

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, 2003
and 2002**

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2003 AND 2002

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DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

ORGANIZATIONAL DATA

FISCAL YEAR 2002 - 2003

Board of Trustees

Officers

Jerry Prater
Pattie T. Powell
Jesus Carreon

Chair
Vice-Chair
Secretary

Members

Jeff Binford
Marion K. Boyle
Charletta Rogers Compton
Diana Flores
Randy Leake
Pattie T. Powell
Jerry Prater

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

Term Expires

2004
2008
2006
2008
2004
2006
2004

Key Officers

Jesus Carreon
Robert Aguero
Bob Brown
Bill F. Tucker

Chancellor
Vice Chancellor of Educational Affairs
Vice Chancellor of Business Affairs
Vice Chancellor of Planning and Development



Letters to the Community

It is my pleasure to introduce the Dallas County Community College District's *Annual Financial Report* for the periods September 1, 2002 through August 31, 2003 and September 1, 2001 through August 31, 2002. This report follows the form prescribed by the Governmental Accounting Standards Board, a national rule-making body for accounting. The District recognizes its responsibility for the quality of the information contained in this report and has prepared the financial statements with the highest standards for accountability in mind. Additionally, two standing committees of the District's Board of Trustees, the Audit and the Planning/Budget Committees, meet quarterly to examine internal and budget controls, debt management, cash management and other issues vital to the financial welfare of the organization.

Within this report are three reports provided by our external auditors, Deloitte & Touche, which give 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 annual financial 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 of the District for the current year are discussed and compared to the prior year. The last section of the report contains special compliance elements related to the reporting of contracts, grants and financial aid funded by the Federal and State governments as required by the Federal government through its Office of Management and Budget Circular A-133, and which has also been adopted by the State of Texas.

The District has had an exciting year to add to its 37-year history of providing quality academic and vocational education to the citizens of the Dallas County area through its seven colleges, the Bill J. Priest Center for Economic Development and its LeCroy Center for Educational Telecommunications. This year was marked by continued enrollment growth, facility construction, issuance of maintenance tax notes, state funding changes and a significant leadership change. Enrollment in credit classes increased 9.5% over the previous fiscal year as measured by contact hours during the fall and spring semesters. The District-wide headcount enrollment for credit classes was 59,819 in the fall of 2002 vs. 54,346 the previous fall. The District's position as a support to the retraining needs of the area has been reflected in its very robust enrollment growth this year. The District brings to the table a powerful element of economic recovery in our ability to retrain those who need additional skills. 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: a new science building at Eastfield College, a technical center in the city of Cedar Hill attached to Cedar Valley College along with a new student support services building on the main campus, a new student center at El Centro College, a general expansion of the LeCroy Center for Educational Telecommunications, a new classroom building and entry at Mountain View College, and a new classroom and student support services building at Richland College. In total the District now has facilities in twelve locations amounting to 3,866,000 square feet.

A high level of maintenance of the District's facilities was initiated this year with a program to provide \$50 million in three years or less to fund planned maintenance. In preparation for the initial sale of \$10 million of maintenance tax notes for this purpose, the District requested a rating from two investment rating firms. Both Moody's Investment

Services, Inc. and Fitch Company, Inc. rated the District triple-A. This highest available 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.

In January of 2003 the State's legislative session convened. To respond to a current and continued forecast of fiscal deficits caused by the economic downturn of the past two years, the State legislature was required to decrease the District's funding for the fiscal year by 7%. This mid-year change required a quick response on the part of the District's colleges to complete the fiscal year with a balanced budget. The appropriation for the coming biennium provided for a modest increase over the reduced 2003 appropriation but is substantially lower than the original appropriation of the prior biennium. Because of the District's significant growth, this funding level has required a thorough review of instructional and administrative efficiency to reduce costs where possible without sacrificing quality.

With the announcement of his retirement and move of our former chancellor, Dr. Bill Wenrich, to Chancellor Emeritus, the District's Board entered a national search for a new chancellor for the District. The search was concluded in July with the naming of Dr. Jesus Carreon. Dr. Carreon comes to the District from Portland Community College. He is currently serving as President of the American Association of Community Colleges and brings a wealth of experience and training to the role of leadership for the dynamic organization that is the Dallas County Community College District.

I trust that the financial story of the District told within the pages of this report will provide you, the readers representing the various public sectors and financially interested organizations that support the Dallas County Community College District, the information you need to recognize the District's financial soundness.

Respectfully submitted,



Bob Brown, CPA
Vice-Chancellor for Business Affairs

I am pleased to be the fifth Chancellor of the Dallas County Community College District and look forward to continuing the good stewardship over the finances of the District initiated by those who came before me. As we plan for dramatic enrollment increases in the coming decade, we are dedicated to meeting the challenge of providing quality education while maintaining the financial soundness of the District. This is an exciting time in the history of the Dallas County Community College District, and I am delighted to be a part of it. Please read Vice -Chancellor Brown's letter above for information about the District and some of its activities for the year just ended.

Respectfully submitted,



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, 2003 and 2002, 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, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 6 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The supplemental schedules and statistical tables 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 for the year ended August 31, 2003 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 information 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 5, 2003, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This 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 5, 2003

Management's Discussion and Analysis

This section of the Dallas County Community College District's (the "District") Annual Financial Report presents management's discussion and analysis of the District's financial activity during the fiscal years ended August 31, 2003 and 2002. Since management's discussion and analysis is designed to focus on current activities, and currently known facts, please read it in conjunction with the transmittal Letter to the Community (page 2), the District's basic financial statements (pages 15-17) and the footnotes (pages 18-35). Responsibility for the completeness and fairness of this information rests with the District.

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 \$187.3 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.

Financial Highlights for 2002

- The District's net assets at August 31, 2002 are reported at \$337.6 million. Approximately half of the net assets amount reflects the investment in capital assets net of related debt.
- Net assets decreased during the year by \$1.9 million, with an operating loss of \$179.9 million.
- This year the District changed its capitalization policies and reduced beginning capital assets by \$47.2 million.

Overview of Financial Statements

For fiscal year 2002, the District implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. 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 (see pages 15 - 17) are designed to emulate the corporate presentation model whereby the District's fiscal activities are consolidated into one column total. Having a second year in this new format for the fiscal year ended August 31, 2003 allows the opportunity to compare changes between the two fiscal years.

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. The focus of the Statement of Net Assets is to illustrate a bottom line result for the District. This statement combines and consolidates current financial resources (short-term spendable resources) with non-current assets, 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 both the gross costs and the net costs of District activities, which are supported mainly by ad valorem tax revenue, state appropriation revenue and tuition revenue. However, 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 loss from operations to the cash used by operations.

Comparative Financial Information

A summary of the District's net assets for the years ended August 31, 2003 and 2002 follows.

**NET ASSETS
YEARS ENDED AUGUST 31, 2003 AND 2002
(In Thousands)**

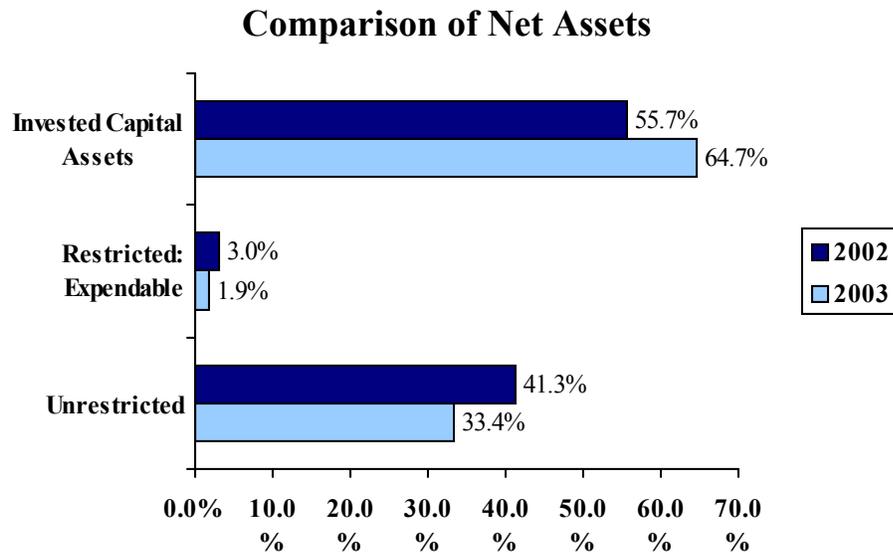
	Fiscal Year 2003	Fiscal Year 2002	Difference
CURRENT ASSETS:	\$ 79,849	\$ 61,930	\$ 17,919
NON-CURRENT ASSETS:			
Capital assets, net of depreciation	273,235	246,390	26,845
Other	<u>133,334</u>	<u>166,710</u>	<u>(33,376)</u>
Total assets	<u>486,418</u>	<u>475,030</u>	<u>11,388</u>
CURRENT LIABILITIES	91,592	77,237	14,355
NON-CURRENT LIABILITIES	<u>61,657</u>	<u>60,178</u>	<u>1,479</u>
Total liabilities	153,249	137,415	15,834
NET ASSETS:			
Investment in capital assets, net of related debt	215,480	188,181	27,299
Restricted for: expendable	6,486	10,044	(3,558)
Unrestricted	<u>111,203</u>	<u>139,390</u>	<u>(28,187)</u>
Total net assets	<u>\$ 333,169</u>	<u>\$ 337,615</u>	<u>\$ (4,446)</u>

This schedule is prepared from the District's Statement of Net Assets (page 15), which is presented using an accrual basis of accounting.

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. As can be seen, this is a decrease from the prior year of about \$4.4 million or 1.3%. While assets did increase about \$11.4 million, liabilities--claims on those assets by parties external to the District--increased by \$15.8 million or 11.5% resulting in the

net assets decrease. However, there has been a shift of approximately \$27 million from unrestricted net assets to investment in capital assets due to the progress of construction projects over the past year.

The following is a graphic illustration of the breakdown of net assets for the years ended August 31, 2003 and 2002.



Operating revenue is \$97.9 million and \$92.9 million for the periods ended August 31, 2003 and 2002 respectively. Operating expenses at August 31, 2003, were \$285.2 million compared to \$272.8 million at August 31, 2002. The increase in operating expenses outpaced the increase in operating revenues from fiscal year 2002 to 2003, resulting in a higher net operating loss.

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. Grants and contracts provide over half of operating revenue in 2003 (see graph on page 9).

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. Non-operating revenue, including these two sources of revenue, for the periods ending August 31, 2003 and 2002 was \$182.9 million and \$178.0 million respectively.

There were no “other expenses” reported for the year ending August 31, 2003. But for the year ending August 31, 2002, the District had an “other expense” of \$47.1 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.

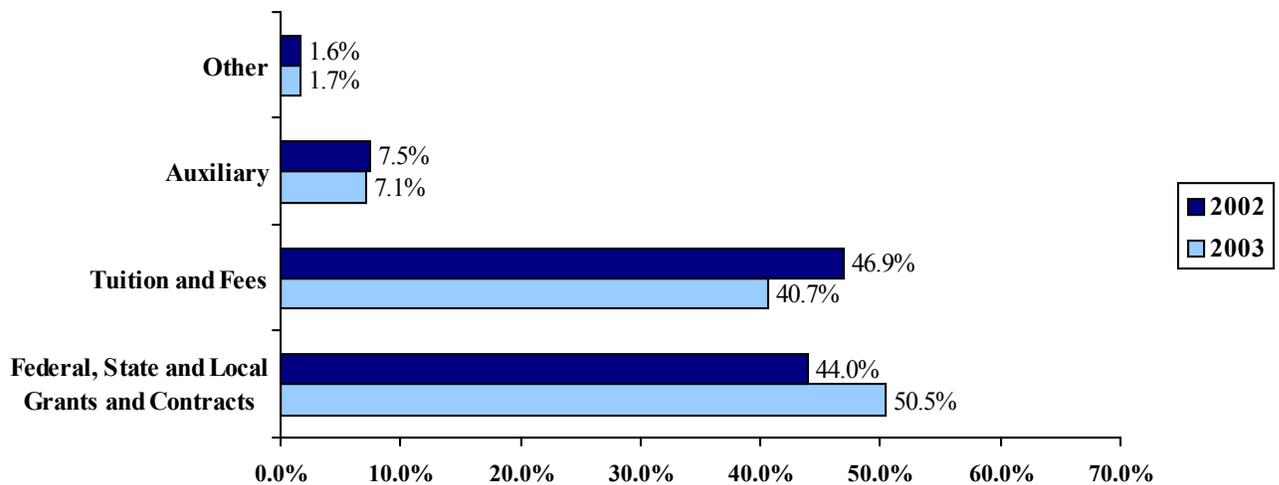
This information is summarized in the table below, which was prepared from the Statement of Revenues, Expenses, and Changes in Net Assets found on page 16.

REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2003 AND 2002
(In Thousands)

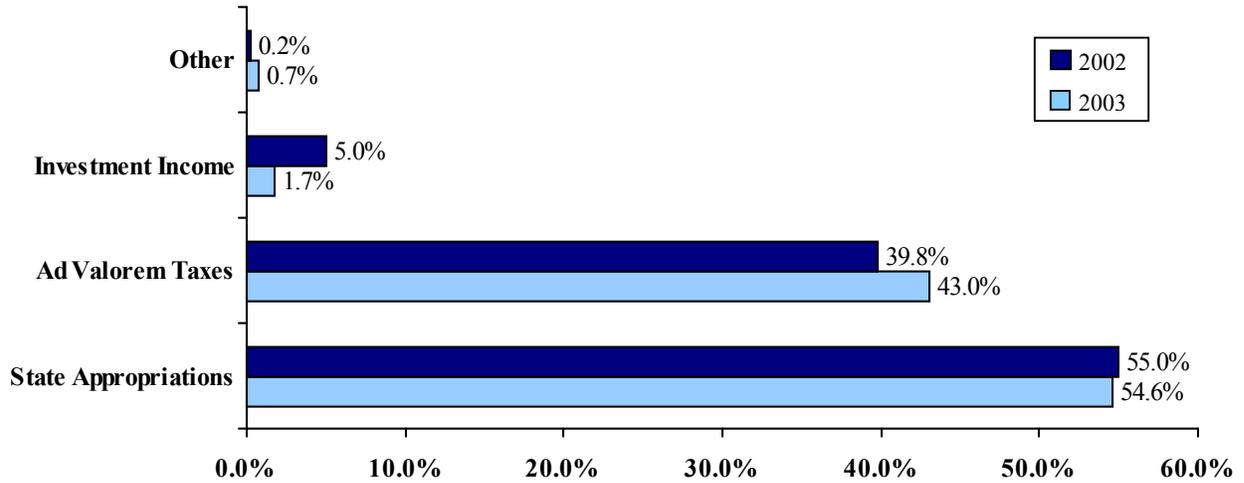
	Fiscal Year 2003	Fiscal Year 2002	Difference
OPERATING REVENUE	\$ 97,881	\$ 92,937	\$ 4,944
LESS OPERATING EXPENSES	<u>285,218</u>	<u>272,846</u>	<u>12,372</u>
NET OPERATING LOSS	(187,337)	(179,909)	(7,428)
NON-OPERATING REVENUE AND EXPENSE	182,891	177,973	4,918
OTHER EXPENSES—Change in capitalization policies	<u>-</u>	<u>(47,174)</u>	<u>47,174</u>
DECREASE IN NET ASSETS	(4,446)	(49,110)	44,664
NET ASSETS BEGINNING OF YEAR	<u>337,615</u>	<u>386,725</u>	<u>(49,110)</u>
NET ASSETS END OF YEAR	<u>\$ 333,169</u>	<u>\$ 337,615</u>	<u>\$ (4,446)</u>

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

Revenue by Source
Operating Revenues



Non-operating Revenues



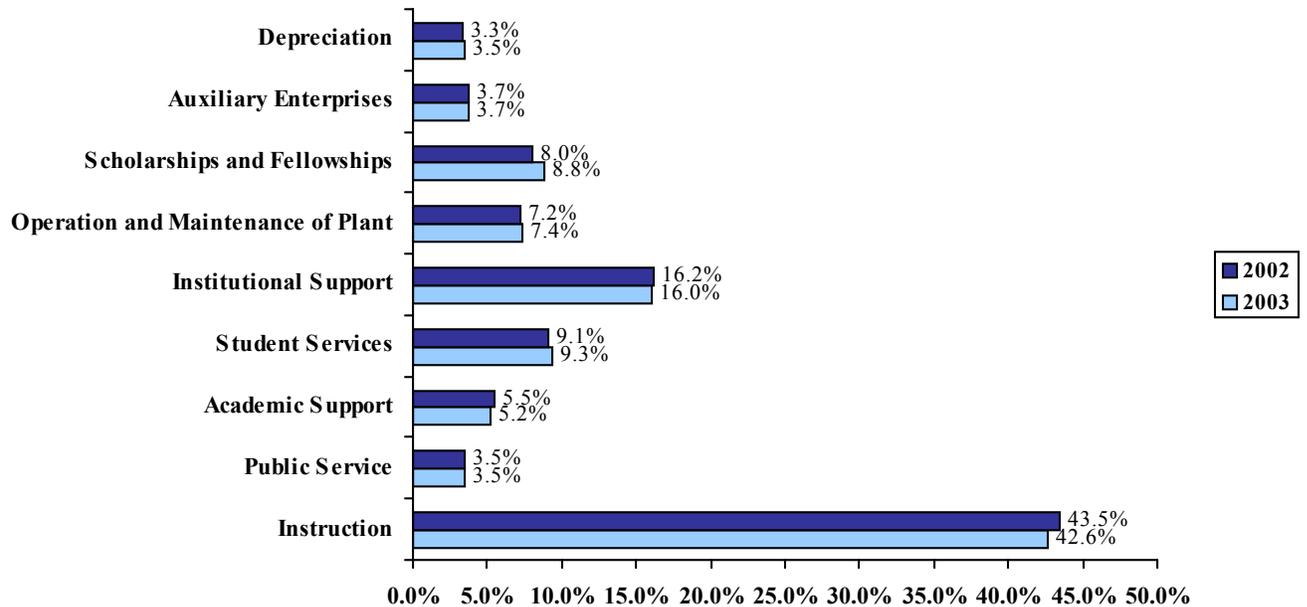
The breakdown of operating expenses by functional area for the years ended August 31, 2003 and 2002 appears in the following table.

OPERATING EXPENSES YEARS ENDED AUGUST 31, 2003 AND 2002 (In Thousands)

OPERATING EXPENSE	Fiscal Year 2003	Fiscal Year 2002	Difference
Instruction	\$ 121,450	\$ 118,222	\$ 3,228
Public service	9,954	9,685	269
Academic support	14,824	14,942	(118)
Student services	26,635	24,982	1,653
Institutional support	45,741	44,268	1,473
Operation and maintenance of plant	21,087	19,736	1,351
Scholarships and fellowships	25,012	21,875	3,137
Auxiliary enterprises	10,448	10,207	241
Depreciation	<u>10,067</u>	<u>8,929</u>	<u>1,138</u>
TOTAL	<u>\$ 285,218</u>	<u>\$ 272,846</u>	<u>\$ 12,372</u>

The following is a graphic illustration of operating expenses for fiscal years 2003 and 2002.

Operating Expenses



As would be expected, the bulk of operating expenses are for instruction in both fiscal year 2003 and 2002 at \$121.5 million and \$118.2 million respectively. Instruction expenses increased \$3.3 million or 2.7% compared to an overall increase in operating expenses of \$12.4 million or 4.5% over fiscal 2002. The most significant increase in operating expenses occurs in the Scholarship and fellowship category. This \$3.1 million increase is 14.3% above last year and largely represents the funding increases in this category by the federal and state governments. In general the increased expenses in all categories with the exception of scholarships and fellowships are due to increases in salaries and benefits. The District has recorded \$10.1 million in depreciation expense for the year ended August 31, 2003 and \$8.9 million for the year ended August 31, 2002. The level of depreciation for 2003 was 12.7% above 2002 levels because of an increased asset base. Information regarding policies for depreciation are disclosed in the notes to the financial statements (pages 20 and 25).

Financial Analysis

Overall, cash and investments have decreased \$19.7 million or 10.6% from last year. There is one primary factor that has contributed to this decrease—the District has been in the highest expenditure phase of its \$78 million capital improvement plan. Although \$10 million of maintenance tax notes were sold during the year, increasing the amount of available cash, facility construction caused a net decrease in available cash and investments.

An increase in “capital assets not subject to depreciation” as shown on the Statement of Net Assets is further evidence of the heightening of the construction program. Construction in progress increased \$27.5 million over the previous year.

Notably, there was a sharp increase in the amount of current bonds payable over the previous fiscal year. The 249.8% increase can be tied mainly to the first installment due on maintenance tax notes issued this year (see the discussion in the section below on Capital Asset and Non-Current Debt Activity).

An item of note in operating revenues is the decrease in net tuition. Student enrollments increased 9.7% for both the Fall 2002 and Spring 2003 semesters together over the previous Fall and Spring semesters. But many students have qualified for assistance through financial aid. The increase in financial aid recipients has been almost 20% for some programs. A consequence of the increase in financial aid students is an increased allowance for scholarships netted against tuition. As a result, tuition income appears to be lower despite a record number of students and a \$4 per credit hour increase in tuition that started in the summer sessions of 2003. Another contributing factor to the decrease in tuition from 2002 to 2003 is the reduced tuition pilot, which was conducted in both long semesters in 2003 but only one in 2002. This program increased discounts against tuition by \$1.1 million. Discounts overall increased a total of 84.5%. Another factor that reduced tuition is the fact that one college did not conduct a second summer session and several colleges omitted minimesters.

Considering the increase in enrollment over the prior year, the increase in operating expenses is somewhat modest at \$12.4 million or 4.5%. The increase in direct instructional costs accounts for approximately 25% of the increase in operating expenses. Another 27.2% of the increase is attributable to the increase in scholarships related to the influx of financial aid recipients previously mentioned.

Non-operating revenues and expenses fluctuated significantly. 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%. On the other hand, maintenance ad valorem tax revenue increased \$2.9 million or 3.9%. Since the tax rate stayed the same in 2003 as it was in 2002, the increase is attributable to the District's net assessed valuation increase of \$3.9 billion dollars. General economic conditions contributed to the major decrease in investment income 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. 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 \$4.9 million or 2.8%.

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.

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 to \$442.0 million in capital assets and \$168.8 in accumulated depreciation for net capital assets of \$273.2 million—an increase of \$26.8 million or 10.9%. The following table summarizes the breakdown of capital assets by fiscal year.

CAPITAL ASSETS, NET
YEARS ENDED AUGUST 31, 2003 AND 2002
(In Thousands)

	Fiscal Year 2003	Fiscal Year 2002	Difference
CAPITAL ASSETS:			
Land and improvements	\$ 30,947	\$ 29,111	\$ 1,836
Buildings	289,404	286,511	2,893
Equipment, furniture, and software	41,747	37,840	3,907
Library books	8,970	8,778	192
Construction in progress	<u>70,929</u>	<u>43,463</u>	<u>27,466</u>
Total	441,997	405,703	36,294
Less accumulated depreciation	<u>(168,762)</u>	<u>(159,313)</u>	<u>(9,449)</u>
Net capital assets	<u>\$ 273,235</u>	<u>\$ 246,390</u>	<u>\$ 26,845</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 has been building a number of significant additions to its campuses as a part of this overall capital improvement plan, which is expected to continue for four or more years into the future. These construction projects have been steadily progressing over the periods ended August 31, 2002 and 2003, and several of the projects should be completed during fiscal year 2004. This accounts for the significant increase of \$27.5 million of construction in progress noted in the previous table. Some of these projects are enumerated in the "Letter to the Community" on pages 2-3 of this document. 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. The initial issue of \$9.9 million was the first of \$50 million in maintenance tax notes expected to be issued within the next two years. Maintenance tax notes are financed by the current operations portion of ad valorem taxes. The tax amount committed to repayment of these notes this year is \$.0042 per \$100 of assessed valuation on real property. 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.

In preparation for selling the maintenance tax notes, Moody's Investment Services, Inc. and Fitch Company, Inc. were both approached for a credit rating. After careful review of the District's financial information and other factors, both organizations provided the District with their highest rating of triple-A. This will provide an advantage to the District as future construction financing needs develop.

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

Currently Known Facts, Decisions and Conditions

Because enrollment is expected to continue to grow in the coming years, the District is developing plans to meet growth needs both in terms of added instructional and support staff and in facility expansion. To support the effort to hire additional faculty, an additional increase in the tax rate of \$.01 per \$100 of assessed real

property valuation was approved (the tax rate moved from \$.06 per \$100 of assessed value to a total of \$.0778 per \$100 of assessed value). This increase is projected to generate an additional \$12.2 million in ad valorem tax revenue for the coming fiscal year. Facility needs are being determined and strategies will be developed for financing those needs. A legislative change (H.B. 1621) allowing an increase in pledged revenues from \$15 per student per long semester and \$7.50 per student per summer term to 25% of tuition collected will provide opportunities in connection with revenue bond borrowings.

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, 2003 AND 2002**

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	\$ 41,361,447	\$ 27,885,226
Accounts receivable (net)	16,882,510	16,100,616
Tuition and fees receivable (net)	6,947,622	3,906,004
Taxes receivable (net)	1,089,063	878,819
Deferred charges	11,820,137	11,353,525
Notes receivable	16,862	25,550
Inventories	571,347	586,646
Prepaid expenses	<u>1,159,577</u>	<u>1,193,178</u>
Total current assets	79,848,565	61,929,564
NON-CURRENT AND RESTRICTED ASSETS:		
Restricted cash and cash equivalents	4,918,097	12,502,111
Long-term investments	120,535,852	146,090,803
Deferred charges	2,875,685	3,216,285
Deposit with Bond Trustee	5,005,089	4,900,590
Capital assets (net) (See Note 5):		
Not subject to depreciation	90,442,464	62,784,260
Subject to depreciation	<u>182,792,826</u>	<u>183,606,008</u>
Total non-current assets	<u>406,570,013</u>	<u>413,100,057</u>
TOTAL ASSETS	486,418,578	475,029,621
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	24,319,514	20,297,764
Accrued liabilities	19,048,802	17,919,361
Accrued compensable absences	4,773,684	4,323,280
Funds held for others	1,521,906	1,503,596
Deferred revenues	32,678,823	29,395,229
Notes payable—current portion	169,502	162,485
Bonds payable—current portion	<u>9,080,000</u>	<u>3,635,000</u>
Total current liabilities	91,592,231	77,236,715
NON-CURRENT LIABILITIES:		
Accrued compensable absences	2,326,055	1,447,372
Notes Payable	805,954	975,456
Bonds payable	<u>58,525,000</u>	<u>57,755,000</u>
Total non-current liabilities	<u>61,657,009</u>	<u>60,177,828</u>
TOTAL LIABILITIES	153,249,240	137,414,543
NET ASSETS		
Invested in capital assets, net of related debt	215,480,290	188,181,468
Restricted for:		
Expendable		
Unexpended Bond Proceeds	-	310,000
Debt service	6,486,525	9,733,554
Unrestricted	<u>111,202,523</u>	<u>139,390,056</u>
TOTAL NET ASSETS	<u>\$ 333,169,338</u>	<u>\$ 337,615,078</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, 2003 AND 2002**

	2003	2002
OPERATING REVENUES:		
Tuition and charges (net of discounts of \$11,788,738 and \$6,388,960, respectively)	\$ 39,771,189	\$ 43,608,060
Federal grants and contracts	40,719,357	34,837,518
State grants and contracts	4,657,441	3,494,612
Non-governmental grants and contracts	4,133,147	2,521,797
Sales and services of educational activities	446,968	497,918
Auxiliary enterprises	6,975,428	6,970,033
General operating revenues	<u>1,177,256</u>	<u>1,007,198</u>
 Total operating revenues (schedule A)	 97,880,786	 92,937,136
OPERATING EXPENSES:		
Instruction	121,450,160	118,222,376
Public service	9,954,204	9,684,907
Academic support	14,823,518	14,941,981
Student services	26,635,350	24,981,952
Institutional support	45,741,192	44,267,563
Operation and maintenance of plant	21,086,945	19,735,934
Scholarships and fellowships	25,011,776	21,875,649
Auxiliary enterprises	10,447,407	10,206,724
Depreciation	<u>10,066,975</u>	<u>8,929,414</u>
 Total operating expenses (schedule B)	 <u>285,217,527</u>	 <u>272,846,500</u>
 OPERATING LOSS	 (187,336,741)	 (179,909,364)
NON-OPERATING REVENUES (EXPENSES):		
State appropriations	100,623,986	105,376,873
Maintenance ad valorem taxes	79,271,624	76,327,366
Gifts	723,092	279,721
Investment income	3,073,000	9,545,818
Gain on sale of investment	78,220	-
Contributions in aid of construction	495,952	-
Interest on capital related debt	(735,065)	(1,966,747)
Loss on disposal of fixed assets	(238,206)	(2,033,987)
Accrual for legal expense	-	(9,588,038)
Other non-operating revenue	52,225	70,771
Other non-operating expense	<u>(453,827)</u>	<u>(38,162)</u>
 Net non-operating revenues	 182,891,001	 177,973,615
 LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES	 (4,445,740)	 (1,935,749)
 OTHER EXPENSES—Change in Capitalization Policies	 <u>-</u>	 <u>(47,174,254)</u>
 DECREASE IN NET ASSETS	 (4,445,740)	 (49,110,003)
NET ASSETS:		
Net Assets—Beginning of Year	<u>337,615,078</u>	<u>386,725,081</u>
 Net Assets—End of Year	 <u>\$ 333,169,338</u>	 <u>\$ 337,615,078</u>

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

STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from students and other customers	\$ 47,168,342	\$ 49,709,391
Receipts from grants and contracts	47,491,141	41,872,728
Payments to suppliers for goods and services	(52,226,869)	(51,449,949)
Payments to or on behalf of employees	(189,637,593)	(179,202,422)
Payments for scholarships and fellowships	(23,845,238)	(21,901,063)
Loans issued to students	(37,485)	(56,461)
Collection of loans to students	60,580	63,212
Other receipts	1,162,849	1,001,724
Net cash used by operating activities	<u>(169,864,273)</u>	<u>(159,962,840)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from ad valorem taxes	78,284,332	75,811,475
Payments for collection of taxes	(1,572,716)	(1,530,189)
Receipts from state appropriations	100,623,986	105,376,873
Receipts from student organizations and other agency transactions	4,148,503	4,526,248
Payments to student organizations and other agency transactions	(4,130,193)	(4,016,069)
Proceeds from note borrowings	-	341,259
Payments on notes - principal	(162,485)	-
Payments on notes - interest	(45,796)	-
Other receipts	52,225	70,771
Other payments	(1,201,013)	(1,086,658)
Net cash provided by noncapital financing activities	<u>175,996,843</u>	<u>179,493,710</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds on issuance of capital debt	9,911,997	-
Contribution received in aid of construction	495,952	-
Proceeds from the sale of capital assets	240,447	8,683
Purchases of capital assets	(35,331,960)	(33,015,483)
Payments on capital debt - principal	(3,635,000)	(2,470,000)
Payments on capital debt - interest	(2,748,013)	(3,269,638)
Net cash used by capital and related financing activities	<u>(31,066,577)</u>	<u>(38,746,438)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	104,078,220	67,350,000
Interest on investments	7,546,994	10,701,679
Purchase of investments	(80,799,000)	(75,000,000)
Net cash provided by investing activities	<u>30,826,214</u>	<u>3,051,679</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,892,207	(16,163,889)
CASH AND CASH EQUIVALENTS—September 1	40,387,337	56,551,226
CASH AND CASH EQUIVALENTS—August 31	\$ 46,279,544	\$ 40,387,337
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$(187,336,741)	\$(179,909,364)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation expense	10,066,975	8,929,414
Tax collection fee	1,572,716	1,530,189
Bad debt expense	1,506,449	1,457,761
Accrued interest payable	(28,770)	35,258
Bond premium	(109,498)	1,162,758
Accrued ad valorem tax	(987,292)	249,819
Accrued interest receivable	899,886	(617,799)
Capitalized interest on note payable	-	42,215
Changes in assets and liabilities:		
Receivables (net)	(4,513,792)	(1,183,299)
Deferred expenses	(466,612)	(2,627,553)
Inventories	15,299	(61,443)
Notes receivable	8,688	1,277
Prepaid expenses	33,601	52,467
Accounts payable	4,021,750	9,793,121
Accrued liabilities	840,387	(1,302,734)
Compensated absences	1,329,087	1,312,184
Deferred revenue	3,283,594	1,172,889
Net cash used by operating activities	<u>\$(169,864,273)</u>	<u>\$(159,962,840)</u>

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

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS AUGUST 31, 2003 AND 2002

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 according to the definition in Governmental Accounting Standards Board (“GASB”) Statement 14 *The Financial Reporting Entity*. 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. As a result, the financial position and results of operations of the Foundation are not combined with the financial statements of the District. The Governmental Accounting Standards Board Statement No. 39 has been issued and will be effective in future years. It clarifies the inclusion criteria for affiliated entities. The District has not yet determined the effect on the Foundation because of the implementation of the new standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Implementation of New Accounting Standard—Effective September 1, 2001, the District adopted Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements - and Management’s Discussion Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

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.

As a result of implementing GASB 34, the previously reported combined fund balance reconciles to beginning net assets at September 1, 2001, as follows:

Fund balance, August 31, 2001, as previously reported	\$ 537,950,404
Accumulated depreciation on capital assets	(150,470,856)
Reduction for recognition of expense associated with notes payable	<u>(754,467)</u>
Net assets, September 1, 2001	<u>\$ 386,725,081</u>

Report Guidelines—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 recorded 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 \$11,820,137 and \$11,353,525 represent expenses for scholarships and fellowships related to the periods after August 31, 2003 and 2002, respectively.

The District defers and amortizes the production costs associated with instructional television programs and other related materials on a straight-line basis over the estimated useful life of such media, which ranges from two to five years. These materials are produced and used both internally for instruction and for lease by the District to other educational institutions. Aggregate deferred production costs, net of accumulated amortization, amounted to approximately \$2,875,685 and \$3,216,285 at August 31, 2003 and 2002, respectively, and have been included in the accompanying Statement of Net Assets as non-current deferred charges.

Capital Assets—Capital assets are stated at cost. Donated capital assets are recorded at their estimated fair market 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.

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, 2003 was \$(4,635,074), and the bank balance was \$478,756. The carrying amount of the District’s deposits with financial institutions as of August 31, 2002 was \$(3,307,778), and the bank balance was \$141,610. 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:

	2003	2002
Bank deposits:		
Local funds - demand	\$ (4,644,855)	\$ (3,317,184)
Imprest funds	8,500	8,500
Shop funds	<u>1,281</u>	<u>906</u>
	(4,635,074)	(3,307,778)
Cash on hand	18,136	20,898
Cash and cash equivalents:		
Investment in Texpool	35,957,779	9,751,051
Investment in TexSTAR	14,938,703	-
U. S. Treasury securities	-	21,421,055
U. S. Agency securities	<u>-</u>	<u>12,502,111</u>
	<u>50,896,482</u>	<u>43,674,217</u>
Total cash and cash equivalents	<u>\$46,279,544</u>	<u>\$40,387,337</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, 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.

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>

2002	Category			Amortized Cost	Fair Value
	1	2	3		
U.S. Treasury notes	\$ 31,148,715	\$ -	\$ -	\$ 31,148,715	\$ 31,638,255
U.S. Agency notes and bonds	<u>144,438,008</u>	<u> </u>	<u> </u>	<u>144,438,008</u>	<u>148,375,714</u>
	<u>\$175,586,723</u>	<u>\$ -</u>	<u>\$ -</u>	175,586,723	180,013,969
Investment in Texpool				<u>9,751,051</u>	<u>9,751,051</u>
Total investments				<u>\$185,337,774</u>	189,765,020
Less amounts classified as cash equivalents					<u>(43,674,217)</u>
Net					<u>\$146,090,803</u>

There were no investments held by broker-dealers under reverse repurchase agreements as of August 31, 2003 or 2002.

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.

This year TexSTAR was added to the list of investment pools authorized for use under the District's investment policy. Created in April 2002 through a contract among its participating governing units, the pool 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. 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, 2003 are scheduled to mature as follows:

Contractual Maturity	Cost	Value
Less than 1 year	\$ 85,956,538	\$ 86,562,782
1 to less than 2 years	30,000,000	30,095,300
2 to less than 3 years	13,765,000	13,951,633
3 to less than 4 years	35,799,097	35,856,969
4 to less than 5 years	<u>5,000,000</u>	<u>4,965,650</u>
Total investments	<u>\$170,520,635</u>	<u>\$171,432,334</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, 2003 and 2002 were as follows:

	2003	2002
Ad valorem taxes	\$ 5,416,003	\$ 4,428,712
Student tuition and sales	7,577,177	4,612,988
Federal grants	13,437,626	11,731,871
State grants	477,375	602,286
Local grants	524,511	203,831
Interest on investments	846,232	1,746,118
Other receivables	<u>1,990,432</u>	<u>2,204,769</u>
 Total receivables	 30,269,356	 25,530,575
 Less allowances for uncollectible amounts:		
Ad valorem taxes	(4,326,940)	(3,549,893)
Student tuition and sales	(629,555)	(706,984)
Other receivables	<u>(393,666)</u>	<u>(388,259)</u>
 Total allowances	 <u>(5,350,161)</u>	 <u>(4,645,136)</u>
 Total receivables, net of allowances	 <u>\$ 24,919,195</u>	 <u>\$ 20,885,439</u>

Payables—Payables at August 31, 2003 and 2002 were as follows:

	2003	2002
Vendors payable	\$ 15,524,725	\$ 12,543,341
Salaries and benefits payable	64,701	648,898
Students payable	<u>8,730,088</u>	<u>7,105,525</u>
 Total	 <u>\$ 24,319,514</u>	 <u>\$ 20,297,764</u>

5. CAPITAL ASSETS

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

	Balance September 1, 2002	Increases	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	<u>43,463,468</u>	<u>27,475,170</u>	<u>(9,119)</u>	<u>70,929,519</u>
Total not depreciated	62,784,260	27,862,954	(204,750)	90,442,464
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	<u>37,840,285</u>	<u>4,798,818</u>	<u>(891,803)</u>	<u>41,747,300</u>
Total depreciated	342,919,064	9,527,696	(891,803)	351,554,957
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	<u>(26,393,722)</u>	<u>(3,502,438)</u>	<u>617,900</u>	<u>(29,278,260)</u>
Total accumulated depreciation	<u>(159,313,056)</u>	<u>(10,066,975)</u>	<u>617,900</u>	<u>(168,762,131)</u>
Net capital assets	<u>\$ 246,390,268</u>	<u>\$ 27,323,675</u>	<u>\$ (478,653)</u>	<u>\$ 273,235,290</u>

Capital assets activity for the year ended August 31, 2002 was as follows:

	Balance September 1, 2001	Increases	Decreases	Balance August 31, 2002
Capital assets not subject to depreciation:				
Land	\$ 10,326,463	\$ 216,706	\$ -	\$ 10,543,169
Library books	14,370,681	388,282	(5,981,340)	8,777,623
Construction in progress	<u>15,213,912</u>	<u>28,249,556</u>	<u>-</u>	<u>43,463,468</u>
Total not depreciated	39,911,056	28,854,544	(5,981,340)	62,784,260
Capital assets subject to depreciation:				
Buildings	286,511,245	-	-	286,511,245
Land improvements	18,288,838	304,257	(25,561)	18,567,534
Furniture, machinery, vehicles, and other equipment	<u>77,022,342</u>	<u>4,115,179</u>	<u>(43,297,236)</u>	<u>37,840,285</u>
Total depreciated	381,822,425	4,419,436	(43,322,797)	342,919,064
Accumulated depreciation:				
Buildings	(113,589,489)	(5,698,743)	-	(119,288,232)
Land improvements	(12,809,254)	(821,848)	-	(13,631,102)
Furniture, machinery, vehicles, and other equipment	<u>(24,072,113)</u>	<u>(2,408,823)</u>	<u>87,214</u>	<u>(26,393,722)</u>
Total accumulated depreciation	<u>(150,470,856)</u>	<u>(8,929,414)</u>	<u>87,214</u>	<u>(159,313,056)</u>
Net capital assets	<u>\$ 271,262,625</u>	<u>\$ 24,344,566</u>	<u>\$ (49,216,923)</u>	<u>\$ 246,390,268</u>

At the time of implementation of GASB 34 the decision was made to change the capitalization threshold to \$5,000 from \$500. This resulted in capital assets being adjusted down by \$41,477,089. Also, previously capitalized library media were determined not to be included as part of the permanent collection resulting in \$5,697,165 being removed from capital assets. These amounts are included in the "Decreases" column above.

6. NON-CURRENT LIABILITIES

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
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>\$ 68,298,593</u>	<u>\$ 11,179,087</u>	<u>\$ (3,797,485)</u>	<u>\$ 75,680,195</u>	<u>\$ 14,023,186</u>

Non-current liability activity for the year ended August 31, 2002 was as follows:

	Balance September 1, 2001	Additions	Reductions	Balance August 31, 2002	Current Portion
Series 1986 A-D Rate Adjustable Mode Consolidated District Revenue Bonds	\$ 11,400,000	\$ -	\$ (2,000,000)	\$ 9,400,000	\$ 2,200,000
Series 1998 Revenue Financing System Refunding Bonds	12,460,000	-	(160,000)	12,300,000	75,000
Series 2001 Revenue Financing System Bonds	40,000,000	-	(310,000)	39,690,000	1,360,000
Notes payable	754,467	383,474	-	1,137,941	162,485
Compensated absences	<u>4,458,468</u>	<u>5,438,215</u>	<u>(4,126,031)</u>	<u>5,770,652</u>	<u>4,323,280</u>
Total	<u>\$ 69,072,935</u>	<u>\$ 5,821,689</u>	<u>\$ (6,596,031)</u>	<u>\$ 68,298,593</u>	<u>\$ 8,120,765</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	1/16/87
Series 1998 Revenue Financing System Refunding Bonds	16,550,000	4.00%-4.90%	1998	2012	2/15/09
Series 2001 Revenue Financing System Bonds	40,000,000	4.00%-5.375%	2002	2021	2/15/10
Series 2003 Maintenance Tax Notes	9,850,000	2.00%-2.50%	2003	2007	N/A

On August 6, 2003, the District issued \$9,850,000 of Maintenance Tax Notes ("Series 2003 Notes") 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 proceeds of the notes are being used to pay for maintenance expenses associated with various facilities of the District. This issue represents the first of \$50,000,000 in maintenance tax notes that are expected to be issued within the next two years. 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.

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 0.85% interest rate, which was the rate in effect at August 31, 2003.)

	Principal	Interest	Total
Year ended August 31:			
2004	\$ 9,080,000	\$ 2,697,468	\$ 11,777,468
2005	7,220,000	2,478,168	9,698,168
2006	4,925,000	2,328,971	7,253,971
2007	3,945,000	2,188,893	6,133,893
2008	3,515,000	2,026,021	5,541,021
2009 - 2013	17,875,000	7,564,639	25,439,639
2014 - 2018	12,140,000	3,974,844	16,114,844
2019 - 2021	<u>8,905,000</u>	<u>688,653</u>	<u>9,593,653</u>
	<u>\$67,605,000</u>	<u>\$23,947,657</u>	<u>\$91,552,657</u>

The note payable accrues interest at 4.25% and is payable in quarterly installments beginning on November 30, 2002. During the fiscal year ended August 31, 2002, \$42,215 of interest was added to the principal balance of the note. Total payment of the note principal and interest is payable as follows:

	Principal	Interest	Total
Year ended August 31:			
2004	\$ 169,502	\$ 38,779	\$ 208,281
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>\$975,456</u>	<u>\$118,019</u>	<u>\$1,093,475</u>

7. RETIREMENT PLAN

The State of Texas has joint contributory retirement plans for almost all of its employees. One of the primary plans in which the District participates is administered by 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 2003 and 2002 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, 2003 and 2002 was \$75,293,858 and \$71,477,015 respectively. The total payroll of the District was \$162,170,412 and \$154,790,675 for the years ended August 31, 2003 and 2002, 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 2003 and 2002 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, 2003 and 2002. The payroll for employees covered by the optional retirement plan for the years ended August 31, 2003 and 2002, was \$54,783,905 and \$53,484,532 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 \$6,881,299 and \$6,524,393 for the fiscal years ended August 31, 2003 and 2002 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. The plan is essentially an unfunded promise to pay by the employer to each of the plan participants. 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.

As of August 31, 2002 the District had 16 employees participating in the program. A total of \$368,506 in contributions were invested in the plan during the fiscal year. By special Board of Trustees action all participants but one were classified as vested as of August 31, 2002 resulting in establishment of a payable of \$690,725 and leaving deferred salaries and accumulated earnings of only \$52,739 at fiscal year end.

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, 2003 the District has 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 a current liability and \$2,326,055 was recorded as a non-current liability. As of August 31, 2002 the District had recognized the accrued liability for the unpaid annual leave, including amounts for salary-related payments, for \$5,770,652 of which \$4,323,280 was recorded as current liability and \$1,447,372 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 paid to 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, 2003 are \$14,800,113.

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 date of final outcome is not determinable at this time.

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 is estimated at approximately \$6,000,000. While insurance is expected to cover most of the costs, a contingent liability has been established to cover those costs not reimbursed by insurance.

11. OPERATING LEASE COMMITMENTS AND RENTAL AGREEMENTS

Included in operating expenses is \$2,199,912 and \$2,475,577 of rent paid during fiscal years 2003 and 2002, respectively.

Future minimum lease payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2003 are as follows:

Year Ended	Minimum Future Lease Payments
2004	\$ 1,424,798
2005	1,315,758
2006	564,498
2007	409,242
2008	355,643
Thereafter	<u>442,395</u>
Total	<u>\$4,512,334</u>

In September 2001 leased rights to use specialized geology software for 3 years were donated to the District. While it has potential educational value for students and the public, the actual value cannot be determined and accordingly was not recorded.

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 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. Contract and grant awards funds already committed, e.g., multiyear awards, or funds awarded during fiscal year 2002 for which monies have not been received nor funds expended totaled \$10,472,444. Of this amount, \$7,670,707 is from federal contract and grant awards, \$2,373,825 is from state contract and grant awards and \$427,912 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 \$285,767 and \$295,705 as of August 31, 2003 and 2002 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 as been recorded as of August 31, 2003 of \$328,028 and is included in the accompanying Statement of Net Assets.

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.

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.

For the year ended August 31, 2002 the state's maximum contribution per full-time employee was \$276.02 per month for the year and totaled \$3,312.24 per employee for the year. The state also paid an additional amount for a spouse, child(ren), or both for a maximum amount of \$433.45, \$381.43, and \$538.86 per month, respectively. The cost of providing those benefits for the year was \$2,267,262 for 627 retirees and \$11,307,267 for 2,782 active employees.

The health insurance expense to the state for the District was \$12,206,226 and \$11,298,394 for the fiscal years ended August 31, 2003 and 2002 respectively. The amounts represent the portion of expended appropriations made by the State Legislature on behalf of the District.

During the prior fiscal year, the Employees Retirement System reallocated General Revenue Fund appropriations between institutions of higher education for fiscal year 01-02 to offset a shortfall in appropriations. The amount of additional appropriation to the District was \$629,411. Since the additional revenue was unexpected, no receivable was recorded in the prior year.

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.

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, 2003 and 2002 were \$79,860,108 and \$74,981,567 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 2003 and 2002 to finance the operations and maintenance was \$.0600 per \$100 of assessed valuation

on real property, leaving a tax margin of \$.6000 per \$100 of assessed valuation on real and personal property. Approximately \$791,024,243 of additional taxes could be raised per year based on the 2003 assessed value of \$131,837,373,872 for real property before the limit is reached. In 2002 approximately \$767,650,484 of additional taxes could have been raised per year based on the 2002 assessed value of \$127,941,747,364 for real property before the limit would have been reached.

At August 31, 2003 and 2002:

	2003	2002
Assessed valuation of the District	\$ 159,130,757,365	\$ 150,143,446,501
Less exemptions	<u>27,293,383,493</u>	<u>22,201,699,137</u>
Net assessed valuation of the District	<u>\$ 131,837,373,872</u>	<u>\$ 127,941,747,364</u>

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.

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>
Taxes Collected - 2002	Current Operations	Debt Service	Total
Current	\$ 74,348,500	\$ -	\$ 74,348,500
Delinquent	1,305,171	-	1,305,171
Penalties and interest	<u>673,695</u>	<u>-</u>	<u>673,695</u>
Total collections	<u>\$ 76,327,366</u>	<u>\$ -</u>	<u>\$ 76,327,366</u>

Tax collections for the years ended August 31, 2003 and 2002 were approximately 96% and 99%, 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 and ad valorem taxes that are not received within 60 days after year-end, are recorded on the Statement of Net Assets as deferred revenues in the current fiscal year.

Deferred revenue balances at August 31, 2003 and 2002 are as follows:

	2003	2002
Deferred revenues related to students and other customers	\$20,173,184	\$16,772,311
Deferred revenues related to grants and contracts	<u>12,505,639</u>	<u>12,622,918</u>
Total deferred revenue	<u>\$32,678,823</u>	<u>\$29,395,229</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, 2003 or 2002.

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 2003	Taxes Forgone in 2002
Cityplace	100%	\$ 112,152	\$ 104,081
City Center	100	-	292,242
Oak Cliff Gateway	100	10,947	9,771
State - Thomas	100	127,097	136,515
City of Irving	100	89,889	107,808
City of Farmers Branch Mercer Crossing	35	9,538	9,290
City of Farmers Branch Old Farmers Branch	100	97	49
City of Grand Prairie #1	100	7,858	9,176
City of Grand Prairie #2	100	3,239	6,080
City of Grand Prairie #3	100	254	-
Total tax forgone		<u>\$ 361,071</u>	<u>\$ 675,012</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.

22. GENERAL OPERATING REVENUES

General operating revenues of \$1,177,256 and \$1,007,198 for the years ended August 31, 2003 and 2002, 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 \$243 and \$276 for August 31, 2003 and 2002 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 contracted out.

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.

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE A

**SCHEDULE OF DETAILED OPERATING REVENUES
YEAR ENDED AUGUST 31, 2003**

	Educational Activities	Auxiliary Enterprises	Total
TUITION:			
State funded courses			
In-district resident tuition	\$ 31,442,266	\$ -	\$ 31,442,266
Out-of-district resident tuition	8,488,864	-	8,488,864
TPEG (set aside) *	2,567,754	-	2,567,754
Non-resident tuition	6,359,451	-	6,359,451
Non-state funded continuing education	<u>2,148,483</u>	<u>-</u>	<u>2,148,483</u>
Total tuition	<u>51,006,818</u>	<u>-</u>	<u>51,006,818</u>
CHARGES:			
Distance learning charges	185,554	-	185,554
Installment plan charges	364,355	-	364,355
Prior year tuition and charges	<u>3,200</u>	<u>-</u>	<u>3,200</u>
Total charges	<u>553,109</u>	<u>-</u>	<u>553,109</u>
SCHOLARSHIP ALLOWANCES AND DISCOUNTS:			
Remissions and exemptions	(1,790,179)	-	(1,790,179)
Reduced tuition pilot	(1,847,951)	-	(1,847,951)
Title IV federal grants	(5,911,149)	-	(5,911,149)
Other federal grants	(789,889)	-	(789,889)
TPEG awards	(865,997)	-	(865,997)
Other state grants	(374,510)	-	(374,510)
Rising Star Program	(195,979)	-	(195,979)
Other local grants	<u>(13,084)</u>	<u>-</u>	<u>(13,084)</u>
Total scholarship allowances	<u>(11,788,738)</u>	<u>-</u>	<u>(11,788,738)</u>
Total net tuition and charges	<u>39,771,189</u>	<u>-</u>	<u>39,771,189</u>
ADDITIONAL OPERATING REVENUES:			
Federal grants and contracts	40,637,058	82,299	40,719,357
State grants and contracts	4,657,441	-	4,657,441
Non-governmental grants and contracts	4,133,147	-	4,133,147
Sales and services of educational activities	446,968	-	446,968
General operating revenues	<u>1,177,256</u>	<u>-</u>	<u>1,177,256</u>
Total additional operating revenues	<u>51,051,870</u>	<u>82,299</u>	<u>51,134,169</u>
AUXILIARY ENTERPRISES:			
Bookstore	-	1,495,770	1,495,770
Food service	-	620,341	620,341
Center for Educational Telecommunications	-	3,476,227	3,476,227
Business Incubation Center	-	211,551	211,551
Universities Center of Dallas	-	450,617	450,617
Student programs	<u>-</u>	<u>720,922</u>	<u>720,922</u>
Total net auxiliary enterprises	<u>-</u>	<u>6,975,428</u>	<u>6,975,428</u>
TOTAL OPERATING REVENUES (EXHIBIT 2)	<u>\$ 90,823,059</u>	<u>\$ 7,057,727</u>	<u>\$ 97,880,786</u>

* In accordance with Education Code 53.033, \$2,567,754 of tuition was set aside for Texas Public Education Grants (TPEG).

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE A

**SCHEDULE OF DETAILED OPERATING REVENUES
YEAR ENDED AUGUST 31, 2002**

	Educational Activities	Auxiliary Enterprises	Total
TUITION:			
State funded courses			
In-district resident tuition	\$ 30,321,249	\$ -	\$ 30,321,249
Out-of-district resident tuition	7,724,723	-	7,724,723
TPEG (set aside) *	2,195,518	-	2,195,518
Non-resident tuition	7,346,044	-	7,346,044
Non-state funded continuing education	<u>1,943,992</u>	<u>-</u>	<u>1,943,992</u>
Total tuition	<u>49,531,526</u>	<u>-</u>	<u>49,531,526</u>
CHARGES:			
Distance learning charges	90,935	-	90,935
Installment plan charges	320,090	-	320,090
Non-instructional contract training charges	3,090	-	3,090
Prior year tuition and charges	<u>51,379</u>	<u>-</u>	<u>51,379</u>
Total charges	<u>465,494</u>	<u>-</u>	<u>465,494</u>
SCHOLARSHIP ALLOWANCES AND DISCOUNTS:			
Remissions and exemptions	(1,921,452)	-	(1,921,452)
TPEG allowances	(134,403)	-	(134,403)
Texas Grant	(6,706)	-	(6,706)
Federal grants to students	(2,449,732)	-	(2,449,732)
Rising Star Program	(203,314)	-	(203,314)
Grant allowances	(950,811)	-	(950,811)
Reduced tuition pilot	<u>(722,542)</u>	<u>-</u>	<u>(722,542)</u>
Total scholarship allowances	<u>(6,388,960)</u>	<u>-</u>	<u>(6,388,960)</u>
Total net tuition and charges	<u>43,608,060</u>	<u>-</u>	<u>43,608,060</u>
ADDITIONAL OPERATING REVENUES:			
Federal grants and contracts	34,837,518	-	34,837,518
State grants and contracts	3,494,612	-	3,494,612
Non-governmental grants and contracts	2,521,797	-	2,521,797
Sales and services of educational activities	497,918	-	497,918
General operating revenues	<u>1,007,198</u>	<u>-</u>	<u>1,007,198</u>
Total additional operating revenues	<u>42,359,043</u>	<u>-</u>	<u>42,359,043</u>
AUXILIARY ENTERPRISES:			
Bookstore	-	1,338,483	1,338,483
Food service	-	547,340	547,340
Center for Educational Telecommunications	-	3,523,803	3,523,803
Business Incubation Center	-	242,804	242,804
Universities Center of Dallas	-	459,733	459,733
Student programs	<u>-</u>	<u>857,870</u>	<u>857,870</u>
Total net auxiliary enterprises	<u>-</u>	<u>6,970,033</u>	<u>6,970,033</u>
TOTAL OPERATING REVENUES (EXHIBIT 2)	<u>\$ 85,967,103</u>	<u>\$ 6,970,033</u>	<u>\$ 92,937,136</u>

* In accordance with Education Code 53.033, \$2,195,518 of tuition was set aside for Texas Public Education Grants (TPEG).

DALLAS COMMUNITY COLLEGE DISTRICT

SCHEDULE B

**SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATIONS
YEAR ENDED AUGUST 31, 2003**

	Operating Expenses				Total (Exhibit 2)
	Salaries and Wages	Benefits		Other Expenses	
		State	Local		
EDUCATIONAL ACTIVITIES:					
Instruction	\$ 89,829,578	\$ 11,221,605	\$ 5,142,783	\$ 15,256,194	\$ 121,450,160
Public service	4,016,351	318,670	146,044	5,473,139	9,954,204
Academic support	9,457,687	1,151,062	527,524	3,687,245	14,823,518
Student services	18,274,341	1,997,137	915,274	5,448,598	26,635,350
Institutional support	29,665,137	3,592,680	1,646,500	10,836,875	45,741,192
Operation and maintenance of plant	6,355,652	806,371	369,554	13,555,368	21,086,945
Scholarships and Fellowships	-	-	-	25,011,776	25,011,776
Total educational activities	157,598,746	19,087,525	8,747,679	79,269,195	264,703,145
AUXILIARY ENTERPRISES	4,571,666	-	782,728	5,093,013	10,447,407
DEPRECIATION EXPENSE	-	-	-	10,066,975	10,066,975
TOTAL	<u>\$ 162,170,412</u>	<u>\$ 19,087,525</u>	<u>\$ 9,530,407</u>	<u>\$ 94,429,183</u>	<u>\$ 285,217,527</u>

DALLAS COMMUNITY COLLEGE DISTRICT

SCHEDULE B

**SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL AND NATURAL CLASSIFICATIONS
YEAR ENDED AUGUST 31, 2002**

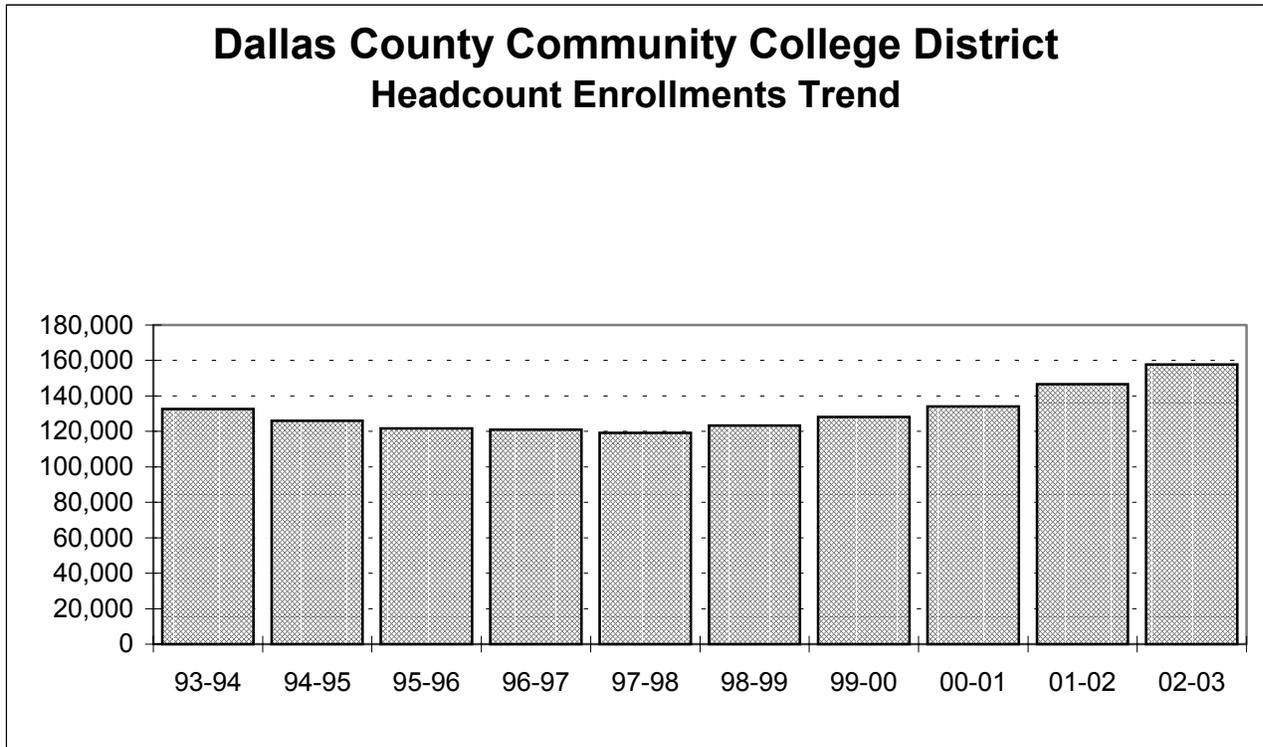
	Operating Expenses				Total (Exhibit 2)
	Salaries and Wages	Benefits		Other Expenses	
		State Benefits	Local Benefits		
EDUCATIONAL ACTIVITIES:					
Instruction	\$ 85,494,202	\$ 10,583,536	\$ 4,338,816	\$ 17,805,822	\$ 118,222,376
Public service	3,965,937	302,915	124,183	5,291,872	9,684,907
Academic support	9,604,885	1,161,642	476,226	3,699,228	14,941,981
Student services	17,251,765	1,818,081	745,339	5,166,767	24,981,952
Institutional support	27,212,292	3,285,507	1,346,923	12,422,841	44,267,563
Operation and maintenance of plant	5,956,940	750,710	307,760	12,720,524	19,735,934
Scholarships and Fellowships	11,256	-	-	21,864,393	21,875,649
Total educational activities	149,497,277	17,902,391	7,339,247	78,971,447	253,710,362
AUXILIARY ENTERPRISES	5,293,398	-	810,134	4,103,192	10,206,724
DEPRECIATION EXPENSE	-	-	-	8,929,414	8,929,414
TOTAL	<u>\$ 154,790,675</u>	<u>\$ 17,902,391</u>	<u>\$ 8,149,381</u>	<u>\$ 92,004,053</u>	<u>\$ 272,846,500</u>

STATISTICAL SECTION

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

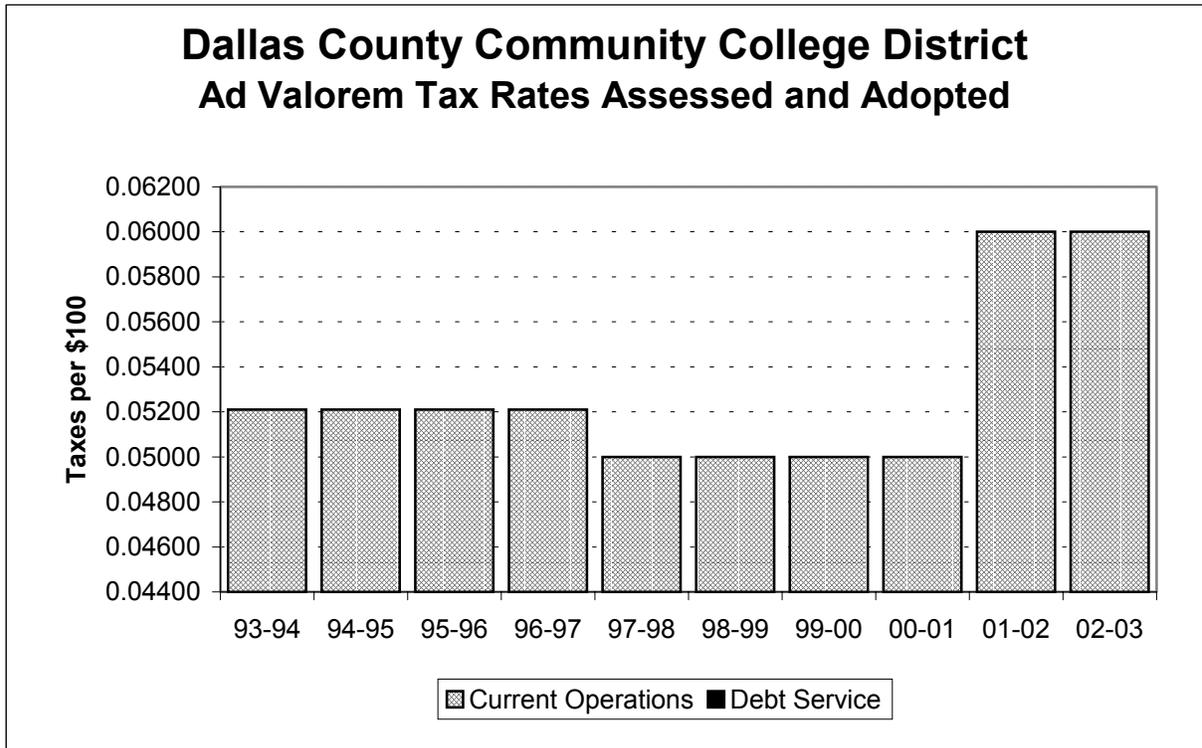
Dallas County Community College District
 Credit Headcount Enrollments for All Campuses
 Last 10 Fiscal Years
 (UNAUDITED)

State Funded	
Fiscal Year	Total Enrollment
1993-94	132,700
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



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

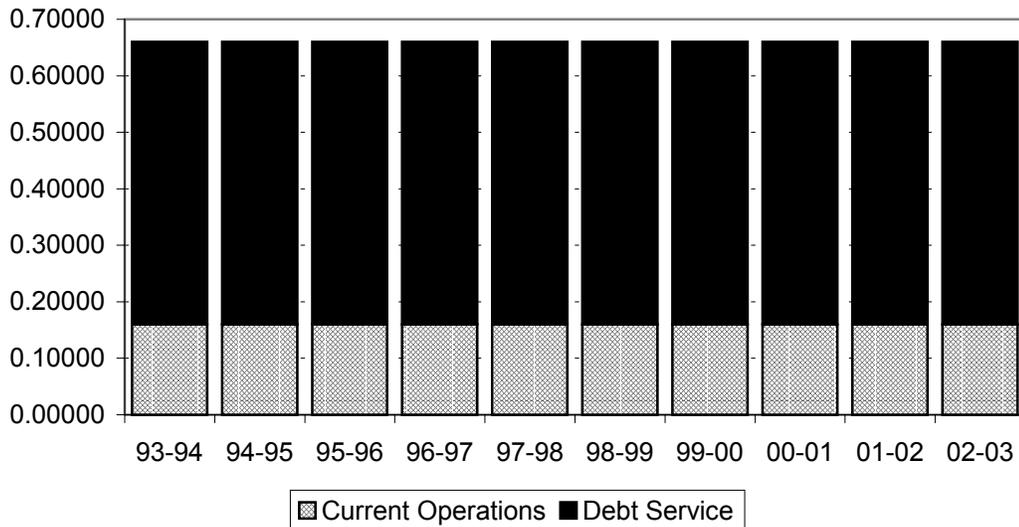
Fiscal Year	Current Operations	Debt Service	Total
1993-94	0.05210	0.00000	0.05210
1994-95	0.05210	0.00000	0.05210
1995-96	0.05210	0.00000	0.05210
1996-97	0.05210	0.00000	0.05210
1997-98	0.05000	0.00000	0.05000
1998-99	0.05000	0.00000	0.05000
1999-00	0.05000	0.00000	0.05000
2000-01	0.05000	0.00000	0.05000
2001-02	0.06000	0.00000	0.06000
2002-03	0.06000	0.00000	0.06000



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

Fiscal Year	Current Operations	Debt Service	Total
93-94	0.1600	0.5000	0.6600
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

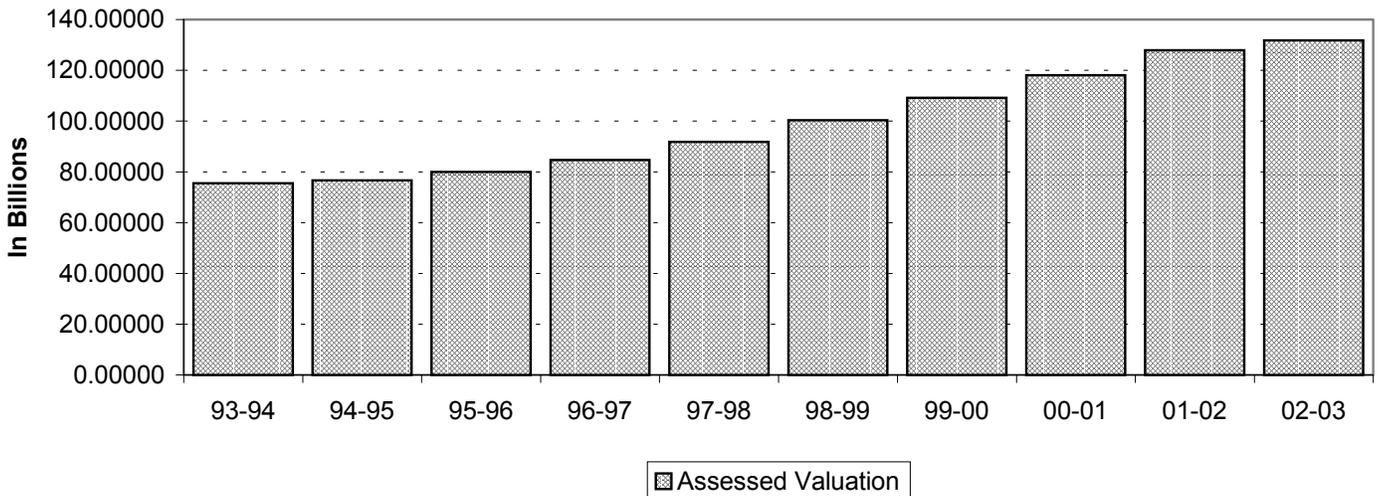
**Dallas County Community College District
 Ad Valorem Tax Rates Authorized**



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

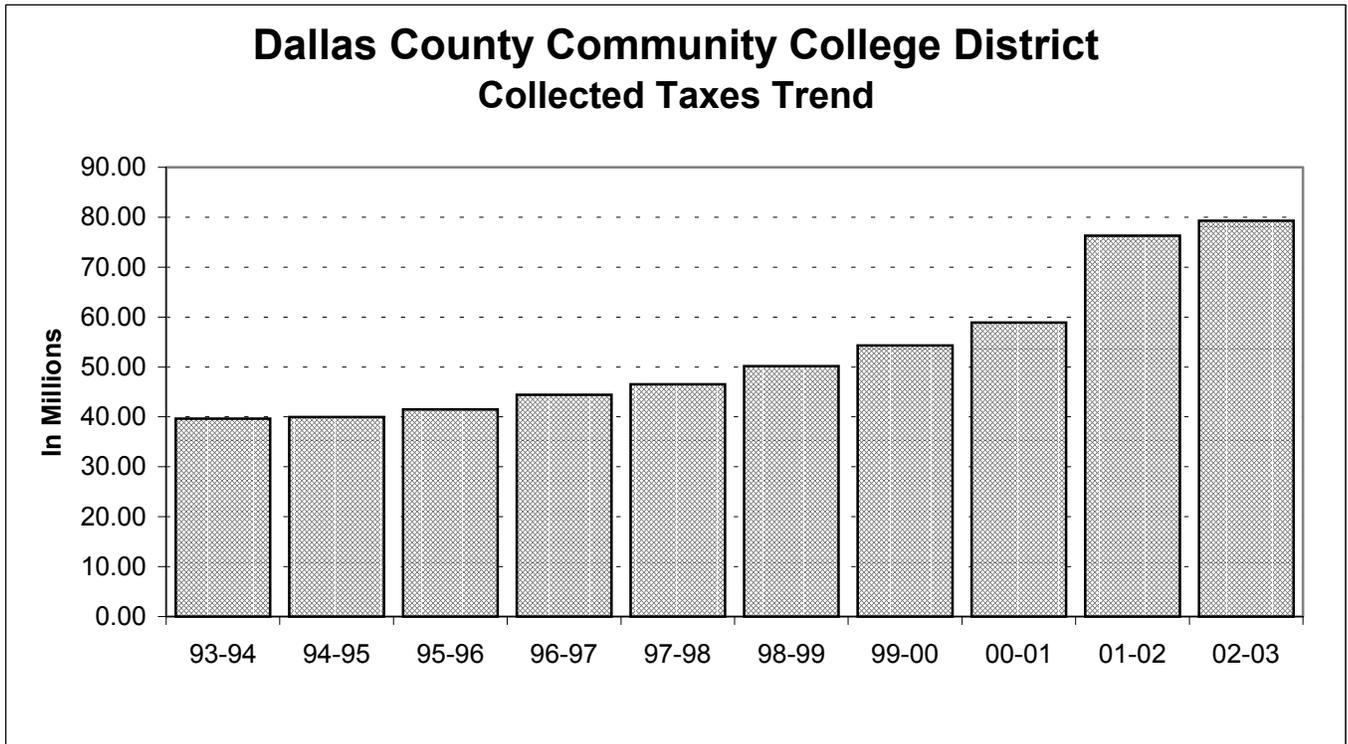
Fiscal Year	Assessed Valuation	Less: Exemptions	Net Assessed Valuation
1993-94	\$75,590,923,651	n/a	\$75,590,923,651
1994-95	76,669,604,827	n/a	76,669,604,827
1995-96	80,051,281,545	n/a	80,051,281,545
1996-97	101,489,274,822	\$16,820,710,237	84,668,564,585
1997-98	107,875,664,180	16,040,225,271	91,835,438,909
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

**Dallas County Community College District
 Net Assessed Valuation Trend**



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

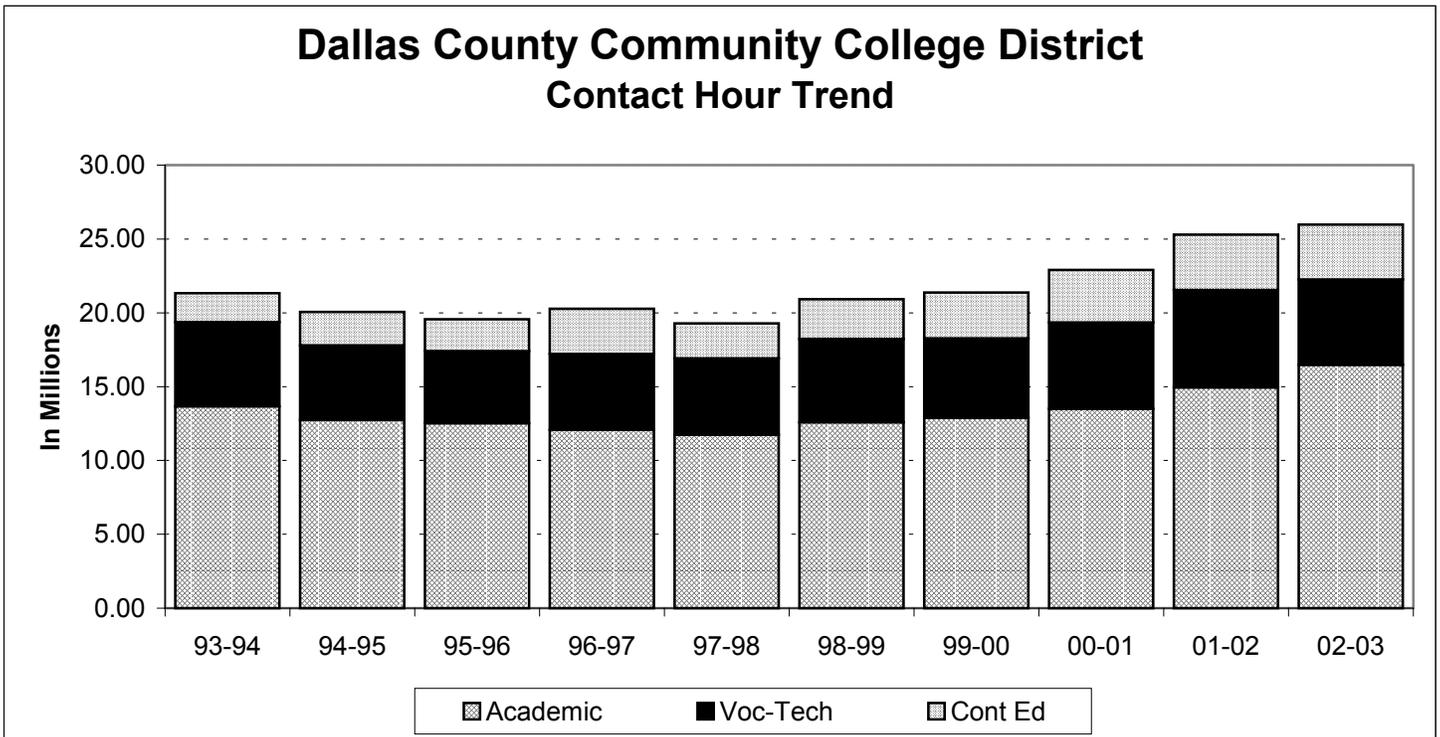
Fiscal Year	Current Tax Collections*	Delinquent Collections	Total Tax Collections
1993-94	\$ 39,009,050	\$ 647,845	\$ 39,656,895
1994-95	39,500,857	467,486	39,968,343
1995-96	41,026,891	458,437	41,485,328
1996-97	43,692,021	730,186	44,422,207
1997-98	45,596,471	942,765	46,539,236
1998-99	49,513,797	636,588	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



* Current Tax Collections include Penalty and Interest payments.

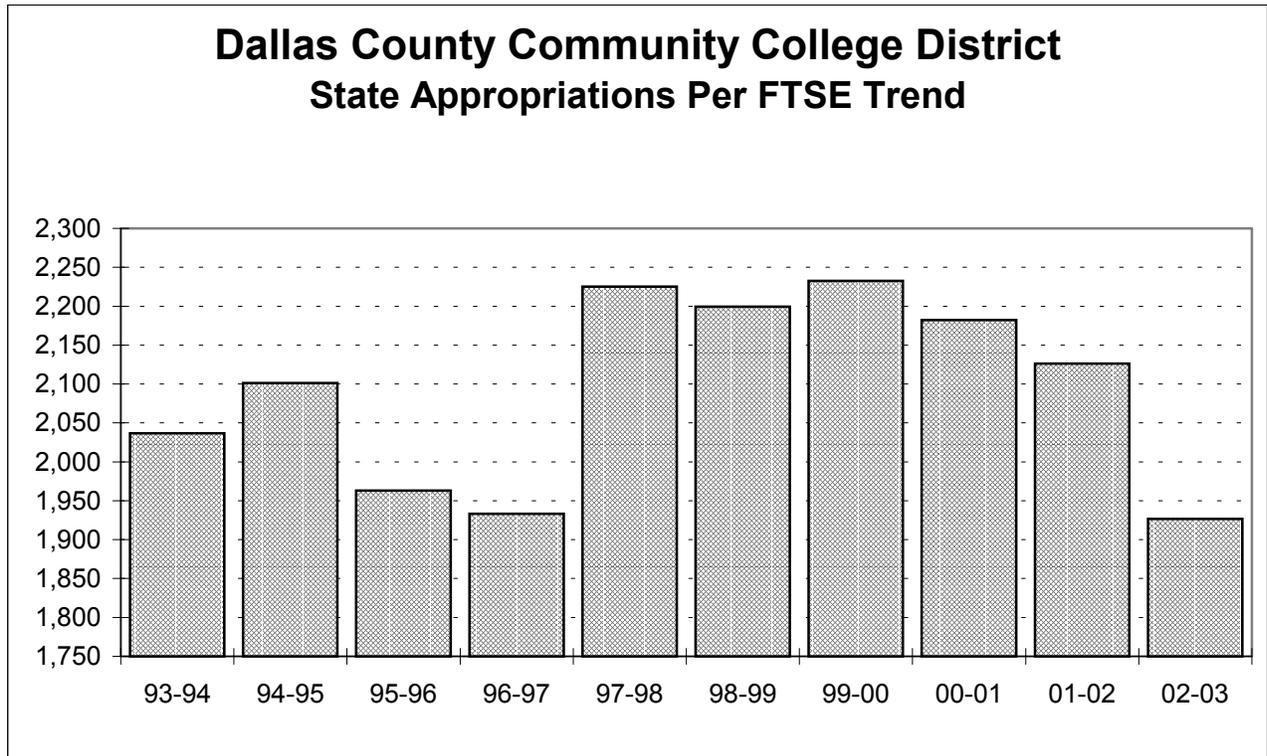
Dallas County Community College District
 Contact Hour History
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	Academic	Vocational Technical	Continuing Ed	Total
1993-94	13,679,568	5,696,747	1,961,923	21,338,238
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



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

Fiscal Year	Appropriations Per FTSE
1993-94	\$2,036
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



DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

OMB CIRCULAR A-133

SUPPLEMENTAL FINANCIAL AND COMPLIANCE REPORT

YEAR ENDED AUGUST 31, 2003

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT OF FINANCIAL STATEMENTS 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, 2003, and have issued our report thereon dated December 5, 2003. 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

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 results of our tests disclosed no instances of non-compliance with the Texas Public Funds Investment Act.

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 5, 2003.

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 5, 2003

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AND STATE AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

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 its major federal and state programs for the year ended August 31, 2003. 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State of Texas' Single Audit Circular. Those standards 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 or state program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on 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 its major federal and state programs for the year ended August 31, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of Findings and Questioned Costs as items 03-1 and 03-2.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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 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 that would be material in relation to a major federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended 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 5, 2003

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE C

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2003**

Federal Grantor/Pass Through Grantor/Program Name	CFDA	Grant #	Expenditures
U.S. DEPARTMENT OF EDUCATION:			
Direct programs:			
Supplemental Educational Opportunity Grant	84.007 (1)		\$ 620,848
Strengthening Institutions - Title III	84.031A		810,684
Strengthening Institutions - Title V	84.031S		490,729
College Work Study Program	84.033 (1)		818,060
Job Locator Development	84.033 (1)		44,085
TRIO	84.042A (2)		1,724,707
Talent Search	84.044A (2)		138,447
Upward Bound	84.047A (2)		1,179,057
PELL	84.063 (1)		27,844,089
Gear-Up	84.334A		314,490
Child Care Access	84.335A		61,329
TRIO Dissemination	84.344A		42,928
Early Childhood Educator Professional Development	84.349A		<u>278,638</u>
Total Direct from U.S. Department of Education			34,368,091
Pass-through from:			
Texas Higher Education Coordinating Board:			
Carl Perkins Vocational Education	84.048		2,422,011
TECH PREP	84.243		761,744
Eisenhower Professional Development Program	84.281B		<u>13,352</u>
Total Pass Through From Texas Higher Education Coordinating Board			3,197,107
Weatherford College:			
Texas Counselor's Network	84.048	32732	999
Texas Two Step	84.048	31207	<u>48,962</u>
Total Pass Through from Weatherford College			49,961
Education Communication Foundation:			
FIPSE/ECF-Learning Anytime/Anywhere	84.116		39,126
Texas Rehabilitation Commission:			
Rehabilitation Service - Interpreter-Mobility	84.126	975248	9,513
Rehabilitation Service - Interpreter-Mobility	84.126	976248	<u>64,571</u>
Total Pass Through from Texas Rehabilitation Commission			74,084
University of Texas at Arlington:			
Bilingual Program	84.195	26-1801-04-61	14,777
Dallas County Local Workforce Development Board:			
School to Careers	84.278E	2002-STC102	1,096
School to Careers	84.278E	2002-STC103	55,643
School to Careers	84.278E	2002-STC104	<u>606</u>
Total Pass Through from Dallas County Local Workforce Dev. Bd.			57,345
Pegasus Charter School			
Dallas Rocks	84.287A		309,276
University of North Texas:			
Gear Up	84.334A	71800-01-00-02	115,066
Gear Up	84.334A	71800-01-00-04	<u>4,366</u>
Total Pass Through from University of North Texas			119,432
University of Texas at Dallas:			
Community-Based Model to Recruit & Retain Hispanics Program	84.116D	SC02-02	<u>7,386</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			38,236,585

(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 C

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2003**

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 #2	10.000	1016003556906095001TXL	\$ 4,041
Export Readiness Training #3	10.000	SUSTA/EMO 01-03TXD	<u>52,433</u>
Total Pass Through from Southern United States Trade Association			56,474
Texas Department of Human Services:			
Summer Food Program	10.559	057-1045	25,463
Child and Adult Care Food Program	10.558	UCN75N3055	<u>2,736</u>
Total Pass Through from Texas Department of Human Services			<u>28,199</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			84,673
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT:			
Pass-Through From:			
City of Dallas			
Housing & Urban Development/Community Development	14.506	PDGH1885370, 71 & 72	65,578
U.S. DEPARTMENT OF JUSTICE:			
Direct Programs:			
COPS	16.710	2001UMWX0282	42,459
U.S. DEPARTMENT OF LABOR:			
Pass-Through From:			
Dallas County Local Workforce Development Board			
Just In Time	17.249	2000-H-1B-367	58,612
Unified Youth	17.255	347-YOUTH-1	143,223
Unified Youth	17.255	347-YOUTH-2	548,705
Vought Statewide Activities Program	17.255	322-Statewide Activity	2,858
Unified Youth-Out of School Program	17.259	328 & 347 In-School and Out-of School-3	<u>83,680</u>
Total Dallas County Local Workforce Development Board			837,078
TOTAL U.S. DEPARTMENT OF LABOR			837,078
NATIONAL SCIENCE FOUNDATION:			
Direct Programs:			
Computer Science, Engineering and Mathematics Scholarship Program	47.076	220854	959
Pass-Through From:			
University of Texas, El Paso			
Alliance for Minority Participation-Phase II	47.071	HRD-0217691	2,161
Collin County Community College			
North Dallas Texas Regional Technologies Center	47.076	202408	<u>11,620</u>
TOTAL NATIONAL SCIENCE FOUNDATION			14,740
SMALL BUSINESS ADMINISTRATION:			
Direct Programs:			
Small Business Development Center	59.037		2,045,651
Pass-Through From:			
Texas Tech University			
Small Business Innovation Research-Federal and State Technology Transfer Partnership Project	59.000	SBA AHQ-02-R-0008	<u>11,757</u>
TOTAL SMALL BUSINESS ADMINISTRATION			2,057,408

See notes to Schedules of Expenditures of Federal and State Awards.

(Continued)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE C

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2003**

Federal Grantor/Pass Through Grantor/Program Name	CFDA	Grant #	Expenditures
U. S. ENVIRONMENTAL PROTECTION AGENCY:			
Direct Programs:			
Training and Education for Small Businesses	66.504	PJ-98635501-1	\$ 275
Pollution Prevention Using Small Scale Chemistry	66.504	PJ-98645801-2	<u>18,202</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY			18,477
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES:			
Pass-Through From:			
University of Texas, at Austin			
Texas Addiction Technical Transfer Center	93.000	UTA02-161	2,412
Substance Abuse & Mental Health	93.000	1-UDI-T113423	<u>12,561</u>
Total University of Texas at Austin			14,973
Texas Workforce Commission:			
Self Sufficiency Funds			
Job Retention Employment & Mentoring Program	93.558	0603TJR000	16,620
Breaking the Cycle	93.558	0602SSF000	204,511
Healthcare Office Occupations Program	93.558	0603SSF000	<u>171,709</u>
Total Texas Workforce Commission			392,840
Dallas County Local Workforce Development Board:			
SSF-Local Self Sufficiency Contract	93.558	211 Self Suff.	82,373
Child Care Initiatives	93.575	2001-CC-103-2	<u>4,099</u>
Total Dallas County Local Workforce Development Board			86,472
The National Youth Sports Program Fund			
Summer Youth Sports Program	93.570	NYSPPF03-307	<u>50,000</u>
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES			544,285
CORPORATION FOR NATIONAL & COMMUNITY SERVICE:			
Pass-Through From:			
American Association of Community Colleges			
AACC-Community Colleges Broadening Horizons	94.005		<u>6,519</u>
Through Service Learning			
TOTAL CORPORATION FOR NATIONAL & COMMUNITY SERVICES			6,519
THE SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION:			
Pass-Through From:			
Tarrant Council on Alcoholism and Drug Abuse	93.243	IUDI SP09416-01	<u>4,669</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$41,912,471</u>

See notes to Schedules of Expenditures of Federal and State Awards.

(Concluded)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE D

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED AUGUST 31, 2003**

State Agency/Program Name	Grant #	Expenditures
TEXAS HIGHER EDUCATION COORDINATING BOARD:		
Texas Public Education Grant		\$ 2,520,641
Texas Grant Program		370,299
Texas Grant Program II		107,498
Texas College Work Study		8,271
Starlink State		332,948
Nursing Retention		<u>3,199</u>
Total Texas Higher Education Coordinating Board		3,342,856
TEXAS PARKS AND WILDLIFE COMMUNITY OUTDOOR OUTREACH PROGRAM		
		9,578
TELECOMMUNICATIONS INFRASTRUCTURE FUNDS:		
Distance Learning Initiative	QE-2001-DI4C-5079	282,679
Allied Health Program	QE-2001-DI4C-5081	157,372
Higher Education Technology Advancement-HE3	QE-2001-HTA2C-5540	504,868
Higher Education Technology Advancement-HE4	QE-2001-HE4C-7286	824,388
Library Grant Program	QE-2001-LTA6C-5311	<u>1,022</u>
Total Telecommunications Infrastructure Funds		1,770,330
TEXAS GENERAL SERVICES COMMISSION:		
Lone Star Loan		29,682
TEXAS WORKFORCE COMMISSION:		
Skills Development Funds		
Flextronics	0601SDF001	349,720
Imprimis Group	0601SDF002	168,606
Kinkos	0602SDF000	339,224
Pharmalab	0603SDF000	56,392
Dallas Healthcare	0603SDF002	169,921
J. P. Morgan	0603SDF003	160,176
IMCO	0603SDF004	16,845
Vought		<u>3,241</u>
Total Texas Workforce Commission		<u>1,264,125</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u>\$ 6,416,571</u>

See notes to Schedules of Expenditures of Federal and State Awards.

(Concluded)

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS AUGUST 31, 2003

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, 2003. 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, 2003, as follows:

	Federal	State
Total revenues per Schedule A	\$40,719,357	\$4,657,441
Texas Public Education Grants	-	2,567,754
Fall tuition-related grants deferred to next fiscal year	1,456,640	(805,490)
Other	<u>(263,526)</u>	<u>(3,134)</u>
Total Expenditures of Federal/State Awards	<u>\$41,912,471</u>	<u>\$6,416,571</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	\$ 71,199
Grayson Community College	47,502
Kilgore College	81,525
McLennan Community College	106,913
Navarro College	54,713
North Central Texas College	76,032
Northeast Texas Community College	50,509
Paris Junior College	99,333
Tarrant County Junior College	133,258
Trinity Valley Community College	76,743
Tyler Junior College	61,257
University of Texas at Arlington Enterprise Excellence	<u>74,539</u>
Total Amount Passed Through	<u>\$ 933,523</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	\$ 150,846
South Grand Prairie High School	5,000
Tarrant County Junior College	<u>175,580</u>
Total Amount Passed Through	<u>\$ 331,426</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	\$ 30,661
Grayson Community College	25,981
Kilgore College	32,605
McLennan Community College	38,561
Navarro College	38,418
North Central Texas College	24,212
Northeast Texas Community College	24,864
Paris Junior College	23,695
Tarrant County Junior College	31,911
Trinity Valley Community College	24,665
Tyler Junior College	<u>30,470</u>
Total Amount Passed Through	<u>\$ 326,043</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 (1)	<u>\$7,191,409</u>	<u>\$ -</u>	<u>\$7,191,409</u>
Total Department of Education	<u>\$7,191,409</u>	<u>\$ -</u>	<u>\$7,191,409</u>

(1) Clustered Student Financial Aid Program

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, 2003

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

Federal Awards

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

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

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

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
TRIO Cluster:	
TRIO	84.042A
Talent Search	84.044A
Upward Bound	84.047A
Texas Public Education Grant	N/A-State

Dollar threshold used to distinguish between type A and type B federal programs: \$1,257,374 for federal programs and \$300,000 for state programs.

Auditee qualified as low-risk auditee? 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

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 the grant expenditures were not evidenced by signature of proper personnel prior to performance of work.

Recommendation

To ensure compliance with federal and state requirements, ensure that bidding and expenditure approval procedures are followed by all District personnel.

Questioned Costs

N/A

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.

Recommendation

As this is a five year grant, ensure that the proper match for the grant period is determined and allocated by the end of the five year period. The District should train employees on the matching requirements under this grant to help to ensure compliance.

Questioned Costs

The District is required to contribute \$25,370 in local funds to meet the matching requirement for the current fiscal year.

PART IV - CORRECTIVE ACTION PLAN (UNAUDITED)

03-1: The District Contracts and Grants Manager will provide training on bidding and approval requirements targeted at the TRIO grant managers specifically but extended to all personnel involved in spending grant funds. In addition college business officers and directors will be alerted by the District Comptroller to review requirements for bidding and approval with campus personnel in general. The District will complete these procedures by February 2004.

03-2: EDGAR Part 74 Subpart C has been reviewed by both the college's grant managers and District Contracts and Grants personnel. Additional training on in kind match requirements will be provided to college personnel using both internal and external sources. The President of the college involved will provide oversight to ensure that the grant personnel for Gear-Up understand the importance of correctly documenting in kind matches. The District will complete these procedures by September 2004.

PART V - SCHEDULE OF PRIOR YEAR FINDINGS

The prior year audit of federal and state awards disclosed no findings that were required to be reported.