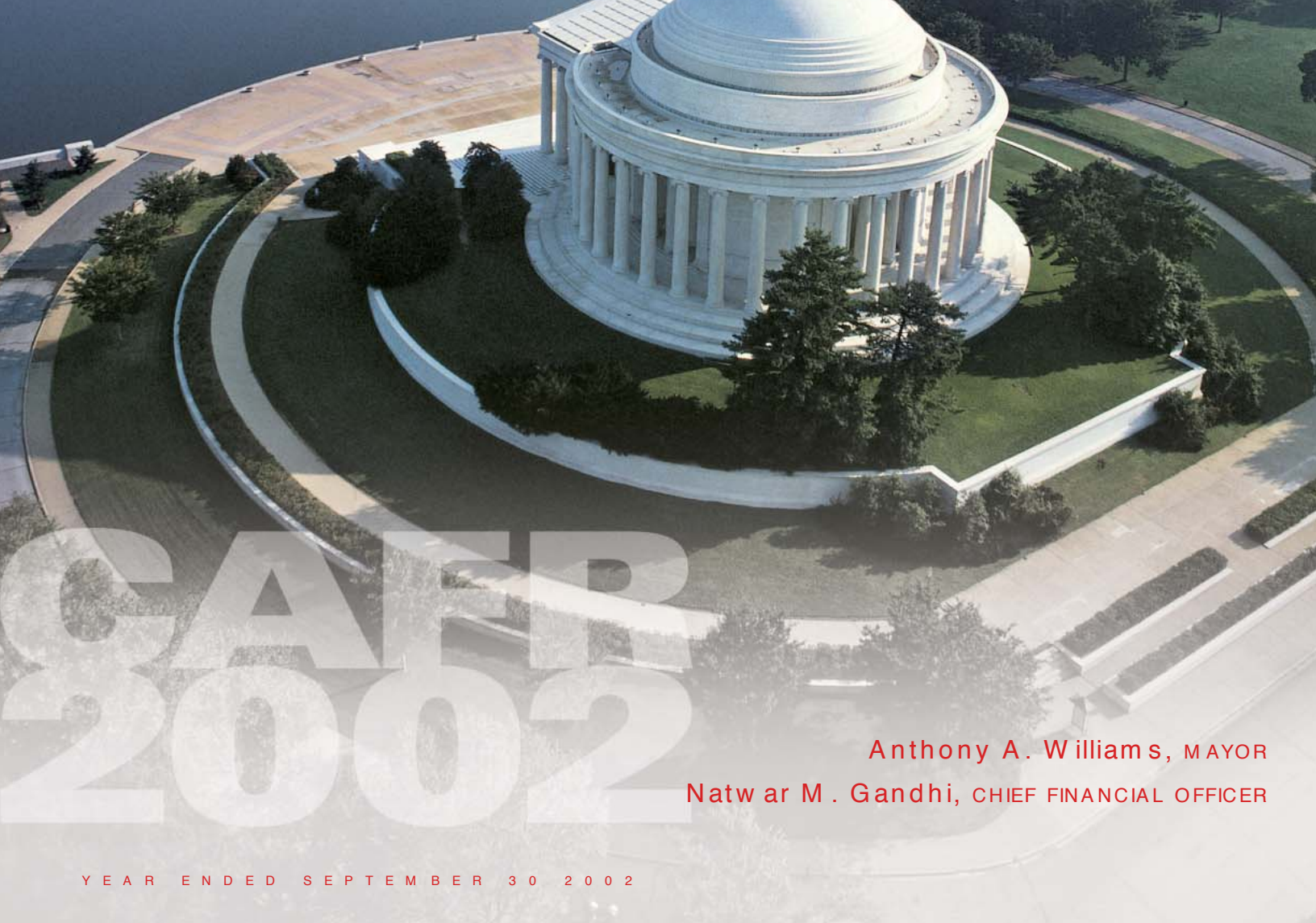
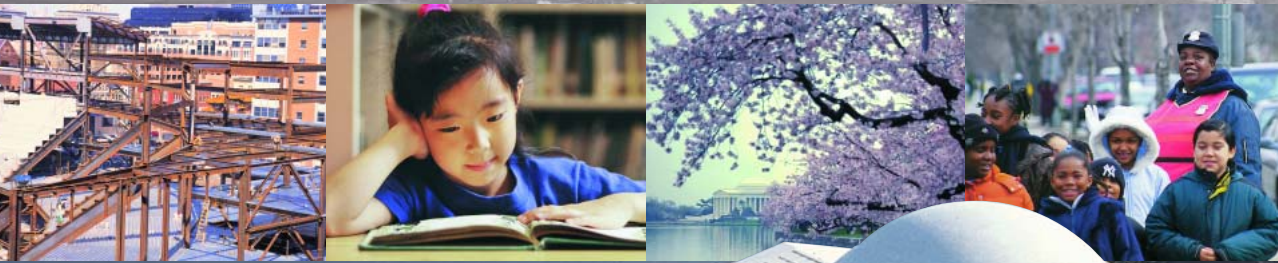




Comprehensive Annual Financial Report



Anthony A. Williams, MAYOR
Natwar M. Gandhi, CHIEF FINANCIAL OFFICER

YEAR ENDED SEPTEMBER 30, 2002



ANTHONY A. WILLIAMS
MAYOR

January 27, 2003

Dear Citizens of the District of Columbia:

I am pleased to present the District of Columbia's Fiscal Year 2002 Comprehensive Annual Financial Report (CAFR). Once again the audit opinion is unqualified. This means that the District has complied with all applicable laws and standards in its financial reporting. As these statements show, the government not only balanced its budget in Fiscal Year 2002, but also produced a small surplus of \$27.4 million.

This achievement marks the sixth consecutive year that the District realized surpluses and earned an unqualified opinion on its financial statements. These accomplishments have significantly improved the District's access to more favorable financing rates in the credit markets. More importantly, these operational successes satisfied criteria for ending the federal control period and restoring home rule. This CAFR marks the first complete fiscal year of home rule after the Financial Responsibility and Management Assistance Authority, which ceased operations as of September 30, 2001.

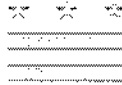
Despite these improvements, however, the national economic downturn continues to negatively affect the District's finances. Major reductions in spending have been required, and even more may be needed as the District plans for future fiscal years. Nonetheless, the District will take whatever actions are required to continue balancing its budget and meeting high standards of fiscal responsibility. Through responsible financial management, the District will continue making great strides toward improving education, public safety, and opportunity for all.

Sincerely,

A handwritten signature in cursive script that reads "Anthony A. Williams".

Anthony A. Williams
Mayor

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



Natwar M. Gandhi
Chief Financial Officer

January 27, 2003

The Honorable Anthony A. Williams
Mayor of the District of Columbia
1350 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

Dear Mayor Williams:

I am pleased to present the District of Columbia's Fiscal Year 2002 Comprehensive Annual Financial Report (CAFR). The year ended with General Fund revenues exceeding expenditures by \$27.4 million and the General Fund fund balance amounting to \$865.3 million. This surplus, compared to a negative fund balance of \$518 million at the end of FY 1996, represents a turnaround of almost one-and-a-half billion dollars over the past six years. I can also report that the District's financial statements again earned an unqualified audit opinion from its independent auditors.

We continue to make financial improvements to strengthen the delivery of services to our citizens. The process of regular, interim financial closings and reconciliation of cash, which was initiated two years ago, provides more timely updates of the District's financial status. The availability of more current data allows for quicker management decisions and more effective responses to changing budget, economic and operational conditions.

A year after the September 11, 2001 attacks, recovery of the District's economy is slow, and tax collections lag behind prior years. In the October 2001–September 2002 period, general sales tax collections were down 4.5 percent, individual income tax collections were down 12.7 percent, and business income tax collections were down 15.8 percent. These conditions continue to strain just about every District agency's budget, most revenue streams and general operations. The likelihood of reduced business activity may well extend into the foreseeable future. The losses in individual income taxes are from steep drops in payments that accompany returns, less revenue collected on capital gains taxes, and a substantial increase in refunds.

In September 2002, the Office of the Chief Financial Officer issued a revenue estimate for the District of Columbia for fiscal years 2003 – 2006. That estimate detailed a drop in expected revenue of \$322.7 million in FY 2003, just four months after the original estimate upon which the District's FY 2003 budget had been based. The Mayor and the Council had to reduce the FY 2003 budget, then before the U.S. Congress, by the same amount in order to maintain a balanced budget, as required by law. The FY 2003 budget was balanced by delaying new spending by \$106 million, reducing current programs by \$88 million, and increasing revenues by \$129 million. This burden was fairly distributed throughout the District.

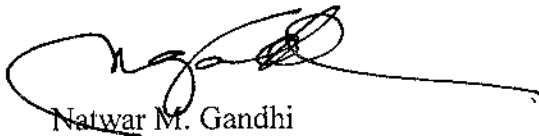
We have accumulated an emergency and contingency cash reserve of approximately \$248 million, and our financial condition serves to maintain our positive bond rating. In turn, we enjoy lower borrowing costs on the District's outstanding debt. However, the District is always just one emergency away from an economic crisis. This condition exists because there is an imposed structural arrangement that unfairly limits the District's ability to generate revenue from its tax base. The federal government's restructuring of the District's finances in 1997 acknowledged the problem but failed to provide adequate remedy. The overall economic and structural position of the District remains a pressing issue that still needs to be addressed with the U.S. Congress and the President.

This year's CAFR will look and read substantially different from prior CAFR's. In June 1999, members of the Governmental Accounting Standards Board (GASB) unanimously approved issuance of the most comprehensive governmental reporting standard ever developed – GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB 34 was implemented in the District during the past fiscal year, and has a significant impact on the way that the city's financial results and discussions were prepared and presented.

GASB 34 requires that the District change the way we report: (1) management's discussion and analysis; (2) government-wide financial statements; (3) fund financial statements; and; (4) notes to financial statements. These changes have been designed to make the financial statements of governments more consistent in the treatment and application of transactions and balances. In addition, the new reporting format should allow the CAFR to be more easily read and understood by the general public. There is a more detailed discussion of these new and different requirements in the Transmittal Letter.

I would like to commend the many financial and program staff, and especially the employees of the Office of Financial Operations and Systems, who have worked diligently to guarantee a successful closure of the District's books and ensure that our records meet the high standards required for an unqualified audit opinion. The District is one of the few major city or state governments in the United States that prepares its own CAFR. As we have continued to refine and improve our financial systems and processes, it is now firmly established that the annual audit requirement is a routine event in the District's overall financial management reporting.

Sincerely,



Natwar M. Gandhi
Chief Financial Officer

**Government of the District of Columbia
Comprehensive Annual Financial Report
Year Ended September 30, 2002**

Prepared by:

**Office of the Chief Financial Officer
Office of Financial Operations and Systems**

**Anthony F. Pompa
Deputy Chief Financial Officer
810 First Street, NE, Suite 200
Washington, D.C. 20002**

**DISTRICT OF COLUMBIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended September 30, 2002**

TABLE OF CONTENTS

Exhibit	Description	Page
INTRODUCTORY SECTION		
	Letter of Transmittal	1
	Organizational Chart	10
	Principal Officials	11
	GFOA Certificate of Achievement	12
FINANCIAL SECTION		
	Independent Auditors' Report	13
	Management's Discussion and Analysis	17
	Basic Financial Statements	33
1-a	Statement of Net Assets	34
1-b	Statement of Activities	35
2-a	Balance Sheet - Governmental Funds	36
2-b	Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	37
2-c	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Government Funds to the Statement of Activities	38
2-d	Budgetary Comparison Statement	39
3-a	Statement of Net Assets - Proprietary Funds	40
3-b	Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	41
3-c	Statement of Cash Flows - Proprietary Funds	42
4-a	Statement of Fiduciary Net Assets - Fiduciary Funds	43
4-b	Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	44
5-a	Discretely Presented Component Units - Combining Statement of Net Assets	45
5-b	Discretely Presented Component Units - Combining Statement of Revenue, Expenses and Changes in Net Assets	46
	Notes to the Basic Financial Statements	47
	Required Supplementary Information	86
	Other Supplementary Information	
	General Fund	87
A-1	Balance Sheet	88
A-2	Statement of Revenues, Expenditures and Changes in Fund Balance	89
A-3	Schedule of Expenditures and Net Financing (Sources) Uses, Function and Object-GAAP Basis	90
A-4	Schedule of Local Source Revenues, Budget and Actual (Budgetary Basis)	91
A-5	Schedule of Budgetary Basis Revenues and Expenditures by Source of Funds	92
A-6	Schedule of Budgetary Basis Revenues and Expenditures	93
	Nonmajor Governmental Funds	95
B-1	Combining Balance Sheet	96
B-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	97

	Fiduciary Funds	99
C-1	Pension Trust Funds - Combining Statement of Fiduciary Net Assets	100
C-2	Pension Trust Funds - Combining Statement of Changes in Fiduciary Net Assets	101
	Supporting Schedules	103
D-1	Schedule of Budgetary Basis Expenditures	104
D-2	Schedule of Budgetary Basis Operations by Source of Funds	106
D-3	Schedule of Budget Revisions	108
D-4	Schedule of Financial Operations	110
D-5	Schedule of Budgetary Basis Expenditures	111
	STATISTICAL SECTION	
S-1	General Fund Revenues by Source	113
S-2	General Fund Expenditures and Net Uses by Function	113
S-3	General Fund Tax Revenues by Source	114
S-4	General Fund Current Expenditures by Object	114
S-5	Real Property Tax Levies and Collections	115
S-6	Major Tax Rates	115
S-7	Assessed Value, Construction and Bank Deposits	116
S-8	Ten Highest Assessed Values for Tax Exempt Properties	116
S-9	Ten Highest Assessed Values for Commercial Properties	117
S-10	Ten Highest Assessed Values for Residential Properties	117
S-11	Computation of Legal Debt Limitation	118
S-12	Percent of General Obligation Debt to Assessed Value and General Obligation Debt Per Capita	118
S-13	Percent of Debt Service to General Fund Expenditures	119
S-14	Demographic Statistics	119
S-15	Miscellaneous Statistics	120



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

Introductory Section



CALENDAR 2002

YEAR ENDED SEPTEMBER 30 2002



**DISTRICT OF COLUMBIA
OFFICE OF FINANCIAL OPERATIONS AND SYSTEMS
810 FIRST STREET, NORTHEAST
WASHINGTON, D.C. 20002
202-442-8200
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January 24, 2003

Dr. Natwar M. Gandhi
Chief Financial Officer

The Comprehensive Annual Financial Report (CAFR) of the Government of the District of Columbia (the District) for the fiscal year ended September 30, 2002, 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 this year, the District and many other U.S. state and large local governments will be presenting an MD&A section. The MD&A is an analysis of the financial condition and operating results of the District Government 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.

In June 1999, members of the Governmental Accounting Standards Board (GASB) unanimously approved issuance of the most comprehensive governmental reporting standard ever developed—GASB Statement No. 34 (GASB 34), *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. GASB 34 was implemented during fiscal year 2002, and has a significant impact on the way the District's financial results and related disclosures look and read in this year's CAFR. GASB 34 requires that the topics discussed in the MD&A be confined to those listed below. The requirements are general rather than specific.

Briefly, the required components of the MD&A that are applicable to the District are:

- A brief discussion of the basic financial statements. The basic financial statements include government-wide financial statements and fund statements. The two “sets” of statements are quite different from each other. The GASB believes that users will benefit from a brief discussion (at least for the time being) of how the two sets of statements relate to each other and differ in the information presented.
- Condensed comparative financial information. This information is derived from, but not identical to, the information presented in the government-wide financial statements. GASB 34 lists the minimum elements of the statement of net assets and statement of activities that must be reported (if relevant).
- Analysis of the government’s overall financial position and results of operations. This analysis is intended to help users assess whether the government’s financial position has improved or deteriorated over the past year. It should discuss why things changed, not just identify the amount or percentage of change.
- Analysis of balances and transactions of major funds. Focusing on the fund financial statements, this analysis is intended to help users understand significant changes in major fund balances, including the effect on availability of fund balances on future transactions.
- Analysis of significant budgetary variations. This analysis focuses on variances between original and final budget amounts and variances between final budget and actual results. The analysis should also include the reasons for variations and how current conditions are expected to affect the availability of future funding resources.
- Description of significant capital asset and long-term debt activity. Such activity includes additions to and sales of capital assets, new debt issuances and retirements, and changes in debt ratings and available credit that have occurred during the year.
- Currently known facts, decisions, or conditions that is expected to have a significant effect on the government’s financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets). This information is intended to help users assess future operations of the government. However, financial managers are not asked to make projections. The term “currently known” means information that management is aware of as of the date of the auditors’ report.

Tells what are: 3 Legally Separate Organizations that are still COMPONENT UNITS of primary government (5 listed) and their info is presented separately; a single BLENDED COMPONENT (TSFC), Financial Reporting Entity and (below my maroon rectangle),

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 is accountable because that government appoints a voting majority of the board, but is not financially accountable.

three “related organizations — Housing Authority, Capital Revitalization Corp, and the Courts.

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 181,300 employees in FY 2002 while approximately 150,600 additional federal employees worked elsewhere in the Washington metropolitan area. The present District-based count represents a 7% decrease in the federal work force of 195,540 in 1996. Although both the District and the federal government employ fewer people, new business operations, especially in the service industry, have filled the void and is driving the revitalization of the District’s 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 2001, approximately 18.1 million U.S. citizens visited Washington D.C. 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. Information on international visitors for 2001, in addition to the total visitors and amounts spent by visitors to D.C. 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 and hospitals for children and members of the military, and a regional shock and trauma center. In the past year, both D.C. General Hospital and the Columbia Hospital for Women were closed down. As part of the Greater Southeast Community Hospital takeover of the District's indigent health care system, limited emergency room services and various outpatient clinics are maintained on the site of the former D.C. General Hospital. 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 2,696,100 in FY 2002 compared to 2,714,600 in FY 2001, representing a slight reduction. 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 2002 seasonally adjusted unemployment rate in the District was 6.0% compared to 6.6% in September 2001. Total employment within the District decreased slightly to 652,000 in September 2002 from 654,800 in September 2001.

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 recently announced that it has partially leased the long-vacant Woodward & Lothrop Department store downtown. 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 in 2004.

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 3,125 housing units in fiscal year 2002. 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 companies. Administrative support staff, including first line supervisors, will also be in high demand. Of even greater impact would be the increased percentage of District residents who 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 improve 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, and 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 2001 there were 571,822 permanent residents in the District. This report indicates that estimates of flight from the District had been overstated in Census estimates during the last several years. The actual population loss was 5.7% from 1990 to 2000, which is almost 60% less than the estimated loss predicted by the previous 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.

Major Initiatives

In September 2001, the Mayor and the District Council began reoccupying the John A. Wilson Building, which was renamed to honor the late Council Chairman. The Wilson Building has now been completely renovated and remodeled and, along with the Mayor and District Council, is home to additional District government offices. On October 16, 2001, the D.C. Council conducted its first legislative session in the newly remodeled Wilson Building.

Casey Foundation Gifts

In February 2001, The Eugene B. Casey Foundation purchased the property located at 1801 Foxhall Road, N.W., and plans to develop a building for use as the official residence of the Mayor. It is to be named the Casey Mansion. The Foundation will also establish a separate non-profit Casey Mansion Foundation, which will develop the Mansion and landscape the grounds. Sufficient private resources will fund, in perpetuity, all operating costs for the building and grounds, including furnishings, housekeeping, insurance, landscaping, maintenance, security and utilities. This unexpected but generous offer will provide the District with a permanent mayoral residence, similar to that provided the Governor of each of the 50 U.S. States, Mayors of many major U.S. cities and the Mayors of many major foreign cities.

The District of Columbia is also benefiting from another extraordinary gift from the Eugene B. Casey 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 an inventory of all District owned trees. There are 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 District has not had an undertaking like the Casey Tree Endowment Fund since the latter part of the nineteenth century. Under the then Governor, Alexander Shepherd, 60,000 trees were planted in parks and other public spaces. In addition, many affluent citizens followed suit. They imported their favorite trees from around the world and planted them on private properties. The District became known as the "City Of Trees."

Unfortunately, population increases and necessary housing development, in addition to plant diseases, drought and pollution have taken their toll on the District's trees. In more recent years, persistent funding difficulties brought about severe reduction in staff and other resources needed to prune and treat ailing trees and to remove and replace the dead ones. Trees mature and, like other living things, go through their natural life cycle, and eventually expire. The "City Of Trees" lost about 60% of its urban tree canopy by the end of the 20th Century. Trees contribute to the reduction of ozone and other forms of pollution and convert carbon monoxide to oxygen, both beneficial to humans. The shade provided by trees is also a benefit to people. Trees provide food and are home to a variety of wild life. Trees add beauty to our surroundings and are an integral part of the environment.

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, in the final stages of construction, is scheduled to open in the spring of 2003. The new facility will provide 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 provides 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 nearly \$290 million in construction and other contracts to Local Small Disadvantaged Business Enterprises. The current Convention Center will be eventually torn down and the site will be opened up for bids to be developed, and will, hopefully, include a combination of commercial, residential, cultural and urban park uses and amenities. The old Carnegie Library is to open this spring as the new \$30 million City Museum of Washington. The City Museum will be unique in a city of museums in that it will be the only one devoted to Washington, D.C., its history, neighborhood 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 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 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 an area of the District that has been long neglected. DDOT is pursuing the "Anacostia Starter Line", one of the five new light-rail projects, that 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 also has long-term plans to transform the Anacostia River and its banks into an area that will support recreational activities, such as swimming, boating and fishing, in addition to creating parks, neighborhoods and cultural venues. The plans, as outlined by District Officials, would cost billions and take at least 30-years to complete. 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, luxury hotel operator 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 Georgetown Project is a joint effort by Pepco, Verizon, Washington Gas, the Water and Sewer Authority and DDOT. It is being done to 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 is necessary in order to 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 earlier this 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 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 for awhile, to live in, to play and to create. The Mayor has just recently announced his goal to attract 100,000 new residents to the District within the next 10 years.

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. This move will spur additional development at the new site.

The Federal Government has shown renewed interest in the District as the place for consolidating agencies, functions and staff. Construction of the U.S. Treasury's Bureau of Alcohol, Tobacco and Firearms' new headquarters building has begun. The General Services Administration broke ground in April 2002 on the 295,000-square foot building. The \$1.4 million project, located at the intersection of First Street and New York Avenues, N.E. is expected to be completed in 2004. This decision helped the District obtain matching Federal and private commitments to pay for a new Metro rail station near that location. Construction began in November 2002 and is projected to be completed in late-2004. The District, Maryland and Virginia are all currently lobbying over the placement of the permanent headquarters for the new Department of Homeland Security, and the thousands of jobs that will accompany it.

Economic Tax Incentives

While building on the already popular tourism industry, 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 Enterprise Zone through December 31, 2002. The new zone consists of the previously existing enterprise 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; and 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 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 utilize 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 be relocated to Washington, D.C. within the next two years. The National Football League is also considering staging the Super Bowl in either New York or Washington D.C. in 2008. This is in support of the two cities that were targeted on September 11, 2001. The Washington, D.C.-Baltimore, Maryland effort to host the Summer Olympics in 2012 was not successful, but the coalition of Washington, D.C., Baltimore, Maryland and the Maryland and Virginia state governments has set the groundwork for future cooperative economic development projects. The addition of a new Convention Center, allied hotels, and the prospect of a new stadium improve the region's prospects to host many other national and international events.

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 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.

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, assurance 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 annual appropriated budget is enacted on a basis that is not consistent with GAAP because of differences that result from budgeting inventory, Medicaid, certain pension expenditures, other employee benefits, and other expenditures on a cash basis, and from budgeting dedicated tax revenues to the benefiting fund rather than to the fund with the authority to levy and collect the tax. The budgetary general fund differs from the GAAP-basis general fund. 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. In fiscal year 2002, the District elected to separate the federal and private resources fund from the general fund in order to enhance stakeholders' understanding of the general operations of the District.

The District must also build and maintain an emergency cash reserve equaling 4% of the total budget allocated for operating expenditures by FY2004. An additional contingency cash reserve must be established, which must equal 3% of the total budget allocated for operating expenditures. Beginning in FY2007, 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 guaranteed fully 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 also 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*. 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 audits of all agencies/programs that receive funding from the U.S. Government. 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 of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156.

One of the purposes for the A-133 Single Audit, on the District's behalf, is that it substantiates the costs expended on the federal programs, and seeks to avoid questioned costs which would require the District to either obtain and submit additional documentary proof of the costs for reimbursement, or to return unsubstantiated costs/funds to the federal government.

The A-133 Single Audit activities were transferred from the Office of the Inspector General to the Office of the Chief Financial Officer in Fiscal year 2000. 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 2001 and the District is in full compliance with the Single Audit Act.

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, 2001. 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.

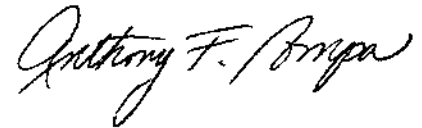
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must also satisfy both GAAP and applicable legal requirements.

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, Bill Slack, Leticia Stephenson, Larry Daniels, Chris LaCour*, 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, Kamya and Associates* for their efforts throughout the audit engagement.

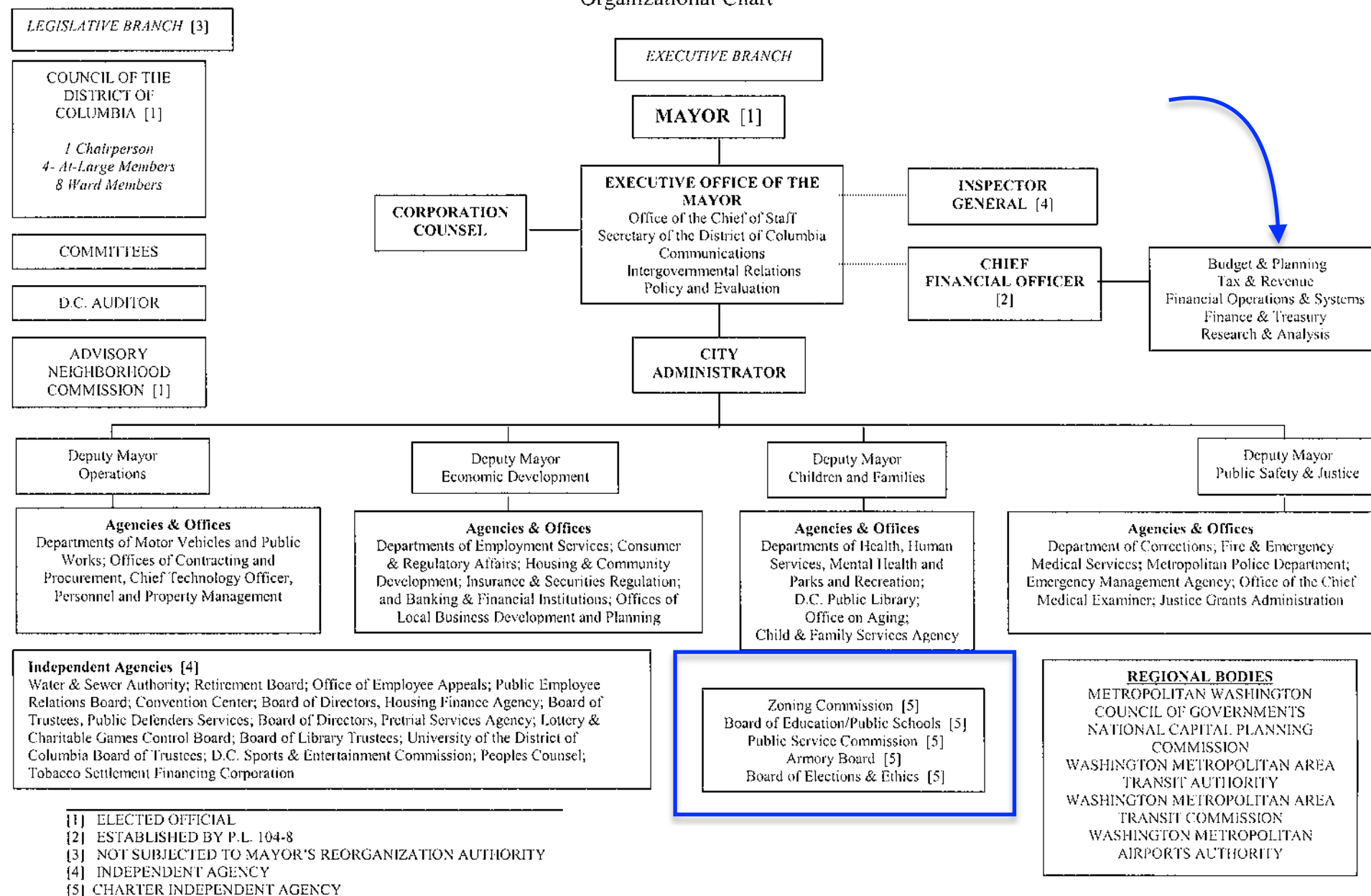
Respectfully submitted,



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

GOVERNMENT OF THE DISTRICT OF COLUMBIA

Organizational Chart



**DISTRICT OF COLUMBIA
PRINCIPAL OFFICIALS
September 30, 2002**

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			
Dr. Natwar M. Gandhi	Chief Financial Officer		
Arabella Teal	Interim Corporation Counsel		
Kelvin Robinson	Chief of Staff		
John Koskinen	City Administrator		
Eric Price	Deputy Mayor for Economic Development		
Carolyn Graham	Deputy Mayor for Children and Families		
Margret Nedelkoff Kellems	Deputy Mayor for Public Safety		
Herbert R. Tillery	Deputy Mayor for Operations		
Beverly D. Rivers	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		
Daniel L. Black Jr.	Acting Deputy CFO, Tax and Revenue		
Steward D. Beckham	Associate CFO, Public Safety and Justice		
Pamela D. Graham	Associate CFO, Public Works		
Barbara D. Jumper	Associate CFO, Governmental Direction and Support		
Henry W. Mosley	Associate CFO, Economic Development and Regulation		
Deloras A. Shepherd	Associate CFO, Human Support Services		
Robert Morales	Agency CFO, D.C. Public Schools		

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, 2001

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.



President

Executive Director