

DISTRICT OF COLUMBIA PUBLIC SCHOOLS

*Financial Section*

Comprehensive Annual Financial Report  
Fiscal Year Ended September 30, 2001

# **Independent Auditor's Report**



2001 M Street, N.W.  
Washington, DC 20036

## Independent Auditors' Report

To 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, 2001, as listed in 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, 2001, 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 22, 2002 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 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 22, 2002

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS**  
**Combined Balance Sheet - All Fund Types and Account Groups**  
**September 30, 2001**  
(In thousands)  
(with comparative totals at September 30, 2000)

	Governmental Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum only)	
	General	Capital Projects	Trust and Agency	General Fixed Assets	General Long-term Debt	2001	2000
<b>Assets and Other Debits</b>							
Cash (note 2)	\$ 798	\$ -	\$ 2,383	\$ -	\$ -	\$ 3,181	\$ 9,803
Short-term investments (note 2)	-	-	1,164	-	-	1,164	816
Due from the District of Columbia	46,751	183,487	-	-	-	230,238	186,801
Due from other funds	-	-	786	-	-	786	1,134
Grants and other accounts receivable (note 3)	42,818	-	-	-	-	42,818	43,990
Intra-District advance	-	-	-	-	-	-	25
Inventories	506	-	-	-	-	506	958
Property and equipment, net of accumulated depreciation (note 4)	-	-	-	18,127	-	18,127	13,523
Amount to be provided for payment of long-term obligations (note 5)	-	-	-	-	11,344	11,344	8,093
<b>Total assets and other debits</b>	<b>\$ 90,873</b>	<b>\$ 183,487</b>	<b>\$ 4,333</b>	<b>\$ 18,127</b>	<b>\$ 11,344</b>	<b>\$ 308,164</b>	<b>\$ 265,143</b>
<b>Liabilities, Fund Equity, and Other Credits</b>							
Liabilities:							
Accounts payable	\$ 51,615	\$ 65,012	\$ -	\$ -	\$ -	\$ 116,627	\$ 85,281
Accrued payroll	51,900	-	-	-	-	51,900	38,986
Medicaid disallowance (note 8)	17,334	-	-	-	-	17,334	-
Due to other funds	786	-	-	-	-	786	1,134
Due to student organizations	-	-	2,383	-	-	2,383	4,885
Intra-District advance	60	-	-	-	-	60	-
Compensated absences (note 5)	2,951	-	-	-	6,932	9,883	10,328
Capital lease obligations (note 5)	-	-	-	-	4,412	4,412	474
Deferred revenues:							
Private grants	3,652	-	-	-	-	3,652	1,822
Federal grants	24,006	-	-	-	-	24,006	1,338
<b>Total liabilities</b>	<b>152,304</b>	<b>65,012</b>	<b>2,383</b>	<b>-</b>	<b>11,344</b>	<b>231,043</b>	<b>144,248</b>
Fund equity (deficit) and other credits:							
Investment in general fixed assets	-	-	-	18,127	-	18,127	13,523
Fund balances (deficit):							
Reserved for encumbrances	-	101,730	-	-	-	101,730	34,379
Reserved for inventories	506	-	-	-	-	506	958
Reserved for capital improvements	-	16,745	-	-	-	16,745	70,936
Unreserved	(61,937)	-	1,950	-	-	(59,987)	1,099
<b>Total fund equity (deficit) and other credits</b>	<b>(61,431)</b>	<b>118,475</b>	<b>1,950</b>	<b>18,127</b>	<b>-</b>	<b>77,121</b>	<b>120,895</b>
Commitments and contingencies (note 7)							
<b>Total liabilities, fund equity, and other credits</b>	<b>\$ 90,873</b>	<b>\$ 183,487</b>	<b>\$ 4,333</b>	<b>\$ 18,127</b>	<b>\$ 11,344</b>	<b>\$ 308,164</b>	<b>\$ 265,143</b>

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, 2001**  
**(with comparative totals for the year ended September 30, 2000)**  
**(In thousands)**

	<u>Governmental Fund Type</u>		Fiduciary Fund Type - Expendable Trust	Totals (Memorandum Only)	
	General	Capital Projects		2001	2000
<b>Revenues:</b>					
Intergovernmental:					
01 District of Columbia appropriation	\$ 664,880	\$ 168,896	\$ -	\$ 833,776	\$ 661,784
02 District of Columbia appropriation	9,768	-	-	9,768	-
Restricted federal grants	77,263	1,096	-	78,359	168,138
Unrestricted federal grants	5,235	-	-	5,235	5,318
Charges to other District agencies	33,029	-	-	33,029	16,878
Sale of surplus property - buildings	-	5,613	-	5,613	3,202
Restricted private grants	2,465	-	-	2,465	3,583
Miscellaneous	4,912	-	-	4,912	4,726
<b>Total revenues</b>	<b>797,552</b>	<b>175,605</b>	<b>-</b>	<b>973,157</b>	<b>863,629</b>
<b>Expenditures:</b>					
Current:					
Administration	21,972	-	-	21,972	32,050
Instruction	417,190	-	-	417,190	340,631
Instructional support	27,000	-	-	27,000	63,630
Special populations	199,688	-	-	199,688	169,431
Pupil personnel services	4,277	-	-	4,277	6,078
Other operational costs	37,887	-	-	37,887	24,343
Building operations and maintenance	79,373	-	-	79,373	78,339
Transportation	52,491	-	-	52,491	45,637
Food services	22,797	-	-	22,797	26,923
Capital outlay	-	163,272	-	163,272	67,515
<b>Total expenditures</b>	<b>862,675</b>	<b>163,272</b>	<b>-</b>	<b>1,025,947</b>	<b>854,577</b>
Excess (deficiency) of revenues over expenditures	(65,123)	12,333	-	(52,790)	9,052
Other financing sources:					
Proceeds from capital leases	-	4,412	-	4,412	-
Excess (deficiency) of revenues over expenditures and other financing sources	(65,123)	16,745	-	(48,378)	9,052
Fund balances at beginning of year	3,692	101,730	1,950	107,372	98,320
Fund balances (deficit) at end of year	\$ (61,431)	\$ 118,475	\$ 1,950	\$ 58,994	\$ 107,372

*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, 2001**  
**(In thousands)**

	Budget		Advance	Total	FY 2001 Actual	Variance
	Original	Revised	Appropriation 2002	Revised Budget		Favorable (Unfavorable)
<b>Revenues:</b>						
District appropriations (local)	\$ 629,309	\$ 664,880	\$ 9,768	\$ 674,648	\$ 674,648	\$ -
Medicaid	31,084	18,266	-	18,266	18,266	-
Other (non-local)	124,459	157,095	-	157,095	104,638	(52,457)
<b>Total revenues</b>	<b>784,852</b>	<b>840,241</b>	<b>9,768</b>	<b>850,009</b>	<b>797,552</b>	<b>(52,457)</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Administration	44,775	32,128	-	32,128	21,972	10,156
Instruction	461,074	396,741	7,203	403,944	417,190	(13,246)
Instructional support	33,808	43,918	-	43,918	27,000	16,918
Special populations	112,935	187,219	5	187,224	199,688	(12,464)
Pupil personnel services	6,508	6,270	-	6,270	4,277	1,993
Other operational costs	34,135	40,064	2,560	42,624	37,887	4,737
Building operations and maintenance	50,614	74,736	-	74,736	79,373	(4,637)
Transportation	38,271	38,271	-	38,271	52,491	(14,220)
Food services	2,732	20,894	-	20,894	22,797	(1,903)
<b>Total expenditures</b>	<b>784,852</b>	<b>840,241</b>	<b>9,768</b>	<b>850,009</b>	<b>862,675</b>	<b>(12,666)</b>
<b>Excess of expenditures over revenues</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(65,123)</b>	<b>\$ (65,123)</b>

District of Columbia Public Schools  
Comprehensive Annual Financial Report  
Fiscal Year Ended September 30, 2001

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**Notes to the General Purpose Financial Statements**

*(Dollars in Thousands)*

**(1) Summary of Significant Accounting Policies**

***Background***

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

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 School's budget is subject to approval by the Council of the District, and is subject to congressional appropriation as part of the overall budget appropriation for the District government for each fiscal period.

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 (the Board of Trustees). Serving as agents of the District of Columbia Financial Responsibility and Management Assistance Authority (DCFRMAA), 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 DCFRMAA, 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 passed a referendum to create a new school board structure. Under the new 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 of the Schools in January 2001.

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' 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 School's revenue are received from the District. In fiscal year 2001, the Schools received appropriations from the District representing fifteen percent (15%) of the District's 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 employer's 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);
- General obligation debt issued by the District to fund the capital improvements program of the Schools, the repayment of which is the responsibility of the District; and
- 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 School 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, private, and other sources.

#### **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 is approximately \$1,950 comprising \$1,164 invested primarily in money market funds,

certificates of deposit, and U.S. government securities and \$786 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:

#### **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. 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.

During the fiscal year ended September 30, 2001, DCPS implemented GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions". This statement provides reporting standards for the timing of recognition of assets and revenue from nonexchange transactions. The implementation had no impact on the recognition of assets and revenue.

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 2001 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 2001 operational needs, the budget ultimately approved and included in the accompanying financial statements represents primarily an allocation from the District's final approved budget. In fiscal year 2001, DCPS also received an advance of \$65,862 from its FY 2002 appropriations to be used in fiscal year 2001 for start-up expenditures related to the 2002 school year. Of the FY 2002 appropriations, DCPS spent \$9,768, which is included in the FY 2001 Statement of Revenues and Expenditures.

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 DCFRMAA for its approval.

The DCFRMAA 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 DCFRMAA.

The DCFRMAA then submits a recommended financial plan and budget to the Council for a 30-day review period.

The Council's financial plan and budget is submitted to the DCFRMAA with a 15-day period to disapprove. If disapproved, the Council has 15 days to submit a revised financial plan and budget to the DCFRMAA.

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

The Capital projects budget authority is determined on a lifetime project basis rather than on an annual basis. The District periodically issues long-term bonds for the benefits of its agencies 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.

### ***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 re-appropriated 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."

### ***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. 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. Sick leave does not vest and, accordingly, has not been accrued in the accompanying financial statements.

### ***Employee Compensation Agreements***

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; instead the teachers are 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 the fund balance at year ended has been reserved for outstanding encumbrances within the Capital Projects Fund.

#### **Capital Improvements**

The remainder of the Capital Projects Fund balance is reserved for capital improvements.

### ***Use of Estimates***

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

### ***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. Certain 2000 amounts have been reclassified to conform to the 2001 presentation.

## **(2) Cash and Investments**

All cash controlled by the Schools that is not needed for immediate disbursement is used to purchase investments in certain types of securities. 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 financial 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, 2001, the carrying amount of the Schools’ deposits and the bank balances were approximately \$3,181. Of the bank balances, \$2,997 was covered by federal depository insurance and \$184 was collateralized by various banks in the School’s name.

### ***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, 2001, the carrying amount and the market value of such funds was approximately \$1,164. All of the Schools’ short-term investments are stated at cost, which approximates market value at September 30, 2001.

The Schools’ investments are 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, 2001, the Schools' investments are categorized as follows:

Investment type	Category			Carrying Amount	Market Value
	<u>1</u>	<u>2</u>	<u>3</u>		
Demand Deposit	\$ 25	\$ -	\$ -	\$ 25	\$ 25
Certificates of deposit	11	-	-	11	11
Money market funds	18	-	-	18	18
U.S. government securities	-	<u>1,110</u>	-	<u>1,110</u>	<u>1,110</u>
Total Investments	\$ <u>54</u>	\$ <u>1,110</u>	\$ <u>-</u>	\$ <u>1,164</u>	\$ <u>1,164</u>

**(3) Grants and Other Receivables**

Amounts related to federal grants and other receivables were \$42,415 and \$403 respectively at September 30, 2001.

**(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, 2001:

	Balance October 1, 2000	Additions	Disposals	Balance September 30, 2001
Vehicles	\$ 6,661	12,009	(292)	\$ 18,378
Furniture and equipment	32,391	741	(436)	32,696
Accumulated depreciation	<u>(25,529)</u>	<u>(8,146)</u>	<u>728</u>	<u>(32,947)</u>
Total	\$ <u>13,523</u>	<u>4,604</u>	<u>-</u>	\$ <u>18,127</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, 2001.

**(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, 2001:

	<u>Balance</u> <u>October 1, 2000</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September 30, 2001</u>
Compensated absences \$	7,619	-	(687)	\$ 6,932
Capital lease obligations	<u>474</u>	<u>4,412</u>	<u>(474)</u>	<u>4,412</u>
Total \$	<u><u>8,093</u></u>	<u><u>4,412</u></u>	<u><u>(337)</u></u>	<u><u>\$ 11,344</u></u>

The Schools lease certain vehicles under capital lease agreements. A summary of future minimum lease payments under capital leases as of September 30, 2001 is as follows:

<u>Year</u>	<u>Amount</u>
2002	\$ 3,377
2003	<u>1,310</u>
Total minimum lease payments	4,687
Less amounts representing interest	<u>(275)</u>
Present value	<u><u>\$ 4,412</u></u>

## (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 seven percent (7%) 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 \$802. Payroll expenditures for fiscal years 2001, 2000 and 1999 were \$511,312, \$457,463, and \$411,336 respectively.

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, 2001.

### ***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.

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 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 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' non-educational employees may defer up to twenty-five percent (25%) of their annual compensation, up to a maximum deferral of \$8,500 in calendar year 2001. Compensation deferred and income earned are taxable when paid or made available to the participant or beneficiary upon retirement, death, termination or unforeseeable emergency.

## **(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 \$4,889 for the year ended September 30, 2001. In addition, the Schools lease buses to transport special education students under the operating lease agreements that expire in 2002 and 2003. Bus lease expenditures were \$6,354 for the year ended September 30, 2001. Future minimum lease payments under the operating leases at September 30, 2001 are as follows:

<u>Year</u>	<u>Amounts</u>
2002	\$14,470
2003	7,896
2004	5,763
2005	5,883
2006	<u>5,977</u>
Total future minimum lease payments	<u>\$39,989</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, 2001. Information regarding the District's outstanding liability at September 30, 2001 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 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.

## **(8) Medicaid Cost Report Settlements**

The Schools recorded a liability of approximately \$17 million in FY 2001 which represents probable refunds due to the Medical Assistance Administration for Medicaid overpayments received in fiscal years 1996 through 1998 as follows:

<u>Year</u>	<u>Amount</u>
1996	\$ 7,050
1997	3,109
1998	<u>7,175</u>
Total	<u>\$17,334</u>

**(9) New Accounting Pronouncement**

In June 1999, GASB issued GASB Statement No. 34 “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” This Statement establishes financial reporting standards for state and local governments, including changes to the basic financial statements and required supplementary information. The Schools are required to implement these statements in the year ending September 30, 2002, and are currently assessing the impact of these new standards.

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS**

General Fund

Balance Sheet

September 30, 2001

(In thousands)

<b>Assets</b>	District Appropriations	Grants and Others	Total
Cash	\$ 798	\$ -	\$ 798
Due from the District of Columbia	46,002	749	46,751
Grants and other accounts receivable	-	42,818	42,818
Inventories	216	290	506
<b>Total assets</b>	<b>\$ 47,016</b>	<b>\$ 43,857</b>	<b>\$ 90,873</b>
<b>Liabilities and Fund Balance</b>			
Accounts payable	\$ 36,818	\$ 14,797	\$ 51,615
Accrued payroll	49,932	1,968	51,900
Medicaid disallowance	17,334	-	17,334
Due to other funds	786	-	786
Intra-District advance	26	34	60
Compensated absences	2,951	-	2,951
Deferred revenues:			
Private grants	-	3,652	3,652
Federal grants	-	24,006	24,006
<b>Total liabilities</b>	<b>107,847</b>	<b>44,457</b>	<b>152,304</b>
Fund balance (deficit):			
Reserved for inventories	216	290	506
Unreserved	(61,047)	(890)	(61,937)
<b>Total fund balance (deficit)</b>	<b>(60,831)</b>	<b>(600)</b>	<b>(61,431)</b>
<b>Total liabilities and fund balance</b>	<b>\$ 47,016</b>	<b>\$ 43,857</b>	<b>\$ 90,873</b>

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Year ended September 30, 2001**  
(In thousands)

	District Appropriations	Grants and Others	Total
<b>Revenues:</b>			
<b>Intergovernmental:</b>			
District of Columbia Appropriations	\$ 674,648	\$ -	\$ 674,648
Restricted Federal Government Grants	-	77,263	77,263
Unrestricted Federal Government Grants	-	5,235	5,235
Charges to other District agencies	-	33,029	33,029
Restricted private grants		2,465	2,465
Miscellaneous		4,912	4,912
<b>Total revenues</b>	<b>674,648</b>	<b>122,904</b>	<b>797,552</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Administration	12,907	9,065	21,972
Instruction	377,583	39,607	417,190
Instructional support	5,738	21,262	27,000
Special populations	171,992	27,696	199,688
Pupil personnel services	3,099	1,178	4,277
Other operational costs	35,532	2,355	37,887
Building operations and maintenance	77,353	2,020	79,373
Transportation	52,491	-	52,491
Food services	2,476	20,321	22,797
<b>Total expenditures</b>	<b>739,171</b>	<b>123,504</b>	<b>862,675</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(64,523)</b>	<b>(600)</b>	<b>(65,123)</b>
<b>Fund balance at beginning of year</b>	<b>3,692</b>	<b>-</b>	<b>3,692</b>
<b>Fund balance (deficit) at end of year</b>	<b>\$ (60,831)</b>	<b>\$ (600)</b>	<b>\$ (61,431)</b>

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS**  
**General Fund**  
**Statement of Revenues and Expenditures - Budget and Actual -**  
**Local and Non-local Sources**  
**Year ended September 30, 2001**  
(In thousands)

	Revised Budget (Local)	Actual (Local)	Variance Favorable (Unfavorable)	Revised Budget (Non-Local)	Actual (Non-Local)	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
District appropriations	\$ 674,648	\$ 674,648	- \$	- \$	- \$	-
Other	-	-	-	175,361	122,904	(52,457)
<b>Total revenues</b>	<b>674,648</b>	<b>674,648</b>	<b>-</b>	<b>175,361</b>	<b>122,904</b>	<b>(52,457)</b>
<b>Expenditures:</b>						
<b>Current:</b>						
Administration	14,333	12,907	1,426	17,795	9,065	8,730
Instruction	358,253	377,583	(19,330)	45,691	39,607	6,084
Instructional support	9,325	5,738	3,587	34,593	21,262	13,331
Special populations	151,600	171,992	(20,392)	35,624	27,696	7,928
Pupil personnel services	4,588	3,099	1,489	1,682	1,178	504
Other operational costs	36,450	35,532	918	6,174	2,355	3,819
Building operations and maintenance	72,490	77,353	(4,863)	2,246	2,020	226
Transportation	26,272	52,491	(26,219)	11,999	-	11,999
Food services	1,337	2,476	(1,139)	19,557	20,321	(764)
<b>Total expenditures</b>	<b>674,648</b>	<b>739,171</b>	<b>(64,523)</b>	<b>175,361</b>	<b>123,504</b>	<b>51,857</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ -</b>	<b>\$ (64,523)</b>	<b>\$ (64,523)</b>	<b>- \$</b>	<b>(600) \$</b>	<b>(600)</b>

**DISTRICT OF COLUMBIA PUBLIC SCHOOLS**  
**Statement of Revenues and Expenditures - Budget and Actual**  
**General Fund**  
**Year ended September 30, 2001**  
**(In thousands)**

	Revised Budget	Actual	Variance - Favorable (Unfavorable)
<b>Revenues:</b>			
District appropriations (local)	\$ 674,648	\$ 674,648	\$ -
Other (non-local)	175,361	122,904	(52,457)
<b>Total revenues</b>	<b>850,009</b>	<b>797,552</b>	<b>(52,457)</b>
<b>Expenditures:</b>			
Office of the Boards	742	803	(61)
Central Services	8,643	5,959	2,684
Office of the Superintendent	31,027	28,760	2,267
Office of the Assistant Superintendents	44,518	32,405	12,113
School Support Services	11,467	7,223	4,244
Special Education	161,082	210,215	(49,133)
State and Federal Programs	30,062	26,886	3,176
Elementary Schools	260,327	244,471	15,856
Middle/Junior High Schools	56,626	57,253	(627)
Senior High Schools	131,182	148,172	(16,990)
Charter and Private Schools	11,456	7,960	3,496
Office of the Chief Financial Officer	11,892	8,485	3,407
Office of the Chief Technology Officer	18,927	12,387	6,540
Office of Human Resources	4,135	2,942	1,193
Utilities	31,109	30,371	738
Facilities	28,002	29,321	(1,319)
Logistical Support Services and Operation	8,812	9,062	(250)
<b>Total expenditures</b>	<b>850,009</b>	<b>862,675</b>	<b>(12,666)</b>
<b>Excess of expenditures over revenues</b>	<b>\$ -</b>	<b>\$ (65,123)</b>	<b>\$ (65,123)</b>