



**District of Columbia
Public Schools**

Washington, D.C.

Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2000

Prepared by

**Office of the Chief Financial Officer
Donald L. Rickford
Chief Financial Officer**

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Fiscal Year Ended September 30, 2000**

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INTRODUCTORY SECTION



**DISTRICT OF COLUMBIA
PUBLIC SCHOOLS**

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April 30, 2001

To the Board of Education of
the District of Columbia

Ladies and Gentlemen:

The Comprehensive Annual Financial Report (CAFR) of the District of Columbia Public Schools (DCPS) for the fiscal year ended September 30, 2000, is submitted herewith and includes the general purpose financial statements audited by KPMG LLP, independent certified public accountants. The CAFR was prepared by the Office of the Chief Financial Officer. DCPS management is responsible for the accuracy, completeness and fair presentation of the data presented, including all disclosures. We believe that the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly reflect the financial position and results of operations of the DCPS, as measured by the financial activity of its various funds; and that all disclosures necessary for public understanding of the DCPS financial status have been incorporated in this report.

The CAFR is presented in four sections: introductory, financial, compliance, and statistical. The introductory section includes this transmittal letter, a list of the members of the current Board of Education and selected Superintendent's executive officers, a list of the members of the former Board of Education, a list of the members of the Emergency Transitional Education Board of Trustees, and an organizational chart for the DCPS. The financial section includes the general purpose financial statements and the individual fund and account group financial statements and schedules. The compliance section contains the independent auditors' report on compliance and on internal control over financial reporting as required by *Government Auditing Standards*. The statistical section includes selected financial and demographic information generally presented on a multi-year basis.

THE REPORTING ENTITY AND SERVICES PROVIDED

The DCPS is a fiscally dependent school system and an agency of the Government of the District of Columbia (the District). A significant portion of the revenues of the DCPS is generated by appropriations from the District. Further, the DCPS is subject to the budgetary procedures followed by the District in its annual request to the United States Congress. As an agency of the District, the financial position and results of operations of the DCPS are included in the various funds and account groups of the general purpose financial statements of the District.

The DCPS CAFR includes the instructional and operating activities and all related support functions of the 149 schools providing educational services as of September 30, 2000, as well as the activities of other instructional programs. The following are specifically excluded from the DCPS CAFR:

- The DCPS does not have title to any land and school buildings; therefore, these are excluded from the DCPS' General Fixed Assets Account Group. Because the District owns them, they are included in the District's CAFR.
- Employees of the DCPS are covered by various pension and deferred compensation plans. The employer's share of contributions to these plans is made by the District and federal governments. Further, the plans are operated and managed by the District and federal governments. Accordingly, the financial activities of these plans are excluded from the DCPS' CAFR, but are included in the District's CAFR.
- The District has issued various long-term general obligation bonds and notes used, in part, to finance the operations of the DCPS. These long-term obligations are secured by the full faith and credit of the District government. The District has ultimate responsibility for such debts and, as such, they are not reflected in the DCPS' financial statements. Instead, they are reflected in the District's CAFR.
- The DCPS does not have the authority to levy taxes on District residents; therefore, tax revenues are excluded from the DCPS' financial statements.
- The District of Columbia Public School Reform Act of 1995 as amended established the chartering authority of the District of Columbia Board of Education to monitor the operations of each public charter school. Funding for these charter schools is

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provided in the Appropriation Act of Congress under Public Education System separate from that of DCPS. Accordingly, the financial activities of the charter schools are excluded from DCPS' CAFR.

Residents of the District were granted the right to elect the Board of Education of the District of Columbia (the Board) in a 1968 legislative reform. The Board consisted of 11 elected members who served staggered, four-year terms. A nonvoting member of the student body was elected to the Board annually. On November 15, 1996, an Emergency Transitional Education Board of Trustees (the Trustees) was appointed by the District of Columbia Financial Responsibility and Management Assistance Authority (FRMAA) to assume immediate responsibility for the operation and management of the DCPS and served until January 2001.

In June 2000, voters of the District of Columbia passed a referendum to create a new school board structure. Under the new board structure, the Board no longer comprises 11 elected members. Instead, five members are elected by District residents and four members are appointed by the Mayor. The new Board assumed control over the governance of DCPS in January 2001.

The DCPS is located within the District of Columbia, a community of many neighborhoods and home to approximately 572,000 residents. With 60 square miles of land area and nine square miles of water area, it is the nation's capital and the seat of the federal government.

As of September 30, 2000, the DCPS operated 102 elementary schools, 22 junior high schools, 19 senior high schools, and 6 special programs, including career and adult education and an arts center. The DCPS provides a range of educational services for preschool through adult-age students. These services include comprehensive educational programs and special learning opportunities for elementary, junior high, and senior high school enrollees. In addition, the Head Start program, the Visiting Instruction Corps, the Public/Private Partnership programs, and alternative academic/career-training/entrepreneurial programs are provided. The career enrichment program, under the auspices of the Public/Private Partnership programs offers opportunities to explore a broad range of career options for students in grades four through eight at several selected elementary, middle, and junior high schools.

The Emergent Literacy Program, a segment of Early Childhood Education, provides early language development experiences to pre-kindergarten and kindergarten students. Special education programs are provided to students who have been identified as having physical handicaps, learning disabilities, mental and emotional problems, or behavioral patterns that require specialized instruction.

The DCPS' number one priority is to meet the challenge of providing a comprehensive educational program in an atmosphere that is open to, concerned about, and responsive to the needs of students and the community.

INTERNAL ACCOUNTING CONTROLS

The accounting system of the DCPS depends on a foundation of internal control structure to ensure that financial information generated is both accurate and reliable. The internal control structure is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgment by management. The financial accounting and budgetary systems are automated and include edits necessary to ensure that all system-generated transactions agree with predetermined totals before entering into the accounting system.

All internal control evaluations occur within the above framework. The relationship of internal control to basic management responsibilities emphasizes the interaction of the accounting system with other management control systems.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The DCPS' accounting system is organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording its assets, liabilities, fund equity, revenues, and expenditures. The types of funds used are determined by accounting principles generally accepted in the United States of America (GAAP), and the number of funds established is determined by sound financial administration.

This report has been prepared in accordance with GAAP for governmental entities. The report includes all funds and account groups of the DCPS. The funds and account groups included in the CAFR are:

- (1) General Fund
- (2) Capital Projects Fund
- (3) Fiduciary Funds – Central Investment (Trust) and Student Activity (Agency)
- (4) General Fixed Assets Account Group
- (5) General Long-term Debt Account Group

Financial transactions related to school breakfast and lunch programs are reported in the General Fund. This operation depends heavily on federal and District subsidies to supplement and support the overall breakfast and lunch programs. The District's System of Accounting and Reporting (SOAR), under which the DCPS operates, has the capability to separately identify revenues and expenditures for food services operations and other federal grants. Since over 75 percent of the student population receives free or reduced-price meals, the food services program has not been presented as a proprietary fund.

The DCPS' financial statements have been prepared on the modified accrual basis of accounting in accordance with GAAP for governmental units. The notes to the financial statements include additional information on the DCPS' accounting policies.

The DCPS' annual budget is included in the District's overall budget request to Congress. In a period other than a control period, as defined in Section 305(4) of the District of Columbia FRMAA Act of 1995, approved April 17, 1995, the DCPS' budget is subject to approval by both the District of Columbia City Council and federal government, prior to actual congressional appropriation of funds for each fiscal year. During a control period, there are modifications to the budget process as described in note 1 to the general purpose financial statements.

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All accounting transactions, including revenue recognition, payroll, and vendor payments, are processed through SOAR.

The DCPS' appropriated General Fund budget is enacted on a basis consistent with GAAP. Total expenditures of the DCPS may not legally exceed its budget appropriations at the fund level; however, the DCPS reserves the right to allocate its budget by organization code, program code, and object as a management control device.

As a part of the financial reporting process, all actual activities are compared to budget. In addition, projected expenditures, and unexpended balances are reported monthly to school administrators and members of the Board and the Trustees. These monthly reports compare each line item account balance to the annual budget with accumulation by organization code, program code and fund levels.

FINANCIAL HIGHLIGHTS

As demonstrated by the financial statements and schedules included in the financial section of this report, the DCPS continues to meet its responsibility for financial management. The Office of the Chief Financial Officer has been engaged in promoting continuous improvement, and, during fiscal year 2000, made significant changes to establish supportive financial systems that are accurate and reliable.

General Fund

Revenues of the General Fund totaled \$789,119,000, an increase of 15.1 percent over the preceding year. The amount of revenues from various sources and the changes from the previous fiscal year are as follows (amounts in thousands):

<u>Source of Revenue</u>	<u>Fiscal Year 2000</u>		<u>Increase (Decrease) from Fiscal Year 1999</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>%of Total</u>
District of Columbia appropriations	\$ 601,789	76.3%	\$ 45,429	8.2%
Restricted federal grants	156,825	19.9%	48,073	44.2%
Unrestricted federal grants	5,318	0.7%	3,283	161.3%
Charges to other District agencies	16,878	2.0%	5,608	49.8%
Restricted private grants	3,583	0.5%	(1,059)	(22.8)%
Miscellaneous	4,726	0.6%	2,029	75.2%
Total	\$ 789,119	100.0%	\$ 103,363	15.1%

Expenditures for the general fund totaled \$787,062,000 an increase of 15.5 percent over fiscal year 1999. Variances in levels of general fund expenditures by major functions of the DCPS compared to the preceding year are shown in the following table (amounts in thousands):

<u>Function</u>	<u>Fiscal Year 2000</u>		<u>Increase (Decrease) from Fiscal Year 1999</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Administration	\$ 32,050	4.1%	\$ 9,344	41.5%
Instruction	340,631	43.3%	83,708	32.6%
Instructional support	214,017	27.2%	(8,611)	(3.9%)
Special populations	19,044	2.4%	6,996	58.1%
Pupil personal services	6,078	0.8%	(303)	(4.7%)
Other operational costs	24,343	3.1%	(1,383)	(5.4%)
Building operations and maintenance	78,339	9.9%	(1,169)	(1.5%)
Transportation	45,637	5.8%	17,716	63.4%
Food services	26,923	3.4%	(929)	(3.3%)
Total	\$ 787,062	100%	\$ 105,369	15.5%

Expenditures for instruction and instructional support represent 70.5 percent of total expenditures. These two functions reflect a 28.7 percent increase this year over fiscal year 1999 expenditures.

Administrative costs increased by 41.5% as a result of non-union employee cost of living increases, contracts issued in 2000 relating to system upgrades and year 2000 equipment and software compliance.

The 32.6% increase in instruction expenditures was primarily due to teachers' pay increases.

Special population expenditures increased 58.1% due to an increase in the hourly rate paid to attorneys, increased Special Education tuition payments that resulted from a 14% increase in Special Education students and the purchase and installation of a Special Education tracking system.

The 63.4% increase in transportation expenditures resulted from the purchase and installation of security cameras at the bus terminals and new contracts awarded under court orders to provide transportation to the Special Education students.

Variances in levels of General Fund expenditures by major object classes of the DCPS over the preceding year are shown in the following table (amounts in thousands):

<u>Object Class</u>	<u>Expenditures</u>		<u>Increase (Decrease) from Fiscal Year 1999</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>Percentage</u>
Salaries, wages and benefits	\$ 505,301	64.2%	\$ 56,335	12.5%
Supplies and materials	32,599	4.1%	10,817	49.7%
Energy, communications and rentals	28,225	3.6%	3,791	15.5%
Other services and charges	102,861	13.1%	26,410	34.5%
Subsidies and transfers	87,511	11.1%	2,963	3.5%
Equipment, rentals and textbooks	30,565	3.9%	5,053	19.8%
Total	\$ 787,062	100.0%	\$ 105,369	15.5%

Salaries and benefits increased 12.5% as a result of pay increases awarded. (Teachers 3% and non-union employees 6%, \$20 million administrative premium and \$9.3 million related to teamsters pay negotiations, grievances and retroactive payment to other employees.)

Supplies and materials increased 49.7% because of procurements that were ordered in fiscal year 1999 but were not delivered until fiscal year 2000.

Energy, communication and rentals increased as a result of the unexpected increase in energy costs nationwide.

Other services and charges increased due to an increase in the hourly rate paid to attorneys, contracts awarded under court orders for special education students and year 2000 contracts issued for increased testing.

The DCPS' budget is labor-intensive, with 64.2 percent of general fund expenditures designated for personnel services.

Capital Projects Fund

DCPS is charged with the creation and maintenance of a safe, nurturing and stimulating educational environment in which all children can develop their academic, creative and intellectual potential. Therefore, the upgrading of DCPS facilities is a continuous process.

The Capital Projects Fund accounts for expenditures for roof and boiler replacements, emergency generators, asbestos abatement, underground storage tanks, general maintenance, safety systems, and building improvements. Purchases of vehicles and equipment by the capital projects fund are capitalized as additions to the General Fixed Assets Account Group.

In Fiscal Year 2000 the capital projects fund received \$74,510,000 in total revenue comprising \$59,995,000 in appropriated funds, \$11,313,000 in Federal grants and \$3,202,000 from the sale of surplus property.

Fiduciary Fund - Student Activity Funds

This fund accounts for all revenue raised in the name of a school or for school organizations, monies collected from students, and all revenue collected at school sponsored activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. There are 149 schools administering these funds, each of which has its own bank account, and each of which is subject to central office internal audit controls and a staggered annual external audit. As of September 30, 2000, assets of these funds totaled approximately \$4,885,000.

Fiduciary Fund - Central Investment Expendable Trust Fund

This fund accounts for donations/grants and memorial scholarships from private sources up to twenty-five thousand dollars. Idle funds are invested primarily in money market funds, certificates of deposit, and U.S. government securities. As of September 30, 2000, the market value of the invested funds was approximately \$816,000 in addition to \$1,133,833 due from other funds.

General Fixed Assets Account Group

The general fixed assets of the DCPS are used to carry out the main educational functions of the school system and are not financial resources available for expenditures. As of September 30, 2000, the general fixed assets of the DCPS amounted to approximately \$13,523,000. This amount represents the actual or estimated historical cost of the assets, net of accumulated depreciation. It is considerably less than their present replacement value. Additions may include vehicles and equipment purchased by the capital projects fund and the general fund. There were no vehicle purchases by the Capital Projects fund in FY 2000.

General Long-term Debt Account Group

This fund is used to account for the long-term portion of employees' unused vested annual leave entitlements, employee compensation agreements and amounts owed under long term leases of school buses. In practice, the current-year costs of annual leave taken and early retirement benefit payments are financed through the General Fund's annual budget. As of September 30, 2000, the total long-term liability of the DCPS was approximately \$8,093,000.

CASH MANAGEMENT

The DCPS has no significant cash and investments of its own. The District's Treasury Department has the responsibility for the cash management and investment functions for all District agencies, including the DCPS. The DCPS, however, manages four imprest bank accounts, 149 checking accounts for direct purchases of supplies by local schools,

bank accounts maintained by local schools for the deposit of student activity funds, and a central investment pool to consolidate resources of private donations primarily for scholarship purposes.

As of September 30, 2000, the DCPS' controlled cash and investments (all short-term) totaled \$10,619,000. All checking accounts (imprest, direct purchases, student activity and emergency payroll assistance) are of the interest-bearing type. Investments are maintained in mutual funds, U.S. Treasury notes, notes issued by federal agencies, secured certificates of deposit, and in the District of Columbia Teachers' Credit Union. Total interest income for fiscal year 2000 amounted to \$155,799.

RISK MANAGEMENT

Consistent with the policies of the District of Columbia Government, the DCPS 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. Significant losses are reflected when a determinable loss has been incurred. In addition, these losses are paid by the District through a separate appropriation. No significant losses occurred during fiscal year 2000.

OTHER INFORMATION

Independent Audit

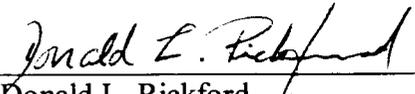
Although not required by statute, the DCPS has had its financial statements audited annually over the past 20 years by independent certified public accountants. The DCPS' auditors for fiscal year 2000 are KPMG LLP. The auditors' unqualified opinion on the financial statements is included in this report. In addition, as a recipient of federal financial assistance, the DCPS is subject to the audit requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133.

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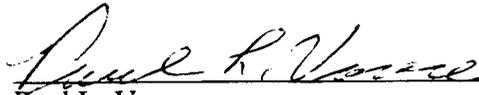
Acknowledgments

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Office of the Chief Financial Officer. We would like to express our appreciation to the Finance Division and to all who assisted and contributed to the preparation of this report. Also, we would like to thank the members of the current and former Board of Education and the Emergency Transitional Education Board of Trustees for their interest and support in planning and providing oversight of the financial operations of the school system in a responsible and progressive manner.

Respectfully submitted,



Donald L. Rickford
Chief Financial Officer
Office of the Chief Financial Officer



Paul L. Vance
Superintendent
Office of the Superintendent

DISTRICT OF COLUMBIA PUBLIC SCHOOLS ORGANIZATIONAL STRUCTURE FISCAL YEAR ENDED SEPTEMBER 30, 2000

