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Dr. Natwar M. Gandhi
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (District) for the fiscal year ended September 30, 2008, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the District.

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

Report Sections

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

Introductory Section

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

Financial Section

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

Statistical Section

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

Financial Reporting Entity

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

The District currently has five (5) discretely presented component units: (1) Housing Finance Agency; (2) Sports and Entertainment Commission; (3) University of the District of Columbia; (4) Washington Convention Center Authority; and (5) Water and Sewer Authority. The financial data for these discretely presented component units are reported separately from the financial data of the primary government.

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

A Brief History of Washington, D.C.

The Creation of the District of Columbia

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

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

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

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

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

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

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

Limited Home Rule and Its Imposed Costs

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

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

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

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

Congressional Representation

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

In accordance with the District of Columbia Delegate Act, U.S. Public Law 91-405 the people of the District of Columbia shall be represented in the House of Representatives by a Delegate, to be known as the "*Delegate to the House of Representatives from the District of Columbia*", who shall be elected by the voters of the District of Columbia in accordance with subchapter I of Chapter 10 of this title:

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

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

- Renewal of the D.C. Tuition Assistance Grant Program, which provides grants of up to $10,000 for D.C. students to cover the difference between in-state and out-of-state tuition at most public colleges, or up to $2,500 to attend private institutions in the city and region.
- Renewal of the D.C. Homebuyers Tax Credit of $5,000 for qualified purchasers of a principal residence in Washington, D.C.
- Eliminating a longstanding rider to District legislation and funding that prohibited the use of local funds for a needle exchange program for D.C. residents.
- Obtaining funds to help build road infrastructure at the Southeast Federal Center, the Frederick Douglass Bridge, and the South Capitol Street Corridor.
- Eliminating a longstanding rider to District legislation and funding that prohibited the use of local funds for D.C. voting rights lobbying efforts, or for pursuing relief in court.
- Passage of legislation allowing for the creation and circulation of a 2009 District of Columbia Quarter Coin, which includes a likeness of Edward Kennedy ("Duke") Ellington, a native of Washington, D.C., and a national jazz legend and treasure. The Ellington Quarter was issued into circulation on January 26, 2009.

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

Current Economic Condition and Outlook

Washington, D.C. Attractions and Tourism

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

Washington, D.C. hosts, on a permanent basis, 185 foreign embassies and recognized diplomatic missions, according to the U.S. State Department's "*Diplomatic List – Summer 2008.*" In addition, a number of international organizations such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Organization of American States call the District home. (Source: U.S. State Department web site: www.state.gov)

In calendar year 2007, approximately 15.0 million U.S. citizens visited Washington D.C., an increase of about 7.1% from the revised 2006 figure of 14.0 million. An estimated 1.2 million international visitors traveled to Washington, D.C. in 2007, an increase of 140,000 from the 2006 revised figure. Overall, visitors to Washington, D.C., both foreign and domestic, increased from the 15.1 million in 2006 to 16.2 million in 2007, an increase of 1.1 million, or about 7.3%. The 2008 calendar year visitor figures are not yet available.

Hotel occupancy has remained at approximately 75% from 2007 to 2008. The city's tourism industry generated more than $5.6 billion in direct spending in 2007 and directly supports 71,592 jobs. This direct visitor spending continues to generate additional business activity in related industries and is boosting local as well as regional economic growth. This trend is expected to continue. (Source: Washington Convention & Tourism Corporation web site: www.washington.org)

Employment

Total wage and salary employment in the Washington metropolitan area increased to approximately 3.03 million in FY2008 from the revised 2.99 million for FY2007, representing a 1.4% increase. However, these numbers exclude the self-employed, domestic workers, and military and foreign government personnel, which represent a significant portion of the actual work force of the region.

Total wage and salary employment within Washington, D.C. has remained at approximately 23% of the metropolitan area's total wage and salary employment during the past three years. The seasonally adjusted September 2008 unemployment rate in Washington, D.C. was 7.0%, compared to the September seasonally adjusted 2007 rate of 6.9%.

September 2008 - Labor Market ('000s)

	District of Columbia		Metropolitan area	
	Level	1 yr. ch.	Level	1 yr. ch.
Employed residents	308.1	1.9	2,930.9	24.9
Labor force	331.7	6.4	3,054.6	57.9
Total wage and salary employment	704.4	13.7	3,033.0	40.7
Federal government	192.8	1.8	345.2	3.8
Local government	38.6	-0.3	317.1	12.4
Leisure & hospitality	56.4	0.9	259.6	1.8
Trade	22.7	0.1	337.5	-0.4
Education and Health	102.7	5.7	340.1	11.9
Professional, business and other services	222.4	6.2	879.8	21.5
Other private	68.8	-0.7	553.7	-10.3
Unemployed	23.7	4.4	123.7	33.0
New unemployment claims (D.C.)	1.7	0.2	N/A	N/A

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

Total employment within Washington, D.C. increased to 704,400 in September 2008 from the revised 690,700 in September 2007. Some of the references to the 2007 employment numbers may be different from those shown in the FY2007 CAFR because of updates and revisions.

As the Nation's Capital, Washington, D.C. is the seat of the federal government and headquarters for most federal departments and agencies. The total September 2008 federal work force in the Washington metropolitan area totaled 345,200; with approximately 192,800 federal employees located in Washington, D.C. and 152,400 additional federal employees who worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer employees than in the past, new business operations, especially in the service industry, continue to fill the void and are strengthening the local economy. The increased spending by the Department of Homeland Security and the Department of Defense are also helping to stabilize federal employment in the region.

Minimum Wage

District law requires that the minimum wage rate for Washington, D.C. employees be at least $1.00 per hour greater than the minimum wage set by the federal government. In July 2007, the federal minimum wage rate was increased to $5.85 per hour from $5.15 per hour, where it had been since September 1, 1997. The President signed into law an increase in the federal minimum wage in three steps: $5.85 per hour beginning on July 24, 2007; $6.55 per hour beginning on July 24, 2008, and $7.25 per hour beginning on July 24, 2009. Accordingly, the District's minimum wage has been increased to $7.55 per hour as of July 24, 2008 and will be increased to $8.25 per hour beginning on July 24, 2009.

U.S. Census Bureau

The U.S. Census Bureau estimated that on July 1, 2008 there were 591,833 permanent residents in Washington, D.C., an increase of 3,965 from the revised July 1, 2007 estimate of 587,868, or 0.7%. The annual census estimates are based on birth and death records, changes in tax return filings and estimates of the number of immigrants who move into Washington, D.C. each year. District officials have consistently disagreed with the Census Bureau because these estimates do not take fully into account the effect of increased residential construction, property transfers and undocumented individuals.

Factors Affecting the District's Financial Condition

Structural Imbalance

In May 2003, the United States Government Accountability Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*" to address the District's known structural imbalance. Structural imbalance is defined as the fiscal and economic imbalance caused by being required to fund the services of both a state and city. The District also provides, without any tax benefit, for the presence of the Federal government and numerous non-profit organizations. The inability to tax revenue earned by non-residents, and the inability to tax Federal properties, tax-exempt properties, and non-profit international entities place a severe strain on the District's limited resources.

The following bullets provide highlights from the report:

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

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

- The District faces a substantial structural deficit because the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. The District's structural deficit was estimated to range from $470 million to $1.143 billion annually.

- Even though the District's tax burden is among the highest in the nation, the resulting revenues plus federal grants are only sufficient to fund an average level of public services, if those services were delivered with average efficiency.

- The District's underlying structural imbalance is determined by factors beyond the District's direct control.

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

Income Trends

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

Major Projects and Initiatives

With the third largest office inventory in the country, at approximately 132 million square-feet, Washington, D.C. offers one of the best markets for investors, developers, corporate offices and tenants. Investors continue to rank D.C. as the #2 office investment market nationally and internationally. Over 30-million square-feet of space have been delivered since 2001, and over 12-million additional square-feet of space are currently under construction or renovation. In addition to the office space already completed and under construction, another 46-million square-feet are in the pipeline.

Development in the District's retail sector is on the rise as retailers discover this relatively untapped market. Major retail deliveries in the past year included D.C. USA, the Citadel Building and Highland Park, which together delivered more than 559,000 sq. ft. of new retail. Due to an increasing population, grocery stores are also looking to enter the market and expand existing stores. During the first half of 2008, D.C. saw the opening of two Harris Teeter grocery stores, and, by the end of 2009, a new Safeway and Yes! Organics were scheduled to open. By 2011, an additional 10 grocery stores plan to open, including three Safeways, two Giant Foods, a Yes! Organic, and a Harris Teeter.

Even with the slow-down in the residential sector, D.C. remains a relatively strong market with an increasing workforce and population. However, the "credit-crunch" has resulted in several projects switching from condominiums to apartments. Whereas, from 2005 to 2007, D.C. saw a large increase in home ownership projects and condominium units, nearly 70% of all units under construction and scheduled to deliver in the 2009 to 2010 timeframe will be rental. While developers continue to invest in D.C., location has become an even greater factor when pursuing new properties. The three areas in D.C. that will see the largest residential development will be Mount Vernon Triangle, NoMa and the Capital Riverfront.

When the 2.3 million sq. ft. Washington Convention Center opened in 2003, it solidified D.C. as a convention and business destination. It sparked a wave of investment from the hotel industry, vying for the 16.2 million business travelers and tourists that come to D.C. each year. Overall, the D.C.'s hotel occupancy rate is a steady 74% - 75%, and the D.C. market is one of the most visited in the U.S. In the past 12-months, the 215,000 sq. ft. Newseum, the 41,888-seat Nationals Park and the second home of the Shakespeare Theatre, the Harman Center for the Arts, the renovated National Museum of American History, and the Capitol Visitor Center have opened their doors. Over the next 18-months, additional cultural amenities that will open include another 740 new or renovated hotel rooms.

Washington, D.C. is home to 140,000 students attending elementary, high school or college. In order to prepare these students for the future, they need state-of-the-art facilities. The major D.C. colleges and universities continue to add new academic centers and dorms to handle an increasing student population. The D.C. Public Schools are undergoing an immense $1.3 billion modernization to upgrade aging buildings and construct new schools by 2014. The newly formed D.C. Office of Public Education Facilities Modernization is overseeing the upgrades and new construction. During the summer of 2008, over $200 million was invested to renovate 60 D.C. Public Schools to prepare them for the current school year.

Washington, D.C., a city created as the symbol of democracy, has become an economic engine that anchors the entire region and beyond. An urban renaissance is transforming the nation's capital into a world-class city with an unparalleled business environment.

The Washington, D.C. Economic Partnership was responsible for the development of the preceding narrative about D.C. development projects, completed, under construction and currently planned. For more information about D.C. developments, please visit their website at: http://www.wdcep.com/

The Walter E. Washington Convention Center Headquarters Hotel

The Board of Directors of the Washington Convention Center Authority (WCCA) announced on September 29, 2008 that its project with Marriott International to build a 1,167-room 4-Star Marriott Marquis hotel, which will serve as the headquarters hotel, is expected to break ground in late-2009, and be completed by early-2012. The hotel will be located on 9th and L Streets, N.W., and will include additional meeting space and approximately 400 parking spaces. To move the deal forward, the District completed a land swap on November 1, 2007 with local developer Kingdon Gould III for property located within the old convention center site. That decision allowed the District to move forward with plans for a mix of housing, office, retail, and cultural facilities on the site of the old convention center.

The Old Convention Center Site

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

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

This project is expected to: (1) generate 3,842 construction jobs and 3,885 direct permanent jobs; (2) generate more than $30 million a year in direct tax revenues; (3) provide affordable housing for 20% of all units, and 80% of all units for those earning 30 percent, 60 percent and 80 percent of the Area Median Income, and; (4) create significant opportunities for Certified Business Entities (CBE). CBEs will also own 20 percent of developer equity, and at least 35 percent of construction and operations will go to CBE contractors. District residents will be given priority for at least 51 percent of all new jobs created in relation to the project.

For more information about this project, please visit http://oldconventioncenter.com/.

Neighborhood Revitalization

New Communities Initiative

The New Communities Initiative is a comprehensive partnership between the District government, neighborhoods and other public and private stakeholders. The initiative focuses on neighborhoods where older public housing developments are located and where high concentrations of poverty and crime exist. The goal of the initiative is to redevelop the neighborhoods into healthy, vibrant communities for current and future residents.

The four new communities that are to be developed are:

- **Barry Farm/Park Chester/Wade Road** – Suitland Parkway to the north, Martin Luther King, Jr. Avenue to the east, Firth Sterling Avenue to the west, and Saint Elizabeth's West Campus to the south.
- **Lincoln Heights/Richardson Dwellings** – East Capitol Street to the south, Hayes Street including Nannie Helen Burroughs Avenue to the north, 48th Place to the west, and 57th Street to the east.
- **Northwest One** – North Capitol Street on the east, New York Avenue on the north, New Jersey Avenue on the west, and K Street on the south.
- **Park Morton** – Georgia Avenue on the west, Warder Street on the east, Lamont Street on the south, and Park Road on the north.

The New Communities Initiative has four guiding principles:

- **One for One Replacement** of existing units to ensure that there is no net loss of the existing deeply subsidized units in the neighborhood.
- **The Right to Return/Stay** to ensure that current families will be able to afford to stay in their neighborhood.
- **Mixed-Income** to ensure the long-term viability of the neighborhood by providing a range of housing for all incomes.
- **Build First**, which calls for new housing on publicly-controlled lands to be built prior to the demolition of existing distressed housing to minimize displacement.

The New Communities Initiative program's key objectives are to:

- **Protect** and expand affordable housing.
- **Promote** mixed-income communities.
- **Create** economic opportunities through better jobs, education, training, and human service programs.
- **Rebuild** community anchors like schools, libraries and recreation centers.
- **Engage** residents in the decision-making process and the design of their community.

D.C. Department of Transportation

The District of Columbia Department of Transportation's (DDOT) mission is to enhance the quality of life for residents and visitors by ensuring that people, goods, and information move efficiently and safely, with minimal adverse impact on residents and the environment.
DDOT currently has three major initiatives in the city; the *Anacostia Waterfront Initiative,* the *Fredrick Douglass Memorial Bridge* and the *Great Streets Initiative.*

The *Anacostia Waterfront Initiative* (AWI) is a multi-agency effort to revitalize the areas around the waterfront of the Anacostia River by creating a hub of economic development and bringing thousands of new jobs, residents and visitors. The AWI envisions: environmentally responsible development; unification of the diverse waterfront areas into commercial, residential, recreational, and open-space uses; development and conservation of park areas; greater access to the waterfront, communities, and business corridors.

This initiative created the Anacostia Waterfront Corporation (AWC) in 2004 to oversee the development of the Anacostia River and its banks. The AWI seeks to ensure that the social and economic benefits derived from a revitalized waterfront are shared by those neighborhoods and people living along the Anacostia River. Early projections show that the cost would be approximately $8 billion and take at least 25 years to complete. Please visit www.anacostiawaterfront.net to follow the progress of this exciting and monumental task. The AWC was made a part of the District's Planning and Economic Development Agency in 2007.

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

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

1) **7th Street and Georgia Avenue, N.W.** (Mount Vernon Square to Eastern Avenue)
2) **Benning Road N.E.** (Benning Road to Southern Avenue)
3) **H Street, N.E.** (North Capitol Street to 17th Street, N.E.)
4) **Nannie Helen Burroughs Avenue, N.E.** (Minnesota Avenue to Eastern Avenue)
5) **Minnesota Avenue** (Sheriff Road to Good Hope Road)

6) **Pennsylvania Avenue, S.E.** (Second Street, S.E. to Southern Avenue)
7) **Martin Luther King, Jr. Avenue, S.E. and South Capitol Street** (East of the Anacostia River, Good Hope Road to Southern Avenue)

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

Please visit www.greatstreetsdc.com to view the plan and progress of this effort.

D.C. Housing Finance Agency

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

New residential construction is occurring in all sections of Washington, D.C., and ranges from single family dwellings, to townhouses, to apartment buildings and condominiums. HFA helped finance a total of 218 affordable single family units and 1,212 affordable multifamily units in fiscal year 2008. The total number of housing units financed was 1,430, with the amount of financing totaling approximately $134.8 million. These various ongoing efforts are creating more vibrant downtown residential neighborhoods, in addition to expanding residential development throughout Washington, D.C. Rapidly increasing construction activity in the form of the rehabilitation of vacant warehouses, commercial buildings and residential structures, and new construction in all areas provide incentives and very strong marketing tools for attracting new residents and workers to the Nation's Capital.

Since 1999, HFA has issued almost $2.6 billion in mortgage revenue bonds to finance more than 27,408 affordable rental units and single family homes throughout the city. The HFA works closely and collaboratively with its government housing partners to help increase developers' ability to access various government resources to assist with their development plans. HFA financed seven multifamily housing developments during FY 2008 and issued almost $90 million in tax exempt and taxable mortgage revenue bonds for multifamily rental housing. Companion financing in the amount of almost $6.1 million in low income housing tax credit and historic tax credit equity was raised and invested by institutional and private financiers in FY 2008. These tax exempt bond deals supported the construction or preservation of new and existing affordable housing units.

D.C. Office of Planning

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

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

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

The principal goals of CapitalSpace are to perform the following:

- Balance and reconcile intense demand for the parks and clarify appropriate uses.
- Enhance the quality of the city's parks and improve access to them.
- Establish a coordinated, connected citywide system of parks.

- Provide parks and open spaces that serve the needs of long-established neighborhoods as well as rapidly changing areas.
- Attract scarce resources for wise investments to design, operate, and maintain the city's parks and open spaces to the highest standards.

McMillan Site

The 25-acre former McMillan Reservoir Sand Filtration Site, located at North Capitol Street and Michigan Avenue, is expected to be redeveloped into a mixed-use project that may include residential, retail, office, hotel, park space, and historic preservation. The District, the selected development team, led by EYA, and the communities surrounding the site are currently working cooperatively through a charrette process that will determine the master plan and uses for the site. The goal is to create an architecturally distinct, vibrant, mixed-income community that provides housing, job, retail, educational, and recreational opportunities for District residents. The project will include affordable and workforce housing and 35 percent of the local contracting opportunities must go to certified local, small and disadvantaged businesses enterprises (LSDBEs). More than half of all new jobs created must be offered to District residents and at least 20 percent of the equity used to finance the project must come from LSDBEs as well.

Skyland Shopping Center Redevelopment

The District is finalizing plans to redevelop the former Skyland Shopping Center (Skyland), which was recently acquired by eminent domain to increase the development potential and positive impact on the surrounding neighborhood. It is anticipated that the new Skyland will include: (1) over 320,000 sq ft. of retail; (2) 1,100 surface parking spaces; (3) $125 million in total development investment; (4) $3.3 million in new annual tax revenue, and (5) over 230 permanent new jobs. The 18-acre Skyland site is located on Good Hope Road at Naylor Road and Alabama Avenue, S.E.

There are currently more than $60 billion in the District's development pipeline-residential, commercial, retail and institutional projects that are either under construction, planned or proposed. During the past decade, the District government has played a critical role in creating an environment that encourages growth and investment not only in the city's downtown commercial district but throughout the entire city. Please visit http://dcbiz.dc.gov to view in greater detail the many projects that are currently under development, or planned, for the District.

Federal Government Projects

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

The Federal government has designated the St. Elizabeth's west-campus site for the Homeland Security headquarters, beginning with the construction of a new Coast Guard headquarters. This project will be historic because it marks the first time the federal government has brought development east of the Anacostia River. The $3.4 billion headquarters will be one of the largest construction projects in the Washington area since the Pentagon was built in the 1940s. The National Capital Planning Commission just recently approved the master plan for the headquarters. The District believes that this project and other federal construction will stimulate long sought development along the Martin Luther King, Jr. Avenue.

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

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

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

The U.S. Capitol Visitor Center opened to the public on December 2, 2008. From its inception, the Capitol Visitor Center has been conceived as an extension of the Capitol that welcomes visitors to the seat of American government. At nearly 580,000 square feet, the Capitol Visitor Center is the largest project in the Capitol's 215-year history and is approximately three quarters the size of the Capitol itself. The entire facility is located underground on the east side of the Capitol so as not to detract from the appearance of the Capitol and of the grounds designed by Frederick Law Olmsted in 1874. The planting of 85 new trees, the restoration of historic fountains, lanterns and seat walls, and the addition of skylights, water features and granite pavers across the East Front Plaza will all serve to revitalize the historic landscape.

The Smithsonian's National Museum of American History reopens after two years of architectural renovations to shed new light on American history, literally and figuratively. The Museum has been dramatically transformed and will engage audiences of all ages. Visitors walk into a five-story sky-lit atrium, surrounded by artifact displays showcasing the breadth of the Museum's three million objects from the cultural, social, technological and political history of the United States. A grand staircase now links the Museum's first and second floors and six landmark objects located in the wings of each of the three exhibition floors help orient visitors. New galleries such as the Jerome and Dorothy Lemelson Hall of Invention, presenting "Invention at Play," join old favorites including "The American Presidency: A Glorious Burden" and "America on the Move." At the heart of the Museum, the Star-Spangled Banner—one of the most recognized symbols of the nation—has been given a new state-of-the-art gallery and fresh interpretation. The grand reopening kicks off a year of new exhibitions and programming throughout 2009.

Business Improvement Districts

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

Justification for and benefits of a BID:

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

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

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

Economic Tax Incentives

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

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

The Tax Parity Act of 1999 created a schedule to lower District taxes on both income and real property. The tax rates make Washington, D.C. more competitive with the neighboring suburban jurisdictions. The Act streamlined the tax code and eliminated duplications and discrepancies.

At the same time, the District moved from a property assessment schedule of every three years to an annual assessment of all properties.

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

Accounting System

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

Measurement Focus and Basis of Accounting

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

- Fund financial statements focus primarily on the sources, uses, and balances of current financial resources and use the modified accrual basis of accounting.
- The government-wide financial statements focus on all of the District's economic resources and use the full accrual basis of accounting.
- The District's financial statements are prepared in accordance with GAAP.

Internal Control

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

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

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

- ***Effectiveness***: Ultimately, management's success must be judged on the basis of whether the entity is achieving its objectives.
- ***Efficiency***: Because there are legitimate and conflicting demands for scarce resources, management is expected to make optimal use of the resources placed under its control. An activity can only be truly efficient if it is first effective.
- ***Compliance***: Management does not have unlimited authority over the resources under its control. Rather, management's control over resources normally is limited by policy, law, or regulation, particularly in the public sector. A condition of management's stewardship of resources is that it strictly complies with all such restrictions.
- ***Reporting***: Managers must be accountable to those who have provided the resources in their care. An essential part of meeting this responsibility is the regular preparation of financial reports for the benefit of interested parties.

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

- A favorable ***control environment***
- The ***continuing assessment of risk***
- The design, implementation, and maintenance of effective ***control-related policies and procedures***
- Effective ***communication*** of information, and
- Ongoing ***monitoring*** of the effectiveness of control-related policies and procedures, as well as the resolution of any potential problems identified.

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

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

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

Budgetary Control

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

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

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

- ***Entity Differences*** - This basis relates to inclusion or exclusion of certain activities for budgetary purposes as opposed to those on a GAAP basis for reporting purposes. Such activities primarily include the following as detailed in Exhibit 2-d:

    - Fund balance released from restrictions
    - Proceeds from debt restructuring
    - Accounts receivable allowance
    - Operating cost from enterprise funds

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

- ***Timing Differences*** – Timing differences can exist when there are significant variances between budgetary practices and GAAP, which may include continuing appropriations, project appropriations, automatic reappropriations, and biennial budgeting. The District has no significant timing differences between its budgetary practices and its GAAP presentation of its financial statements. GAAP requires that all jurisdictions recognize property tax revenues when they become available. The *"availability criteria"* means collected within the current period, or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. GAAP has determined that this period shall not exceed 60 days. As a result, the District was required to include property tax revenues collected within 60-days of September 30, 2008 as FY 2008 revenues.

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

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

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

Cash Management

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

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

Bond Rating Agencies

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

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

Bond Rating History

	Last Four Fiscal Years			
	2005	**2006**	**2007**	**2008**
S&P	A+	A+	A+	A+
Moody's	A2	A2	A1	A1
Fitch	A	A	A+	A+

Risk Management

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

Independent Audit

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

The D.C. Office of the Inspector General (OIG) is responsible for selecting the District's Independent

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

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

U.S. Office of Management & Budget Single Audit

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

All required A-133 Single Audits through fiscal year 2007 have been completed and the District is in full compliance with the Single Audit Act. The results of the District-wide Single Audits are presented in a separate report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District of Columbia for its comprehensive annual financial report for the fiscal year ended September 30, 2007. The District has received this award for twenty-four of the last twenty-six years. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards in the preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

The District also earned an award from GFOA for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for fiscal year ended September 30, 2007 for the fifth consecutive year. The PAFR was prepared and submitted by the District for the first time for FY 2003. The PAFR presents the District's financial results in a format and language that are intended to be more easily understood by the general public. The PAFR is not required to present the same level of detail as the CAFR. It contains very few financial statements, and the use of graphics and photos is increased.

Both awards are valid for one fiscal year. The District believes that the FY 2008 CAFR continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate. The District also expects that the FY 2008 PAFR, which will be prepared within 30 days after the CAFR is completed, will conform to the Award for Popular Annual Financial Reporting Program requirements. It will also be submitted to the GFOA to determine its eligibility for another certificate.

Acknowledgments

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

Respectfully submitted,

Anthony F. Pompa

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Financial Operations and Systems