

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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- Letter of Transmittal ★
- Organizational Chart ★
- List of Principal Officials ★
- GFOA Certificate of Achievement ★

Introductory Section

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER





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January 23, 2004

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, 2003, 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 to enable the reader to gain a useful understanding of the District's financial activities.

Report Sections

The CAFR is presented in three sections: introductory, financial, and statistical. The introductory section includes this letter of transmittal, the District's organizational chart, a list of principal officials and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. 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, and other supplementary information which includes combining and individual fund statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

Management's Discussion & Analysis

Beginning last year, the District and many other state and local governments began presenting an MD&A section. 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 in every financial report that includes basic financial statements presented in accordance with accounting principles generally accepted in the United States (GAAP). The MD&A is presented before the basic financial statements. It is intended to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The addition of the MD&A and the government-wide financial statements should provide financial information that will be of interest to user groups who historically have not shown much interest in governmental financial reports.

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 organizations that make up its legal entity.

The Water and Sewer Authority, the Washington Convention Center Authority, the Sports and Entertainment Commission, the Housing Finance Agency and the University of the District of Columbia are legally separate organizations for which the elected officials of the District are financially accountable. The financial data for these component units are presented separately from the financial data of the primary government. The Tobacco Settlement Financing Corporation (TSFC) is presented as a blended component unit, as required by GAAP applicable to governmental entities.

The District of Columbia Housing Authority, The National Capital Revitalization Corporation and the District of Columbia Courts are related organizations. A related organization is an organization for which the primary government appoints a voting majority of the board, but for which it is not financially accountable.

Factors Affecting the District's Financial Condition

In May 2003, the United States General Accounting Office (GAO) issued the report "*District of Columbia – Structural Imbalance and Management Issues*." Structural imbalance is the fiscal and economic imbalance caused by being required to fund the services of both a state and city. The District also provides for the presence of the Federal government and other 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 puts a severe strain on the District's limited resources. The District is also faced with high concentrations of individuals who require substantial support for education, health care, job creation and training, and subsidized housing. Further, the District faces higher rates of poverty, crime, and drug usage than many cities of comparable size.

The GAO report is very detailed, and is recommended reading for all who wish to obtain a more complete understanding of this issue, which is extremely important to the long-term improvement of the District's governmental operations, delivery of services, and the economic well being of the District. Please contact the GAO to request a copy of GAO-03-666. The following section provides highlights from the report:

- The cost of delivering an average level of services per capita in the District far exceeds that of the average state fiscal system due to factors such as high poverty, crime, and a 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. In addition, its revenue capacity would be larger without constraints on its taxing authority, such as its inability to tax federal property or the income of nonresidents.
- The District faces a substantial structural deficit in that the cost of providing an average level of public services exceeds the amount of revenue it could raise by applying average tax rates. Data limitations and uncertainties surrounding key assumptions in the GAO analysis make it difficult to determine the exact size of the District's structural deficit, though it likely ranges 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.
- The District continues to defer major infrastructure projects and capital investment because of its structural imbalance and its high debt level. These two factors make it difficult for the District to raise taxes, cut services, or assume additional debt.

Current Economic Condition and Outlook

As the nation's capital, the District of Columbia is the seat of the three branches of the federal government and headquarters for most federal departments and agencies. The federal work force in the District averaged approximately 189,000 employees in FY 2003 while approximately 150,000 additional federal employees worked elsewhere in the Washington metropolitan area. Although both the District and the federal government employ fewer people than in the past, new business operations, especially in the service industry, have filled the void and are driving the strengthening local economy.

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

More than 400 museums and historical landmarks are located in the District and attract millions of visitors each year. Citizens of all the states and international visitors enjoy the popular attractions along the National Mall as well as the monuments to presidents and the memorials of war. 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 located in the Georgia Avenue Corridor in Northwest, at the Congressional Cemetery and at Fort Dupont Park in Southeast, and at Fort McNair in Southwest. With its variety of activities and rich history, Washington, D. C. was recently voted a top destination for family travelers.

In calendar year 2002, approximately 17.6 million U.S. citizens visited Washington D.C., a decrease of about 3% from 2001. These visitors are very important to the District's economy because of the large sums of money spent on lodging, meals, retail purchases and other services. Estimates of international visitors for 2002 are approximately one million, a decrease of about 14% from 2001. The total amounts spent by visitors to D.C. in 2002 is not yet available but is expected to be comparable to calendar year 2000 spending of \$8.5 billion. This direct visitor spending generated additional business activity in related industries and boosted local as well as regional economic growth.

The District has evolved into a diverse economic community. The service industries now surpass the federal government as the largest employer. Expansion in legal services, high-speed Internet technology and communications provide new employment opportunities. The District is home to several prominent universities and major institutions of higher learning. Other universities from across the nation have established programs or campuses in and around the District. The District has 15 acute and long-term care facilities, including medical centers, hospitals for children and members of the military, and a regional shock and trauma center. More than 2,500 national trade associations, voluntary health and welfare and other not-for-profit organizations, and labor organizations are also headquartered in the District. The vacancy rate for non-sublet commercial office space was 5.13% in December 2002.

Total employment in the Washington metropolitan area was approximately 2,750,000 in FY 2003 compared to 2,696,100 in FY 2002, representing a slight increase. However, these numbers exclude the self-employed, domestic workers, military and foreign government personnel, which represent a significant portion of the actual work force of the region. District resident employment stayed at approximately 23% of the area total during both years. The September 2003, seasonally adjusted, unemployment rate in the District was 6.1%, the same as in September 2002. Total employment within the District increased to 667,000 in September 2003 from 652,000 in September 2002.

Current development projects in retail, entertainment, tourism, and housing support the expectation of additional growth in private sector employment over the next several years. A number of national retail and food service chains have already moved into renovated commercial spaces across the central business district, and similar projects are appearing in surrounding areas. The Swedish clothier Hennes & Mauritz partially leased the long-vacant Woodward & Lothrop Department store downtown and opened to long lines of customers in August 2003. It is hoped that this is a sign of the renewed interest of retailers to locate or expand their operations in the District's historic retail-oriented downtown.

XM Satellite Radio has occupied its new headquarters in the New York Avenue Technology Corridor, and other telecommunications companies are being encouraged to consider establishing business operations, such as data warehouses, nearby. The District, in partnership with the federal government and businesses in the New York Avenue Technology Corridor, has agreed to fund the construction of a new Metro rail station on the Red Line, which is the busiest line on the existing 103-mile system. This station is scheduled to be completed by December 2004, and the Washington Metropolitan Area Transit Authority is in the process of acquiring new railcars and modernizing many of its current railcars to accommodate this new station and increased traffic throughout the system.

The District selected a developer for the site of the former Wax Museum, east of Fifth Street, N.W., between K and L Streets. This project, when completed, will provide more than 500 apartments, a grocery store, a theater, art galleries, and several restaurants. A developer has also been selected for the old Tivoli Theater Complex in the Columbia Heights section of 14th Street, N.W. This development is near a recently opened Metro rail station and will include a Giant Food Supermarket and town houses. New residential construction is occurring in all sections of the District, and range from single-family dwellings, to town houses, to apartment buildings and condominiums. The District helped finance a total of 2,155 housing units in fiscal year 2003. These ongoing efforts are creating a vibrant downtown neighborhood, in addition to expanding residential development throughout the District.

Preliminary estimates indicate that between now and 2005; District employers will have a high demand for workers below the managerial, professional, and technical levels. Hundreds of employment opportunities are expected to become available in the service sector, particularly in food service, janitorial, and housekeeping operations. Administrative support staff, including first line supervisors, will also be in high demand. Of even greater impact should be the increased percentage of District residents expected to occupy these jobs.

The anticipated increase in non-governmental and total employment will mark an important milestone. The shift to a diversified employment base will continue to strengthen the District's economy, and make it more stable and less dependent

on the federal government. It appears that the trend for federal operations to move into suburban areas is slowing, while the District's economic base is continuing its shift from government towards private sector services employment.

The U.S. Census Bureau estimated that in July 2003 there were 563,384 permanent residents in the District, a decrease of 5,773 from the July 2002 figure of 569,157. The 2000 Census indicated that estimates of flight from the District had been overstated in Census estimates during the previous decade. The actual population loss was 5.7% from 1990 to 2000, which is almost 60% less than the estimated loss predicted by the previous 1990 Census results. Those same Census estimates predicted that the District population would not reach its current level for approximately five more years. In fact, the District's population decreased 16% between 1970 and 1980, but only experienced an additional 5% loss between 1980 and 1990 and 5.7% from 1990 to 2000. The annual Census estimates are made from birth and death records, changes in tax return filings and estimates of the number of immigrants who moved into the District each year. District officials have disagreed with this estimate based upon increased residential construction and property transfers. There is evidence that the U.S. Census has been historically low in its estimates of D.C. population. These estimates can affect the amount of Federal dollars that the District receives, which are based upon the Census Bureau's total population reports.

Major Initiatives

Casey Foundation Gifts

In February 2001, The Eugene B. Casey Foundation offered to make available a 16.5 acre property located at 1801 Foxhall Road, N.W., and to design and build an Official Residence for the D.C. Mayor, to be named the Casey Mansion. It was intended that the District would be given the right to use the Mansion as the Official Residence of the Mayor. The Foundation was to retain ownership of the property, and was to be solely responsible for all operating expenses.

In December 2003, the Foundation announced that it was terminating its plan to develop the Casey Mansion, and intended to transfer the property to The Salvation Army. The Salvation Army announced shortly thereafter that it planned to sell the property to the highest bidder. The Salvation Army also announced that the proceeds from the sale of the Foxhall property will be used to fund their new model Corps community center in the Anacostia area. This new development will benefit the District in two substantial ways: (1) it would bring increased tax proceeds to the District, with perhaps many new residents, and (2) the Anacostia facility will provide critical programs and opportunities in social services, job training, day care and economic development to District resident.

The District of Columbia is also benefiting from another extraordinary gift from the Foundation. The Foundation has established the Casey Tree Endowment Fund (the Fund) to augment District resources devoted to the care and replacement of trees in public spaces. The first major project completed by the Fund was the 2002 inventory of all District owned trees. There were approximately 106,000 trees and about 38,000 vacant planting spaces. The inventory also revealed that only about 32% of the trees are fully healthy and roughly 10% are dead.

The Casey Foundation and the Casey Tree Endowment Fund recognize that healthy trees contribute to our quality of life. The Fund is committed to planting approximately 6,000 trees per year to augment the District's efforts to protect and restore the District's urban tree canopy. In response, the District's Urban Forestry Administration is now committed to planting at least 4,000 trees per year and to increase the frequency of pruning. Dead and diseased trees will be removed or treated in a timely manner. The government and the residents of the District salute the humanitarian commitment of the Casey Foundation.

Washington Convention Center

The new Washington Convention Center opened as scheduled in April 2003. The new facility provides the District with 825,000 square feet of additional meeting and exhibition space. In 1995, the District established the Washington Convention Center Authority and provided it with dedicated tax revenues to operate the existing convention center and to construct a new convention center. Along with the existing facility, the total exhibitor and meeting space will exceed 1,000,000 square feet. The new facility will enable the District to maintain its position among major cities as a leader in conventions, conferences and the hospitality industry in general. Like the MCI Center, a privately financed sports arena that opened in 1997, the Convention Center project has provided opportunities for direct construction related employment, and is expected to generate many new jobs in the hospitality industry.

Over the past few years, the Washington Convention Center Authority has awarded in excess of \$300 million in construction and other contracts to Local Small Disadvantaged Business Enterprises. The old Convention Center will be eventually torn down and the site will be opened up to bids for development, which will, hopefully, include a combination of commercial, residential, cultural and urban park facilities and amenities. The old Carnegie Library reopened in the spring of 2003 as the

new \$30 million City Museum of Washington. The City Museum is unique in a city full of museums in that it is the only city museum devoted to Washington, D.C., its history, neighborhoods and people. The City Museum is located across the street from the new Washington Convention Center.

In late October 2002, the District announced that it had awarded the right to begin negotiations for the development of a convention center headquarters hotel of 1,000 to 1,500 rooms at 9th and Massachusetts Avenue, NW with Marriott International and Gould Properties. Financing for the \$500 million hotel is likely to be accomplished with tax-exempt revenue bonds. The project is expected to generate \$29 million a year in tax revenue for the District, create more than 2,000 full-time construction jobs and as many as 1,300 service-related jobs, when the hotel opens in late 2006 or early 2007.

Division of Transportation

The District's Division of Transportation (DDOT) is managing multiple active projects that maintain, upgrade or reconstruct many of the local sidewalks, streets and bridges. This comprehensive infrastructure revitalization effort enhances the general appearance of neighborhoods but also eases the access and quickens the flow of traffic through the business activity centers. The renewal projects add to the ability of the District to compete for new residents and businesses. Each success adds to the tax base and translates into improved services for all. One of DDOT's recently completed major construction projects is the upgrade of the New York Avenue Gateway to Washington, D.C.

DDOT is also working on the New York Avenue Corridor Study that is intended to resolve current and future transportation needs of the Corridor from the Gateway at the intersection of New York Avenue and the Baltimore-Washington Parkway to the new Convention Center. The objective is to attract technology and other businesses to the Corridor and to provide a magnificent entryway for all visitors to the nation's capital. DDOT has recently begun the planning and design process to upgrade the South Capitol Avenue Gateway to Washington, D.C., and to begin the process of revitalization in this area that has long been neglected. As such, DDOT is pursuing the "Anacostia Starter Line", one of the five new light-rail projects, which would begin in the District's poorest neighborhoods in Southeast, cross the Anacostia River and connect those residents with jobs and activities along the Southwest waterfront.

Neighborhood Revitalization

The District is solidifying its position as the world's capital for finance, technology, government and history. The District has become a vibrant and living community that includes world class arts, sports, entertainment and dining facilities; not just another place to stop, but a place to stay awhile, to live in, to play and to create. The Mayor has announced his goal to attract 100,000 new residents to the District within the next 10 years.

On March 22, 2000, the D.C. Mayor brought together the 20 federal and District agencies that own or control land along the Anacostia River to sign the Anacostia Waterfront Initiative (AWI) Memorandum of Understanding (MOU). The AWI MOU created an unprecedented partnership between the federal and District governments to transform the Anacostia River from the city's forgotten river to a gem that could rival any urban waterfront in the world. The District plans to transform the Anacostia River and its banks into an area that will support recreational activities, such as swimming, boating and fishing, and to create parks, neighborhoods and cultural venues. The plans, as outlined by District Officials, would cost billions and take at least 30-years to complete.

With Washington's downtown nearly built out, the city's pattern of growth is moving eastward toward and across the Anacostia River. The destiny of Washington, D.C. as the nation's capital and a premier world city is inextricably linked to re-centering its growth along the Anacostia River and making its long-neglected parks, environment and infrastructure a national priority. The recovery of the Anacostia Waterfront will help to reunite Washington, D.C. economically, physically and socially.

The vision of the AWI is of a clean and vibrant waterfront with parks, recreation uses and urban waterfront settings – places for people to meet, relax, encounter nature and experience the heritage of the waterfront neighborhoods. The AWI also 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 for whom the river has been distant and out of reach. The Federal Government has also announced plans to increase its employment presence in the Southeast Federal 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.

In April 2001, the operator of the luxury hotel Mandarin Oriental announced that it would build a 400-room property on a vacant site along the waterfront in Southwest Washington after securing a \$46 million tax-revenue bond from the District. Construction of the \$155 million hotel, a project that is already four years in the making, is "critical" to the District's plans to

bring 800 housing units, restaurants, retail space and a waterfront park to Southwest. The tax exempt financing for this project was made available in April 2003.

The Georgetown Project is a joint effort by Pepco, Verizon, Washington Gas, the Water and Sewer Authority and DDOT. It will provide a major upgrade of Georgetown's underground utility infrastructure and the streetscape. The project began in October 2001 and is expected to take about four-years to complete. The Project will modernize the utility system to meet present and future growth in demand. Georgetown has some of the oldest underground infrastructure in Washington, D.C., and various utility and service disruptions required this coordinated effort to improve the infrastructure and reduce disruptions.

A new shopping center opened last year in the Ward 5 sector near the Rhode Island Avenue Metro rail station. It currently includes the major retail chains Home Depot and Giant Food. Kmart, which was also scheduled to build a store in this shopping center, has put its development plans on hold as it works its way through its bankruptcy proceedings. During 2001, plans were announced for the development of a 400,000-square-foot shopping center in the Fort Lincoln neighborhood in Northeast Washington, overlooking the New York Avenue Gateway. The rapid reconstruction and renovation of vacant warehouses, buildings and residential structures, in addition to entirely new construction in all areas of the District, is the incentive and marketing tool for attracting new residents and workers to the nation's capital.

The Freedom Forum, currently based in Rosslyn, Virginia, has purchased the former site of the District's Department of Employment Services (DOES) located at 6th & Pennsylvania Avenue, N.W. In addition to its main offices, the Freedom Forum will relocate its Newseum, an interactive news museum, with approximately 215,000-square feet, and develop both an additional 30,000 square feet of retail space and approximately 100 condominium units. The approximately 531,000-square foot development is estimated to cost about \$400 million. In October 2002, the Freedom Foundation and the Newseum formally presented their design for the new building. Demolition of the old DOES building has occurred and it is expected that the new Newseum will be completed and opened to the public by late 2006.

In keeping with the District's neighborhood revitalization strategy, DOES operations have been temporarily relocated to another area of the city that is targeted for development. While the new DOES headquarters is being developed and constructed, DOES staff is housed in a newly renovated warehouse near the intersection of New York and Florida avenues. The District's Department of Motor Vehicles is also to be relocated away from the downtown business district to make its primary services more accessible to citizens. These moves will spur additional development at the new sites.

The federal government has shown renewed interest in the District as the place for consolidating agencies, functions and staff. Construction of the U.S. Department of Justice's Bureau of Alcohol, Tobacco, Firearms and Explosives' new headquarters building has begun. The General Services Administration broke ground in April 2002 on the 422,000-square foot building. The decision to locate the project, at the intersection of First Street and New York Avenues, N.E. helped the District obtain matching Federal and private commitments of \$50 million to pay for a new Metro rail station near that location. Construction began in November 2002 and was originally projected to be completed in late-2004.

Economic Tax Incentives

The already popular tourism industry and other projects such as those discussed above only partially address the District's need to build a broader economic base. Both the U.S. Congress and the D.C. Council have enacted legislation and are taking action that aims at expansion of the District's permanent tax base by making all areas of the District economically attractive to both residents and new business interests.

The Taxpayer Relief Act of 1997 (PL 105-34) established the District of Columbia's Enterprise Zone. The zone consists of the previously existing enterprise zone community 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%. The federal Homebuyer Tax Credit, which provides a maximum \$5,000 federal income tax credit for first-time buyers of principal residences, was also included in the original Taxpayer Relief Act of 1997; it has since been extended for purchases closed through December 31, 2003, as were the business tax benefits.

The Tax Parity Act of 1999 lowered taxes on both income and real property. The new tax rates are expected to make the District more competitive with the suburban jurisdictions. The Tax Clarity Act of 1999 streamlined the tax code, eliminating duplications and discrepancies. During the same period, real property tax assessments have continued to reverse their decline and collections of both current and delinquent taxes have increased.

Additional business incentive legislation is awaiting final approval by the District and the U.S. Congress. The E-Conomy Transformation Act of 2000 encourages new high technology firms to locate their operations in the District while encouraging the hiring of District residents. Brownfields redevelopment program legislation, which has proven successful in other jurisdictions, limits liability for certain environmental contamination and establishes funding mechanisms for those willing to develop Brownfields sites. Brownfields sites are abandoned buildings and properties that are contaminated (or perceived to be contaminated), complicating their potential for reuse. The cleanup of such sites, and the removal of liabilities that could arise from their reuse, allows Brownfields sites to become productive again. These sites are to be used for economic development activities, the creation of new and affordable housing, or for urban gardens, parks and recreation areas.

The Office of the Chief Financial Officer negotiated and certified two new projects for participation in the Tax Increment Financing (TIF) Program this year, the Mandarin Hotel on the Southwest Waterfront and Gallery Place in Chinatown, adjacent to the MCI Center. TIF agreements enable the District to influence certain conditions of each operation, including the percentage of District residents to be employed both during and after construction. Buoyed by the successes on the New York Avenue technology corridor, the District is actively proceeding with plans to restructure the economic base of other underserved neighborhoods. Local redevelopment options for both residential and retail investments are under discussion for a variety of sites outside of the central business area.

Other Initiatives

The District is supporting the efforts of a D.C.-based group that is attempting to bring a major league baseball team to the District that would use the Robert F. Kennedy Stadium. The Mayor has also announced that the District is willing to contribute up to \$200 million in public land, financing and other incentives to build a new ballpark in Washington. It is possible that a major league team could relocate to Washington, D.C. within the next two years. The National Football League was considering staging the Super Bowl in either New York or Washington D.C. in 2008. This was in support of the two cities that were targeted on September 11, 2001. However, it was recently announced by the National Football League that the 2008 Super Bowl will be awarded to Phoenix, Arizona. The addition of the new Convention Center, allied hotels, the prospect of a new stadium helps to improve the region's prospects to host this and many other national and international events in the future.

The District of Columbia College Access Act (PL 106-98), and its amendments, authorized the District to underwrite a portion of the differences between in-state and out-of-state tuition rates for eligible District residents who attend certain institutions of higher education outside of the District. Additional federal incentives under separate legislation, including tax credits and health care coverage, provide a variety of support to those who adopt children from the District's foster care system.

The District offers a tax-advantaged 529 College Savings Investment Plan (named after Section 529 of the Internal Revenue Code) The Plan is designed to help families save for the higher education expenses of designated beneficiaries and is available to DC residents as well as non-residents nationwide. This plan is reported in the Private-purpose trust 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 (corresponding to a corporation in the private sector) having its own assets, liabilities, equity, revenues, and expenditures/expenses. The types of funds used are determined by GAAP, and the number of funds established within each type is determined by principles of 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 similar business enterprises or non-business organizations.

Internal Control

Management of the District is responsible for establishing and maintaining an internal control structure 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 control structure is 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 estimates and judgments by management.

Budgetary Control

The District maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the United States Congress. A project-length financial plan is adopted for the 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.

The budgetary general fund differs from the GAAP- basis general fund and federal and private resources fund because the latter - the GAAP basis general and federal and private resources funds - focus on economic resources, while the budgetary general fund is prepared using modified accrual basis. For budgetary purposes, the general fund must be considered in conjunction with the federal and private resources major fund as presented in Exhibit 2-d. The District separated the federal and private resources fund from the general fund in order to enhance stakeholders understanding of the general operations of the District. The annual appropriated budget is prepared largely on a modified accrual basis because certain revenues are allowed by law to be collected after the fiscal year and used to pay the liabilities of the current year. These revenues include property taxes. Although, certain budgeting for inventory, Medicaid, certain pension and other employee benefits, and other expenditures are budgeted on a cash basis, these are immaterial.

The “*District Anti-Deficiency Act of 2002*” (the Act) became effective on April 4, 2003. The Act requires District managers to develop year-end 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 case of overspending, corrective action plan. Spending projections are required to be submitted to the agency head and the agency chief financial officer. Summarized spending projections shall be submitted to the District’s Chief Financial Officer no more than 30-days after the end of the month.

The District’s Chief Financial Officer 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 patters and steps being taken to assure that spending remains within the approved budget.

As required by Congressional mandate, the District must also build and maintain an emergency cash reserve equaling 4% of the total budget allocated for operating expenditures by FY 2004. An additional contingency cash reserve must also be established, which must equal 3% of the total budget allocated for operating expenditures. Beginning in FY 2007, the District will be required to maintain a combined balance of 7% for both reserves.

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 generally fully guaranteed by the federal government, such as mutual funds 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. Deposits and investments are fully collateralized with approved securities that are held by the District or by its agent in the District's name.

Risk Management

The District retains the risk of loss arising out of the ownership of property or from some other cause, except 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 balance is not intended to include all assets that may be required to finance losses. Rather, losses are recognized in the affected fund when they occur. The District is self-insured for workers compensation.

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. General Accounting Office. The financial statements must be prepared in conformity with GAAP. The District has complied with these requirements and the independent auditors' report is included in the financial section of this report.

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) spells out 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.

The Office of Internal Audit and Internal Security, Office of the Chief Financial Officer, has completed all required A-133 Single Audits through fiscal year 2002 and the District is in full compliance with the Single Audit Act. The results of the District-wide Single Audit are presented in a separate report.

Award

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 for its comprehensive annual financial report for the fiscal year ended September 30, 2002. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must also satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The District has received a Certificate of Achievement for nineteen of the last twenty-one years. The District believes that the current comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements and it will be submitted to the GFOA for review.

Acknowledgments

I want 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, especially in the past four months. I 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 staff, *Grace Crocker, Larry Daniels, Chris LaCour, Bill Slack, Leticia Stephenson*, and their respective team members. I am grateful for their dedicated efforts. I also thank the Office of the Inspector General and the District's independent auditors, *KPMG LLP* who were assisted by *Bert Smith and Company; Thompson, Cobb, Bazilio and Associates; and Gardiner, Kanya and Associates* for their efforts throughout the audit engagement.

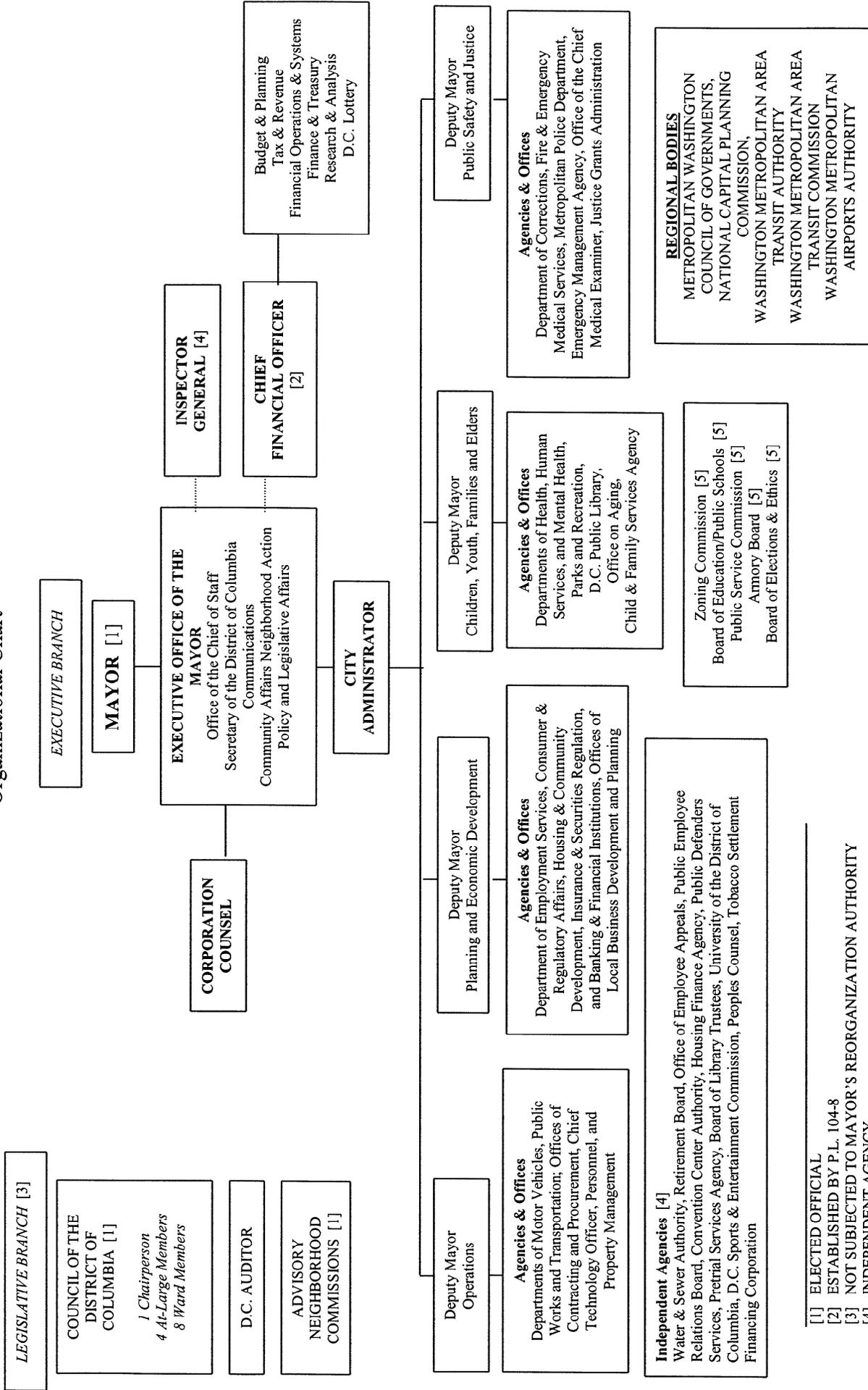
Respectfully submitted,



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

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Organizational Chart



[1] ELECTED OFFICIAL
 [2] ESTABLISHED BY P.L. 104-8
 [3] NOT SUBJECTED TO MAYOR'S REORGANIZATION AUTHORITY
 [4] INDEPENDENT AGENCY
 [5] CHARTER INDEPENDENT AGENCY

**DISTRICT OF COLUMBIA
PRINCIPAL OFFICIALS
September 30, 2003**

Name	Position	First Elected or Appointed	Term Expires
Chief Executive Officer			
Anthony A. Williams	Mayor	1999	2007
Council			
Linda W. Cropp	Chairman	1991	2007
Harold Brazil	At Large	1991	2005
David A. Catania	At Large	1997	2007
Phil Mendelson	At Large	1999	2007
Carol Schwartz	At Large	1997	2005
Jim Graham	Ward 1	1999	2007
Jack Evans	Ward 2	1991	2005
Kathleen Patterson	Ward 3	1995	2007
Adrian Fenty	Ward 4	2001	2005
Vincent Orange	Ward 5	1999	2007
Sharon Ambrose	Ward 6	1997	2007
Kevin P. Chavous	Ward 7	1993	2005
Sandy Allen	Ward 8	1997	2005
House of Representatives			
Eleanor Holmes Norton	Delegate	1991	2005
Executive Officers			
John Koskinen	City Administrator		
Natwar M. Gandhi	Chief Financial Officer		
Robert Spagnoletti	Corporation Counsel		
Kelvin Robinson	Chief of Staff		
Eric Price	Deputy Mayor for Planning and Economic Development		
Carolyn Graham	Deputy Mayor for Children, Youth, Families and Elders		
Margret Nedelkoff Kellems	Deputy Mayor for Public Safety and Justice		
Herbert R. Tillery	Deputy Mayor for Operations		
Sherryl Hobbs Newman	Secretary of the District of Columbia		
Charles C. Maddox, Esq.	Inspector General		
Anthony F. Pompa	Deputy CFO, Financial Operations and Systems		
Bert Molina	Deputy CFO, Budget and Planning		
N. Anthony Calhoun	Deputy CFO, Finance and Treasury		
Dr. Julia Friedman	Deputy CFO, Research and Analysis		
Phil Brand	Deputy CFO, Tax and Revenue		
Steward D. Beckham	Associate CFO, Public Safety and Justice		
Pamela D. Graham	Associate CFO, Government Services		
Barbara D. Jumper	Associate CFO, Governmental Direction and Operations		
Henry W. Mosley	Associate CFO, Economic Development and Regulation		
Deloras A. Shepherd	Associate CFO, Human Support Services		
John D. Musso	Agency CFO, D.C. Public Schools		
Jeanette A. Michael	Executive Director, D.C. Lottery		

Certificate of Achievement for Excellence in Financial Reporting

Presented to

District of Columbia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

Executive Director