
**DISTRICT OF COLUMBIA
STORM WATER PERMIT COMPLIANCE
ENTERPRISE FUND**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED SEPTEMBER 30, 2002 AND
PERIOD FROM OCTOBER 18, 2000 (INCEPTION)
TO SEPTEMBER 30, 2001**

THOMPSON, COBB, BAZILIO & ASSOCIATES, P.C.

Certified Public Accountants and Management, Systems and Financial Consultants

Main:
1101 15th Street, N.W.
Suite 400
Washington, D.C. 20005
(202) 737-3300
Fax: (202) 737-2684

Regional:
100 Pearl Street
14th Floor
Hartford, CT 06103
(203) 249-7246
Fax: (203) 275-6504

Regional:
21250 Hawthorne Boulevard
Suite 500
Torrance, California 90503
(310) 792-7001
Fax: (310) 792-7004

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Financial Statements

September 30, 2002 and 2001

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Independent Auditor's Report

The Advisory Committee District of Columbia Storm Water Permit Compliance Enterprise Fund and Members of District of Columbia City Council:

We have audited the accompanying statements of net assets of the District of Columbia Storm Water Permit Compliance Enterprise Fund (the Fund) (a component unit of the District of Columbia) as of September 30, 2002 and 2001, and the related statements of revenues, expenses and changes in net assets and cash flows for the year ended September 30, 2002 and the period from October 18, 2000 (inception) to September 30, 2001. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, the Fund adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*", Statement No. 37, "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*", and Statement No. 38, "*Certain Financial Statement Note Disclosures*", as of and for the year ended September 30, 2002.

The Management's Discussion and Analysis on pages 2 through 6 and the budgetary comparison schedule and related note on pages 15 and 16 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Storm Water Permit Compliance Enterprise Fund as of September 30, 2002 and 2001, and the results of its operations and its cash flows for the year ended September 30, 2002 and for the period from October 18, 2000 (inception) to September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

Washington, DC
January 2, 2003

Thompson, Cobb, Bazilio & Associates, P.C.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

This section of the Storm Water Permit Compliance Enterprise Fund's ("Fund") annual financial report presents the analysis of the Fund's financial performance during the fiscal year that ended on September 30, 2002. The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Fund's basic financial statements (beginning on page 7).

HIGHLIGHTS

Financial Highlights

Financially the Fund's activities for the two years ended September 30, 2002 and 2001 are not comparative due to the period of operations for the two years. Although the Fund was established early in fiscal year 2001, on October 18, 2000, financial activities did not commence until the fourth quarter of that fiscal year. As such, fiscal year 2001 had only 3 months of financial activities compared to 12 months of financial activities in fiscal year 2002. The following are the key financial components for fiscal year 2002:

- The Fund's net assets were \$3.4 million at September 30, 2002.
- The Fund's total operating revenues was \$3.6 million for the year ended September 30, 2002.
- The Fund's total operating expenses was approximately \$1.0 million for the year ended September 30, 2002.
- The Fund's cash balance was \$2.4 million at September 30, 2002.
- The Fund's accounts receivable balance was \$1.3 million at September 30, 2002.

USING THIS ANNUAL REPORT

This annual report consists of three parts: Management's Discussion and Analysis, the Financial Statements, and Required Supplementary Information. The Financial Statements also include notes that explain in more detail some of the information in the Financial Statements.

Required Financial Statements

The Financial Statements of the Fund report information about the Fund using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The *Statement of Net Assets* includes all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the success of the Fund's operations over the past year, and can be used to determine whether the Fund has successfully recovered all its costs through its user fees and other charges, and to assess its profitability, and credit worthiness. The final required financial statement is the *Statement of Cash Flows*. The primary purpose of this statement is to provide information about the Fund's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities. It also provides information regarding sources of cash, uses of cash, and the changes in the cash balance during the reporting period.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE FUND AS A WHOLE

The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information about the Fund's financial condition. The Fund's net assets, i.e., the difference between assets and liabilities, is a measure of financial health or financial position. Over time, increases or decreases in the Fund's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors, such as changes in economic conditions, population growth, and new or changed legislation, also need to be considered in assessing the Fund's financial condition.

The Fund's financial performance was strong in FY 2002, with total net assets increasing by \$2.6 million. Further indications of the strong financial performance of the Fund in FY 2002 include a cash balance of \$2.4 million and unrestricted net assets of about \$3.2 million on September 30, 2002.

The analysis below focuses on the Fund's net assets (Table 1) and changes in net assets (Table 2) during the year. For comparability purposes, reclassifications have been made to the September 30, 2001, information to conform to the September 30, 2002 presentation.

Table 1
Condensed Statements of Net Assets
(\$ in 000's)

	<u>9/30/2002</u>	<u>9/30/2001</u>
Current Assets	\$ 3,587	\$ 1,085
Capital Equipment	83	—
Total Assets	<u>3,670</u>	<u>1,085</u>
Current Liabilities	310	356
Total Liabilities	<u>310</u>	<u>356</u>
Net Assets		
Invested in capital equipment	83	—
Unrestricted	<u>3,277</u>	<u>729</u>
Total Net Assets	<u>\$ 3,360</u>	<u>\$ 729</u>

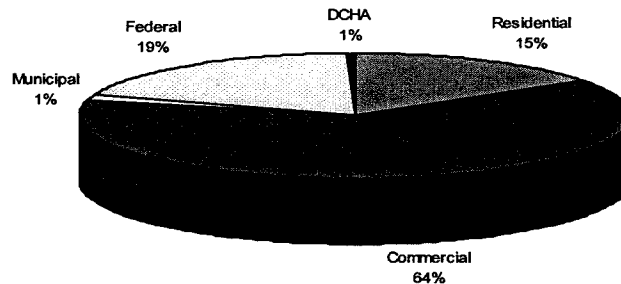
DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Assets
(\$ in 000's)

	FY 2002	FY 2001
Storm Water fees	\$ 3,443	\$ 909
Interest Income	18	11
Other Income	165	135
Total Revenues	3,626	1,055
Operating Expenses	989	326
Other Expenses	6	—
Total Expenses	995	326
Change in Net Assets	2,631	729
Net Assets at Beginning of Year	729	—
Net Assets at End of Year	\$ 3,360	\$ 729

Revenues by Customer Class
FY 2002 Actual



The chart above shows the percentage of the Fund's operating revenues generated by each customer class in FY 2002. The principal operating revenues of the Fund are from storm water fees charged to the Water and Sewer Authority ("WASA") retail customers. For the period ended September 30, 2002, the fund recognized \$3.4 million in operating revenues.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

Budget to Actual Variance

As required by the Fund's enabling legislation (see note 1), all revenues collected for the fund shall be used to pay for any District of Columbia Government (District) agency's costs of complying with the Storm Water Permit, including all administrative, operating and capital costs, and the Water and Sewer Authority's costs of billing and collecting the Storm Water fees.

For fiscal year ending September 30, 2002, the Fund's expenditures were approximately \$1.0 million compared to a budget of \$3 million dollars. The three District agencies responsible for incurring expenditures for the Fund were WASA, the Department of Public Works (DPW), and the Department of Health (DOH), each with budgeted expenditures of \$1 million. WASA and the DPW each expended half of their budgeted amount due to late startup of storm water activities. The Department of Health did not incur any costs for the year due to a hiring freeze imposed by the DC Council. The agency had expected to hire a team of staff to manage its Storm Water program.

Table 3
Budget to Actual Comparison
FY 2002
(\$ in 000's)

	Original* Budget	Actual	Variance
Operating Revenues			
Storm Water Fees	\$ 3,100	\$ 3,443	\$ 343
Other	-	165	165
Total Operating Revenues	3,100	3,608	508
Operating Expenses			
Contractual Services	3,000	989	2,011
Depreciation Expense	-	6	(6)
Total Operating Expenses	3,000	995	2,005
Operating income	100	2,613	2,513
Interest income	-	18	18
Increase in net assets	\$ 100	\$ 2,631	\$ 2,531

* Original budget was not amended

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Management's Discussion and Analysis

CAPITAL ASSETS

On September 30, 2002, the Fund had \$89,000 invested in three utility trucks. The following table summarizes the Fund's capital assets, net of accumulated depreciation for the fiscal years ended September 30, 2002 and 2001:

Table 4
Capital Assets
(\$ in 000's)

	<u>Balance</u> <u>9/30/2001</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>9/30/2002</u>
Capital equipment	\$ -	\$ 89	\$ -	\$ 89
Less: accumulated depreciation	-	(6)	-	(6)
Capital equipment, net	<u>\$ -</u>	<u>\$ 83</u>	<u>\$ -</u>	<u>\$ 83</u>

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Fund Administrator at 5000 Overlook Avenue, S.W. Washington D.C. 20032

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE**ENTERPRISE FUND**

Statements of Net Assets

September 30, 2002 and 2001

(In thousands)

	2002	2001
Assets		
Current assets:		
Cash	\$ 2,401	\$ 311
Customer receivables	1,037	290
Due from WASA (note 3)	149	484
Total current assets	3,587	1,085
Non-current assets:		
Capital equipment (note 4)	89	-
Less accumulated depreciation	(6)	-
Net capital equipment	83	-
Total non-current assets	83	-
Total Assets	3,670	1,085
Liabilities		
Current liabilities:		
Due to other District Agencies (note 5)	310	191
Deferred revenue	-	165
Total current liabilities	310	356
Net assets		
Investment in capital assets	83	-
Unrestricted	3,277	729
Total net assets	\$ 3,360	\$ 729

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE
ENTERPRISE FUND**

Statements of Revenues, Expenses and Changes in Net Assets

Year ended September 30, 2002 & period October 18, 2000 (inception) through September 30, 2001
(In thousands)

	2002	2001
Operating revenue:		
Stormwater fees (note 2)	\$ 3,443	\$ 909
Other	165	135
Total operating revenue	3,608	1,044
Operating expenses:		
Contractual services	989	326
Depreciation expense	6	-
Total operating expenses	995	326
Operating income	2,613	718
Nonoperating revenue:		
Interest income	18	11
Total nonoperating revenue	18	11
Change in net assets	2,631	729
Total net assets, beginning of year	729	-
Total net assets, end of year	\$ 3,360	\$ 729

See accompanying notes to financial statements.

**DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE
ENTERPRISE FUND**

Statements of Cash Flows

Year ended September 30, 2002 & period October 18, 2000 (inception) through September 30, 2001
(In thousands)

	2002	2001
Cash flows from operating activities:		
Cash received from customers	\$ 2,898	\$ 300
Cash paid to suppliers for goods and services	(737)	-
Net cash provided by operating activities	2,161	300
Cash flows from capital and related financing activities:		
Acquisition of capital equipment	(89)	-
Net cash used in capital and related financing activities	(89)	-
Cash flows from investing activities:		
Cash received for interest	18	11
Net cash provided by investing activities	18	11
Net increase in cash and cash equivalents	2,090	311
Cash at beginning of year	311	-
Cash at end of year	\$ 2,401	\$ 311
Operating income	\$ 2,613	\$ 718
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6	-
Change in operating assets and liabilities:		
Increase in customer and other receivables	(412)	(774)
Increase in payables and accrued liabilities	119	191
Increase (decrease) in deferred revenue	(165)	165
Net cash provided by operating activities	\$ 2,161	\$ 300

See accompanying notes to financial statements.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Notes to Financial Statements

September 30, 2002 and 2001

(In thousands)

(1) Reporting Entity

The District of Columbia Storm Water Permit Compliance Enterprise Fund ("Fund") was established on October 18, 2000, by the District of Columbia City Council pursuant to the Clean Water Act, 33 U.S.C. §1251. The City Council legislation was entitled *Storm Water Permit Compliance Amendment Act of 2000 (the Act)*. The Act established the District of Columbia Water and Sewer Authority ("WASA"), as the Storm Water Administrator, whose responsibility includes monitoring and coordinating activities of all District agencies, including the activities of the Administrator, which are required to maintain compliance with the Storm Water Permit. The legislation also required the WASA to charge and collect a Storm Water fee on its water bill to its retail customers.

All revenues collected for the Fund shall be used to pay for any District agency's costs of complying with the Storm Water Permit, including all administrative, operating and capital costs, and WASA's cost of billing and collecting the Storm Water fees.

(2) Summary of Significant Accounting Policies

The financial statements of the Fund have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles. The Fund's significant accounting policies are described below.

(a) Measurement Focus And Basis of Accounting

The term "measurement focus" is used to denote what is being measured and reported in the Fund's operating statements. The Fund is accounted for on the flow of "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported and equity is reported as net assets.

The term "basis of accounting" is used to determine when a transaction or event is recognized on the Fund's operating statements. The Fund uses full accrual basis of accounting, with revenues recorded when earned and expenses recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Fund has elected, as allowed in paragraph 7 of *GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, not to follow FASB pronouncements issued subsequent to November 30, 1989. Therefore, the Fund follows all GASB pronouncements; and FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Notes to Financial Statements

September 30, 2002 and 2001

(In thousands)

(2) Summary of Significant Accounting Policies (Continued)

For the fiscal year ended September 30, 2002, the Fund adopted provisions of Governmental Accounting Standards Board Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*" Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components as described below:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net assets consists of restrictions placed on net assets as a result of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(b) Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items.

Operating revenues generally result from providing services in connection with the Fund's principal ongoing operations. The principal operating revenues of the Fund are storm water fees charged on WASA's water bill to its retail customers.

Operating expenses are any District agency's costs of complying with the Storm Water Permit, including all administrative, operating and capital costs, and Water and Sewer Authority's cost of billing and collecting the Storm Water fees.

All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

(c) Cash

The Fund's cash is maintained in a bank account separate from the District and Water and Sewer Authority's cash in accordance with the Act. This account is insured and fully collateralized.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Notes to Financial Statements

September 30, 2002 and 2001

(In thousands)

(2) Summary of Significant Accounting Policies (Continued)

(d) Capital Equipment

Capital Equipment is stated at original cost. Normal recurring maintenance and repair costs are charged to operations, whereas major repairs and improvements and replacements, which materially extend the useful lives of the assets, are capitalized. Capital equipment is depreciated on a straight-line basis over an estimated useful life of three to ten years, using the half-year convention.

The following estimated useful lives are used to compute depreciation:

<u>Description</u>	<u>Years</u>
Office equipment	3 -5
Computers	5
Fleet	5 - 7
Heavy machinery	10

(e) Deferred Revenue and Other Revenues

The Department of Health (DOH) made an advance payment to cover costs of permit compliance incurred by the Fund Administrator on its behalf for fiscal year 2001. This advance was recorded as deferred revenue and subsequently recognized as revenue in fiscal year 2002. Revenue is recognized as permit compliance costs are incurred by the Fund Administrator.

(f) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(3) Due From WASA

These are amounts due from WASA for Storm Water permit fees collected but not transferred to the Fund at September 30, 2002 and 2001. The amount due is net of administrative expenses due to WASA as discussed in note 6 "Related Party and Similar Transactions".

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Notes to Financial Statements

September 30, 2002 and 2001

(In thousands)

(4) Capital Equipment

The net capital equipment of \$83 consists of the following at September 30, 2002:

	Balance 9/30/2001	Additions	Disposals	Balance 9/30/2002
Capital equipment	\$ -	\$ 89	\$ -	\$ 89
Less: accumulated depreciation	-	(6)	-	(6)
Capital equipment, net	<u>\$ -</u>	<u>\$ 83</u>	<u>\$ -</u>	<u>\$ 83</u>

(5) Due To Other District Agencies

These are authorized and approved amounts incurred by other District agencies in Storm Water permit compliance activities not yet reimbursed by the Fund at September 30, 2002 and 2001. These amounts are shown below for the two years.

	2002	2001
Due to WASA	\$ 132	\$ 135
Due to DPW	310	191
Gross Due to other District Agencies	<u>442</u>	<u>326</u>
Less: Due to WASA	132	135
Due to other District Agencies, net	<u>\$ 310</u>	<u>\$ 191</u>

(6) Related Party and Similar Transactions

During the year ended September 30, 2002 and the period from October 18, 2000 (inception) to September 30, 2001, WASA collected \$3,443 and \$909, respectively, in fees for the Storm Water Fund from its customers. The Fund also recognized administrative expenses from WASA and the Department of Public Works of \$526 and \$461, respectively, for 2002 and \$135 and \$191 respectively, for 2001. Additionally, the Fund recognized \$89 of capitalizable costs during the year from the Department of Public Works for the purchase of three trucks.

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

REQUIRED SUPPLEMENTARY INFORMATION

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND**Required Supplementary Information**

**BUDGETARY COMPARISON SCHEDULE
For the year ended September 30, 2002**

	Original* Budget	Actual	Variance
Operating Revenues			
Storm water Fees	\$ 3,100	\$ 3,443	\$ 343
Other	-	165	165
Total Operating Revenues	<u>3,100</u>	<u>3,608</u>	<u>508</u>
Operating Expenses			
Contractual Services	3,000	989	2,011
Depreciation Expense	-	6	(6)
Total Operating Expenses	<u>3,000</u>	<u>995</u>	<u>2,005</u>
Operating income	100	2,613	2,513
Interest income	-	18	18
Increase in net assets	<u>\$ 100</u>	<u>\$ 2,631</u>	<u>\$ 2,531</u>

* Original budget was not amended

DISTRICT OF COLUMBIA STORM WATER PERMIT COMPLIANCE ENTERPRISE FUND

Required Supplementary Information

NOTE TO BUDGETARY COMPARISON SCHEDULE For the Year Ended September 30, 2002

BUDGETARY ACCOUNTING AND CONTROL

Budget Law

The Fund prepares its annual operating budget under the provisions of its enabling legislation. In accordance with those provisions, the following process is used to adopt the annual budget.

- Development of the Department of Public Works, Department of Health and the Water & Sewer Authority's operating budgets, based on their financials
- Review and development of proposed budget by the Fund Administrator
- Presentation of proposed budget to the Board of Directors
- Review and development of proposed budget by the Board of Directors
- Adoption of proposed budget by the Board of Directors
- Submission of proposed budget to the District of Columbia for inclusion in its budget
- District of Columbia budget submission to U.S. Congress

Budget Accounting

The Fund is a single enterprise fund and maintains accounting records using the accrual basis of accounting, in accordance with Generally Accepted Accounting Principles (GAAP). Under this basis of accounting, revenues are recorded when earned, and expenses are recorded when goods and services are received. The Fund's expenditure budget is prepared on a comparable basis to GAAP. Depreciation is not budgeted; depreciation and interest expense are recorded as expenses for financial statement purposes.

Budget Requirements

After the U.S. Congress approves the budget, the budget is loaded into the Fund's financial management system, which prevents overspending without appropriate approvals. The Department of Finance and Budget prepares daily and monthly management reports for each operating unit, management staff, the Board of Directors, and its various committees. The reports are consistently reviewed each month to ensure the Fund complies with its authorized budget levels.