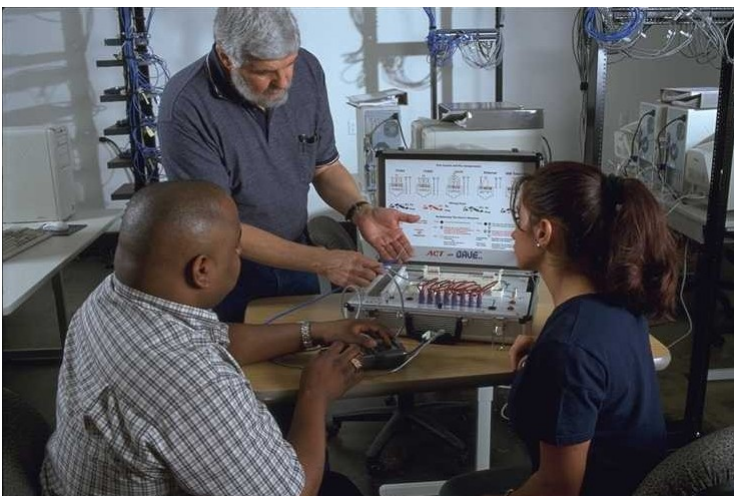


DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

Financial Statements and Office of Management and Budget Circular A-133 Supplemental Financial and Compliance Report

Together With Reports of
Independent Auditors

**August 31, 2005
and 2004**



DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

TABLE OF CONTENTS

	<u>Page</u>
Organizational Data	1
Letter to the Community	2-3
Independent Auditors' Report	4-5
Management's Discussion and Analysis	6-17
Statements of Net Assets (Exhibit 1)	18
Statements of Financial Position (Exhibit 1A)	19
Statements of Revenues, Expenses and Changes in Net Assets (Exhibit 2)	20
Statements of Activities (Exhibit 2A)	21
Statements of Cash Flows (Exhibit 3)	22
Statements of Cash Flows (Exhibit 3A)	23
Notes to the Financial Statements	24-45
Supplemental Schedules:	
Schedule of Operating Revenues (Schedule A)	46
Schedule of Operating Expenses by Object (Schedule B)	47
Schedule of Non-Operating Revenues and Expenses (Schedule C)	48
Schedule of Net Assets by Source and Availability (Schedule D)	49
Statistical Section	50-58
Office of Management and Budget Circular A-133 Supplemental Financial and Compliance Report - Table of Contents	59

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

ORGANIZATIONAL DATA

FISCAL YEAR 2004 - 2005

Board of Trustees

Officers

Jerry Prater
Pattie T. Powell
Jesus Carreon

Chair
Vice-Chair
Secretary

Members

Marion K. Boyle
Charletta Rogers Compton
Bob Ferguson
Diana Flores
Martha Sanchez Metzger
Pattie T. Powell
Jerry Prater

Irving, Texas
Dallas, Texas
Farmers Branch, Texas
Dallas, Texas
Mesquite, Texas
Dallas, Texas
Garland, Texas

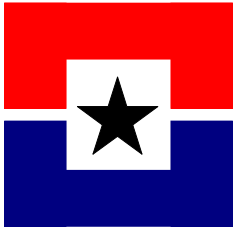
Term Expires

2008
2006
2010
2008
2010
2006
2010

Key Officers

Jesus Carreon
Andrew Jones
Bob Brown

Chancellor
Vice Chancellor of Educational Affairs
Vice Chancellor of Business Affairs



Letter to the Community

One of the Board of Trustees' goals is to maintain the public's trust by being fiscally responsible and accountable at all times. An objective for meeting that goal is to "ensure that the public is regularly informed of our fiscal health and stability." Each year an annual audit of the Dallas County Community College District's financial statements is conducted and the results shared through the publishing of the Annual Financial Report, helping to fulfill that objective.

Designed to inform interested parties of the District's financial condition, the Annual Financial Report

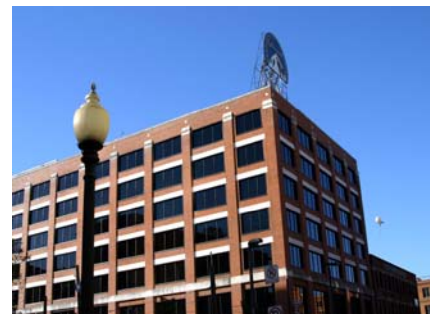


conforms to accounting principles generally accepted in the United States of America. It contains three primary financial exhibits as of and for fiscal years ended August 31, 2005 and 2004, management's discussion and analysis of the results of operations, notes that further describe the financial condition of the District, schedules summarizing in more detail the revenues, expenses and net assets of the District, and supplemental statistical information. The financial statements follow the form prescribed by the Governmental Accounting Standards Board, a national rule-making body for governmental accounting. Our external auditor, Grant Thornton

LLP, gives assurance that these statements are prepared in conformance with the standards. In addition, rules established by the federal government under the Office of Management and Budget Circular A-133 and the State of Texas Single Audit Circular prescribe special requirements for grants, including student financial aid, issued by the federal and state governments. The results of the special audit are included as the last section of the Annual Financial Report.

Those who have been following the activities of the District know that in May 2004 Dallas County voters approved \$450 million of general obligation bonds, the proceeds of which are funding a capital improvement program. As part of its first year of activities, the District sought to acquire land for five additional campus locations attached to three of its existing colleges. By the end of fiscal year 2005, two of the sites had been purchased and another purchase is scheduled to close before the end of the calendar year. A management structure has been established to expedite building plans and supervision of construction.

The District purchased a new nursing and allied health building for El Centro College (pictured below) just before the beginning of fiscal year 2005 in the West End Historical District for much needed expansion of the medical programs which are in high demand in the Dallas area. Plans are now underway to restructure the space to fit the classroom and laboratory requirements of the program.



During the year, the District completed 49 projects and neared completion of over 350 projects related to the planned maintenance of facilities financed by maintenance tax notes. Completion of these projects has provided for needed cosmetic and infrastructure upgrades in preparation for the addition of new buildings.

The District has maintained its triple-A credit rating on its general obligation tax bonds from Moody's Investors Service, Inc., Standard & Poors, Inc. and Fitch Ratings. This highest rating provided a very low cost of capital in the initial offering, and sets the stage for additional facility development as the District prepares for the upcoming 12 to 15 years.

Fiscal year 2005 was also marked by continued enrollment growth. Enrollment in credit classes increased 2.3% over the previous fiscal year as measured by headcount enrollment for credit classes. In October 2000 the Texas Higher Education Coordinating Board adopted a plan known as *Closing the Gaps by 2015*. The plan is directed at closing the gaps in student participation, student success, excellence, and research. The statewide goal anticipated the need to add 500,000 more students into the educational system by 2015. To meet the target enrollment the District set for its share of increasing student participation, the steady growth of enrollment must continue. The new facilities being prepared under the bond program will provide the space to accommodate continued growth.

Richland College, one of the District's seven colleges, won the very prestigious Texas Award for Performance Excellence sponsored by the Quality Texas Foundation during fiscal year 2005. The District was very honored by this extraordinary recognition.



It is with pride that we submit the financial story of the District told within these pages. The accomplishments and undertakings of the District for the past year as well as its financial soundness for its future expansion are described in the form of financial schedules and narrative. We trust that you will find it exciting to learn of the strong base from which the District is poised to meet its mission in the years ahead.

Respectfully submitted,

A handwritten signature in black ink that reads 'Bob Brown'.

Bob Brown, CPA
Vice Chancellor for Business Affairs

A handwritten signature in black ink that reads 'Jesus Carreon'. A vertical red line is drawn to the right of the signature.

Jesus Carreon, Ed.D
Chancellor

Report of Independent Certified Public Accountants

Board of Trustees
Dallas County Community College District

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Dallas County Community College District (the "District") as of and for the year ended August 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the District as of and for the year ended August 31, 2004 were audited by other auditors. Those auditors expressed unqualified opinions on those financial statements in their report dated December 6, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the District as of August 31, 2005 and the respective changes in financial position and cash flows thereof 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 November 18, 2005 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplemental schedules and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular, and is not a required part of the basic financial statements. The supplemental schedules of operating revenues, operating expenses by object, non-operating revenues and expenses, net assets by source and availability, and schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The organizational data, letter to the community, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

GRANT THORNTON LLP

Dallas, Texas

November 18, 2005 (except for Note 10,
as to which the date is December 2, 2005)

Dallas County Community College District

Management's Discussion and Analysis

Following is management's discussion and analysis of the financial activity of the Dallas County Community College District (the "District") for the fiscal years ended August 31, 2005 and 2004. This section is designed to help readers understand some of the conditions and events contributing to the current financial position of the District as well as to point out trends and changes in the results of operations. Please read it in conjunction with the transmittal Letter to the Community, the District's basic financial statements and the footnotes (see Table of Contents). Responsibility for the completeness and fairness of this information rests with the District.

Financial Highlights for 2005

- The District's net assets at August 31, 2005 are reported at \$371.0 million. Approximately 63.8% of the net assets amount reflects the investment in capital assets net of related debt.
- The District's operating loss is \$198.9 million.
- Net assets increased \$24.8 million.
- A favorable final decision of a lawsuit initiated against the District in 1998 released \$13.3 million of assets for the District's use.

Financial Highlights for 2004

- The District's net assets at August 31, 2004 are reported at \$346.1 million. Approximately 69.7% of the net assets amount reflects the investment in capital assets net of related debt.
- The District's operating loss is \$189.7 million.
- Net assets increased \$12.9 million.

Overview of Financial Statements

The District qualifies as a special-purpose government engaged in business-type activities and the financial statements are prepared on that basis. The resulting financial statement format focuses on the District as a whole. The District's basic financial statements are designed to emulate the corporate presentation model whereby the District's fiscal activities are consolidated into one column total. Comparative data from the prior year is shown in a separate column on the face of each of the statements.

The financial statement format consists of three primary statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. As required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, an accrual basis of accounting is employed. This means that transactions are recorded as incurred rather than when cash changes hands.

The focus of the Statements of Net Assets is to illustrate the financial position of the District at a point in time. This statement exhibits the current financial resources (short-term spendable assets) along with assets planned to be held for more than a year, shows amounts owed against those assets, and reveals the net assets available to the District for further endeavors.

The Statements of Revenues, Expenses and Changes in Net Assets focus on the costs of District activities and show what revenue supports them. Of the three main sources of revenue--ad valorem taxes, state appropriations and tuition, only the latter represents an exchange for services. Taxes and state appropriations represent non-exchange transactions and thus are considered non-operating revenues. This approach to presenting revenues and expenses is intended to summarize and simplify the user's analysis of the cost of various District services to students and the public. Depending on whether revenues or expenses are greater for the year, a net income or net loss is created and determines whether net assets for the year have increased or must be decreased. The ending balance of net assets on this statement agrees with that shown on the Statements of Net Assets.

The Statements of Cash Flows combine information from both the Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets to illustrate the effect of various actions of the District on the availability and ultimate change in the amount of cash from one year to the next. The cash provided or used by operations, capital and non-capital financing, and investing activities combine to show the net change in cash and cash equivalents. The final portion of the Statements of Cash Flows reconciles the net income or loss from operations to the cash provided or used by operations.

In fiscal 2004 the District implemented GASB 39, *Determining Whether Certain Organizations are Component Units*. Three criteria are applied to determine whether certain affiliated organizations should be reported discretely in the financial statements as component units. The criteria include whether 1) the parent organization provides financial support to the affiliated organization and the economic resources received or held by the affiliate are entirely or almost entirely for the direct benefit of the parent organization, 2) the parent organization is entitled to or otherwise has the ability to access the majority of the economic resources received or held by the affiliate and 3) such resources are significant to the parent organization. All three criteria must be satisfied. The Texas Higher Education Coordinating Board has determined that for Texas community colleges, economic resources from an affiliated organization that are an amount equal to at least 5% of the parent organization's net assets are significant. Accordingly, having met all three criteria, the Dallas County Community College District Foundation, Inc. (the "Foundation") has been discretely presented in the District's statements as a component unit by inclusion of the statements and footnotes of the Foundation in the District's statements and footnotes. Because the financial statements of the Foundation are presented on a different basis from the District and are incompatible with the District financial statements, the Foundation financial statements are presented on separate pages from the District financial statements.

Comparative Financial Information

In order to show the trends for the two years shown in the Statements of Net Assets (Exhibit 1), a summary of three years of data for the years ended August 31, 2003 through 2005 follows.

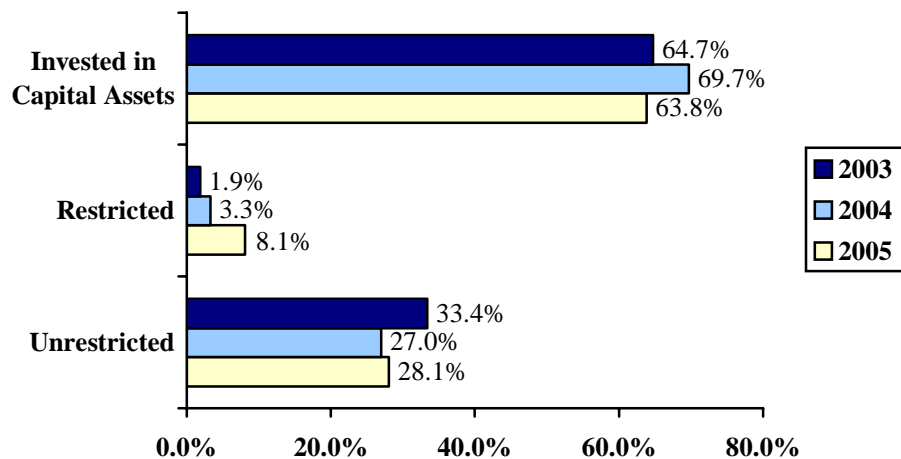
NET ASSETS
AUGUST 31, 2003 THROUGH 2005
(In Thousands)

	Fiscal Year 2003	Difference	Fiscal Year 2004	Difference	Fiscal Year 2005
CURRENT ASSETS:	\$ 79,849	\$ (29,778)	\$ 50,071	\$ 23,919	\$ 73,990
NON-CURRENT ASSETS:					
Capital assets, net of depreciation	273,235	23,874	297,109	29,707	326,816
Other	<u>133,334</u>	<u>47,170</u>	<u>180,504</u>	<u>24,088</u>	<u>204,592</u>
Total assets	<u>486,418</u>	<u>41,266</u>	<u>527,684</u>	<u>77,714</u>	<u>605,398</u>
CURRENT LIABILITIES	90,926	(3,849)	87,077	(6,753)	80,324
NON-CURRENT LIABILITIES	<u>62,323</u>	<u>32,178</u>	<u>94,501</u>	<u>59,621</u>	<u>154,122</u>
Total liabilities	153,249	28,329	181,578	52,868	234,446
NET ASSETS:					
Invested in capital assets, net of related debt	215,480	25,791	241,271	(4,465)	236,806
Restricted	6,486	5,050	11,536	18,463	29,999
Unrestricted	<u>111,203</u>	<u>(17,904)</u>	<u>93,299</u>	<u>10,848</u>	<u>104,147</u>
Total net assets	<u>\$ 333,169</u>	<u>\$ 12,937</u>	<u>\$ 346,106</u>	<u>\$ 24,846</u>	<u>\$ 370,952</u>

The difference between what the District owns, its assets, and what it owes, its liabilities, are the net assets. At August 31, 2004, the difference in assets and liabilities was \$346.1 million while at August 31, 2005 the difference was \$371.0 million. As can be seen, the first is an increase from the prior year of approximately \$12.9 million or 3.9% while the more recent year is an increase of \$24.8 million or 7.2%. After steady growth in the investment in capital assets, net of related debt, due to final completion of a \$78 million capital improvement plan initiated in 2001, new capital programs in the form of a \$50 million major renovation initiative and the first stage of a \$450 million bond program, described in more detail later, have increased the long term debt of the District. While assets did increase \$41.3 million or 8.5% from 2003 to 2004 and \$77.7 million or 14.7% from 2004 to 2005, liabilities--claims on those assets by parties external to the District--increased by \$28.3 million or 18.5% from 2003 to 2004 and increased \$52.9 million or 29.1% from 2004 to 2005. Between the years ended August 31, 2004 and 2005, the increase in assets is predominately from increases in additional cash, cash equivalents and investments of capital proceeds along with additions in new capital assets while increases in liabilities are primarily attributable to issuance of maintenance tax notes and bonds to finance the capital improvement activities. For the year ended August 31, 2005, however, there was also the release of \$13.3 million in liabilities previously recorded for a possible adverse decision regarding a lawsuit against the District filed in 1998. In December 2005 the Texas State Supreme Court found in favor of the District enabling extinguishment of the liabilities established in 2001 and 2002.

The following is a graphic illustration of the breakdown of net assets for the years ended August 31, 2003 through 2005. Restricted net assets have increased significantly with the issuance of \$67.4 million of general obligation bonds for the most recent capital improvement plan.

Comparison of Net Assets



Operating revenues show a steady increase rising 6.3% to \$104.1 million for the year ended August 31, 2004 and an additional 3.6% to \$107.9 million for the year ended August 31, 2005. Operating expenses also increased steadily rising by 3.8% to \$293.7 million for the year ended August 31, 2004 and 4.4% more to \$306.8 million for the year ended August 31, 2005. The increase in operating expenses has outpaced the increase in operating revenues from fiscal year 2003 to 2005, resulting in successively higher net operating losses each of the past two fiscal years.

The two major sources of operating revenues are tuition and various grants and contracts. Tuition revenue is reported net of allowances for various federal, state and local grants including those associated with the Title IV Higher Education Administration Program. Additionally, state mandated or locally approved remissions and exemptions are reported as discounts against tuition. Grants and contracts provided over half of operating revenues in both 2004 and 2005, increasing \$2.7 million or 5.0% for the year ended August, 31, 2005, while tuition constituted 41.1% and 40.9% of net operating revenues respectively for the years ended August 31, 2004 and 2005 (see graph on page 11).

Accounting principles generally accepted in the United States of America prohibit reporting two major sources of revenue of the District as operating revenue--state appropriations and ad valorem tax revenues--on the basis that each represents revenue from non-exchange transactions. Accordingly, state appropriations and revenues recognized from ad valorem taxation are reported as non-operating revenues. State appropriations increased 1.1% or \$1.1 million for the year ending August 31, 2004 over that ending August 31, 2003 and an additional 1.5% or \$1.6 million for the year ended August 31, 2005. The increase the earlier year is mainly due to additional general revenue funding while the latter year represents increased funding for group insurance from the State of Texas. Tax revenue, net of collected fees and bad debt, increased a significant \$23.6 million or 30.7% between the years ended August 31, 2003 and 2004 compared to only \$6.0 million or 6.0% between the years ended August 31, 2004 and 2005. Gross tax revenue (before bad debt allowances and collection fees) has now exceeded state appropriations as the primary funding source.

Investment revenue, another non-operating revenue, increased a significant 51.1% or \$1.9 million between the years ended August 31, 2004 and 2005 due to the incremental increases in interest rates over the last several

months of the year as well as the volume of investments generating interest income during the year. This compares to an 18.4% or \$0.6 million increase for the year ending August 31, 2004. The greatest change in non-operating revenues and expenses results from the final decision of a lawsuit in the District's favor, enabling reversal of \$13.3 million previously accrued for legal expense.

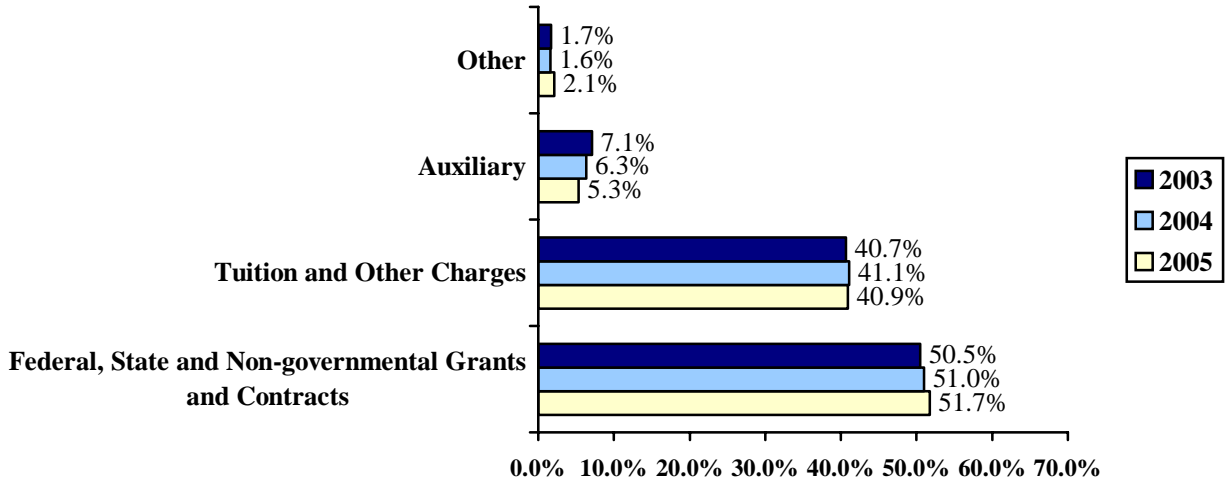
This information is summarized in the table below, which was prepared from the Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit 2).

REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2003 THROUGH 2005
(In Thousands)

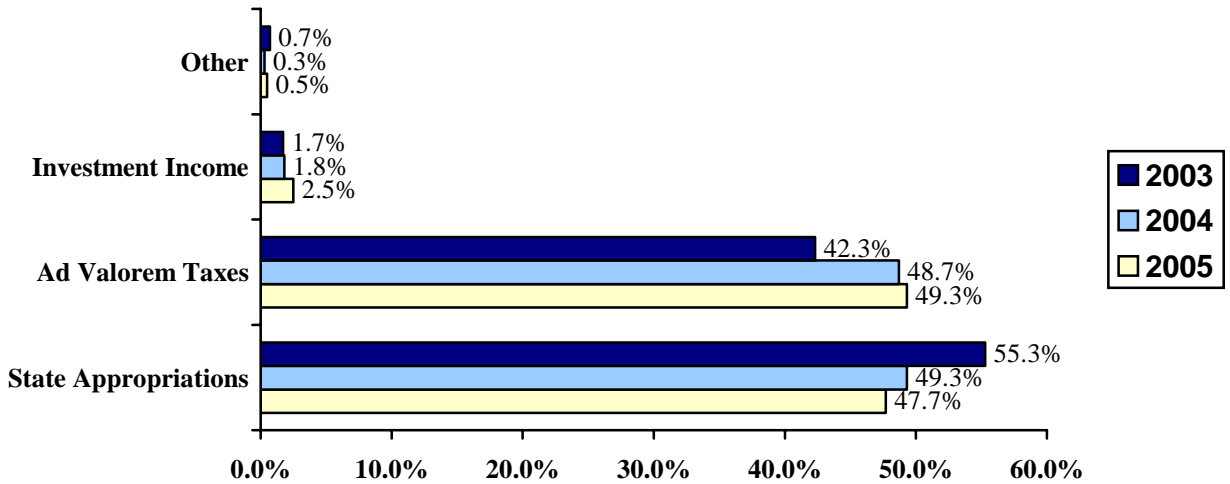
	Fiscal Year 2003	Difference	Fiscal Year 2004	Difference	Fiscal Year 2005
OPERATING REVENUES	\$ 97,881	\$ 6,207	\$ 104,088	\$ 3,766	\$ 107,854
LESS OPERATING EXPENSES	<u>282,868</u>	<u>10,876</u>	<u>293,744</u>	<u>13,010</u>	<u>306,754</u>
NET OPERATING LOSS	(184,987)	(4,669)	(189,656)	(9,244)	(198,900)
NON-OPERATING REVENUES AND EXPENSES	<u>180,541</u>	<u>22,052</u>	<u>202,593</u>	<u>21,152</u>	<u>223,745</u>
INCREASE/(DECREASE) IN NET ASSETS	(4,446)	17,383	12,937	11,908	24,845
NET ASSETS - BEGINNING OF YEAR	<u>337,615</u>	<u>(4,446)</u>	<u>333,169</u>	<u>12,937</u>	<u>346,106</u>
NET ASSETS - END OF YEAR	<u>\$ 333,169</u>	<u>\$ 12,937</u>	<u>\$ 346,106</u>	<u>\$ 24,845</u>	<u>\$ 370,951</u>

The following are graphic illustrations of revenues by source for the years ended August 31, 2003 through 2005.

Revenue by Source Operating Revenues



Non-operating Revenues

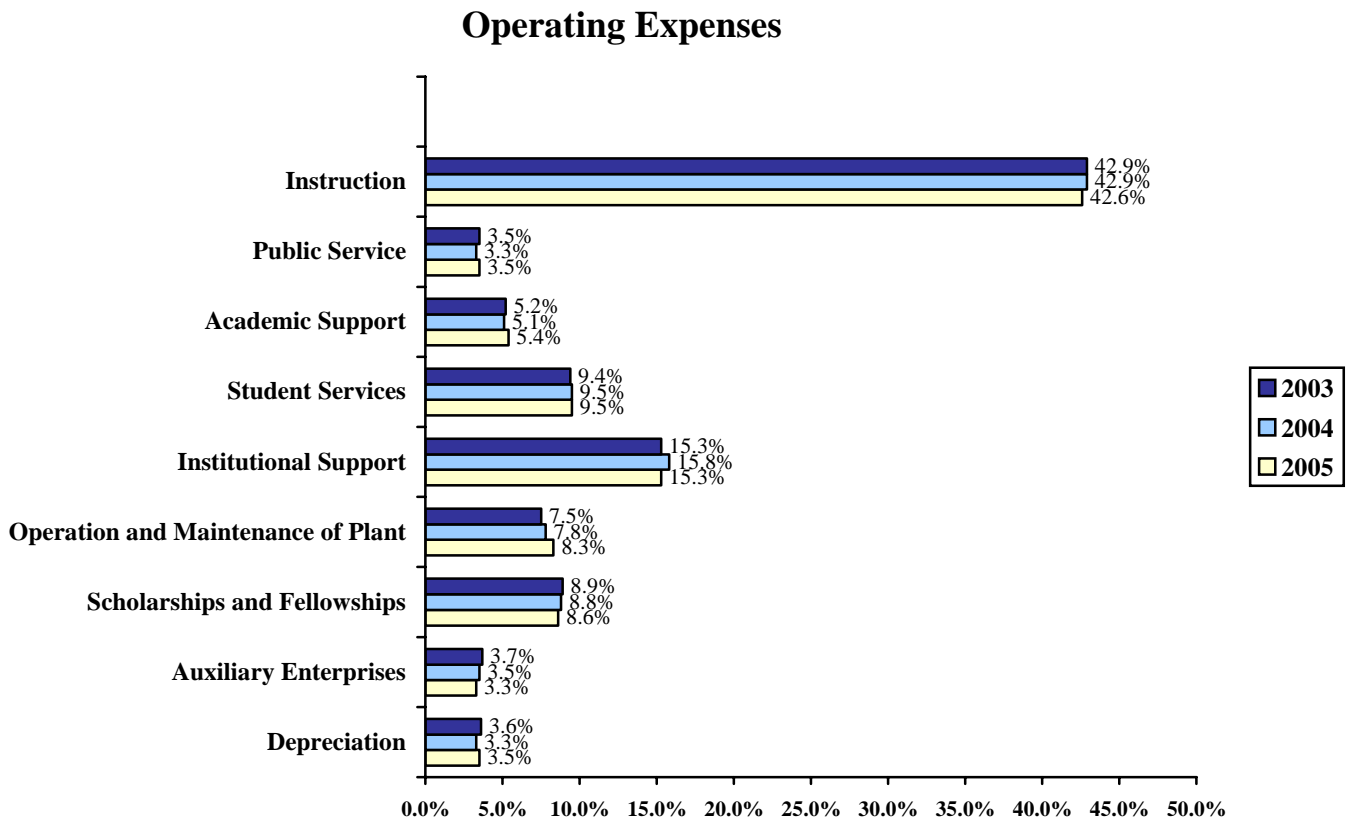


The breakdown of operating expenses by functional area for the years ended August 31, 2003 through 2005 appears in the following table.

OPERATING EXPENSES
YEARS ENDED AUGUST 31, 2003 THROUGH 2005
(In Thousands)

	Fiscal Year 2003	Difference	Fiscal Year 2004	Difference	Fiscal Year 2005
OPERATING EXPENSES					
Instruction	\$ 121,450	\$ 4,684	\$ 126,134	\$ 4,581	\$ 130,715
Public service	9,954	(237)	9,717	1,117	10,834
Academic support	14,824	300	15,124	1,463	16,587
Student services	26,635	1,317	27,952	1,158	29,110
Institutional support	43,391	2,899	46,290	759	47,049
Operation and maintenance of plant	21,087	1,696	22,783	2,661	25,444
Scholarships and fellowships	25,012	772	25,784	560	26,344
Auxiliary enterprises	10,448	(139)	10,309	(343)	9,966
Depreciation	10,067	(416)	9,651	1,054	10,705
TOTAL	<u>\$ 282,868</u>	<u>\$ 10,876</u>	<u>\$ 293,744</u>	<u>\$ 13,010</u>	<u>\$ 306,754</u>

The following is a graphic illustration of operating expenses for fiscal years 2003 through 2005.



As would be expected, the bulk of operating expenses are for instruction with a trend of steady growth in keeping with the growth in revenue and shown by an increase of \$4.7 million or 3.9% for the period ended August 31, 2003 to 2004 and \$4.6 million or 3.6% for the period ended August 31, 2004 to 2005. The rate of growth in instructional expenses from 2003 to 2004 is very similar to the rate of growth for operational expenses overall of 3.8% for fiscal 2004 compared to fiscal 2003. On the other hand, the rate of increase in instructional expenses from 2004 to 2005 is somewhat less than the rate of increase in operating expenses overall of 4.4% for the same period. This rate for overall operational expenses for fiscal year 2004 to 2005 is higher primarily because of increases in public service, academic support, operation and maintenance of plant and depreciation.

As required when meeting the criteria delineated in GASB 39, the District includes the statements of the Foundation following each of its own statements. For the fiscal year ended August 31, 2004, the Foundation's net assets were \$26.6 million, an amount that represents 7.7% of the District's net assets for the same period. For the fiscal year ended August 31, 2005, the Foundation's net assets were \$29.5 million, which represents 8.0% of the District's net assets for the same fiscal year. The income from the Foundation is partially used to fund grants and scholarships for the students and employees of the District. However, most of the Foundation's assets are permanently restricted and therefore not available for the District's direct use. Restricted assets of the Foundation were \$20.9 million and \$22.3 million for the years ended August 31, 2004 and 2005, respectively.

Financial Analysis

For the year ended August 31, 2004, cash and investments increased \$17.2 million or 10.3%. However, for the year ended August 31, 2005, cash and investments increased an additional \$48.1 million or 26.1%. During the earlier time period, \$40 million of maintenance tax notes was issued to continue a major initiative for planned maintenance. While this increased the availability of cash and investments, a capital improvement plan initiated in fiscal year 2001 drew on approximately \$19 million of resources to continue working toward completion of that program. In that year, short term investments were added to the portfolio with part of the proceeds from the sale of maintenance tax notes. Being in an uncertain interest environment, a ladder approach to investment was used so that money would be available as needed for the tax note projects. Cash was reduced also due to the purchase of a building for \$11.1 million as part of the new capital improvement program, funding for which was approved by Dallas County voters in May 2004. However, an increase in the tax rate for the year ended August 31, 2004 helped increase the cash supply. For the most recent fiscal year, \$67.4 million of general obligation bonds were sold as the first issue of the \$450 million bond package approved for the new capital program. A portion of the proceeds was invested in pools for ready access as the District sought to purchase land for five new educational centers included in the capital plan. Two sites were successfully purchased during this period. At the same time, an aggressive schedule for completing the planned maintenance projects was implemented resulting in use of cash in excess of \$14 million.

The line item "Capital assets not subject to depreciation" shows a \$20.6 million or 22.8% increase from the year ended August 31, 2003 to August 31, 2004 and another increase of \$4.8 million or 4.3% from the year ended August 31, 2004 to the year ended August 31, 2005. These changes are attributable mainly to construction in progress changes, clearly reflecting the finalization of the 2001 capital improvement program and the initial stages of the 2004 capital improvement program and planned maintenance initiative. The figures are net of \$33.4 million worth of construction completed and transferred from the construction in progress account to the depreciable building accounts. This transfer can be seen as the major cause for the increase in depreciable assets of \$24.9 million between the year ending August 31, 2004 and that ending August 31, 2005. A secondary factor for the increase in non-depreciable capital assets is the increase in land acquisition, \$1.5 million being purchased in fiscal year 2004 and another \$13.1 million purchased in fiscal year 2005.

Maintenance tax notes with face value of \$38.6 million (see the discussion in the Capital Asset and Non-Current Debt Activity section) were sold in April 2004. This increased the amount of outstanding debt. The first issue of \$10 million had a rather aggressive payback schedule, so the amount of current bonds payable outstanding for the year ended August 31, 2003 represented repayment of roughly 50% of the proceeds plus interest thus reducing the amount of Series 2003 maintenance tax notes outstanding for the year ended August 31, 2004 by half. The non-current bonds payable is increased for the second issue as reflected in the Statements of Net Assets for August 31, 2004 because repayment is scheduled over a ten year period. Issuance of the first series of general obligation bonds with a face value of \$67.4 million in September 2004 increased the current and non-current portions of bonds payable for the year ended August 31, 2005.

Net assets, the difference between liabilities and total assets, have changed dramatically because of the bond issues and their related debt. The increased debt load created by the issuance of maintenance tax notes and general obligation bonds has reduced the amount invested in capital assets, net of related debt, by \$4.5 million or 1.9% for the year ended August 31, 2005 compared to the \$25.8 million or 12.0% increase from the year ended August 31, 2003 to the year ended August 31, 2004. The earlier year shows the effect of the 2001 capital improvement plan during the height of activity. And of course, net assets restricted for unexpended bond proceeds jumped dramatically by \$15.3 million or 370.2% accordingly. The \$13.3 million release of liability for the favorably decided lawsuit contributed significantly to the increase in unrestricted net assets.

As tuition revenue has increased over the past two fiscal years, so have discounts—mainly in the form of federal and state financial aid and grants paying tuition, representing 80.4% and 84.7% of all discounts for the years ended August 31, 2004 and 2005 respectively. The increase in discounts occurred in spite of the discontinuation of a pilot at the end of fiscal year 2003 in which classes in underutilized time periods were discounted to half of regular tuition and generated \$1.8 million of discounts. Discounts overall increased a total of 13.7% from the year ended August 31, 2003 to the year ended August 31, 2004 and another 15.6% from the year ended August 31, 2004 to the year ended August 31, 2005. Net tuition revenue for the year ended August 31, 2004 increased \$3.0 million or 7.5% over the previous fiscal year. Net tuition revenue for the year ended August 31, 2005 was only \$1.4 million or 3.3% over the previous year in spite of a \$3.6 million increase in gross tuition generated by increased enrollment and a modest tuition hike in Spring 2004.

Change in one other area of operating revenues bears mentioning. Federal grant and contract revenue increased \$4.5 million or 11.2% from August 31, 2003 to August 31, 2004 with approximately three quarters of that amount attributable to an increase in direct Department of Education grants, primarily Pell Grant funding. But from August 31, 2004 to August 31, 2005 federal grant and contract revenue took another \$4.1 million or 9.1% jump. However, this time direct Department of Education grants remained relatively flat. The increase was instead related primarily to \$1.2 million increase in Department of Labor direct and pass-through funding and a \$1.9 million difference in the amount recognized as deferred revenue between the fiscal years due to deferred revenue related to financial aid decreasing after a several year trend of increasing.

According to published enrollment figures, credit student headcount has modestly increased each fall semester and increased in spring of 2005 after a slight drop the previous spring semester, surpassing the number of students from spring of 2003. Operating expense changes are also modest with a 3.8% increase from fiscal year 2003 to 2004 and another 4.4% increase from fiscal year 2004 to 2005. For the fiscal year ended August 31, 2004, the increase in instructional expenses, the largest operating expense, was \$4.7 million or 3.9% and represented about 43.1% of the \$10.9 million increase in operating expenses. For the fiscal year ended August 31, 2005, the increase in instructional expenses was \$4.6 million or 3.6% and represented about 35.2% of the \$13.0 million increase in operating expenses. Depreciation increased 10.9% for the year ending August 31, 2005 mainly as a result of the completion of new buildings for which depreciation was initiated. But the largest increase in operating expenses for the year ended August 31, 2005 after those for instruction was in operation and maintenance of plant. Close to half of the \$2.7 million or 11.7% increase for operation and maintenance of plant occurred primarily because of increased utility costs associated with more square

footage. However, \$0.6 million or almost another quarter of the increase was related to an increase in repair and rehabilitation projects. In response to the expected increasing demand for education, the Board had increased the maintenance and operations (M&O) tax rate beginning fiscal year 2004, which gave the colleges more revenue to spend to meet operational needs each of the last two years.

The change in the tax rate for the year ending August 31, 2004 as well as an increase in the tax base were the biggest contributing factors to the change in the non-operating revenues for both the year ending August 31, 2004 and that ending August 31, 2005. M&O ad valorem tax revenue, net of collection fees and bad debt expense, for the year ended August 31, 2004 increased \$23.6 million or 30.7% over the previous year. The tax base was slightly down, but the tax rate was increased from \$.06 per \$100 of valuation to \$.0778 per \$100 of valuation. Of that amount, approximately \$.0042 per \$100 valuation has been committed for payment of maintenance tax notes. State appropriations increased \$1.1 million or 1.1% for the year ended August 31, 2004 over that ending August 31, 2003. They increased another \$1.6 million or 1.5% for the year ended August 31, 2005. The prior year fiscal increase was due mainly to an increase in the general appropriation of over \$2.3 million for the new biennium funded by the Texas State Legislature netted against a \$1.3 million decrease in group insurance funding from the State. The most recent fiscal year's increase can be attributed primarily to \$1.1 million in funding reallocated by the State to the District for group insurance. Investment income was up \$0.6 million or 18.4% for the year ended August 31, 2004. For the year ended August 31, 2005 investment income had increased an additional \$1.9 million or 51.1%. Not only have short-term interest rates been incrementally increased over the last several months, but also proceeds from maintenance tax notes and general obligation bonds have increased the amount on which interest is earned. Overall net non-operating revenues increased \$22.1 million or 12.2% for the year ended August 31, 2004, mainly related to the tax increase, and another \$9.9 million or 4.8% for the year ended August 31, 2005.

Subsequent to the closing of year end, the lawsuit brought against the District in 1998 was decided by the Texas State Supreme Court in favor of the District. The decision frees up \$13.3 million in liabilities accrued since the decision of the first appeal court hearing the case. See Note 10 for further discussion of the history of the lawsuit.

As a result of all of the activity described above, the net assets of the District increased \$24.8 million for the year ended August 31, 2005 as compared to the \$12.9 million increase for the year ended August 31, 2004.

Capital Asset and Non-Current Debt Activity

As of August 31, 2003, the District had recorded \$442.0 million in capital assets, and \$168.8 million in accumulated depreciation resulting in \$273.2 million in net capital assets. For the year ended August 31, 2004, net capital assets increased \$23.9 million or 8.7%. By August 31, 2005, the amounts had increased an additional \$29.7 million or 10.0%. The following table summarizes the breakdown of capital assets by fiscal year.

CAPITAL ASSETS, NET
AUGUST 31, 2003 THROUGH 2005
(In Thousands)

	Fiscal Year 2003	Difference	Fiscal Year 2004	Difference	Fiscal Year 2005
CAPITAL ASSETS:					
Land and improvements	\$ 30,947	\$ 1,460	\$ 32,407	\$ 14,427	\$ 46,834
Buildings	289,404	9,714	299,118	31,195	330,313
Equipment, furniture, and software	41,747	2,372	44,119	2,265	46,384
Library books	8,970	249	9,219	361	9,580
Construction in progress	<u>70,929</u>	<u>18,908</u>	<u>89,837</u>	<u>(8,665)</u>	<u>81,172</u>
Total	441,997	32,703	474,700	39,583	514,283
Less accumulated depreciation	<u>(168,762)</u>	<u>(8,829)</u>	<u>(177,591)</u>	<u>(9,876)</u>	<u>(187,467)</u>
Net capital assets	<u>\$ 273,235</u>	<u>\$ 23,874</u>	<u>\$ 297,109</u>	<u>\$ 29,707</u>	<u>\$ 326,816</u>

Each year the District conducts an audit of its facilities to determine what projects are needed to properly maintain and/or improve facilities for the benefit and safety of the students. In addition a new long range master plan for construction was developed and implemented in fiscal year 2001 with \$73 million of planned construction that later grew to \$78 million. The District made significant progress on the construction portion of this capital improvement plan in the past two years with all projects being completed as of fiscal year 2004. This accounts for the increase of \$18.9 million of construction in progress noted from the year ended August 31, 2003 to 2004 then changing to an \$8.7 million decrease for the year ended August 31, 2005. Revenue bonds for \$40 million were issued in March 2001 in support of the long range master plan. The rest has been financed through use of unrestricted net assets.

On August 6, 2003, the District issued maintenance tax notes for the first time in the amount of \$9.9 million. A second issue occurred April 6, 2004 for additional proceeds of \$39.8 million. Maintenance tax notes are financed by the current operations portion of ad valorem taxes. Originally planned to be in three issues instead of two, the process was accelerated so that the final two proposed issues were combined into one. The tax amount committed to repayment of these notes was set to be approximately \$.0042 per \$100 of assessed valuation on real property for the duration of the notes. A somewhat aggressive repayment plan was established for the first set of notes with repayment completed in four years and the bulk in the first two years. By Texas statute the projects financed by this means may not include new construction, but rather are limited to maintenance activities. The projects associated with the second issue were placed on an aggressive schedule designed to complete all projects in 18 months. This is why the construction in progress amount did not drop as much as might be expected in fiscal year 2005 in spite of the fact the prior long range plan projects were basically completed.

For the past few years, plans for future expansion have been under consideration. In the spring of 2004, the Board of Trustees decided to pursue presenting a plan for issuance of general obligation bonds to the voters for funding the needed expansion. Demographic studies and the Closing the Gaps report from the Texas Higher Education Coordinating Board indicated that enrollment needs might increase by as much as 25,000 students or almost 40% by the year 2015. After determining future career needs for the region to aid in identifying the type of buildings needed, the District held a series of community forums to present the capital improvement plan and the reason for it. The voters responded by passing with an overwhelming margin the request to issue \$450 million of general obligation bonds over the next 6-7 years to fund the projects. This was the first time such a request had been made of voters by the District in almost thirty years. The first

\$67.4 million issue was sold September 14, 2004. Out of that amount, the first plans were to purchase land for five new education centers. Also two buildings were purchased, one just prior to August 31, 2004 and the other shortly after. The District advanced the money for the purchase of the first building and reimbursed its operating funds after the sale of the bonds. During fiscal year 2005, two of the properties were purchased for new centers, one in Garland and the other in Coppell. Subsequent to fiscal year end, a third piece of land has been purchased in Pleasant Grove.

In preparation for selling the general obligation bonds, Standard & Poors, Inc., Moody's Investors Service, Inc. and Fitch Ratings were all approached for a credit rating. After careful review of the District's financial information and other factors, all three organizations provided the District with their highest rating of triple-A. Some of the reasons cited for the rating were (1) a strong tax base, (2) flexible revenue sources, and (3) strong fiscal management. Having the top rating from all three will provide an advantage to the District as future issues are sold. There are only a handful of community colleges in the country that have the highest rating from all three rating agencies.

Additional information on both capital assets and long term debt can be found in notes 5 and 6.

Currently Known Facts, Decisions and Conditions

All projects in the \$450 million bond program are scheduled to be completed within 54 months but will be built on a staggered schedule. The new education centers are being located in areas of the county that have previously been underserved and/or have demonstrated need for education services and will be among the first buildings to be erected. They are expected to be operational within the next two years. As these centers and other new buildings become operational, expenses are expected to increase to support them. However, they are expected also to bring in additional revenue as student enrollments are added.

Utility costs are projected to increase due to rising fuel costs. An additional \$589 thousand was allocated to the colleges to support utility costs. Ways are being sought to help defray expenses through energy saving measures.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, students, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Affairs office at 4343 Highway 67, Mesquite, Texas 75150.

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

EXHIBIT 1

**STATEMENTS OF NET ASSETS
AUGUST 31, 2005 AND 2004**

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	\$ 25,619,264	\$ 11,236,793
Short-term investments	9,960,000	-
Accounts receivable (net of allowance for uncollectible accounts)	17,372,111	18,231,419
Tuition and charges receivable (net of allowance for uncollectible accounts)	5,430,162	4,655,640
Taxes receivable (net of allowance for uncollectible accounts)	1,280,142	1,239,886
Deferred charges, net	12,542,055	13,150,091
Notes receivable	18,964	36,253
Inventories	492,161	435,762
Prepaid expenses	<u>1,275,261</u>	<u>1,085,217</u>
Total current assets	73,990,120	50,071,061
NON-CURRENT AND RESTRICTED ASSETS:		
Restricted cash and cash equivalents	13,437,612	736,962
Restricted short-term investments	17,320,138	15,577,877
Long-term investments	165,747,022	156,458,798
Deferred charges, net	2,976,369	2,678,166
Deposit with Bond Trustee	5,110,478	5,051,635
Capital assets, net		
Not subject to depreciation	115,824,082	111,059,370
Subject to depreciation	<u>210,992,353</u>	<u>186,050,000</u>
Total non-current assets	<u>531,408,054</u>	<u>477,612,808</u>
TOTAL ASSETS	605,398,174	527,683,869
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	20,400,430	18,100,267
Accrued liabilities	5,562,784	20,037,741
Accrued compensable absences	5,476,747	5,181,377
Funds held for others	1,859,543	1,820,864
Deferred revenues	35,533,174	33,753,624
Note payable—current portion	184,457	176,821
Bonds payable—current portion	<u>11,307,644</u>	<u>8,006,374</u>
Total current liabilities	80,324,779	87,077,068
NON-CURRENT AND RESTRICTED LIABILITIES:		
Restricted accrued liabilities	191,328	681,700
Accrued compensable absences	3,234,436	2,185,512
Note payable	444,676	629,133
Bonds payable	<u>150,251,355</u>	<u>91,004,130</u>
Total non-current liabilities	<u>154,121,795</u>	<u>94,500,475</u>
TOTAL LIABILITIES	234,446,574	181,577,543
NET ASSETS:		
Invested in capital assets, net of related debt	236,805,643	241,270,602
Restricted for:		
Unexpended bond proceeds	19,477,390	4,142,104
Debt service	10,522,022	7,394,286
Unrestricted	<u>104,146,545</u>	<u>93,299,334</u>
TOTAL NET ASSETS (Schedule D)	<u>\$ 370,951,600</u>	<u>\$ 346,106,326</u>

The accompanying notes are an integral part of the financial statements.

EXHIBIT 1A**Dallas County Community College District Foundation, Inc.**

STATEMENTS OF FINANCIAL POSITION

August 31,

ASSETS	<u>2005</u>	<u>2004</u>
CASH AND CASH EQUIVALENTS	\$ 2,455,490	\$ 3,912,767
INVESTMENTS		
Debt securities	3,400,450	5,667,381
Common stocks	14,051,357	10,765,124
Alternative investments	<u>3,125,659</u>	<u>-</u>
Total investments	20,577,466	16,432,505
ACCRUED INTEREST AND DIVIDENDS RECEIVABLE	10,262	45,329
CONTRIBUTIONS RECEIVABLE, net	6,739,930	6,863,543
OTHER ASSETS	<u>10,541</u>	<u>10,360</u>
Total assets	<u>\$29,793,689</u>	<u>\$27,264,504</u>
LIABILITIES AND NET ASSETS		
ACCOUNTS PAYABLE	\$ <u>292,107</u>	\$ <u>704,901</u>
Total liabilities	292,107	704,901
NET ASSETS		
Unrestricted	3,244,766	1,441,725
Temporarily restricted	3,985,174	4,189,755
Permanently restricted	<u>22,271,642</u>	<u>20,928,123</u>
Total net assets	<u>29,501,582</u>	<u>26,559,603</u>
Total liabilities and net assets	<u>\$29,793,689</u>	<u>\$27,264,504</u>

See Note 23 of the primary government organization.

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

EXHIBIT 2

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2005 AND 2004**

	2005	2004
OPERATING REVENUES:		
Tuition and charges (net of discounts of \$16,315,139 and \$13,401,726, respectively)	\$ 44,141,486	\$ 42,747,402
Federal grants and contracts	49,367,191	45,263,873
State grants and contracts	1,751,990	2,637,601
Non-governmental grants and contracts	4,618,905	5,168,965
Sales and services of educational activities	542,547	545,233
Auxiliary enterprises	5,734,905	6,591,874
General operating revenues	<u>1,696,654</u>	<u>1,132,609</u>
 Total operating revenues (Schedule A)	 107,853,678	 104,087,557
OPERATING EXPENSES:		
Instruction	130,715,036	126,133,776
Public service	10,834,478	9,716,906
Academic support	16,586,516	15,124,294
Student services	29,110,371	27,952,422
Institutional support	47,048,974	46,289,662
Operation and maintenance of plant	25,443,709	22,782,505
Scholarships and fellowships	26,344,145	25,784,407
Auxiliary enterprises	9,965,555	10,309,379
Depreciation	<u>10,704,668</u>	<u>9,650,637</u>
 Total operating expenses (Schedule B)	 <u>306,753,452</u>	 <u>293,743,988</u>
 OPERATING LOSS	 (198,899,774)	 (189,656,431)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	103,248,023	101,689,042
Maintenance ad valorem taxes (net of bad debt and collection fees of \$2,461,245 and \$2,365,421, respectively)	106,596,307	100,559,482
Gifts	137,643	316,618
Investment income	5,501,142	3,639,583
Gain on sale of investment	-	84,757
Interest on capital related debt	(4,538,314)	(1,904,536)
Loss on disposal of capital assets	(198,586)	(251,296)
Extinguishment of potential liability and related legal expenses	13,270,961	(1,682,923)
Other non-operating revenues	873,826	182,224
Other non-operating expenses	<u>(1,145,954)</u>	<u>(39,532)</u>
 Net non-operating revenues (Schedule C)	 223,745,048	 202,593,419
 INCREASE IN NET ASSETS	 24,845,274	 12,936,988
NET ASSETS:		
Net Assets—Beginning of Year	<u>346,106,326</u>	<u>333,169,338</u>
 Net Assets—End of Year	 <u>\$ 370,951,600</u>	 <u>\$ 346,106,326</u>

The accompanying notes are an integral part of the financial statements.

Dallas County Community College District Foundation, Inc.

STATEMENTS OF ACTIVITIES

Years ended August 31,

	2005				2004			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support								
Contributions	\$ 129,558	\$ 880,118	\$ 1,292,245	\$ 2,301,921	\$ 141,351	\$1,100,978	\$ 6,887,724	\$ 8,130,053
Interest income	80,769	266,570	-	347,339	85,211	368,084	-	453,295
Contributed salaries	196,379	-	-	196,379	213,683	-	-	213,683
Net realized gains on sale of investments	45,170	143,726	-	188,896	192,334	686,917	-	879,251
Net unrealized gains on investments	1,810,837	-	-	1,810,837	318,521	-	-	318,521
Net assets released from restrictions	<u>1,443,721</u>	<u>(1,443,721)</u>	<u>-</u>	<u>-</u>	<u>1,847,472</u>	<u>(1,847,472)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	3,706,434	(153,307)	1,292,245	4,845,372	2,798,572	308,507	6,887,724	9,994,803
Program and support services								
Grants and scholarships	1,531,739	-	-	1,531,739	1,966,888	-	-	1,966,888
Management and general	303,972	-	-	303,972	302,948	-	-	302,948
Fundraising	<u>67,682</u>	<u>-</u>	<u>-</u>	<u>67,682</u>	<u>106,155</u>	<u>-</u>	<u>-</u>	<u>106,155</u>
Total program and support services	1,903,393	-	-	1,903,393	2,375,991	-	-	2,375,991
Transfers between funds	<u>-</u>	<u>(51,274)</u>	<u>51,274</u>	<u>-</u>	<u>-</u>	<u>5,543</u>	<u>(5,543)</u>	<u>-</u>
Change in net assets	1,803,041	(204,581)	1,343,519	2,941,979	422,581	314,050	6,882,181	7,618,812
Net assets - beginning of year	<u>1,441,725</u>	<u>4,189,755</u>	<u>20,928,123</u>	<u>26,559,603</u>	<u>1,019,144</u>	<u>3,875,705</u>	<u>14,045,942</u>	<u>18,940,791</u>
Net assets - end of year	<u>\$3,244,766</u>	<u>\$ 3,985,174</u>	<u>\$22,271,642</u>	<u>\$29,501,582</u>	<u>\$1,441,725</u>	<u>\$ 4,189,755</u>	<u>\$20,928,123</u>	<u>\$26,559,603</u>

See Note 23 of the primary government organization.

Dallas County Community College District
Statement of Cash Flows
Years Ended August 31, 2005 and 2004

EXHIBIT 3

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 52,687,656	\$ 51,964,320
Receipts from grants and contracts	54,868,617	52,418,406
Payments to suppliers for goods and services	(58,353,914)	(65,426,737)
Payments to or on behalf of employees	(207,692,316)	(195,533,562)
Payments for scholarships and fellowships	(26,525,483)	(28,821,323)
Loans issued to students	(42,223)	(48,276)
Collection of loans to students	50,596	29,891
Other receipts	1,695,882	1,131,603
Net cash used in operating activities	<u>(183,311,185)</u>	<u>(184,285,678)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from ad valorem taxes	108,736,109	102,465,184
Payments for collection of taxes	(2,180,057)	(2,056,526)
Receipts from state appropriations	103,248,023	101,689,042
Receipts from student organizations and other agency transactions	16,499,081	5,040,959
Payments to student organizations and other agency transactions	(16,460,402)	(4,742,001)
Payments on notes - principal	(176,821)	(169,502)
Payments on notes - interest	(31,460)	(38,779)
Other receipts	1,131,914	182,224
Other payments	(117,058)	-
Net cash provided by non-capital financing activities	<u>210,649,329</u>	<u>202,370,601</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds on issuance of capital debt	70,258,442	39,815,606
Proceeds from the sale of capital assets	(5,565)	6,768
Purchases of capital assets	(39,431,188)	(32,634,772)
Payments on capital debt - principal	(7,545,000)	(9,080,000)
Payments on capital debt - interest	(7,913,973)	(2,796,106)
Net cash provided by (used in) capital and related financing activities	<u>15,362,716</u>	<u>(4,688,504)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	169,658,379	149,907,767
Interest on investments	7,133,154	5,417,940
Purchase of investments	(192,409,272)	(203,027,915)
Net cash used in investing activities	<u>(15,617,739)</u>	<u>(47,702,208)</u>
INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	27,083,121	(34,305,789)
CASH AND CASH EQUIVALENTS, SEPTEMBER 1	<u>11,973,755</u>	<u>46,279,544</u>
CASH AND CASH EQUIVALENTS, AUGUST 31	<u>\$ 39,056,876</u>	<u>\$ 11,973,755</u>
Reconciliation of net operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (198,899,774)	\$ (189,656,431)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	10,704,668	9,650,637
Bad debt expense	441,187	215,893
Changes in assets and liabilities:		
Receivables (net)	(388,516)	630,418
Deferred charges	837,281	(821,154)
Inventories	(56,399)	135,585
Notes receivable	17,289	(19,391)
Prepaid expenses	(190,044)	74,360
Accounts payable	2,300,163	(6,219,247)
Accrued liabilities	(1,200,884)	381,701
Accrued compensable absences	1,344,294	267,150
Deferred revenues	1,779,550	1,074,801
Net cash used in operating activities	<u>\$ (183,311,185)</u>	<u>\$ (184,285,678)</u>

Dallas County Community College District Foundation, Inc.

STATEMENTS OF CASH FLOWS

Years ended August 31,

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Change in net assets	\$ 2,941,979	\$ 7,618,812
Adjustments to reconcile change in net assets to net cash used in operating activities		
Contributions restricted for long-term purposes	(1,292,245)	(6,887,724)
Net realized gains on sale of investments	(188,896)	(879,251)
Net unrealized gains on investments	(1,810,837)	(318,521)
Amortization of premium or discount on investments	1,043	9,592
Noncash contributions of investments	(30,896)	(339,597)
Changes in operating assets and liabilities		
Accrued interest and dividends receivable	35,067	581
Contributions receivable	123,613	(5,446,181)
Other assets	(181)	(261)
Accounts payable	<u>(412,794)</u>	<u>430,851</u>
Net cash used in operating activities	(634,147)	(5,811,699)
Cash flows from investing activities		
Proceeds from investment sales	22,348,834	18,569,206
Purchases of investments	<u>(24,464,209)</u>	<u>(18,452,198)</u>
Net cash (used in) provided by investing activities	(2,115,375)	117,008
Cash flows from financing activities		
Contributions restricted for long-term purposes	<u>1,292,245</u>	<u>6,887,724</u>
(Decrease) increase in cash and cash equivalents	(1,457,277)	1,193,033
Cash and cash equivalents, beginning of year	<u>3,912,767</u>	<u>2,719,734</u>
Cash and cash equivalents, end of year	<u>\$ 2,455,490</u>	<u>\$ 3,912,767</u>

See Note 23 of the primary government organization.

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS AUGUST 31, 2005 AND 2004

1. REPORTING ENTITY

The Dallas County Community College District (the “District”) was established in 1965 in accordance with the laws of the State of Texas to serve the educational needs of Dallas County and the surrounding communities. The District is considered to be a special purpose primary government. While the District receives funding from local, state, and federal sources and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units, including the Dallas County Community College District Foundation, Inc. (the “Foundation”). The Foundation is a separate nonprofit organization, and its sole purpose is to provide benefits such as scholarships and grants to the students, faculty and staff of the District. The Foundation is a legally separate entity which does not provide a financial benefit or impose a financial burden on the District. The District does not appoint any of the Foundation’s board members. Beginning in fiscal 2004 the financial position and results of operations of the Foundation are included in these financial statements in accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organizations Are Component Units-an Amendment of GASB Statement No. 14*, as an affiliated entity because the Foundation’s sole function is to fund the District and its students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Report Guidelines— In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*, the District is classified as a special purpose government with all financial data of the District reflected as one business-type activity. The Statements of Net Assets display the financial position of the District at the end of each fiscal year and the Statements of Revenues, Expenses, and Changes in Net Assets display the operations of the District for the years ended August 31, 2005 and 2004. The financial statements are prepared using the economic resources measurement focus and the full accrual method of accounting.

The significant accounting policies followed by the District in preparing these financial statements are in accordance with the *Texas Higher Education Coordinating Board’s Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*. The accompanying financial statements of the District are presented in accordance with accounting principles generally accepted in the United States of America (US GAAP). The District applies all applicable GASB pronouncements and all applicable Financial Accounting Standard Board (“FASB”) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The District has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB.

Tuition Discounting

Texas Public Education Grant

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition revenue amounts on Schedule A as a separate amount (Texas Education Code §56.0333). When the award for tuition is used by the student, the amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Title IV, Higher Education Administration (HEA) Program Funds

Certain Title IV HEA Program funds are received by the District to pass through to students. These funds are initially received by the District and recorded as revenue. When the student is awarded these funds for tuition, the amount is recorded as a tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

Other Tuition Discounts

The District awards certain tuition scholarships from institutional funds to students who qualify. When these amounts are transferred to the student for tuition, the amounts are recorded as tuition revenue and a corresponding amount is recorded as a tuition discount.

Basis of Accounting—The financial statements of the District have been prepared on the accrual basis, whereby all revenues are recorded when earned and expenses are recorded when they become a legal or contractual obligation to pay.

Cash and Cash Equivalents—The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments—In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Short-term investments consist of investments that have an original maturity greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Inventories—Inventories consist of consumable office and physical plant supplies. Inventories are valued at cost under the first-in, first-out method and are charged to expense as consumed.

Deferred Charges—Current deferred charges of \$12,436,567 and \$13,065,048 represent expenses for scholarships and fellowships related to the periods after August 31, 2005 and 2004, respectively, and \$105,488 and \$85,043 represents bond issue costs to be amortized in the periods after August 31, 2005 and 2004, respectively.

The District defers and amortizes the production costs associated with instructional television programs and other related materials on a straight-line basis over the estimated useful life of such media, which ranges from two to five years. These materials are produced and used both internally for instruction and for lease by the District to other educational institutions. Aggregate deferred production costs, net of accumulated amortization, amounted to approximately \$2,243,128 and \$2,451,927 at August 31, 2005 and 2004, respectively, and have been included in the accompanying Statements of Net Assets as non-current deferred charges. In addition, \$733,241 and \$226,239, the non-current portion of bond issue costs being amortized over the life of the bonds, is included for the periods ended August 31, 2005 and 2004, respectively.

Capital Assets—Capital assets are stated at cost. Donated capital assets are recorded at their estimated fair value on the date received. The District reports depreciation under a single-line item as a business-type unit. For equipment, the District’s capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life in excess of one year. Buildings, land and land improvements that exceed \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are charged to operating expense in the year in which the expense is incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Equipment, furniture, telecommunications and peripheral equipment apply depreciation on a half-month convention. A full-year convention is applied for buildings, facilities and land improvements. Estimated useful lives of capital assets are established according to the following:

Buildings	50 years
Facilities and other improvements	20 years
Furniture, machinery, vehicles, and other equipment	10 years
Telecommunications and peripheral equipment	5 years

Library Books—Library books are capitalized but not depreciated. Library books are written off in the year they are removed from circulation. Beginning in the year ending August 31, 2006, library books will be depreciated in accordance with requirements of the Texas State Comptroller’s Office.

Deferred Revenues—Tuition and other revenues received, which relate to future periods, have been deferred.

Estimates—The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expense Policy—The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the District’s principal ongoing operations. The principal operating revenues are tuition and contracts and grants. The major non-operating revenues are state appropriations and property tax collections. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The operations of the bookstore and food service are performed by a third party contracted by the District.

Reclassifications – Certain reclassifications have been made to prior year amounts in order to conform with fiscal 2005 presentation.

3. DEPOSITS AND INVESTMENTS

Under the terms of a bank depository agreement, District funds are to be fully invested at all times. The District maintains an investment pool included in the Statements of Net Assets as “Cash and Cash Equivalents” for those items with original maturities of 90 days or less, as “Short-term Investments” for those items with original maturities of 91 days to one year, and as “Long-term Investments” for those items with maturities of greater than one year.

Various restrictions on deposits and investments, including repurchase agreements, are imposed by statute and District policy. These restrictions are summarized below:

- **Deposits**—Custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be returned or the District will not be able to recover collateral

securities in the possession of an outside party. All deposits with the depository bank of the District must be collateralized in an amount equal to at least 100% of the amount of uninsured collected funds. The collateral must be held by a third-party collateral bank in the name of the District or there may be a surety bond issued by a company mutually agreeable to the District and the Depository.

The carrying amount of the District's deposits with financial institutions as of August 31, 2005 was \$(1,421,444), and the bank balance was \$722,074. The carrying amount of the District's deposits with financial institutions as of August 31, 2004 was \$(3,614,924), and the bank balance was \$104,143. FDIC insures \$100,000 of the District's bank balance, and the remaining balance is collateralized with securities.

Cash and cash equivalents as reported on the Statements of Net Assets consist of the following:

	2005	2004
Bank deposits:		
Local funds - demand	\$ (1,429,944)	\$ (3,623,424)
Imprest funds	<u>8,500</u>	<u>8,500</u>
	(1,421,444)	(3,614,924)
Cash on hand	19,586	16,776
Cash and cash equivalents:		
Investment in Texpool	22,422,702	4,704,982
Investment in TexSTAR	<u>18,036,032</u>	<u>10,866,921</u>
	<u>40,458,734</u>	<u>15,571,903</u>
Total cash and cash equivalents	<u>\$39,056,876</u>	<u>\$11,973,755</u>

Investments—The District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures - an Amendment of GASB Statement No. 3*, Disclosures are presented accordingly. The District is authorized to invest in obligations and instruments as defined in applicable sections of the current Texas Education Code and the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute. The investment policies of the District are governed by formally adopted procedures and allow investments as permitted under state laws for public institutions. Permissible investments under policy include U.S. Treasury notes, certificates of deposit purchased from FDIC-insured state or nationally chartered U.S. banks, fully collateralized repurchase agreements, no-load money market mutual funds, and securities issued by U.S. government agencies.

At August 31, 2005 and 2004, long-term investments consisted of U.S. government and agency securities. District policy requires that securities underlying its repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement and are to be collateralized with U.S. Treasury obligations or related securities which must be delivered to its depository

banks for safekeeping. The District determines that, at least monthly, the collateral has a market value adequate to support such investments and that the collateral has been segregated by the bank.

Investments made by the District are carried at fair value, defined as the price at which two willing parties would complete an exchange. As of August 31, 2005, the District had the following investments and maturities.

	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-2	2-3	3-4	4-5
U.S. Treasury notes	\$ 36,277,920	\$ -	\$ 4,962,500	\$ 2,958,510	\$ 4,977,150	\$ 23,379,760
U.S. Agency notes and bonds	156,749,239	27,280,138	40,852,322	26,409,704	44,604,245	17,602,830
Investment in Texpool	22,422,703	22,422,703	-	-	-	-
Investment in TexSTAR	<u>18,036,032</u>	<u>18,036,032</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash equivalents and investments	<u>\$ 233,485,894</u>	<u>\$ 67,738,873</u>	<u>\$ 45,814,822</u>	<u>\$ 29,368,214</u>	<u>\$49,581,395</u>	<u>\$ 40,982,590</u>

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. As previously described, The District investment policy limits credit risk based on meeting requirements of State law.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District policy provides that investment maturities are limited to five years as a means of managing exposure to fair value losses arising from increasing interest rates. The District's philosophy is to hold all investments to their maturity.

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The District's investment policy limits any one type of investment to 75% of the total portfolio. Investment in U.S. Agency securities comprises 67.13% of the District's total portfolio at August 31, 2005.

Reconciliation of Deposits and Investments to Exhibit 1

	Market Value August 31, 2005	Market Value August 31, 2004
Total cash and cash equivalents	\$ 39,056,876	\$ 11,973,755
Total investments	<u>193,027,160</u>	<u>172,036,675</u>
Total	<u>\$ 232,084,036</u>	<u>\$ 184,010,430</u>
<u>Per Exhibit 1:</u>		
Cash and cash equivalents	\$ 25,619,264	\$ 11,236,793
Restricted cash and cash equivalents	13,437,612	736,962
Short-term investments	9,960,000	-
Restricted short-term investments	17,320,138	15,577,877
Long-term investments	<u>165,747,022</u>	<u>156,458,798</u>
Total	<u>\$ 232,084,036</u>	<u>\$ 184,010,430</u>

There were no investments held by broker-dealers under reverse repurchase agreements as of August 31, 2005 or 2004.

TexPool represents an investment service authorized by the Texas Legislature and is under the direction of the State Comptroller. TexPool investments are subject to the same safety requirements maintained by the State Treasury for all state funds, including but not limited to compliance with the Public Funds Investment Act. The Legislature has authorized only certain investment instruments for public funds, including repurchase agreements, U.S. Treasury bills and bonds, securities of other U.S. government agencies, commercial paper and other safe instruments. The carrying value of TexPool represents the investment of the District. The investment in TexPool plus accrued interest may be redeemed by the District at any time. TexPool has not been assigned a risk category since the District is not issued securities, but rather owns an undivided beneficial interest in the assets of TexPool. The District's investment in TexPool is included within cash and cash equivalents in the accompanying Statements of Net Assets, as the investment is redeemable on demand.

Created in April 2002 through a contract among its participating governing units, TexSTAR is governed by a board of directors to provide for the joint investment of participants' public funds under their control and meets requirements under the Public Funds Investment Act and, consequently, invests in instruments similar to TexPool. Like those for TexPool, investments in TexSTAR plus accrued interest may be redeemed by the District at any time. Therefore investments in TexSTAR are included within cash and cash equivalents on the accompanying Statements of Net Assets.

Derivatives are investment products which may be a security or a contract that derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The investment policy of the District prohibits investments in derivative securities.

4. CURRENT ASSETS AND LIABILITIES

Receivables—Receivables at August 31, 2005 and 2004 were as follows:

	2005	2004
Ad valorem taxes	\$ 6,197,166	\$ 5,875,722
Student tuition and sales	7,916,918	5,559,113
Federal grants	14,025,241	14,484,218
State grants	449,934	540,551
Local grants	661,102	698,749
Interest on investments	900,355	771,958
Other receivables	<u>1,778,246</u>	<u>2,149,132</u>
Total receivables	31,928,962	30,079,443
Less allowances for uncollectible amounts:		
Ad valorem taxes	(4,917,024)	(4,635,836)
Student tuition and sales	(2,486,756)	(903,473)
Other receivables	<u>(442,767)</u>	<u>(413,189)</u>
Total allowances	<u>(7,846,547)</u>	<u>(5,952,498)</u>
Total receivables, net of allowances	<u>\$ 24,082,415</u>	<u>\$ 24,126,945</u>

Payables—Accounts Payable at August 31, 2005 and 2004 was as follows:

	2005	2004
Payable	\$ 14,321,323	\$ 11,172,485
Salaries and benefits payable	11,457	2,030
Students payable	<u>6,067,650</u>	<u>6,925,752</u>
Total accounts payable	<u>\$ 20,400,430</u>	<u>\$ 18,100,267</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended August 31, 2005 was as follows:

	Balance September 1, 2004	Increases/ Reclassifications	Decreases	Balance August 31, 2005
Capital assets not subject to depreciation:				
Land	\$ 12,003,169	\$ 13,068,710	\$ -	\$ 25,071,879
Library books	9,219,087	524,380	(163,635)	9,579,832
Construction in progress	<u>89,837,114</u>	<u>24,688,542</u>	<u>(33,353,285)</u>	<u>81,172,371</u>
Total not depreciated	111,059,370	38,281,632	(33,516,920)	115,824,082
Capital assets subject to depreciation:				
Buildings	299,118,468	31,194,479	-	330,312,947
Land improvements	20,404,084	1,357,959	-	21,762,043
Furniture, machinery, vehicles, and other equipment	<u>44,118,835</u>	<u>3,064,410</u>	<u>(799,006)</u>	<u>46,384,239</u>
Total depreciated	363,641,387	35,616,848	(799,006)	398,459,229
Accumulated depreciation:				
Buildings	(130,847,823)	(6,876,424)	-	(137,724,247)
Land improvements	(14,854,995)	(413,605)	-	(15,268,600)
Furniture, machinery, vehicles, and other equipment	<u>(31,888,569)</u>	<u>(3,414,639)</u>	<u>829,179</u>	<u>(34,474,029)</u>
Total accumulated depreciation	<u>(177,591,387)</u>	<u>(10,704,668)</u>	<u>829,179</u>	<u>(187,466,876)</u>
Net capital assets	<u>\$ 297,109,370</u>	<u>\$ 63,193,812</u>	<u>\$ (33,486,747)</u>	<u>\$ 326,816,435</u>

Capital assets activity for the year ended August 31, 2004 was as follows:

	Balance September 1, 2003	Increases/ Reclassifications	Decreases	Balance August 31, 2004
Capital assets not subject to depreciation:				
Land	\$ 10,543,169	\$ 1,460,000	\$ -	\$ 12,003,169
Library books	8,969,776	428,191	(178,880)	9,219,087
Construction in progress	<u>70,929,519</u>	<u>18,907,595</u>	<u>-</u>	<u>89,837,114</u>
Total not depreciated	90,442,464	20,795,786	(178,880)	111,059,370
Capital assets subject to depreciation:				
Buildings	289,403,573	9,714,895	-	299,118,468
Land improvements	20,404,084	-	-	20,404,084
Furniture, machinery, vehicles, and other equipment	<u>41,747,300</u>	<u>3,272,419</u>	<u>(900,884)</u>	<u>44,118,835</u>
Total depreciated	351,554,957	12,987,314	(900,884)	363,641,387
Accumulated depreciation:				
Buildings	(124,991,413)	(5,856,410)	-	(130,847,823)
Land improvements	(14,492,458)	(362,537)	-	(14,854,995)
Furniture, machinery, vehicles, and other equipment	<u>(29,278,260)</u>	<u>(3,431,690)</u>	<u>821,381</u>	<u>(31,888,569)</u>
Total accumulated depreciation	<u>(168,762,131)</u>	<u>(9,650,637)</u>	<u>821,381</u>	<u>(177,591,387)</u>
Net capital assets	<u>\$ 273,235,290</u>	<u>\$ 24,132,463</u>	<u>\$ (258,383)</u>	<u>\$ 297,109,370</u>

Please note that the District will begin to depreciate library books in the next fiscal year in accordance with the request of the Texas State Comptroller's Office. To facilitate the transition the District estimates the value of its collection of library books to be \$9,219,087 with accumulated depreciation of \$6,155,359 for a net book value of \$3,063,728. The estimated depreciation expense for fiscal year 2005 is \$629,871 based on a fifteen year useful life.

6. NON-CURRENT LIABILITIES

Non-current liability activity for the year ended August 31, 2005 was as follows:

	Balance September 1, 2004	Additions	Reductions	Balance August 31, 2005	Current Portion
Series 1986 A-D Rate Adjustable Mode Consolidated District Revenue Bonds	\$ 5,000,000	\$ -	\$(2,400,000)	\$ 2,600,000	\$ 2,600,000
Series 1998 Revenue Financing System Refunding Bonds	12,040,000	-	(105,000)	11,935,000	45,000
Series 2001 Revenue Financing System Bonds	36,915,000	-	(1,475,000)	35,440,000	1,535,000
Series 2003 Maintenance Tax Notes	4,570,000	-	(3,240,000)	1,330,000	745,000
Series 2004 Maintenance Tax Notes	38,555,000	-	(325,000)	38,230,000	3,685,000
Series 2004 General Obligation Bonds	-	67,375,000	-	67,375,000	2,125,000
Unamortized bond premium	1,930,504	3,288,442	(569,947)	4,648,999	572,644
Accrued interest	681,700	190,020	(680,392)	191,328	-
Note payable	805,954	-	(176,821)	629,133	184,457
Compensable absences	<u>7,366,889</u>	<u>1,344,294</u>	<u>-</u>	<u>8,711,183</u>	<u>5,476,747</u>
Total	<u>\$107,865,047</u>	<u>\$ 72,197,756</u>	<u>\$(8,972,160)</u>	<u>\$ 171,090,643</u>	<u>\$16,968,848</u>

Non-current liability activity for the year ended August 31, 2004 was as follows:

	Balance September 1, 2003	Additions	Reductions	Balance August 31, 2004	Current Portion
Series 1986 A-D Rate Adjustable Mode Consolidated District Revenue Bonds	\$ 7,200,000	\$ -	\$(2,200,000)	\$ 5,000,000	\$ 2,400,000
Series 1998 Revenue Financing System Refunding Bonds	12,225,000	-	(185,000)	12,040,000	105,000
Series 2001 Revenue Financing System Bonds	38,330,000	-	(1,415,000)	36,915,000	1,475,000
Series 2003 Maintenance Tax Notes	9,850,000	-	(5,280,000)	4,570,000	3,240,000
Series 2004 Maintenance Tax Notes	-	38,555,000	-	38,555,000	325,000
Unamortized bond premium	702,720	1,439,787	(212,003)	1,930,504	461,374
Accrued interest	31,169	676,342	(25,811)	681,700	-
Note payable	975,456	-	(169,502)	805,954	176,821
Compensable absences	<u>7,099,739</u>	<u>267,150</u>	<u>-</u>	<u>7,366,889</u>	<u>5,181,377</u>
Total	<u>\$76,414,084</u>	<u>\$ 40,938,279</u>	<u>\$(9,487,316)</u>	<u>\$ 107,865,047</u>	<u>\$ 13,364,572</u>

Bonds payable are due in annual and semiannual installments at variable interest rates. The interest rate ranges as well as maturity dates of each bond issue are listed below.

	Bonds Issued to Date	Range of Interest Rates	Maturities		
			First Year	Last Year	First Call Date
Series 1986 A-D Rate Adjustable Mode Consolidated District Revenue Bonds	\$ 28,800,000	Variable	1987	2006	1/16/1987
Series 1998 Revenue Financing System Refunding Bonds	16,550,000	4.00%-5.25%	1998	2012	2/15/2009
Series 2001 Revenue Financing System Bonds	40,000,000	4.00%-5.375%	2002	2021	2/15/2010
Series 2003 Maintenance Tax Notes	9,850,000	2.00%-3.00%	2003	2007	N/A
Series 2004 Maintenance Tax Notes	38,555,000	2.00%-5.00%	2004	2021	2/15/2010
Series 2004 General Obligation Bonds	67,375,000	3.00%-5.00%	2005	2025	2/15/2013

On July 23, 1986, the District issued \$28,800,000 in Rate Adjustable Mode Consolidated District Revenue Bonds, Series 1986 A-D (“Series 1986 Bonds”). The proceeds of the bonds were used to pay for the cost of various new facilities and certain improvements to existing facilities. All authorized amounts have been issued to date. These variable notes may bear interest at either a weekly, monthly, quarterly, or semiannual term, or final rate (as defined), all of which are based on yield quotations for issues of tax-exempt bonds having similar characteristics. At August 31, 2005, the Series 1986 Bonds bore a weekly rate of 2.52%. The Series 1986 Bonds are special obligations of the District and are payable solely from revenues pledged, which consist of the net revenues from the operations of the bookstores and cafeterias of the District, vending machines, certain lease revenues, interest earnings, and the tuition pledge. As additional security, a Bond Reserve fund was established with the paying agent. At August 31, 2005, the Bond Reserve Fund amounted to \$3,470,660. In connection with the issuance of the Series 1986 Bonds, the District entered into a Standby Bond Purchase Agreement with a bank. The terms of the Agreement provide for the payment by the bank of principal and interest of the Series 1986 Bonds when due in the event that the District is unable to meet its obligations.

On June 15, 1998, the District issued \$16,550,000 in Series 1998 Revenue Financing System Refunding Bonds (“Series 1998 Bonds”) to advance refund \$15,140,000 of outstanding Series 1992 Bonds. The resources were used to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payment of the Series 1992 Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statements of Net Assets. As of August 31, 2005, \$11,935,000 of advanced refunded bonds are outstanding. The Series 1998 Bonds bear interest at 4.00% to 5.25%. All authorized amounts have been issued to date. The Series 1998 Bonds constitute party obligations and are special obligations of the District equally and ratably secured solely by and payable solely from a pledge of and lien on the pledged revenues as described below. The pledged revenues consist of, subject to the provisions of the resolutions authorizing the issuance of the prior encumbered obligations, the revenue funds, including all of the funds and balances now or hereafter lawfully available to the District and derived from or attributable to the financing system which are lawfully available to the District for payments on parity obligations. As additional security, a Bond Reserve fund was established with the

paying agent at an amount equal to the average annual principal and interest requirements on the Series 1998 Bonds. At August 31, 2005, the Bond Reserve fund amounted to \$1,639,818.

On February 1, 2001, the District issued \$40,000,000 in Series 2001 Revenue Financing System Bonds (“Series 2001 Bonds”) to finance the cost of various new facilities and improvements to existing facilities. All authorized amounts have been issued to date. The Series 2001 Bonds bear interest from 4.00% to 5.375%. The Series 2001 Bonds constitute parity obligations and are special obligations of the District equally and ratably secured solely by and payable solely from a pledge of and lien on the pledged revenues as described below. The pledged revenues consist of, subject to the provisions of the resolutions authorizing the issuance of the prior encumbered obligations, the revenue funds, including all of the funds and balances now or hereafter lawfully available to the District and derived from or attributable to the financing system which are lawfully available to the District for payments on parity obligations.

On August 6, 2003, pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Sections 45.108 and 130.084, Texas Education Code, as amended, the District issued \$9,850,000 of Maintenance Tax Notes (“Series 2003 Notes”) and on April 6, 2004 \$38,555,000 of Maintenance Tax Notes (“Series 2004 Notes”). The proceeds of the notes are being used to pay for planned maintenance expenses associated with various facilities of the District. The notes are direct obligations of the District payable from a continuing direct annual ad valorem tax pursuant to the District’s maintenance tax authority, with the limits prescribed by law, on all taxable property in the District. Debt issue costs are being amortized over the life of the notes.

On September 14, 2004, the District issued \$67,375,000 par value general obligation bonds with a bond premium of \$3,288,442. Accrued interest of \$258,442 was also received. The bonds were sold in \$5,000 increments with various interest rates and maturity dates. The earliest maturity date is February 15, 2006 and the last is February 15, 2025. A call option can be exercised for maturities greater than 2013. The cost of issuance and underwriter’s discount totaled \$662,500. Proceeds of the bonds are to be utilized for acquisition of land and buildings and activities related thereto. The bonds were issued and the tax levied for their payment, pursuant to authority conferred by the Constitution and laws of the State of Texas.

The total debt service principal and interest requirements for all bonds and maintenance tax notes for the next five years and thereafter for recorded outstanding indebtedness are in the following table. (The Series 1986 Bonds are included at a 2.52% interest rate, which was the rate in effect at August 31, 2005.)

	Principal	Interest	Total
Year ended August 31:			
2006	\$ 10,735,000	\$ 6,805,509	\$ 17,540,509
2007	10,255,000	6,436,794	16,691,794
2008	10,790,000	6,013,602	16,803,602
2009	11,400,000	5,529,293	16,929,293
2010	11,990,000	5,067,280	17,057,280
2011 - 2015	43,530,000	18,815,499	62,345,499
2016 - 2020	31,705,000	10,829,503	42,534,503
2021 - 2025	26,505,000	3,109,125	29,614,125
	<u>\$ 156,910,000</u>	<u>\$ 62,606,605</u>	<u>\$ 219,516,605</u>

The note payable accrues interest at 4.25% and is payable in quarterly installments beginning on November 30, 2002. Principal and interest are payable as follows:

	Principal	Interest	Total
Year ended August 31:			
2006	184,457	23,824	208,281
2007	192,422	15,859	208,281
2008	200,731	7,550	208,281
2009	<u>51,523</u>	<u>547</u>	<u>52,070</u>
	<u>\$ 629,133</u>	<u>\$ 47,780</u>	<u>\$ 676,913</u>

7. RETIREMENT PLAN

The District participates in the Teacher Retirement System of Texas (the "System"). The System is a multiple-employer public employee retirement system (PERS) with one exception: all risks and costs are not shared by the employer but are the liability of the State of Texas. Accordingly, the System does not separately account for each of its component governmental agencies. Further information regarding actuarial assumptions and conclusions, as well as audited financial statements, is included in the annual financial report of the System.

District employees who are employed for one half or more of the standard workload and who are not exempted from membership under Texas Revised Civil Statutes are eligible to participate in the System. Employees who retire at or after age 65 with 5 years of creditable service or age 60 with 20 years of service or age 55 with 30 years of service are entitled to full retirement benefits. Eligible employees may receive reduced benefits at age 55 with at least 5 years of service or at any age with 30 or more years of service. The System also provides death and disability benefits as established by state statute. For both 2005 and 2004, the percentages of participant salaries contributed by the state and by each participant were 6.00% and 6.40%, respectively, of annual compensation. The payroll for employees covered by the System for the years ended August 31, 2005 and 2004 was \$83,215,231 and \$78,382,477, respectively. The total payroll of the District was \$174,965,666 and \$167,182,199 for the years ended August 31, 2005 and 2004, respectively.

Eligible faculty and administrative personnel may participate in an optional retirement plan in lieu of the Teacher Retirement System plan. The optional retirement program provides for the purchase of annuity contracts. For both 2005 and 2004, the percentages of participant salaries contributed by the state and by each participant were 6.00% and 6.65%, respectively, of annual compensation. In addition, the District contributed 2.5% of annual compensation for each participant hired on or before August 31, 1995 for the years ended August 31, 2005 and 2004. The payroll for employees covered by the optional retirement plan for the years ended August 31, 2005 and 2004 was \$56,471,324 and \$54,563,135, respectively. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

The retirement expense to the State for the District was \$7,437,904 and \$7,041,932 for the fiscal years ended August 31, 2005 and 2004, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the District.

8. DEFERRED COMPENSATION PLAN

The District has established a deferred compensation plan under which selected executives may elect to defer a portion of their earnings for tax and investment purposes pursuant to authority granted in Government Code §609.001. As of August 31, 2005, the District had 18 employees participating in the program, 17 of whom were vested as of August 31, 2005. A total of \$329,346 in contributions were invested in the plan during the fiscal year, bringing the total of deferred salaries and accumulated earnings of current employees to \$41,172 and creating a payable to the vested employees of \$921,459.

As of August 31, 2004, the District had 20 employees participating in the program. Two employees were vested as of August 31, 2004. A total of \$344,090 in contributions were invested in the plan during the fiscal year, bringing the total of deferred salaries and accumulated earnings of current employees to \$626,904 and creating a payable to the vested employees of \$78,803.

It is the opinion of the District's legal counsel that the District has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

9. COMPENSABLE ABSENCES

Full-time professional support staff and administrators earn annual leave from one to two days per month depending on the length of employment with the District. The policy of the District is that an employee may carry his or her accrued leave forward from one fiscal year to another fiscal year with a maximum number of days up to 48. Employees with at least six months of service who terminate their employment are entitled to payment for all accumulated annual leave up to the maximum allowed. At August 31, 2005, the District has recognized the accrued liability for the unpaid annual leave, including amounts for salary-related payments, for \$8,711,183, of which \$5,476,747 was recorded as a current liability and \$3,234,436 was recorded as a non-current liability. As of August 31, 2004, the District had recognized the accrued liability for the unpaid annual leave, including amounts for salary-related payments, for \$7,366,889 of which \$5,181,377 was recorded as a current liability and \$2,185,512 was recorded as a non-current liability. Sick leave, which can be accumulated up to 66 days, is earned at the rate of one day per month. It is used by an employee who misses work because of illness. The policy of the District is to recognize the cost of sick leave when paid. Employees are not entitled to be paid for sick leave accrued but not taken upon termination. Accordingly, no liability for sick leave is reflected in the accompanying Statements of Net Assets.

10. COMMITMENTS AND CONTINGENCIES

Commitments—The District has entered into contracts for the planning and construction of new facilities, as well as for the renovation and repair of existing campuses within the District. Commitments remaining under such contracts at August 31, 2005 are \$11,670,112.

Pending Lawsuits and Claims—A class-action lawsuit against the District was filed in 1998 that involves constitutional and common law claims brought against the District to recover student services fees and technology fees that were assessed against all District students. The trial court hearing the case decided adversely in November 2000, and a final judgment was entered against the District in the amount of \$15.3 million.

The District appealed the trial court's decision. In August 2002 the Dallas Court of Appeals issued a decision that affirmed in part and reversed in part the trial court's judgment. The net effect of the court of appeals decisions was to reduce the amount of the judgment to approximately \$11.6 million, including pre-judgment and post-judgment interest through September 2002.

A settlement was reached with the District's insurance company in 2001 that was expected to cover the anticipated loss associated with the student services fees portion of the lawsuit. An additional \$9.6 million was accrued in 2002 to cover the remaining portion.

However, the District Board of Trustees approved filing a petition for review with the Texas Supreme Court. The Texas Supreme Court granted the District's petition and scheduled a hearing for January 7, 2004. The final outcome was still pending at August 31, 2004, awaiting the decision of the Texas Supreme Court. At that time an additional \$1,682,923 of interest on the judgement amount was accrued for the year as a conservative measure.

On December 2, 2005, the Texas Supreme Court rendered judgment that the class was not entitled to a refund of the technology fees or the increase in the student services fee. Because of the decision, the District reversed its accruals for anticipated losses. As a result \$13.3 million of liabilities were extinguished and the related expenses were reversed, reflected as Extinguishment of Potential Liability and Related Legal Expenses in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

Various other claims and lawsuits are pending against the District. In the opinion of District administration, the potential loss on all claims and lawsuits, to the extent not provided for by insurance or otherwise, will not be significant to the financial statements of the District.

Contingencies—The District has received federal, state and other financial assistance in the form of contracts and grants that are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement by the grantor agency for expenses disallowed under terms and conditions specified in the grant agreements. In the opinion of District management, such disallowed expenses, if any, will not be significant to the financial statements of the District.

On August 27, 2003 the El Centro College campus experienced major flood damage in one building due to a broken pipe. Damage to the facility and contents was approximately \$4.2 million, which was covered mainly by insurance. Proceeds of \$3,034,903 were received from insurance prior to August 31, 2004, and a receivable was established for the year ended August 31, 2004, for the projected remaining proceeds. The portion of the loss not expected to be covered by insurance was expensed in the year ended August 31, 2003. All expected insurance proceeds from the District's primary carrier were received prior to August 31, 2005. Therefore, there are no remaining receivables associated with the flood.

11. OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS

Included in operating expenses is \$2,001,420 and \$2,129,297 of rent paid during fiscal years 2005 and 2004, respectively.

Future minimum lease payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2005 are as follows:

Year Ended	Minimum Future Lease Payments
2006	\$ 1,136,064
2007	796,946
2008	626,942
2009	603,096
2010	<u>203,146</u>
Total	<u>\$3,366,194</u>

12. CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with US GAAP. Funds received but not expended during the reporting period are shown as deferred revenues on the Statements of Net Assets. Revenues are recognized on the Statements of Revenues, Expenses and Changes in Net Assets as funds are actually expended. For federal contract and grant awards, funds expended but not collected are reported as federal receivables on the Statements of Net Assets. Non-federal contract and grant awards for which funds are expended but not collected are reported as state and local receivables on the Statements of Net Assets. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract and grant awards funds already committed, e.g., multiyear awards, or funds awarded during fiscal year 2005 for which monies have not been received nor funds expended totaled \$10,688,309. Of this amount, \$10,416,481 is from federal contract and grant awards and \$271,828 is from local contract and grant awards. Contract and grant awards funds already committed, e.g., multiyear awards, or funds awarded during fiscal year 2004 for which monies have not been received nor funds expended totaled \$13,021,448. Of this amount, \$10,407,890 is from federal contract and grant awards, \$1,301,371 is from state contract and grant awards and \$1,312,187 is from local contract and grant awards.

13. SELF-INSURED PLANS

Prior to August 31, 1998 the District was self-insured for workers' compensation. The accrued liability for claims incurred but not yet developed under the self-insured plan is approximately \$276,242 and \$280,734 as of August 31, 2005 and 2004, respectively, and is included in the accompanying Statements of Net Assets. The accrued liability balance is based upon an actuarial valuation. Future payments for the incurred claims will be paid from the accrued liability.

Effective September 1, 1998 the District implemented a guaranteed cost workers' compensation insurance program to handle workers' compensation claims. The District returned to a self-insured plan effective September 1, 2002. Accordingly a liability has been recorded as of August 31, 2005 and 2004, respectively, for \$1,410,625 and \$1,480,222 and is included in accrued liabilities in accompanying Statements of Net Assets.

Self-insurance activity for the years ended August 31, 2004 and 2005 was as follows:

Accrued Claim Liability for the Year Ended August 31	Balance September 1	Additions	Reductions for Claims Paid	Balance August 31
2004	\$ 328,028	\$ 1,624,220	\$ (472,026)	\$ 1,480,222
2005	1,480,222	381,636	(451,233)	1,410,625

14 HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the state provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the state. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on benefits paid during the previous year. The state recognizes the cost of providing these benefits by expending the annual insurance premiums.

For the year ended August 31, 2005 the state's maximum contribution per full-time employee was \$315.56 per month for the year and totaled \$3,786.72 per employee for the year. The state also paid an additional amount for a spouse, child(ren), or both for a maximum amount of \$495.73, \$436.19, and \$616.36 per month, respectively. The cost of providing those benefits for the year was \$3,229,573 for 739 retirees and \$13,657,364 for 2,950 active employees.

The state's maximum contribution per full-time employee for the year ended August 31, 2004 was \$300.27 per month for an annualized cost of \$3,603.24 per employee. The state also paid an additional amount for a spouse, child(ren), or both for a maximum amount of \$471.85, \$415.02, and \$586.39 per month respectively. The actual cost of providing those benefits for the year was \$2,954,910 for 723 retirees and \$12,602,056 for 2,926 active employees.

The health insurance expense to the state for the District was \$12,007,740 and \$10,906,692 for the fiscal years ended August 31, 2005 and 2004 respectively. The amounts represent the portion of expended appropriations made by the State Legislature on behalf of the District.

The Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*, has been issued and will be effective for the fiscal year ending August 31, 2006. The District has not yet determined the effect on the financial statements for implementation of the new standard.

15. RELATED PARTIES

During the year, the District furnished certain services such as office space, utilities, and some staff assistance to the Foundation as discussed in Notes 1 and 23.

16. AD VALOREM TAX

Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Taxes levied for the years ended August 31, 2005 and 2004 were \$107,927,242 and \$103,074,355, respectively (which includes any penalties and interest assessed, if applicable).

The District is permitted by Texas State law to levy taxes up to \$.16 per \$100 of assessed valuation on real property for general governmental services and \$.50 per \$100 of assessed valuation on real property for the payment of principal and interest on long-term debt. The combined tax rate levied by the District in 2005 and 2004 to finance the operations and maintenance as well as debt service was \$.0803 and \$.0778, respectively, per \$100 of assessed valuation on real property, leaving a tax margin of \$.5797 and \$.5822, respectively, per \$100 of assessed valuation on real and personal property. Approximately \$782,652,015 of additional taxes could be raised per year based on the 2005 assessed value of \$135,009,835,189 for real property before the limit is reached. In 2004 approximately \$774,393,902 of additional taxes could have been raised per year based on the 2004 assessed value of \$133,011,663,033 for real property before the limit would have been reached.

At August 31, 2005 and March 21, 2004*:

	2005	2004
Assessed valuation of the District	\$ 164,428,457,211	\$ 160,837,173,553
Less exemptions	<u>29,418,622,022</u>	<u>27,825,510,520</u>
Net assessed valuation of the District	<u>\$ 135,009,835,189</u>	<u>\$ 133,011,663,033</u>

*These are the most recent figures the Dallas Central Appraisal District was able to supply.

The Dallas County Tax Assessor-Collector is the Collecting Agency for the levy and remits the collections to the District, net of a collection fee. The use of tax proceeds is restricted to either maintenance and operations or funding interest and sinking requirements.

Gross Taxes Collected - 2005	Current Operations	Debt Service	Total
Current	\$ 97,087,857	\$ 8,894,258	\$ 105,982,115
Delinquent	1,599,717	238,602	1,838,319
Penalties and interest	<u>1,237,118</u>	<u>-</u>	<u>1,237,118</u>
Total collections	<u>\$ 99,924,692</u>	<u>\$ 9,132,860</u>	<u>\$ 109,057,552</u>
Gross Taxes Collected - 2004	Current Operations	Debt Service	Total
Current	\$ 100,433,426	\$ -	\$ 100,433,426
Delinquent	1,580,312	-	1,580,312
Penalties and interest	<u>911,165</u>	<u>-</u>	<u>911,165</u>
Total collections	<u>\$ 102,924,903</u>	<u>\$ -</u>	<u>\$ 102,924,903</u>

Tax collections for the years ended August 31, 2005 and 2004 were approximately 98% and 97%, respectively, of the current tax levy. Allowances for uncollectible taxes (see Note 4) are based upon historical experience in collecting ad valorem taxes.

Under GASB 33, *Accounting and Financial Reporting for Non-Exchange Transactions*, ad valorem taxes are an imposed non-exchange revenue. Assets from imposed non-exchange transactions are recorded when the entity has an enforceable legal claim to the asset or when the entity receives resources, whichever comes first. The enforceable legal claim date for ad valorem taxes is the assessment date. Accordingly, the District has recognized all assessed taxes in the current year and recorded a receivable for uncollected taxes.

17. DEFERRED REVENUES

Revenues, consisting primarily of tuition and fees related to academic terms in the next fiscal year and contract and grant revenue received prior to being earned, are recorded on the Statements of Net Assets as deferred revenues in the current fiscal year.

Deferred revenue balances at August 31, 2005 and 2004 are as follows:

	2005	2004
Deferred revenues related to students and other customers	\$23,030,151	\$20,616,012
Deferred revenues related to grants and contracts	<u>12,503,023</u>	<u>13,137,612</u>
Total deferred revenues	<u>\$35,533,174</u>	<u>\$33,753,624</u>

18. BUDGETARY DATA

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for current operating funds for the fiscal year beginning September 1. The budget, which is prepared on the accrual basis of accounting, is adopted by the Board of Trustees of the District. A copy of the approved budget must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board and Legislative Reference Library.

19. INCOME TAXES

The District is exempt from income taxes under Internal Revenue Code Section 115, "Income of States, Municipalities, Etc.," although unrelated income may be subject to income taxes under Internal Revenue Code Section 511 (a)(2)(B), "Imposition of Tax on Unrelated Business Income of Charitable, Etc., Organizations." The District had no material unrelated business income tax liability for the years ended August 31, 2005 or 2004.

20. TAX INCREMENT FINANCING DISTRICTS

The District participates in a number of tax increment financing districts (“TIFs”). The following table summarizes the obligations of the District’s involvement in the TIFs:

TIF Title	Percentage of Incremental Tax Committed	Taxes Forgone in 2005	Taxes Forgone in 2004
Cityplace	100%	\$ 176,489	\$ 156,601
Oak Cliff Gateway	100	11,695	9,496
State - Thomas	100	41,677	160,741
City of Irving	100	(5,408)	-
City of Farmers Branch Mercer Crossing	35	8,973	9,553
City of Farmers Branch Old Farmers Branch	100	422	347
City of Grand Prairie #1	100	11,580	12,420
City of Grand Prairie #2	100	20,671	4,824
City of Grand Prairie #3	100	779	300
		<u>\$ 266,878</u>	<u>\$ 354,282</u>
Total taxes forgone		<u>\$ 266,878</u>	<u>\$ 354,282</u>

21. GENERAL OPERATING REVENUES

General operating revenues of \$1,696,654 and \$1,132,609 for the years ended August 31, 2005 and 2004, respectively, consist of a variety of miscellaneous revenues that include such items as payments for parking citations, room rental income, certain ticket sales, credit by exam income, etc. The largest amount is \$400,000 of revenue for leased land each year. Income for items such as earned discounts for early payment to vendors and transcripts represent the smallest amount of revenue at \$1,269 and \$3 for August 31, 2005 and 2004, respectively. Revenue for other categories range between these two extremes.

22. AUXILIARY ENTERPRISES

Contracted Services—Many of the services offered through auxiliary enterprises are contracted to third parties who pay commissions to the District. Currently the bookstores, the cafeterias, and food and beverage vending machine service are all outsourced.

Other facets of auxiliary enterprises are operated by the District but do not involve discounted revenue.

Student Programs—Auxiliary enterprises revenue includes income earned from miscellaneous student programs and activities. Some of the revenues encompass those generated by ticket sales for plays and concerts, copy machine usage, returned check handling charges, locker rentals, advertising in the student newspaper, health services such as tuberculosis tests, etc.

23. COMPONENT UNITS

Dallas County Community College District Foundation, Inc.—Discrete Component Unit

Dallas County Community College District Foundation, Inc. (the “Foundation”) was established as a separate nonprofit organization in 1973 to raise funds to provide student scholarships and assistance in the development and growth of the District. Under GASB Statement No. 39, *Determining Whether*

Certain Organizations are Component Units, an organization should report as a discretely presented component unit those organizations that raise and hold economic resources for the direct benefit of a government unit. Accordingly, the Foundation financial statements are included in the District's annual report as a discrete component unit (see table of contents). Complete financial statements of the Foundation can be obtained from the administrative office of the Foundation.

The following footnotes are excerpted from the Foundation's audited financial statements:

NOTE A - GENERAL AND SIGNIFICANT ACCOUNTING POLICIES

General

Dallas County Community College District Foundation, Inc. (the "Foundation") is a nonprofit organization established in 1973. Its sole purpose is to provide benefits such as scholarships and grants to the Dallas County Community College District (the "District"), and to the students, faculty, and staff of the District's seven colleges, the Bill J. Priest Institute for Economic Development and R. Jan LeCroy Center for Educational Telecommunications.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Foundation maintains its accounts in accordance with the principles of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. For reporting purposes, however, the Foundation classifies net assets and revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** - Net assets that are not subject to donor-imposed restrictions and may be used for any operating purpose of the Foundation.
- **Temporarily Restricted Net Assets** - Net assets that are subject to donor-imposed stipulations that require the passage of time and/or the occurrence of a specific event.
- **Permanently Restricted Net Assets** - Net assets required to be maintained in perpetuity, with only the income used for operating activities, due to donor-imposed restrictions.

Cash and Cash Equivalents

The Foundation considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include money market funds totaling \$2,168,391 and \$3,292,278 as of August 31, 2005 and 2004, respectively. The Foundation maintains cash and cash equivalents at financial institutions, which at times may not be federally insured or may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on such accounts.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. The carrying amounts of alternative investments are based on the fair value of the underlying funds. Realized and unrealized gains and losses are reported in the statement of activities.

Under the terms of a revocable trust agreement with Frost National Bank, the Foundation maintains an investment management agreement with Crestwood Asset Management; Smith Asset Management Group, L.P.; and Shamrock Asset Management, whereby they manage the Foundation's investments in a manner consistent with the investment goals and policies established by the Board of Directors.

Contributions

Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted using the risk-free rate. Amortization of discounts is recorded as additional contributions in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible receivables is provided based upon management's judgment including such factors as prior collection history, type of contribution and nature of fund-raising activity. Amounts deemed by management to be uncollectible are charged to expenses. Recoveries on receivables previously charged-off are credited to expenses. Management believes that all outstanding pledges are collectible and no allowance is necessary as of August 31, 2005 and 2004.

Contributed Services

The services of the Foundation employees have been donated by the District. The estimated fair value of these contributed services is \$196,379 and \$213,683 for 2005 and 2004, respectively, and has been included in revenues, gains, and other support and management and general expenses in the accompanying financial statements.

The District also provides office space and equipment at no cost to the Foundation. Because the Foundation does not have a clearly measurable basis to estimate the value of these contributed facilities and equipment, no amounts have been reflected in the financial statements.

Federal Income Taxes

The income of the Foundation, except for unrelated business income, is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation had no unrelated business income during the years ended August 31, 2005 and 2004.

Use of Estimates - The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - INVESTMENTS

Investments are composed of the following as of August 31:

	2005		2004	
	Cost	Fair value	Cost	Fair value
Corporate bonds	\$ 3,325,525	\$ 3,400,450	\$ 5,411,028	\$ 5,496,963
Corporate stocks	11,279,560	14,051,357	9,640,413	10,765,124
Alternative investments	3,000,000	3,125,659	-	-
U.S. government obligations	-	-	168,006	170,418
	<u>\$17,605,085</u>	<u>\$20,577,466</u>	<u>\$15,219,447</u>	<u>\$16,432,505</u>

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following unconditional promises to give:

	<u>August 31,</u>	
	<u>2005</u>	<u>2004</u>
Contributions receivable	\$ 8,126,000	\$7,708,010
Less unamortized discount at 3.84% and 2.41% as of August 31, 2005 and 2004, respectively	<u>(1,386,070)</u>	<u>(844,467)</u>
	<u>\$ 6,739,930</u>	<u>\$6,863,543</u>

The maturity of contributions receivable as of August 31, 2005 is as follows:

Less than one year	\$ 801,000
One to five years	4,525,000
More than five years	<u>2,800,000</u>
	<u>\$8,126,000</u>

* * * * *

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE A

SCHEDULE OF OPERATING REVENUES

YEAR ENDED AUGUST 31, 2005 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2005	2004
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 29,696,068	\$ -	\$ 29,696,068	\$ -	\$ 29,696,068	\$ 27,703,549
Out-of-district resident tuition	7,544,149	-	7,544,149	-	7,544,149	6,487,844
Non-resident tuition	6,178,481	-	6,178,481	-	6,178,481	5,215,778
TPEG—credit (set aside) *	2,342,104	-	2,342,104	-	2,342,104	2,163,946
State-funded continuing education	9,318,784	-	9,318,784	-	9,318,784	10,531,179
TPEG—non-credit (set aside) *	591,871	-	591,871	-	591,871	635,822
Non-state funded educational programs	3,301,583	-	3,301,583	-	3,301,583	2,610,512
Total tuition	<u>58,973,040</u>	<u>-</u>	<u>58,973,040</u>	<u>-</u>	<u>58,973,040</u>	<u>55,348,630</u>
Charges:						
Distance learning charges	223,748	-	223,748	-	223,748	412,641
Installment plan charges	435,848	-	435,848	-	435,848	396,365
Prior year tuition and charges	1,869	-	1,869	-	1,869	(8,508)
Total charges	<u>661,465</u>	<u>-</u>	<u>661,465</u>	<u>-</u>	<u>661,465</u>	<u>800,498</u>
Scholarship allowances and discounts:						
Remissions and exemptions—state	(454,999)	-	(454,999)	-	(454,999)	(453,722)
Remissions and exemptions—local	(1,409,492)	-	(1,409,492)	-	(1,409,492)	(1,508,903)
Title IV federal grants	(9,110,137)	-	(9,110,137)	-	(9,110,137)	(8,110,644)
Other federal grants	(1,876,802)	-	(1,876,802)	-	(1,876,802)	(827,080)
TPEG awards	(1,274,724)	-	(1,274,724)	-	(1,274,724)	(1,052,137)
Other state grants	(866,285)	-	(866,285)	-	(866,285)	(781,544)
Rising Star program	(500,435)	-	(500,435)	-	(500,435)	(600,135)
Other local grants	(145)	-	(145)	-	(145)	(67,561)
Total scholarship allowances	<u>(15,493,019)</u>	<u>-</u>	<u>(15,493,019)</u>	<u>-</u>	<u>(15,493,019)</u>	<u>(13,401,726)</u>
Total net tuition and charges	<u>44,141,486</u>	<u>-</u>	<u>44,141,486</u>	<u>-</u>	<u>44,141,486</u>	<u>42,747,402</u>
Additional operating revenues:						
Federal grants and contracts	1,181,570	48,137,327	49,318,897	48,294	49,367,191	45,263,873
State grants and contracts	49,832	1,702,158	1,751,990	-	1,751,990	2,637,601
Non-governmental grants and contracts	3,623	4,615,282	4,618,905	-	4,618,905	5,168,965
Sales and services of educational activities	542,547	-	542,547	-	542,547	545,233
General operating revenues	1,696,654	-	1,696,654	-	1,696,654	1,132,609
Total additional operating revenues	<u>3,474,226</u>	<u>54,454,767</u>	<u>57,928,993</u>	<u>48,294</u>	<u>57,977,287</u>	<u>54,748,281</u>
Auxiliary Enterprises:						
Bookstore**	-	-	-	1,502,039	1,502,039	1,568,175
Food Service	-	-	-	601,806	601,806	633,989
Center for Educational Telecommunications	-	-	-	2,610,102	2,610,102	3,159,838
Business Incubation Center	-	-	-	135,303	135,303	197,645
Universities Center of Dallas	-	-	-	439,873	439,873	449,907
Student Programs	-	-	-	445,782	445,782	582,320
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,734,905</u>	<u>5,734,905</u>	<u>6,591,874</u>
Total Operating Revenues	<u>\$ 47,615,712</u>	<u>\$ 54,454,767</u>	<u>\$ 102,070,479</u>	<u>\$ 5,783,199</u>	<u>\$ 107,853,678</u>	<u>\$ 104,087,557</u>
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.033, \$2,933,975 and \$2,799,768 for years August 31, 2005 and 2004, respectively, of tuition was set aside for Texas Public Education grants (TPEG)

** The bookstore is operated by a third party external to the District. Therefore there are no discounts associated with operating revenues from the bookstore. The revenues relate to commissions from the third party to the District.

DALLAS COMMUNITY COLLEGE DISTRICT

SCHEDULE B

SCHEDULE OF OPERATING EXPENSES BY OBJECT
 YEAR ENDED AUGUST 31, 2005 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)

	Operating Expenses			Other Expenses	2005	2004
	Salaries and Wages	Benefits				
		State	Local			
UNRESTRICTED—Educational activities:						
Instruction	\$ 94,282,083	\$ -	\$ 6,523,422	\$12,142,178	\$ 112,947,683	\$ 108,744,526
Public service	3,370,819	-	233,229	1,993,253	5,597,301	4,602,789
Academic support	10,075,262	-	697,112	4,117,304	14,889,678	13,684,238
Student services	18,267,017	-	1,263,903	3,380,513	22,911,433	21,435,123
Institutional support	30,715,506	-	2,125,220	7,760,668	40,601,394	40,672,800
Operation and maintenance of plant	7,028,164	-	486,282	17,094,597	24,609,043	22,018,233
Scholarships and fellowships	-	-	-	-	-	-
Total unrestricted educational activities	<u>163,738,851</u>	<u>-</u>	<u>11,329,168</u>	<u>46,488,513</u>	<u>221,556,532</u>	<u>211,157,709</u>
RESTRICTED—Educational activities:						
Instruction	1,431,352	11,196,951	249,949	4,889,101	17,767,353	17,389,250
Public service	1,253,127	400,319	236,004	3,347,727	5,237,177	5,114,117
Academic support	423,245	1,196,539	77,054	-	1,696,838	1,440,056
Student services	2,397,947	2,169,393	420,567	1,211,031	6,198,938	6,517,299
Institutional support	1,538,813	3,647,777	244,810	1,016,180	6,447,580	5,616,862
Operation and maintenance of plant	-	834,666	-	-	834,666	764,272
Scholarships and fellowships	-	-	-	26,344,145	26,344,145	25,784,407
Total restricted educational activities	<u>7,044,484</u>	<u>19,445,645</u>	<u>1,228,384</u>	<u>36,808,184</u>	<u>64,526,697</u>	<u>62,626,263</u>
TOTAL EDUCATIONAL ACTIVITIES	170,783,335	19,445,645	12,557,552	83,296,697	286,083,229	273,783,972
AUXILIARY ENTERPRISES	4,182,331	-	803,690	4,979,534	9,965,555	10,309,379
DEPRECIATION EXPENSE—Buildings and other real estate improvements	-	-	-	7,290,029	7,290,029	6,218,946
DEPRECIATION EXPENSE—Equipment and furniture	-	-	-	3,414,639	3,414,639	3,431,691
TOTAL OPERATING EXPENSES	<u>\$ 174,965,666</u>	<u>\$19,445,645</u>	<u>\$13,361,242</u>	<u>\$98,980,899</u>	<u>\$ 306,753,452</u> (Exhibit 2)	<u>\$ 293,743,988</u> (Exhibit 2)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE C

SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
YEAR ENDED AUGUST 31, 2005 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)

	Unrestricted	Restricted	Auxiliary Enterprises	2005	2004
NON-OPERATING REVENUES:					
State Appropriations:					
Education and general state support	\$ 83,052,590	\$ -	\$ -	\$ 83,052,590	\$ 83,053,974
State group insurance	-	12,007,741	-	12,007,741	10,906,692
State retirement matching	-	7,437,904	-	7,437,904	7,041,932
Nursing growth	23,105	-	-	23,105	-
SBDC state match	-	726,683	-	726,683	686,444
Total state appropriations	<u>\$ 83,075,695</u>	<u>\$ 20,172,328</u>	<u>\$ -</u>	<u>\$ 103,248,023</u>	<u>\$ 101,689,042</u>
Maintenance ad valorem taxes	106,596,307	-	-	106,596,307	100,559,482
Gifts	137,643	-	-	137,643	316,618
Investment income	5,117,432	-	383,710	5,501,142	3,639,583
Gain on sale of investment	-	-	-	-	84,757
Other non-operating revenue	<u>873,814</u>	<u>-</u>	<u>12</u>	<u>873,826</u>	<u>182,224</u>
Total non-operating revenues	<u>195,800,891</u>	<u>20,172,328</u>	<u>383,722</u>	<u>216,356,941</u>	<u>206,471,706</u>
NON-OPERATING EXPENSES:					
Interest on capital related debt	4,538,314	-	-	4,538,314	1,904,536
Loss on disposal of capital assets	198,586	-	-	198,586	251,296
Extinguishment of potential liability and related legal expenses	(13,270,961)	-	-	(13,270,961)	1,682,923
Other non-operating expenses	<u>1,145,954</u>	<u>-</u>	<u>-</u>	<u>1,145,954</u>	<u>39,532</u>
Total non-operating expenses	<u>(7,388,107)</u>	<u>-</u>	<u>-</u>	<u>(7,388,107)</u>	<u>3,878,287</u>
NET NON-OPERATING REVENUES	<u>203,188,998</u>	<u>20,172,328</u>	<u>383,722</u>	<u>223,745,048</u>	<u>202,593,419</u>
				(Exhibit 2)	(Exhibit 2)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE D

SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY

YEAR ENDED AUGUST 31, 2005 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)

	Detail by Source				Available for Current Operations		
	Unrestricted	Restricted		Capital Assets Net of Depreciation and Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ 88,848,318	\$ -	\$ -	\$ -	\$ 88,848,318	\$88,848,318	\$ -
Auxiliary enterprises	17,228,393	-	-	-	17,228,393	17,228,393	-
Restricted	-	-	-	-	-	-	-
Loan	126,909	-	-	-	126,909	-	126,909
Endowment:							
Quasi—unrestricted, designated	5,260,483	-	-	-	5,260,483	-	5,260,483
Plant:							
Unexpended	12,159,832	-	-	-	12,159,832	-	12,159,832
Debt service	-	10,522,022	-	-	10,522,022	-	10,522,022
Investment in plant	-	-	-	236,805,643	236,805,643	-	236,805,643
TOTAL NET ASSETS— August 31, 2005	123,623,935	10,522,022	-	236,805,643	370,951,600 (Exhibit 1)	106,076,711	264,874,889
TOTAL NET ASSETS— August 31, 2004	95,557,670	7,394,286	-	243,154,370	346,106,326 (Exhibit 1)	88,859,152	257,247,174
NET INCREASE (DECREASE) IN NET ASSETS	\$ 28,066,265	\$3,127,736	\$ -	\$ (6,348,727)	\$ 24,845,274 (Exhibit 2)	\$17,217,559	\$ 7,627,715

STATISTICAL SECTION

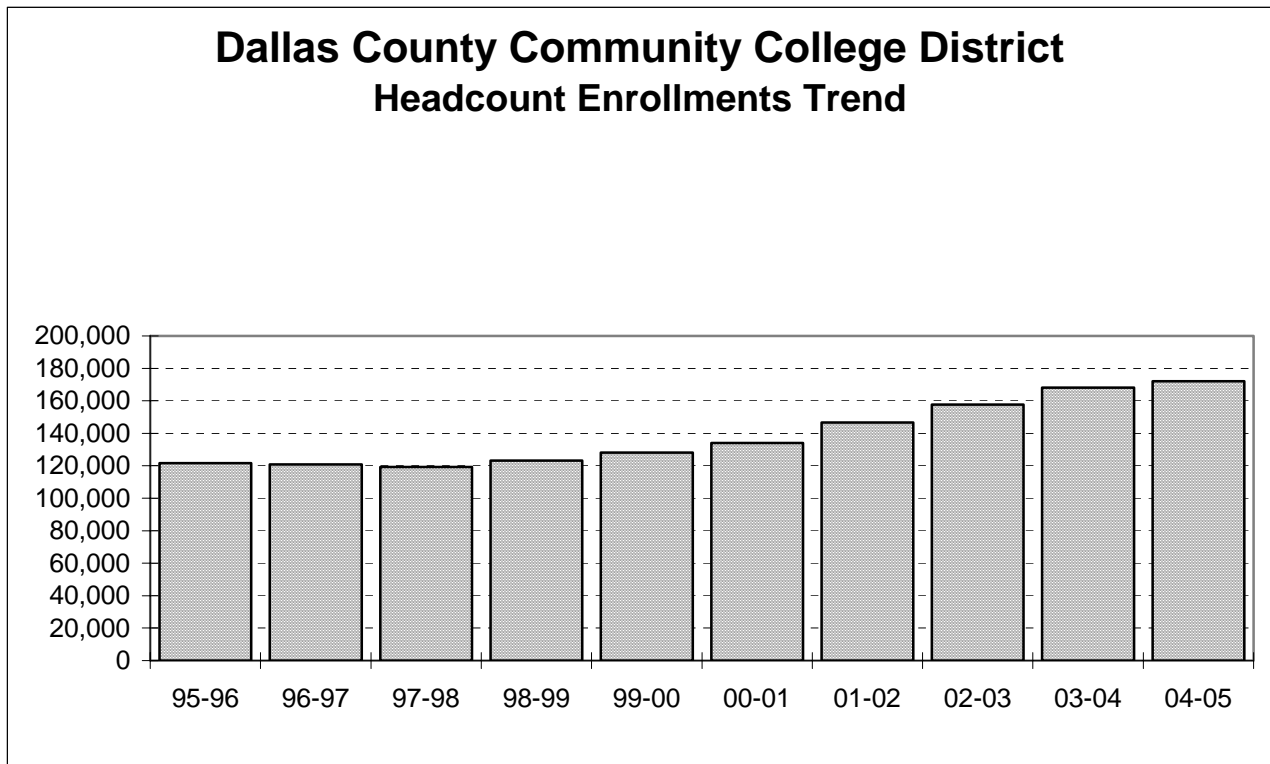
These statistical tables provide selected financial and demographic information. The statistical tables are for informational purposes only and are not audited.

Revenues by Source
For Current Operations
Last 10 Fiscal Years
(UNAUDITED)

Fiscal Year	State Appropriations	Gross Tuition	Taxes for Current Operations	Grants and Contracts	Investment Income	Miscellaneous Revenue	Sales from Auxiliary Enterprises	Totals
1995-96	75,038,533	31,296,611	41,485,328	21,601,517	4,530,978	1,219,628	4,918,887	180,091,482
1996-97	75,017,496	33,178,241	44,422,207	24,711,338	4,644,107	1,346,360	5,415,451	188,735,200
1997-98	81,990,290	37,551,178	46,539,236	25,198,819	7,604,470	1,627,730	7,329,972	207,841,695
1998-99	84,767,215	40,413,044	50,150,385	29,220,439	2,794,751	2,145,964	6,273,375	215,765,173
1999-00	91,492,899	41,831,644	54,303,193	28,320,483	6,577,573	1,977,951	6,530,542	231,034,285
2000-01	94,443,217	45,910,843	58,921,025	35,749,886	10,790,852	3,450,769	6,874,525	256,141,117
2001-02	105,376,873	47,353,026	76,327,366	43,423,488	5,820,263	2,806,146	6,970,931	288,078,093
2002-03	100,623,986	47,921,797	79,271,624	49,805,042	3,781,059	2,212,355	7,012,008	290,627,871
2003-04	101,689,042	55,348,630	97,438,019	54,315,351	3,397,260	1,649,242	6,599,784	320,437,328
2004-05	103,248,023	57,770,014	99,924,692	54,938,519	2,938,634	1,990,668	5,734,917	326,545,467

Dallas County Community College District
 Credit Headcount Enrollments for All Campuses
 Last 10 Fiscal Years
 (UNAUDITED)

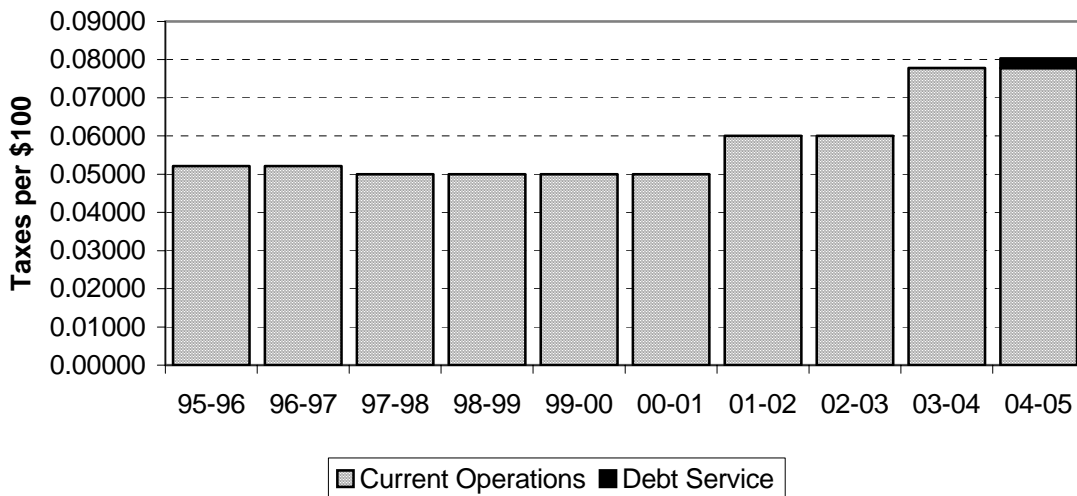
State Funded	
Fiscal Year	Total Enrollment
1995-96	121,660
1996-97	120,887
1997-98	119,203
1998-99	123,264
1999-00	128,104
2000-01	133,999
2001-02	146,561
2002-03	157,689
2003-04	168,116
2004-05	172,024



Dallas County Community College District
 Ad Valorem Tax Rates Assessed
 Last 10 Fiscal Years
 (UNAUDITED)

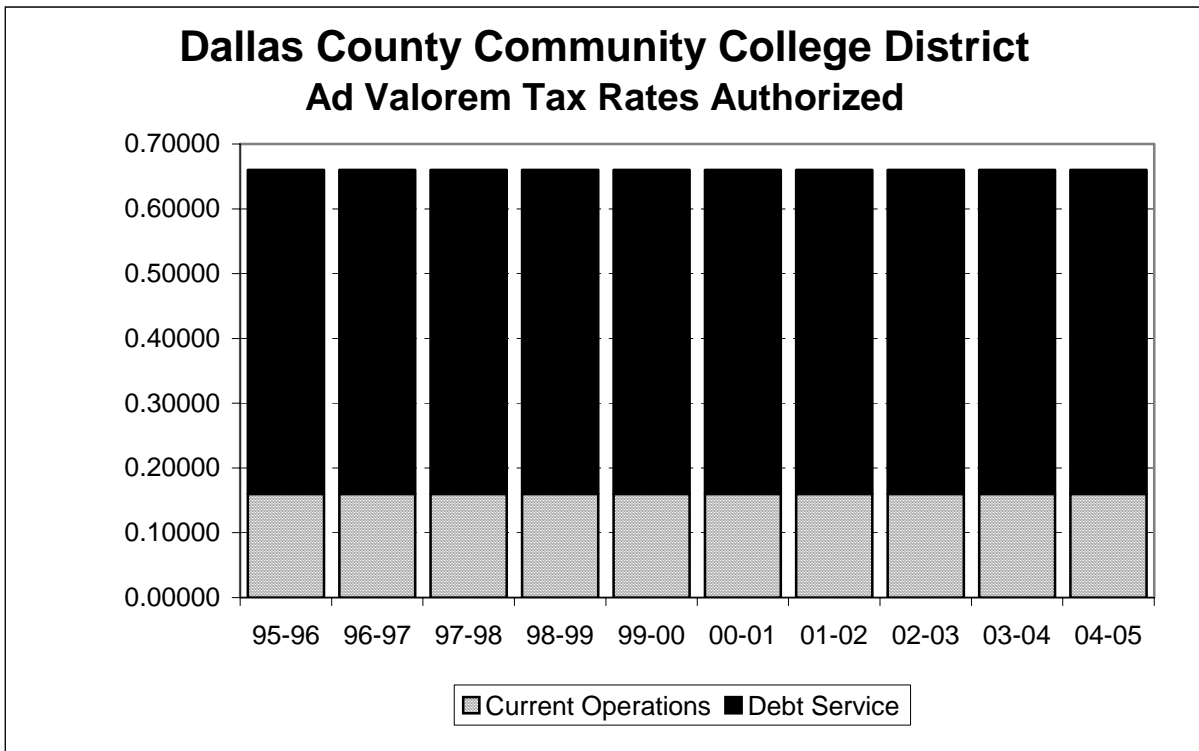
Fiscal Year	Current Operations	Debt Service	Total
1995-96	0.05210	0.00000	0.05210
1996-97	0.05210	0.00000	0.05210
1997-98	0.05000	0.00000	0.05000
1998-99	0.05000	0.00000	0.05000
1999-00	0.05000	0.00000	0.05000
2000-01	0.05000	0.00000	0.05000
2001-02	0.06000	0.00000	0.06000
2002-03	0.06000	0.00000	0.06000
2003-04	0.07780	0.00000	0.07780
2004-05	0.07780	0.00250	0.08030

**Dallas County Community College District
 Ad Valorem Tax Rates Assessed and Adopted**



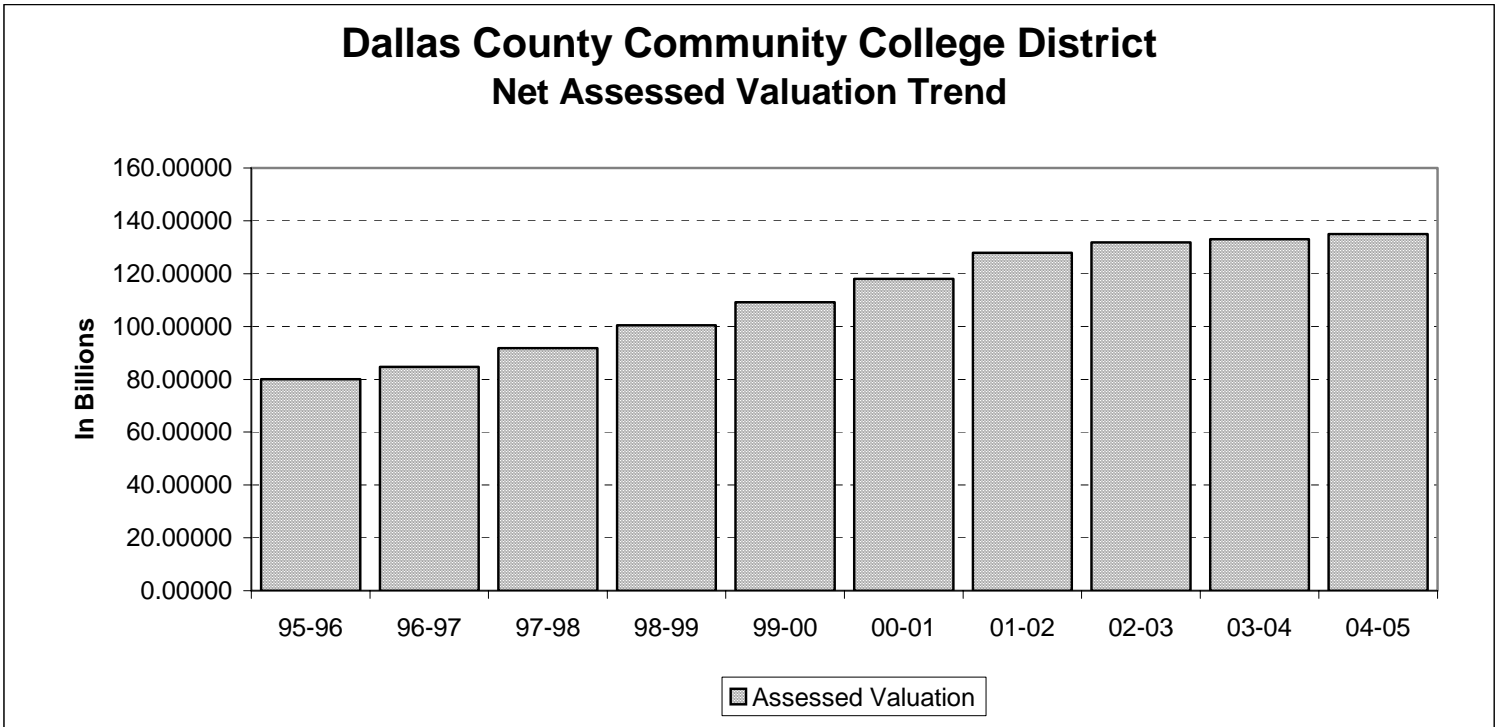
Dallas County Community College District
 Ad Valorem Tax Rates Authorized
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	Current Operations	Debt Service	Total
95-96	0.1600	0.5000	0.6600
96-97	0.1600	0.5000	0.6600
97-98	0.1600	0.5000	0.6600
98-99	0.1600	0.5000	0.6600
99-00	0.1600	0.5000	0.6600
00-01	0.1600	0.5000	0.6600
01-02	0.1600	0.5000	0.6600
02-03	0.1600	0.5000	0.6600
03-04	0.1600	0.5000	0.6600
04-05	0.1600	0.5000	0.6600



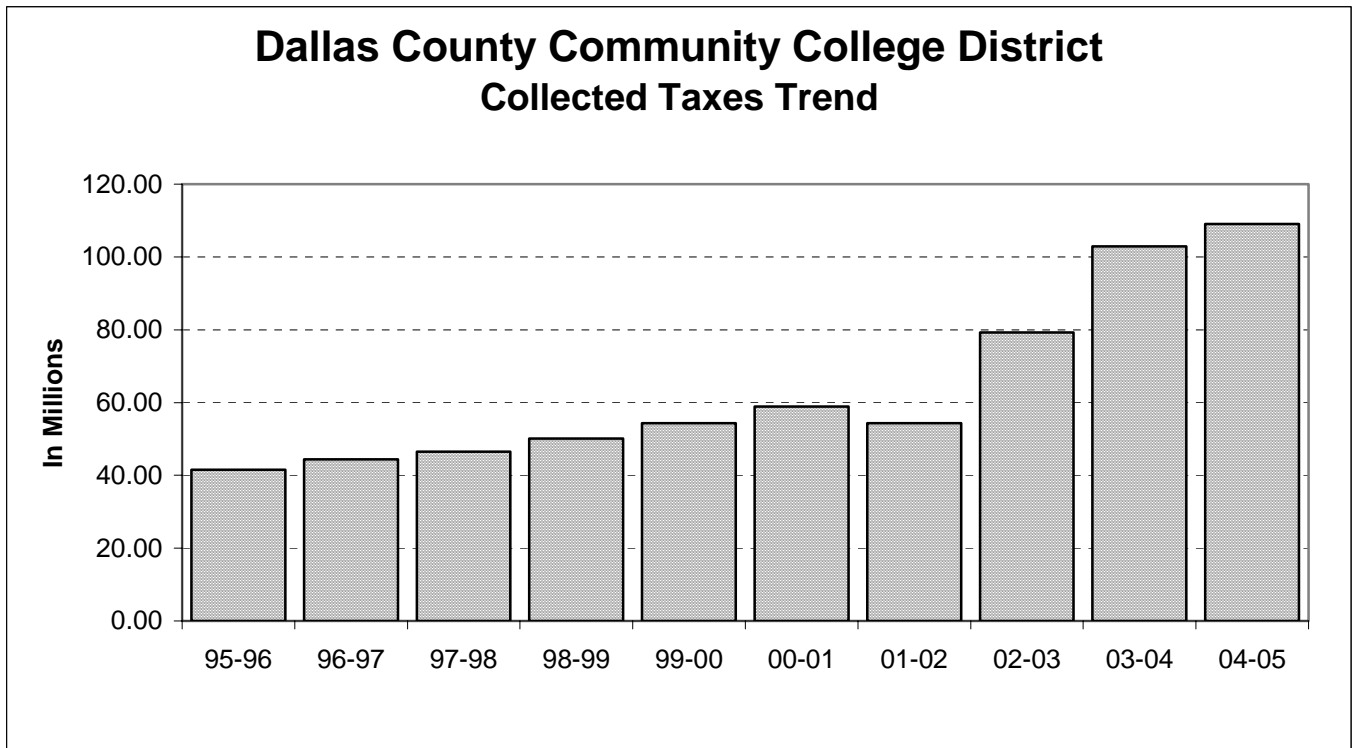
Dallas County Community College District
 Net Assessed Valuation
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	Assessed Valuation	Less: Exemptions	Net Assessed Valuation
1995-96	80,051,281,545	n/a	80,051,281,545
1996-97	101,489,274,822	\$16,820,710,237	84,668,564,585
1997-98	107,875,664,180	16,040,225,271	91,835,438,909
1998-99	117,946,969,580	17,577,537,505	100,369,432,075
1999-00	129,424,543,981	20,022,309,141	109,402,234,840
2000-01	139,771,154,156	21,729,047,876	118,042,106,280
2001-02	150,143,446,501	22,201,699,137	127,941,747,364
2002-03	159,130,757,365	27,293,383,493	131,837,373,872
2003-04	160,837,173,553	27,825,510,520	133,011,663,033
2004-05	164,428,457,211	29,418,622,022	135,009,835,189



Dallas County Community College District
 Ad Valorem Taxes Collected
 Last 10 Fiscal Years
 (UNAUDITED)

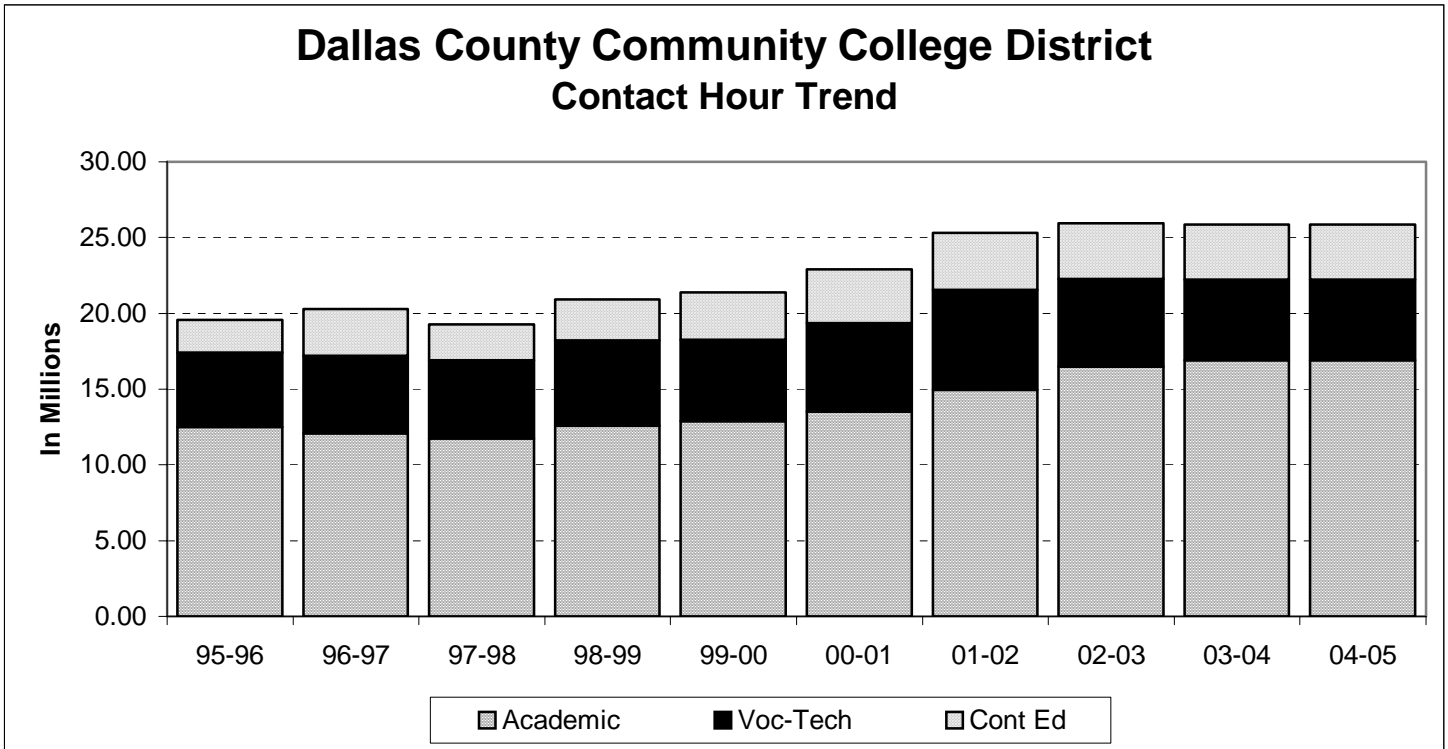
Fiscal Year	Current Tax Collections*	Delinquent Collections	Total Tax Collections
1995-96	41,026,891	458,437	41,485,328
1996-97	43,692,021	730,186	44,422,207
1997-98	45,596,471	942,765	46,539,236
1998-99	49,513,797	636,588	50,150,385
1999-00	53,862,878	440,315	54,303,193
2000-01	58,142,046	778,979	58,921,025
2001-02	75,022,195	1,305,171	76,327,366
2002-03	77,484,484	1,787,140	79,271,624
2003-04	101,344,591	1,580,312	102,924,903
2004-05	107,219,233	1,838,319	109,057,552



* Current tax collections include penalty and interest payments.

Dallas County Community College District
 Contact Hour History
 Last 10 Fiscal Years
 (UNAUDITED)

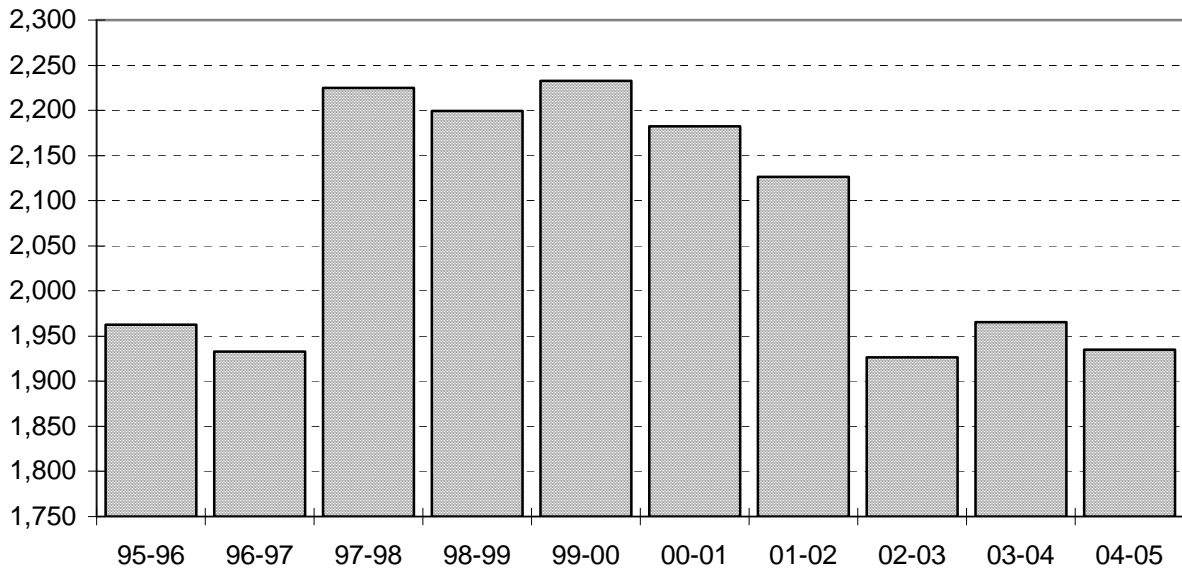
Fiscal Year	Academic	Vocational Technical	Continuing Ed	Total
1995-96	12,520,390	4,881,700	2,169,641	19,571,731
1996-97	12,085,589	5,119,269	3,060,208	20,265,066
1997-98	11,760,040	5,155,623	2,357,807	19,273,470
1998-99	12,594,512	5,625,608	2,706,116	20,926,236
1999-00	12,888,021	5,369,948	3,121,529	21,379,498
2000-01	13,502,696	5,850,800	3,554,137	22,907,633
2001-02	14,947,641	6,590,056	3,762,734	25,300,431
2002-03	16,479,743	5,786,832	3,692,329	25,958,904
2003-04	16,890,232	5,343,248	3,609,325	25,842,805
2004-05	16,959,636	5,223,024	3,161,649	25,344,309



Dallas County Community College District
 State Appropriations Per FTSE
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	Appropriations Per FTSE
1995-96	\$ 1,963
1996-97	1,933
1997-98	2,225
1998-99	2,199
1999-00	2,232
2000-01	2,182
2001-02	2,126
2002-03	1,927
2003-04	1,965
2004-05	1,935

**Dallas County Community College District
 State Appropriations Per FTSE Trend**



DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

OMB CIRCULAR A-133

SUPPLEMENTAL FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED AUGUST 31, 2005

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	60-61
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	62-63
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS:	
Schedule of Expenditures of Federal Awards (Schedule E)	64-67
Schedule of Expenditures of State Awards (Schedule F)	68
Notes to Schedules of Expenditures of Federal and State Awards	69-71
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CORRECTIVE ACTION PLAN (UNAUDITED), SCHEDULE OF PRIOR YEAR FINDINGS	72-75

**Report of Independent Certified Public Accountants on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Dallas County Community College District

We have audited the basic financial statements of Dallas County Community College District (the “District”) as of and for the year ended August 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we express no such opinion. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Texas Public Funds Investment Act

We also performed tests of the District’s compliance with the requirements of the Texas Public Funds Investment Act (the “Act”). The results of our tests disclosed no instances of non-compliance with the Act. However, providing an opinion on compliance with the Act was not an objective of our audit and accordingly, we do not express an opinion.

We noted certain matters that we have reported to management of the District in a separate letter dated November 18, 2005.

This report is intended solely for the information and use of the board of trustees, audit committee, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GRANT THORNTON LLP

Dallas, Texas
November 18, 2005

**Report of Independent Certified Public Accountants on Compliance
with Requirements Applicable to Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133**

Board of Trustees
Dallas County Community College District

Compliance

We have audited the compliance of Dallas County Community College District (the “District”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the State of Texas Single Audit Circular that are applicable to each of its major federal and state programs for the year ended August 31, 2005. The District’s major federal and state programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133 and the State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District’s compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended August 31, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2005-1 and 2005-2.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the District’s internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular and not to provide an opinion on the internal control over compliance. Accordingly, we express no such opinion.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of trustees, audit committee, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GRANT THORNTON LLP

Dallas, Texas
November 18, 2005

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE E

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2005

Federal Grantor/Pass-Through Grantor Program Name	CFDA	Grant #	Expenditures
U.S. DEPARTMENT OF EDUCATION:			
Direct Programs:			
Supplemental Educational Opportunity Grant	84.007 (1)		887,217
Strengthening Institutions - Title III	84.031A		1,224,566
Strengthening Institutions - Title V	84.031S		353,972
College Work Study Program	84.033 (1)	949,479	
Job Locator Development	84.033 (1)	<u>43,838</u>	993,317
TRIO	84.042A (2)		1,897,761
Talent Search	84.044A (2)		201,422
Upward Bound	84.047A (2)		1,436,722
PELL	84.063 (1)		31,179,243
FIPSE	84.116B		21,602
Child Care Access	84.335A		57,512
Early Childhood Educator Professional Development	84.349A		<u>309,188</u>
Total Direct from U. S. Department of Education			38,562,522
Pass-Through From:			
Texas Higher Education Coordinating Board			
Carl Perkins Vocational Education	84.048		2,585,184
The Leveraging Educational Assistance Partnership	84.151	27,211	
The Special Leveraging Educational Assistance Partnership	84.151	<u>8,438</u>	35,649
TECH PREP	84.243		<u>990,537</u>
Total Pass Through From Texas Higher Education Coordinating Board			3,611,370
Weatherford College: Texas Counselors' Network	84.048		2,857
Texas State Technical Institute: Nanotechnology	84.048		13,933
Texas A & M University: Go Theatre	84.048	455043	<u>9,940</u>
Texas Rehabilitation Commission:			
Rehabilitation Service - Interpreter-Mobility	84.126	978261	22,444
University of North Texas: Gear Up	84.334A	P334A990049	80,916
Texas Women's University: Gear Up	84.334A	P334A990155	<u>14,180</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			42,318,162

(1) Clustered Student Financial Aid Programs

(2) Clustered TRIO Programs

See notes to Schedules of Expenditures of Federal and State Awards

(Continued)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE E

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2005

Federal Grantor/Pass-Through Grantor Program Name	CFDA	Grant #	Expenditures	
U.S. DEPARTMENT OF AGRICULTURE:				
Pass-Through From:				
Texas Department of Human Services				
Child and Adult Food Program	10.558	UCN75N3055	21,814	
Child and Adult Food Program	10.558	75P3034	<u>2,100</u>	23,914
Summer Food Program	10.559	057-1045		<u>18,139</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE				42,053
U.S. DEPARTMENT OF JUSTICE				
Direct Programs:				
COPS	16.710	2001UMWX0282	22,775	
COPS	16.710	2003UMWX0140	48,229	
COPS	16.710	2003OMWX0159	<u>10,915</u>	81,919
TOTAL U.S. DEPARTMENT OF JUSTICE				81,919
U.S. DEPARTMENT OF LABOR				
Direct Programs:				
Automotive Technologies	17.261	AF-14573-05-60	104,846	
Rock On	17.261	YF-14843-05-60	<u>14,990</u>	119,836
Total Direct from U. S. Department of Labor				119,836
Pass-Through From:				
Dallas County Local Workforce Development Board:				
Statewide Activities Program	17.255	310 Statewide Activity		144,040
Unified Youth Services	17.259	328 & 347 Youth-3	183,167	
Unified Youth Services	17.259	347 Out of School-4	536,188	
Unified Youth Services	17.259	328 & 347 Out of School -5	78,798	
Economic Enhancement	17.259	305 Statewide Activity	235,872	
Economic Enhancement	17.259	615 Statewide Activity	472,240	
Garland Manufacturing Consortium	17.259	328 Statewide Activity	<u>160,516</u>	1,666,781
H1B Technical Skills Training Program	17.261	2003-H-1B-367		<u>1,240,938</u>
Total Pass Through From DCLWDB				3,051,759
Pass-Through From:				
Texas Higher Education Coordinating Board:				
Go Center Project	17.267			<u>14,549</u>
TOTAL U.S. DEPARTMENT OF LABOR				3,186,144

See notes to Schedules of Expenditures of Federal and State Awards

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED AUGUST 31, 2005

Federal Grantor/Pass-Through Grantor Program Name	CFDA	Grant #	Expenditures	
NATIONAL SCIENCE FOUNDATION:				
Direct Programs:				
Computer Science, Engineering and Mathematics Scholarship Program	47.076	0220854	33,636	
Computer Science, Engineering and Mathematics Scholarship Program	47.076	0324032	19,558	
Computer Science, Engineering and Mathematics Scholarship Program	47.076	0422381	27,233	
Computer Science, Engineering and Mathematics Scholarship Program	47.076	0422445	9,690	90,117
Total Direct from the National Science Foundation				90,117
Pass-Through From:				
Collin County Community College North Dallas Texas Regional Technologies Center	47.076	202408	69,376	
Texas Engineering Experiment Station Cyber Security/Computer Forensics Program	47.076	53861	8,405	77,781
TOTAL NATIONAL SCIENCE FOUNDATION				167,898
SMALL BUSINESS ADMINISTRATION:				
Direct Programs:				
Small Business Development Center:	59.037		2,152,336	
Drug Free Workplace	59.037		2,184	2,154,520
TOTAL SMALL BUSINESS ADMINISTRATION				2,154,520
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES				
Direct Programs:				
Head Start Program	93.600	90YP0018/01 & 02		116,962
Allied Health Leadership Coalition	93.191	03-021SP		31,879
Total Direct from the U. S. Department of Health & Human Services				148,841
Pass-Through From:				
University of Texas, at Austin Substance Abuse & Mental Health	93.000	1-UDI-TI13423		17,805
Texas Workforce Commission Self Sufficiency Fund-Revive the Dream	93.558	0605SSF000	147,220	
Self Sufficiency Fund-Mortgage & Medical	93.558	0604SSF001	177,208	324,428
Total Texas Workforce Commission:				324,428

See notes to Schedules of Expenditures of Federal and State Awards

(Continued)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE E

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED AUGUST 31, 2005

Federal Grantor/Pass-Through Grantor Program Name	CFDA	Grant #	Expenditures
Dallas County Local Workforce Development Board			
Quality Child Care	93.575	03080C57	21,994
Quality Child Care	93.575	03080C70	20,484
Quality Child Care Initiative	93.575	03080C26B	17,239
Quality Child Care	93.575	03080C28B	<u>71,779</u>
			131,496
Total Dallas County Local Workforce Development Board:			131,496
The National Youth Sports Program Fund			
Summer Youth Sports Program	93.570	NYSPF 03-307	4,748
Girl's Sports Clinic	93.570	2004-05 NYSP-GSC	1,159
Summer Youth Sports Program	93.570	NYSPF 05:1022	19,979
Summer Youth Sports Program	93.570	NYSPF 05:1085	<u>52,850</u>
Total National Youth Sports Program			78,736
			<u>78,736</u>
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES			<u>701,306</u>
Corporation for National & Community Service			
Pass-Through From:			
American Association of Community Colleges			
AACC-Community Colleges Broadening Horizons			
Through Service Learning	94.005	03LHHDC001	<u>6,489</u>
Total Corporation for National & Community Services:			6,489
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 48,658,491</u>

See notes to Schedules of Expenditures of Federal and State Awards

(Concluded)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE F

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED AUGUST 31, 2005**

State Agency/ Program Name	Grant #	Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD:		
Texas Public Education Grant		2,974,210
Texas Grant Program		255,798
Texas Grant Program II		240,665
Texas College Work Study		69,959
Starlink State		215,274
PSIG		44,087
First Generation		86,256
		<hr/>
Total Texas Higher Education Coordinating Board		3,886,249
TEXAS PARKS AND WILDLIFE COMMUNITY OUTDOOR OUTREACH PROGRAM	52-00268	7,607
TEXAS WORKFORCE COMMISSION:		
Skills Development Funds		
Vought Aircraft	0603SDF003	54,056
Intercontinental Manufacturing Company	0603SDF004	106,750
Metroplex Consortium	0604SDF000	219,623
Vought Aircraft	0604SDF001	62,476
Lennox	0604SDF002	50,539
Performance Improvement Network	0605SDF000	596,191
		<hr/>
Total Texas Workforce Commission		1,089,635
TOTAL EXPENDITURES OF STATE AWARDS		4,983,491
		<hr/> <hr/>

See notes to Schedules of Expenditures of Federal and State Awards

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS AUGUST 31, 2005

1. GENERAL

The accompanying Schedules of Expenditures of Federal and State Awards present the activity of all federal and state award programs of the Dallas County Community College District (the "District"). The reporting entity of the District is defined in the notes to the financial statements of the District. All federal and state awards received directly from federal or state agencies or federal awards passed through other government agencies are included on the schedules.

2. BASIS OF ACCOUNTING

The expenditures included in the schedules are reported for the District's fiscal year ended August 31, 2005. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported represent funds which have been expended by the District for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedules may differ from amounts used in the preparation of the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedules.

3. RELATIONSHIP TO FINANCIAL STATEMENTS

Federal and state awards revenues are reported in the financial statements of the District for the year ended August 31, 2005, as follows:

	Federal	State
Total revenues per Schedule A	\$49,367,191	\$1,751,990
Texas Public Education Grants	-	2,933,975
Fall tuition-related grants deferred to next fiscal year	(793,466)	277,399
Other	<u>84,766</u>	<u>20,127</u>
Total Expenditures of Federal/State Awards	<u>\$48,658,491</u>	<u>\$4,983,491</u>

4. AMOUNTS PASSED THROUGH TO OTHERS

Amounts Passed Through by the District - Federal:

The following amounts were passed-through to the listed subrecipients by the District. These amounts were from the Small Business Development Center program CFDA 59.037 from the United States Small Business Administration.

Collin County Community College	\$ 74,926
Grayson Community College	46,790
Kilgore College	55,348
McLennan Community College	106,832
Navarro College	54,056
North Central Texas College	81,116
Northeast Texas Community College	56,093
Paris Junior College	93,958
Tarrant County Junior College	127,285
Trinity Valley Community College	75,247
Tyler Junior College	60,332
University of Texas at Arlington Enterprise Excellence	<u>85,597</u>
Total Amount Passed Through	<u>\$917,580</u>

The following amounts were passed-through to the listed subrecipients by the District. These amounts were from the Tech Prep Education program CFDA 84.243 from the Texas Higher Education Coordinating Board.

Navarro Junior College	\$ 259,018
Tarrant County Junior College	<u>298,054</u>
Total Amount Passed Through	<u>\$ 557,072</u>

Amounts Passed Through by the District - State:

The following amounts were passed-through to the listed subrecipients by the District. These amounts were from the Small Business Development Center program from the Dallas County Community College District State Appropriation funds.

Collin County Community College	\$ 29,220
Grayson Community College	25,578
Kilgore College	38,718
McLennan Community College	26,861
Navarro College	27,977
North Central Texas College	30,362
Northeast Texas Community College	26,207
Paris Junior College	25,928
Tarrant County Junior College	41,651
Trinity Valley Community College	32,162
Tyler Junior College	27,792
University of Texas at Arlington Enterprise Excellence	<u>63</u>
Total Amount Passed Through	<u>\$ 332,519</u>

5. STUDENT LOANS PROCESSED AND ADMINISTRATIVE COST RECOVERED - NOT INCLUDED IN SCHEDULE

Federal Grantor CFDA Number/Program Name	New Loans Processed	Administrative Cost Recovered	Total Loans Processed and Administrative Cost Recovered
Department of Education - 84.032 Federal Family Education Loan	<u>\$ 12,662,720</u>	<u>\$ -</u>	<u>\$ 12,662,720</u>
Total Department of Education	<u>\$ 12,662,720</u>	<u>\$ -</u>	<u>\$ 12,662,720</u>

6. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules may not agree with the amounts reported in the related federal and state financial reports filed with grantor agencies because of differences between the fiscal year of the District and various program years, as well as accruals that would be reflected in the next report filed with the agencies.

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended August 31, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? yes no
- Reportable conditions identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal and State Awards

Internal control over major programs: yes no

- Material weakness identified?
- Reportable condition identified that are not considered to be material weaknesses? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended August 31, 2005

Identification of major programs:

CFDA/Grant Numbers

Name of Federal Programs

59.037
84.007, 84.033, 84.063, 84.032
84.031
84.048
17.259

Small Business Development Center
Student Financial Aid Cluster
Higher Education – Institutional Aid
Vocational Education – Basic Grants to States
WIA Cluster

Name of State Programs

0605SDF000
n/a

Performance Improvement Network
Texas Public Education Grant

Dollar threshold used to distinguish between type A
and type B programs:

\$1,459,755 for federal programs
\$ 300,000 for state programs

Auditee qualified as low-risk auditee?

X yes no

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended August 31, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

The results of our procedures disclosed no findings to be reported for the year ended August 31, 2005. However, we noted other matters involving the design and operation of the internal control over financial reporting, which we have reported to management of the organization in a separate letter dated November 18, 2005.

SECTION III - FEDERAL AWARD FINDINGS

The results of our procedures disclosed the following federal award findings to be reported for the year ending August 31, 2005.

Finding 2005-1

Program:	Student Financial Aid Cluster
CFDA:	84.032
Criteria:	When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs.
Condition:	For one student out of thirty judgmentally selected for testing, we noted that the student withdrew and the District calculated the proper refund. However, the refund was not returned to the Federal Family Education Loans (FFEL) lender.
Effect:	While the amount that should have been returned was less than \$600, the effect is that the District is retaining funds that are required to be returned to the lender.
Recommendations:	We recommend that the District implement procedures to ensure all refunds from student withdrawals are both calculated properly and returned to Title IV programs or FFEL lenders promptly.

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended August 31, 2005

Finding 2005-2

Program: WIA Cluster

CFDA: 17.259

Criteria: Tuition should be charged at established rates.

Condition: For one class, we noted that the grant was charged less than the established rate.

Effect: Although the grant was undercharged and not overcharged, the District is not charging the appropriate amount to the grant.

Recommendations: We recommend that the District implement a review process to ensure appropriate amounts are charged to federal grants.

SECTION IV - CORRECTIVE ACTION PLAN (UNAUDITED)

Finding 2005-1

By February 2006, the District Director of Financial Aid will review the computation and return of funds processes with each of the college's Director of Financial Aid through their council meeting. He will also ensure that refresher training related to return of funds computations and processing is conducted for appropriate personnel responsible for handling return of funds.

Finding 2005-2

The Vice-Chancellor of Educational Affairs, Associate Vice Chancellor of Business Affairs and Director of Resource Development will direct a review of the District's current policies and procedures for establishing tuition charges on grant-related classes by April 2006 and make recommendation for any improvements. Refresher training related to the assignment and review of class tuition will also be provided to appropriate grant and continuing education personnel after the review is complete and prior to the end of the fiscal year.

SECTION V - SUMMARY OF PRIOR FINDINGS

The audit of compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A133 for the year ending August 31, 2004 was performed by other auditors. Those auditors expressed an unqualified opinion on that audit in their report dated December 6, 2004. The results of their procedures disclosed no findings to be reported for the year ended August 31, 2004.