

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, 2004
and 2003**

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2004 AND 2003

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	6-16
Statements of Net Assets (Exhibit 1)	17
Statement of Net Assets (Exhibit 1A)—Component Unit	18
Statements of Revenues, Expenses and Changes in Net Assets (Exhibit 2)	19
Statement of Revenues, Expenses and Changes in Net Assets (Exhibit 2A)—Component Unit	20
Statements of Cash Flows (Exhibit 3)	21
Notes to the Financial Statements	22-42
Supplemental Schedules:	
Schedule of Operating Revenues (Schedule A)	43
Schedule of Operating Expenses by Object (Schedule B)	44
Schedule of Non-Operating Revenues and Expenses (Schedule C)	45
Schedule of Net Assets by Source and Availability (Schedule D)	46
Statistical Section	47-55
Office of Management and Budget Circular A-133 Supplemental Financial and Compliance Report - Table of Contents	56

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

ORGANIZATIONAL DATA

AUGUST 31, 2004

Board of Trustees

Officers

Jerry Prater	Chair
Pattie T. Powell	Vice-Chair
Jesus Carreon	Secretary

Members

		<u>Term Expires</u>
Marion K. Boyle	Irving, Texas	2008
Charletta Rogers Compton	Dallas, Texas	2006
Bob Ferguson	Farmers Branch, Texas	2010
Diana Flores	Dallas, Texas	2008
Martha Sanchez Metzger	Mesquite, Texas	2010
Pattie T. Powell	Dallas, Texas	2006
Jerry Prater	Garland, Texas	2010

Key Officers

Jesus Carreon	Chancellor
Richard McCrary	Interim Vice Chancellor of Educational Affairs
Bob Brown	Vice Chancellor of Business Affairs
Bill F. Tucker	Vice Chancellor of Planning and Development



Letter to the Community

We are pleased to introduce a snapshot of the financial condition of the Dallas County Community College District. This *Annual Financial Report* for the fiscal years ended August 31, 2004 and 2003 has been prepared with the highest standards for accountability in mind. This statement follows the form prescribed by the Governmental Accounting Standards Board, a national rule-making body for accounting. It incorporates the latest pronouncements of this body which will show for the first time, the addition of an affiliated organization to the District, The Dallas County Community College District Foundation.

Within this report are three reports provided by our external auditors, Deloitte & Touche, which gives the assurance that these statements are prepared in conformance with Generally Accepted Accounting Principles as practiced in the United States and the rules prescribed by the Federal government under the Office of Management and Budget Circular A-133. This report is designed to inform interested parties of the District's financial condition. It shows the results of its operations during the fiscal year and the related flow of cash resources. In addition, there is a narrative section in which the financial operations and condition are discussed and compared to the prior year. The last section of the report contains special compliance elements as required by the Federal government through their Circular A-133, mentioned above. The State of Texas has also adopted the provisions of Circular A-133. The Circular A-133 reports account for funds that are provided to the District, by the Federal and State government for contracts, grants and financial aid.



In many ways, the District began a new era during this past year. The District has developed a comprehensive master plan for facility expansion and upgrade. The Board of Trustees authorized the District to seek authorization from the voters of Dallas County to issue capital improvement general obligation tax bonds in the amount of \$450 million. This strong positive affirmation by the voters will provide for a substantial expansion over the next seven to ten years to meet the educational demands of the area into the next decade and beyond. This capital program will provide increased access by students through five new remote satellite education centers and badly needed expansion of facilities to accommodate the demands of allied health, general classroom and lab space along with student support and activity space.

During the past year, the first issue of bonds amounting to \$70 million was authorized by the Board of Trustees, providing for the purchase and development of five centers located in expanding and underserved sectors of Dallas County. With the initial sale of General Obligation (G.O.) tax bonds, the District requested a rating from three credit rating firms. Moody's Investors Service, Inc., Standard & Poors, Inc. and Fitch Ratings all rated the District's G.O. bonds triple-A. 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 coming 12 to 15 years.

This year was also marked by continued enrollment growth. Enrollment in credit classes increased 1.45% over the previous fiscal year as measured by contact hours. The District-wide headcount enrollment for credit classes increased 5.47% vs. the previous fiscal year. This enrollment growth is in keeping with the Texas Higher Education Coordinating Board's goal to close the gap by 2015 between population growth, particularly focused on minority populations, and the educational capacity to meet that demand.

Educational space has been expanded to accommodate the strong growth that the District has maintained over the past three fiscal years. During the year the following facilities were under construction: Expansion/renovation of LeCroy Center for Telecommunication, a new science building at Eastfield College, and a new student center at El Centro College (pictured). In total the District now has facilities in twelve locations amounting to 3,560,000 square feet.



A high level of planned maintenance of its facilities was continued this year with a program to provide an additional \$40 million through the issuance of Maintenance Tax Notes. This issuance completed a two stage maintenance financing program of \$50 million during the last two years.

We trust that the financial story of the District told within the pages of this report illustrates to our readers, representing the various public sectors and financially interested organizations that support the Dallas County Community College District, the accomplishments and undertakings of the District for the past year as well as its financial soundness.

Respectfully submitted,

Bob Brown, CPA
Vice Chancellor for Business Affairs

Jesus Carreon, EdD
Chancellor

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Dallas County Community College District

We have audited the accompanying basic financial statements of Dallas County Community College District (the "District") as of and for the years ended August 31, 2004 and 2003, and the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets as of and for the year ended August 31, 2004 for its discretely presented component unit, as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dallas County Community College District as of August 31, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended and the financial position and changes in financial position as of and for the year ended August 31, 2004 of its discretely presented component unit in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, during the year ended August 31, 2004, the District implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The prior year was not restated for the inclusion of the component unit.

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. This information is the responsibility of the District's management. 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 an opinion on the District's basic financial statements. The supplemental schedules and statistical tables, which are the responsibility of District management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules 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 financial statements taken as a whole. The statistical tables have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the District, taken as a whole. The accompanying schedule of expenditures of federal and state awards (the "schedule") for the year ended August 31, 2004 is presented for the purpose 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. This schedule is the responsibility of the management of the District. Such schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2004, 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, 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 conducted in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 6, 2004

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, 2004 and 2003. 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 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.

Financial Highlights for 2003

- The District's net assets at August 31, 2003 are reported at \$333.2 million. Approximately 64.7% of the net assets amount reflects the investment in capital assets net of related debt.
- The District's operating loss is \$185.0 million.
- After taxes and state appropriations and other non-operating revenues and expenses, the loss is \$4.4 million. As a result, net assets decreased during the year by this amount

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 Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. As required by GASB 34, 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 Statement 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 Statement of Revenues, Expenses and Changes in Net Assets focuses on the costs of District activities and shows 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 expenditures 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 Statement of Net Assets.

The Statement of Cash Flows combines information from both the Statement of Net Assets and the Statement 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 of cash. The final portion of the Statement 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 (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, 2002 through 2004 follows.

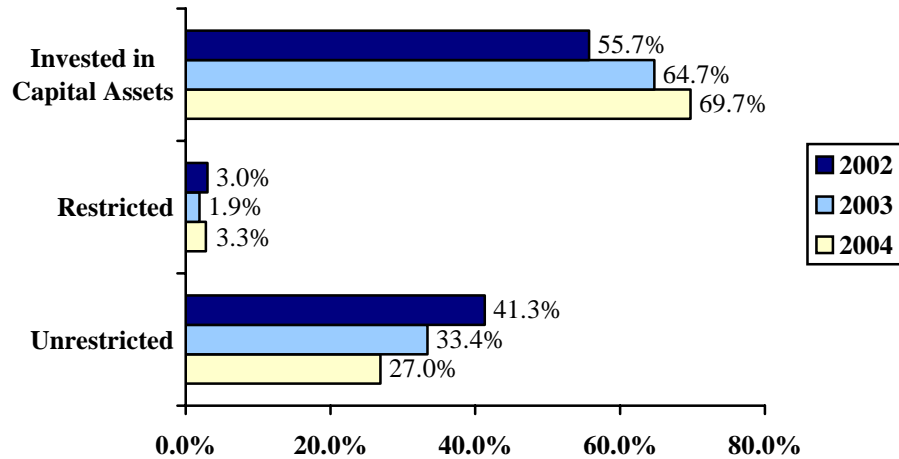
NET ASSETS YEARS ENDED AUGUST 31, 2002 THROUGH 2004 (In Thousands)

	Fiscal Year 2002	Increase/ (Decrease)	Fiscal Year 2003	Increase/ (Decrease)	Fiscal Year 2004
CURRENT ASSETS:	\$ 61,930	\$ 17,919	\$ 79,849	\$ (14,200)	\$ 65,649
NON-CURRENT ASSETS:					
Capital assets, net of depreciation	246,390	26,845	273,235	23,874	297,109
Other	<u>166,710</u>	<u>(33,376)</u>	<u>133,334</u>	<u>31,592</u>	<u>164,926</u>
Total assets	<u>475,030</u>	<u>11,388</u>	<u>486,418</u>	<u>41,266</u>	<u>527,684</u>
CURRENT LIABILITIES	77,237	13,689	90,926	(3,849)	87,077
NON-CURRENT LIABILITIES	<u>60,178</u>	<u>2,145</u>	<u>62,323</u>	<u>32,178</u>	<u>94,501</u>
Total liabilities	137,415	15,834	153,249	28,329	181,578
NET ASSETS:					
Investment in capital assets, net of related debt	188,181	27,299	215,480	25,791	241,271
Restricted	10,044	(3,558)	6,486	5,050	11,536
Unrestricted	<u>139,390</u>	<u>(28,187)</u>	<u>111,203</u>	<u>(17,904)</u>	<u>93,299</u>
Total net assets	<u>\$ 337,615</u>	<u>\$ (4,446)</u>	<u>\$ 333,169</u>	<u>\$ 12,937</u>	<u>\$ 346,106</u>

The difference between what the District owns, its assets, and what it owes, its liabilities, are the net assets. At August 31, 2003, the difference in assets and liabilities was \$333.2 million while at August 31, 2004 the difference was \$346.1 million. As can be seen, the first is a decrease from the prior year of about \$4.4 million or 1.3% while the more recent year is an increase of \$12.9 million or 3.9%. There has been steady growth in the investment in capital assets, net of related debt. This is due to continued completion of a \$78 million capital improvement plan initiated in 2001 as well as 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. While assets did increase about \$11.4 million or 2.4% from 2002 to 2003 and \$41.3 million or 8.5% from 2003 to 2004, liabilities--claims on those assets by parties external to the District--increased by \$15.8 million or 11.5% and \$28.3 million or 18.5% correspondingly. Between the years ended August 31, 2003 and 2004, an increase in assets in the form of additional investments from capital proceeds and new capital assets, including a new building purchased for \$11.2 million and construction in progress, is accompanied by an increase in maintenance tax notes payable.

The following is a graphic illustration of the breakdown of net assets for the years ended August 31, 2002 through 2004. Unrestricted net assets have decreased inversely as capital assets net of related debt have increased.

Comparison of Net Assets



Operating revenues show a steady increase rising 5.4% from \$92.9 million to \$97.9 million for the periods ended August 31, 2002 and 2003 respectively and an additional 6.3% to \$104.1 for the period ended August 31, 2004. Operating expenses also increased steadily rising by 4.4% from \$271.1 million to \$282.9 million for the periods ended August 31, 2002 and 2003 respectively and 3.8% more to \$293.7 million for the period ended August 31, 2004. The increase in operating expenses has been outpacing the increase in operating revenues from fiscal year 2002 to 2004, resulting in a higher net operating loss each of the past two fiscal years.

Major sources of operating revenue are tuition and various grants & 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. The percent of contribution of tuition is greater than that for grants and contracts in 2002 but is surpassed by the percent of contribution of grants and contracts for 2003, and this trend continues for the year ended August 31, 2004. Grants and contracts provided over half of operating revenue in both 2003 and 2004 (see graph on page 11).

Accounting principles generally accepted in the United States of America prohibit reporting as operating revenue two major sources of revenue of the District—state appropriations and ad valorem tax revenues--on the basis that each represents revenue from non-exchange transactions. Accordingly, state appropriations and ad valorem taxes collected are reported as non-operating revenue. After dropping \$4.8 million or 4.5% between the years ended August 31, 2002 and 2003 due to cuts in state funding late in the year, state appropriations increased slightly for the year ended August 31, 2004 by \$1.1 million or 1.1%. Tax revenue net of collection fees and bad debt increased a significant \$23.6 million or 30.7% between the years ended August 31, 2003 and 2004 compared to the \$2.4 million or 3.2% between the years ended August 31, 2002 and 2003. Gross tax revenue (before bad debt allowances and collection fees) has now exceeded state appropriations as the primary funding source. Another non-operating revenue, investment revenue, dropped significantly between August 31, 2002 and 2003 due to the drop in interest rates and the reduction of funds available for investment as spending for capital projects increased. Investment revenue stayed relatively flat between the years ended August 31, 2003 and 2004.

There were no “other expenses” reported for the years ended August 31, 2003 or 2004. But for the year ended August 31, 2002, the District had an “other expense” of \$47.2 million associated with the write down of capital assets due to a change of capitalization threshold from \$500 to \$5,000. The decrease in net assets after considering all revenues and expenses was \$4.4 million and \$49.1 million for the years ended August 31, 2003 and 2002 respectively—a difference of \$44.7 million or 90.9%.

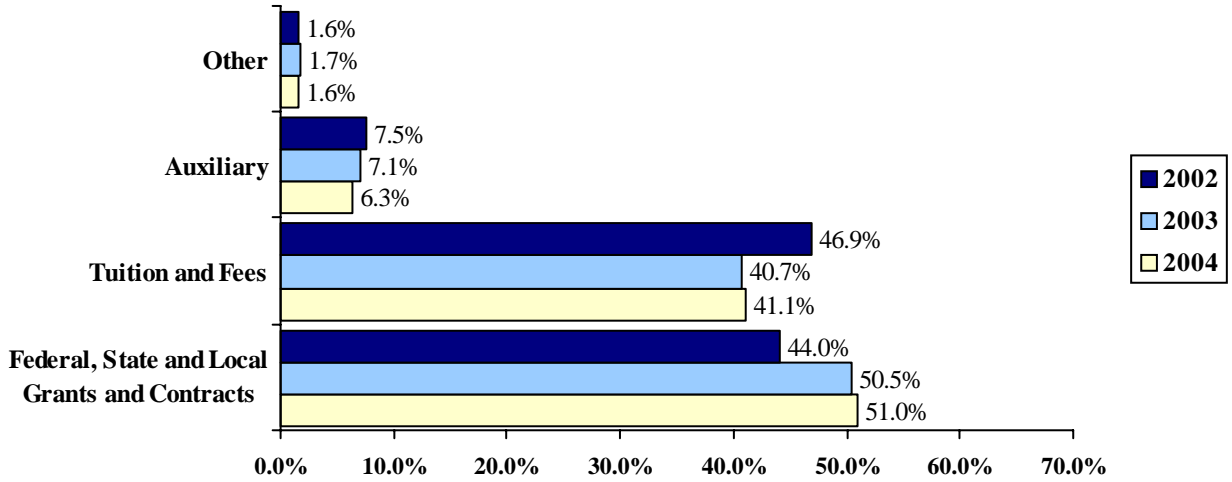
This information is summarized in the table below, which was prepared from the Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit 2).

REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2002 THROUGH 2004
(In Thousands)

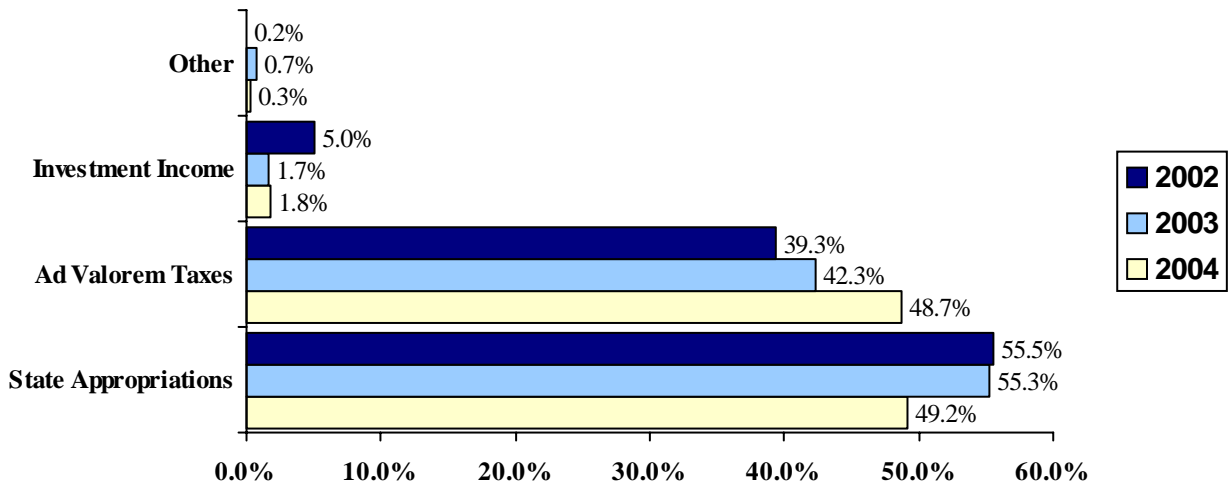
	Fiscal Year 2002	Difference	Fiscal Year 2003	Difference	Fiscal Year 2004
OPERATING REVENUE	\$ 92,937	\$ 4,944	\$ 97,881	\$ 6,207	\$ 104,088
LESS OPERATING EXPENSES	<u>271,050</u>	<u>11,818</u>	<u>282,868</u>	<u>10,876</u>	<u>293,744</u>
NET OPERATING LOSS	(178,113)	(6,874)	(184,987)	(4,669)	(189,656)
NON-OPERATING REVENUE AND EXPENSE	176,177	4,364	180,541	22,052	202,593
OTHER EXPENSES—Change in capitalization policies	<u>(47,174)</u>	<u>47,174</u>	-	-	-
INCREASE/(DECREASE) IN NET ASSETS	(49,110)	44,664	(4,446)	17,383	12,937
NET ASSETS BEGINNING OF YEAR	<u>386,725</u>	<u>(49,110)</u>	<u>337,615</u>	<u>(4,446)</u>	<u>333,169</u>
NET ASSETS END OF YEAR	<u>\$ 337,615</u>	<u>\$ (4,446)</u>	<u>\$ 333,169</u>	<u>\$ 12,937</u>	<u>\$ 346,106</u>

The following are graphic illustrations of revenues by source for the years ended August 31, 2004, 2003 and 2002.

Revenue by Source Operating Revenues



Non-operating Revenues



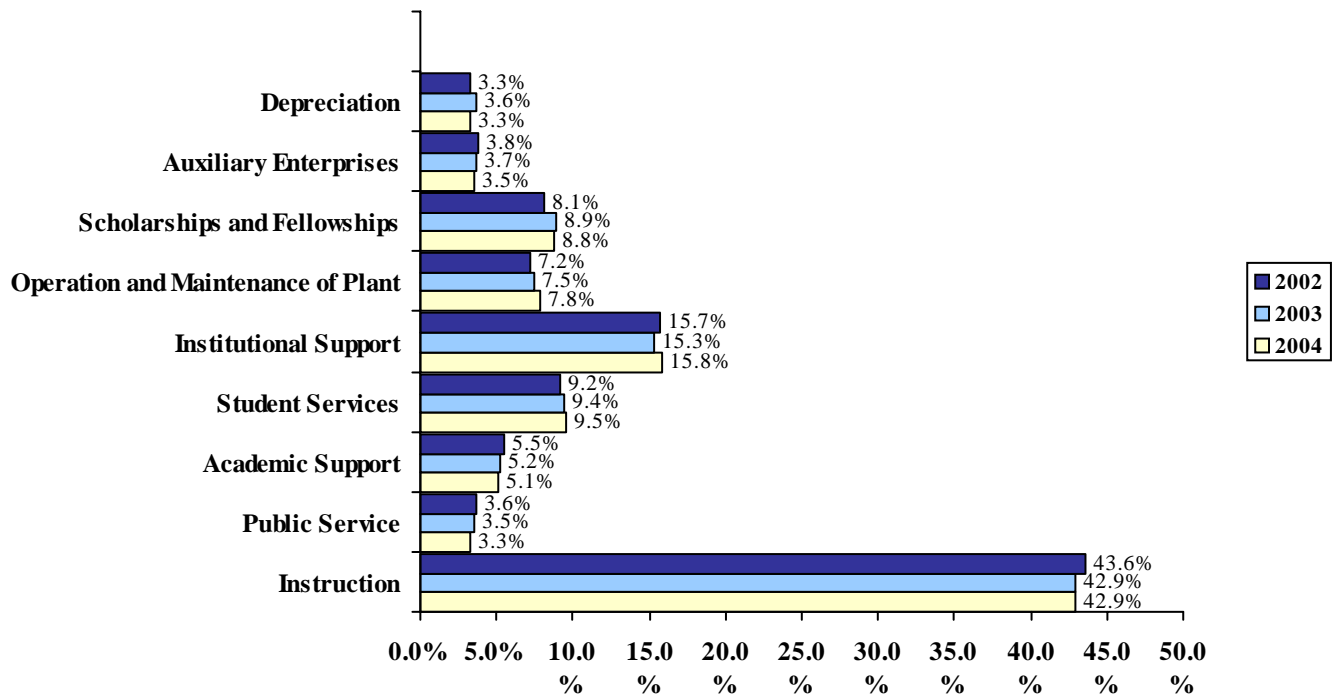
The breakdown of operating expenses by functional area for the years ended August 31, 2002 through 2004 appears in the following table.

OPERATING EXPENSES
YEARS ENDED AUGUST 31, 2002 THROUGH 2004
(In Thousands)

OPERATING EXPENSE	Fiscal Year 2002	Difference	Fiscal Year 2003	Difference	Fiscal Year 2004
Instruction	\$ 118,222	\$ 3,228	\$ 121,450	\$ 4,684	\$ 126,134
Public service	9,685	269	9,954	(237)	9,717
Academic support	14,942	(118)	14,824	300	15,124
Student services	24,982	1,653	26,635	1,317	27,952
Institutional support	42,471	920	43,391	2,899	46,290
Operation and maintenance of plant	19,736	1,351	21,087	1,696	22,783
Scholarships and fellowships	21,875	3,137	25,012	772	25,784
Auxiliary enterprises	10,207	241	10,448	(139)	10,309
Depreciation	8,930	1,137	10,067	(416)	9,651
TOTAL	\$ 271,050	\$ 11,818	\$ 282,868	\$ 10,876	\$ 293,744

The following is a graphic illustration of operating expenses for fiscal years 2002 through 2004.

Operating Expenses



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 \$3.2 million or 2.7% for the periods ended August 31, 2002 to 2003 and \$4.7 million or 3.9% for the periods ended August 31, 2003 to 2004. The rate of growth in instructional expenses from 2002 to 2003 is in contrast to an overall rate of increase in operating expenses of \$11.8 million or 4.4% over fiscal 2002. On the other hand the rate of increase in instructional expenses from 2003 to 2004 is very similar to the overall rate of increase in operating expenses of \$10.9 million or 3.8%.

As required when meeting the criteria delineated in GASB 39, this year the District has included the statements of the Foundation following each of its own statements. For the fiscal year ended August 31, 2003, the Foundation's net assets were \$18.9 million, an amount that represents 5.7% of the District's net assets for the same period. For the fiscal year ended August 31, 2004, the Foundation's net assets were \$26.6 million, which represents 7.7% 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 \$17.9 million and \$20.9 million for the years ended August 31, 2003 and 2004 respectively.

Financial Analysis

Overall, cash and investments decreased \$19.7 million or 10.6% from August 31, 2002 to August 31, 2003. But for the years ended August 31, 2003 to August 31, 2004, cash and investments increased \$17.2 million or 10.3%. During the earlier time period, the District had been in the highest expenditure phase of its \$78 million capital improvement plan. Although \$10 million of maintenance tax notes were sold during that period, increasing the amount of available cash, facility construction caused a net decrease in available cash and investments. However, for the year just ended, an additional \$40 million of maintenance tax notes was issued to continue a major initiative for planned maintenance. But while this increased the availability of cash and investments, the original capital improvement plan drew on close to \$19 million of resources to continue working toward completion of that program. This year short term investments were utilized for part of the proceeds from the sale of maintenance tax notes. With 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 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. An increase in the tax rate for the year ended August 31, 2004 helped increase the cash supply.

A jump from \$62.8 million in "capital assets not subject to depreciation" for the year ended August 31, 2002 to \$111.1 million for the year ended August 31, 2004 in increments of \$27.9 million and \$20.8 million is evidence of heightened activity in construction over the last two years.

A second issue of maintenance tax notes for \$40 million (see the discussion in the section below on Capital Asset and Non-Current Debt Activity) was 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. The non-current bonds payable is increased for the second issue as reflected in the Statement of Net Assets for August 31, 2004 because repayment is scheduled over a ten year period.

Several items have changed affecting tuition revenue over the past two fiscal years. Surprisingly, despite a record number of student enrollments for Fall 2002 and Spring 2003 that were 9.7% above the corresponding previous terms and a \$4 per credit hour increase that started in the summer of 2003, net tuition revenue decreased for the year ended August 31, 2003 over that for the year ended August 31, 2002. This was

attributable to discounts generated by a tuition pilot in which classes in underutilized time periods were half of regular tuition combined with a high increase in financial aid recipients, 20% for some programs, whose tuition also was discounted. The reduced tuition pilot accounted for \$1.8 million of discounts for the year ended August 31, 2003. Discounts overall increased a total of 84.5% over the previous fiscal year. Another factor that reduced tuition for that time period is the fact that one college did not conduct a second summer session and several colleges omitted minimesters due to state funding cuts in the spring of 2003. On the other hand, net tuition revenue for the year ended August 31, 2004 increased \$3.0 million or 7.5% over the previous fiscal year. Although there was no reduced tuition pilot, other discounts increased by \$3.5 million or 34.8%. But in addition to having no reduced tuition pilot a full year of increased tuition and a 5.5% increase in student enrollments for the year offset the increased discounts.

Considering the increase in enrollment for the year ended August 31, 2003 over the prior year, the increase in operating expenses was somewhat modest at \$11.8 million or 4.4%. The increase in direct instructional costs accounts for approximately 27.3% of the increase in operating expenses. Another 26.5% of the increase was attributable to the increase in scholarships related to the influx of financial aid recipients previously mentioned. For the fiscal year ended August 31, 2004, the increase in instructional expenses was \$4.7 million or 3.9% and represented about 43.1% of the \$10.9 million increase in operating expenses. Part of the increase stems from the Board of Trustee's charge to increase the proportion of full time faculty as compared to adjunct faculty. As a result 37 new full-time faculty members were hired. In addition, in response to the increasing demand for education, the Board had increased the tax rate, which gave the colleges more revenue to spend to meet that demand.

Non-operating revenues and expenses fluctuated significantly from August 31, 2002 through 2004. In the early spring of 2003, the State of Texas recognized a budget deficit in state revenue and remedied that in part through a 7% reduction of general state appropriations to community colleges. Due to various adjustments and portions of state appropriations that were not affected by the reduction, the actual decrease in state appropriations as a whole to the District was \$4.8 million or approximately 4.5%. The new legislative session in January of 2003 restored some of the lost appropriations for fiscal year 2004 but did not return them to previous levels. Maintenance ad valorem tax revenue, net of collection fees and bad debt expense, increased \$2.4 million or 3.2% for the year ended August 31, 2003. Since the tax rate stayed the same in 2003 as it did in 2002, the increase is attributable to the District's net assessed valuation increase of \$3.9 billion dollars. But for the year ended August 31, 2004, net tax revenue 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. General economic conditions contributed to the major decrease in investment income between August 31, 2002 and 2003 as interest rates plummeted. But the reduction in interest income of \$6.5 million dollars or 67.8% was primarily due to a reduced base as capital spending occurred. Investment income was up \$0.6 million or 18.4% for the year ended August 31, 2004. There was no comparable non-operating expense in fiscal year 2003 to the legal expense accrued for the year ending August 31, 2002. This helped offset some of the other reductions in non-operating revenue for the year. Overall net non-operating revenues increased \$4.4 million or 2.5%. Overall net non-operating revenue increased another \$22.1 million or 12.2% for the year ended August 31, 2004, mainly related to the tax increase.

An additional \$1.7 million was accrued for legal expense, pending settlement of a lawsuit (see Note 10).

The change in capitalization threshold of \$47.2 million for the year ending August 31, 2002 was a one time event that did not have to be repeated for fiscal year 2003. Therefore the decrease in net assets for the year ending August 31, 2003 is only \$4.4 million as compared to \$49.1 million for the prior year. The increase of net assets for the year ended August 31, 2004 is \$12.9 million. This amount is expected to help support the future expansion needs in the new capital improvement plan.

Capital Asset and Non-Current Debt Activity

As of August 31, 2002, the District had recorded \$405.7 million in capital assets, and \$159.3 million in accumulated depreciation resulting in \$246.4 million in net capital assets. By August 31, 2003, the amounts had increased \$26.8 million or 10.9%. For the year ended August 31, 2004, net capital assets increased an additional \$23.9 million or 8.7%. The following table summarizes the breakdown of capital assets by fiscal year.

CAPITAL ASSETS, NET YEARS ENDED AUGUST 31, 2002 THROUGH 2004 (In Thousands)

	Fiscal Year 2002	Difference	Fiscal Year 2003	Difference	Fiscal Year 2004
CAPITAL ASSETS:					
Land and improvements	\$ 29,111	\$ 1,836	\$ 30,947	\$ 1,460	\$ 32,407
Buildings	286,511	2,893	289,404	9,714	299,118
Equipment, furniture, and software	37,840	3,907	41,747	2,372	44,119
Library books	8,778	192	8,970	249	9,219
Construction in progress	<u>43,463</u>	<u>27,466</u>	<u>70,929</u>	<u>18,908</u>	<u>89,837</u>
Total	405,703	36,294	441,997	32,703	474,700
Less accumulated depreciation	<u>(159,313)</u>	<u>(9,449)</u>	<u>(168,762)</u>	<u>(8,829)</u>	<u>(177,591)</u>
Net capital assets	<u>\$ 246,390</u>	<u>\$ 26,845</u>	<u>\$ 273,235</u>	<u>\$ 23,874</u>	<u>\$ 297,109</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. Several of the projects are close to being completed as of fiscal year 2004. This accounts for the significant increase of \$27.5 million of construction in progress noted from the year ended August 31, 2002 to 2003 in the previous table. The \$18.9 million increase from August 31, 2003 to 2004 mainly represents two additional buildings that are nearing completion. 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.

For the past few years, plans for future expansion were 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 identify 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 by 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 by the District of voters in almost thirty years. The first \$70 million issue was sold September 14, 2004 (see Footnote 25). Out of that amount, the first plans are to purchase land for five new education centers. Also two buildings were purchased, one just prior to year end and the other shortly after.

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 are (1) a strong tax base, (2) flexible revenue sources, and (3) strong fiscal management. This 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

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. 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 will also bring in additional revenue as student enrollments are added.

In addition, attempts to further increase the number of full time faculty are underway.

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, 2004 AND 2003**

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,236,793	\$ 41,361,447
Short-term investments	15,577,877	-
Accounts receivable (net of allowance for uncollectible accounts)	18,231,419	16,882,510
Tuition and fees receivable (net of allowance for uncollectible accounts)	4,655,640	6,947,622
Taxes receivable (net of allowance for uncollectible accounts)	1,239,886	1,089,063
Deferred charges	13,150,091	11,820,137
Notes receivable	36,253	16,862
Inventories	435,762	571,347
Prepaid expenses	<u>1,085,217</u>	<u>1,159,577</u>
Total current assets	65,648,938	79,848,565
NON-CURRENT AND RESTRICTED ASSETS:		
Restricted cash and cash equivalents	736,962	4,918,097
Long-term investments	156,458,798	120,535,852
Deferred charges	2,678,166	2,875,685
Deposit with Bond Trustee	5,051,635	5,005,089
Capital assets (net) (See Note 5):		
Not subject to depreciation	111,059,370	90,442,464
Subject to depreciation	<u>186,050,000</u>	<u>182,792,826</u>
Total non-current assets	<u>462,034,931</u>	<u>406,570,013</u>
TOTAL ASSETS	527,683,869	486,418,578
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	18,100,267	24,319,514
Accrued liabilities	20,037,741	18,314,913
Accrued compensable absences	5,181,377	4,773,684
Funds held for others	1,820,864	1,521,906
Deferred revenues	33,753,624	32,678,823
Notes payable—current portion	176,821	169,502
Bonds payable—current portion	<u>8,006,374</u>	<u>9,148,024</u>
Total current liabilities	87,077,068	90,926,366
NON-CURRENT AND RESTRICTED LIABILITIES:		
Restricted accrued liabilities	681,700	31,169
Accrued compensable absences	2,185,512	2,326,055
Notes Payable	629,133	805,954
Bonds payable	<u>91,004,130</u>	<u>59,159,696</u>
Total non-current liabilities	<u>94,500,475</u>	<u>62,322,874</u>
TOTAL LIABILITIES	181,577,543	153,249,240
NET ASSETS:		
Invested in capital assets, net of related debt	241,270,602	215,480,290
Restricted for:		
Unexpended bond proceeds	4,142,104	-
Debt service	7,394,286	6,486,525
Unrestricted	<u>93,299,334</u>	<u>111,202,523</u>
TOTAL NET ASSETS (Schedule D)	<u>\$ 346,106,326</u>	<u>\$ 333,169,338</u>

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

**DALLAS COUNTY COMMUNITY COLLEGE
DISTRICT FOUNDATION, INC.**

EXHIBIT 1A

**STATEMENT OF NET ASSETS
AUGUST 31, 2004**

ASSETS

CASH AND CASH EQUIVALENTS (Note 1)	\$ 3,912,767
INVESTMENTS (Note 2):	
Debt securities	5,667,381
Common stocks	<u>10,765,124</u>
Total investments	16,432,505
ACCRUED INTEREST RECEIVABLE	45,329
CONTRIBUTIONS RECEIVABLE (net of discount of \$844,467) (Note 3)	6,863,543
OTHER ASSETS	<u>10,360</u>
TOTAL ASSETS	<u>\$27,264,504</u>

LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE	\$ <u>704,901</u>
Total liabilities	<u>704,901</u>
NET ASSETS:	
Unrestricted	1,441,725
Temporarily restricted	4,189,755
Permanently restricted	<u>20,928,123</u>
Total net assets	<u>26,559,603</u>
TOTAL	<u>\$27,264,504</u>

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

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

EXHIBIT 2

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2004 AND 2003**

	2004	2003
OPERATING REVENUES:		
Tuition and charges (net of discounts of \$13,401,726 and \$11,788,738, respectively)	\$ 42,747,402	\$ 39,771,189
Federal grants and contracts	45,263,873	40,719,357
State grants and contracts	2,637,601	4,657,441
Non-governmental grants and contracts	5,168,965	4,133,147
Sales and services of educational activities	545,233	446,968
Auxiliary enterprises	6,591,874	6,975,428
General operating revenues	<u>1,132,609</u>	<u>1,177,256</u>
 Total operating revenues (Schedule A)	 104,087,557	 97,880,786
OPERATING EXPENSES:		
Instruction	126,133,776	121,450,160
Public service	9,716,906	9,954,204
Academic support	15,124,294	14,823,518
Student services	27,952,422	26,635,350
Institutional support	46,289,662	43,391,428
Operation and maintenance of plant	22,782,505	21,086,945
Scholarships and fellowships	25,784,407	25,011,776
Auxiliary enterprises	10,309,379	10,447,407
Depreciation	<u>9,650,637</u>	<u>10,066,975</u>
 Total operating expenses (Schedule B)	 <u>293,743,988</u>	 <u>282,867,763</u>
 OPERATING LOSS	 (189,656,431)	 (184,986,977)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	101,689,042	100,623,986
Maintenance ad valorem taxes (net of bad debt and collection fees of \$2,365,421 and \$2,349,764, respectively)	100,559,482	76,921,860
Gifts	316,618	723,092
Investment income	3,639,583	3,073,000
Gain on sale of investment	84,757	78,220
Contributions in aid of construction	-	495,952
Interest on capital related debt	(1,904,536)	(735,065)
Loss on disposal of fixed assets	(251,296)	(238,206)
Accrual for legal expense	(1,682,923)	-
Other non-operating revenue	182,224	52,225
Other non-operating expense	<u>(39,532)</u>	<u>(453,827)</u>
 Net non-operating revenues (Schedule C)	 202,593,419	 180,541,237
 INCREASE (DECREASE) IN NET ASSETS	 12,936,988	 (4,445,740)
NET ASSETS:		
Net Assets—Beginning of Year	<u>333,169,338</u>	<u>337,615,078</u>
 Net Assets—End of Year	 <u>\$ 346,106,326</u>	 <u>\$ 333,169,338</u>

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

**DALLAS COUNTY COMMUNITY COLLEGE
DISTRICT FOUNDATION, INC.**

EXHIBIT 2A

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED AUGUST 31, 2004**

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES, GAINS, OTHER SUPPORT:				
Contributions	\$ 141,351	\$ 1,100,978	\$ 6,887,724	\$ 8,130,053
Interest income	85,211	368,084	-	453,295
Contributed salaries	213,683	-	-	213,683
Net realized gains/(losses) on investments	192,334	686,917	-	879,251
Net unrealized gains on investments	<u>318,521</u>	<u>-</u>	<u>-</u>	<u>318,521</u>
Total revenues, gains, other support	<u>951,100</u>	<u>2,155,979</u>	<u>6,887,724</u>	<u>9,994,803</u>
PROGRAM AND SUPPORT SERVICES:				
Grants and scholarships	119,416	1,847,472	-	1,966,888
Management and general	302,948	-	-	302,948
Fundraising	<u>106,155</u>	<u>-</u>	<u>-</u>	<u>106,155</u>
Total expenses and amounts remitted to others	528,519	1,847,472	-	2,375,991
TRANSFERS BETWEEN FUNDS	<u>-</u>	<u>5,543</u>	<u>(5,543)</u>	<u>-</u>
CHANGE IN NET ASSETS	422,581	314,050	6,882,181	7,618,812
NET ASSETS—Beginning of year (note 1)	<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>\$ 1,441,725</u>	<u>\$ 4,189,755</u>	<u>\$ 20,928,123</u>	<u>\$ 26,559,603</u>

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

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

EXHIBIT 3

**STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2004 AND 2003**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 51,964,320	\$ 47,168,342
Receipts from grants and contracts	52,418,406	47,491,141
Payments to suppliers for goods and services	(65,426,737)	(52,226,869)
Payments to or on behalf of employees	(195,533,562)	(189,637,593)
Payments for scholarships and fellowships	(28,821,323)	(23,845,238)
Loans issued to students	(48,276)	(37,485)
Collection of loans to students	29,891	60,580
Other receipts	<u>1,131,603</u>	<u>1,162,849</u>
Net cash used by operating activities	<u>(184,285,678)</u>	<u>(169,864,273)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from ad valorem taxes	102,465,184	78,284,332
Payments for collection of taxes	(2,056,526)	(1,572,716)
Receipts from state appropriations	101,689,042	100,623,986
Receipts from student organizations and other agency transactions	5,040,959	4,148,503
Payments to student organizations and other agency transactions	(4,742,001)	(4,130,193)
Proceeds from note borrowings	-	-
Payments on notes - principal	(169,502)	(162,485)
Payments on notes - interest	(38,779)	(45,796)
Other receipts	182,224	71,369
Other payments	<u>-</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>202,370,601</u>	<u>177,217,000</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds on issuance of capital debt	39,815,606	9,911,997
Contribution received in aid of construction	-	495,952
Proceeds from the sale of capital assets	6,768	240,447
Purchases of capital assets	(32,634,772)	(35,331,960)
Payments on capital debt - principal	(9,080,000)	(3,635,000)
Payments on capital debt - interest	<u>(2,796,106)</u>	<u>(2,748,013)</u>
Net cash used by capital and related financing activities	<u>(4,688,504)</u>	<u>(31,066,577)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	149,907,767	104,078,220
Interest on investments	5,417,940	6,326,837
Purchase of investments	<u>(203,027,915)</u>	<u>(80,799,000)</u>
Net cash provided/used by investing activities	<u>(47,702,208)</u>	<u>29,606,057</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(34,305,789)	5,892,207
CASH AND CASH EQUIVALENTS—September 1	<u>46,279,544</u>	<u>40,387,337</u>
CASH AND CASH EQUIVALENTS—August 31	<u>\$ 11,973,755</u>	<u>\$ 46,279,544</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$(189,656,431)	\$(184,986,977)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	9,650,637	10,066,975
Bad debt expense	215,893	729,401
Changes in assets and liabilities:		
Receivables (net)	630,418	(4,601,198)
Deferred expenses	(821,154)	(466,612)
Inventories	135,585	15,299
Notes receivable	(19,391)	8,688
Prepaid expenses	74,360	33,601
Accounts payable	(6,219,247)	4,021,750
Accrued liabilities	381,701	702,119
Compensated absences	267,150	1,329,087
Deferred revenue	<u>1,074,801</u>	<u>3,283,594</u>
Net cash used by operating activities	<u>\$(184,285,678)</u>	<u>\$(169,864,273)</u>

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

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS AUGUST 31, 2004 AND 2003

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 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 as an affiliated entity because the Foundation’s sole function is to fund the District and its students. Prior year financial statements of the District have not been restated to include the Foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Report Guidelines— In accordance with GASB Statement No. 34, the District is classified as a special purpose government with all financial data of the District reflected as one business-type activity. The Statement of Net Assets displays the financial position of the District at the end of the fiscal year and the Statement of Revenues, Expenses, and Changes in Net Assets displays the operation of the District for the year. 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*, except for the classification of state appropriations as non-operating revenues, which are classified in these financial statements in accordance with guidance from GASB and the National Association of College and University Business Officers. The accompanying financial statements of the District are presented in accordance with generally accepted accounting principles. 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. The District is reported as a special-purpose government engaged in business-type activities.

Tuition Discounting

Texas Public Education Grant

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This grant set aside, is shown with tuition and fee revenue amounts as a separate deferred revenues amount (Texas Education Code §56.0333). When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount.

Title IV, Higher Education Administration (HEA) Program Funds

Certain Title IV HEA Program funds are received by the District to pass through to the student. These funds are initially received by the District and recorded as restricted revenue. When the student is awarded these funds for tuition, the amounts are reclassified as revenue and a corresponding amount is recorded as a tuition discount.

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 \$13,065,048 and \$11,820,137 represent expenses for scholarships and fellowships related to the periods after August 31, 2004 and 2003, respectively, and \$85,043 represents bond issue costs to be amortized in the periods after August 31, 2004.

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 \$2,451,927 and \$2,875,685 at August 31, 2004 and 2003, respectively, and have been included in the accompanying Statement of Net Assets as non-current deferred charges. In addition, \$226,239, the non-current portion of bond issue costs being amortized over the life of the bonds, is included for the period ended August 31, 2004.

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. 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 service.

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 generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to prior year amounts in order to conform with fiscal 2004 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 Statement 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**—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, 2004 was \$(3,614,924), and the bank balance was \$104,143. The carrying amount of the District’s deposits with financial institutions as of August 31, 2003 was \$(4,635,074), and the bank balance was \$478,756. 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 Statement of Net Assets consist of the following:

	2004	2003
Bank deposits:		
Local funds - demand	\$ (3,623,424)	\$ (4,644,855)
Imprest funds	8,500	8,500
Shop funds	<u>-</u>	<u>1,281</u>
	(3,614,924)	(4,635,074)
Cash on hand	16,776	18,136
Cash and cash equivalents:		
Investment in Texpool	4,704,982	35,957,779
Investment in TexSTAR	<u>10,866,921</u>	<u>14,938,703</u>
	<u>15,571,903</u>	<u>50,896,482</u>
Total cash and cash equivalents	<u>\$ 11,973,755</u>	<u>\$ 46,279,544</u>

- **Investments**—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, 2004 and 2003 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, and are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial credit risk. Custodial credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note. Accordingly, the investments are

classified by the three categories described below in accordance with GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*:

· *Category 1*—Insured or registered, with securities held by the District or its agent in the District’s name.

· *Category 2*—Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the District’s name.

· *Category 3*—Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the District’s name.

2004	Category			Amortized Cost	Fair Value
	1	2	3		
U.S. Treasury notes	\$ 37,198,754	\$ -	\$ -	\$ 37,198,754	\$ 36,865,800
U.S. Agency notes and bonds	<u>135,630,306</u>	<u> </u>	<u> </u>	<u>135,630,306</u>	<u>135,170,875</u>
	<u>\$ 172,829,060</u>	<u>\$ -</u>	<u>\$ -</u>	172,829,060	172,036,675
Investment in Texpool				4,704,982	4,704,982
Investment in TexSTAR				<u>10,866,921</u>	<u>10,866,921</u>
Total investments				<u>\$ 188,400,963</u>	187,608,578
Less amounts classified as cash equivalents					<u>(15,571,903)</u>
Net					<u>\$ 172,036,675</u>
2003	Category			Amortized Cost	Fair Value
	1	2	3		
U.S. Treasury notes	\$ 10,060,056	\$ -	\$ -	\$ 10,060,056	\$ 10,150,000
U.S. Agency notes and bonds	<u>109,564,097</u>	<u> </u>	<u> </u>	<u>109,564,097</u>	<u>110,385,852</u>
	<u>\$ 119,624,153</u>	<u>\$ -</u>	<u>\$ -</u>	119,624,153	120,535,852
Investment in Texpool				35,957,779	35,957,779
Investment in TexSTAR				<u>14,938,703</u>	<u>14,938,703</u>
Total investments				<u>\$ 170,520,635</u>	171,432,334
Less amounts classified as cash equivalents					<u>(50,896,482)</u>
Net					<u>\$ 120,535,852</u>

There were no investments held by broker-dealers under reverse repurchase agreements as of August 31, 2004 or 2003.

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 balance sheet, 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 balance sheet.

The District's investments are held to maturity by policy. The original contractual maturities for the investments held at August 31, 2004 are scheduled to mature as follows:

Contractual Maturity	Cost	Value
Less than 1 year	\$ 31,182,952	\$ 31,149,780
1 to less than 2 years	29,870,209	29,697,334
2 to less than 3 years	34,911,598	34,850,209
3 to less than 4 years	53,409,652	53,295,845
4 to less than 5 years	<u>39,026,552</u>	<u>38,615,410</u>
 Total investments	 <u>\$ 188,400,963</u>	 <u>\$ 187,608,578</u>

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, 2004 and 2003 were as follows:

	2004	2003
Ad valorem taxes	\$ 5,875,722	\$ 5,416,003
Student tuition and sales	5,559,113	7,577,177
Federal grants	14,484,218	13,437,626
State grants	540,551	477,375
Local grants	698,749	524,511
Interest on investments	771,958	846,232
Other receivables	<u>2,149,132</u>	<u>1,990,432</u>
Total receivables	30,079,443	30,269,356
Less allowances for uncollectible amounts:		
Ad valorem taxes	(4,635,836)	(4,326,940)
Student tuition and sales	(903,473)	(629,555)
Other receivables	<u>(413,189)</u>	<u>(393,666)</u>
Total allowances	<u>(5,952,498)</u>	<u>(5,350,161)</u>
Total receivables, net of allowances	<u>\$24,126,945</u>	<u>\$24,919,195</u>

Payables—Payables at August 31, 2004 and 2003 were as follows:

	2004	2003
Vendors payable	\$ 11,172,485	\$ 15,524,725
Salaries and benefits payable	2,030	64,701
Students payable	<u>6,925,752</u>	<u>8,730,088</u>
Total	<u>\$18,100,267</u>	<u>\$24,319,514</u>

5. CAPITAL ASSETS

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>

Capital assets activity for the year ended August 31, 2003 was as follows:

	Balance September 1, 2002	Increases/ Reclassifications	Decreases	Balance August 31, 2003
Capital assets not subject to depreciation:				
Land	\$ 10,543,169	\$ -	\$ -	\$ 10,543,169
Library books	8,777,623	387,784	(195,631)	8,969,776
Construction in progress	43,463,468	27,475,170	(9,119)	70,929,519
	<u>62,784,260</u>	<u>27,862,954</u>	<u>(204,750)</u>	<u>90,442,464</u>
Total not depreciated				
Capital assets subject to depreciation:				
Buildings	286,511,245	2,892,328	-	289,403,573
Land improvements	18,567,534	1,836,550	-	20,404,084
Furniture, machinery, vehicles, and other equipment	37,840,285	4,798,818	(891,803)	41,747,300
	<u>342,919,064</u>	<u>9,527,696</u>	<u>(891,803)</u>	<u>351,554,957</u>
Total depreciated				
Accumulated depreciation:				
Buildings	(119,288,232)	(5,703,181)	-	(124,991,413)
Land improvements	(13,631,102)	(861,356)	-	(14,492,458)
Furniture, machinery, vehicles, and other equipment	(26,393,722)	(3,502,438)	617,900	(29,278,260)
	<u>(159,313,056)</u>	<u>(10,066,975)</u>	<u>617,900</u>	<u>(168,762,131)</u>
Total accumulated depreciation				
Net capital assets	<u>\$ 246,390,268</u>	<u>\$ 27,323,675</u>	<u>\$ (478,653)</u>	<u>\$ 273,235,290</u>

6. NON-CURRENT LIABILITIES

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	-
Notes payable					
	975,456	-	(169,502)	805,954	176,821
Compensated absences					
	7,099,739	267,150	-	7,366,889	5,181,377
	<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>
Total					

Non-current liability activity for the year ended August 31, 2003 was as follows:

	Balance September 1, 2002	Additions	Reductions	Balance August 31, 2003	Current Portion
Series 1986 A-D Rate Adjustable Mode Consolidated District Revenue Bonds	\$ 9,400,000	\$ -	\$ (2,200,000)	\$ 7,200,000	\$ 2,200,000
Series 1998 Revenue Financing System Refunding Bonds	12,300,000	-	(75,000)	12,225,000	185,000
Series 2001 Revenue Financing System Bonds	39,690,000	-	(1,360,000)	38,330,000	1,415,000
Series 2003 Maintenance Tax Notes	-	9,850,000	-	9,850,000	5,280,000
Unamortized bond premium	593,222	145,129	(35,631)	702,720	68,024
Accrued interest	-	31,169	-	31,169	-
Notes payable	1,137,941	-	(162,485)	975,456	169,502
Compensated absences	<u>5,770,652</u>	<u>1,329,087</u>	<u>-</u>	<u>7,099,739</u>	<u>4,773,684</u>
Total	<u>\$ 68,891,815</u>	<u>\$ 11,355,385</u>	<u>\$ (3,833,116)</u>	<u>\$ 76,414,084</u>	<u>\$ 14,091,210</u>

Bonds payable are due in annual and semiannual installments at variable interest rates. The interest 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%-4.90%	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%-2.50%	2003	2007	N/A
Series 2004 Maintenance Tax Notes	38,555,000	2.00%-5.00%	2004	2021	2/15/2010

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 on August 6, 2003 \$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.

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 1.25% interest rate, which was the rate in effect at August 31, 2004.)

	Principal	Interest	Total
Year ended August 31:			
2005	\$ 7,545,000	\$ 4,471,694	\$ 12,016,694
2006	8,610,000	3,614,068	12,224,068
2007	8,040,000	3,347,668	11,387,668
2008	8,490,000	3,014,352	11,504,352
2009	9,030,000	2,600,093	11,630,093
2010 - 2014	36,515,000	7,842,178	44,357,178
2015 - 2019	12,760,000	3,305,656	16,065,656
2020 - 2024	<u>6,090,000</u>	<u>308,500</u>	<u>6,398,500</u>
	<u>\$97,080,000</u>	<u>\$28,504,209</u>	<u>\$125,584,209</u>

The note payable accrues interest at 4.25% and is payable in quarterly installments beginning on November 30, 2002. Total payment of the note principal and interest is payable as follows:

	Principal	Interest	Total
Year ended August 31:			
2005	\$ 176,821	\$ 31,460	\$ 208,281
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>\$ 805,954</u>	<u>\$ 79,240</u>	<u>\$ 885,194</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 2004 and 2003 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, 2004 and 2003 was \$78,382,477 and \$75,293,858 respectively. The total payroll of the District was \$167,182,199 and \$162,170,412 for the years ended August 31, 2004 and 2003, 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 2004 and 2003 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, 2004 and 2003. The payroll for employees covered by the optional retirement plan for the years ended August 31, 2004 and 2003 was \$54,563,135 and \$54,783,905 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 \$7,041,932 and \$6,881,299 for the fiscal years ended August 31, 2004 and 2003 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, 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.

As of August 31, 2003 the District had 20 employees participating in the program. One employee was vested as of August 31, 2003. A total of \$392,738 in contributions were invested in the plan during the fiscal year, bringing the total of deferred salaries and accumulated earnings of current employees to \$339,019 and creating a payable to the vested employee of \$106,528.

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. COMPENSATED 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, 2004 the District has 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. As of August 31, 2003 the District had recognized the accrued liability for the unpaid annual leave, including amounts for salary-related payments, for \$7,099,739 of which \$4,773,684 was recorded as current liability and \$2,326,055 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 statement 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, 2004 are \$4,125,449.

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 is still pending, awaiting the decision of the Texas Supreme Court. An additional \$1,682,923 of interest on the judgement amount was accrued for the year ended August 31, 2004 as a conservative measure.

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 \$4.9 million, which is expected to be covered mainly by insurance. Proceeds of \$3,034,903 have already been received from insurance. 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.

11. OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS

Included in operating expenses is \$2,129,297 and \$2,199,912 of rent paid during fiscal years 2004 and 2003, respectively.

Future minimum lease payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2004 are as follows:

Year Ended	Minimum Future Lease Payments
2005	\$ 1,617,407
2006	848,574
2007	513,650
2008	355,643
2009	331,796
2010	<u>110,599</u>
Total	<u>\$ 3,777,669</u>

12. CONTRACT AND GRANT AWARDS

Contract and grant awards are accounted for in accordance with accounting principles generally accepted in the United States of America. Funds received but not expended during the reporting period are shown as deferred revenues on the Statement of Net Assets. Revenues are recognized on the Statement 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 Statement 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 Statement 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 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. Contract and grant awards funds already committed, e.g., multiyear awards, or funds awarded during fiscal year 2003 for which monies have not been received nor funds expended totaled \$10,348,350. Of this amount, \$8,433,963 is from federal contract and grant awards, \$1,587,855 is from state contract and grant awards and \$326,532 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 \$280,734 and \$285,767 as of August 31, 2004 and 2003 respectively, and is included in the accompanying Statement 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 premium cost for the guaranteed program was \$312,651 for fiscal year 2002. However, the District returned to a self-insured plan effective September 1, 2002. Accordingly a liability has been recorded as of August 31, 2004 and 2003 respectively for \$1,480,222 and \$328,028 and is included in the accompanying Statement of Net Assets.

Self-insurance activity for the years ended August 31, 2003 and 2004 was as follows:

Accrued Claim Liability for the Year Ended August 31	Balance September 1	Additions	Reductions for Claims Paid	Balance August 31
2003	\$ -	\$ 582,144	\$ (254,116)	\$ 328,028
2004	328,028	1,624,220	(472,026)	1,480,222

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, 2004 the state's maximum contribution per full-time employee was \$300.27 per month for the year and totaled \$3,603.24 per employee for the year. 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 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 state's maximum contribution per full-time employee for the period September 1, 2002 through April 30, 2003 was \$308.84 per month for an annualized cost of \$3,706.08 per employee. The state also paid an additional amount for a spouse, child(ren), or both for a maximum amount of \$485.14, \$426.89, and \$603.19 per month respectively. However, due to budget cuts in the spring at the state level, a change in premium costs was effected to help the State reduce costs. The state's maximum contribution per full-time employee for the period May 1, 2003 through August 31, 2003 was \$274.00 per month for an annualized cost of \$3,288.00. The state-paid amounts for a spouse, child(ren), or both during this same period was a maximum amount of \$430.27, \$378.63, and \$534.90 per month respectively. The actual cost of providing those benefits for the year was \$2,699,928 for 673 retirees and \$12,556,479 for 2,805 active employees.

The health insurance expense to the state for the District was \$10,906,692 and \$12,206,226 for the fiscal years ended August 31, 2004 and 2003 respectively. The amounts represent the portion of expended appropriations made by the State Legislature on behalf of the District.

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 Note 1. Also see Note 26.

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, 2004 and 2003 were \$103,074,355 and \$79,860,108 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 2004 and 2003 to finance the operations and maintenance was \$.0778 and \$.0600 respectively per \$100 of assessed valuation on real property, leaving a tax margin of \$.5822 and \$.6000 respectively per \$100 of assessed valuation on real and personal property. Approximately \$774,393,902 of additional taxes could be raised per year based on the 2004 assessed value of \$133,011,663,033 for real property before the limit is reached. In 2003 approximately \$791,024,243 of additional taxes could have been raised per year based on the 2003 assessed value of \$131,837,373,872 for real property before the limit would have been reached.

At March 21, 2004* and August 31, 2003:

	2004	2003
Assessed valuation of the District	\$160,837,173,553	\$159,130,757,365
Less exemptions	<u>27,825,510,520</u>	<u>27,293,383,493</u>
Net assessed valuation of the District	<u>\$133,011,663,033</u>	<u>\$131,837,373,872</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 interest and sinking expenditures.

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>
Gross Taxes Collected - 2003	Current Operations	Debt Service	Total
Current	\$76,748,733	\$ -	\$76,748,733
Delinquent	1,787,140	-	1,787,140
Penalties and interest	<u>735,751</u>	<u>-</u>	<u>735,751</u>
Total collections	<u>\$79,271,624</u>	<u>\$ -</u>	<u>\$79,271,624</u>

Tax collections for the years ended August 31, 2004 and 2003 were approximately 97% and 96%, 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 Statement of Net Assets as deferred revenues in the current fiscal year.

Deferred revenue balances at August 31, 2004 and 2003 are as follows:

	2004	2003
Deferred revenues related to students and other customers	\$20,616,012	\$20,173,184
Deferred revenues related to grants and contracts	<u>13,137,612</u>	<u>12,505,639</u>
Total deferred revenue	<u>\$33,753,624</u>	<u>\$32,678,823</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 unrelated business income tax liability for the years ended August 31, 2004 or 2003.

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 2004	Taxes Forgone in 2003
Cityplace	100%	\$ 156,601	\$ 112,152
Oak Cliff Gateway	100	9,496	10,947
State - Thomas	100	160,741	127,097
City of Irving	100	-	89,889
City of Farmers Branch Mercer Crossing	35	9,553	9,538
City of Farmers Branch Old Farmers Branch	100	347	97
City of Grand Prairie #1	100	12,420	7,858
City of Grand Prairie #2	100	4,824	3,239
City of Grand Prairie #3	100	<u>300</u>	<u>254</u>
Total tax forgone		<u>\$ 354,282</u>	<u>\$ 361,071</u>

21. REDUCED TUITION PILOT

In 2001 the 77th Legislature introduced a bill for a reduced tuition pilot which resulted in establishing Texas Education Code 130.0033. The pilot allowed the amount of tuition paid by students during non-peak periods to be reduced by 50% in an effort to increase building utilization during those non-peak periods. The District opted to participate in the pilot with the first semester offering reduced tuition classes occurring in Spring 2002. The pilot continued for Fall 2002 and Spring 2003 semesters. However, there was no reduced tuition pilot for the year ended August 31, 2004.

22. GENERAL OPERATING REVENUES

General operating revenues of \$1,132,609 and \$1,177,256 for the years ended August 31, 2004 and 2003, 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 continuing education transcripts represent the smallest amount of revenue at \$3 and \$243 for August 31, 2004 and 2003 respectively. Revenue for other categories range between these two extremes.

24. AUXILIARY ENTERPRISES

Contracted Services—Many of the services offered through auxiliary enterprises are contracted out 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.

25. SUBSEQUENT EVENTS

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 \$5000 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, after the close of the fiscal year.

26. COMPONENT UNITS

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

Dallas County Community College 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:

1. 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 and 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 generally accepted accounting principles.

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 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 \$3,292,278 as of August 31, 2004.

Investments—Investments in marketable securities with readily determinable fair values and all investments in debt securities are to be reported at their fair values in the statement of financial position. Unrealized gains and losses are to be 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 Barrow, Hanley, Mewhinney & Strauss, Inc., 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 received. Contributions of assets other than cash are recorded at their estimated fair value. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Contributed Services—The services of the Foundation employees have been donated by the District. The estimated fair value of these contributed services is \$213,683 and has been included in revenues, gains, other support and receipts of amounts held for others 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 year ended August 31, 2004.

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

Reclassifications—Certain amounts of the beginning net assets have been reclassified to conform to 2004 presentation. The reclassifications had no effect on previously reported total net assets or changes in total net assets.

	<u>At August 31, 2003</u>	
	<u>As Previously Reported</u>	<u>As Reclassified</u>
Net Assets:		
Assets Held for Others	\$4,894,849	\$ -
Unrestricted	-	1,019,144
Temporarily restricted	<u>-</u>	<u>3,875,705</u>
Total	<u>\$4,894,849</u>	<u>\$4,894,849</u>

2. INVESTMENTS

Investments are composed of the following:

	Cost	Fair Value
Corporate bonds	\$ 5,411,028	\$ 5,496,963
Corporate stocks	9,640,413	10,765,124
U.S. government obligations	<u>168,006</u>	<u>170,418</u>
	<u>\$ 15,219,447</u>	<u>\$ 16,432,505</u>

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable at August 31, 2004 are summarized as follows:

Pledges due in 2005	\$ 1,113,000
Pledges due from 2006 - 2014	<u>5,750,543</u>
	<u>\$ 6,863,543</u>

Long-term pledges are stated at net present value.

* * * * *

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE A

SCHEDULE OF OPERATING REVENUES

YEAR ENDED AUGUST 31, 2004 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2003)

	Unrestricted	Restricted	Total Educational Activities	Auxiliary Enterprises	2004	2003
Tuition:						
State funded credit courses:						
In-district resident tuition	\$ 27,703,549	\$ -	\$ 27,703,549	\$ -	\$ 27,703,549	\$ 23,292,893
Out-of-district resident tuition	6,487,844	-	6,487,844	-	6,487,844	6,311,138
Non-resident tuition	5,215,778	-	5,215,778	-	5,215,778	6,359,451
TPEG—credit (set aside) *	2,163,946	-	2,163,946	-	2,163,946	1,911,061
State-funded continuing education	10,531,179	-	10,531,179	-	10,531,179	10,327,099
TPEG—non-credit (set aside) *	635,822	-	635,822	-	635,822	656,693
Non-state funded educational programs	2,610,512	-	2,610,512	-	2,610,512	2,148,483
Total tuition	<u>55,348,630</u>	<u>-</u>	<u>55,348,630</u>	<u>-</u>	<u>55,348,630</u>	<u>51,006,818</u>
Charges:						
Distance learning charge	412,641	-	412,641	-	412,641	185,554
Installment plan charges	396,365	-	396,365	-	396,365	364,355
Prior year tuition and charges	(8,508)	-	(8,508)	-	(8,508)	3,200
Total charges	<u>800,498</u>	<u>-</u>	<u>800,498</u>	<u>-</u>	<u>800,498</u>	<u>553,109</u>
Scholarship allowances and discounts:						
Remissions and exemptions—state	(453,722)	-	(453,722)	-	(453,722)	(344,416)
Remissions and exemptions—local	(1,508,903)	-	(1,508,903)	-	(1,508,903)	(1,445,763)
Reduced tuition pilot	-	-	-	-	-	(1,847,951)
Title IV federal grants	(8,110,644)	-	(8,110,644)	-	(8,110,644)	(5,911,149)
Other federal grants	(827,080)	-	(827,080)	-	(827,080)	(789,889)
TPEG awards	(1,052,137)	-	(1,052,137)	-	(1,052,137)	(865,997)
Other state grants	(781,544)	-	(781,544)	-	(781,544)	(374,510)
Rising Star program	(600,135)	-	(600,135)	-	(600,135)	(195,979)
Other local grants	(67,561)	-	(67,561)	-	(67,561)	(13,084)
Total scholarship allowances	<u>(13,401,726)</u>	<u>-</u>	<u>(13,401,726)</u>	<u>-</u>	<u>(13,401,726)</u>	<u>(11,788,738)</u>
Total net tuition and charges	<u>42,747,402</u>	<u>-</u>	<u>42,747,402</u>	<u>-</u>	<u>42,747,402</u>	<u>39,771,189</u>
Additional operating revenues:						
Federal grants and contracts	1,034,545	44,187,962	45,222,507	41,366	45,263,873	40,719,357
State grants and contracts	70,502	2,565,982	2,636,484	1,117	2,637,601	4,657,441
Non-governmental grants and contracts	2,474	5,166,491	5,168,965	-	5,168,965	4,133,147
Sales and services of educational activities	545,233	-	545,233	-	545,233	446,968
Other operating revenues	1,132,609	-	1,132,609	-	1,132,609	1,177,256
Total additional operating revenues	<u>2,785,363</u>	<u>51,920,435</u>	<u>54,705,798</u>	<u>42,483</u>	<u>54,748,281</u>	<u>51,134,169</u>
Auxiliary Enterprises:						
Bookstore	-	-	-	1,568,175	1,568,175	1,495,770
Food Service	-	-	-	633,989	633,989	620,341
Center for Educational Telecommunications	-	-	-	3,159,838	3,159,838	3,476,227
Business Incubation Center	-	-	-	197,645	197,645	211,551
Universities Center of Dallas	-	-	-	449,907	449,907	450,617
Student Programs	-	-	-	582,320	582,320	720,922
Total net auxiliary enterprises	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,591,874</u>	<u>6,591,874</u>	<u>6,975,428</u>
Total Operating Revenues	<u>\$ 45,532,765</u>	<u>\$51,920,435</u>	<u>\$ 97,453,200</u>	<u>\$6,634,357</u>	<u>\$ 104,087,557</u>	<u>\$ 97,880,786</u>
					(Exhibit 2)	(Exhibit 2)

* In accordance with Education Code 56.033, \$2,799,768 and \$2,567,754 for years August 31, 2004 and 2003, respectively, of tuition was set aside for Texas Public Education grants (TPEG)

DALLAS COMMUNITY COLLEGE DISTRICT

SCHEDULE B

SCHEDULE OF OPERATING EXPENSES BY OBJECT

YEAR ENDED AUGUST 31, 2004 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2003)

	Operating Expenses			Other Expenses	2004	2003
	Salaries and Wages	Benefits				
		State	Local			
UNRESTRICTED—Educational activities:						
Instruction	\$ 90,288,214	\$ -	\$ 5,997,656	\$12,458,656	\$ 108,744,526	\$ 104,721,471
Public service	2,786,025	-	185,070	1,631,694	4,602,789	4,061,675
Academic support	9,286,317	-	616,870	3,781,051	13,684,238	13,287,208
Student services	17,132,772	-	1,138,094	3,164,257	21,435,123	19,689,514
Institutional support	29,462,754	-	1,957,149	9,252,897	40,672,800	36,865,136
Operation and maintenance of plant	6,624,807	-	440,072	14,953,354	22,018,233	20,280,574
Scholarships and fellowships	-	-	-	-	-	-
Total unrestricted educational activities	<u>155,580,889</u>	<u>-</u>	<u>10,334,911</u>	<u>45,241,909</u>	<u>211,157,709</u>	<u>198,905,578</u>
RESTRICTED—Educational activities:						
Instruction	1,706,521	10,416,120	-	5,266,609	17,389,250	16,728,689
Public service	1,277,135	321,411	-	3,515,571	5,114,117	5,892,529
Academic support	377,038	1,071,318	-	(8,300)	1,440,056	1,536,310
Student services	2,406,894	1,976,526	-	2,133,879	6,517,299	6,945,836
Institutional support	1,355,379	3,398,977	-	862,506	5,616,862	6,526,292
Operation and maintenance of plant	-	764,272	-	-	764,272	806,371
Scholarships and fellowships	-	-	-	25,784,407	25,784,407	25,011,776
Total restricted educational activities	<u>7,122,967</u>	<u>17,948,624</u>	<u>-</u>	<u>37,554,672</u>	<u>62,626,263</u>	<u>63,447,803</u>
TOTAL EDUCATIONAL ACTIVITIES	162,703,856	17,948,624	10,334,911	82,796,581	273,783,972	262,353,381
AUXILIARY ENTERPRISES	4,478,343	-	834,144	4,996,892	10,309,379	10,447,407
DEPRECIATION EXPENSE—Buildings and other real estate improvements	-	-	-	6,218,946	6,218,946	6,564,537
DEPRECIATION EXPENSE—Equipment and furniture	-	-	-	3,431,691	3,431,691	3,502,438
TOTAL OPERATING EXPENSES	<u>\$ 167,182,199</u>	<u>\$17,948,624</u>	<u>\$11,169,055</u>	<u>\$97,444,110</u>	<u>\$ 293,743,988</u>	<u>\$ 282,867,763</u>
					(Exhibit 2)	(Exhibit 2)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE C

SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES

YEAR ENDED AUGUST 31, 2004 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2003)

	Unrestricted	Restricted	Auxiliary Enterprises	2004	2003
NON-OPERATING REVENUES:					
State appropriations	\$ 83,053,974	\$18,635,068	\$ -	\$ 101,689,042	\$ 100,623,986
Maintenance ad valorem taxes	100,559,482	-	-	100,559,482	76,921,860
Gifts	316,618	-	-	316,618	723,092
Investment income	3,153,023	-	486,560	3,639,583	3,073,000
Gain on sale of investment	76,931	-	7,826	84,757	78,220
Contributions in aid of construction	-	-	-	-	495,952
Other non-operating revenue	<u>182,190</u>	<u>-</u>	<u>34</u>	<u>182,224</u>	<u>52,225</u>
Total non-operating revenues	<u>187,342,218</u>	<u>18,635,068</u>	<u>494,420</u>	<u>206,471,706</u>	<u>181,968,335</u>
NON-OPERATING EXPENSES:					
Interest on capital related debt	1,904,536	-	-	1,904,536	735,065
Loss on disposal of capital assets	251,346	-	(50)	251,296	238,206
Accrual for legal expenses	1,682,923	-	-	1,682,923	-
Other non-operating expense	<u>39,532</u>	<u>-</u>	<u>-</u>	<u>39,532</u>	<u>453,827</u>
Total non-operating expenses	<u>3,878,337</u>	<u>-</u>	<u>(50)</u>	<u>3,878,287</u>	<u>1,427,098</u>
NET NON-OPERATING REVENUES	<u>\$ 183,463,881</u>	<u>\$ 18,635,068</u>	<u>\$ 494,470</u>	<u>\$ 202,593,419</u> (Exhibit 2)	<u>\$ 180,541,237</u> (Exhibit 2)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE D

SCHEDULE OF NET ASSETS BY SOURCE AND AVAILABILITY
 YEAR ENDED AUGUST 31, 2004 (WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2003)

	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	\$ 68,893,012	\$ -	\$ -	\$ -	\$ 68,893,012	\$68,893,012	\$ -
Auxiliary enterprises	19,966,140	-	-	-	19,966,140	19,966,140	-
Restricted	-	-	-	-	-	-	-
Loan	126,137	-	-	-	126,137	-	126,137
Endowment:							
Quasi—unrestricted, designated	5,288,316	-	-	-	5,288,316	-	5,288,316
Plant:							
Unexpended	1,284,065	-	-	-	1,284,065	-	1,284,065
Debt service	-	7,394,286	-	-	7,394,286	-	7,394,286
Investment in plant	-	-	-	243,154,370	243,154,370	-	243,154,370
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
TOTAL NET ASSETS— August 31, 2003	<u>111,202,523</u>	<u>6,486,525</u>	<u>-</u>	<u>215,480,290</u>	<u>333,169,338</u> (Exhibit 1)	<u>80,786,643</u>	<u>252,382,695</u>
NET INCREASE (DECREASE) IN NET ASSETS	<u>\$ (15,644,853)</u>	<u>\$ 907,761</u>	<u>\$ -</u>	<u>\$ 27,674,080</u>	<u>\$ 12,936,988</u> (Exhibit 2)	<u>\$ 8,072,509</u>	<u>\$ 4,864,479</u>

STATISTICAL SECTION

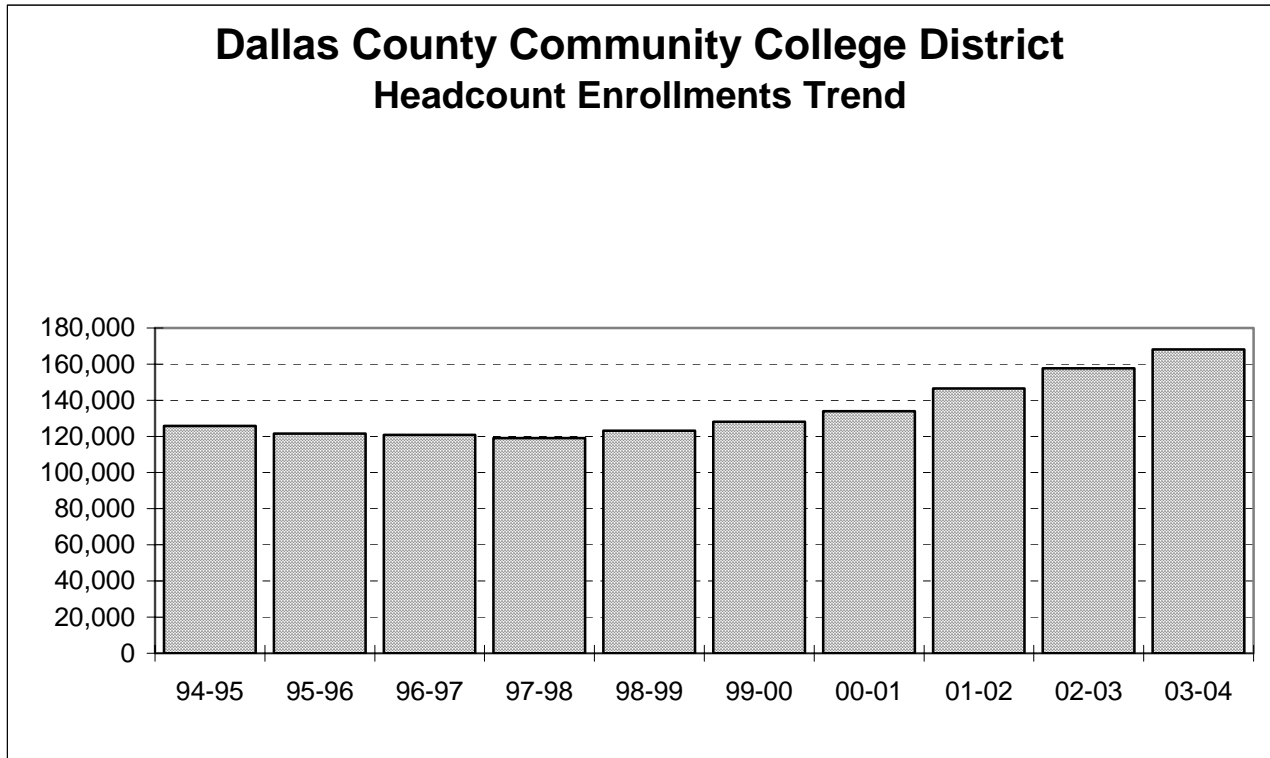
These statistical tables provide selected financial and demographic information. The statistical tables are for informational purposes only and are not audited.

Dallas County Community College District
 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
1994-95	81,356,820	28,945,221	39,108,145	22,875,462	4,064,901	1,187,668	4,662,197	182,200,414
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	54,186,503	97,438,019	54,315,351	3,397,260	1,649,242	6,599,784	319,275,201

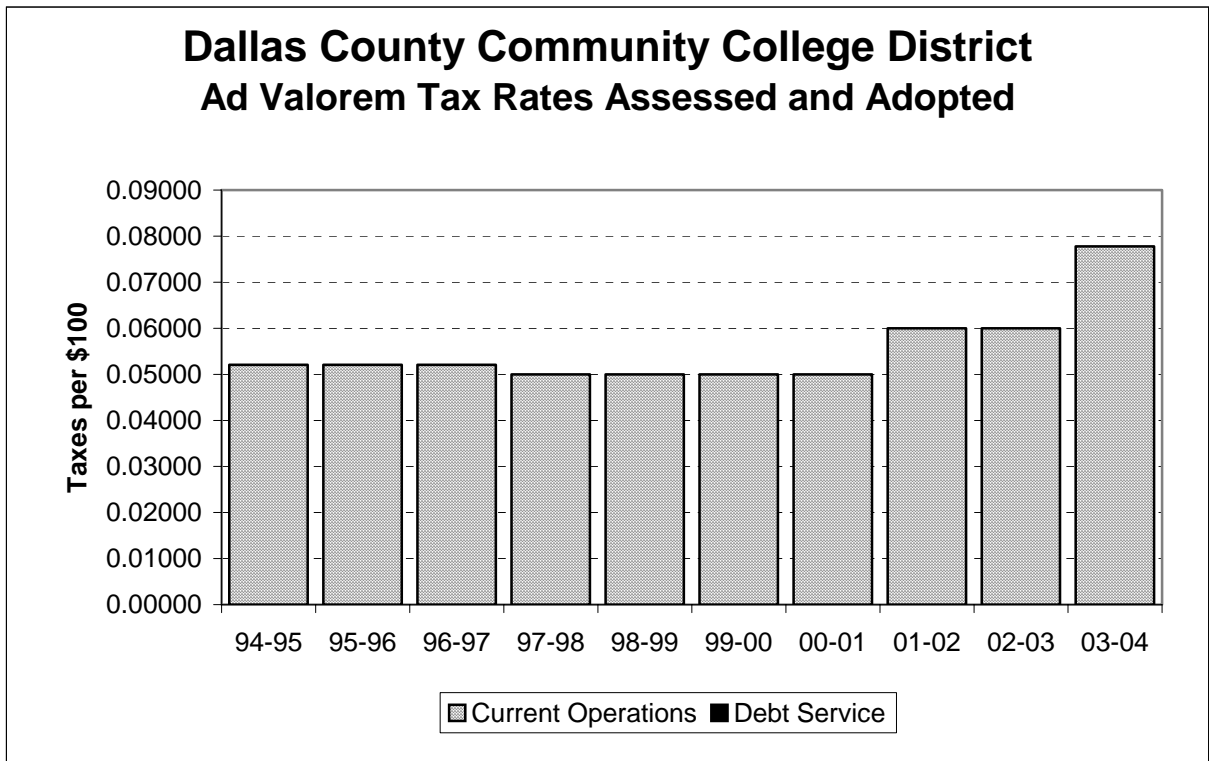
Dallas County Community College District
 Credit Headcount Enrollments for All Campuses
 Last 10 Fiscal Years
 (UNAUDITED)

State Funded	
Fiscal Year	Total Enrollment
1994-95	125,925
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



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

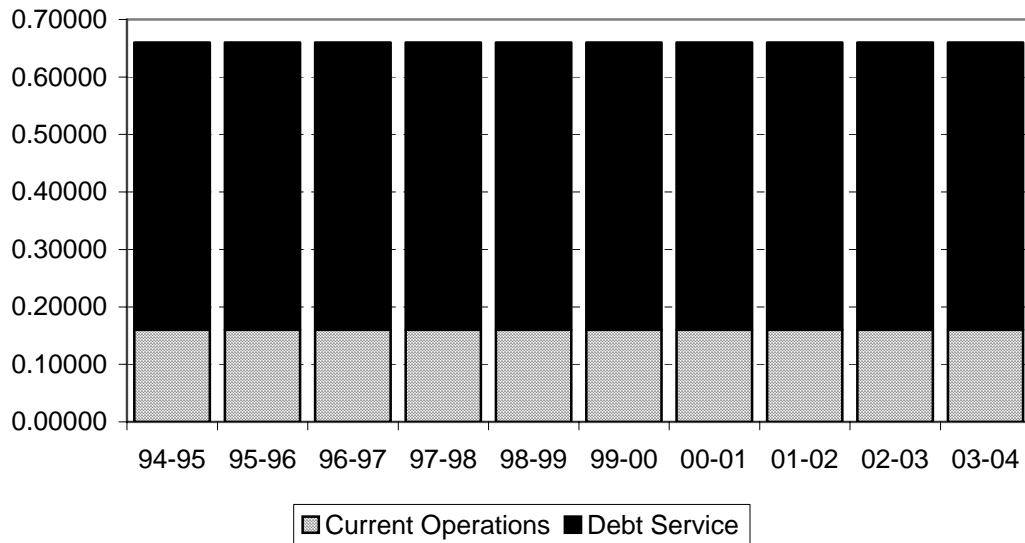
Fiscal Year	Current Operations	Debt Service	Total
1994-95	0.05210	0.00000	0.05210
1995-96	0.05210	0.00000	0.05210
1996-97	0.05210	0.00000	0.05210
1997-98	0.05000	0.00000	0.05000
1998-99	0.05000	0.00000	0.05000
1999-00	0.05000	0.00000	0.05000
2000-01	0.05000	0.00000	0.05000
2001-02	0.06000	0.00000	0.06000
2002-03	0.06000	0.00000	0.06000
2003-04	0.07780	0.00000	0.07780



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

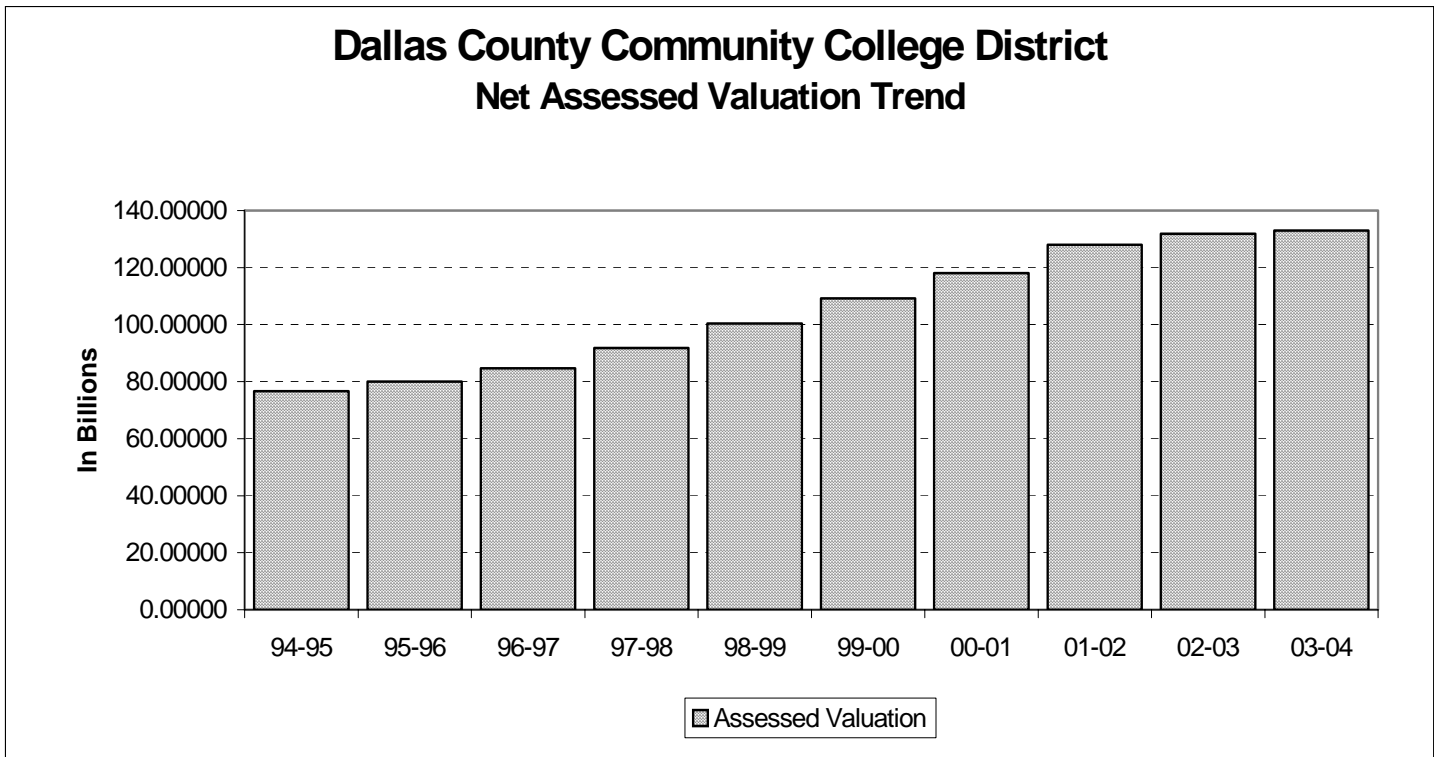
Fiscal Year	Current Operations	Debt Service	Total
94-95	0.1600	0.5000	0.6600
95-96	0.1600	0.5000	0.6600
96-97	0.1600	0.5000	0.6600
97-98	0.1600	0.5000	0.6600
98-99	0.1600	0.5000	0.6600
99-00	0.1600	0.5000	0.6600
00-01	0.1600	0.5000	0.6600
01-02	0.1600	0.5000	0.6600
02-03	0.1600	0.5000	0.6600
03-04	0.1600	0.5000	0.6600

**Dallas County Community College District
 Ad Valorem Tax Rates Authorized**



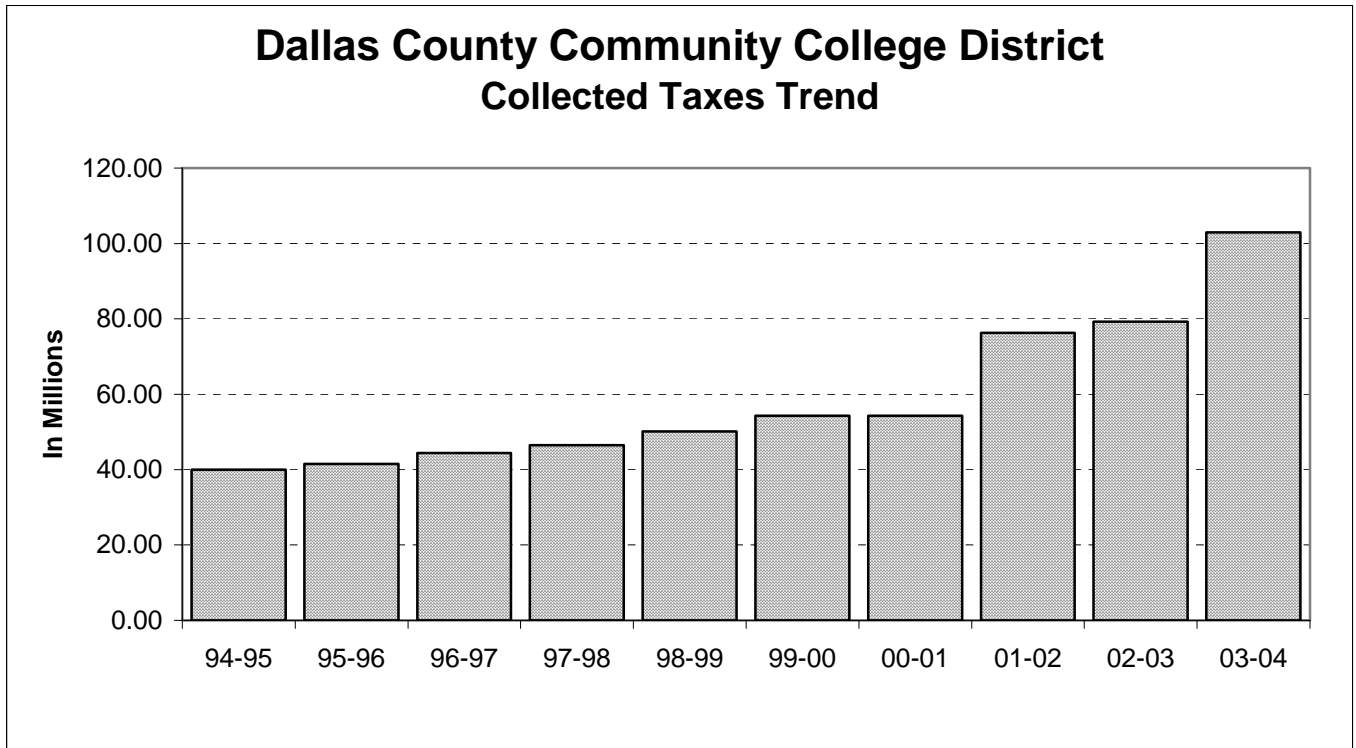
Dallas County Community College District
 Net Assessed Valuation
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	Assessed Valuation	Less: Exemptions	Net Assessed Valuation
1994-95	\$ 76,669,604,827	n/a	\$ 76,669,604,827
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



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

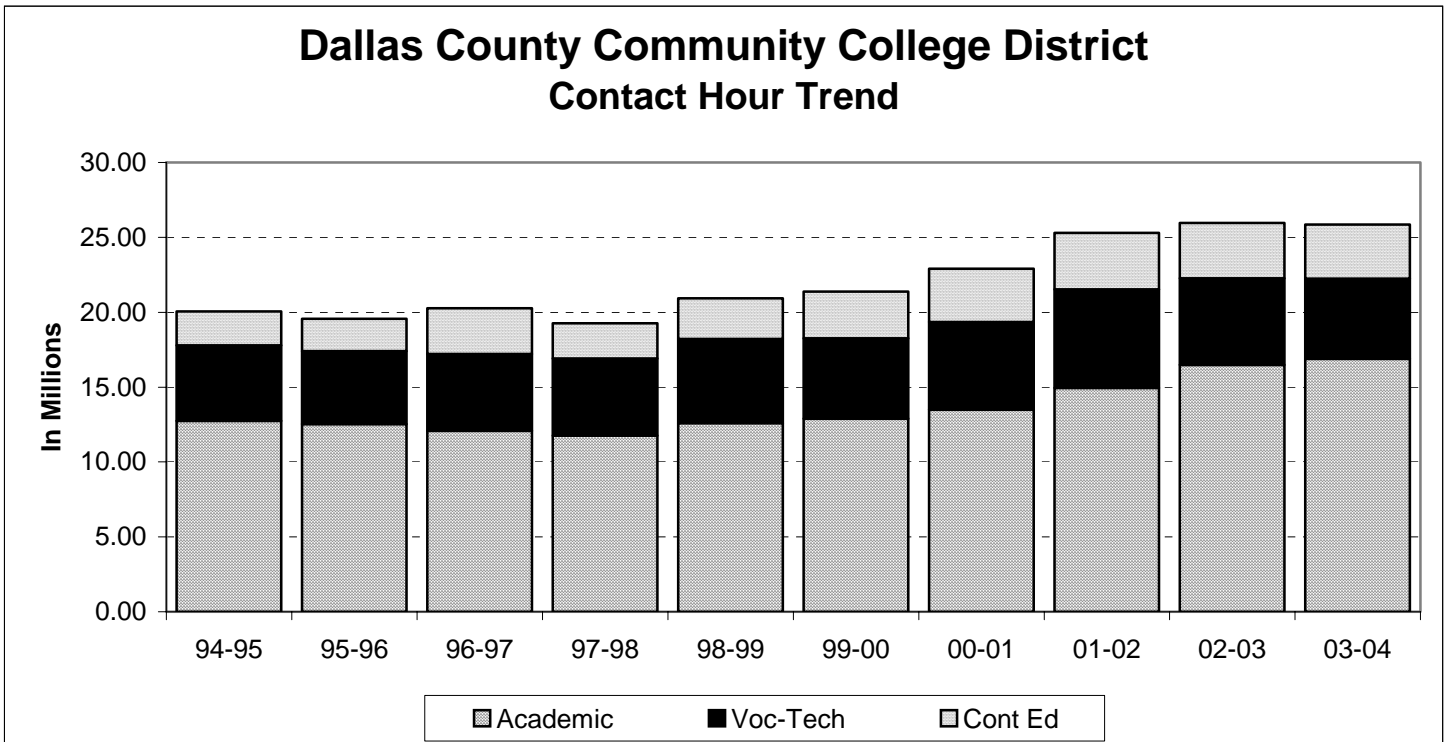
Fiscal Year	Current Tax Collections*	Delinquent Collections	Total Tax Collections
1994-95	\$ 39,500,857	\$ 467,486	\$ 39,968,343
1995-96	41,026,891	458,437	41,485,328
1996-97	43,692,021	730,186	44,422,207
1997-98	45,596,471	942,765	46,539,236
1998-99	49,513,797	636,588	50,150,385
1999-00	53,862,878	440,315	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



* Current Tax Collections include Penalty and Interest payments.

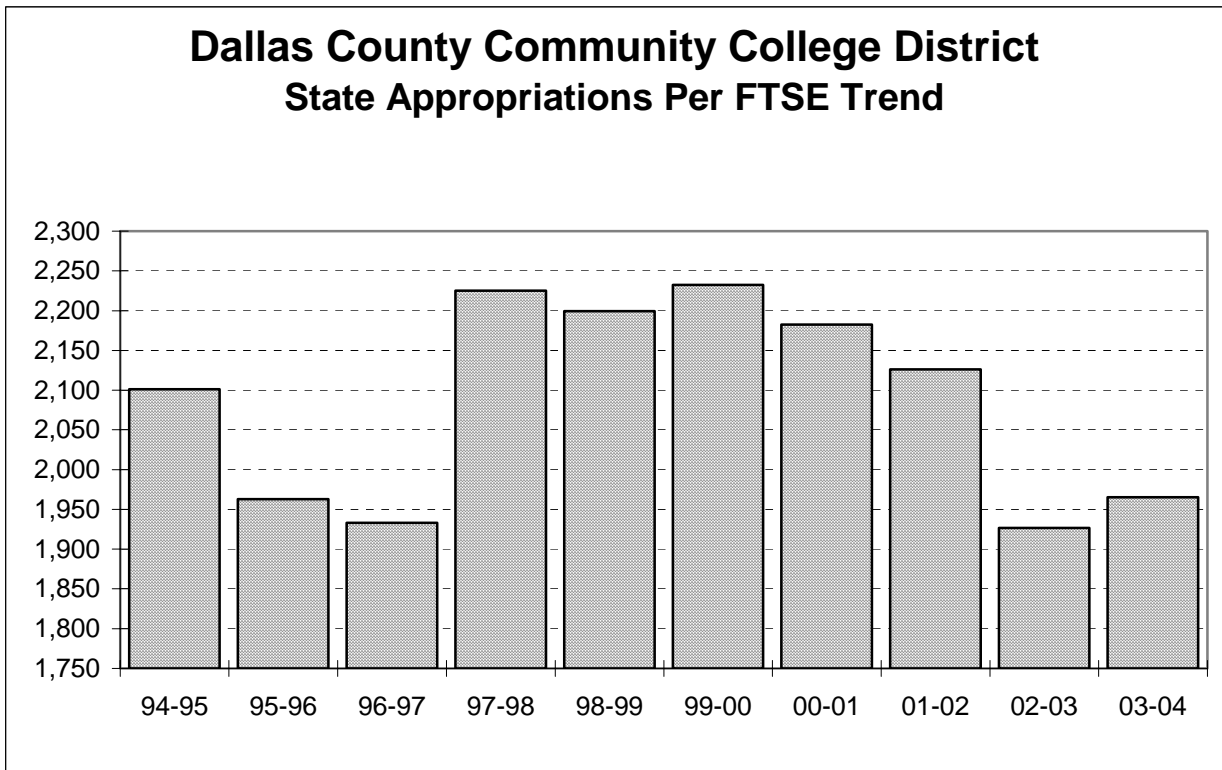
Dallas County Community College District
 Contact Hour History
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	Academic	Vocational Technical	Continuing Ed	Total
1994-95	12,743,103	5,057,983	2,264,059	20,065,145
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



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

Fiscal Year	Appropriations Per FTSE
1994-95	\$ 2,101
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



DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

OMB CIRCULAR A-133

SUPPLEMENTAL FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED AUGUST 31, 2004

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	57-58
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AND STATE AWARD PROGRAM	59-60
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS:	
Schedule of Expenditures of Federal Awards (Schedule E)	61-63
Schedule of Expenditures of State Awards (Schedule F)	64
Notes to Schedules of Expenditures of Federal and State Awards	65-67
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CORRECTIVE ACTION PLAN (UNAUDITED), SCHEDULE OF PRIOR YEAR FINDINGS	68-69

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees of
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, 2004, and have issued our report thereon dated December 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 grants, 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 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.

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 assurance on the internal control over financial reporting. 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 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 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. However,

we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated December 6, 2004.

This report is intended solely for the information and use of management, the Board of Trustees, federal and state awarding agencies and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 6, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AND STATE AWARD PROGRAM

The 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* that are applicable to each of its major federal and state programs for the year ended August 31, 2004. The District's major federal and state programs are identified in the summary of auditor's 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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, 2004.

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 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 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.

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 applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal 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 management, the Board of Trustees, 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.

Deloitte & Touche LLP

December 6, 2004

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE E

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2004

Federal Grantor/Pass-Through Grantor Program Name	CFDA	Grant #	Expenditures
U.S. DEPARTMENT OF EDUCATION:			
Direct Programs:			
Supplemental Educational Opportunity Grant	84.007 (1)		\$ 705,994
Strengthening Institutions—Title III	84.031A		648,232
Strengthening Institutions—Title V	84.031S		409,863
College Work Study Program	84.033 (1)		813,669
Job Locator Development	84.033 (1)		39,642
TRIO	84.042A (2)		1,811,972
Talent Search	84.044A (2)		214,719
Upward Bound	84.047A (2)		1,332,626
PELL	84.063 (1)		31,305,154
Child Care Access	84.335A		60,166
Early Childhood Educator Professional Development	84.349A		<u>516,175</u>
Total Direct from U.S. Department of Education			37,858,212
Pass-Through From:			
Texas Higher Education Coordinating Board:			
Carl Perkins Vocational Education	84.048		2,356,678
The Leveraging Educational Assistance Partnership	84.151		27,492
The Special Leveraging Educational Assistance Partnership	84.151		7,771
TECH PREP	84.243		<u>686,881</u>
Total Pass Through From Texas Higher Education Coordinating Board			3,078,822
Weatherford College: Texas Counselors' Network	84.048		1,857
Texas Rehabilitation Commission:			
Rehabilitation Service - Interpreter-Mobility	84.126	976248	6,687
Rehabilitation Service - Interpreter-Mobility	84.126	978261	<u>29,203</u>
Total Pass Through From Texas Rehabilitation Commission			35,890
University of Texas at Arlington:			
Bilingual Program	84.195E	26-1801-05-62	7,060
University of North Texas: Gear Up	84.334A	71800-001-00-04	120,692
Texas Women's University: Gear Up	84.334A	P334A990155	25,295
University of Texas at Dallas:			
Community-Based Model to Recruit & Retain Hispanics Program	84.116D	SC 02-02	<u>309</u>
Total Pass Through from U.S. Department of Education			<u>3,269,925</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			41,128,137

(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, 2004**

Federal Grantor/Pass-Through Grantor Program Name	CFDA	Grant #	Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-Through From:			
Southern United States Trade Association:			
Export Readiness Training #3	10.000	SUSTA/EMO 01-03TXI	5,492
Texas Department of Human Services:			
Child and Adult Food Program	10.558	UCN75N3055	23,241
Summer Food Program	10.559	057-1045	<u>46,200</u>
Total Pass Through From Texas Dept of Human Services			69,441
TOTAL U.S. DEPARTMENT OF AGRICULTURE			74,933
U. S. DEPARTMENT OF JUSTICE:			
Direct Programs:			
COPS	16.710	2001UMWX0282	35,339
COPS	16.710	2003UMWX0140	27,407
COPS-HSOP	16.710	2003OMWX0159	<u>8,493</u>
TOTAL U. S. DEPARTMENT OF JUSTICE			71,239
U.S. DEPARTMENT OF LABOR			
Pass-Through From:			
Dallas County Local Workforce Development Board:			
Vought Statewide Activities Program	17.255	322Statewide Activity	241,910
Unified Youth Services	17.259	328-347 Youth	805,333
H1B Technical Skills Training Program	17.261	2003-H-1B-367	953,247
GO Center Project	17.267		<u>448</u>
TOTAL U.S. DEPARTMENT OF LABOR			2,000,938
NATIONAL SCIENCE FOUNDATION:			
Direct Programs:			
Computer Science, Engineering and Mathematics Scholarship Program	47.076	0220854	41,070
Computer Science, Engineering and Mathematics Scholarship Program	47.076	0324032	<u>31,834</u>
Total Direct from National Science Foundation			72,904
Pass-Through From:			
University of Texas, El Paso:			
Alliance for Minority Participation-Phase II	47.071	HRD-0217691	2,714
Collin County Community College:			
North Dallas Texas Regional Technologies Center	47.076	202408	11,084
Texas Engineering Experiment Station:			
Cyber Security/Computer Forensics Program	47.076	53861	<u>8,200</u>
Total Pass Through from National Science Foundation			<u>21,998</u>
TOTAL NATIONAL SCIENCE FOUNDATION			94,902

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, 2004**

Federal Grantor/Pass-Through Grantor Program Name	CFDA	Grant #	Expenditures
SMALL BUSINESS ADMINISTRATION:			
Direct Programs:			
Small Business Development Center:	59.037		2,171,823
Pass-Through From:			
Texas Tech University:			
State Technology Transfer Partnership Project	59.000	SBAAHQ-02-R-0008	<u>2,243</u>
TOTAL SMALL BUSINESS ADMINISTRATION			2,174,066
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
Direct Programs:			
Allied Health Leadership Coalition	93.191	03-021SP	26,775
Head Start Program	93.600	90YP0018/01	<u>32,589</u>
Total Direct From U.S. Department of Health & Human Services			59,364
Pass-Through From:			
University of Texas, at Austin:			
Substance Abuse & Mental Health	93.000	1-UDI-TI13423	17,453
Texas Workforce Commission:			
Self Sufficiency Fund/TANF Rider 23A	93.558	0603TJR000	38,928
Self Sufficiency Fund-Healthcare Occupations	93.558	0603SSF000	273,769
Self Sufficiency Fund-Mortgage & Medical	93.558	0604SSF001	<u>264,368</u>
Total Texas Workforce Commission			577,065
Tarrant Council on Alcoholism and Drug Abuse: Substance Abuse & Mental	93.243	1 UDI SP09416-01	5,786
Dallas County Local Workforce Development Board:			
Local Self Sufficiency	93.558	211-SSF	153,367
Quality Child Care	93.575	03080C57	53,698
Quality Child Care	93.575	03080C70	<u>72,253</u>
Total Dallas County Local Workforce Development Board			279,318
The National Youth Sports Program Fund:			
Summer Youth Sports Program	93.570	NYSPF 03-307	<u>61,324</u>
Total Pass Through from U.S. Department of Health & Human Resources			<u>940,946</u>
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES			1,000,310
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>16,698</u>
TOTAL CORPORATION FOR NATIONAL & COMMUNITY SERVICES			16,698
TOTAL EXPENDITURES OF FEDERAL AWARDS:			<u>\$ 46,561,223</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, 2004

State Agency/Program Name	Grant #	Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD:		
Texas Public Education Grant		\$ 2,498,710
Texas Grant Program		589,198
Texas Grant Program II		214,857
Texas College Work Study		97,387
Starlink State		207,971
PSIG		43,033
First Generation		57,736
GO Center Project		<u>19,623</u>
Total Texas Higher Education Coordinating Board		3,728,515
TEXAS PARKS AND WILDLIFE COMMUNITY OUTDOOR OUTREACH PROGRAM		
		11,174
TELECOMMUNICATIONS INFRASTRUCTURE FUNDS:		
Higher Education Technology Advancement-HE4	QE-2001-HE4C-7286	25,174
TEXAS WORKFORCE COMMISSION:		
Skills Development Funds		
Pharmalab	0603SDF000	17,341
Dallas Healthcare Consortium	0603SDF001	206,139
JPMorgan Chase & Washington Mutual	0603SDF002	573,181
Vought Aircraft	0603SDF003	203,620
Intercontinental Manufacturing Co.	0603SDF004	32,812
Metroplex Consortium	0604SDF000	343,334
Vought Aircraft	0604SDF001	220,505
Lennox Industries	0604SDF002	<u>213,007</u>
Total Texas Workforce Commission		<u>1,809,939</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u>\$ 5,574,802</u>

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, 2004

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, 2004. 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, 2004, as follows:

	Federal	State
Total revenues per Schedule A	\$45,263,873	\$2,637,601
Texas Public Education Grants	-	2,799,768
Fall tuition-related grants deferred to next fiscal year	1,112,797	108,217
Other	<u>184,553</u>	<u>29,216</u>
Total Expenditures of Federal/State Awards	<u>\$46,561,223</u>	<u>\$5,574,802</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	\$ 72,944
Grayson Community College	48,279
Kilgore College	73,291
McLennan Community College	106,222
Navarro College	55,274
North Central Texas College	79,662
Northeast Texas Community College	51,876
Paris Junior College	99,707
Tarrant County Junior College	140,707
Trinity Valley Community College	75,373
Tyler Junior College	58,832
University of Texas at Arlington Enterprise Excellence	<u>69,301</u>
Total Amount Passed Through	<u>\$ 931,468</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	\$ 141,548
Tarrant County Junior College	<u>171,904</u>
Total Amount Passed Through	<u>\$ 313,452</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	\$ 27,963
Grayson Community College	22,032
Kilgore College	37,220
McLennan Community College	36,909
Navarro College	34,828
North Central Texas College	22,692
Northeast Texas Community College	28,869
Paris Junior College	31,412
Tarrant County Junior College	43,572
Trinity Valley Community College	27,012
Tyler Junior College	30,111
University of Texas at Arlington Enterprise Excellence	<u>2,437</u>
Total Amount Passed Through	<u>\$ 345,057</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>\$ 10,969,461</u>	<u>\$ -</u>	<u>\$ 10,969,461</u>
Total Department of Education	<u><u>\$ 10,969,461</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 10,969,461</u></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, 2004

PART I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes ___X___ no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes ___X___ none reported
- Noncompliance material to financial statements noted? ___ yes ___X___ no

Federal and State Awards

- Material weakness(es) identified? _____ yes ___X___ no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes ___X___ 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 ___X___ no

Identification of major programs:

Name of State or Federal Program	CFDA Number
Student Financial Aid Cluster:	
U.S. Department of Education PELL Grant	84.063
U.S. Department of Education Federal Work Study	84.033
U.S. Department of Education Federal Supplemental Educational Opportunity Grant	84.007
Federal Family Education Loan Program	84.032
 Texas Workforce Commission: Local Self Sufficiency	 N/A-State
Texas Public Education Grant	N/A-State

Dollar threshold used to distinguish between type A and type B federal programs: \$1,396,837 for federal programs and \$300,000 for state programs.

Auditee qualified as low-risk auditee? ___X___ yes _____ no

PART II—FINANCIAL STATEMENTS FINDINGS SECTION

The audit of the financial statements disclosed no findings that are required to be reported.

PART III—FEDERAL AND STATE AWARD FINDINGS AND QUESTIONED COSTS SECTION

The audit of the financial statements disclosed no findings that are required to be reported.

PART IV—CORRECTIVE ACTION PLAN

The audit of the financial statements disclosed no findings that are required to be reported.

PART V—STATUS OF PRIOR YEAR FINDINGS

Reference No. Program

03-1 TRIO and Upward Bound Cluster
CFDA 84.042A

Finding

In 26 items selected for testing the TRIO grant, the following was noted:

- In one instance, the college did not obtain the appropriate number of bids.
- In two instances, approval of grant expenditures were not evidenced by signature of proper personnel prior to performance of work.

Management Status

Procurement training for TRIO grant managers was held by the District Contracts and Grants Manager on February 18, 2004. Discussion led by the District Comptroller about the role of both the Vice Presidents of Business Services and Directors of Business Operations in approving and monitoring grant-funded procurement occurred two or more times in the council meetings of each.

03-2 Gear-Up
CFDA 84.334A

Finding

The District's Internal Audit Department discovered that a college was not correctly applying the matching funds required by the grant contract. In some instances, the non-cash items applied to the grant as the local matching component were not allowable under the grant. In other instances, incorrect rates were used by the college to contribute to the local match for salary and fringe benefit expenses.

Management Status

Training which included grant in kind matching requirements was conducted by an external trainer in June 2004 and again by the District Comptroller and District Contracts and Grants Manager in July 2004. In addition four meetings were held with the Gear-up grant manager and staff and several communications were sent regarding the in kind match requirements and appropriate documentation. Funds were returned to the granting agency in November 2004 to compensate for portions of the five-year grant for which in kind match could not be documented.