



Annual Financial Report

**For the Fiscal Year Ended
June 30, 2009**

**Dallas
Independent
School
District**



3700 Ross Ave.
Dallas, TX. 75204
(972)-925-3700
www.DallasISD.org



Dallas Independent School District

Annual Financial Report

**For the Fiscal Year Ended
June 30, 2009**

3700 Ross Avenue Dallas, Texas 75204 www.dallasdisd.org

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**Dallas Independent School District
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For the Fiscal Year Ended June 30, 2009**

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Certificate of the Board

Dallas Independent School District
Name of School District


Dallas
County

057-905-10
County-District-
Regional No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the fiscal year ended June 30, 2009, at a meeting of the board of school trustees of such school district on the 19th day of November 2009.



Signature of Board Secretary



Signature of Board President

INDEPENDENT AUDITORS' REPORT

Members of the Board of Trustees
Dallas Independent School District
Dallas, TX

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Dallas Independent School District (the "District"), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Dallas Independent School District's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Dallas Education Foundation, a discretely presented component unit of the District as of and for the year ended December 31, 2008. Those statements were audited by other auditors whose report, dated June 11, 2009, expressed an unqualified opinion on those statements and has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Dallas Education Foundation, is based solely on the report of the other auditors.

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. The financial statements of the Dallas Education Foundation were not audited using *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Dallas Independent School District, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the basic financial statements, the District changed its method of accounting for the self-insured workers' compensation and employee evaluation and accountability programs by establishing separate internal service funds as of July 1, 2008.

Management's discussion and analysis and the budgetary comparison schedule for the General Fund are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Dallas Independent School District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Dallas Independent School District's management. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Exhibits J-1 through J-5 as required by the Texas Education Agency are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Dallas Independent School District's management. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2009, on our consideration of the Dallas Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The logo for Deloitte & Touche LLP, featuring the company name in a stylized, handwritten-style font.

November 19, 2009

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

This section of Dallas Independent School District's (the District's) annual financial report reflects management's discussion and analysis of the District's financial performance for the fiscal year ended June 30, 2009. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- On June 30, 2009, the District's assets exceeded its liabilities by \$433,006,128, a decrease of 3.4% over the prior year. Of total net assets, \$105,401,818 was unrestricted.
- During the year, the District had expenses that were \$15,232,490 more than the \$1,640,290,394 generated in tax and other revenues for the governmental programs. This compares favorably to last year when expenses exceeded revenues by \$48,369,646.
- Due mainly to staffing cuts, the total cost of all of the District's governmental activities decreased by \$9,918,395.
- The General Fund ended the year with a fund balance of \$37,668,082, a decrease of \$22,544,562. The net decrease in fund balance is 1.82% of total General Fund expenditures for the year.
- The District received approval of a \$1.35 billion bond program in May 2008. The first issuance of \$393.3 million of this authorization occurred in December 2008. In total, the District's long term debt increased by \$379.4 million over prior year, an increase of 25%. In addition to the bonds issued under the 2008 authorization, \$20.0 million in Series 2008 Maintenance Tax Notes were issued for the purchase of a student software system and vehicles. During the year the District also issued \$125 million in Tax Anticipation Notes to fund cash flow requirements.
- The District's bonds are rated as follows: Moody's Investor Services "Aaa," Standard & Poors "AAA," and Fitch AAA as guaranteed by the Permanent School Fund (PSF). The District's underlying bond ratings were reissued during the year as: Moody's "A1," S&P "A+" and Fitch "AA-".

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements. The *governmental fund* statements reflect how *general government* services were financed in the *short term* as well as what remains for future spending. The *proprietary fund* statements offer short and long-term financial information about the activities the District operates like businesses. The *fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that provide more detailed information regarding the financial statements. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

Exhibit 1 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section explains the structure and contents of each of the statements.

**Exhibit 1
Major Features of the District's Government-Wide
and Fund Financial Statements**

Type of Statement	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire District's government (except fiduciary funds) and the District's component units	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses	Instances in which the District is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary assets and liabilities • Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	Not applicable to agency fund

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's non-fiduciary assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities on the accrual basis regardless of when cash is received or paid.

The two government-wide statements report the District's *net assets* and how they have changed. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District are comprised of the *Governmental activities*. All of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant maintenance and operations. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* rather than the District as a whole. Funds are a governmental accounting tool that the District uses to track specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The Board of Trustees establishes other funds to control and manage resources for specific purposes or to delineate the use of certain taxes and grants.

The District has three kinds of funds:

- *Governmental funds*—All of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* can readily be converted to cash flow and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine the availability of financial resources to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information immediately following the governmental funds statement that explains the relationship (or differences) between them. These include debt financing and capital projects.
- *Proprietary funds*—Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The District's two proprietary funds are internal service funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the internal service fund to report activities for its risk management and program evaluation and accountability programs.
- *Fiduciary funds*—The District is the *fiduciary*, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We excluded these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

The District's net assets were \$433,006,128 at June 30, 2009. This represents a decrease of \$15,232,490 from the prior year. Current and other assets increased by \$365,167,055 or 62.5%. This increase is attributable to investments of bond proceeds sold in December 2008 under the 2008 authorization. This increase in current assets was offset by a net increase in liabilities. Current and long term liabilities increased due to the issuance of bonds. These increases were offset by decreases in accounts payable and payroll liabilities. (See Exhibit 2.)

**Exhibit 2
Net Assets
Governmental Activities**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>\$ Change</u>	<u>% Change</u>
Current and Other Assets	\$ 949,609,883	\$ 584,442,828	\$ 365,167,055	62.5%
Capital Assets	1,626,321,187	1,648,155,612	(21,834,425)	-1.3%
Total Assets	<u>2,575,931,070</u>	<u>2,232,598,440</u>	<u>343,332,630</u>	
Current Liabilities	342,829,197	336,187,589	6,641,608	2.0%
Long Term Liabilities	1,800,095,745	1,448,172,233	351,923,512	24.3%
Total Liabilities	<u>2,142,924,942</u>	<u>1,784,359,822</u>	<u>358,565,120</u>	
Net assets:				
Invested in Capital Assets, net of related debt	270,352,975	278,483,300	(8,130,325)	-2.9%
Restricted	57,251,335	68,587,086	(11,335,751)	-16.5%
Unrestricted	105,401,818	101,168,232	4,233,586	4.2%
Total Net Assets	<u>\$ 433,006,128</u>	<u>\$ 448,238,618</u>	<u>\$ (15,232,490)</u>	

Investment in capital assets (e.g. land, buildings, furniture and equipment), less any related debt used to acquire those assets that is still outstanding is \$270,352,975. The District uses these capital assets to provide services to students; consequently these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources because the capital assets aren't available to liquidate these liabilities.

Of the remaining net assets, \$57,251,335 is restricted resources subject to external restrictions on how they are used and \$105,401,818 is unrestricted resources available to meet the District's ongoing obligations.

The District spent \$41.5 million in building improvements, land, and equipment. Due to the results of a physical inventory, disposals, and sales of property, capital assets were reduced by \$45.1 million, resulting in a net decrease in capital assets in 2009. During this period, the District was engaged in the completion of one new middle school. Projects under the 2008 bond program were also started during the fiscal year.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

- Investment earnings decreased \$7,625,527 due to declines in the Federal Reserve target rate.
- The \$39,829,538 increase in property tax revenue and \$31,774,729 decrease in state aid funding are the result of changes to the state aid funding formula and the change in property values.
- Instructional expenses decreased \$18,127,870 primarily due to budget cuts and the reduction in force implemented at the beginning of the fiscal year.
- Similar decreases were seen in the other functional areas due to these same actions. The other areas where costs decreased primarily due to staffing cuts were curriculum and staff development and health services.
- Student transportation costs increased \$7,841,983 due to rate increases in the negotiated contract with Dallas County Schools.
- Costs related to facilities maintenance decreased just under 10%. Payroll costs decreased by \$5.6 million due to staffing with another \$7 million of savings in utility costs over the previous year.
- Debt services expenditures increased due to the issuance of \$393 million in bonds.
- Facilities acquisition and construction costs decreased as the 2002 bond program was near completion by fiscal year 2008 and the new bond projects were just getting underway in fiscal year 2009.
- The majority of the increase in payments to agents/member districts is attributable to the \$13.7 million recapture payment to the state. A reclassification in property appraisal costs increased this area another \$4.0 million.
- The "other" expenses amount of \$10,044,894 is attributable to other use type items. This amount consists of legal settlements, sales of assets, and losses on the disposition of capital assets.

Other Financial Highlights

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the fiscal year ending June 30, 2009, the District's governmental funds reported ending fund balances of \$632,609,510. Of this amount, \$37,151,552 constitutes unreserved fund balance available for use in activities at the District's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to bond projects, debt service and other obligations of the District.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$29,275,989. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and total fund balance to the total fund expenditures. Unreserved fund balance represents 2.4% of the total General Fund expenditures, while total fund balance represents 3.0% of that same amount.

The District's General Fund balance decreased \$22,544,562 due primarily to the excess staffing issues discovered at the beginning of the 2008-09 year. The actual deficit of \$22 million was cut significantly from the original projection of a \$74 million deficit.

The Debt Service Fund has a total fund balance of \$76,288,266 all of which is reserved for the payment of debt service. The Capital Projects Fund balance increased by \$389,274,749 to \$491,011,154, primarily due to the issuance of the Series 2008 Unlimited Tax School Building Bond. Non-Major Governmental Funds have a total fund balance of \$27,642,008 representing an increase for the current year of \$5,197,561. The majority of this increase is attributable to the Food Service Fund which experienced an increase to fund balance of \$3,892,929.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year ended June 30 2009, the District amended the operating budget on a monthly basis. After these adjustments, budgeted expenditures exceeded budgeted revenues by \$29,514,259 in the final amended budget. Actual expenditures exceeded actual revenues by \$22,544,562.

Because the 2007-08 general fund deficit was not determined until after the 2008-09 budget was adopted, the underestimation of expenditures was carried forward to the 2008-09 budget. As a result, the District estimated that FY 2008-09 operating results would be a deficit of at least \$74 million. On September 19, 2008, the Board of Trustees declared a financial exigency and on October 2, 2008, approved a reduction in force (the "RIF"). As a result of the RIF, early retirements and other budget actions, the District was able to cut the actual operating shortfall to \$22,544,562.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of fiscal year 2009, the District had \$1,626.3 million of capital assets, net of depreciation and loss on disposition of assets, including land, equipment, buildings, and vehicles. This amount represents a net decrease of \$21.8 million or 1.3% over last year. (See Exhibit 6.)

**Exhibit 6
District's Capital Assets**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 152,321,780	\$ 152,673,664	\$ (351,884)	-0.2%
Buildings and improvements	2,208,646,157	2,179,996,348	28,649,809	1.3%
Furniture and equipment	167,959,858	194,561,899	(26,602,041)	-13.7%
Construction in progress	<u>21,537,022</u>	<u>26,867,488</u>	<u>(5,330,466)</u>	<u>-19.8%</u>
Total	2,550,464,817	2,554,099,399	(3,634,582)	
Accumulated depreciation	(924,143,630)	(905,943,787)	(18,199,843)	2.0%
Net Book Value	<u>\$ 1,626,321,187</u>	<u>\$ 1,648,155,612</u>	<u>\$ (21,834,425)</u>	

The District's fiscal year 2009 capital spending totaled \$41.5 million in buildings and improvements and capital equipment. During this period, the District was engaged in the completion of a new middle school and renovations to several existing schools. Under the 2008 bond program, the District will construct 15 new campuses, make additions to 12 existing campuses, and conduct renovations at more than 200 locations. For more information on the District's capital assets see Note G in the financial statements.

At year-end, the District had \$1,869.4 million in long-term debt outstanding as shown in Exhibit 7 below. Bonds payable and notes payable increased \$371 million, resulting from the issuance of bonds under the 2008 authorization. The District's bonds presently carry ratings as follows: Moody's Investor Services "Aaa," Standard & Poors "AAA," and Fitch AAA as guaranteed by the Permanent School Fund (PSF). The District's underlying bond ratings are Moody's "A1," S&P "A+" and Fitch "AA-." For more detailed information on the District's debt outstanding see Note I to the financial statements.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

**Exhibit 7
Long Term Debt**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>\$ Change</u>	<u>% Change</u>
Bonds payable and notes payable	\$ 1,820,938,197	\$ 1,449,870,916	\$ 371,067,281	25.6%
Workers compensation liability	10,667,749	9,591,811	1,075,938	11.2%
Deferred loss on refunding	(5,981,361)	(6,343,002)	361,641	-5.7%
Premium on bonds	43,783,242	36,924,139	6,859,103	18.6%
Totals	<u>\$ 1,869,407,827</u>	<u>\$ 1,490,043,864</u>	<u>\$ 379,363,963</u>	

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District has taken steps to review budgeting practices and is working towards enhancing fiscal policies and procedures. The budget process begins with the development of enrollment projections by the District Initiatives and Planning Department. Enrollment projections are used to determine initial campus allocations through the use of board approved formulas and provide a basis for examining anticipated changes in funding levels. Current enrollment projections show enrollment numbers to remain relatively stable with no significant increases or decreases.

Budgetary resource allocations are distributed to campuses and central organizations that support the programs of the District. The District uses line-item and site-based budgetary approaches to provide campuses with a standard allocation based on student enrollment. Central organizations use a zero-based budgetary approach for allocation based on historical expenditures and services provided.

Enrollment projections also drive general operating staffing levels and non-position allocations. Staffing ratios adhere to the Texas Education Agency guidelines. Non-position formulas are also applied to each campus to support instructional programs. The board approves campus staffing formulas, non-campus staffing guidelines and non-position formulas.

Due to property value increases, the District was classified as a property wealthy district subject to the provisions of Chapter 41 of the Texas Education Code for the 2008-09 fiscal year. This status remains for 2009-10 however the District's equalized wealth level is within the range not requiring a recapture payment.

Projects authorized under the 2008 bond program continue to proceed. There are no plans to sell any bonds under the remaining authorization during 2009-10. Other debts issued since June 30 are as follows.

On August 10, 2009, the District issued \$85 million in multi-draw Tax Anticipation Notes (the "TANS"). The TANS were issued for the purpose of funding the District's cash flow requirements. Three "Request for Purchase" agreements were issued under the TANS to fund on August 10, 2009 (\$50 million), September 10, 2009 (\$15 million) and October 29, 2009 (\$20 million). The \$85 million in issued TANS are due by February 15, 2010.

On July 30, 2009, the District closed on the sale of Unlimited Tax Refunding Bonds, Series 2009 (the "Bonds") for \$100,760,000 to refund the remaining portion of the District's Unlimited Tax Refunds Bonds, Series 1999, and to pay the costs associated with the sale of the bonds. The Bonds have various maturity dates beginning in 2010 through 2014 with an interest range between 2% and 5%.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 District's Financial Services Department.

Dallas Independent School District
Government-Wide Statement of Net Assets
June 30, 2009

Exhibit A-1

Data Control Codes		Total Primary Government Governmental Activities June 30, 2009	Component Unit December 31, 2008
	Assets:		
1110	Cash and cash equivalents	\$ 385,889,642	\$ 1,213,167
1120	Investments	299,280,507	-
1225	Property taxes receivable, net	56,004,131	-
1240	Due from other governments	175,591,888	-
1250	Accrued interest receivable	34,103	-
1260	Due from agency funds	594,752	-
1290	Other receivables, net	11,491,463	2,108,249
1300	Inventories	7,904,702	-
1490	Other current assets	1,057,982	-
1420	Bond issuance cost, net	11,760,713	-
	Capital assets, net:		
1510	Land	152,321,780	-
1520	Buildings and Improvements, net	1,420,747,312	-
1530	Furniture and equipment, net	31,715,073	-
1580	Construction in progress	21,537,022	-
1000	Total assets	<u>2,575,931,070</u>	<u>3,321,416</u>
	Liabilities:		
2110	Cash overdraft	14,890,454	-
2110	Accounts payable	26,839,695	97,714
2120	Other liabilities	2,228,579	-
2150	Payroll deductions and withholdings	23,260,474	-
2160	Accrued wages and benefits payable	141,706,978	-
2180	Due to other governments	1,093,004	-
2200	Accrued liabilities	21,716,258	-
2300	Unearned revenue	1,909,597	-
2430	Accrued interest	39,434,998	-
	Long-term liabilities-due within one year:		
2121	Bonds and notes payable	67,407,253	-
2123	Workers compensation	2,341,907	-
	Long-term liabilities-due beyond one year:		
2210	Workers compensation	8,325,842	-
2510	Bonds and notes payable	1,753,530,944	-
2511	Deferred loss on refunding of bonds	(5,981,361)	-
2512	Premium on bonds	43,783,242	-
2590	Arbitrage payable	437,078	-
2000	Total liabilities	<u>2,142,924,942</u>	<u>97,714</u>
	Net assets:		
3200	Invested in capital assets, net of related debt	270,352,975	-
3800	Restricted for:		
	Debt Service	37,484,890	-
	Food Service	19,766,445	-
	Component Unit-Program Grants	-	3,208,444
3900	Unrestricted	105,401,818	15,258
3000	Total net assets	<u>\$ 433,006,128</u>	<u>\$ 3,223,702</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District
Government-Wide Statement of Activities
For the Year Ended June 30, 2009**

Exhibit B-1

Data Control Codes	Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities Year Ended June 30, 2009	Component Unit Year Ended December 31, 2008
	Primary government governmental activities:					
11	Instruction	\$ 923,388,824	\$ 268,842	\$ 142,871,864	\$ (766,248,118)	
12	Instructional resources and media services	24,826,612	-	249,145	(24,577,467)	
13	Curriculum and staff development	37,138,971	-	24,984,448	(12,154,523)	
21	Instructional leadership	23,795,617	-	6,899,573	(16,896,044)	
23	School leadership	84,301,765	-	2,639,011	(81,662,754)	
31	Guidance, counseling, and evaluation services	60,939,150	-	14,563,813	(46,375,337)	
32	Social work services	1,926,948	-	643,652	(1,283,296)	
33	Health services	16,722,030	-	2,125,878	(14,596,152)	
34	Student transportation	27,209,587	-	3,221,418	(23,988,169)	
35	Food services	72,934,030	7,957,319	68,726,550	3,749,839	
36	Cocurricular/extracurricular activities	11,895,625	719,035	347,280	(10,829,310)	
41	General administration	42,583,250	-	2,384,689	(40,198,561)	
51	Plant maintenance and operations	152,910,877	1,164,667	402,266	(151,343,944)	
52	Security and monitoring services	16,825,756	-	150,447	(16,675,309)	
53	Data processing services	20,235,055	-	372,125	(19,862,930)	
61	Community services	16,882,388	-	10,252,046	(6,630,342)	
71	Interest and fiscal charges	80,960,896	-	-	(80,960,896)	
81	Facilities acquisition and construction	220,411	-	-	(220,411)	
91	Chapter 41 payments	13,675,440	-	-	(13,675,440)	
95	Payments to juvenile justice alternative education	730,787	-	-	(730,787)	
97	Payments to tax increment fund	5,337,315	-	-	(5,337,315)	
99	Other intergovernmental charges	4,036,656	-	-	(4,036,656)	
	Total	\$ 1,645,477,990	\$ 10,109,863	\$ 280,834,205	\$ (1,354,533,922)	
	Component unit:					
	Dallas Education Foundation	\$ 2,935,458	-	\$ 1,036,308		\$ (1,899,150)
	General revenues:					
	Taxes:					
	Property taxes, levied and collected for general purposes				\$ 815,695,229	-
	Property taxes, levied and collected for debt service				111,843,729	-
	State aid-formula grants not restricted to specific programs				392,602,696	-
	Grants and contributions not restricted to specific programs				20,359,723	-
	Investment earnings				8,844,949	1,827
	Disposal of capital assets				(8,731,415)	
	Miscellaneous - Other				(1,313,479)	
	Total general revenues and special item				1,339,301,432	(1,897,323)
	Change in net assets				(15,232,490)	(1,897,323)
	Net assets—beginning				448,238,618	5,121,025
	Net assets—ending				\$ 433,006,128	\$ 3,223,702

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District
Balance Sheet
Governmental Funds
June 30, 2009**

Exhibit C-1

Data Control Codes		General Fund	Debt Service Fund	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Assets:						
1110-50	Cash and cash equivalents	\$ 104,121,532	\$ 76,174,101	\$ 202,289,795	\$ 3,304,214	\$ 385,889,642
1120	Investments	-	-	299,280,507	-	299,280,507
1210-30	Receivables, net	49,944,732	6,059,399	-	-	56,004,131
1250	Accrued interest	34,074	-	-	29	34,103
1260	Due from other funds	11,245,902	-	-	50,765,147	62,011,049
1240	Receivables from other governments	169,875,140	339,545	5,377,203	-	175,591,888
1290	Other receivables, net	8,761,339	-	2,714,256	15,868	11,491,463
1300	Inventories	5,425,308	-	-	2,479,394	7,904,702
1490	Other current assets-prepaid expenses	1,057,982	-	-	-	1,057,982
	Total assets	<u>\$ 350,466,009</u>	<u>\$ 82,573,045</u>	<u>\$ 509,661,761</u>	<u>\$ 56,564,652</u>	<u>\$ 999,265,467</u>
Liabilities and fund balances:						
Liabilities:						
2110	Cash overdraft	\$ 14,890,454	\$ -	\$ -	\$ -	\$ 14,890,454
2110	Accounts payable	14,561,185	-	4,581,886	6,769,967	25,913,038
2120	Other liabilities	2,228,579	-	-	-	2,228,579
2140	Accrued interest	-	631,622	-	-	631,622
2150	Payroll deductions & withholdings	21,242,103	-	-	2,018,371	23,260,474
2160	Accrued wages and benefits payable	124,876,987	-	-	16,829,988	141,706,975
2170	Due to other funds	58,539,436	54,340	10,596,810	234,566	69,425,152
2180	Payable to other governments	635,475	-	437,078	457,529	1,530,082
2200	Accrued liabilities	20,693,055	-	320,577	702,626	21,716,258
2300	Deferred/Unearned revenue	55,130,653	5,598,817	2,714,256	1,909,597	65,353,323
	Total liabilities	<u>312,797,927</u>	<u>6,284,779</u>	<u>18,650,607</u>	<u>28,922,644</u>	<u>366,655,957</u>
Fund balances:						
Reserved for:						
3410	Inventories	5,425,308	-	-	2,479,394	7,904,702
3430	Prepaid expenses	1,057,982	-	-	-	1,057,982
3440	Encumbrances	1,908,803	-	51,392,500	-	53,301,303
3420	Debt service	-	76,288,266	-	-	76,288,266
3470	Capital projects	-	-	439,618,654	-	439,618,654
3450	Food services	-	-	-	17,287,051	17,287,051
Unreserved:						
3590	Designated - Campus Activity Fund	-	-	-	3,106,389	3,106,389
3600	Undesignated - General Fund	29,275,989	-	-	-	29,275,989
3600	Undesignated - Special Revenue Funds	-	-	-	4,769,174	4,769,174
	Total fund balances	<u>37,668,082</u>	<u>76,288,266</u>	<u>491,011,154</u>	<u>27,642,008</u>	<u>632,609,510</u>
	Total liabilities and fund balances	<u>\$ 350,466,009</u>	<u>\$ 82,573,045</u>	<u>\$ 509,661,761</u>	<u>\$ 56,564,652</u>	<u>\$ 999,265,467</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Dallas Independent School District
Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Assets
June 30, 2009

Exhibit C-1R

Total fund balances--governmental funds (from C-1)	\$ 632,609,510
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	1,626,321,187
Some liabilities, including bonds payable, and claims and judgments are not due and payable in the current period and, therefore are not reported in the funds:	
Bonds and notes payable	(1,820,938,197)
Deferred losses on refundings	5,981,361
Premium on bonds	(43,783,242)
	(1,858,740,078)
Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.	(38,803,375)
Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds.	63,443,726
Internal service funds are used by management to charge the costs of certain activities, such as workers' compensation. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets (see D-1).	(3,585,555)
Bond issue costs are recognized currently at the fund level, but are deferred costs under the full accrual method of accounting.	11,760,713
Total net assets--governmental activities (see A-1)	<u>\$ 433,006,128</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Dallas Independent School District
Statement of Revenues,
Expenditures, and Changes in Fund Balances Governmental Funds
For the Year Ended June 30, 2009

Exhibit C-2

Data Control Codes		General Fund	Debt Service	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Revenues:						
5700	Local and intermediate sources	\$ 815,023,647	\$ 111,245,890	\$ 6,153,497	\$ 17,929,478	\$ 950,352,512
5800	State program revenues	392,602,696	-	-	44,908,306	437,511,002
5900	Federal program revenues	6,831,969	-	-	226,454,441	233,286,410
	Total revenues	<u>1,214,458,312</u>	<u>111,245,890</u>	<u>6,153,497</u>	<u>289,292,225</u>	<u>1,621,149,924</u>
Expenditures:						
Current:						
11	Instruction	754,270,787	-	-	141,944,188	896,214,975
12	Instructional resources and media services	22,860,985	-	-	247,112	23,108,097
13	Curriculum and staff development	12,399,207	-	-	24,975,094	37,374,301
21	Instructional leadership	17,199,477	-	-	6,862,260	24,061,737
23	School leadership	80,501,471	-	-	2,639,011	83,140,482
31	Guidance, counseling, and evaluation services	45,375,010	-	-	14,543,852	59,918,862
32	Social work services	1,304,846	-	-	643,652	1,948,498
33	Health services	14,671,545	-	-	2,104,900	16,776,445
34	Student transportation	24,282,687	-	-	3,221,418	27,504,105
35	Food services	-	-	-	70,265,117	70,265,117
36	Cocurricular/extracurricular activities	9,750,815	-	-	310,589	10,061,404
41	General administration	39,292,561	-	-	2,373,081	41,665,642
51	Plant maintenance and operations	146,637,374	-	3,287,721	2,730,145	152,655,240
52	Security and monitoring services	16,432,578	-	-	149,052	16,581,630
53	Data processing services	18,188,868	-	8,338,437	371,347	26,898,652
61	Community services	6,882,280	-	-	10,213,144	17,095,424
Debt service:						
71	Principal on long-term debt	918,639	41,634,515	3,770,711	-	46,323,865
71	Interest and fiscal charges	1,327,901	70,236,331	3,671,462	-	75,235,694
Capital outlay:						
81	Facilities acquisition and construction	356,909	-	25,313,251	-	25,670,160
Intergovernmental charges:						
91	Chapter 41 payments	13,675,440	-	-	-	13,675,440
95	Payments for juvenile justice alternative education	730,787	-	-	-	730,787
97	Payments to tax increment fund	5,337,315	-	-	-	5,337,315
99	Other intergovernmental charges	4,036,656	-	-	-	4,036,656
	Total expenditures	<u>1,236,434,138</u>	<u>111,870,846</u>	<u>44,381,582</u>	<u>283,593,962</u>	<u>1,676,280,528</u>
	Excess (deficiency) of revenues over expenditures	(21,975,826)	(624,956)	(38,228,085)	5,698,263	(55,130,604)
Other Financing Sources (Uses):						
7911	Proceeds from issuance of bonds and notes	-	-	413,325,000	-	413,325,000
7912	Sale of real or personal property	622,649	-	-	-	622,649
7914	Loan proceeds	-	-	3,611,421	-	3,611,421
7915	Transfers in	744,742	16,704	500,702	-	1,262,148
7916	Premium or discount on issuance of bonds	-	-	10,827,157	-	10,827,157
8911	Transfers out	-	-	(761,446)	(500,702)	(1,262,148)
8941	Legal settlements	(1,936,127)	-	-	-	(1,936,127)
7080	Total other financing sources (uses)	<u>(568,736)</u>	<u>16,704</u>	<u>427,502,834</u>	<u>(500,702)</u>	<u>426,450,100</u>
	Net change in fund balances	(22,544,562)	(608,252)	389,274,749	5,197,561	371,319,496
	Fund balances-beginning	60,212,644	76,896,518	101,736,405	22,444,447	261,290,014
	Fund balances-ending	<u>\$ 37,668,082</u>	<u>\$ 76,288,266</u>	<u>\$ 491,011,154</u>	<u>\$ 27,642,008</u>	<u>\$ 632,609,510</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances Governmental Funds
to the Statement Activities
For the Year Ended June 30, 2009**

Exhibit C-3

Net change in fund balances--total governmental funds (from C-2)	\$ 371,319,496
Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$54,560,109) and net book value of capital asset disposals (\$8,731,415) exceeded capital asset additions (\$41,457,098) in the current period.	(21,834,426)
Repayment of bonds, loans, and capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	46,007,992
Installment obligations provide current financial resources to governmental funds, but issuing bonds (\$413,325,000) and the related premium (\$10,827,157) and loans (\$3,750,270) increases long-term liabilities in the statement of net assets.	(427,902,427)
Accrued interest expense at the government wide level does not require the use of current financial resources and therefore is not reported as expenditure in governmental funds.	(11,594,267)
Bond issue costs, premium on bond, and deferred losses on refunding are expensed at fund level but are deferred and amortized over the life of the related debt at the government-wide level.	6,323,790
Some property taxes will not be collected within 60 days and, therefore they are not considered available revenues and are deferred in governmental funds. Deferred revenue increased by this amount from the prior year.	19,140,468
Internal service funds are used by management to charge the costs of certain activities, such as medical self insurance and workman's compensation, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities (see D-2).	3,306,884
Change in net assets of governmental activities (B-1)	<u><u>\$ (15,232,490)</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Dallas Independent School District
Statement of Net Assets
Proprietary Funds
June 30, 2009

Exhibit D-1

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Funds</u>
	Assets	
	Current Assets:	
1260	Due from other funds	\$ 8,008,854
	Total current assets	<u>8,008,854</u>
	Total Assets	<u>8,008,854</u>
	Liabilities and fund balances:	
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	926,657
2120	Accrued liabilities-short-term	2,341,907
2160	Accrued wages and benefits payable	3
	Total current liabilities	<u>3,268,567</u>
	Long-term Liabilities:	
2200	Accrued liabilities-long-term	<u>8,325,842</u>
	Total Liabilities	<u>11,594,409</u>
	Net Assets	
3xxx	Unrestricted Net Assets (Deficit)	<u>(3,585,555)</u>
	Total net assets (deficit)	<u><u>\$ (3,585,555)</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Dallas Independent School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit)
Proprietary Funds
For the Year Ended June 30, 2009

Exhibit D-2

Data Control Codes		Governmental Activities Internal Service Funds
	Operating revenues:	
5754	Charges for services	\$ 16,648,117
	Total operating revenues	<u>16,648,117</u>
	Operating expenses:	
6100	Personnel services	12,619,804
6200	Contractual services	640,885
6300	Supplies	18,829
6400	Other operating expenses	61,715
	Total operating expenses	<u>13,341,233</u>
	Operating income	<u>3,306,884</u>
	Income before change in accounting principle	3,306,884
	Total net assets-beginning	-
	Change in Accounting Principle (Note A)	<u>(6,892,439)</u>
	Total net assets (deficit)-ending	<u><u>\$ (3,585,555)</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

Dallas Independent School District
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

Exhibit D-3

	Governmental Activities Internal Service Funds
	<u> </u>
Cash flows from operating activities:	
Cash received from user charges	\$ 8,639,263
Cash payments for payroll costs	(1,474,041)
Cash payments for insurance claims	(6,463,816)
Cash payments for suppliers	(701,406)
	<u> </u>
Net cash provided by operating activities	<u> -</u>
	<u> </u>
Cash and cash equivalents — beginning	-
Cash and cash equivalents — ending	<u><u>\$ -</u></u>
	<u> </u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	\$ 3,306,884
Decrease (increase) in due from other funds	(8,008,854)
Increase (decrease) in accounts payable	926,657
Increase (decrease) in accrued wages payable	3
Increase (decrease) in accrued expenses	3,775,310
Net cash provided by operating activities	<u><u>\$ -</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2009**

Exhibit E-1

Agency Funds

Assets

Cash and cash equivalents	\$ 3,791,620
Total assets	<u>\$ 3,791,620</u>

Liabilities

Accounts Payables	\$ 11,630
Due to General Fund	594,752
Due to student groups	3,185,020
Accrued liabilities	218
Total liabilities	<u>\$ 3,791,620</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

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**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Trustees (the "Board") consists of nine members and has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Dallas Independent School District (the "District"). The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding sources. The Board is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, issued by Governmental Accounting Standards Board ("GASB"), since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

For financial reporting purposes, in conformance with governmental accounting standards, certain organizations warrant inclusion as part of the financial reporting entity because of nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. By applying the criteria set forth in GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14, the District has determined that the Dallas Education Foundation ("the Foundation") is a discrete component unit of the District. Component units that meet the criteria of GASB Statement No. 39 are reported as a discretely presented component unit in the primary government's financial statements.

The Foundation is a Texas non-profit corporation organized to unite the community and its resources, including individual, corporate and foundation philanthropy, to accomplish key District priorities. The Foundation is operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. All funds, whether income or principal, and whether acquired by gift or contribution are devoted to the charitable purpose. The Foundation collaborates with the District to achieve the mutual goals of the District, the Foundation and donors. The Foundation is governed by an 18 member Board of Directors, who represents a cross section of the community served by the District. The District Superintendent of Schools serves as an ex-officio member. The other members are independent of the District.

The District paid two months of salaries and other expenses of the Foundation. Additionally, the Foundation reimbursed the District for Foundation program costs that were incurred by the District. There were no other significant transactions between the District and the Foundation.

The Foundation financial statements utilize proprietary general accepted accounting principles. Pursuant to the Foundation's accounting policies, the Foundation records unconditional promises to give that are expected to be collected within one year at the net realizable value. A copy of the complete, separately audited financial statements as of December 31, 2008 of the Foundation can be obtained from Dallas Education Foundation at 3700 Ross Avenue, Box 108, Dallas, Texas 75204.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Government-Wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity in the government-wide statements does not eliminate services provided and used in the process of consolidation. Governmental activities are mainly supported by tax revenues and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. All capital asset depreciation is reported as a direct expense of the functional program that benefits from the use of the capital assets. Program revenues include: 1) charges for services and tuition charged by a given function and 2) grants and contributions that are restricted to meeting operational requirements of a particular function. Taxes and other items properly excluded from program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Basis of Accounting/Measurement Focus

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met. The fiduciary fund financial statement does not have a measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized, when they are susceptible to accrual, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, and claims and judgments, are recorded only when matured and payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under notes payable are reported as other financing sources. Property tax revenues and revenues received from the State of Texas and investment earnings are considered to be susceptible to accrual and so have been recognized as revenues in the current period. Property taxes collected within 60 days of year-end and included in revenue were \$3,432,762 and \$460,582 for the General Fund and Debt Service Funds, respectively.

Grant revenues and contributions are recognized when all eligibility requirements have been met. Grant funds received in advance are recorded as deferred revenue until earned. Contributions received with purpose restrictions are recorded as revenue and related fund balance is designated until restrictions are satisfied. Amounts reported as program revenues include operating grants and contributions, food services user charges, and rentals and tuition. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. The Texas Education Agency, through its application of state law, allocates state revenues to school districts by formula allocation. The District receives two allocations, a per capita allocation and a foundation program allocation. The District also recognizes revenues for the State's share of the contributions to the Teacher Retirement System of Texas. See Note K for additional information on the employee's retirement plan. Other state revenues are received through other State miscellaneous programs on an allocated basis. Charges for services and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

The District has accrued Foundation School Program revenues of approximately \$101,054,413 to reflect cash that will be received in fiscal year 2010, which was generated by attendance and related expenditures in fiscal year 2009.

The District reports the following major governmental funds:

- The General Fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The Debt Service Funds, a budgeted fund, accounts for the use of ad valorem taxes and other revenues collected for the purposes of retiring bond principal and paying interest when due. The Debt Service Funds does not meet the quantitative criteria of a major fund, however, due to the qualitative significance of the fund, management has decided to present it as a major fund.
- The Capital Projects Fund is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

The District reports the following proprietary funds:

- Internal service fund is used to account for services provided by one department to other departments of the District on a cost-reimbursement basis. For the District, this fund is used to provide workers' compensation insurance, unemployment insurance and program evaluation. Accrued liabilities include provisions for claims reported and claims incurred but not reported for workers' compensation insurance. The provision for reported claims is determined by estimating the amount that will ultimately be paid to each claimant. The provision for claims incurred but not yet reported is estimated based on the District's experience since the inception of the programs. On July 1, 2008, the District changed the accounting treatment for the District's self-insured workers' compensation program by establishing an internal service fund to account for the District's self insurance plans. This resulted in an adjustment to the opening fund balance of the Internal Service Fund to record the long-term portion of the accrued workers' compensation liability.

Additionally, the District reports the following non-major funds:

- Special revenue funds are used to account for food services activities, Federal and state financed programs and other local programs where unused balances are returned to the grantor at the close of specified project periods. Project accounting is employed to maintain the integrity of the various sources of funds. The budget for the Food Services Fund is adopted by the Board each fiscal year.

Agency Fund is a fiduciary fund that is custodial in nature (assets equals liabilities) and is used to account for the activities of student groups. The student activity groups exist with the explicit approval of, and are subject to revocation, by the Board.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Assets, Liabilities and Net Assets

Cash, Cash Equivalents and Investments

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. All investments in pools are considered cash equivalents.

Investments are recorded at fair value and can consist of certificates of deposit, U.S. Treasury instruments, U.S. Government agency obligations, commercial paper, repurchase agreements and investments in local government public fund investment pools. Fair value is determined by the amount by which a financial instrument could be exchanged in a current transaction between willing parties. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments. Statutes authorize the District to invest in obligations of the U.S. Treasury or the State of Texas, obligations of certain U.S. Government agencies, certificates of deposit, money market savings accounts, certain municipal securities repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 of the Texas Government Code and Section 45-209 of the Texas Education Code, See Note B.

Interfund Transaction and Receivables and Payables

Advances between funds are accounted for in the appropriate interfund receivable and payable accounts. All legally authorized transfers are appropriately treated as transfers and are included in the results of operations. Such balances are eliminated within the governmental activities for the government-wide financial statements.

Property Taxes

Property taxes are levied each October 1 on the assessed value as of the prior January 1 for all real and business personal property located in the District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the subsequent year. On January 1 of each year a lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes and historical experience of adjustments to tax receivables.

Inventories and Prepaid Items

The consumption method is used to account for inventories of supplies and materials. Under this method, these items are carried in an inventory account of the respective fund at cost, using the weighted average method of accounting and are subsequently charged to expenditures when consumed or requisitioned. Although food commodities are received at no cost, their fair value is supplied by the Texas Department of Agriculture and is recorded as inventory on the date received.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

In the governmental funds, a reserved fund balance indicates that they are unavailable as current expendable financial resources that offset reported inventories. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in the accounting system in order to reserve the portion of the applicable appropriation, is employed in the governmental fund financial statements. Encumbrances which have not been liquidated are reported as designations of fund balance since they do not constitute expenditures or liabilities. Reservation of fund balance is equal to outstanding encumbrances at year-end is provided for at June 30, 2009.

Government-Wide Net Assets

Invested in capital assets, net of related debt – component of net assets represents capital assets, less capital debt plus unspent bond proceeds of \$270,352,975.

Restricted for debt service – the component of net assets that reports the difference between assets and liabilities of the Debt Service Funds net of accrued interest at June 30, that consists of assets with constraints placed on their use by the bond covenants of \$37,484,890.

Restricted for food service – the component of net assets that reports the difference between assets and liabilities of the Food Services Fund that consists of assets with constraints placed on their use by the Department of Agriculture and Texas Education Agency ("TEA") of \$19,766,445.

Unrestricted – the difference between the assets and liabilities that is not reported in net assets invested in capital assets, net of related debt, net assets restricted for debt service, and net assets restricted for food service of \$105,401,818.

Governmental Funds-Reserved Fund Balances

Certain resources of the governmental funds are set aside for the repayment or use of specific programs. These reservations can be identified as follows:

	<u>Governmental Funds/Reserved Fund Balances</u>
Food service	\$ 17,287,051
Debt service	76,288,266
Capital projects	439,618,654
Encumbrances	53,301,303
Inventories and prepaids	8,962,684
Total	<u>\$ 595,457,958</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

At June 30, 2009, the workers' compensation internal service fund has a deficit balance of \$3,582,474. The District intends to recover these costs through rate increases over the next two fiscal years.

Capital Assets

Capital assets, which include land, buildings, furniture and equipment, and construction in progress are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Construction cost includes direct and all indirect costs. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives, are not capitalized, and land and construction in progress are not depreciated. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Asset Classification	Useful Life in Years
Buildings and Building Improvements	45
Portable Buildings and Building Systems	20
Furniture	10
Trucks and Vans	7
Equipment:	
Maintenance Equipment	15
Grounds and Custodial Equipment	12
Instructional Equipment	10
Kitchen Equipment	10
Servers, Communications Systems, Audio/Visual	7
Automobiles	5
Computers and Copiers	3

Compensated Absences

Certain employees are entitled to receive accrued vacation and compensatory pay in a lump-sum cash payment upon termination of employment with the District. The amount of \$1,695,742 (wages and benefits) represents the recorded liability for employees vested in accumulated vacation and compensatory pay. The General Fund and Special Revenue Funds are used to liquidate compensated absences.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Cost of issuance, as well as gains or losses on refunding, are capitalized and amortized over the shorter of the life of the new issuance or the life of the existing debt using the straight-line interest method, which approximates the interest method. Premiums and discounts are amortized over the life of the related debt using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Use of Estimates

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

Data Control Codes

In accordance with the Financial Accountability System Resource Guide, Texas Education Agency (the "TEA"), the District has adopted and installed an accounting system, which meets the minimum requirements prescribed by the State Board of Education and has been approved by the State Auditor. The TEA requires the display of these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS

District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the Federal Reserve Bank of Dallas, the District's agent bank, approved pledged securities, as authorized by Chapter 2257, Collateral for Public Funds of the Government Code, in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC"). In order to maximize return on cash balances, the District uses consolidated bank accounts from which all disbursements are made, with cash in excess of the District's total daily requirement being invested for future needs.

The cash overdraft of \$14,890,454 reported by the District at June 30, 2009 represents checks recorded in the District's financial statements but not yet presented at the bank. At June 30, 2009, the net carrying amount of the District's cash deposits, excluding student activity fund deposits of \$1,826,749, was \$2,257,532. The bank balance of \$1,367,408 was on deposit with the contracted depository bank. Total District funds on deposit were secured by FDIC coverage of \$250,000, up to 100% of the bank balance, and by pledged United States government securities with a fair value of \$54,995,147 at June 30, 2009, held by the Federal Reserve Bank of Boston. Because the Federal Reserve Bank of Dallas holds the pledged securities in trust on behalf of the District, the deposits were deemed collateralized under Texas law. Secondary campuses activity funds were centralized and are now on deposit with the contracted depository. Non-centralized agency and activity funds are in separate bank accounts in the name of the schools, and as such, have FDIC insurance of up to \$250,000, up to 100% of the bank balance per bank account. A total of \$1,826,749 Agency Funds cash was on deposit with the contracted depository and separate bank accounts.

The District's component unit had an unrestricted cash balance of \$1,213,167. The component unit places its temporary cash investments with creditworthy, high quality financial institutions. These cash investments from time to time exceed federally insured limits.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

The District's Agency Fund bank balance on June 30, 2009, was covered by federal depository insurance or by collateral held in the District's name. In addition, the following is disclosed regarding coverage of combined cash and certificates of deposit balances on the date of highest deposit:

- a. Depository bank: Bank of America, N.A.
- b. The date of highest deposit was November 10, 2008, with combined cash and certificates of deposit balance of \$75,225,338.
- c. On November 10, 2008, the amount of bonds, securities pledged, and FDIC coverage was \$86,248,731.
- d. The FDIC coverage portion of the collateral listed above was \$2,373,587.
- e. The District had no occasions during the year of not being sufficiently collateralized, in which the pledged collateral requirement was less than the collateral requirement.

The Texas legislature passed the Public Funds Investment Act of 1995 ("Public Funds Investment Act") which authorizes the District to invest its excess funds in the following:

- Obligations of the United States or its agencies and instrumentalities,
- Obligations of the State of Texas or its agencies,
- Other obligations guaranteed by the United States or the State of Texas or their agencies and instrumentalities,
- Public funds investment pools,
- No load money market funds with a weighted average maturity of 90 days or less
- Fully collateralized repurchase agreements,
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less than an "A", or its equivalent, by a nationally recognized investment rating firm,
- Commercial paper having a stated maturity of 270 days or fewer from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies or one nationally recognized credit agency and is fully secured by an irrevocable letter of credit.
- Guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds,
- Guaranteed or secured certificates of deposit, issued by state and national banks domiciled in Texas, and insured by federal depository insurance or secured by the obligations mentioned above and
- Bonds issued, assumed or guaranteed by the State of Israel.

The Public Funds Investment Act requires an annual review and approval of investment policies and practices. The review disclosed that in this area of investment practices, management reports and establishment of appropriate policies, the District materially adhered to the requirements of the Public Funds Investment Act. Additionally, investment practices of the District were in accordance with local policies, which are no more restrictive than state statutes.

Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

As of June 30, 2009, the following are the District's cash equivalents and investments, with respective maturities and credit quality:

Type of Investment	Book Value	Percent	Fair Value	Percent	Maturity Amount	Maturity in 0-6 Months	Maturity in 7-12 Months	Credit Rating S&P/Moody's
Money markets, mutual funds and overnight repurchase agreements	\$ 99,109,906	14.4%	\$ 99,109,906	14.4%	\$ 99,109,906	\$ 99,109,906	\$ -	AAA/Aaa
Investment pools:								
MBIA Texas Class	193,037,911	28.0%	193,038,027	28.0%	193,038,027	193,038,027	-	AAA/Aaa
LOGIC	3,188,539	0.5%	3,188,539	0.5%	3,188,539	3,188,539	-	AAA/Aaa
Lone Star	79,209,206	11.5%	79,209,206	11.5%	79,209,206	79,209,206	-	AAA/Aaa
TexPool	3,081,564	0.4%	3,081,564	0.4%	3,081,564	3,081,564	-	AAA/Aaa
TexasDAILY	7,969,855	1.2%	7,969,855	1.2%	7,969,855	7,969,855	-	AAA/Aaa
Total Investment pools	<u>286,487,075</u>	<u>41.6%</u>	<u>286,487,191</u>	<u>41.6%</u>	<u>286,487,191</u>	<u>286,487,191</u>	<u>-</u>	
Cash	4,084,281	0.6%	4,084,281	0.6%	4,084,281	4,084,281	-	N/A
Total cash and cash equivalents	<u>389,681,378</u>	<u>56.6%</u>	<u>389,681,378</u>	<u>56.5%</u>	<u>389,681,378</u>	<u>389,681,378</u>	<u>-</u>	
Securities:								
Commercial Paper	79,782,048	11.6%	79,870,720	11.6%	80,000,000	75,000,000	5,000,000	A-1/P-1
US Agency FAMICA	29,914,730	4.3%	29,974,950	4.3%	30,000,000	30,000,000	-	AAA/Aaa
US Agency FHLB	79,823,202	11.6%	79,915,515	11.6%	80,000,000	-	80,000,000	AAA/Aaa
US Agency FHLMC	59,886,966	8.7%	59,956,115	8.7%	60,000,000	45,000,000	15,000,000	AAA/Aaa
US Agency FNMA	49,873,561	7.2%	49,950,655	7.2%	50,000,000	50,000,000	-	AAA/Aaa
Total Investments	<u>299,280,507</u>	<u>43.4%</u>	<u>299,667,955</u>	<u>43.5%</u>	<u>300,000,000</u>	<u>200,000,000</u>	<u>100,000,000</u>	
Total cash, cash equivalents and investments	<u>\$ 688,961,885</u>	<u>100.0%</u>	<u>689,349,333</u>	<u>100.0%</u>	<u>\$ 689,681,378</u>	<u>\$ 589,681,378</u>	<u>100,000,000</u>	
Overdrafts	<u>\$ 14,890,454</u>		<u>14,890,454</u>					

As required by GASB Statement No. 31, the District recognizes the unrealized gain/loss on investments with a maturity date greater than one year from the acquisition date and investments that are callable. As of June 30, 2009, the remaining cash equivalents and securities in the District's portfolio all had maturity dates of less than one year from their acquisition date.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Interest Rate Risk: In accordance with the District's investment policy, investments are made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a twelve month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. The District's investment strategy states that no individual transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

Credit Risk: State law limits investments in commercial paper to not less than A1-P1 or equivalent rating by at least two nationally recognized credit rating agencies. The District's investments in Local Government Public Fund Investment Pools ("LGIP's") include: MBIA Texas Class, LOGIC, Lone Star, TexPool and TexasDAILY. These are all public funds investment pools and money markets operating in full compliance with the Public Funds Investment Act of 1940 (the "1940 Act"). These pools are operated in a manner consistent with SEC Rule 2a-7 of the investment company Act. All are rated "AAA" money market funds by Standard and Poor's. Columbia Money Market Reserves is a no-load money market fund that maintains weighted-average maturity of 90-days or less. This money market fund invests only in first-tier securities. Under SEC Rule 2a-7 of the 1940 Act, a first-tier security is a debt instrument that is an eligible investment for money market funds and has received a rating in the highest short-term category from a nationally recognized statistical rating organization. The District utilizes Columbia Money Market Reserves for money market investments and Bank of America N.A. for the daily operating funds.

Concentration of Credit Risk: The District's investment portfolio is diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity or specific issuer.

Custodial Credit Risk – deposits: This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. During the fiscal year, all deposits held in the depository bank, Bank of America, were fully collateralized.

Custodial Credit Risk – investments: This is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Flexible repurchase investments were held by third parties and were fully collateralized and held in the District's name.

Foreign Currency Risk: As of June 30, 2009, there are no foreign investments in the District's portfolio.

The District has established a \$20,000,000 line of credit with Bank of America N.A., which is available for seasonal borrowing needs from November 1 to January 31 of each year. Interest on amounts owed is assessed at the Bank of America, N.A. prime rate. The District has not utilized this line of credit during the last nine fiscal years.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE C: LOCAL REVENUES AND PROPERTY TAX

Local revenues are comprised of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
Property taxes	\$ 805,663,151	\$ 110,699,925	\$ -	\$ -	\$ 916,363,076
Food services	-	-	-	7,957,320	7,957,320
Interest income	2,523,344	545,965	5,774,940	702	8,844,951
Tuition, fees and cocurricular	1,226,870	-	-	-	1,226,870
Gifts and bequests	32,624	-	-	2,068,031	2,100,655
Other	5,577,658	-	378,557	7,903,425	13,859,640
Totals	<u>\$ 815,023,647</u>	<u>\$ 111,245,890</u>	<u>\$ 6,153,497</u>	<u>\$ 17,929,478</u>	<u>\$ 950,352,512</u>

Property Taxes

The District's ad valorem property tax is levied each October 1 on the assessed value as of the prior January 1 for all real and business personal property located in the District. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the subsequent year. On January 1 of each year a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. The assessed value of the roll on January 1, 2008 was \$82,815,157,987. After deductions of all exemptions and reductions provided by law and those granted by the District, the levy for the 2009 fiscal year was based on property values of \$82,176,569,792.

The tax rates assessed for the year ended June 30, 2009, to finance General Fund operations and the payment of principal and interest on long-term debt were \$1.04005 and \$0.143352 per \$100 valuation, respectively, for a total of \$1.183352 per \$100 valuation. The resolution levying the ad valorem taxes specifies the individual tax rates for the General Fund and Debt Service Funds. Current tax collections for the year ended June 30, 2009, were 96.36% of the tax levy.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District has provided an allowance for estimated uncollectible property taxes and estimated adjustments within the General Fund and Debt Service Funds of \$45,309,015 and \$4,540,197 respectively based upon historical collection experience and historical experience of adjustments to tax receivables. The District is prohibited from writing off real property taxes without specific statutory authority from the Texas State Legislature.

The City of Dallas has established 16 Tax Increment Financing Zones as authorized under Chapter 311 of the Texas Property Tax Code in which the District has authority to levy taxes on real property. The City of Farmers Branch has established one Tax Increment Finance Zone as authorized under Chapter 311 of the Texas Property Tax Code in which the District has authority to levy taxes on real property. The District currently participates financially in four of the City of Dallas Tax Increment Financing Zones and the City of Farmers Branch Tax Increment Financing Zone.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

The captured property values and property taxes payable to the Tax Increment Financing Zones are summarized as follows:

	<u>Captured Values</u>	<u>Taxes Collected/ Paid (\$1.04005/\$100)</u>
City of Dallas:		
Cityplace Tax Incremental Financing District	\$ 436,209,902	\$ 1,274,311
Oak Cliff Gateway Tax Incremental Financing District	57,587,989	556,443
Cedars Tax Incremental Financing District	47,700,704	260,772
Sports Arena Tax Incremental Financing District	560,619,851	3,236,518
City of Farmers Branch: Tax Incremental Financing District #1	2,208,000	9,271
Totals	<u>\$ 1,104,326,446</u>	<u>\$ 5,337,315</u>

NOTE D: RECEIVABLES

Property tax receivable as of June 30, 2009, for the District's major funds and non-major funds in the aggregate including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>
Property taxes	\$ 95,253,747	\$ 10,599,596	\$ 105,853,343
Less: Allowance for uncollectible	(45,309,015)	(4,540,197)	(49,849,212)
Totals	<u>\$ 49,944,732</u>	<u>\$ 6,059,399</u>	<u>\$ 56,004,131</u>

The \$2,108,249 component unit receivables for unconditional promises is due in less than one year.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE E: DEFERRED/UNEARNED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of fiscal year 2009, the various components of deferred and unearned revenue reported in the General Fund, Debt Service Funds, Capital Projects Fund and non-major governmental funds were as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Non-Major</u>	<u>Totals</u>
Deferred:					
Property taxes	\$ 46,511,970	\$ 5,598,817	\$ -	\$ -	\$ 52,110,787
Medicaid	8,318,842	-	-	-	8,318,842
Gifts and bequests	-	-	2,714,256	-	2,714,256
Unearned	299,841	-	-	1,909,597	2,209,438
Totals	<u>\$ 55,130,653</u>	<u>\$ 5,598,817</u>	<u>\$ 2,714,256</u>	<u>\$ 1,909,597</u>	<u>\$ 65,353,323</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2009, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
General Fund:		
Non-Major Governmental Funds	\$ -	\$ 50,765,147
Debt Service Fund	54,340	
Capital Projects Fund	10,596,810	-
Internal Service	-	7,774,289
Agency Fund	594,752	-
	<u>11,245,902</u>	<u>58,539,436</u>
Debt Service Fund:		
General Fund	-	54,340
Capital Projects Fund:		
General Fund	-	10,596,810
Non-Major Governmental Funds:		
General Fund	50,765,147	-
Internal Service Fund	-	234,566
	<u>50,765,147</u>	<u>234,566</u>
Internal Service Fund:		
General Fund	7,774,289	-
Non-Major Governmental Fund	234,566	-
	<u>8,008,855</u>	<u>-</u>
Agency Fund:		
General Fund	-	594,752
	<u>-</u>	<u>594,752</u>
 Totals	 <u>\$ 70,019,904</u>	 <u>\$ 70,019,904</u>

The interfund receivable and payable between General Fund and Special Revenue Fund occurs when expenditures take place before the reimbursement is received from the granting agency. The interfund balances between General Fund and Capital Projects Fund, Debt Service Funds, Agency Fund, and Internal Service Fund occur due to payments made from the General Fund operating account on behalf of these funds. The interfund balances between Interfund Service Fund, General Fund and Non-Major Governmental Fund occur due to recording of workers' compensation liabilities recorded but not yet funded. Transfers occur monthly, unless significantly larger payments are noted and the transfer occurs more frequently. All interfund balances are expected to be repaid within the next fiscal year.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Interfund transfers are comprised of the following:

	<u>Transfers In</u>			<u>Transfers Out</u>
	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Capital Projects	\$ 744,742	\$ 16,704	\$ -	\$ 761,446
Non-Major Governmental	-	-	500,702	500,702
	<u>\$ 744,742</u>	<u>\$ 16,704</u>	<u>\$ 500,702</u>	<u>\$ 1,262,148</u>

All interfund transfers were to close funds no longer needed.

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 is as follows:

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
Capital assets, not being depreciated:					
Land	\$ 152,673,664	\$ 1,365,127	\$ -	\$ (1,717,011)	\$ 152,321,780
Construction in progress	26,867,488	24,724,466	(30,054,932)	-	21,537,022
Total capital assets, not being depreciated	<u>179,541,152</u>	<u>26,089,593</u>	<u>(30,054,932)</u>	<u>(1,717,011)</u>	<u>173,858,802</u>
Capital assets, being depreciated:					
Building and improvements	2,179,996,348	8,084,633	30,054,932	(9,489,756)	2,208,646,157
Furniture and equipment	194,561,899	7,282,873	-	(33,884,914)	167,959,858
Total capital assets, being depreciated	<u>2,374,558,247</u>	<u>15,367,506</u>	<u>30,054,932</u>	<u>(43,374,670)</u>	<u>2,376,606,015</u>
Less accumulated depreciation for:					
Buildings and improvements	755,573,291	40,552,511	-	(8,226,957)	787,898,845
Furniture and equipment	150,370,496	14,007,598	-	(28,133,309)	136,244,785
Total accumulated depreciation	<u>905,943,787</u>	<u>54,560,109</u>	<u>-</u>	<u>(36,360,266)</u>	<u>924,143,630</u>
Total capital assets, being being depreciated, net	<u>1,468,614,460</u>	<u>(39,192,603)</u>	<u>30,054,932</u>	<u>(7,014,404)</u>	<u>1,452,462,385</u>
Capital assets, net	<u>\$ 1,648,155,612</u>	<u>\$ (13,103,010)</u>	<u>\$ -</u>	<u>\$ (8,731,415)</u>	<u>\$ 1,626,321,187</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Depreciation expense was charged to functions of government activities as follows:

		Depreciation Expense
		<hr/>
11	Instruction	\$ 36,002,165
12	Instructional resources and media services	1,984,660
13	Curriculum and staff development	183,426
23	School leadership	1,280,807
31	Guidance, counseling and evaluation services	273,880
33	Health services	131,131
34	Student transportation	9,674
35	Food services	4,694,005
36	Curriculum/extracurricular activities	1,945,499
41	General administration	486,879
51	Plant maintenance and operations	4,285,700
52	Security and monitoring services	451,373
53	Data processing services	2,830,910
		<hr/>
	Total	\$ 54,560,109
		<hr/>

Depreciation is allocated to functions of governmental activities by specific identification whenever possible. Depreciation related to campus facilities is allocated to functions based on the relative square footage of the respective functional areas. Technology equipment is allocated in total to data processing services.

The District has active construction projects. These projects include new school construction and renovation of existing facilities. The total construction commitments as of June 30, 2009 are \$50,505,671 for projects under the 2002 and 2008 Bond Programs.

By applying the criteria set forth in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, the District determined that no adjustment for impaired assets is required in the year ended June 30, 2009. The District has no carrying value on permanently impaired assets and \$750,000 carrying value on temporarily impaired assets.

NOTE H: LEASES

The District leases offices, copiers, computers, warehouse space and parking under non-cancelable operating leases. Lease expense for the year ended June 30, 2009 was approximately \$13,764,000. Minimum future lease commitments on non-cancelable leases are summarized as follows:

For the Year Ending June 30	Minimum Future Lease Commitments
<hr/>	<hr/>
2010	\$ 6,619,329
2011	3,214,681
2012	1,221,129
2013	876,572
2014	678,426

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE I: LONG-TERM OBLIGATIONS

Long-term debt includes par bonds, capital appreciation serial bonds, contractual obligations, notes payable, long-term loans, maintenance tax notes and provisions for workers' compensation liability. Bond premiums are amortized using the effective interest method.

General Obligation Bonds

These bonds are secured by ad valorem taxes levied against all taxable property and are serviced, with the exception of the contractual obligation bonds, by the Debt Service Funds with an apportionment of the ad valorem tax levy. Interest rates on the bonds range from 1.75% to 6.25% and are due through 2034.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

At June 30, 2009, \$76,174,101 in cash equivalents was reserved in the Debt Service Fund to service the outstanding bonds.

Series	Bond Series Name - General Obligation Bonds Maturity or Mandatory Redemption Date	Interest Rates	Original Issue Amount (in thousands)	Total Outstanding Principal Amount (in thousands)
1999	Unlimited Tax Refunding Bonds - Serially in varying amounts from August 15, 2000 to August 15, 2014	3.70% - 5.25%	\$ 165,460	\$ 126,255
2002	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2003 to February 15, 2022	4.0% - 5.50%	335,594	215,390
2003	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from February 15, 2004 to February 15, 2027	1.75% - 5.00%	156,665	35,435
2004	Unlimited Tax School Building Bonds - Serially in varying amounts from August 15, 2004 to August 15, 2030	3.0% - 5.00%	300,000	297,285
2004A	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2005 to August 15, 2031	3.0% - 5.00%	400,000	400,000
2005	Unlimited Tax Refunding Bonds - Serially in varying amounts from August 15, 2008 to August 15, 2014	5.25%	44,135	38,250
2006	Unlimited Tax School Building Bonds - Serially in varying amounts from August 15, 2007 to August 15, 2032	4.0% - 5.00%	290,205	287,420
2008	Unlimited Tax School Building Bonds- Serially in varying amounts from February 15, 2010 to February 15, 2034	5.0% 6.25%	393,325	393,325
Total				<u>\$ 1,793,360</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Maintenance Tax Notes

On October 1, 2001, the District issued \$6,880,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2001. An additional \$1,120,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2002, was issued on September 1, 2002. On September 20, 2008 the District issued \$20,000,000 of Dallas Independent School District Maintenance Tax Notes, Series 2008. The amount outstanding for Qualified Zone Academy Maintenance Tax Notes as of June 30, 2009 was as follows:

Series	Maintenance Tax Notes Maturity or Mandatory Redemption Date	Yield Rates	Total Outstanding Principal Amount
2001	Principal due at maturity - deposits made to escrow annually at May 1, 2002 to May 2015	6.82%	\$ 5,349
2002	Principal due at maturity - interest due each February 15 and August 15 from February 15, 2003 to September 15, 2016	6.14%	1,120
2008	Principal due at maturity - interest due each February 15 and August 15 from February 15, 2009 to February 15, 2015	3.16%	16,995
Total			<u>\$ 23,464</u>

Long-term Notes Payable

As of June 30, 2009, the accompanying government-wide financial statements include property under notes payable with a principal balance due of \$4,152,981. The notes payable were used to acquire equipment and services for the District's student information systems. Note Payable expenditures for fiscal year 2008-2009 were \$1,435,448, representing principal and interest payments that have been reflected as debt service expenditures in the General Fund, and Capital Projects Fund of the accompanying fund financial statements.

Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

The following is a summary of the changes in the District's long-term debt for the year ended June 30, 2009 (in thousands)

Description	Long-Term Liabilities Outstanding July 1, 2008	Additions and Interest Accretion	Retired	Long-Term Liabilities Outstanding June 30, 2009	Amount Due Within One Year From June 30, 2009
General obligation bonds:					
Series 1999	\$ 145,830	\$ -	\$ 19,575	\$ 126,255	\$ 21,195
Series 2002	226,795	-	11,405	215,390	10,295
Series 2003	36,050	-	615	35,435	1,265
Series 2004	300,000	-	2,715	297,285	2,885
Series 2004A	400,000	-	-	400,000	-
Series 2005	44,135	-	5,885	38,250	6,400
Series 2006	288,825	-	1,405	287,420	2,730
Series 2008	-	393,325	-	393,325	18,330
Total general obligation bonds	<u>1,441,635</u>	<u>393,325</u>	<u>41,600</u>	<u>1,793,360</u>	<u>63,100</u>
Maintenance Tax Notes Payable:					
Series 2001-QZAB	5,210	139	-	5,349	-
Series 2002-QZAB	1,120	-	-	1,120	-
Series 2008-SSYS/Vehicles	-	20,000	3,005	16,995	3,005
Total maintenance tax notes	<u>6,330</u>	<u>20,139</u>	<u>3,005</u>	<u>23,464</u>	<u>3,005</u>
Total bonds & maintenance tax notes payable	1,447,965	413,464	44,605	1,816,824	66,105
Long-term Notes Payable					
IBM Master Agreement-2006	1,907	-	639	1,268	622
IBM Supplement-2008	-	3,611	765	2,846	680
Total capital leases	<u>1,907</u>	<u>3,611</u>	<u>1,404</u>	<u>4,114</u>	<u>1,302</u>
Total Bonds and Notes Payable	1,449,872	417,075	46,009	1,820,938	67,407
Other long-term obligations:					
Workers compensations	9,593	8,309	7,234	10,668	2,342
Deferred losses on refunding	(6,343)	-	(361)	(5,982)	-
Premium on bonds	36,925	10,827	3,968	43,784	-
Arbitrage payable	3,046	-	2,609	437	-
	<u>43,221</u>	<u>19,136</u>	<u>13,450</u>	<u>48,907</u>	<u>2,342</u>
Totals	<u>\$ 1,493,093</u>	<u>\$ 436,211</u>	<u>\$ 59,459</u>	<u>\$ 1,869,845</u>	<u>\$ 69,749</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

For governmental activities, claims and judgments are generally liquidated by General Fund resources.

Debt Service Requirements

The annual requirements to pay principal and interest on the bond obligations and notes payable outstanding as of June 30, 2009, are as follows (in thousands):

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2010	\$ 67,407	\$ 96,613	\$ 164,020
2011	57,366	88,708	146,074
2012	49,757	86,018	135,775
2013	56,908	83,370	140,278
2014	69,425	80,568	149,993
2015-2019	298,885	359,910	658,795
2020-2024	332,125	282,068	614,193
2025-2029	463,380	181,820	645,200
2030-2034	427,215	56,315	483,530
	<u>1,822,468</u>	<u>\$ 1,315,390</u>	<u>\$ 3,137,858</u>
Accreted interest to maturity (see note below)	(1,530)		
Totals	<u>\$ 1,820,938</u>		

Note: The \$1,530,547 of accreted interest to maturity represents the difference between the accreted value at June 30, 2009 of the invested escrow account at Bank of New York of \$5,349,453 and the debt due at maturity of \$6,880,000 for the 2001 Qualified Zone Academy Bonds. The District deposits \$344,321 payments into the escrow account annually at May 1, and these annual deposits plus the interest earned on the escrow account will pay off the \$6,880,000 debt due at maturity on May 1, 2015.

In 1985, 1995, 1999, 2002, 2003 and 2005, the District legally defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the District's basic financial statements. The total amount of defeased bonds that remain outstanding at June 30, 2009, is \$60,190,000.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Debt Issuance

The District issued the following debt during fiscal year 2008-2009:

On July 1, 2008, the District issued an "Installment Payment Supplement Agreement" (2008 Supplemental Agreement) debt as an addendum to the "Installment Master Payment Agreement" (2006 Master Agreement) issued on July 1, 2006. The debt agreements between the District and International Business Machines Corporation (IBM) were issued to provide for the purchase of computer equipment and services for the District's student information system. The principal amount due under the 2006 Master Agreement was \$2,578,976, and was issued at a rate of 3.74 per cent. Initially, annual principal and interest installment payments of \$558,526 were due each August 1, beginning August 1, 2006 and ending on August 1, 2010.

Subsequent equipment additions to the 2006 Master Agreement increased the annual payment due IBM, with \$670,147 being the amount due for the current fiscal year ending June 30, 2009. The principal amount due under the 2008 Supplement Agreement is \$3,611,421, issued at a rate of 2.95 per cent. Annual principal and interest payments of \$765,502 are due each July 1, beginning July 1, 2008 and ending July 1, 2012. These debt agreements are reported as long-term notes payable of the District beginning fiscal year ending June 30, 2009. This debt is serviced by revenues in the General Fund.

On August 11, 2008, the District issued \$125,000,000 in "Dallas Independent School District Tax and Revenue Tax Anticipation Notes, Series 2008," at a net interest cost of 1.97 per cent. The District received a reoffering premium of \$661,250 on the issuance of the Series 2008 tax anticipation notes. The total proceeds, less the issuance costs and underwriter's discount of \$219,500 and \$100,000, respectively, were used to provide for the seasonal cash flow needs of the District's general fund operations. The principal and interest on the notes was due in total on February 13, 2009, and was repaid in full on February 12, 2009 by the General Fund.

On September 30, 2008, the District issued \$20,000,000 in "Dallas Independent School District Maintenance Tax Notes, Series 2008," at a net interest cost of 3.087 per cent. The district received a reoffering premium of \$1,025,037 on the issuance of the Series 2008 maintenance tax notes. The total proceeds, less the issuance costs and underwriter's discount of \$145,000 and \$94,406, respectively, are to be used for the purchase of computer equipment and services for the District's student information system and new vehicles for the District's maintenance fleet. Principal and interest payments are due each February 15 and August 15, beginning February 15, 2009 and ending February 15, 2015. The proceeds of this debt are maintained in the "Dallas Independent School District Maintenance Tax Notes, Series 2008" Columbia Money Market Reserves account at Bank of America. This debt service is serviced by revenues in the General Fund.

On December 1, 2008, the District issued \$393,325,000 in "Dallas Independent School District Unlimited Tax School Building Bonds, Series 2008" with interest rates ranging from 5.0 to 6.25 per cent. The District received a net premium of \$9,802,120 on the issuance of the Series 2008 bonds. The total proceeds, less the issuance costs and underwriter's discount of \$825,896 and \$2,301,224, respectively, are to be used for school building construction and renovation. This debt issuance was the first segment issued of the \$1,350,000,000 bond authorization referendum passed in May 2008. Principal and interest payments are due each February 15 and August 15, beginning February 15, 2010 and ending February 15, 2034. The proceeds of this debt are maintained in the "Bond 2008 – Project" Texas Class local or state government investment pool account managed by MBIA Asset Management. This debt is subject to federal arbitrage regulations and is serviced by the Debt Service Fund.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. Arbitrage liability for tax exempt debt subject to the Tax Reform Act issued through June 30, 2009, amounted to \$437,079. The estimated liability is updated annually for any tax-exempt issuances or changes in yields until such time payment of the calculated liability is due.

NOTE J: GENERAL FUND FEDERAL SOURCE REVENUE

Federal revenues recorded in the General Fund consist of the following:

Junior ROTC	\$ 1,723,802
Medicare	2,572,774
Indirect cost	2,056,031
Other Federal	479,362
Total	<u>\$ 6,831,969</u>

NOTE K: PENSION PLAN OBLIGATIONS

Teacher Retirement System of Texas

Plan Description - All employees of the District employed for one-half or more of the standard workload and who are not exempted from membership under the Texas Government Code, Title 8, Subtitle C, Section 822.002, participate in the Teacher Retirement System of Texas (the "System"), a multiple-employer Public Employee Retirement System ("PERS"). It is a cost-sharing PERS with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System's annual financial report and other required disclosure information are available by writing to the Teacher Retirement System of Texas Communications Department, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

The System operates primarily under the provisions of Texas Constitution, Article XVI Section 67 and Texas Government Code, Title 8, Subtitle C. The System also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapter 803 and Chapter 805, respectively. Service requirements are as follows:

Normal – Age 65 with 5 years of service or when the sum of member's age and years of credit equals or exceeds 80.

Reduced – Age 55 with at least 5 years of credited service or any age below 50 with 30 or more years of credit service.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Funding Policy - By statute, plan members must contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.58% of the District's covered payroll. For members of the retirement system entitled to the minimum salary for certain personnel under Section 16.056, Texas Education Code, the District will pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum. The District's employees' contributions to the System for the years ending June 30, 2007, June 30, 2008, and June 30, 2009, were \$58,215,603, \$63,944,579 and \$64,255,930, respectively equal to the required contributions for each year. Other contributions made from Federal and private grants and from the District for salaries above the statutory minimum for the years ending June 30, 2007, June 30, 2008 and June 30, 2009 were \$16,290,287, \$21,153,142 and \$22,523,356 respectively, equal to the required contributions for each. In addition, the District has recorded, in the General Fund, approximately \$42.4 million in revenue and expenditures for pension contributions paid on behalf of the District by the State.

Teacher/Employee Recruitment and Retention Program Trust

Plan Description – The Teacher/Employee Recruitment and Retention Program Trust ("TERRP or "Plan") was frozen on August 31, 2008 after the District made the final contribution for fiscal year ended June 30, 2008. The Trust is a defined contribution retirement plan established by the Education Service Center Region 10. The District's Board has the authority for amending plan provisions including establishing and amending contribution requirements. The Board appoints an employee as the Plan Administrator. The Trust's annual financial report and other required disclosure information are available by writing the TERRP Plan Record Keeper JEM Resource Partners, 900 S. Capital of Texas Highway, Suite 350, Austin, TX 78746.

Under the plan provisions, the District contributed 100% of plan member contributions as follows: For Tier I, the District made a matching contribution to the Plan for the greater of a) or b): a) The District matched fifty percent (50%) of participant contributions to a 403(b) or 457(b) plan maintained by the District, up to a maximum of 1% of the participant's base compensation. The District's contribution per participant would not exceed \$180 annually. b) Participants received a contribution from the Plan based on the following attendance criteria: 1) for participants with excellent attendance, the District matched 75% of participant contributions to a 403(b) or 457(b) plan maintained by the District, up to a maximum of 1.5% of the participant's base compensation. The District's contribution per participant would not exceed \$270 for any Plan year. Excellent attendance was defined as 3 days or fewer of absence during the Plan year. 2) For participants with perfect attendance, the District matched 100% of participant contributions to a 403(b) or 457(b) plan maintained by the District, up to a maximum of 2% of the participant's base compensation. The District contribution per participant could not exceed \$360 for any Plan year. Perfect attendance was defined as zero absences during the plan year. For Tier II, the District made a direct contribution to the Plan for campus-based professional employees and support staff ("Campus-based Employees") whose campus achieved the following criteria: (a) a minimum average student attendance rate for the school year ending during the Plan year of 97.5%; or (b) if the campus met or exceeded requirement (a) in the preceding Plan year, then the requirement for the contribution would be the current campus average student attendance rate plus 0.5%.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

A participant is 25% vested in his or her account after attaining two credited years of participation, 50% vested after three years, 75% vested after 4 years and 100% vested in his or her account after attaining five credited years of participation in this Plan. Upon meeting the requirements of "qualification for unreduced retirement" in accordance with the System, obtaining normal retirement age, or upon death or permanent disability, a participant shall be 100% vested regardless of years of service.

Staff and Teacher Attendance Reward Plan

Plan Description – The District contributes to the Staff and Teacher Attendance Reward Plan ("STAR" or "Plan"). The Plan is a retirement savings plan available under Section 401(a) of the Internal Revenue Code, established by the Education Service Center Region 10. The District's Board has the authority for amending plan provisions including establishing and amending contribution requirements. The Board appoints an employee as the Plan Administrator. The Plan's annual financial report and other required disclosure information are available by writing The STAR Plan Record Keeper JEM Resource Partners, 900 S. Capital of Texas Highway, Suite 350, Austin, TX 78746. Under plan provisions, employees are automatically enrolled in STAR if he or she is an employee who is an active and contributing member of the Teacher Retirement System of Texas, contributes to the District's 457(b) plan or the 403(b) Tax Sheltered Annuity plan maintained by the District and has missed five days or less from work during the period September 1 to August 31 for each year.

The District contributes for teacher positions as follows:

Days Missed	District Contribution
3 - 5 days	50% of employee deferrals up to \$500 annually
2 days	75% of employee deferrals up to \$700 annually
0 - 1 day	100% of employee deferrals up to \$1,000 annually

The District contributes for non-teacher positions as follows:

Days Missed	District Contribution
3 - 5 days	50% of employee deferrals up to \$200 annually
2 days	75% of employee deferrals up to \$300 annually
0 - 1 day	100% of employee deferrals up to \$400 annually

A participant is 25% vested in his or her account after attaining two credited years of service, 50% vested after three years, 100% vested in his or her account after attaining four credited years of service in the Plan. A participant shall receive a Year of Service under the Plan for each Plan Year in accordance to the Service Requirements under the Teacher Retirement System of Texas (TRS). Upon meeting the requirements of "qualification of unreduced retirement" in accordance with the TRS, obtaining normal retirement age or upon death or permanent disability, a participant shall be 100% vested regardless of years of service. Because District contributions are determined on employee attendance through August 31, 2009, no contributions have been made for the year ended June 30, 2009. The District accrued the contributions that are required to be made for teachers/employees who fulfilled contract terms as of June 30, 2009.

NOTE L: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no significant reductions in insurance coverage from the prior year. The District purchases commercial insurance to cover general liabilities. There were significant reductions in insurance claims from the prior year. Reductions were the result of mandatory limited duty, medical case management, claim audits, safety training and other safety incentives, medical and hospital bill auditing and the implementation of the wellness program. There have been no claim settlements in excess of insurance coverage in the last three years.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Workers' Compensation

Beginning in 1989, the District moved from a self-insured workers' compensation program administered by a third party to a self-insured program administered by the District. The District currently reports all of its risk management activities in its Internal Service Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by District management. At June 30, 2009, the accrued liability for workers' compensation self-insurance of \$10.7 million includes incurred but not reported claims.

This liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not necessarily result in an exact amount. This liability is the District's best estimate based on available information.

Changes in the reported liability resulted from the following:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2007 - 2008	\$ 11,709,589	\$ 4,193,191	\$ (6,310,969)	\$ 9,591,811
2008 - 2009	9,591,811	8,309,888	(7,233,950)	10,667,749

Health Insurance

The Board of Trustees approved the District's participation in the Texas Retirement System ("TRS") Active Care Health Insurance Program as sponsored by the Teacher Retirement System of Texas and administered by Blue Cross Blue Shield of Texas and Medco Health (pharmacy) effective January 1, 2004. This is a premium-based plan: payments are made on a monthly basis for all covered employees.

NOTE M: OTHER POST EMPLOYMENT BENEFITS

The GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*, which the District implemented in the fiscal year ending June 30, 2008. This statement establishes standards of accounting and financial reporting for post employment health care and other benefits if provided separately from a pension plan. The District has implemented this standard with respect to the retiree health plan through the Texas Public School Retired Employees Group Insurance Program (TRS-Care).

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

Plan Description: The Dallas Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or calling 1-800-223-8778.

Funding Policy: Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2009, 2008 and 2007. Per Texas Insurance code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended June 30, 2009, 2008, and 2007, the State's on-behalf contributions to TRS-Care were \$10,039,989, \$9,992,840 and \$9,096,188 respectively, respectfully and the District's contributions, including contributions from federal and private grants, for the same periods were \$6,525,993, \$6,543,036, and \$5,979,744 which equaled the required contributions each year.

NOTE N: NEW ACCOUNTING PRONOUNCEMENTS

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which will be effective for the District in the fiscal year ending June 30, 2010. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets clarifying whether and when intangible assets should be considered capital assets for financial reporting purposes.

The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which will be effective for the District for periods beginning after June 15, 2009. The Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The statement establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources. This statement is effective for the District beginning in fiscal year 2011.

The District will evaluate the impact of the standards and take the necessary steps to implement.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2009**

NOTE O: LITIGATION, CONTINGENCIES AND COMMITMENTS

The District is a defendant in various lawsuits arising principally in the normal course of operations. In the opinion of the District's management, the potential losses, after insurance coverage, on all allegations, claims, and lawsuits will not have a material effect on the District's financial position, results of operations or liquidity.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through June 30, 2009, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

The audit for the years ended June 30, 2007, 2008, and 2009, conducted in accordance with the provisions of the Single Audit Act, identified several material weaknesses and significant deficiencies in the District's system of internal accounting controls, along with several instances of non-compliance with the requirements, rules, and regulations of the underlying federal and state programs and questioned costs. In addition, The Department of Education conducted an audit of the District's Title I grant fund for 2005-2006 and identified questioned costs.

The District has established and recorded a liability of \$16.0 million for amounts expected to be repaid to the granting agencies.

NOTE P: SUBSEQUENT EVENTS

On August 10, 2009, the District issued \$85.0 million in multi-draw Tax Anticipation Notes (the "TANS"). The TANS were issued for the purpose of funding the District's cash flow requirements. Three "Request for Purchase" agreements were issued under the TANS to fund on August 10, 2009 (\$50.0 million), September 10, 2009 (\$15.0 million) and October 29, 2009 (\$20.0 million). The \$85.0 million TANS are due by February 15, 2010.

On July 30, 2009, the District closed on the sale of the Unlimited Tax Refunding Bonds, Series 2009 \$100,760,000 (the "Bonds") to construct, equip and renovate school buildings in the District. The Bonds have various maturity dates beginning in 2010 through 2014 with an interest range between 2% and 5%.

* * * *

Dallas Independent School District
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget (GAAP Basis) and Actual
(Unaudited)

Exhibit G-1

General Fund
For the Year Ended June 30, 2009

Data Control Codes	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	\$ 1,141,340,530	\$ 827,755,131	\$ 815,023,647	\$ (12,731,484)
State sources	51,415,211	398,852,360	392,602,696	(6,249,664)
Federal sources	6,575,000	5,801,648	6,831,969	1,030,321
Total revenues	<u>1,199,330,741</u>	<u>1,232,409,139</u>	<u>1,214,458,312</u>	<u>(17,950,827)</u>
Expenditures:				
Current:				
11 Instruction	735,703,086	771,655,492	754,270,787	17,384,705
12 Instructional resources and media services	21,660,207	23,091,207	22,860,985	230,222
13 Curriculum and staff development	11,108,157	8,411,419	12,399,207	(3,987,788)
21 Instructional leadership	16,150,081	17,101,343	17,199,477	(98,134)
23 School leadership	77,061,054	80,708,789	80,501,471	207,318
31 Guidance, counseling, and evaluation services	44,858,149	45,706,844	45,375,010	331,834
32 Social work services	1,238,967	1,338,485	1,304,846	33,639
33 Health services	13,413,730	15,874,927	14,671,545	1,203,382
34 Student transportation	21,095,940	21,669,692	24,282,687	(2,612,995)
36 Cocurricular/extracurricular activities	11,004,130	9,187,893	9,750,815	(562,922)
41 General administration	41,413,166	39,356,463	39,292,561	63,902
51 Plant maintenance and operations	150,037,959	148,685,278	146,637,374	2,047,904
52 Security & monitoring services	18,240,871	16,643,703	16,432,578	211,125
53 Data processing services	21,643,276	17,141,768	18,188,868	(1,047,100)
61 Community services	7,015,777	6,364,048	6,882,280	(518,232)
71 Debt Service	1,982,521	1,922,158	2,246,540	(324,382)
81 Facilities acquisition and construction	1,238,558	631,223	356,909	274,314
91 Chapter 41 payment	-	26,890,159	13,675,440	13,214,719
95 Payments juvenile justice AE	517,905	569,507	730,787	(161,280)
97 Payments to tax increment fund	3,947,207	4,773,000	5,337,315	(564,315)
99 Other intergovernmental charges	-	4,200,000	4,036,656	163,344
Total expenditures	<u>1,199,330,741</u>	<u>1,261,923,398</u>	<u>1,236,434,138</u>	<u>25,489,260</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (29,514,259)</u>	<u>(21,975,826)</u>	<u>\$ 7,538,433</u>
Other Financing Sources (Uses):				
Sale of real or personal property			622,649	
Transfers in			744,742	
Transfers out			-	
Legal settlements			(1,936,127)	
Total other financing sources (uses)			<u>(568,736)</u>	
Deficiency of revenues and other sources under expenditures and other uses			<u>(22,544,562)</u>	
Fund balance - beginning			60,212,644	
Fund balance-ending			<u>\$ 37,668,082</u>	

Dallas Independent School District
Notes to the Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2009

The official budget was prepared for adoption for the General Fund. The budget is prepared on a basis consistent with generally accepted accounting principles. Project accounting is employed to maintain the integrity of the various sources of funds. There is no difference between GAAP and the budgetary basis of accounting. The following procedures are followed in establishing the budgetary data reflected in the general purpose financial statements:

1. Before June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Before July 1, the Board legally enacts the budget through passage of a resolution.

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. Such amendments are made following the approval by the Board of Trustees, and are reflected in the official minutes.

The budget manager at the expenditure function/object level controls each budget. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year.

The Texas Education Agency ("TEA") requires the budgets for the Governmental Fund Types to be filed with the TEA. The expenditure should not exceed the budget in any functional category under TEA requirements.

Because the 2007-08 general fund excess of expenditures over revenues was not determined until after the 2008-09 budget was adopted, the underestimation of expenditures was carried forward to the 2008-09 budget. As a result, if no actions were taken, the District estimated that the 2008-09 operating results would be, a deficit of at least \$74 million. On September 19, 2008 the Board of Trustees declared a financial exigency, and on October 2, 2008, approved a reduction in force, and on December 18, 2008 amended the budget to add additional net expenditures of \$29.6 million.

The following reflects the final budget negative expenditure variances for the fiscal year ended June 30, 2009:

Data Control Codes	Function	Final Budget	Actual	Variance with Final Budget (Negative)
13	Curriculum and staff development	\$ 8,411,419	\$ 12,399,207	\$ (3,987,788)
21	Instructional leadership	17,101,343	17,199,477	(98,134)
34	Student transportation	21,669,692	24,282,687	(2,612,995)
36	Cocurricular/extracurricular activities	9,187,893	9,750,815	(562,922)
53	Data processing services	17,141,768	18,188,868	(1,047,100)
61	Community services	6,364,048	6,882,280	(518,232)
71	Debt Service	1,922,158	2,246,540	(324,382)
95	Payments juvenile justice AE	569,507	730,787	(161,280)
97	Payments to tax increment fund	4,773,000	5,337,315	(564,315)

**Dallas Independent School District
Schedule of Delinquent Taxes Receivable (Unaudited)
For the Year Ended June 30, 2009**

Exhibit J-1

Fiscal year (1)	Tax Rates		Net Assessed/ Appraised Value for School Tax Purposes	Beginning Balance	Current Year's Total Levy	Maintenance Total Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance
	Maintenance	Debt Service							
2000 and prior years	Various	Various	\$ 49,107,307,100	\$ 15,733,513	\$ -	\$ 370,492	\$ 26,292	\$ (307,809)	\$ 15,028,920
2001	1.47800	0.06950	53,136,828,664	3,735,379		81,527	3,834	(102,462)	3,547,556
2002	1.47803	0.06950	57,284,326,734	4,291,047		101,626	4,779	(97,943)	4,086,699
2003	1.47803	0.10950	58,484,300,287	6,276,629		155,418	11,514	(170,338)	5,939,359
2004	1.50000	0.13950	58,380,724,174	7,336,944		483,465	44,962	11,933	6,820,450
2005	1.50000	0.16694	59,372,699,642	7,711,220		641,136	72,405	(207,671)	6,790,008
2006	1.50000	0.18836	62,682,170,090	9,878,008		1,470,228	184,621	(291,723)	7,931,436
2007	1.33005	0.17259	69,473,558,853	12,599,875		2,245,699	291,406	(1,326,188)	8,736,582
2008	1.04005	0.15959	77,232,250,745	25,549,624		2,158,739	331,251	(12,263,170)	10,796,464
2009	1.04005	0.14335	82,815,157,987		943,732,752	793,334,262	109,346,715	(6,910,340)	34,141,435
1000 Totals				<u>\$ 93,112,239</u>	<u>\$ 943,732,752</u>	<u>\$ 801,042,592</u>	<u>\$ 110,317,779</u>	<u>\$ (21,665,711)</u>	<u>\$ 103,818,909</u>
Wilmer Hutchins (2)									2,034,434
									<u>\$ 105,853,343</u>

9000 - Portion of Row 1000 for taxes paid into Tax
Increment Zone Under Chapter 311, Tax Code

\$ 5,337,315

(1) The District changed the fiscal year end for the fiscal year ending June 30, 2003. Fiscal years prior to 2003 reflect August 31 year ends. Fiscal years subsequent to 2002 reflect June 30 year ends. The amount for 2003 reflects 10 months activity. All other years reflect 12 months of activity.

(2) Wilmer Hutchins was annexed by the District effective July 1, 2007.

Dallas Independent School District
Schedule of Expenditures for Computations of Indirect Costs
General and Special Revenue Funds (Unaudited)
For the Year Ended June 30, 2009

Exhibit J-2

Function 41 and Related Function 53- General and Administration

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Superintendent's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other)	7 Total
611X-6146	Payroll costs	\$ 491,894	\$ -	\$ 489,267	\$ 17,667,239	\$ 1,024,924	\$ 3,932,010	\$ 23,605,334
6149	Fringe benefits (used leave for separating employees in function 41 and Related 53)							-
6149	Fringe benefits (used leave for separating employees in all functions except function 41 and related 53)							-
6211	Legal services	6,714,453						6,714,453
6212	Audit services				2,112,663			2,112,663
6213	Tax appraisal and collection		-					-
621X	Other professional services	8,270		45,063	6,010,471	-	66,500	6,130,304
6220	Tuition and transfer payments						5,120	5,120
6230	Education Service Center Services				-			-
6240	Construction, maintenance and repair					183,763		183,763
6260	Rentals	9,150		15,023	207,953		48,053	280,179
6290	Miscellaneous contributions	12,826		2,529	505,040		89,577	609,972
6310	Supplies and materials				107,005		978	107,983
6320	Textbooks and reading materials	77		111	3,948		49	4,185
63XX	Other supplies materials	6,733		343	543,809	2,162	30,637	583,684
6410	Travel, subsistence and stipends	20,718		12,806	144,711		58,120	236,355
6420	Insurance							-
6430	Election costs	-						-
6490	Miscellaneous operating	128,612		8,021	551,839	-	61,193	749,465
6600	Capital outlay						342,181	342,181
6000	Total	\$ 7,392,733	\$ -	\$ 573,163	\$ 27,854,478	\$ 1,210,849	\$ 4,634,418	\$ 41,665,641

Total expenditures for General and Special Revenue Funds

\$ 1,520,028,100

Less: Deductions of unallowable costs:

Total capital outlay (6600)(only funds 100-199/200-499/810-879)

10 18,759,947

Total debt and lease (6500)(only funds 100-199/200-499/810-879)

11 2,246,540

Plant maintenance (function 51, 6100-6400)

12 146,324,834

Food (function 35, 6341)

13 22,842,264

190,173,585

Net allowed direct cost

1,329,854,515

Total cost of buildings before depreciation (1520)

15 1,464,417,094

Historical cost of buildings over 50 years old

16 121,907,590

Amount of Federal money in building cost (net of above)

17 10,000

Total cost of furniture & equipment before depreciation (1530&1540)

18 154,497,651

Historical cost of furniture & equipment over 16 years old

19 39,181,261

Amount of Federal money in furniture & equipment (net of above)

20 \$ 39,181,261

(8) Note A - -0- in function 53 expenditures are included in this report on administrative costs.

Dallas Independent School District
Fund Balance and Cash Flow Calculation Worksheet
General Fund (Unaudited)
June 30, 2009

Exhibit J-3

Data Control Code	Explanation	Amount
1	Total General Fund Balance 6/30/09 (Exhibit C-1 object 3000 for the General Fund Only)	\$ 37,668,082
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	8,392,093
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	-
4	Estimated amount needed to cover all cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues) (unaudited)	-
5	Estimate of one month's average cash disbursements during the regular school session (9/1/09-5/31/10) (unaudited)	125,837,098
6	Estimate of delayed payments from state sources (58xx) including August payment delays	
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate and District Planning Estimate or District's calculated earned state aid amount.	
8	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Funds (uses of General Fund cash after bond referendum and prior to issuance of bonds).	
9	Optimum Fund Balance and Cash Flow (2+3+4+5) (unaudited)	134,229,191
10	Excess/(Deficit) Undesignated Unreserved General Fund Balance (1-6) (unaudited)	\$ (96,561,109)

Dallas Independent School District
Budgetary Comparison Schedule - Nonmajor Fund
Food Service Fund (Unaudited)
For the Year Ended June 30, 2009

Exhibit J-4

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
0100	Fund Balance, July 1, 2008			\$ 15,685,422	
	Revenues				
5700	Local and intermediate sources	\$ 14,374,653	\$ 14,374,653	7,957,320	\$ (6,417,333)
5800	State program revenues	756,560	756,560	568,265	(188,295)
5900	Federal program revenues	60,524,854	60,524,854	67,929,057	7,404,203
5000	Amounts available for appropriation	75,656,067	75,656,067	76,454,642	798,575
	Expenditures				
0035	Food service	72,744,427	72,744,427	70,035,890	2,708,537
0051	Plant maintenance and operations	2,911,640	2,911,640	2,337,729	573,911
6000	Total charges to appropriations	\$ 75,656,067	\$ 75,656,067	72,373,619	\$ 3,282,448
3000	Fund balance, June 30, 2009			\$ 19,766,445	

**Dallas Independent School District
Budgetary Comparison Schedule -
Debt Service Fund (Unaudited)
For the Year Ended June 30, 2009**

Exhibit J-5

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
0100	Fund Balance, July 1, 2008			<u>\$ 76,896,518</u>	
	Revenues				
5700	Local and intermediate sources	\$ 111,941,331	\$ 111,941,331	111,245,890	\$ (695,441)
7900	Transfers in	-	-	16,704	16,704
5000	Amounts available for appropriation	<u>111,941,331</u>	<u>111,941,331</u>	<u>111,262,594</u>	<u>(678,737)</u>
	Expenditures				
0071	Principal and interest on long-term debt	111,941,331	111,941,331	111,870,846	70,485
6030	Total charges to appropriations	<u>\$ 111,941,331</u>	<u>\$ 111,941,331</u>	<u>111,870,846</u>	<u>\$ 70,485</u>
3000	Fund balance, June 30, 2009			<u><u>\$ 76,288,266</u></u>	

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Trustees
Dallas Independent School District
Dallas, TX

We have audited the financial statements of the Dallas Independent School District (the "District") as of and for the year ended June 30, 2009, and have issued our report thereon dated November 19, 2009. Our report was modified to include a reference to other auditors and an emphasis of a matter related to the change in accounting for internal service funds. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider items 2009-01 through 2009-15 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 2009-01 through 2009-03 to be material weaknesses.

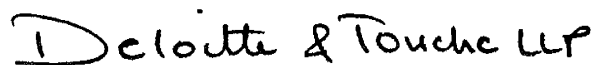
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2009-03.

We noted certain other matters that we reported to management of Dallas Independent School District in a separate letter dated November 19, 2009.

The District's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Trustees, others within the District, and the Texas Education Agency, and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 19, 2009

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Trustees
Dallas Independent School District
Dallas, TX

Compliance

We have audited the compliance of the Dallas Independent School District (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Dallas Independent School District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in item 2009-16 in the accompanying schedule of findings and questioned costs, the District did not comply with certain requirements regarding allowable costs that are applicable to its Title I, Part A, Title II, Part A, Title III, Part A, Texas Reading First Initiative, and Teacher Incentive Fund programs. Additionally, as described in items 2009-18 and 2009-19, the District did not comply with requirements regarding matching and eligibility, respectively, that are applicable to its Teacher Incentive Fund program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the District did not comply in all material respects, with the requirements referred to above that are applicable to the Teacher Incentive Fund program. Also, in our opinion, except for the noncompliance described in the preceding paragraph, the Dallas Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-17, 2009-21 through 2009-22, and 2009-24 through 2009-29.

Internal Control Over Compliance

The management of Dallas Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-16 through 2009-27 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2009-16 and 2009-18 through 2009-20 to be material weaknesses.

The District's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Trustees, others within the District, the Texas Education Agency, and federal 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

November 19, 2009

**DALLAS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

Pass-Through Grantor's Number	Federal/State Grantor-Pass Through Grantor/Program Title	Federal CFDA Number	Audit Period Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct			
U35OB070012-08	Project MASS	84.350B	\$ 19,154
S060A080194	Indian Education	84.060A	130,612
T293B070133-08	Foreign Languages Assistance Program	84.293B	280,758
U350A060002-08	Bridges To Teaching	84.350A	288,965
S374A070003-08A	Teacher Incentive	84.374A	8,177,869
U350C070001	University Research	84.035	200,460
U351D060153	Dallas Arts Initiative	84.351D	16,260
	Total Direct		9,114,078
Passed Through Texas Education Agency			
096600010579056600	IDEA-B Formula	84.027	35,854,910
096600020579056673	IDEA-B Discretionary (Deaf)	84.027	271,310
096600010579056601	IDEA-B Formula (Deaf)	84.027	159,376
086600060579056680	IDEA B High Cost Risk Pool	84.027	1,284
096610010579056610	IDEA-B Preschool	84.173	441,489
096610010579056611	IDEA-B Preschool (Deaf)	84.173	27,773
77022057905	McKinney-Vento Homeless Education	84.196	192,964
094100017110248	Adult Education	84.002A	125,071
094100017110248	Adult Education	84.002A	2,013,432
094100087110292	Adult Ed Engl Lit & Civics Education	84.002A	63,116
084100037110031	Adult Education - State Leadership, Project Great	84.002A	33,913
09610101057905	Title I, Part A-Improving Basic Programs	84.010A	74,025,301
09610103057905	Title I, Part D, Subpart 2-Delinquent Program	84.010A	45,982
08610104057905	Title I School Improvement Program	84.010A	8,592,291
09420006057905	Carl D. Perkins, Title I, Part C	84.048A	2,548,925
Q184D050011-07	Student Voluntary Drug Testing Program	84.184D	148,937
09691001057905	Title IV, Part A-Safe & Drug Free School & Communities	84.186A	1,178,112
093911010579053911	IDEA-C Early Intervention	84.181	4,520
086950107110007	TX 21st Century Learning Center, Cycle 2	84.287C	316,478
086950107110010	TX 21st Century Learning Center, Cycle 2	84.287C	272,644
086950107110009	TX 21st Century Learning Center, Cycle 2	84.287C	276,591
086950107110008	TX 21st Century Learning Center, Cycle 2	84.287C	268,170
086950017110009	TX 21st Century Learning Center, Cycle 3	84.287C	19,846
096950017110009	TX 21st Century Learning Center, Cycle 3	84.287C	295,872
086950017110008	TX 21st Century Learning Center, Cycle 3	84.287C	29,596
096950017110008	TX 21st Century Learning Center, Cycle 3	84.287C	420,103
086950117110013	TX 21st Century Learning Center, Cycle 4	84.287C	413,726
09685001057905	Title V, Part A Innovative Programs	84.298A	283,920
09630001057905	Title II, Part D, Enhancing Education Through Technology	84.318X	883,548
076455057110016	Texas Reading First Initiative for Grades K-3	84.357A	1,349,162
086455057110014	Texas Reading First Initiative for Grades K-3	84.357A	4,763,788
09671001057905	Title III, Part A- LEP	84.365A	5,315,796
09694501057905	Title II, Part A-Teacher and Principal Training & Recruiting	84.367A	8,840,003
	Total Passed Through Texas Education Agency		149,477,949

**DALLAS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

Pass-Through Grantor's Number	Federal/State Grantor-Pass Through Grantor/Program Title	Federal CFDA Number	Audit Period Expenditures
	Passed Through State Department Of Health		
53802C7018-1	Special Education Grants for Infants and Families with Disabilities	84.181	\$ 1,050,614
53802C7018-1	Special Education Grants for Infants and Families with Disabilities	84.181	159,687
	Total Passed Through State Department Of Health		1,210,301
	TOTAL U.S. DEPARTMENT OF EDUCATION		159,802,328
	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
	Passed Through State Department Of Health		
529-07-0017-00001R2	Refugee and Entrant Assistance	93.576	226,051
5U87DP001254-02	Improving Health and Educational Outcomes of Young People	93.938	17,735
N/A	Summer Feeding Program	10.559	1,301,384
	Total Passed Through State Department Of Health		1,545,170
	Passed Through Texas Education Agency		
09362017110246	Federal-TANF	93.558	102,332
09362017110246	Federal-TANF	93.558	276,925
	Total Passed Through Texas Education Agency		379,257
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		1,924,427
	U.S. DEPARTMENT OF AGRICULTURE		
	Passed Through Texas Education Agency		
N/A	National School Breakfast	10.553	12,736,801
N/A	National School Lunch	10.555	50,120,847
	Total Passed Through Texas Education Agency		62,857,648
	Direct		
N/A	Schools/Child Nutrition Commodity Program (Noncash)	10.555	3,770,025
	Total Direct		3,770,025
	TOTAL U.S. DEPARTMENT OF AGRICULTURE		66,627,673
	OTHER FUNDING AGENCIES		
N/A	Texas Women's University	45.313	137,224
0966002271210	IDEA-B Visually Impaired	84.027	9,364
N/A	Medicaid and School Health Related Services	93.778	883,313
N/A	JROTC	12.000	1,723,802
	TOTAL OTHER FUNDING AGENCIES		2,753,703
	TOTAL FEDERAL ASSISTANCE		\$ 231,108,131

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note A to the District's Basic Financial Statements. Schools/Child Nutrition Commodity Program is a non cash transaction for \$ 3,770,025.

See notes to the Schedule of Expenditures of Federal Awards

DALLAS INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

1. The District utilizes the fund types specified in the Texas Education Agency Resource Guide.

Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state awards generally are accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of specified grant periods.

2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental funds are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in the special revenue funds, which are governmental funds. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the governmental funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as deferred revenues until earned. The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 30 days beyond the federal project period ending date, in accordance with provisions in Section H: Period of Availability of Federal Funds, Part 3, *OMB Circular A-133 Compliance Supplement*.
4. The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the District has not complied with rules and regulations governing the grants, refund of any money received may be required and the collectibility of any related receivable at June 30, 2009 may be impaired.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I—Summary of Auditors' Results

Financial Statements

1. Type of auditor's report issued: Unqualified

Internal control over financial reporting:

2. Material weaknesses identified? X yes no
3. Significant deficiencies identified that are not considered to be material weaknesses? X yes none reported
4. Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

5. Material weaknesses identified? X yes no
6. Significant deficiencies identified that are not considered to be material weaknesses? X yes none reported
7. Type of auditor's report issued on compliance for major programs:
- Unqualified for the Special Education Cluster and the Child Nutrition Cluster
 - Qualified for Title I, Part A, Title II, Part A, Title III, Part A, and the Texas Reading First Initiative
 - Adverse for the Teacher Incentive Fund
8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X yes no
9. Identification of major programs:
- 84.010 – Title I, Part A
 - 84.367 – Title II, Part A
 - 84.365 – Title III, Part A
 - 84.357 – Texas Reading First Initiative
 - 84.027 & 84.173 – Special Education Cluster
 - 84.374 – Teacher Incentive Fund
 - 10.553, 10.555 & 10.559 – Child Nutrition Cluster
10. Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000
11. Auditee qualified as low-risk auditee? yes X no

SUMMARY OF FINDINGS FOR THE YEAR ENDED JUNE 30, 2009

DESCRIPTION	2009 REFERENCE	2008 REFERENCE	2007 REFERENCE
Financial Statement Findings:			
Information Technology Control Environment	2009-01		
Business Processes Policies and Procedures	2009-02	2008-09	2007-03
Grant Compliance and Reporting	2009-03	2008-12	2007-07
Human Resources Department Controls	2009-04	2008-01	
Controls over Disbursements and Contract Monitoring	2009-05	2008-02	
Budgetary Controls	2009-06	2008-03	2007-16
State Compliance	2009-07	2008-19	2007-14
Antifraud Programs and Controls	2009-08	2008-10	2007-04
Conflict of Interest Statements	2009-09	2008-21	2007-15
Internal Audit Function	2009-10		
Segregation of Duties – IT Functions	2009-11	2008-06	
Vendor Support for Information Technology Applications	2009-12	2008-05	
User Access Management and Security	2009-13	2008-13	2007-08
Change Management Processes	2009-14	2008-15	
Disaster Recovery and Business Continuity	2009-15	2008-16	2007-11
Single Audit Findings:			
Time and Effort Documentation	2009-16	2008-23	2007-20
Insufficient Documentation of Payroll and Payroll-Related Costs	2009-17	2008-22	2007-19

DESCRIPTION	2009 REFERENCE	2008 REFERENCE	2007 REFERENCE
Matching of Non-Grant Funds	2009-18	2008-36	
Eligibility for Teacher Incentives	2009-19		
Grants Management	2009-20	2008-41	2007-21
Procurement	2009-21	2008-35	
Earmarking	2009-22		
Monitoring Maintenance of Effort	2009-23	2008-26	
Parental Involvement	2009-24	2008-37	
Management of Fixed Assets Purchased with Grant Funds	2009-25	2008-31	
Verification of Free and Reduced Price Lunch Applications	2009-26		
School Lunch Program Menu Planning	2009-27		
Allowable Costs in Title I, Part A	2009-28	2008-46	2007-34
Report Issued by the District's Internal Audit Department	2009-29		

Section II—Financial Statement Findings

2009-01 INFORMATION TECHNOLOGY CONTROL ENVIRONMENT

Material Weakness in Controls

Observation – The financial Information Technology (IT) systems are intended to support initiation, recording, processing and reporting of financial data to generate the District's financial statements. The District's computer processing environment does not currently support reliable financial accounting and reporting or efficient and effective business processes. The following factors that have been reported in prior years and remain uncorrected are the key contributors to the deficiencies in the overall control environment:

- Lack of organization-wide IT policies and procedures among various departments,
- Inadequate information security controls,
- Ineffective system change management process, including lack of segregation of duties and inadequate testing of changes,
- Lack of processes to monitor vendor support for IT systems,
- Lack of an organization wide disaster recovery and business continuity plan to support the operations in the event of unforeseen disaster.

Recommendation – Appropriate controls over information security, system change control and IT operations processes should be established to maintain data integrity and generation of reliable financial statements. Management should consider implementing organization wide IT controls for reliable financial data processing. Monitoring controls should be established to ensure that the controls are effective and corrective actions are taken on a timely basis.

2009-02 BUSINESS PROCESSES POLICIES AND PROCEDURES

Material Weakness in Controls

Observation – Formalized and up-to-date policies and procedures for the District's key business processes either do not exist, are ineffective, or are inconsistently applied in many key business processes within the District. Certain key control activities could not be identified for several business processes. Additionally, in some instances we were unable to verify the existence of certain control activities because of lack of supporting documentation.

The District has taken steps to develop policies and procedures as a result of the District's comprehensive corrective action plan. However, a sound internal control environment requires a set of standard operating policies and procedures that is recognized District-wide, across all levels and functions. Effective corrective action requires management in key departments, such as Finance, Human Resources, IT, Grants, Purchasing and Legal to communicate on a regular basis in order to establish ownership of control processes. In addition, the District has not documented the control objectives and activities for each of the District's key business cycles, including revenue, expenditures, fixed assets, treasury, payroll, grants compliance, information technology, and financial reporting functions.

When policies and procedures are not established, documented, and communicated and when employees are not adequately trained on them or held accountable for applying them consistently, the District puts itself at risk for the inappropriate processing of transactions and safe guarding of assets.

Recommendation – Policies, procedures, and controls should be formally established, implemented, and communicated throughout the District. This helps to ensure that all employees fully understand their responsibilities, how controls operate, and the importance of the control process. The District is currently in the process of documenting formalized policies and procedures and should continue identifying and documenting procedures for each of the District’s key business processes and control objectives and related activities. Once documented, the policies, procedures, and controls should be formally approved by the District management and communicated to appropriate staff. The District should also train key employees on how to properly execute and document the performance of key activities.

Management should also consider instituting a sustainable internal controls management program to ensure controls are adequately designed, implemented, executed, and monitored on an ongoing basis. Key features of a well-functioning internal control management program include:

- Adoption of a formal control framework such as the Committee of Sponsoring Organization’s (COSO) Control framework to set the expectations for controls
- Accountability for the execution of controls residing with the control owners
- Formal documentation of policies, procedures, and controls
- Linkage of risks (financial, regulatory, programmatic, fraud) to identified control objectives
- Identification of key control objectives and activities by business process
- Development of a control repository to house key controls to their control owners
- Ongoing monitoring of control expectations through periodic self-assessment and/or management testing of key controls across the organization

2009-03 GRANT COMPLIANCE AND REPORTING

Material Weakness in Controls – Material Noncompliance

Observation – The District does not have written policies and procedures for grants specialists to maintain consistency and accuracy in the grants management process. In addition, Control activities in place are disproportionately focused on non-payroll type expenditures rather than payroll. The Grants Management department does not have a process in place to ensure that employees are paid from the grants where they spent their time and effort. The District spent a total of \$233,308,170 from federal funds in fiscal year 2009, and \$139,463,710, or 60%, of those expenditures were payroll or payroll-related costs.

Additionally, certain program managers are not adequately trained about federal requirements and the ramifications of noncompliance. This causes incongruities in the accounting process that has led the District to request reimbursement for disallowed expenditures, (see findings 2009-16 to 2009-29 reported in Compliance Section of the Annual Financial Report.)

Recommendation – Implement more rigorous training for individuals responsible for both monitoring grant compliance and accounting for grant-related transactions. In addition, the District should train all employees involved in spending grant funds regarding allowable costs and other granting agency requirements. Programs should be evaluated to ensure that each grant is managed by a strong leader who

has the proper training and knowledge of compliance requirements. Ownership should be established for compliance and appropriate spending within each grant program.

In addition, implement corrective action to address all specific non compliance noted and reported on in our Report on Compliance and Internal Controls over Compliance Applicable to Each Major Program Performed in Accordance with OMB Circular A-133, located in the Compliance Section of the Annual Financial Report.

2009-04 HUMAN RESOURCES DEPARTMENT CONTROLS

Significant Deficiency in Controls

Observation – Employment contracts do not include key terms of employment, including position title, pay grade or step, or amount to be paid to the employee. Although the District’s electronic personnel processing authorization forms include this information, current weaknesses in system access controls rendered such electronic data to be inadequately secured.

To aid the progress of the audit, notices of assignment were printed and authorized for all employees whose salaries were grant funded during fiscal year 2009 and placed in the employees’ files after year-end. However, key terms of employment for employees are not generally available outside of the system. Approximately 10% of the District’s payroll costs are paid from grant funds. Therefore, it is critical that the District have controls in place and operating effectively that are supportive of a fiscally responsible system.

Recommendation – Work with the IT department to ensure that system controls are properly designed and operating effectively. In situations where there are weaknesses in system controls, develop a plan to ensure that sufficient manual documentation is available to support employee compensation.

2009-05 CONTROLS OVER DISBURSEMENTS AND CONTRACT MONITORING

Significant Deficiency in Controls

Observation – Multiple weaknesses were noted in the District’s procurement processes and procedures. A lack of centralization of certain aspects of the District’s procurement function contributed to instances in which the District failed to comply with state or federal procurement law and/or District policy related to contracts and agreements. Such instances were noted as follows:

- The District was unable to provide supporting evidence that the prices quoted by vendors during the bidding process were the same as the prices actually charged to the District. Vendors bid prices for specific items and construction tasks, and depending on the type of contract, the best and lowest bidder was selected. However, when the vendor supplied the initial proposal and subsequently the invoices, a breakdown of prices for specific items and construction tasks billed to the District was not provided or not available for review. As a result, District was relying on vendors to bill the District at agreed upon prices rather than checking whether the billed price is in accordance with the agreed upon prices.
- For certain contracts, such as educational consultants, Board approval was not obtained for all contracts over \$50,000 in accordance with Board policy. Instead, management was authorized to approve and utilize educational consultants as needed. The District purchased approximately \$15 million of educational consultant services and other related professional services during the year.

Although the exception to the Board policy was approved by the Board, circumventing controls in place could result in mismanagement and abuse of funds.

- End users are responsible for monitoring that the amount billed and paid for goods and services agree to the amount quoted by the vendor. However, this control is not consistently applied and instances were noted in which the amount paid was more than the amount agreed to in the contract.
- In certain instances, where the District used approved purchasing cooperatives, evidence of price agreements and approved arrangements were not consistently maintained.
- In certain instances, when invoices were received by the Accounts Payable department for payment in an amount that exceeded the approved purchase order, the amount paid by the District was equal to the purchase order. Short payment of invoices did not appear on exception reports and District personnel did not document any follow-up with vendors regarding discrepancies. Other instances were noted in which invoices were short paid because the system does not allow the recording of the invoice amount that exceeds the purchase order which increases the risk for unrecorded liabilities.

Recommendation – Implement policies and procedures that require the District-wide enforcement of procurement laws and strengthen controls to centralize processes within the procurement office and more easily monitor compliance with state and federal laws and District policies.

- Develop and implement procedures to ensure that prices vendors submit in their bids are in agreement with the prices actually charged to the District.
- Ensure that all bidding packages received from general contractors are maintained and filed in a way that they may be located and tracked back to the related project to demonstrate compliance with state and federal procurement laws.
- Consistently document the competitive bidding process and the use of all cooperative agreements.
- Enforce District policy that requires Board approval for contracts in excess of \$50,000 either individually or in the aggregate.
- Develop monitoring procedures to verify that the amount billed and paid for goods and services agree to the amount quoted by the vendor and compare to the contract price. Consider whether this monitoring function should be centralized for efficiency and to minimize risk of overpayment.
- Evaluate the system capability in capturing the portion of the invoice that remains unpaid.

2009-06 BUDGETARY CONTROLS

Significant Deficiency in Controls

Observation – During fiscal year 2009, the District put processes in place to correct prior year weaknesses in the budgetary cycle. For example, in prior years, employee costs were budgeted at average costs rather than actual costs, which led to an original budget that was unsupported by actual projected expenditures. To correct this weakness, The District performed a complete re-budget of the General Fund in December 2008. The re-budget was necessary so the District could have a reliable and accurate budget on which to base financial decisions for the remainder of the year. Actual expenditures for certain functions in the District's General Fund still exceeded the final amended budget approved by the Board of Trustees at June 30, 2009.

In addition to the budget overages described above, certain weaknesses in access controls in the District's budget system, Paradox, could also compromise the integrity of the budget document. It is our understanding that the District implemented a new budget system for the budget year 2009-2010.

Recommendation – Develop policies and procedures to ensure the reliability of budgeted amounts, including the development of the appropriate basis for the original budget, the performance of periodic reviews of all budget to actual variances, and the monitoring of position control. Specific considerations should include:

- Comparisons of budget to actual should be consistently performed throughout the year to determine that expenditures are not exceeding budget and to ensure that requirements set forth by the Texas Education Agency are met. Perform monthly reviews of budget to actual variances. Ensure that unusual relationships are researched and explained. Review the budget on a regular basis to determine that expenditures are made within budget limits.
- Implementation of procedures that prohibit encumbering or expending the District's funds prior to ensuring that funds are available.

2009-07 STATE COMPLIANCE

Significant Deficiency in Controls

Observation:

Use Of Proper Account Codes and Funds – The District is using more fund numbers than are established by the TEA Resource Guide. School districts should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established. Unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration. The District has begun implementing a new account code structure as prescribed by TEA, which will take effect in fiscal year 2010.

Monitoring of State Mandated Programs - As defined in the TEA Resource Guide, for programs financed under the Foundation School Program Act (state mandated programs), rules of the State Board of Education provide that allocations must be used in the program areas prescribed by law. The District is required to monitor and spend 85% of each of its state mandated programs' allotment on total direct costs for each program. However, during fiscal year 2009, the District's general ledger reflected that the District spent only 70% of its Foundation School Programs Compensatory Education Allotment on direct program costs. The District subsequently made corrections to reclassify expenses to the correct program intent code.

Recommendation – Review the required and recommended fund and campus codes in the TEA Resource Guide and ensure that the District's new fund structure complies with TEA's requirements and recommendations.

Monitor spending and compliance with state requirements for all state mandated programs on a regular basis. Ensure proper coding to program intent codes.

2009-08 ANTI-FRAUD PROGRAMS AND CONTROLS

Significant Deficiency in Controls

Observation – While the District has established an Internal Audit department, the Office of Professional Responsibility, and an Audit Committee in recognition of the importance of maintaining fraud prevention and detection programs, we believe that the District should strengthen its fraud risk assessment and develop a more comprehensive set of anti-fraud programs and controls. The fraud risk assessment process should be an interactive process between managers from selected District departments, the District's internal auditors, the Office of Professional Responsibility and members of the Audit Committee of the Board of Trustees. Active discussions should be held to identify key risk areas and identify controls to address the risks identified. Consideration of weaknesses in the District's control environment, including weaknesses in system controls, should also be addressed and taken into consideration during the risk assessment process.

While the Internal Audit department prepared a fraud risk assessment report during the year, the process that was used to develop the report did not engage the various District decision makers, was not interactive, did not identify fraud scenarios, and did not include active discussions and brainstorming sessions with District management or the Audit Committee. Failure to appropriately identify and communicate risks provides management with a false sense of security about the District's control environment.

Under newly issued Statements on Auditing Standards from the American Institute of Certified Public Accountants, which have also been adopted by the U.S. Governmental Accountability Office, in obtaining an understanding of an entity's control environment, independent auditors must consider the design and implementation of programs and controls that address the risk of fraud. Under the new standards, the absence or inadequacy of such programs and controls can represent a significant deficiency or material weakness in an entity's control environment. Auditors must consider such issues as:

- Has management linked risks and schemes identified in the fraud risk assessment process to mitigating programs and controls by analyzing management's mapping of fraud risks to applicable mitigating programs and controls?
- What are the procedures for handling complaints and for accepting and investigating confidential submissions of concerns about questionable accounting or auditing matters?

In the current operating environment, there is increased emphasis and media scrutiny on the role of an organization's governing body in its oversight role in assessing and responding to various types of risks, including the risk of fraud. Strengthening the District's fraud risk assessment and other fraud prevention and detection programs would improve the District's ability to anticipate change by identifying the early warning signals and alerting everyone to the cause and effect of various types of risks, including fraud. It also would accelerate the District's ability to respond to change by promoting faster and more precise decision-making.

Recommendation – Review fraud prevention and detection guidance issued by the AICPA to determine whether the focus of the District's anti-fraud evaluation efforts is adequate and complete. Strengthen the District-wide fraud risk assessment and management analysis by actively discussing fraud risks, operational risks and financial risks with management and other key personnel. The results of the risk assessment should be a comprehensive plan that includes implementation of monitoring controls to ensure that the policies and procedures designed by management are implemented appropriately and in a timely manner.

Management should consider implementing a comprehensive proactive fraud detection process using data interrogation and validation tests to be applied to payroll and vendor files. Tests should be designed that would require the selection and analysis of data from payroll, vendor, and other data sources and the performance of a comprehensive set of data anomaly tests designed to identify to the appropriate responsible department the resulting potential indicators of fraud or error.

2009-09 CONFLICT OF INTEREST STATEMENTS

Significant Deficiency in Controls

Observation – The State of Texas Attorney General's Opinion No. JM-424 concerning conflicts of interest of certain local officials including school board trustees states that a school district can do business with an entity in which a board member has a substantial interest, if the board member has appropriately filed an affidavit with the board disclosing such interest, and if the board member abstains from voting on actions pertaining to the interest.

Conflict of interest statutes also apply to individuals designated as school district investment officers. The Public Funds Investment Act contains requirements relating to the disclosure of financial interests (of investment officers) in entities providing investments and/or other financial services to the District. For example, a disclosure in the format prescribed by the Texas Ethics Commission is required to be filed by an investment officer when the investment officer's money market account is managed by an entity that sells securities to the District.

The District currently obtains conflict of interest statements from Board members; however, when conflict of interest statements are received from District employees, they are filed in the respective employee's personnel file and records are not consistently maintained in the purchasing or legal departments. Such departments should be informed of conflicts when entering into agreements on behalf of the District and, therefore, need to be apprised of any such conflicts in a timely manner.

Recommendation – Ensure that all required conflicts of interest statements are obtained and communicated to legal, purchasing and treasury departments. Monitor conflicts of interest as they are filed and forward relevant information to the affected departments.

2009-10 INTERNAL AUDIT FUNCTION

Significant Deficiency in Controls

Observation – The role of Internal Audit Department (Department) is to bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. An active, involved and vibrant internal audit department is imperative to providing assurance on the risk management, control, and governance processes within the District. Currently, the Department employs ten auditors including the director and one manager.

In prior years, the focus of the Department has been on student activity funds and other smaller areas. In the past couple of years, the Department has begun to shift their focus and develop an annual audit plan using a more risk based approach. In 2009, the Department performed a District-wide fraud risk assessment and implemented continuous auditing procedures to address risks identified in the assessment;

however, there is a need to further strengthen the Department's ability to identify and respond to risks in order to enhance the value added to the District's operations.

In addition, during our review of certain reports issued by Internal Audit and their related working papers, we noted certain concerns raised in the workpapers that were not followed up on or reported in the final report issued by the Department.

Recommendation – Consider performing an independent evaluation of the effectiveness of the Internal Audit department's operations, the methodologies used to assess risk and execute audits, the level, experience and qualifications of staff, the focus of the audits performed, and the effectiveness of reporting audit results. Assess the size of the department and the qualifications of audit staff against the needs of the District and the Audit Committee. Consider the need to strengthen and expand the continuous auditing programs.

Ensure that all auditors have sufficient training in Government Auditing Standards, identification of fraud risks and related audit responses, working paper documentation and reporting, and communication of audit findings. Train auditors to consult with specialists or third parties, such as the Office of Professional Responsibility, when fraud risks or other issues are identified that are beyond the abilities of the staff to address.

Evaluate the current audit plans and whether they focus on key areas of risk for the District, such as purchasing, payroll, IT, and student attendance. Communicate all risks identified during an audit and the results of all audit procedures to the appropriate level of management. Ensure that key personnel whose departments are affected have a chance to review, validate and respond to all findings. Strengthen the coordination between the Internal Audit department and the Office of Professional Responsibility to ensure that fraud risks identified by Internal Audit are investigated as necessary.

2009-11 SEGREGATION OF DUTIES – IT FUNCTIONS

Significant Deficiency in Controls

Observation – Segregation of duties was not appropriately implemented for some of the IT functions, as noted below:

- A number of business users were noted to have administration capabilities to the VBOSS Food Services System.
- Certain personnel with responsibility for programming have access to the Oracle production database.
- Seven of the 17 users with password reset capabilities did not require such access. Two of the seven users were from non-IT business areas. We noted that the inappropriate access was corrected by management subsequent to the audit.

Various responsibilities of IT functions, particularly the programmer and System Administrator or Database Administrator should be separated. If separation of duties is not maintained appropriately, the programmers would be able to implement changes in production servers without following appropriate change control procedures. In addition, the business users who are responsible for executing transactions should be restricted from data custodial functions (database or system or security administration). If separation of duties between these functions are not maintained appropriately, unauthorized transactions that compromise segregation of duties or monitoring controls can be executed.

Recommendation – District management should implement appropriate segregation of duties to ensure that appropriate controls are in place to detect any unauthorized transactions being executed.

2009-12 VENDOR SUPPORT FOR INFORMATION TECHNOLOGY APPLICATIONS

Significant Deficiency in Controls

Observation – The District does not have the vendor support for maintenance of the underlying FoxPro database for the Paradox Budgeting System and the GFAMS Fixed Assets System. The District is currently in the process of implementing new systems for budgeting and fixed asset management to replace Paradox and GFAMS beginning in fiscal year 2010. However, since there was no vendor support for these applications during the year, maintenance updates and patches were not available, thereby limiting the upgrades to the application and the ability to address any security vulnerabilities.

Recommendation – District management should be aware of security vulnerabilities caused by a lack of vendor support and maintain vendor support for all applications in the future

2009-13 USER ACCESS MANAGEMENT AND SECURITY

Significant Deficiency in Controls

Observation – The following control weaknesses were noted in the District's controls over user access management and configuration of security parameters related to information systems that process financial data (Paradox Budget System, VBOSS/FastLane (Food Services System) and GFAMS Fixed Assets System):

- The security parameters are not configured to force IT systems users to use a strong password on financial data processing applications- Oracle Financials, Paradox budgeting system and VBOSS/FastLane Food services system. This includes the system enforced requirements for the user to use a strong password of certain number of characters, combination of letters, numbers and special characters in the password, periodic change requirement, restricting the user from use of a recently used password again and encrypting the passwords when they are stored internally in the system.

In the Oracle database that supports the Oracle Financials system, we noted eight accounts that did not have strong password parameters and the system accounts were shared by four database administrators. We also noted some of the Oracle application accounts did not have periodic password change requirement enforced. However, it was noted that management has remediated the Oracle database passwords subsequent to our testing.

Users are required to authenticate to the network before accessing the above systems. However, to implement effective security, management should implement strong password controls for all the application systems.

- Management has initiated a periodic user access review process for Oracle financials, but this process was not completed due to technical issues. The periodic access review process has not been implemented for other financially significant applications.
- The super user access to certain functions within Oracle Financials and VBOSS Food Services system appears to be assigned to an excessive number of users. We noted that subsequent to the performance of our procedures, the number of Oracle financials users was reduced significantly.

- Generic accounts (for example- “cashier”, “manager”) are being used by multiple personnel on FastLane Food Services System. A number of personnel at the facility know the password for such accounts. Use of such generic accounts compromises the accountability of transactions as the transactions cannot be traced to the individual executing the transaction. In the Oracle database, four Database Administrators use the generic account to perform regular job functions.

A lack of controls over information systems access and inappropriate configuration of security parameters can lead to unauthorized transactions being executed, compromising the intended segregation of duties and ultimately causing integrity and reliability issues in the information produced by the information systems.

A lack of controls over information systems access and inappropriate configuration of security parameters can lead to unauthorized transactions being executed, compromising the intended segregation of duties and ultimately causing integrity and reliability issues in the information produced by the information systems .

Recommendation – District management should document and implement policies and procedures to adequately control system access and to ensure appropriate configuration of security parameters. Appropriate monitoring controls should be established to ensure the documented policy is being followed by the users of IT systems.

2009-14 CHANGE MANAGEMENT PROCESSES

Significant Deficiency in Controls

Observation – A formal IT system change management process is not defined and followed by various IT teams. The following exceptions were noted:

- For the food services systems, although the system changes were installed and tested in a test environment, the formal documentation for approval and authorization of changes is not available.
- For the Oracle Financials system change tested, although the change was logged into the ticketing system and approved, the detailed description or explanation was not available.

The changes to the systems (IT applications, databases, operating systems and networking systems) should be authorized by management, developed to the organization’s standards, tested to ensure that the change meets the business requirements, and implemented into the production system after adequate testing and approval. If appropriate formal procedures are not established and followed, inaccurate or unauthorized changes that do not meet the business requirements may be implemented that may lead to unreliable financial reporting results.

Recommendation – District management should implement appropriate change management procedures and monitoring controls to prevent unauthorized changes.

2009-15 DISASTER RECOVERY AND BUSINESS CONTINUITY

Significant Deficiency in Controls

Observation – The District has a disaster recovery process. However, not all parts of the disaster recovery plan covering all financial applications have been tested within the past 12 months.

If a well designed and implemented disaster recovery process is not in place, management will not be able to recover critical systems in the event of a disaster or the recovery may not meet the business needs or intended service levels required at the time of a disaster.

Recommendation – Implement a process for review of disaster recovery and business continuity plans including disaster recovery requirements, backup schedule, off-site requirements, and testing procedures with a planned approach to recovering the information system resources in case of disaster. The established plan should be tested on a periodic basis (preferably on a yearly basis) to ensure that the systems could be recovered in a timely manner as planned.

Section III—Federal Award Findings and Questioned Costs

2009-16 TIME AND EFFORT DOCUMENTATION

Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), Texas Reading First Initiative (84.357), Teacher Incentive Fund (84.374), 21st Century Learning Centers (84.287)

Allowable Costs and Cost Principals – Material Weakness in Controls – Material Noncompliance with Grant Requirements

Criteria – In accordance with OMB Circular A-87, "where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages [should] be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications [should] be prepared at least semi annually and [should] be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee."

Condition – Certifications of time and effort were not obtained at least semi-annually in accordance with federal requirements for selected personnel charged to grant programs. In addition, some selected personnel were charged to the incorrect grant program according to their time and effort certifications.

Perspective/Instances – 38 of 143 employees selected for testing, who received all or a portion of their salary from grant funds, lacked appropriate time and effort documentation to support the work they performed for the grant.

Questioned Costs –

Title I, Part A – \$38,459

Title II, Part A – \$118,417

Title III, Part A – \$8,394

Texas Reading First – \$6,293

Teacher Incentive Fund – \$26,667

The questioned costs above represent overcharges to the grants; however we also identified several instances where the grants were undercharged based upon the supporting documentation provided.

Cause – Lack of monitoring of compliance with grant requirements appears to have caused the oversight. Internal controls were not consistently implemented during the year to ensure that employees charged to the grants maintained the required time and effort documentation to support the allocation of their payroll to the grants. Additionally, the Grants Management department failed to develop and implement a process to match employee time and effort certifications to payroll allocations within Oracle and job assignments within the HR system.

Effect – The District did not comply with federal documentation requirements. Untimely certifications of employees' time and effort and insufficient monitoring of payroll expenditures in grant funds can lead to overcharges to Federal grants. Additionally, failure to reconcile employees' time and effort certifications to the payroll system caused numerous adjustments to the general ledger.

Recommendation – Obtain and review semi-annual certifications for all personnel working in federal grant programs in accordance with OMB Circular A-87. Implement procedures to monitor compliance with federal grant requirements on a regular basis. Implement a process to ensure that employees are charged to the grants where they spent their time and effort.

View of Responsible Officials – See corrective action plan.

2009-17 INSUFFICIENT DOCUMENTATION OF PAYROLL AND PAYROLL-RELATED COSTS

Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), Teacher Incentive Fund (84.374), Special Education Cluster (84.027, 84.173), 21st Century Learning Centers (84.287)

Allowable Costs and Cost Principles – Significant Deficiency in Controls – Noncompliance with Grant Requirements

Criteria – In accordance with OMB Circular A-87, to be allowable under federal awards, costs must be necessary and reasonable and be supported by adequate documentation.

Condition - In certain instances, the District overcharged the grant for payroll and payroll-related expenditures due to improper allocation of salaries and related charges, including benefits, or insufficient documentation.

Perspective/Instances – The following instances contributed to the questioned costs listed below:

- 12 of 230 employees selected for testing across the grants who received either salary or supplemental pay from grant funds were not performing duties to support the grant program.
- 5 of 230 employees selected for testing were paid stipends or supplemental pay that was not allowable under grant requirements.
- 3 of 127 employees selected for testing who received supplemental pay from grant funds were found to be paid twice for work performed only once.
- Documentation could not be provided to support apparent overcharges of Teacher Retirement System benefits in Title I, Part A and the Special Education Cluster.

Questioned Costs –

Title I, Part A – \$4,441

Title II, Part A – \$31,367

Title III, Part A – \$14,617

Teacher Incentive Fund – \$5,548

21st Century Learning Centers - \$600

Cause - The District's payroll system is programmed with standard allocations for salaries and benefits. Numerous manual entries and adjustments must be made monthly to correct exceptions to the standard allocations. Due to original system programming and decisions made by District management to allocate

each salary-related line item on a monthly basis, the volume of manual adjustments made monthly increases the risk that errors will occur and grants will be over- or under-charged. Additionally, the District does not have a process in place to ensure that all personnel being charged to grants are accurately reflected in the payroll system.

Effect - Improper charges to federally funded programs can and do occur when monthly allocation adjustments do not match time and effort reports and certifications.

Recommendation - When there are changes in positions or salaries, update employee personnel files with supporting documentation, such as personnel payroll authorization forms, and update the payroll allocation system to ensure that employees' salaries are being coded appropriately. Ensure that all amounts charged to grants are necessary, reasonable, and in compliance with federal grant requirements. Review the overall needs assessment and individual campus improvement plans for sufficiency.

View of Responsible Officials – See corrective action plan.

2009-18 MATCHING OF NON-GRANT FUNDS

Teacher Incentive Fund (84.374)

Matching – Material Weakness in Controls – Material Noncompliance with Grant Requirements

Criteria – In accordance with grant requirements, at least \$500,000 of total awards paid under the Teacher Incentive Fund (TIF) program should be spent from non-TIF funds during 2008-2009.

Condition – The District could not provide support that non-TIF funds were used to meet the matching requirement outlined in the District's notice of grant award.

Perspective/Instances – Not applicable.

Questioned Costs - \$500,000

Cause – The District does not have a policy in place establishing how matching requirements will be met. Additionally, there are no controls in place to monitor compliance with these requirements.

Effect – The District is not in compliance with federal requirements.

Recommendation – Develop a policy to establish the method in which matching requirements will be met. Implement procedures to monitor matching requirements of federal grant programs to ensure the proper amounts of non-federal funds are spent. Consider recording all expenditures sources of revenue to be used for incentives, including matching funds, in the same fund code to ensure matching requirements will be met.

View of Responsible Officials – See corrective action plan.

2009-19 ELIGIBILITY FOR TEACHER INCENTIVES

Teacher Incentive Fund (84.374)

Allowable Costs and Cost Principles, Eligibility – Material Weakness in Controls – Material Noncompliance with Grant Requirements

Criteria – Legislation authorizing the Teacher Incentive Fund (TIF) provides that performance based compensation systems will be developed to consider gains in student academic achievement as well as classroom evaluations conducted multiple times during each school year among other factors and provide educators with incentives to take on additional responsibilities and leadership roles.

Condition – The District was unable to provide evidence that all eligibility criteria were met for certain employees who received stipends from TIF funds during the year. Specifically:

- Documentation supporting that employees were observed or evaluated multiple times during the year could not be provided for all incentives paid.
- Documentation supporting that employees met the required gains in student achievement necessary to receive an incentive could not be provided in all circumstances.

Perspective/Instances – Eligibility documentation could not be provided for 12 of 72 employees selected for testing who received stipends during the year.

Questioned Costs – \$79,262

Cause – The District's policies for eligibility of incentives awarded under the TIF grant were not developed in accordance with grant requirements as established by the Department of Education.

Effect – The District is not in compliance with federal grant requirements.

Recommendation – Review all policies in place related to the Teacher Incentive Fund to ensure that they are in line with grant requirements. Establish policies and procedures to review the eligibility of all employees receiving stipends or supplemental pay from grant funds prior to payment.

View of Responsible Officials – See corrective action plan.

2009-20 GRANTS MANAGEMENT

Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), Texas Reading First Initiative (84.357), Teacher Incentive Fund (84.374), Special Education Cluster (84.027, 84.173), 21st Century Learning Centers (84.287)

Allowable Costs and Cost Principles – Material Weakness in Controls – Controls over Grant Requirements

Criteria – All grant expenditures should be reviewed by someone knowledgeable of the compliance requirements and allowable cost principles.

Condition – The District has a policy in place that all grant expenditures are required to be reviewed by people who are knowledgeable of the compliance requirements and allowable cost principles. However, in certain instances, there was no documentation supporting that this control took place.

Perspective/Instances – Not applicable.

Questioned Costs – Not applicable.

Cause – The District does not have formal policies and procedures in place that are recognized District-wide to ensure that all grant expenditures are reviewed and appropriate supporting documentation is kept.

Effect – Grant funds may be misspent or mismanaged when proper reviews are not performed. The District is responsible for all funds received and may be liable for repayment of funds if they are determined to be spent improperly.

Recommendation – Implement District-wide control procedures that require all grant expenditures to be reviewed by someone knowledgeable of the compliance requirements and allowable cost principles consistently throughout the year. Provide training to employees responsible for grant expenditures. Also, ensure that those employees are aware of the controls in place and which departments are responsible for those controls.

View of Responsible Officials – See corrective action plan.

2009-21 PROCUREMENT

Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), Texas Reading First Initiative (84.357), Special Education Cluster (84.027, 84.173)

Procurement, Suspension and Debarment – Significant Deficiency in Controls – Noncompliance with Grant Requirements

Criteria - In accordance with OMB Circular A-133 compliance requirements and TEA competitive procurement guidelines, all contracts except contracts for the purchase of produce or vehicle fuel, valued at \$25,000 or more, must be procured using one of the following options:

- a) Competitive bidding
- b) Competitive sealed proposals
- c) Requests for proposals
- d) Interlocal contracts

Competitive bidding requires at least 3 bids from vendors. Sole source purchases are exempt from competitive procurement; however, it is incumbent upon the District to retain documentation from the vendor which clearly delineates the reasons which qualify the purchase to be made on a sole source basis.

Condition – Failure to comply with federal procurement requirements was noted in the following instances:

- The District utilizes certain contracts in which there are multiple approved vendors and the contract requires that the lowest bidding vendor be selected each time a purchase order is created. In some instances, the District failed to obtain bids or price quotes from each vendor prior to submitting a purchase order.
- In certain instances, documentation could not be provided to ensure that amounts invoiced from vendors agreed to contract terms or price quotes obtained during the bidding process.
- In one instance, the District agreed to purchase fewer items at a higher price per unit than the original contract requirements rather than obtaining price quotes from other bidders. The District paid \$20 more per unit than originally agreed upon, for a total of \$13,886 more than the original bid.

Perspective/Instances –

18 of 53 bid files selected for testing did not contain documentation to support that the invoiced amount was in line with contract terms.

1 of 53 contracts tested listed a lower agreed-upon price per item than what was actually paid to the vendor.

Questioned Costs –

Texas Reading First - \$13,886

Cause – The District failed to identify vendors that would provide the most advantageous prices for goods and services. Additionally, lack of communication between the purchasing department and user departments resulted in the failure to comply with the terms of procured contracts.

Effect – Failure to properly procure goods and services or circumventing the requirements of a procured contract can result in the purchase of goods and services for more than necessary or market prices.

Recommendation - Develop and implement controls to ensure that buyers and user departments comply with all contract requirements. Additionally, for contracts in which multiple vendors have been awarded, implement procedures to ensure that the most advantageous vendor is selected prior to issuing a purchase order. Documentation should be kept to support that these procedures were performed.

View of Responsible Officials – See corrective action plan.

2009-22 EARMARKING

Title I, Part A (84.010)

Allowable Costs and Cost Principles, Earmarking – Significant Deficiency in Controls – Noncompliance with Grant Requirements

Criteria – The District is required to use a portion of Title I, Part A funds to provide choice-related transportation and supplemental educational services to students attending schools that are in need of improvement or restructuring under Section 1116 of Title I.

Condition – Certain transportation costs were charged to choice-related transportation and supplemental educational services that were not in line with the types of services required to be provided. Additionally, these transportation costs were not considered necessary or reasonable to be paid from Title I, Part A funds.

Perspective/Instances – 1 of 3 vendors utilized for choice-related transportation did not provide services that were considered allowable to be paid from grant funds. The total amount paid to this vendor was \$104,371.

Questioned Costs – \$104,371

Cause – District employees failed to adequately review invoice detail for allowability under grant requirements.

Effect – The District is not in compliance with grant requirements.

Recommendation – Implement procedures to monitor compliance with federal grant requirements on a regular basis and review all invoices for allowability prior to payment.

View of Responsible Officials – See corrective action plan.

2009-23 MONITORING MAINTENANCE OF EFFORT

Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), Special Education Cluster (84.027, 84.173)

Level of Effort – Significant Deficiency in Controls over Grant Requirements

Criteria - Maintenance of effort calculations should be reviewed and maintained by someone knowledgeable of the compliance requirement to ensure that the required level of effort is maintained.

Condition - Maintenance of effort calculations were not monitored during the year and program managers are not knowledgeable of maintenance of effort requirements. However, calculations were performed and reviewed by the Budget and Accounting departments subsequent to year end and no violations of maintenance of effort requirements were noted during testing.

Perspective/Instances – Not applicable

Questioned Costs – Not applicable

Cause - The District does not adequately train program managers to be knowledgeable of all compliance requirements related to their respective programs.

Effect - Failure to maintain the required level of effort could impair future grant funding.

Recommendation - Implement controls that require a person knowledgeable of grant requirements to monitor the maintenance of effort calculations throughout the year.

View of Responsible Officials – See corrective action plan.

2009-24 PARENTAL INVOLVEMENT

Title I, Part A (84.010)

Special Tests and Provisions – Significant Deficiency in Controls – Noncompliance with Grant Requirements

Criteria – In accordance with the No Child Left Behind Act, at least 1% of Title I, Part A funds must be reserved for parental involvement activities. Parental involvement programs and policies should be developed jointly with and distributed to parents of students attending Title I eligible schools. In addition, any funds expended for parental involvement activities should be in line with parental involvement guidelines set forth in the No Child Left Behind Act.

Condition – Documentation could not be provided to support whether parental involvement policies were developed in accordance with federal guidelines. Additionally, the District has controls in place in which personnel monitor campuses' compliance with parental involvement guidelines. In certain instances, documentation could not be provided that campuses were monitored during the year.

Perspective – 3 of 45 schools selected for testing could not provide support showing that their parental involvement policy was developed jointly with parents. Additionally, 10 of those 25 campuses were not monitored during the year by a compliance trainer in accordance with District policy.

Questioned Costs – Not applicable.

Cause – The District does not have controls in place to adequately monitor compliance with federal requirements.

Effect – The District is not in compliance with federal requirements.

Recommendation – Implement procedures to monitor compliance with federal parental involvement requirements.

View of Responsible Officials – See corrective action plan.

2009-25 MANAGEMENT OF FIXED ASSETS PURCHASED WITH GRANT FUNDS

Child Nutrition Cluster (10.553, 10.555, 10.559)

Equipment and Real Property Management – Significant Deficiency in Controls – Noncompliance with Grant Requirements

Criteria – Federal program guidelines require that equipment purchased with grant money be maintained and used by the program for which it was acquired or, when appropriate, other federal programs.

Condition – The District was unable to provide a list of assets purchased with federal funds from the Child Nutrition Cluster. Assets owned and managed by the Food Service department are tracked; however the District cannot separate assets purchased with federal funds from assets purchased by the District's general fund or bond funds.

Perspective/Instances – Not applicable.

Questioned Costs – Not applicable.

Cause – The District does not have a process in place to track the type of funds used to purchase fixed assets.

Effect – Without a mechanism to track assets purchased from federal funds, the District cannot ensure that these assets are being managed in accordance with federal requirements.

Recommendation – Implement procedures to track assets purchased with federal funds to ensure they are being used by the program for which they were acquired.

View of Responsible Officials – See corrective action plan.

2009-26 VERIFICATION OF FREE AND REDUCED PRICE LUNCH APPLICATIONS

Child Nutrition Cluster (10.553, 10.555, 10.559)

Eligibility, Special Tests and Provisions – Significant Deficiency in Controls – Noncompliance with Grant Requirements

Criteria – By November 15th of each school year, the District must verify the current free and reduced price eligibility of households selected from a sample of applications that have been approved for free and reduced price meals. The verification sample size is based on the total number of approved applications on file on October 31st.

Condition – The District does not have a process in place to update individuals' eligibility status for free or reduced meals after the sample is selected and verified for eligibility. As a result, certain individuals received free or reduced meals even though they did not qualify.

Perspective/Instances – 1 of 50 individuals selected during our review of the District's verification process did not have an accurate "free, reduced, or ineligible" status in the system.

Questioned Costs – Undeterminable.

Cause – District employees failed to adequately review whether eligibility status entered into the system matched the status determined during the verification process.

Effect – The District did not comply with federal requirements. Failure to ensure that individuals' eligibility for free or reduced meals is accurate results in overcharges to the grant.

Recommendation – Management should review the eligibility determination for all individuals selected during the verification process. Procedures should be in place to ensure that the status entered into the system is accurate.

View of Responsible Officials – See corrective action plan.

2009-27 SCHOOL LUNCH PROGRAM MENU PLANNING

Child Nutrition Cluster (10.553, 10.555, 10.559)

Special Tests – Significant Deficiency in Controls – Noncompliance with Grant Requirements

Criteria – Appendix 8 of the Texas Education Agency's Financial Accountability System Resource Guide states that, "to be eligible for federal reimbursement, lunches and breakfasts must meet menu planning methods as prescribed by program regulations (CFR 210.10 and 7 CFR 210.10a) and the Texas Public School Nutrition Policy."

Condition – The District maintains a rotation of breakfast and lunch menus at the elementary, middle, and high school levels. Menus did not adhere to USDA nutritional guidelines.

Perspective/Instances – One of 8 menus tested did not comply with USDA nutritional standards.

Questioned Costs – Not applicable.

Cause – Menu plans were not reviewed for adherence to nutrition policies.

Effect – The District did not comply with grant requirements.

Recommendation – Review all menu plans regularly for adherence to USDA nutritional standards and the Texas Public School Nutrition Policy. Documentation should be kept to support that these standards are being met.

View of Responsible Officials – See corrective action plan.

2009-28 ALLOWABLE COSTS IN TITLE I, PART A

Title I, Part A (84.010)

Allowable Costs and Cost Principles – Noncompliance with Grant Requirements

Criteria - Only allowable costs per the grant agreement should be charged to the grant program.

Condition – The Department of Education Office of Inspector General (OIG) conducted an audit of the Title I grant for the fiscal year ended June 30, 2006 and identified certain questioned costs. A final report was issued in April 2009 and has been presented to the District with a list of items that have been questioned.

Perspective/Instances – The amount identified by the OIG as questioned costs in the report dated April 14, 2009, was \$3,524,636. The Texas Education Agency waived \$1,423,746 of the total questioned costs.

Questioned Costs - \$3,524,636 (including \$1,423,746 of waived costs)

(Questioned costs of \$3,753,263 were reported in 2007 and 2008. The OIG reduced the total questioned costs by \$228,627 in their final report.)

Cause – Lack of proper supporting documentation

Effect - The District may be liable up to the amount of the questioned costs.

Recommendation – Follow up with the Department of Education and the Texas Education Agency to resolve outstanding issues.

View of Responsible Officials – See corrective action plan.

2009-29 REPORT ISSUED BY THE DISTRICT'S INTERNAL AUDIT DEPARTMENT

Adult Education Basic Grant (84.002)

Allowable Costs and Cost Principles – Noncompliance with Grant Requirements

Criteria - Only allowable costs per the grant agreement should be charged to the grant program.

Condition – The District's Internal Audit Department conducted an audit of the Adult Education Basic Grant during fiscal year 2009 and identified certain weaknesses in internal control over the program and instances of insufficient documentation to support costs charged to the program. A report issued on August 21, 2009 was provided to District management and presented to the Audit Committee. Subsequent to the issuance of this report, District management formed a task force to respond to Internal Audit's findings and identified additional supporting documentation. The Internal Audit department is in the process of revising their report.

Perspective/Instances – Not applicable.

Questioned Costs – Not applicable.

Cause – Lack of proper supporting documentation.

Effect - The District may not be in compliance with grant requirements.

Recommendation – Follow up with the Internal Audit department and resolve outstanding issues.

View of Responsible Officials – See corrective action plan.

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**DALLAS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2009**

Management acknowledges all findings and has implemented a comprehensive plan for corrective action and continuous improvement for the 2009-2010 school year. For findings with questioned costs related to missing documentation, management is continuing to compile alternative documentation to support these costs. The District remains committed to continuous improvement in all financial matters and has established the standard of continued review and adjustment of departmental policies and procedures to insure this goal.

Specific findings are addressed below with individual statements concerning the corrective action planned.

2009-01 INFORMATION TECHNOLOGY CONTROL ENVIRONMENT

Responsible Party – Patricia Viramontes

Corrective Action - IT is in the process of identifying controls to support security, change control and operations policies. These controls will be codified into an operations manual that will ensure the regular review of compliance with policy. Provisions for segregation of duties for change implementation and testing protocol will be incorporated into this manual. Likewise, the current disaster recovery plan will be reinforced to encompass non-IT factors to create a broader business continuity plan.

Expected Completion Date – June 30, 2011

2009-02 POLICIES AND PROCEDURES

Responsible Party – Larry R. Throm

Corrective Action – The District is in the beginning phases of a project to update and create policies and procedures for all significant departments.

Expected Completion Date – June 30, 2011

2009-03 GRANT COMPLIANCE AND REPORTING

Responsible Party – Steven Korby

Corrective Action - Grants Management and Accounting Services will work closely together to identify areas of needed training and provide qualified instruction in those areas. Grants Management has also instituted the practice of weekly staff meeting with set agenda and at least one training item identified each week. Specialized training in the specific grant areas is conducted by the TEA monitor and other outside consultants. Grants Management has also recommended a restructuring of the department for better controls and leadership in the specific grant areas. This restructuring will better identify roles and responsibilities within the department.

Expected Completion Date – June 30, 2010

2009-04 HUMAN RESOURCES DEPARTMENT CONTROLS

Responsible Party – Claudia Rodriguez

Corrective Action – Human Resources will work with Legal Services to determine the appropriate content of the District's employment contracts. In order to document employee compensation, notices of assignment and salary, which include position title, pay grade or step and amount to be paid to the employee were printed, authorized for all employees for the 2009-2010 school, and placed in the employees' permanent record. Additionally, IT and Human Resources will continue to work together to ensure that system controls are in place for electronic documents.

Expected Completion Date – June 30, 2010

2009-05 CONTROLS OVER DISBURSEMENTS AND CONTRACT MONITORING

Responsible Party – Gary Kerbow

Corrective Action – Management is currently developing policies and procedures to address all issues raised in this recommendation. Additionally, procedures have been put in place to ensure that the District consistently adheres to procurement processes and in August 2009, the District implemented enhancements to the IT system that furthers strengthens pricing controls.

Expected Completion Date – June 30, 2010

2009-06 BUDGETARY CONTROLS

Responsible Party – Patti Flanagan

Corrective Action – Management is currently developing policies and procedures to address this recommendation.

Expected Completion Date – June 30, 2010

2009-07 STATE COMPLIANCE

Responsible Party – Patti Flanagan

Corrective Action – Management is currently developing policies and procedures to address this recommendation.

Expected Completion Date – June 30, 2010

2009-08 ANTI-FRAUD PROGRAMS AND CONTROLS

Responsible Party – Larry Thom

Corrective Action – Management will collaborate with the Office of Professional Responsibility ("OPR"), Internal Audit Department ("IA") and key management to develop a comprehensive anti-fraud and risk

assessment plan and include an assessment of District resources necessary to complete and monitor the outcome.

Expected Completion Date – June 30, 2010

2009-09 CONFLICT OF INTEREST STATEMENTS

Responsible Party – Gary Kerbow

Corrective Action – Management is currently developing policies and procedures to address this recommendation that will include a central electronic repository of conflict of interest statements.

Expected Completion Date – June 30, 2010

2009-10 INTERNAL AUDIT FUNCTION

Responsible Party – Allen Wesson

Corrective Action – Internal Audit will consider an external review of the department's effectiveness, operations and experience and develop a comprehensive training plan for the IA staff.

Expected Completion Date – June 30, 2010

2009-11 SEGREGATION OF DUTIES – IT FUNCTIONS

Responsible Party – Patricia Viramontes

Corrective Action – IT has implemented controls for promotion of patches and program changes to production by creating access in a control environment with a start and end date and a review by the Database Administrator of the change logs. Furthermore, IT will continue to develop policy and procedures to enhance the segregation of duties within IT.

Expected Completion Date – June 30, 2010

2009-12 VENDOR SUPPORT FOR INFORMATION TECHNOLOGY APPLICATIONS

Responsible Party – Patricia Viramontes

Corrective Action – In July 2009, the District migrated away from Paradox and in October 2009, migrated away from GFAMS.

Expected Completion Date – Completed

2009-13 USER ACCESS MANAGEMENT AND SECURITY

Responsible Party – Patricia Viramontes

Corrective Action - IT is in the process of identifying controls to support security, change control and operations policies. These controls will be codified into an operations manual and procedures will be developed to monitor compliance with these policies and procedures.

Expected Completion Date – June 30, 2011

2009-14 CHANGE MANAGEMENT PROCESSES

Responsible Party – Patricia Viramontes

Corrective Action - IT is in the process of identifying controls to support security, change control and operations policies. These controls will be codified into an operations manual and procedures will be developed to monitor compliance with these policies and procedures.

Expected Completion Date – June 30, 2011

2009-15 DISASTER RECOVERY AND BUSINESS CONTINUITY

Responsible Party – Patricia Viramontes and Steve Korby

Corrective Action - The current disaster recovery plan will be reviewed and updated for changes to the IT systems and to encompass non-IT factors to create a broader business continuity plan.

Expected Completion Date – June 30, 2011

2009-16 TIME AND EFFORT DOCUMENTATION

Responsible Party – Steve Korby

Corrective Action - Management will establish procedures to insure that time and effort certifications are received in a timely manner according to federal guidelines and district policy. Management will also review and reconcile employee assignment and general ledger postings on a regular basis to test for accuracy.

Expected Completion Date – June 30, 2010

2009-17 INSUFFICIENT DOCUMENTATION OF PAYROLL AND PAYROLL-RELATED COSTS

Responsible Party – Steve Korby

Corrective Action - Grants Management will coordinate with Human Resources, Payroll and Grants Accounting to develop practices that will do the following:

- Review all employee assignment for compliance with grant
- Review general ledger postings for accuracy
- Develop a procedure to prevent double payment for single activities
- Require that a list of all stipends to be paid from grants be reviewed for compliance and allowability prior to payment
- Review and reconcile benefit expenditures on a regular basis

Expected Completion Date – June 30, 2010

2009-18 MATCHING OF NON-GRANT FUNDS

Responsible Party – Claudia Rodriquez and Steve Korby

Corrective Action - Grants management will work closely with TIF program director to insure the development of procedures that will properly identify the TIF matching funds within the District and properly document the match.

Expected Completion Date – June 30, 2010

2009-19 ELIGIBILITY FOR TEACHER INCENTIVES

Responsible Party – Claudia Rodriquez and Steve Korby

Corrective Action -Management will establish procedures to insure all staff is eligible prior to the payments of the incentives. Program director will be required to submit a list of staff members to be paid and a certification that all named staff members have been reviewed to insure eligibility requirements are met.

Expected Completion Date – June 30, 2010

2009-20 GRANTS MANAGEMENT

Responsible Party – Steve Korby

Corrective Action -Management will continue to work with Information Technology department to insure that the system is tracking all grant funds correctly and requiring approvals from Grants Management.

Expected Completion Date – June 30, 2010

2009-21 PROCUREMENT

Responsible Party – Steve Korby

Corrective Action -Management will work with program directors and purchasing department to review all state and federal purchasing requirements and to establish procedures to ensure compliance with all such requirements.

Expected Completion Date – June 30, 2010

2009-22 EARMARKING

Responsible Party – Steve Korby

Corrective Action -Management will establish a procedure requiring the review of all transportation expenses charged to grants funds prior to payment. In addition, the general ledger accounts for

transportation expenses will be reviewed on a periodic basis to identify any transportation charges inadvertently coded to grants funds.

Expected Completion Date – June 30, 2010

2009-23 MONITORING MAINTENANCE OF EFFORT

Responsible Party – Steve Korby

Corrective Action -Management will use Educational Service Center (ESC) 12 Financial Benchmarking Tools to monitor Maintenance of Effort calculation on a semi-annual basis as recommended by ESC12.

Expected Completion Date – June 30, 2010

2009-24 PARENTAL INVOLVEMENT

Responsible Party – Steve Korby

Corrective Action -Management will work with program director to develop procedures to insure parental involvement guidelines are followed at all levels as required by federal guidelines.

Expected Completion Date – June 30, 2010

2009-25 MANAGEMENT OF FIXED ASSETS PURCHASED WITH GRANT FUNDS

Responsible Party – Steve Korby

Corrective Action -Comprehensive inventory of all fixed assets purchased with federal funds will be completed in 2010.

Expected Completion Date – June 30, 2010

2009-26 VERIFICATION OF FREE AND REDUCED PRICE LUNCH APPLICATIONS

Responsible Party – David Brown

Corrective Action - A review system is in place for the 2009-2010 school year. Application verification results will be reviewed by staff to ensure that they are accurate and consistent with documentation.

Expected Completion Date – June 30, 2010

2009-27 SCHOOL LUNCH PROGRAM MENU PLANNING

Responsible Party – David Brown

Corrective Action - Menu plans will be reviewed two months prior to implementation by the Registered Dieticians on staff for compliance.

Expected Completion Date – June 30, 2010

2009-28 ALLOWABLE COSTS IN TITLE I, PART A

Responsible Party – Steve Korby

Corrective Action -Management continues to work closely with Accounting Services, the Office of the Inspector General and TEA to resolve outstanding issues and close this open item.

Expected Completion Date – June 30, 2010

2009-29 REPORT ISSUED BY THE DISTRICT'S INTERNAL AUDIT DEPARTMENT

Responsible Party – Allen Wesson and Steve Korby

Corrective Action -Management will continue to work closely with Internal Audit and Office of Professional Responsibility to resolve any open issues identified by the internal audit of the ABE program and will coordinate with program staff to develop proper procedures for compliance with district and federal guidelines, determining allowable costs and retention of proper documentation.

Expected Completion Date – January 31, 2010

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**DALLAS INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2009**

DESCRIPTION	2008 REFERENCE	STATUS OF FINDING
Human Resources Department Controls	2008-01	Partially corrected, see finding 2009-04
Controls over Disbursements and Contract Monitoring	2008-02	See finding 2009-05
Budgetary Controls	2008-03	Partially corrected, see finding 2009-06
Revenue Recognition	2008-04	Corrected
Vendor Support for Information Technology Applications	2008-05	See finding 2009-12
Segregation of Duties – IT Functions	2008-06	See finding 2009-11
Control Environment	2008-07	Partially corrected, see findings 2009-01 and 2009-02
Financial Accounting and Reporting	2008-08	Corrected
Business Processes Policies and Procedures	2008-09	See finding 2009-02
Antifraud Programs and Controls	2008-10	Partially corrected, see finding 2009-08
Capital Assets Accounting and Reporting	2008-11	Corrected
Grant Compliance and Reporting	2008-12	See finding 2009-03
User Access Management and Security	2008-13	See finding 2009-13
Controls over Master Files	2008-14	Corrected
Change Management Processes	2008-15	See finding 2009-14
Disaster Recovery and Business Continuity	2008-16	See finding 2009-15
Capital Assets Physical Inventory	2008-17	Corrected
Lease Assessments	2008-18	Corrected
State Compliance	2008-19	Partially corrected, see finding 2009-07
Unauthorized Alien	2008-20	Corrected
Conflict of Interest Statements	2008-21	See finding 2009-09

**DALLAS INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2009**

2008-22 Insufficient Documentation of Payroll and Payroll-Related Costs

Observation: The District was unable to provide supporting documentation that the salary paid to selected employees was accurate and approved by management or based on the Board-approved salary manual. In certain instances, the District overcharged the grant for payroll and payroll-related expenditures due to incorrect hourly rates charged to the grant, improper allocation of salaries and related charges, or insufficient documentation.

Additionally, the District charged salaries for nurses to Title I, Part A. These positions were not included in the District's overall needs assessment or individual campus improvement plans, and the District was unable to provide supporting documentations that these positions were supplemental in nature.

This is a repeat finding in the current year single audit report. Management has a comprehensive program to improve internal controls and has taken steps to address timely reconciliation of accounts and accounting errors. For the year ended June 30, 2009, all grant funded nurses have been moved to alternative funding sources. Please see corrective action plan.

2008-23 Time and Effort Documentation

Observation: Certifications of time and effort were not obtained at least semi-annually in accordance with federal requirements for selected personnel charged to grant programs. In addition, some selected personnel were charged to the incorrect grant program according to their time and effort certifications.

This is a repeat finding in the current year single audit report. Management has established policies and procedures for timely collection of accurate time and effort certifications. Additional training has been provided by Texas Education Agency monitor to all involved staff. Please see corrective action plan.

2008-24 Costs Charged to Central Organization Codes

Observation: The District has excessively used the locally defined campus/organization code beyond its intended definition, resulting in non-administrative expenses being coded to a central organization code that should have been coded to the actual campuses.

The District has implemented procedures to eliminate the use of central organization numbers for non-administrative costs. Training regarding proper account codes was provided for all central organizations. Please see corrective action plan.

2008-25 Insufficient Documentation for Non-Payroll Expenditures

Observation: District employees (1) failed to adequately review invoice detail; (2) maintain support for internally generated invoices; or (3) failed to maintain adequate supporting documentation.

Finding was corrected through staff training, proper documentation of expenses and cooperation with Information Technology department to insure that all grant expenditures route through Grants Management for approval of requisitions.

2008-26 Monitoring Maintenance of Effort

Observation: Maintenance of effort calculations were not monitored during the year and program managers are not knowledgeable of maintenance of effort requirements. However, no violations of maintenance of effort requirements were noted during testing.

This is a repeat finding in the current year single audit report. Management has established practice of monitoring the Maintenance of Effort throughout the year with the use of the recommended template from Region 12 Educational Service Center as recommended by Texas Education Agency monitor. Please see corrective action plan.

2008-27 Program Management – Teacher Incentive Fund

Observation: Compensation incentives make up 60% of program expenditures for the Teacher Incentive Fund. During the year, processing of compensation incentives was divided among multiple departments, and there were no centralized control activities to ensure that all incentives paid were allowable and only eligible employees received incentive pay.

In addition, the Teacher Incentive Fund came under new management in April 2008. From April 2008 through the end of the fiscal year, the new program manager was not granted budgetary authority over the grant funds and therefore no authority to approve grant expenditures or ensure that expenditures were properly cut off at the end of the period of availability.

This finding was corrected through a change in the financial system granting budgetary authority to the program manager.

2008-28 Special Education Grants for Infants and Families Transition Plans

Observation: Transition plans do not include detailed strategies or appropriate future settings for the child, nor do they contain any evidence that information and training have been provided to the child's parents.

Finding was corrected through staff training and proper documentation.

2008-29 Special Education Grants for Infants and Families Follow-Along Services

Observation: The District could not provide a list of cases referred to the program that were deemed ineligible or declined services and should therefore be offered follow-along services. Therefore, this compliance requirement could not be tested.

Finding was corrected through staff training and proper documentation.

2008-30 Periodic Review of Individualized Family Service Plans – Special Education Grants for Infants and Families

Observation: Individualized Family Service Plans were not consistently reviewed at least every six months.

Finding was corrected through staff training and proper documentation of reviews.

2008-31 Management of Fixed Assets Purchased with Grant Funds

Observation: Assets purchased with grant funds in previous years are not being used by the departments or programs for which they were purchased. The District performed a physical inventory of grant assets in 2008 and identified fully depreciated assets that were no longer being used by grant programs. However, those assets were not transferred out of the grant funds in accordance with grant requirements.

This is a repeat finding in the current year single audit report. Inventories of all grant funded capital assets will be completed in fiscal year 2010.

2008-32 Eligibility of Adult Education Basic Grant Participants

Observation: There is no process in place to obtain or verify identification information from program participants to ensure they meet the eligibility requirements.

Management continues to work with Internal Audit and Office of Professional Responsibility to review and correct issues identified by Internal Audit department.

2008-33 Loss of Supporting Documentation due to Fire

Observation: The District was unable provide documentation to support selected eligibility determinations and requests for reimbursement of grant funds due to a fire at the Lincoln Instructional Student Center in January 2008.

The Grants Management Department has implemented the practice of scanning and storing documents so that they are not totally dependent upon paper copies for documentation.

2008-34 Reimbursement Requests in Excess of the General Ledger

Observation: The District requested reimbursement for expenditures in excess of the general ledger for Title I, Part A and IDEA B programs. This amount is not reflected as an expenditure in the schedule of expenditures of federal awards.

This is a repeat finding in the current year single audit report. Management has implemented procedures to closely monitor reimbursements from federal grants in order to prevent excess reimbursements. Please see corrective action plan.

2008-35 - Procurement

Observation: Failure to comply with federal procurement requirements was noted in the following instances:

- 1) *Title II, Part A (84.010)*: The District failed to advertise a Request for Qualifications to procure a contract for legal services.
- 2) *Title I, Part A (84.010)*: The District could not provide documentation of selected bid files, including evidence of proper procurement, suspension or debarment clearance.

3) *Title I, Part A (84.010), Special Education Cluster (84.027, 84.173)*: The District utilizes a state contract in which there are multiple approved vendors and the contract requires that the lowest bidding vendor be selected each time a purchase order is created. The District failed to obtain bids from each vendor prior to submitting a purchase order.

This is a repeat finding in the current year single audit report. New management has been hired for the purchasing department. Policy and procedures are underdevelopment to insure that all federal and local procurement requirements are followed. Staff training sessions have also been conducted to insure awareness of requirements. Please see corrective action plan.

2008-36 Matching of Non-Federal Funds

Observation: 20% of the District's Adult Education Basic Grant expenditures were spent from non-federal funds rather than the required 25%.

This is a repeat finding in the current year single audit report. Internal audit has done an extensive study of Adult Basic Education operation and recommendations for improvements have been issued. Policies and procedures will be developed to closely monitor matching requirements. Please see corrective action plan.

2008-37 Parental Involvement

Observation: The District failed to develop written parental involvement policies for selected Title I eligible schools. In addition, documentation could not be provided to support whether parental involvement expenditures were in line with federal guidelines.

This is a repeat finding in the current year single audit report. Program staff will develop policy and procedure to insure that all federal guidelines are followed and documentation recorded. Staff has met with Texas Education Agency monitor for program guidance and training. Please see corrective action plan.

2008-38 Program Income

Observation: The District could not provide documentation that claims billed to Medicaid for program income are properly reconciled to the general ledger or that revenue is properly recognized as earned. Currently, reviews of claims, deposits, and revenues are divided between the Special Education Grants for Infants and Families and the grants accounting departments and could not be reconciled to the final recorded amount in the general ledger.

Finding was corrected through staff training and proper documentation.

2008-39 Reconciliation of Reimbursement Requests in Grant Funds (Previously Reported as 2007-17)

Observation: Prior to 2008, the District had not reconciled amounts requested with amounts received and disallowed costs in grant funds for the past several years. This resulted in a number of adjustments to correct amounts reconciled during fiscal year 2007. The District remitted all previously unreconciled liabilities back to granting agencies in fiscal year 2008. Beginning in April 2008, the District began

reconciling amounts requested from granting agencies with amounts received. Prior to April, reconciliations were performed, but not in a timely manner.

Finding was corrected through staff training, timely reconciliations and proper documentation.

2008-40 Tracking of Availability of Grants (Previously Reported as 2007-18)

Observation: For grant programs with greater than 12 months of availability, the District could not provide documentation that actual grant expenditures were reconciled with grant awards and any unused grant funds were carried forward to the subsequent year's grant application.

Finding was corrected through staff training and proper documentation.

2008-41 Grants Management (Previously Reported as 2007-21)

Observation: All grant expenditures were not required to be reviewed by people who are knowledgeable of the compliance requirements and allowable cost principles for the entire fiscal year.

This is a repeat finding in the current year single audit report. Grants Management has coordinated with Information Technology to insure that all grant funded expenditures are routed through Grants Management department for approvals in the financial system. Please see corrective action plan.

2008-42 Allocation of Internal Service Funds (Previously Reported as 2007-23)

Observation: The District has set up a number of internal service funds that are consolidated with the General Fund for reporting purposes. These funds are used to allocate costs to all of the District's funds and organizations for the charges and services relate to graphics, workers' compensation, building improvements force, and alternative certifications. The District currently charges the grants a flat rate per day for workers compensation and evaluation services provided by the District's internal departments. There was no current basis to support the rate charged by the District for such services.

Costs are accumulated in the General Fund and then billed to the other District funds at predetermined rates. At the end of the year, the District credits any excess of charges over actual expenditures back to the general fund. Grant funds were overcharged for workers' compensation expenses in fiscal year 2008.

Finding was corrected through staff training and proper documentation.

2008-43 Time and Effort Documentation - Supplemental Pay (Previously Reported as 2007-25)

Observation: Supplemental pay for persons whose base salary is non-grant-funded is not properly supported by signed time and effort documentation. The District was able to provide alternative documentation to support selected supplemental pay items.

Finding was corrected through staff training and proper documentation.

2008-44 Suspension and Debarment Noncompliance (Previously Reported as 20070-27)

Observation: The District failed to check vendors selected for testing for federal suspension or debarment with the National Excluded Parties database.

Finding was corrected through staff training and proper documentation.

2008-45 Per-Pupil Allocation for Private School Children (Previously Reported as 2007-28)

Observation: Grant managers failed to review the TEA guidelines for per-pupil allocation rate application and performed a spreadsheet calculation.

Finding was corrected through staff training and proper documentation.

2008-46 Allowable Costs in Title I, Part A (Previously Reported as 2007-34)

Observation: The Department of Education Office of Inspector General conducted an audit of the Title I grant for the fiscal year ended June 30, 2006 and identified certain questioned costs. A final report has not been issued but a preliminary draft has been presented to the District with a list of items that have been questioned.

Audit from the Department of Education Office of Inspector General remains open at this time and is under negotiation.

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