

Columbia as a whole in conformity with accounting principles generally accepted in the United States of America.

Excluded from the accompanying schedules are:

- Depreciation on all capital assets used by the schools;
- Interest expense and related debt service costs on general obligation debt issued by the District to fund schools capital improvements program; and
- Financial operations of the District of Columbia Public Charter Schools.

Basis of Presentation

Basis of Accounting

The basis of accounting refers to the timing of recognition of revenues and expenditures. The accounting and financial reporting treatment applied is determined by its measurement focus. The activity accounted for in the Budgetary Comparison Schedule-Governmental Funds use a current financial resources measurement focus.

The modified accrual basis of accounting is used by the governmental funds from which the information in the schedules is derived. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current accounting period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred.

Significant revenues susceptible to accrual are intergovernmental revenues. In applying the “susceptible to accrual” concept to intergovernmental revenues (Federal and District), the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of intergovernmental revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Schools; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Local Revenues-2002

Local revenues represent an allocation of the District of Columbia’s General Fund revenues that support the operations of the Schools. The amount of allocation is limited, by the Appropriation Act, to only amounts originally approved, subsequent supplemental appropriations, and reprogrammings.

Compensated Absences

The School's policies allow employees to accumulate unused sick leave with no maximum limitation. Vacation (annual) leave may be accumulated up to 240 hours, depending on the employee's length of service. The schools records, as an expenditure in the schedule, only amounts to the extent that the sick and vacation leave mature or come due for payment.

Judgments and Claims

The Schools record judgments and claims to the extent they are to be funded from their appropriations. The claims and judgments that are recorded by Schools consist of employee wage suits, claims resulting from union negotiated contracts, special education suits, and adjustments of federal awards. All other major judgments and claims are appropriated in another functional level of the District of Columbia budget.

Interfund Activity

The effect of interfund activity has been eliminated from the schedule except for charges from the District's water and sewer function.

Indirect Costs

The District and the Schools do not allocate indirect costs to the functional levels for budgetary and actual purposes and that these costs are not included in accompanying schedule.

Fringe Benefits

The fringe benefits for employees of the District are budgeted and expended at the functional level. Health, disability, workers compensation and retirement benefits associated with Schools employees are included in the accompanying schedule.

Repairs and Maintenance

Costs of repairs and maintenance to capital assets utilized by the Schools are budgeted and expended at the Schools functional level and are included in the accompanying schedule. Costs of improvements to capital assets are budgeted and expended in the District's Capital Project Fund and are not included in the accompanying schedule.

Budgets and Budgetary Control

The budgetary data for the Schools' Budgetary Comparison Schedule - Governmental Funds was a component of the overall District of Columbia budget request approved by the U.S. Congress. Although the Board of Education developed a separate budget request, which was submitted to the Mayor to support the Schools' fiscal 2002 operational needs,

the budget ultimately approved and included in the accompanying schedule represents primarily an allocation from the District's final approved budget. In fiscal year 2002, DCPS also was eligible to receive an advance of up to \$74,371 from its FY 2003 appropriations to be used in fiscal year 2002 for start-up expenditures related to the 2003 school year. Of the FY 2003 appropriations, DCPS spent \$1,527, which, in accordance with the District's budget policies, is included in the schedule for budgetary and actual purposes as Local Revenues-03

Process

About February 1 of each year, the Mayor submits to the Council an all sources budget for the general fund, for the fiscal year commencing the following October 1. The Council holds public hearings and adopts the budget through passage of a budget request act. The Mayor may not forward and the Council may not adopt any budget for which expenditures and other financing uses exceed revenues and other financing sources. A project-length financial plan is adopted for the General Capital Improvements Fund. About April 1 of each year, the Mayor approves the adopted budget and forwards it to the President of the United States for review. About April 15 of each year, the President submits the reviewed budget to Congress, which conducts public hearings and enacts the budget and the authorized Federal payment in lieu of taxes through passage of an appropriation law.

Appropriation Act

The legally adopted budget is the annual appropriation public law (Appropriation Act) enacted by Congress and signed by the President. The Appropriation Act authorizes expenditures at the function level or by functional category, such as Public Safety and Justice, Human Support Services or Public Education. Congress must enact a revision that alters the total expenditures of any function. The District may request a revision to the appropriated expenditure amounts in the Appropriation Act by submitting to the President and Congress a request for a supplemental appropriation.

Pursuant to the Reprogramming Policy Act (D. C. Code 47-361), the District may reallocate budget amounts within functions. The appropriated budget amounts in the Budgetary Comparison-Governmental Funds include all approved reallocations. This schedule reflects budget to actual comparisons at the object level. Total Appropriated actual expenditures and uses may not legally exceed total appropriated budgeted expenditures and uses for the Schools, which is at the function level for the District of Columbia. An unfavorable expenditure variance in the budgetary statement for a function is a violation of the Anti-Deficiency Act (31 U.S.C. 1341). There was no violation for the year ended September 30, 2002.

The Appropriation Act specifies expenditures and net surplus or deficit of revenues. The Appropriation Act does not specify revenue amounts. The legally adopted revenue budget is based primarily on the revenue estimates submitted to the President and Congress as

modified through legislation. Local revenues include an allocation of a portion of these funds to Schools

(2) Retirement Plans

Teachers' Retirement Plan

The Teachers' Retirement Plan is a component of the District's Retirement Program, which is a single-employer defined benefit pension plan covering the Schools' teachers and other District employees. Benefits are payable to employees at retirement or disability, and refunds are made upon death or termination prior to retirement.

Participants contribute seven percent (7%) of their salaries; the District and Federal governments make contributions based upon actuarially determined funding requirements. The District's did not make a contribution to the Teachers' Retirement Plan for the year ended September 30, 2002.

Teachers who retire at age 55 with 30 years of service, at 60 with 20 years, or at 62 with 5 years are entitled to an annual annuity, payable monthly for life, equal to one and a half percent (1.5%) of their average salary for the highest consecutive 3 years for each year of service up to 5 years, 1.75 percent for each year over 5 years, and 2 percent for each year over 10 years, up to a maximum of 80 percent excluding credit for unused sick leave. Benefits vest upon reaching 5 years of service and increase after retirement based upon inflation. Refunds are made if separation occurs before 5 years of service.

Additional information relating to this plan is available in the District's Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 2002.

Civil Service Retirement System

The Schools administrative and support employees hired before October 1, 1987, participate in the United States Civil Service Retirement System (the System). Employees and the District each contribute seven percent (7%) of the employees' salaries to the federal government, which administers the plan. The federal government provides additional health care and life insurance benefits to certain retired Schools' administrative and support employees under the Federal Employees' Health Benefits Program and the Federal Employees' Group Life Insurance Program with no liability to the Schools.

District Retirement Plan

Non-teaching employees hired subsequent to September 30, 1987 participate in the District's Retirement Plan discussed below and the United States Social Security System. The District Retirement Plan is a defined contribution plan (D.C. Code 1-627) with a qualified trust under Internal Revenue Code Section 401 for permanent full-time employees covered by the Social Security System. The District contributes seven percent (7%) of base salaries each quarter on behalf of employees, who are not required to make

contributions. There are no non-employer contributions under this plan. The Schools' employees covered under this plan vest fully after four years of service, following a one-year waiting period. Contributions cease if separation occurs before five years of credited service. Contributions are not assets of the District, which has no further liability to this plan.

Deferred Compensation Plan

Under the District-sponsored Deferred Compensation Plan established pursuant to Section 457 of the Internal Revenue Code, the Schools' non-educational employees may defer up to \$11,000, if under the age of fifty, and \$12,000, if over the age of fifty in calendar year 2002. Compensation deferred and income earned are taxable when paid or made available to the participant or beneficiary upon retirement, death, termination or unforeseeable emergency.

(3) Commitments and Contingencies

Operating Leases

The Schools lease office space from the District under an intra-district arrangement. In addition, other lease expenditures include equipment, buses and other vehicles. The total lease expenditure for year ended September 30, 2002 is in the amount of \$18,142. Future minimum lease payments under the operating leases at September 30, 2002 are as follows:

<u>Year</u>	<u>Amounts</u>
2003	\$ 7,933
2004	5,763
2005	5,883
2006	5,977
2007	<u>6,088</u>
Total future minimum lease payments	<u>\$31,644</u>

Self-Insurance

The Schools, as an agency of the District, participate in the Districts' self-insurance activities. The District, through a separate appropriation, pays all significant losses arising from a lack of insurance. No significant losses occurred during the year ended September 30, 2002. Information regarding the District's outstanding liability at September 30, 2002 is presented in the District's CAFR. No separate information related to the Schools is available.

Federally-Assisted Grant Programs

The Schools are a recipient of various federal awards used in a variety of educational programs. The Schools are subject to audits in accordance with the Single Audit Act