Taxes

Tax revenues were \$(141,101) less than the final revised budget for fiscal year 2010. Revenues from property taxes and gross receipts and other taxes exceeded the revised budget by \$34,957 and \$11,114, respectively. The positive variance in property taxes was due to increased collections resulting from the reclassification of vacant property. The excess in gross receipts and other tax revenue was due to increased deed recordation and transfer taxes and estate taxes which offset declines in gross receipts taxes due to reclassification of dedicated amounts. However, the excess revenues from property taxes and

gross receipts and other taxes were offset by significant shortages in other taxes. Actual income and franchise tax revenues were \$138,549 less than the revised budget while revenues derived from sales and use taxes were \$48,623 less than the revised budget. The shortfalls in income taxes were due to much lower final payments and estimated payments as a result of the decline in investment returns over the past several years. The shortfall in sales and use taxes was due to the economic conditions in the fall and winter of fiscal year 2010.

Fund Balance Released from Restrictions

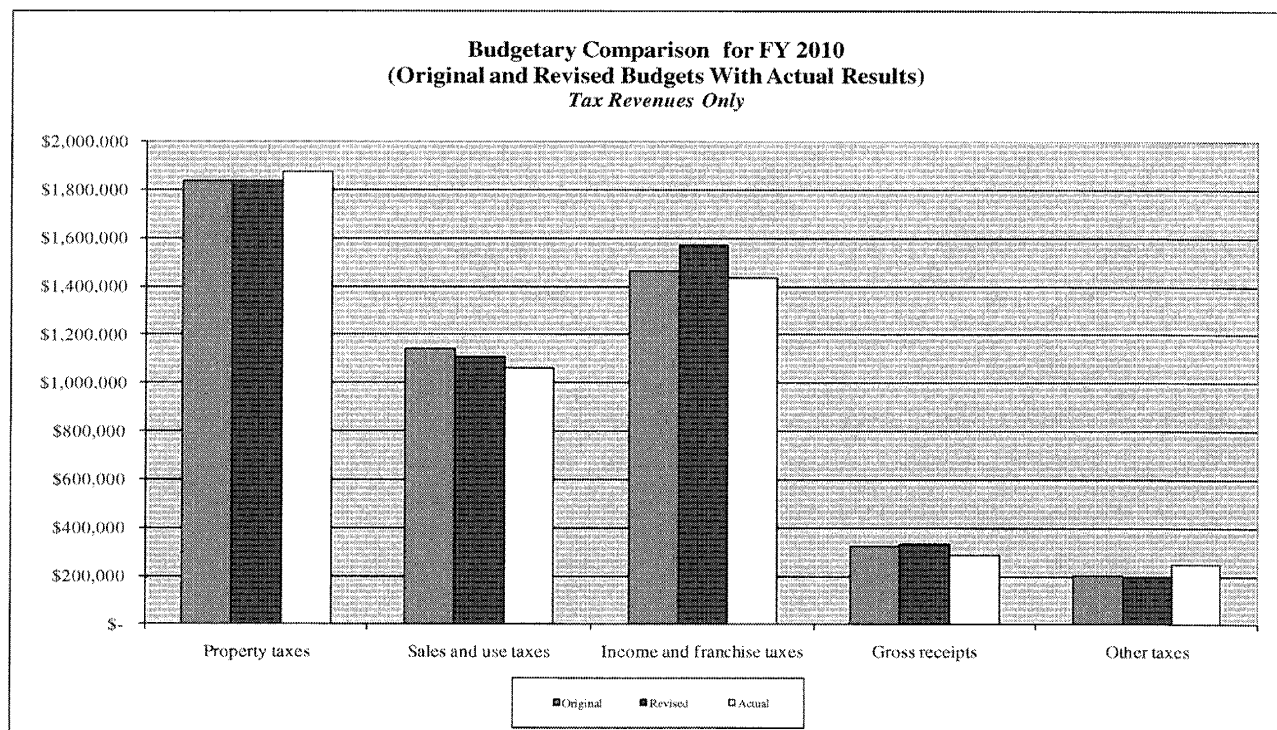
Fund balance released from restrictions represents the portion of assets that were restricted for either a period of time or for a particular purpose for which the imposed conditions have been met, allowing the assets to become available for use. In other words, this amount of fund balance was used to finance current year's operations. As presented in **Table 10**, the actual amount of fund balance released from restrictions was \$(76,431) less than the revised budget.

Expenditures and Other Uses

Actual General Fund expenditures and other uses were \$244,403 less than the revised budget. As presented in **Table 10**, this \$244,403 variance was primarily due to underspending in the areas of Economic Development and Regulation and Public Works. In addition, of the \$74,230 amount under-spent in Other Expenditures and Uses, \$47,480 was in the Emergency and Contingency Reserve.

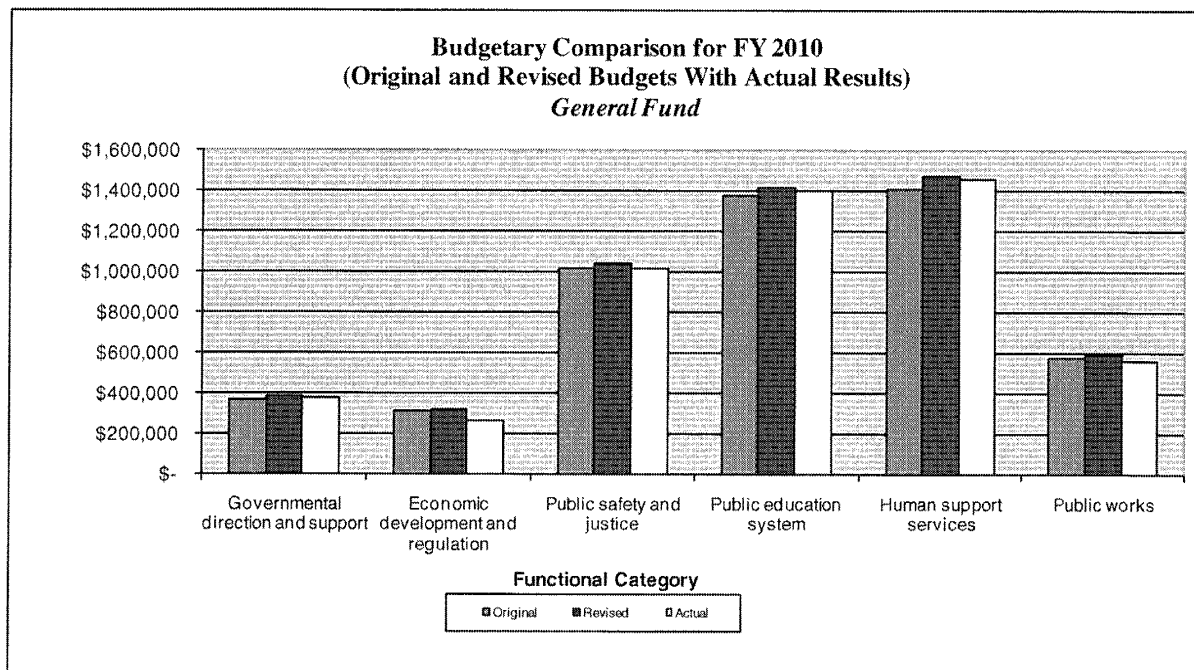
More than 80% of the General Fund's revenues are derived from taxes. **Chart 5** graphically presents differences between the General Fund's original budget, final revised budget and actual revenues (by type of tax) for fiscal year 2010.

Chart 5 – Budgetary Comparison – FY 2010 Tax Revenues



More than 60% of the General Fund's expenditures were in the areas of Human Support Services, Public Education, and Public Safety and Justice combined. **Chart 6** graphically presents differences between the General Fund's original budget, revised budget, and actual expenditures (by functional category) for fiscal year 2010.

Chart 6 – General Fund Expenditures (by Function)



For more detailed information, refer to the budgetary schedules for the General Fund, Exhibits A-4 – A-6 which are presented on pages 131 through 133.

SUBSEQUENT EVENTS

Short-Term Debt

On October 25, 2010, the District issued \$700,000 in Tax Revenue Anticipation Notes (TRANs) as a means of financing, on a short-term basis, the District's general governmental expenses in anticipation of receiving or collecting revenues for fiscal year 2011. These fixed rate TRANs were issued at an interest rate of 2.50% and mature on September 30, 2011. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year of issuance.

Income Tax Secured Revenue Bonds

On November 22, 2010, the District issued \$63,860 in Income Tax Secured Revenue Refunding Bonds, Series 2010E. The proceeds of the Series 2010E Bonds will be used, together with other funds of the District, to: (a) currently refund \$63,335 of the outstanding principal amount of the District's Income Tax Secured Revenue Refunding Bonds, Series 2010C and (b) pay the costs and expenses of issuing and delivering the Series 2010E Bonds. The Series 2010E Bonds bear interest at a rate equal to an Adjusted Securities Industry and Financial Markets Association (SIFMA) Rate.

Other subsequent events are presented in Note 16, found on pages 118 through 120.

CONTACTING THE DISTRICT'S OFFICE OF THE CHIEF FINANCIAL OFFICER

This CAFR is designed to provide the District's citizens, taxpayers, customers, vendors, investors, and creditors with a general overview of the District's finances and to demonstrate the effectiveness of the District's systems of accountability for the money it receives. If you have any questions regarding this report, suggestions for improvement, or need additional financial information, please contact the following:

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