

FINANCIAL SECTION



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report

To the Members of the Emergency Transitional Education
Board of Trustees and the Members of the Board of Education
of the District of Columbia

We have audited the accompanying general purpose financial statements of the District of Columbia Public Schools (the Schools), an agency of the Government of the District of Columbia (the District), as of and for the year ended September 30, 2000, as listed in the financial section of the accompanying table of contents. These general purpose financial statements are the responsibility of the Schools' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

As discussed in note 1, the accompanying general purpose financial statements include only those accounts of the District used to account for the financial activity of the Schools and are not intended to present the financial position and results of operations of the District as a whole in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Schools at September 30, 2000, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2001 on our consideration of the Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The individual fund and account group financial statements and schedules listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the Schools. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections identified in the accompanying table of contents and, accordingly, we express no opinion thereon.

KPMG LLP

January 26, 2001

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Combined Balance Sheet - All Fund Types and Account Groups

September 30, 2000

(with comparative totals for September 30, 1999)

(In thousands)

	Governmental Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum only)	
	General	Capital Projects	Trust and Agency	General Fixed Assets	General Long-term Debt	2000	1999
Assets and Other Debits							
Cash (note 2)	\$ 4,918	\$ -	\$ 4,885	\$ -	\$ -	\$ 9,803	\$ 4,836
Short-term investments (note 2)	-	-	816	-	-	816	1,083
Due from the District of Columbia	58,166	128,635	-	-	-	186,801	204,766
Due from other funds	-	-	1,134	-	-	1,134	-
Grants and other accounts receivable (note 3)	43,990	-	-	-	-	43,990	19,131
Intra-District Advance	-	25	-	-	-	25	-
Inventories	958	-	-	-	-	958	1,223
Property and equipment, net of accumulated depreciation (note 4)	-	-	-	13,523	-	13,523	8,534
Amount to be provided for payment of long-term obligations (note 5)	-	-	-	-	8,093	8,093	5,788
Total assets and other debits	\$ 108,032	128,660	6,835	13,523	8,093	265,143	245,361
Liabilities, Fund Equity, and Other Credits							
Liabilities:							
Accounts payable	\$ 58,351	26,930	-	-	-	85,281	69,427
Accrued payroll and employee compensation agreements	38,986	-	-	-	-	38,986	51,051
Due to other funds	1,134	-	-	-	-	1,134	-
Due to student organizations	-	-	4,885	-	-	4,885	2,203
Compensated absences (note 5)	2,709	-	-	-	7,619	10,328	7,351
Capital leases obligations (note 5)	-	-	-	-	474	474	401
Deferred revenues:							
Private grants	1,822	-	-	-	-	1,822	1,916
Federal grants	1,338	-	-	-	-	1,338	6,158
Total liabilities	104,340	26,930	4,885	-	8,093	144,248	138,507
Fund equity and other credits:							
Investment in general fixed assets	-	-	-	13,523	-	13,523	8,534
Fund balances (note 8):							
Reserved for encumbrances	3,585	30,794	-	-	-	34,379	85,745
Reserved for capital improvements	-	70,936	-	-	-	70,936	8,990
Unreserved	107	-	1,950	-	-	2,057	3,585
Total fund equity and other credits	3,692	101,730	1,950	13,523	-	120,895	106,854
Commitments and contingencies (note 7)							
Total liabilities, fund equity, and other credits	\$ 108,032	\$ 128,660	\$ 6,835	\$ 13,523	\$ 8,093	\$ 265,143	\$ 245,361

See accompanying notes to general purpose financial statements.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund

Year ended September 30, 2000
(with comparative totals for September 30, 1999)

(In thousands)

	Governmental Funds		Fiduciary fund - Central Investment Fund	Totals (Memorandum Only)	
	General	Capital Projects		2000	1999
Revenues:					
Intergovernmental					
District of Columbia appropriati \$	601,789	\$ 59,995	\$ -	\$ 661,784	\$ 611,360
Restricted federal grants	156,825	11,313	-	168,138	108,752
Unrestricted federal grants	5,318	-	-	5,318	2,035
Charges to other District agencies	16,878	-	-	16,878	11,270
Sale of surplus property - building	-	3,202	-	3,202	5,705
Restricted private grants	3,583	-	-	3,583	4,642
Miscellaneous	4,726	-	-	4,726	2,697
Total revenues	789,119	74,510	-	863,629	746,461
Expenditures:					
Current:					
Administration	32,050	-	-	32,050	22,706
Instruction	340,631	-	-	340,631	256,923
Instructional support	214,017	-	-	214,017	222,628
Special populations	19,044	-	-	19,044	12,048
Pupil personnel services	6,078	-	-	6,078	6,381
Other operational costs	24,343	-	-	24,343	25,726
Building operations and maintena	78,339	-	-	78,339	79,508
Transportation	45,637	-	-	45,637	27,921
Food services	26,923	-	-	26,923	27,852
Capital outlay	-	67,515	-	67,515	29,825
Total expenditures	787,062	67,515	-	854,577	711,518
Excess of revenues over expenditures	2,057	6,995	-	9,052	34,943
Fund balance at beginning of year	3,585	94,735	-	98,320	63,377
Transfer to fiduciary fund	(1,950)	-	1,950	-	-
Fund balance at end of year	\$ 3,692	\$ 101,730	\$ 1,950	\$ 107,372	\$ 98,320

See accompanying notes to general purpose financial statements.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Statement of Revenues and Expenditures - Budget and Actual

General Fund

Year ended September 30, 2000

(In thousands)

	Budget		Actual	Variance
	Original	Revised		Favorable (Unfavorable)
Revenues:				
District appropriations (local)	\$ 600,936	\$ 601,789	601,789	\$ -
Other (non-local)	116,842	211,413	187,330	(24,083)
Total revenues	717,778	813,202	789,119	(24,083)
Expenditures:				
Current:				
Administration	29,214	33,344	32,050	1,294
Instruction	310,654	347,871	340,631	7,240
Instructional support	195,164	225,039	214,017	11,022
Special populations	17,370	20,487	19,044	1,443
Pupil personnel services	5,527	6,112	6,078	34
Other operational costs	22,251	24,708	24,343	365
Building operations and maintenance	71,419	78,501	78,339	162
Transportation	41,631	46,324	45,637	687
Food services	24,548	30,816	26,923	3,893
Total expenditures	717,778	813,202	787,062	26,140
Excess of revenues over expenditures	\$ -	\$ -	2,057	\$ 2,057

See accompanying notes to general purpose financial statements.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) Summary of Significant Accounting Policies

Background

The Mission of the District of Columbia Public Schools (the Schools) is to provide a viable and comprehensive system of publicly supported education for students from pre-kindergarten through grade twelve. Services provided include comprehensive programs at the elementary, junior and senior high school levels, as well as special educational services for handicapped students and career training opportunities for adults at career development centers.

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 original 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.

From November 15, 1996 through January 2001, pursuant to Public Law 104-8, the Schools operated under the governance of a nine member Emergency Transitional Education Board of Trustees (Board of Trustees). Serving as agents of the Financial Responsibility and Management Assistance Authority (FRMAA), the Board of Trustees assumed immediate responsibility for the operation and management of the Schools. Each member of the Board of Trustees served until January 2001. During the period covered by Public law 104-8, except as prescribed by the FRMAA, the Board of Trustees had all the authority, powers, functions, duties, responsibilities, exemptions, and immunities of the Board of Education.

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 is comprised of five members who are elected by District residents and four members who are appointed by the Mayor. The new Board assumed control over the governance of the schools in January 2001.

The Schools are an independent, but not legally separate, agency of the District of Columbia (District) and are included in the District's budgetary request to the United States Congress (Congress). The Schools' budget is subject to approval by the City Council of the District and the federal government prior to actual congressional appropriation of funds for each fiscal period.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) Continued

The accounting and reporting policies of the Schools conform to accounting principles generally accepted in the United States of America as applicable to governmental units (GAAP). The following is a summary of the Schools' more significant accounting policies:

Financial Reporting Entity

The Schools are considered an agency of the District's reporting entity because of its fiscal dependence on the District. Significant portions of the revenues of the Schools are generated by appropriations from the District. The Schools' appropriations from the District for fiscal year 2000 represented 12.6 percent of total general fund revenue. Further, the Schools are subject to the budgetary procedures followed by the District in its annual request to Congress. As an agency of the District, the financial position and results of operations of the Schools are included in the various funds and account groups of the District's general purpose financial statements.

The accompanying general purpose financial statements include only those accounts of the District used to account for the financial activity of the Schools and are not intended to present the financial position and results of operations of the District as a whole.

Excluded from the accompanying general purpose financial statements are:

- All land and buildings used by the Schools, which are owned by the District;
- The Teachers' Retirement Plan, Civil Service Retirement System, District Retirement Plan, and Deferred Compensation Plan. The employers' share of contributions to these plans is funded and the plans are operated entirely by the District and federal governments (for further information, see note 6); and
- General obligation debt issued by the District to fund operations of the Schools, the repayment of which is the responsibility of the District.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) **Continued**

- Financial operations of the District of Columbia Public Charter Schools.

Basis of Presentation - Fund Accounting

The Schools use funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Schools' functions or activities.

A fund is a separate entity with a self-balancing set of accounts. An account group on the other hand is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in governmental funds because they are not current financial resources and liabilities.

The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Schools:

Governmental Fund Types

Governmental Funds are those through which most governmental functions of the Schools are financed. The acquisition, use and balances of the Schools' expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of governmental fund types is upon determination of and changes in financial position, rather than upon net income determination. The following are the Schools' governmental fund types:

General Fund

The General Fund is used to account for all financial resources of the Schools except those required to be accounted for in another fund. The sources of General Fund revenues are annual appropriations from the District, federal grants and other private sources.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) Continued

The Capital Projects Fund

The Capital Projects Fund accounts for financial resources used for the purchase of major equipment and renovation or construction of major capital facilities.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held by the Schools in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds.

Agency Fund

The Agency Fund (Student Activity) is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

This fund is used to account for assets held by the Schools as an agent for student groups. Local schools maintain student activity accounts to record cash resources of the various clubs and organizations.

Expendable Trust Fund

The Central Investment Fund (CIF) accounts for donations/grants received from private sources up to twenty-five thousand dollars to be used for school operations. The fund balance of the CIF was approximately \$1,950 comprising \$816 invested primarily in money market funds, certificates of deposit, and U.S. government securities and \$1,134 due from other funds.

Account Groups

Account groups are used to establish accounting control and accountability for the Schools' furniture, fixtures, transportation and other equipment and general long-term liabilities. The following are the Schools' account groups:

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) Continued

General Fixed Assets

The General Fixed Assets Account Group is used to account for all fixed assets of the Schools (excluding land and buildings owned by the District).

General Long-term Debt

The General Long-term Debt Account Group is used to account for all long-term debt of the Schools. It consists of the long-term portions of vested employee compensated absences, certain employee compensation agreements, and capital lease obligations.

Basis of Accounting

The basis of accounting refers to the timing of recognition of revenues and expenditures. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a current financial resources measurement focus wherein only current assets and current liabilities generally are included on the balance sheet. Operating statements for these funds reflect increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by the governmental and expendable trust funds. 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. One in which monies must be expended on the specific purpose or project before any amounts will be

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) Continued

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.

Deferred revenue reported as a liability in the accompanying balance sheet arises when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period, as well as in those instances when resources are received by the Schools before it has a legal claim to them. This liability is reduced in subsequent periods, when both revenue recognition criteria are met, or when the Schools’ have a legal claim to the resources.

Budgets and Budgetary Control

The District entered a control period as defined by Public Law 104-8 on April 17, 1995. Fiscal year 2000 was a control year within this period. Special budgetary conditions of a control period and year are described below.

In accordance with Section 305(4) of the District of Columbia Financial Responsibility and Management Assistance Authority Act of 1995 (Act) the budgetary data for the Schools’ general fund 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 2000 operational needs, the budget ultimately approved and included in the accompanying financial statements represents primarily an allocation from the Districts’ final approved budget. The Districts’ budget process under the Act is described as follows:

- By February 1, the Mayor is required to submit a budget for the next fiscal year and a financial plan for the following three (3) years to the FRMAA for its approval.
- The FRMAA has a 30-day period to disapprove. If disapproved, the Mayor has 15 days to submit a revised financial plan and budget (including the Schools) to the FRMAA.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) Continued

- The FRMAA then submits a recommended financial plan and budget to Council for a 30-day review period.
- The Council's financial plan and budget is submitted to the FRMAA for a 15-day period to disapprove. If disapproved the Council has 15 days to submit a revised financial plan and budget to the FRMAA.
- By June 15, the Mayor is required to submit the approved financial plan and budget, or, if disapproved, the Mayor submits the revised financial plan and budget and the FRMAA submits a recommended financial plan and budget to the President of the United States for review, submission to Congress, and enactment.

The Act also amended Section 452 of the District Charter to eliminate the limitation on the Mayor and Council that restricted their ability to amend the budget prepared by the Schools. The Mayor and the Council are not limited to merely stating the maximum amount allocated to the Schools but are allowed to specify the expenditures for the Schools during a control year. Therefore, during a control year the Council has the same budget powers, including line item authority, over the Schools as it does over any executive agency or independent agency, not excepted by the Home Rule Charter.

Under the District of Columbia Emergency Deficit Reduction Act of 1991 (Public Law 102-106), which became effective on October 1, 1990, the Mayor may, subject to the Council's approval, reduce the budgetary appropriation of independent agencies of the District (including the Schools) for a fiscal year in which the Mayor determines it is necessary to reduce such amounts to balance the District's budget for the fiscal year.

The Schools' actual expenditures may not legally exceed budgeted expenditures at the fund level. An unfavorable variance in the budgetary statement for total expenditures in excess of revenues is a violation of the Anti-Deficiency Act (31 U.S.C. 1341). However, the Schools reserve the right to allocate its budget by function, control center, responsibility center and object as a management control device.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) **Continued**

Capital projects budget authority is determined on a lifetime project basis rather than on an annual basis. The District periodically issues long-term bonds in total and allocates the amount to projects based on factors such as the availability of funds, the relative priority of individual projects and the requirement to meet legal mandates. The amount allocated to a project in a given fiscal year is partial financing for the project. There is no legal requirement by the District to demonstrate how much of the amount financed for a project has been expended.

Budgetary Basis of Accounting

The annual, legally adopted budget of the Schools' General Fund is presented on a basis consistent with GAAP. The Schools utilize encumbrances as commitments to acquire goods and services. The recording of purchase orders and contracts, in order to reserve that portion of the applicable appropriation, is employed as an extension of the appropriation process in the General and Capital Projects Funds.

Appropriations and encumbered appropriations (except for capital projects) lapse at the end of each fiscal year, and must be reappropriated in the following year. Therefore, there are no differences in the General Fund between actual appropriated expenditures accounted for on a GAAP basis and those accounted for on a budget basis.

Encumbrances for the Capital Projects Fund lapse on completion of the project. The fund balance for the capital projects fund is "Reserved for Encumbrances" to the extent of unexpended contracts to indicate that it is available for expenditure upon vendor performance.

Due from the District of Columbia

The Schools' cash balances, other than Student Activity Fund amounts, are combined and invested to the extent available by the District Treasurer. The District does not maintain separate accountability over the Schools' cash balances as such balances are commingled within the District's General Fund. Since the Schools' cash and investments are maintained and controlled by the District, its equity in the pooled cash held in the District Treasury is presented in the financial statements as "Due from the District of Columbia."

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) Continued

Inventories

Inventories consist primarily of expendable food commodities. Inventory records are maintained on a perpetual basis, with periodic verification based on physical counts. Supplies inventories are recorded at cost. Donated commodities received from the United States Department of Agriculture are valued at fair market value and recognized as revenue at the date of receipt. Expenditures are recognized when inventory items are consumed (consumption method), as opposed to when purchased. Consumption is recognized based on the first-in, first-out method.

General Fixed Assets

General fixed assets have been acquired for general governmental purposes. Assets purchased and owned are recorded as expenditures in the governmental funds, capitalized at cost or estimated cost, and depreciated using the straight-line method over the assets' estimated useful lives in the General Fixed Assets Account Group. Donated assets are valued at fair market value as of the date of contribution.

The estimated useful lives of major classes of depreciable assets are as follows:

Vehicles	3-8 years
Furniture and equipment	3-15 years

Compensated Absences

The Schools' employees earn vacation leave at varying rates based on length of service. Vacation leave fully vests at the employee's current salary when earned, although accumulated vacation leave may not exceed 30 days at the end of any calendar year. The current portion of vacation leave payable, defined as that amount expected to be paid within three months after the fiscal year end, has been accrued in the General Fund and the long-term portion is recorded in the General Long-term Debt Account Group in the accompanying financial statements.

Employees earn sick leave at the rate of 13 days per year; however, sick leave does not vest and, accordingly, has not been accrued in the accompanying financial statements.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) **Continued**

Employee Compensation Agreements

Teachers

The Schools teachers' base salaries are subject to periodic step increases until their sixteenth year of employment. When the sixteenth year is reached, the teachers' base salary no longer continues to increase, as the teacher is instead eligible to receive supplemental compensation.

Reservations of Fund Balance

Certain portions of fund balances have been reserved by the Schools for specific purposes and are, therefore, not available for general appropriation as summarized below.

Encumbrances

Due to the long-term nature of capital projects contracts, capital projects fund encumbrances do not lapse at year-end. Accordingly, a portion of fund balance at year ended has been reserved for outstanding encumbrances within the Capital Projects fund.

Capital Projects

The remainder of the capital projects fund balance is restricted by debt covenants or for capital improvements.

Use of Estimates

Management of the Schools have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(1) Continued

Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with GAAP, nor are such data comparable to a consolidation.

Comparative Data

Summary comparative data for the prior year have been presented in the accompanying financial statements to provide an understanding of changes in the Schools' financial position and operations. Prior year totals by fund type have not been presented in each of the statements because their inclusion would make the statements unduly complex and difficult to read.

(2) Cash and Investments

All cash controlled by the Schools that is not needed for immediate disbursement is used to purchase investments in securities that the Schools are permitted by law to invest. In accordance with the District of Columbia Depository Act of 1977, the Schools may invest in obligations of the United States government or its agencies, repurchase agreements, money market funds, or time deposits with eligible institutions.

The Schools maintain bank accounts for payroll advances, direct school purchases, and small purchases separate from the District Treasury. Local schools also maintain checking accounts for student activity fund transactions. As of September 30, 2000, the carrying amount of the Schools' deposits and the bank balances were approximately \$9,803. Of the bank balances, \$6,893 was covered by federal depository insurance and \$2,910 was collateralized with various banks in the School's name.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(2) Continued

Short-Term Investments

The Schools maintain short-term investments in money market funds, certificates of deposit, and U.S. government securities separate from those of the District. As of September 30, 2000, the carrying amount and the market value of such funds was approximately \$816. All of the Schools' short-term investments are stated at cost, which approximates market value, at September 30, 2000.

The Schools' investments are normally categorized in the following manner:

Category 1 - includes investments that are insured or registered and the securities are held by the Schools or its agent in the Schools' name.

Category 2 - includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Schools' name.

Category 3 - includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Schools' name.

As of September 30, 2000, the Schools' investments are categorized as follows:

<u>Investment type</u>	<u>Category</u>			<u>Carrying amount</u>	<u>Market value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Demand Deposit			\$ 362	\$ 362	\$ 362
Certificates of deposit	\$ 11	-	-	11	11
Money market funds	17	-	-	17	17
U.S. government securities	-	426	-	426	426
Total Investments	\$ 28	\$ 426	\$ 362	\$ 816	\$ 816

(3) Grants and Other Receivables

Amounts related to federal grants and other receivables were \$42,060 and \$1,930 respectively at September 30, 2000.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(4) Property and Equipment

The following represents a summary of changes in general fixed assets, net of accumulated depreciation, by major asset class for the year ended September 30, 2000:

	<u>Balance</u> <u>October 1, 1999</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>September 30, 2000</u>
Vehicles	\$ 7,497	435	(1,271)	\$ 6,661
Furniture and equipment	24,498	7,945	(52)	32,391
Accumulated depreciation	<u>(23,460)</u>	<u>(3,392)</u>	<u>1,323</u>	<u>(25,529)</u>
Total	<u>\$ 8,535</u>	<u>4,988</u>	<u>-</u>	<u>\$ 13,523</u>

Title to land and buildings used by the Schools rests with the District. Accordingly, such assets are not included in the Schools General Fixed Assets Account Group. The historical cost of land and buildings used by the Schools are \$42,865 and \$576,169 respectively, at September 30, 2000.

(5) Long-term Debt

The following is a summary of the changes in the Schools' General Long-term Debt Account Group for the year ended September 30, 2000:

	<u>Balance</u> <u>October 1, 1999</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September 30, 2000</u>
Compensated absences	\$ 5,387	2,232	-	\$ 7,619
Capital lease obligations	<u>401</u>	<u>410</u>	<u>(337)</u>	<u>474</u>
Total	<u>\$ 5,788</u>	<u>2,642</u>	<u>(337)</u>	<u>\$ 8,093</u>

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(5) Continued

The Schools lease certain vehicles under capital lease agreements. A summary of future minimum lease payments under capital leases as of September 30, 2000 is as follows:

<u>Year</u>	<u>Amount</u>
2001	\$ 337
2002	\$ 168
Total minimum lease payments	\$ 505
Less amounts representing interest	\$ (31)
Present value	\$ 474

(6) Retirement Plans

Teachers' Retirement Plan

The Teachers' Retirement Plan (D.C. Code 4-601, 11-1561, 31-1201) 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.

Employees contribute 7 percent of their salaries; the District and federal governments make contributions based upon actuarially determined funding requirements. The District's contribution to the Teachers' Retirement Plan was \$8.663. Payroll expenditures for the year ended September 30, 2000 were \$505,301.

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 1.5 percent 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, 2000.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(6) **Continued**

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 7 percent 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.

Employees hired subsequent to September 30, 1987, participate in the District's Retirement Plan discussed below and the United States Social Security System.

District Retirement Plan

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 7 percent of base salaries each quarter on behalf of employees, who are not required to make contributions. There are no nonemployer 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 are reduced 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' noneducational employees may defer up to 25 percent of the first thirty thousand dollars of their annual compensation. Compensation deferred and income earned are taxable when paid or made available to the participant or beneficiary upon retirement, death, termination or unforeseeable emergency.

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

Notes to General Purpose Financial Statements

(dollar amounts expressed in thousands)

(7) Commitments and Contingencies

Operating Leases

The Schools lease office space from the District under an intra-district arrangement. Office expense for rent under the lease was \$4,971 for the year ended September 30, 2000. In addition, the Schools lease buses to transport special education students under the operating lease agreements that expire in 2002 and 2003. Bus lease expense was \$8,603 for the year ended September 30, 2000. Future minimum lease payments under the operating leases at September 30, 2000 are as follows:

<u>Year</u>	<u>Amounts</u>
2001	\$ 9,828
2002	10,025
2003	<u>4,081</u>
Total minimum lease payments	<u>\$23,934</u>

Self-Insurance

The Schools, as an agency of the District, participate in the Districts' self-insurance activities. The District retains all risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. A claim is accrued when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. A liability is recognized also for an estimate of claims that have been incurred but not reported. Assets are not set aside to finance claim payments.

A disability compensation accrual for claims from injuries to employees is recorded in the District's General Long-Term Liabilities Account Group. 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, 2000. Information regarding the District's outstanding liability at September 30, 2000 is presented in the District's CAFR.

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 Amendments of 1996 and the grant programs may be subject to additional financial, programmatic and compliance audits by the respective federal grantor agencies. Management believes that adequate provisions have been made in the financial statements for potential disallowed costs resulting from these audits.