



YEAR ENDED SEPTEMBER 30, 2010

ADRIAN M. FENTY, MAYOR
2007-2010

VINCENT C. GRAY, MAYOR
2011-2014

NATWAR M. GANDHI, CHIEF FINANCIAL OFFICER

CITIZEN'S FINANCIAL REPORT

2010



February 28, 2011

Dear Citizens of the District of Columbia:

We are pleased to present to you the Citizen's Financial Report on the financial condition of the Government of the District of Columbia (District). The purpose of this report, which is referred to as the Popular Annual Financial Report (PAFR), is to summarize the financial information presented in the District of Columbia's Fiscal Year 2010 Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and is independently audited. This PAFR is intended to simplify but not replace the CAFR.

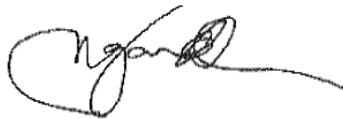
This is the District's eighth publication of the Citizen's Financial Report. In the previous seven fiscal years, the District was honored with the prestigious "Award for Outstanding Achievement in Popular Annual Financial Reporting" by the Government Finance Officers Association (GFOA). It is expected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

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

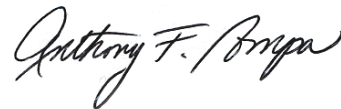
Respectfully submitted,



Vincent C. Gray
Mayor



Natwar M. Gandhi
Chief Financial Officer



Anthony F. Pompa
Deputy CFO
Financial Operations & Systems



Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

District of Columbia

for the Fiscal Year Ended

September 30, 2009




President

Executive Director

District of Columbia Citizen's Financial Report



Fiscal Year Ended September 30, 2010

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Introduction

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

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

The **fiscal year (FY)** of the District begins on October 1 and ends on September 30. This report presents summary financial information for the District's fiscal year ended September 30, 2010, in a more understandable format and language that includes fewer technical tables than are presented in the CAFR. Below are some explanations to assist you:

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

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

Glossary: Certain technical financial terms must be used to accurately present the financial information in this report. For that reason, a Glossary is included on pages 22 and 23 to provide definitions of these technical terms.

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

A copy of the District's FY 2010 CAFR or PAFR may be obtained from:

Office of Financial Operations & Systems
1100 4th Street, SW, 8th Floor
Washington D.C. 20024
(202) 442-8200

The FY 2010 CAFR and PAFR may also be viewed on the District's web site at: www.cfo.dc.gov.

Financial Reporting Entity

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

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

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

Not-For-Profit Hospital Corporation
dba United Medical Center
Chief Executive Officer
1310 Southern Avenue, S.E.
Washington, D.C. 20032
202-574-6000

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

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

Elected Officials

January 2, 2011

		First Took	
Name	Position	Office	Term Expires
Chief Executive Officer			
Vincent C. Gray	Mayor	2011	2014
Council			
Kwame R. Brown	Chairman	2011	2014
Michael A. Brown	At Large	2009	2013
David Catania	At Large	1997	2014
Phil Mendelson	At Large	1999	2014
Sekou Biddle	At Large	[Interim until Special Election 4/26/2011]	2011
Jim Graham	Ward 1		2014
Jack Evans	Ward 2	1991	2013
Mary C. Cheh	Ward 3	2007	2014
Muriel Bowser	Ward 4	2007	2013
Harry Thomas, Jr.	Ward 5	2007	2014
Tommy Wells	Ward 6	2007	2014
Yvette M. Alexander	Ward 7	2007	2013
Marion Barry, Jr.	Ward 8	2005	2013
House of Representatives			
Eleanor Holmes Norton	Delegate	1991	2013

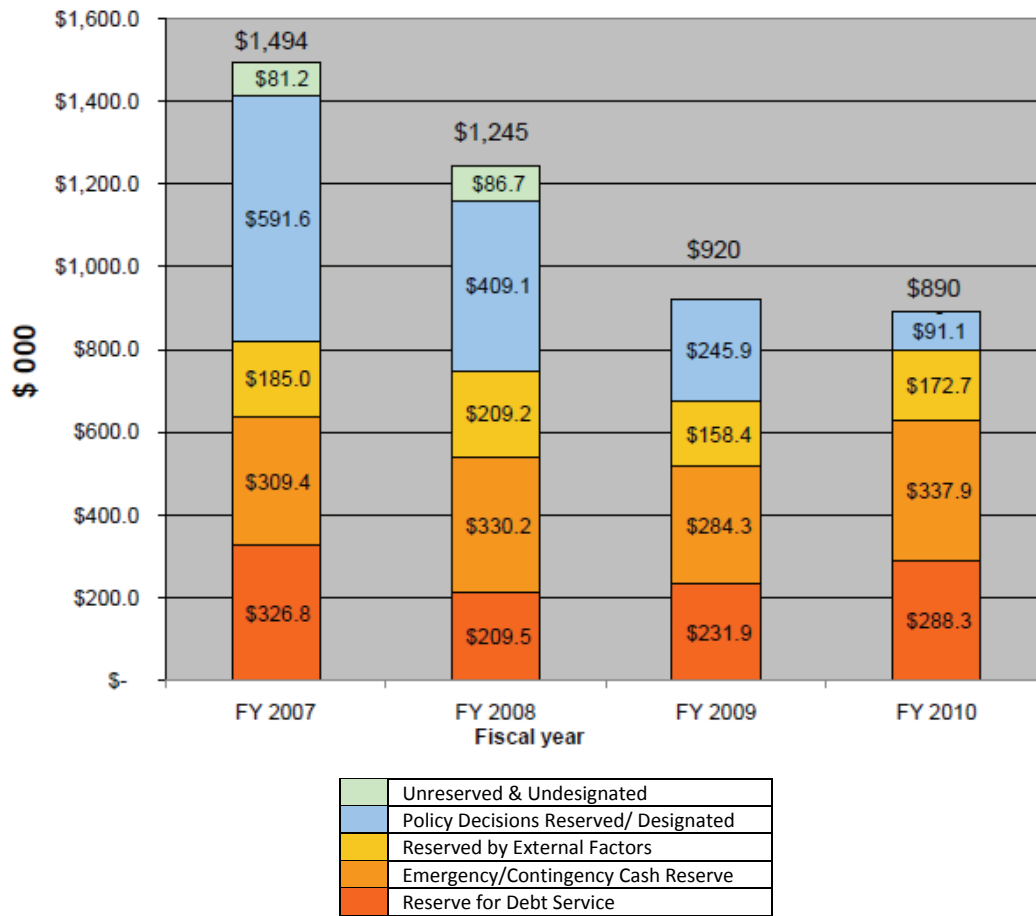
Financial Condition

FY 2010 Highlights:

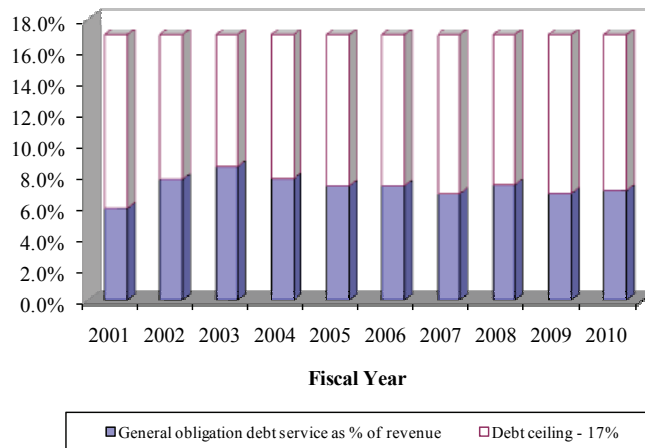
- The District again earned an **unqualified** or **“clean” audit opinion** on its financial statements.
- 14th consecutive balanced budget.
- The **General Fund**, which accounts for all taxes, fees and charges for services, ended the year with a budgetary surplus of \$58.1 million.
- The District's general obligation bond ratings are: *Standard & Poor's*, **A+**; *Moody's Investors Service*, **Aa2** and *Fitch Rating*, **AA-**.
- The District's new income tax secured revenue bonds were rated for its second year as follows: **AAA** by *Standard & Poor's*; **Aa1** by *Moody's Investors Service*; and **AA+** by *Fitch Ratings*.
- The General Fund showed an accumulated **fund balance** of \$890.1 million, which includes \$337.9 million in an emergency/contingency cash reserve. The fund balance is down from the previous \$920.5 million reported in FY 2009, but is still a solid figure.
- The District is restricted by law to spend no more than 17% of total general fund revenues for general obligation **debt service** each year. However, the actual debt service for FY 2010 was only 7.1% of total revenues, or about 41.8% of the debt service ceiling.
- Effective in FY 2009, the District self imposed a more stringent annual debt service limit of 12% of general fund expenditures on all District bonds.

FY 2010 General Fund Budgetary Surplus				
(\$ in millions)				
	Revised Budget	Actual	Variance	
Revenues				
Taxes	\$ 5,045.0	\$ 4,903.9	\$ (141.1)	
Non Taxes	774.8	778.1	3.3	
Fund Balance Use	214.9	138.4	(76.5)	
All other general fund sources	106.2	96.1	(10.1)	
Total revenues	\$ 6,140.9	\$ 5,916.5	\$ (224.4)	
Expenditures				
FY2010	\$ 5,967.2	\$ 5,722.8		
FY2011 Advance to Public Education	135.6	135.6		
Total expenditures	\$ 6,102.8	\$ 5,858.4		
SURPLUS		\$ 58.1		

Composition of General Fund Balance FY 2007 – FY 2010 (\$ in millions)



General Obligation Debt Service as a Percentage of Revenues



Economic Condition

Although the U.S. economy began to show signs of recovery in FY 2010, the economic climate continued to affect the District's revenue streams and presented budget challenges during the year. The District's economy showed mixed results in FY 2010.

- Sales and use taxes collected were \$1.08 billion, a 2.8% increase over the \$1.05 billion collected in FY 2009.
- Property taxes collected were \$1.88 billion, a 3.0% decrease over the \$1.95 billion collected in FY 2009.
- Total taxable property value was \$150.1 billion, a 1.9% decrease over the \$153.0 billion value in FY 2009.
- The real property market showed some signs of recovery in FY 2010:
 - Sales of single family houses increased by 18.9%.
 - Condominium sales increased by 9.8%.
 - The amount of commercial office space increased by 3.5%, however, the vacancy rate decreased to 9.1% in FY 2010 compared to 10.2% in FY 2009.

Tourism and Hospitality

Each year, millions of U.S. citizens and international tourists visit the District's more than 400 museums and historical landmarks. Visitors to the District continue to sustain the local and regional economy. In calendar year 2009, approximately 14.8 million domestic visitors and 1.6 million international visitors traveled to the District. The District's hospitality industry generated an estimated \$5.25 billion in visitor spending on hotels, retail, transportation and entertainment in 2009, which was a decrease of 7.1% over the prior year. (The 2010 calendar year visitor figures are not yet available.) Hotel occupancy was approximately 77.9% at September 30, 2010. Travel and tourism supports more than 66,706 full-time jobs in the District, generating approximately \$2.6 billion in wages.

Structural Imbalance

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

Highlights from the report are listed below:

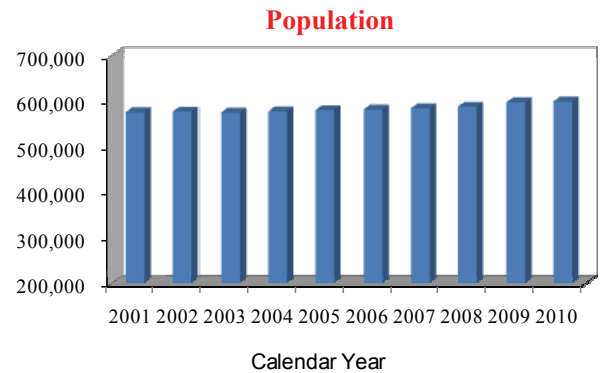
- The District faces a substantial structural deficit because the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. The District's structural deficit is estimated to range from \$470 million to \$1.143 billion annually.
-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

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

Population Trends

Population estimates are published each year by the U.S. Census Bureau. In July of each year, new estimates are released and estimates for earlier years are revised. On July 1, 2010, the U.S. Census Bureau estimated that there were 601,723 residents in the District. This represents an increase of 2,066, or 0.345% from the revised July 1, 2009 estimate of 599,657.

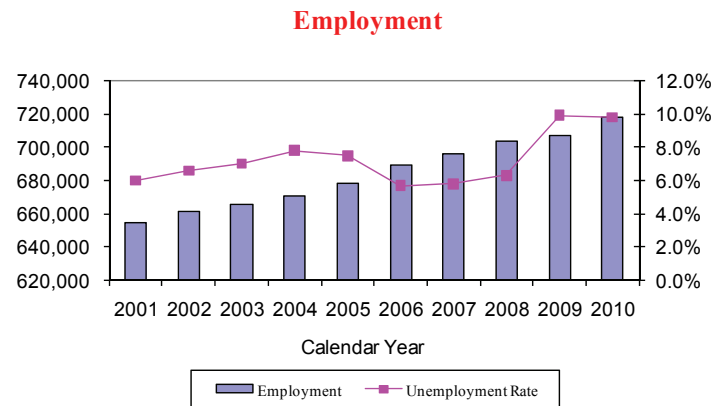
The Census Bureau's estimates are determined from births, deaths, changes in tax return filings and estimates of the number of immigrants who move into the District each year. These estimates are used in federal funding allocations and in monitoring recent demographic changes.



Employment Trends

Total employment within the District increased slightly to 718,000 as of September 2010 from the revised 695,700 as of September 2009.

The unemployment rate in the District decreased to 9.8% in FY 2010, compared to 9.9% in FY 2009. As the nation's capital, Washington, D.C. is headquarters for most federal government departments and agencies. The September 2010 federal workforce in the Washington metropolitan area totaled 379,000; with approximately 212,200 federal employees located in Washington, D.C. and 166,800 additional federal employees who worked elsewhere in the Washington metropolitan area. Federal employment in the region has remained strong due to the activities of and related spending by the Department of Homeland Security and the Department of Defense.



Minimum Wage

District law requires that the minimum wage rate for District employees be at least \$1.00 per hour more than the federal minimum wage. Beginning on July 24, 2009, the federal minimum wage rate was increased to \$7.25 per hour. Therefore, effective July 24, 2009, the District's minimum wage rate increased to \$8.25 per hour.

Neighborhood Revitalization

DC Streetcar

The District Department of Transportation (DDOT) has started construction of a new 1.5-mile streetcar line in Anacostia that is expected to be in service by the fall of 2012. Tracks are being laid on H Street and Benning Road, and planning is underway for additional segments across the city.

The modern streetcars purchased by the District were manufactured by Skoda-Inekon in Plzen of the Czech Republic. The cars are about 8 feet wide and 66 feet long, about 10 inches narrower and 1/3 the length of a light rail double car train. They are able to operate in mixed traffic and easily accommodate existing curbside parking and loading.

The DC Streetcar will make travel within the District much easier for residents, workers and visitors, and it will complement the existing transit options. Although the Metrorail system does an exemplary job of connecting the District to the rest of the region, it was not designed to connect neighborhoods. The DC Streetcar will do that and it will bring tremendous benefits to the communities it serves.



The Modern DC Streetcar (Inside & Out)

Anacostia River Clean Up and Protection Fund/ Carryout Bag Fees

During fiscal year 2010, the District established the Anacostia River Clean Up and Protection Fund, which is to be used solely to fund efforts to clean and protect the Anacostia River and the other impaired waterways. In January 2010, to help fund such environmental conservation activities, the District began levying a five-cent "bag tax" that is to be charged to every consumer in the District. A consumer making a purchase from a retail establishment within the District must pay at the time of purchase a fee of five cents for each disposable carryout bag he or she receives. By the end of FY 2010, the District had collected approximately \$1.5 million in bag taxes.

U.S. Department of Homeland Security Headquarters (St. Elizabeth's West Campus)

In September 2009, the U.S. Department of Homeland Security (DHS) and the U.S. General Services Administration (GSA) broke ground for the \$3.4 billion consolidated DHS headquarters. Currently, DHS operates in more than 35 offices around the national capital region and expects to save approximately \$163 million over the next 30 years by moving to a consolidated headquarters. DHS is building its headquarters on the west campus of St. Elizabeth's Hospital located in Southeast Washington, D.C. This project is the largest in the Washington area since the Pentagon was built in the 1940s and will help to revitalize and stimulate development in the Anacostia community.

In August 2009, GSA awarded a \$435 million contract to a local contractor to design the site's first phase, the new energy-efficient 1.18 million square-foot Coast Guard headquarters facility. The Coast Guard facility will receive LEED Silver certification from the U.S. Green Building Council, incorporating state-of-the-art efficiency technologies, including green roofs, landscaped courtyards to capture and reuse surface water runoff, and innovative heating, ventilation, and air conditioning systems. Occupancy of the new Coast Guard headquarters is slated to begin in 2013.

When completed, the DHS headquarters will house approximately 14,000 employees working in the following DHS components: Transportation Security Administration (TSA), Customs and Border Protection, Immigration and Customs Enforcement (ICE), and the Federal Emergency Management Administration (FEMA).

Completed Projects

Waterfront Station

The first phase of Waterfront Station, a new pedestrian-friendly mixed-use project on the site of the former Waterside Mall located at M and 4th Streets, S.W. was completed in FY 2010. The \$800 million multi-phase redevelopment project will consist of 1.2 million square feet of new office space, approximately 1,000 new residential units, underground parking, and a minimum of 110,000 square feet of retail space. The Waterfront-SEU Metrorail station is adjacent to Waterfront Station and the office buildings have been designed and constructed to LEED Silver standards.

The office component is fully leased to the District of Columbia government. In April 2010, employees from several District agencies including the Office of the Chief Financial Officer, Office of Planning, and the Department of Consumer and Regulatory Affairs, moved into Waterfront Station's two office towers. The retail component includes two existing retailers:



East Building with New Safeway Retail Store

Safeway, which opened its new ground-floor store in April 2010, and CVS, which opened its new store in July 2010. Several other new dining and neighborhood service-related retail tenants are planned. In all, approximately 85,000 square feet of retail space will open as a part of the project's first phase.

1101 4th Street SW (West Building)

*1100 4th Street SW (East Building)
With Safeway Retail Store*



Union Station Bike Transit Center

The new Union Station Bike Transit Center, a secured bicycle parking facility, opened in October 2009. The inside of the helmet-shaped facility includes secure parking for over 100 bikes, 50 rentable lockers, a changing room, bike repair shop and a retail store that sell drinks and bike accessories.

The station was built by Mobis/Bikestation with funding from DDOT and the U.S. Department of Transportation, but local bicycle rental company, Bike and Roll, is responsible for the day-to-day operations of the transit center, which is open from 7:00 a.m. to 7:00 p.m. on weekdays and 9:00 a.m. to 5:00 p.m. on weekends.

You may visit www.bikestation.com for current membership cost and passes for the center.



The new 1,700 square foot building, located west of Union Station, is the first bike parking facility of its kind on the East Coast.

Capital Bikeshare

In September 2010, the District launched Capital Bikeshare, a regional bikesharing network of commuter bicycles throughout the District and Arlington, Virginia. This new program couples modern electronic gadgetry with 19th century invention to create a system that encourages casual cyclists to pedal around town. Capital Bikeshare puts 1,100 bicycles at your fingertips which you can choose from over 110 stations across the District and Arlington, Virginia and return to any station near your destination.

Anyone can become a Bikeshare member by paying the following fees: \$5 for 24 hours; \$25 for 30 days; or \$75 for a full year. Members who sign up for longer than a day receive palm-size cards that have bar codes. These cards are slipped into a slot to release a bike. The first 30 minutes of each ride are free, after which, the meter starts running (\$1.50 for the next 30

minutes; \$3 for the third half-hour; and \$6 for each 30-minute period after that.) The pricing is designed to encourage short trips from place to place rather than leisurely cruising. Amounts owed will be billed to the member's credit card and \$1,000 will be charged if the bike is not returned within 24 hours. The billing system is activated with the insertion of the bar-coded membership card at the bike station, and another insertion when the bike is returned. A wireless, solar-powered communications network links each bike station to Bikeshare headquarters.

Each station begins the day with about 10 bikes and five empty docking spaces. You may visit www.capitalbikeshare.com for station maps and information on the number of bikes which are available at any given moment, and the number of docking stations which are open for those who want to return a bike.

Arena Stage

In October 2010, Arena Stage at the Mead Center for American Theater (Arena Stage) celebrated a grand reopening after a 3-year, \$135 million makeover. The prior 90,000 square foot Arena Stage complex has been transformed into a 200,000 square foot structure designed by Bing Thom Architects of Vancouver, Canada. The boldly updated venue includes: three theatres, two large rehearsal rooms, concession stands, a classroom, a café, a rock garden, tiered lobbies, administrative offices, conference space and supporting shops (costume, scene, set, props, laundry). All of it is housed in an ultramodern structure featuring 35,000 square feet of soaring glass panes that wrap around the complex like a transparent curtain hanging from a cantilevered roof. Located on the Southwest Waterfront at 1101 Sixth Street, SW, Arena Stage, founded in 1950, was one of the first not-for-profit theaters in the United States. It is a national center for the production, presentation, development and study of American theater.



*6th Street S.W. View
Photograph by Nic Lehoux, Bing Thom Architects.*



*Arena Stage at the Mead Center is the largest theater complex to open in the District since the Kennedy Center.
M Street, S.W. View. Photograph by Nic Lehoux, Bing Thom Architects.*

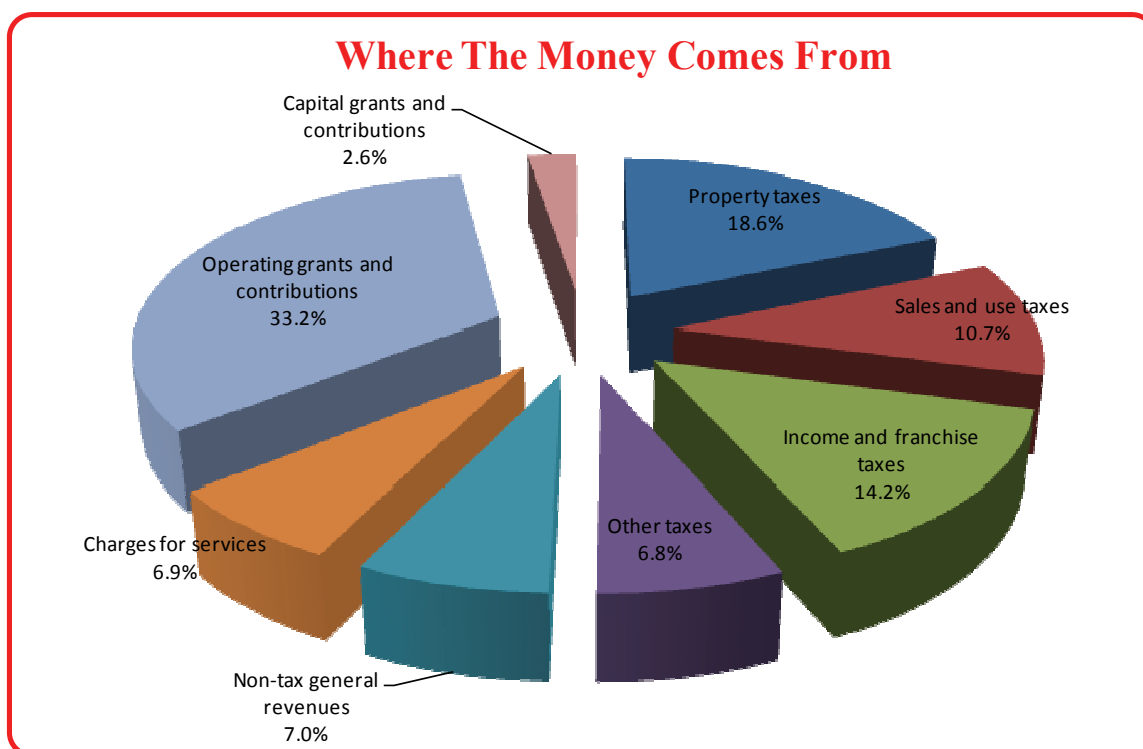
Financial Resources

District-Wide Revenues

The majority of the District's funds come from taxes which represented 50.3% of total revenues in FY 2010. This was a 2.1% decline from total tax revenues in FY 2009 due to the continuing effects of the recent national recession. The District collected over \$1.08 billion in sales and use taxes in FY 2010, which was \$29 million more than in FY 2009.

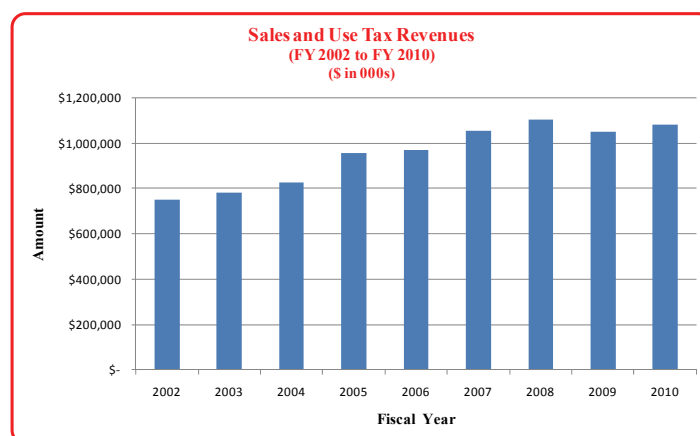
The District also collected \$1.88 billion in property taxes, \$1.43 billion in income and franchise taxes, and \$560 million in other taxes in FY 2010.

Other revenues are derived from federal and private resources, which include operating grants and contributions.



Sales and Use Taxes

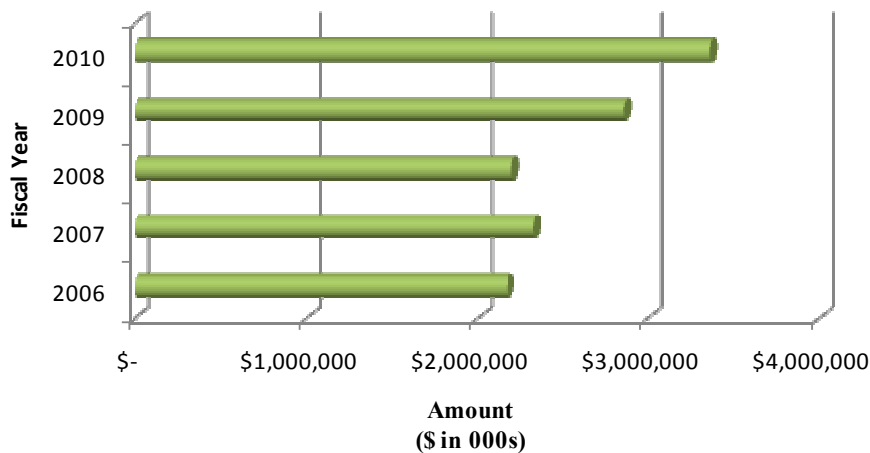
The increase in sales and use tax revenues resulted from an increase in the general sales tax rate. Effective October 1, 2009, the general sales tax rate in the District increased from 5.75% to 6.00%. In addition, as the national and local economy began to show signs of recovery in FY 2010, sales tax revenues in the District began to rebound.



In addition, \$3.4 billion, or more than 33%, of the District's FY 2010 revenues came from operating grants and contributions received from the federal government and private sources. A portion of the funding received from these sources was in the form of assistance provided under the federal American Recovery and Reinvestment Act, also known as the Stimulus Act.

The District received Stimulus funding to support: road and bridge construction; public transportation improvements; energy efficiency and environmental projects; healthcare and health research; education; and public safety. For FY 2010, the District planned to spend \$655.3 million of stimulus funding for both operating needs and capital improvements. However, the District only spent approximately \$422.7 million, which included approximately \$360 million in operating expenditures and nearly \$62.7 million in capital expenditures.

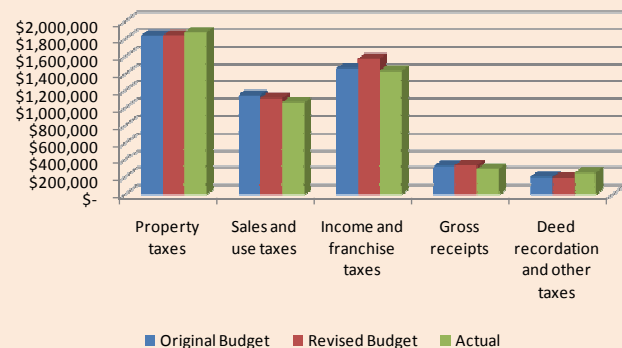
Operating Grants and Contributions



General Fund Budget

The General Fund is the chief budgetary operating fund of the District. More than 80% of the General Fund's FY 2010 revenues were derived from taxes and more than 60% of the General Fund's FY 2010 expenditures were in the areas of Human Support Services, Public Education, and Public Safety. *Budgeted* revenues and other sources totaled \$6.141 billion in FY 2010; however, *actual* revenues and total sources were \$5.917 billion. *Budgeted* expenditures and other uses totaled \$6.103 billion in FY 2010; however, *actual* expenditures and other uses totaled \$5.858 billion.

Budgeted and Actual FY 2010 Tax Revenues

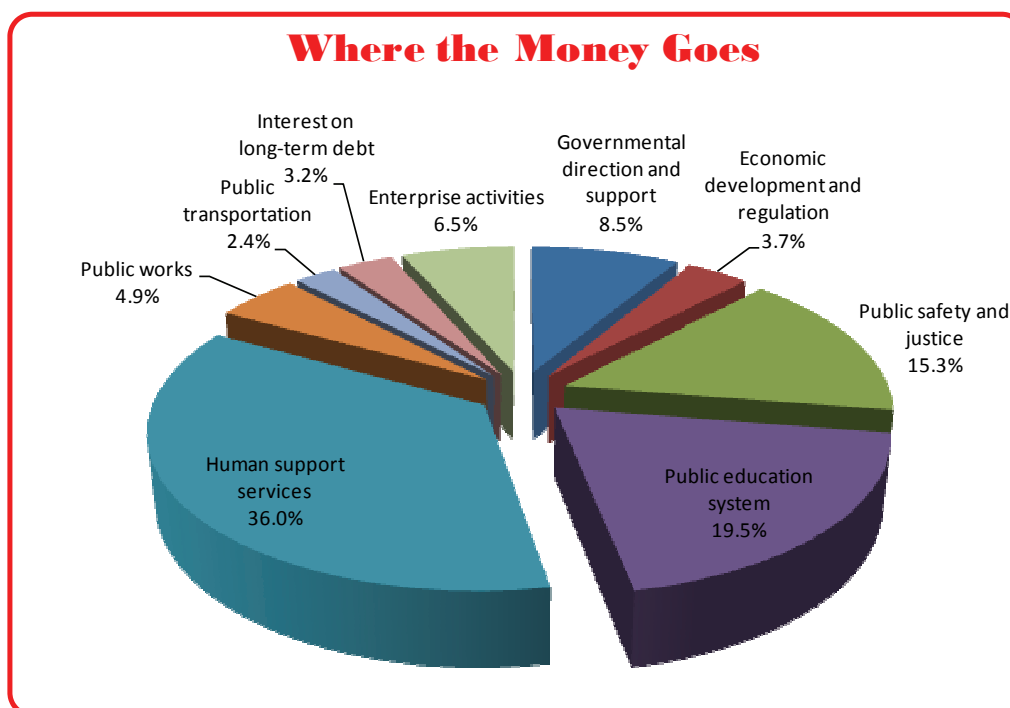


Resource Allocation

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

In FY 2010, the District's total expenses were \$10.2 billion. Human Support Services expenditures represented 36% of the total.

The majority of the Human Support Services expenditures were for the District's Medicaid and Medicare programs. Public Education, primarily D.C. Public Schools and Charter Schools, represented 19.5% of the District's total expenses. Public Safety and Justice, mainly the Police Department and Fire and EMS Services, were 15.3% of total District expenses.



Debt Management

Short-Term Debt

The District issues short-term debt primarily to finance seasonal cash flow needs. By law, the District must repay any short-term debt in its entirety by September 30 of the fiscal year in which the debt was incurred. On October 30, 2009, the District issued \$500 million in Tax Revenue Anticipation Notes (TRANs), at an interest rate of 2.50%, which was repaid on September 30, 2010.

Long-Term Debt

In the government-wide financial statements and the financial statements of the proprietary funds, long-term debt and other long-term obligations are reported as liabilities in the respective statements of net assets. Long-term debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the outstanding principal method. Long-term debt payable is reported separately

from the applicable premium or discount. The issuance cost for long term debt is reported as deferred charge.

The District's **general obligation bonds** are authorized and issued primarily to provide funds for certain capital projects and improvements. The weighted average interest rate on the District's outstanding fixed-rate bonds is 4.668%. The average interest rate on the District's variable-rate bonds for fiscal year 2010 is 0.264%. All general obligation bonds are backed by the full faith and credit of the District.

The District also issues income tax secured revenue bonds. The payment of principal and interest on these bonds comes, for the most part, from available pledged tax revenues. Income

tax secured revenue bonds are not backed by the full faith and credit of the District.

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

At September 30, 2010, the District had a total of \$6.9 billion in outstanding bonds. This represents an increase of \$534.6 million over the prior year. The District's level of borrowing has grown over the past few years as the need and demand for infrastructure improvements, such as roads, streets, and bridges, continued to increase.

Outstanding Bonds at September 30, 2010 and 2009
(\$ in 000's)

Type of Bonds	2010	2009	Variance	
			Dollar	Percentage
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%

Bond Rating Agencies

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

In FY 2010, the District's general obligation bond ratings remained strong at: **AA-** by Fitch Ratings Service; **Aa2** by Moody's Investors Service; and **A+** by Standard & Poor's Rating Service. These ratings are representative of the city's improved financial operations over the last decade and its strong financial standing. During the previous fiscal year, the District issued its

first Income Tax Secured Revenue Bonds. Additional issuances of Income Tax Secured Revenue Bonds were made in FY 2010. These bonds also received strong ratings from the three primary rating agencies. At September 30, 2010, the District received credit ratings of: **AA+** by Fitch Ratings; **Aa1** by Moody's Investors Service; and **AAA** by Standard & Poor's Rating Service for its Income Tax Secured Revenue Bonds.

In FY 2010, the District refunded (refinanced) \$828.7 million of outstanding general obligation bonds through the issuance of Income Tax Secured Revenue Refunding Bonds. The refunding, also considered a debt restructuring, reduced the District's debt service payments in FY 2010 and other years without extending the final maturity of any particular bond issue.

Bond Rating History Last Five Fiscal Years

	General Obligation Bonds					Income Tax Secured Revenue Bond *	
Rating Agencies	2006	2007	2008	2009	2010	2009	2010
Fitch Ratings	A	A+	A+	A+	AA-	AA	AA+
Moody's Investors Service	A2	A1	A1	A1	Aa2	Aa2	Aa1
Standard & Poor's Rating Service	A+	A+	A+	A+	A+	AAA	AAA

*First issued in 2009.

Government-Wide Financial Statements

Governmental Activities

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

This approach accounts for all revenues and expenses incurred in the fiscal year, regardless of when cash is received or spent. The

government-wide financial statements are comprised of the Statement of Net Assets and the Statement of Activities.

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

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*.

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

Financial Analysis of the Government as a Whole

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

Net Assets as of September 30, 2010 (\$ in 000's)

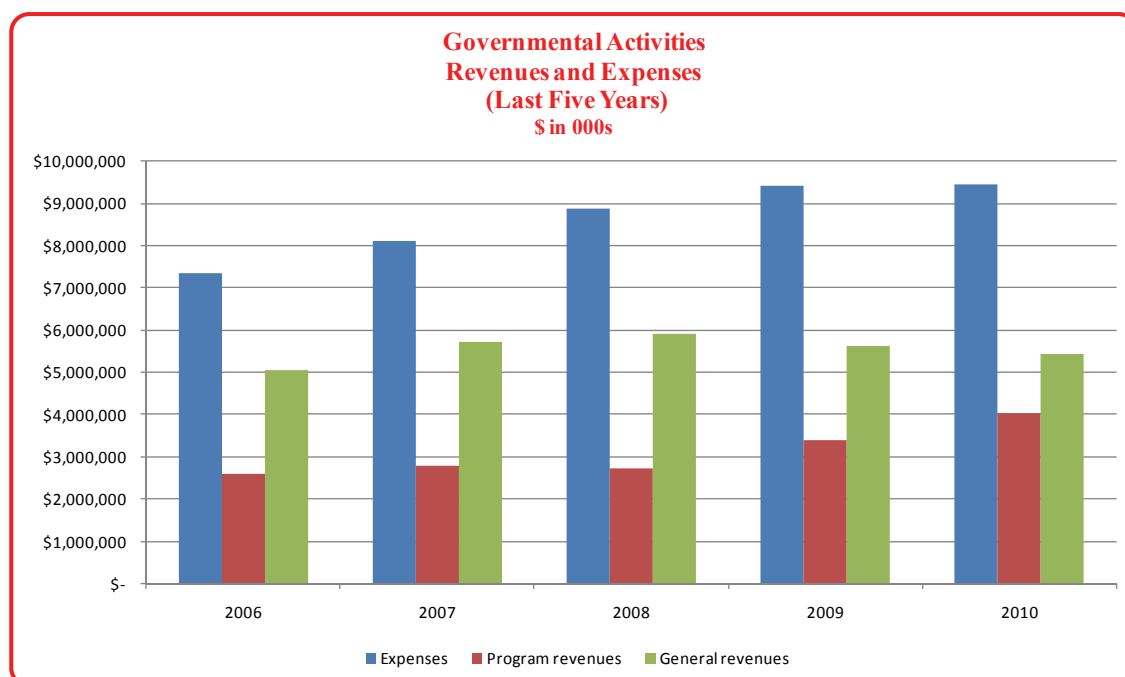
	Governmental activities		Business-type activities		Totals		Variance	
	2010	2009	2010	2009	2010	2009	Dollar	Percentage
Current and other assets	\$ 3,453,157	\$ 3,483,849	\$ 364,234	\$ 451,471	\$ 3,817,391	\$ 3,935,320	\$ (117,929)	-3.0%
Capital assets	9,228,531	8,114,819	4,827	16,012	9,233,358	8,130,831	1,102,527	13.6%
Total assets	12,681,688	11,598,668	369,061	467,483	13,050,749	12,066,151	984,598	8.2%
Long-term liabilities	8,174,105	7,545,839	29,218	35,153	8,203,323	7,580,992	622,331	8.2%
Other liabilities	1,733,001	1,551,366	93,092	85,681	1,826,093	1,637,047	189,046	11.5%
Total liabilities	9,907,106	9,097,205	122,310	120,834	10,029,416	9,218,039	811,377	8.8%
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	270,994	12.5%
Restricted	1,117,560	852,061	233,296	304,773	1,350,856	1,156,834	194,022	16.8%
Unrestricted	(780,363)	(505,804)	8,628	25,864	(771,735)	(479,940)	(291,795)	60.8%
Total net assets	\$ 2,774,582	\$ 2,501,463	\$ 246,751	\$ 346,649	\$ 3,021,333	\$ 2,848,112	\$ 173,221	6.1%

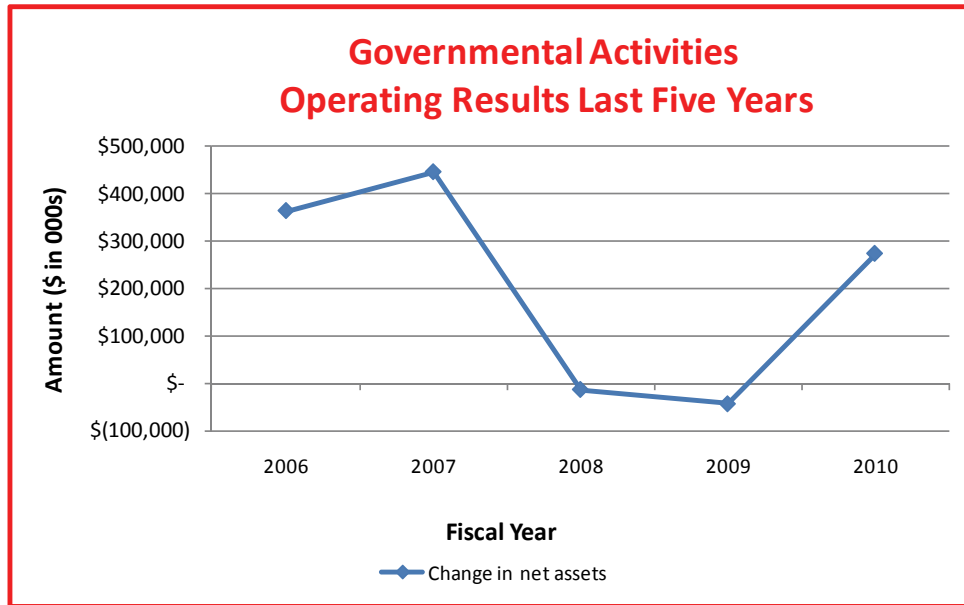
- Total assets increased by \$984.6 million mainly because the District invested more resources in **capital assets** such as new and rehabilitated infrastructure (roads and bridges), and the donation of land by the federal government
- The increase of \$811.4 million in total liabilities was due to the issuance of debt to finance the construction of infrastructure and capital improvements.
- The combined total net assets for the governmental activities and business-type activities increased by 6.1% over the previous year.

Change in Net Assets for the Year Ended September 30, 2010 (\$ in 000's)

	Governmental		Business-type		Total		Variance	
	2010	2009	2010	2009	2010	2009	Dollar	Percentage
Revenues:								
Program revenues:								
Charges for services	\$ 450,022	\$ 399,478	\$ 250,150	\$ 288,794	\$ 700,172	\$ 688,272	\$ 11,900	1.7%
Operating grants and contributions	3,321,671	2,813,568	36,998	36,985	3,358,669	2,850,553	508,116	17.8%
Capital grants and contributions	259,277	180,602	-	-	259,277	180,602	78,675	43.6%
General revenues	5,419,414	5,618,398	372,764	265,844	5,792,178	5,884,242	(92,064)	-1.6%
Total revenues	9,450,384	9,012,046	659,912	591,623	10,110,296	9,603,669	506,627	5.3%
Expenses	(9,540,831)	(9,412,028)	(663,186)	(592,001)	(10,204,017)	(10,004,029)	(199,988)	2.0%
Transfers in (out)	96,624	68,775	(96,624)	(68,775)	-	-	-	-
Special item	266,942	287,137	-	-	266,942	287,137	(20,195)	-7.0%
Increase (decrease) in net assets	273,119	(44,070)	(99,898)	(69,153)	173,221	(113,223)	286,444	-253.0%
Net assets - Oct 1	2,501,463	2,545,533	346,649	415,802	2,848,112	2,961,335	(113,223)	-3.8%
Net assets - Sept 30	\$ 2,774,582	\$ 2,501,463	\$ 246,751	\$ 346,649	\$ 3,021,333	\$ 2,848,112	\$ 173,221	6.1%

- The increase of \$508.1 million in operating grants and contributions was due primarily to increases in federal grants (including Stimulus funding).
- General revenues declined by \$92.1 million mainly because of reductions in property taxes and income and franchise taxes.
- The increase of \$200 million in expenses was due mainly to increased spending in public safety, human support services, and education.
- In FY 2010, transfers to the District's General Fund totaled \$96.6 million. Each year, the D.C. Lottery transfers substantially all of its net income to the District. In FY 2010, it transferred \$66.8 million of its income, which was a \$2.0 million decrease from last year. In addition, in FY 2010, the Washington Center for Aging Services transferred \$29.8 million to the District's General Fund when that facility discontinued operations.





Governmental Funds

The focus of governmental funds is on major funds and not on fund types. Major funds are presented individually. Nonmajor governmental funds and nonmajor proprietary funds are combined in separate columns. The sources (revenues) and uses (expenditures) of resources, assigned through the financial planning and budgeting process, focus on the District's ability to finance operations in the short-term.

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

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

General Capital Improvements, and Nonmajor Governmental Funds.

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

Assets and Liabilities

- Total assets and total liabilities of the governmental funds increased by \$90.5 million and \$352.4 million, respectively.

Operating Results

- Revenues in the governmental funds increased by \$461.5 million. This was due mainly to increases in operating grants totaling \$490 million, and federal contributions totaling \$96.7 million, which were offset by decreases in property taxes, income and franchise taxes, and other miscellaneous revenues.
- Expenditures of the governmental funds increased by \$527.6 million. This increase was due primarily to increased expenditures related to human support services, public safety, public education and capital improvements.
- Overall, total expenditures and other financial sources and uses exceeded total revenues by \$261.8 million.

Fund Balance

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

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

- Over the past fourteen years, the District's fund balance in the general fund increased from a negative balance of \$518 million to a positive balance of \$890.1 million in FY 2010, an increase of approximately \$1.41 billion.
- The unreserved General Fund fund balance totaled \$53.9 million in FY 2010.
- The reserved General Fund fund balance includes: an emergency/contingency cash reserve fund (a rainy day fund) of \$337.9 million. In addition, there is \$288.3 million in cash set aside for long term debt service and \$210 million reserved for specific programs and projects.

Miscellaneous Statistics

	Last Two Fiscal Years	
	FY 2009	FY 2010
Number of police officers	4,047	3,960
Number of police patrol cars	1,200	1,183
Police crime index offenses	34,977	30,872
Number of fire fighters & EMS personnel	1,958	1,946
Number of fire & EMS stations	34	34
Total number of fire/rescue/medical incidents	165,725	162,440
Number of DCPS teachers	3,722	3,758
Number of DCPS students	46,132	45,772
Number of DCPS high school graduates	2,679	2,790
Number of UDC teachers	241	231
Number of UDC students	5,260	5,855
Number of UDC graduates	711	602
Miles of street resurfaced; regular cover; pavement restoration	18	13
Potholes repaired	2,400	5,580
Tons of snow removed	808,732	5,298,905
Convention Center conventions held	204	214
Convention Center attendees	1,053,266	1,015,324

Outlook for FY 2011

Although the U.S. economy began to show signs of recovery in FY 2010, the District faces substantial challenges in its budget. Resources, such as the federal fiscal stimulus funding received in 2009 and 2010, which provided much needed relief, will no longer be available. However, the District's economy has much strength to help mitigate the impact of severe economic downturns.

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

Glossary

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

Glossary

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

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

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

Reserved Fund Balance

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

Structural Imbalance

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

Unqualified or "Clean" Audit Opinion

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

Unreserved Fund Balance

The portion of fund balance that is available for spending.



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YEAR ENDED SEPTEMBER 30, 2010