

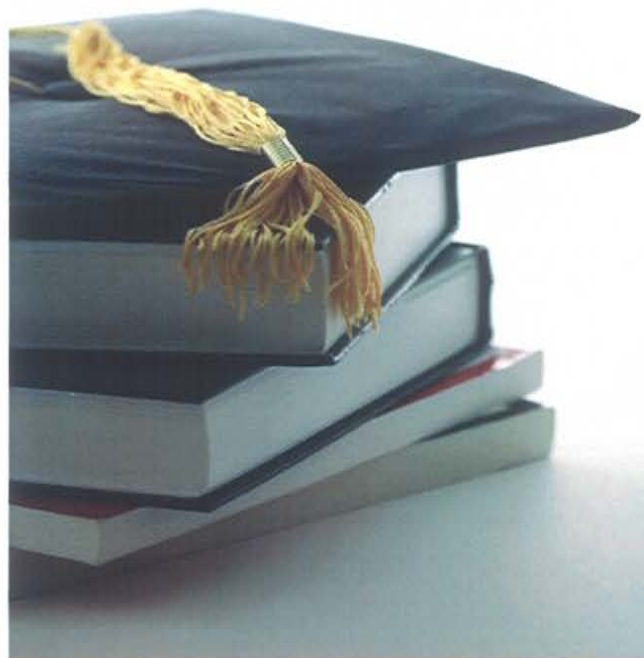


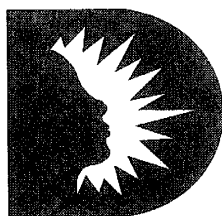
Annual Financial Report

For Fiscal Year End
June 30, 2010



3700 Ross Avenue
Dallas, TX 75204
972-925-3700





Dallas Independent School District

Annual Financial Report

**For the Fiscal Year Ended
June 30, 2010**

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

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For the Fiscal Year Ended June 30, 2010**

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INDEPENDENT AUDITORS' REPORT

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

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, 2010, 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, 2009. Those statements were audited by other auditors whose report thereon 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 in accordance with *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 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, 2010, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2010, 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 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.

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 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 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 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.

Deloitte & Touche LLP

November 17, 2010

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010**

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, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- On June 30, 2010, the District's assets exceeded its liabilities by \$537,289,822, an increase of 24.1% over the prior year. Of total net assets, \$161,426,742 was unrestricted.
- During the year, the District had expenses that were \$104,283,694 less than the \$1,750,299,721 generated in tax and other revenues for the governmental programs. This compares favorably to the prior year when expenses exceeded revenues by \$15,232,490.
- The General Fund ended the year with a fund balance of \$100,099,251, an increase of \$62,431,169. The net increase in fund balance is 5.4% 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, followed by the second issuance of \$100.8 million in July 2009. In total, the District's long term debt decreased by \$91.7 million from the prior year, a decrease of 4.9%. The District also issued and redeemed \$85.0 million in short term Tax Anticipation Notes to fund cash flow requirements during the year.
- During the year ended June 30, 2010, the District re-evaluated the useful lives used for depreciating its capital assets and shortened the useful lives of its buildings from 45 years to 40 years and the useful lives of its portable buildings from 20 years to 15 years. For the year ended June 30, 2010, depreciation expense increased \$14.6 million compared to the prior year. The increase is due primarily from the change in useful lives of capital assets, approximately \$9.0 million, and significant purchases of furniture and equipment resulting in a related increase in depreciation expense of approximately \$5.1 million.

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, 2010**

Exhibit 1 summarizes the major features of the District's financial statements, including the portion of the District's government covered and the types of information contained. 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>	<i>Entire District's government (except fiduciary funds) and the District's component units</i>	<i>The activities of the District that are not proprietary or fiduciary</i>	<i>Activities the District operates similar to private businesses</i>	<i>Instances in which the District is the trustee or agent for someone else's resources</i>
<i>Required financial statements</i>	<ul style="list-style-type: none"> • <i>Statement of net assets</i> • <i>Statement of activities</i> 	<ul style="list-style-type: none"> • <i>Balance sheet</i> • <i>Statement of revenues, expenditures and changes in fund balances</i> 	<ul style="list-style-type: none"> • <i>Statement of net assets</i> • <i>Statement of revenues, expenses and changes in fund net assets</i> • <i>Statement of cash flows</i> 	<ul style="list-style-type: none"> • <i>Statement of fiduciary assets and liabilities</i>
<i>Accounting basis and measurement focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Modified accrual accounting and current financial resources focus</i>	<i>Accrual accounting and economic resources focus</i>	<i>Accrual accounting and economic resources focus</i>
<i>Type of asset/liability information</i>	<i>All assets and liabilities, both financial and capital, short-term and long-term</i>	<i>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included</i>	<i>All assets and liabilities, both financial and capital, and short-term and long-term</i>	<i>All assets and liabilities, both short-term and long-term</i>
<i>Type of inflow/outflow information</i>	<i>All revenues and expenses during the year, regardless of when cash is received or paid</i>	<i>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</i>	<i>All revenues and expenses during year, regardless of when cash is received or paid</i>	<i>Not applicable to agency fund</i>

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010**

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 proprietary funds are all 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, 2010**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

The District's net assets were \$537,289,822 at June 30, 2010. This represents an increase of \$104,283,694 from the prior year (See Exhibit 2).

**Exhibit 2
Net Assets
Governmental Activities**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>\$ Change</u>	<u>% Change</u>
Current and Other Assets	\$ 885,329,093	\$ 949,609,883	\$ (64,280,790)	-6.8%
Capital Assets	1,707,736,134	1,626,321,187	81,414,947	5.0%
Total Assets	<u>2,593,065,227</u>	<u>2,575,931,070</u>	<u>17,134,157</u>	
Current Liabilities	343,615,588	342,829,197	786,391	0.2%
Long Term Liabilities	1,712,159,817	1,800,095,745	(87,935,928)	-4.9%
Total Liabilities	<u>2,055,775,405</u>	<u>2,142,924,942</u>	<u>(87,149,537)</u>	
Net assets:				
Invested in Capital Assets, net of related debt	309,032,133	270,352,975	38,679,158	14.3%
Restricted	66,830,947	57,251,335	9,579,612	16.7%
Unrestricted	161,426,742	105,401,818	56,024,924	53.2%
Total Net Assets	<u>\$ 537,289,822</u>	<u>\$ 433,006,128</u>	<u>\$ 104,283,694</u>	

Current and other assets decreased by \$64,280,790 or 6.8%. This decrease is primarily attributable to the decline in investments. The District's investment portfolio mainly consists of bond fund proceeds which are spent as construction costs are incurred. The decrease in investments is attributable to the construction activity during the year ended June 30, 2010.

During this period, the District was engaged in the completion of various building renovation projects and technology improvements in the school facilities totaling \$150.8 million in additions. Due to the results of a re-evaluation of the useful lives used for depreciating its capital assets depreciation expense increased \$14.6 million as compared to the year ended June 30, 2009, for a total depreciation expense of \$69.1 million.

For the year ended June 30, 2010, long term liabilities decreased from the prior year by \$87.9 million primarily due to scheduled debt payments.

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 \$309,032,133. 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 capital assets are not available to liquidate these liabilities.

Of the remaining net assets, \$66,830,947 is subject to external restrictions and \$161,426,742 is unrestricted resources available to meet the District's ongoing obligations.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010**

**Exhibit 3
Changes in Net Assets
Governmental Activities**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues:				
Program revenues:				
Operating grants and contributions	\$ 351,454,735	\$ 280,834,205	\$ 70,620,530	25.1%
Charges for services	9,271,949	10,109,863	(837,914)	-8.3%
General revenues:				
Investment earnings	3,079,368	8,844,949	(5,765,581)	-65.2%
Property taxes	954,394,880	927,538,958	26,855,922	2.9%
State aid-formula	391,146,276	392,602,696	(1,456,420)	-0.4%
Grants and contributions, unrestricted	40,952,513	20,359,723	20,592,790	101.1%
Total Revenues	<u>1,750,299,721</u>	<u>1,640,290,394</u>	<u>110,009,327</u>	
Expenses				
Instruction	914,472,120	929,388,824	(14,916,704)	-1.6%
Instruction resources and media services	23,935,081	24,826,612	(891,531)	-3.6%
Curriculum and staff development	44,632,038	37,138,971	7,493,067	20.2%
Instructional leadership	24,822,153	23,795,617	1,026,536	4.3%
School leadership	79,490,680	84,301,765	(4,811,085)	-5.7%
Guidance, counseling and evaluation services	59,630,524	60,939,150	(1,308,626)	-2.1%
Social work services	2,299,973	1,926,948	373,025	19.4%
Health services	17,363,982	16,722,030	641,952	3.8%
Student transportation	22,027,097	27,209,587	(5,182,490)	-19.0%
Food services	75,750,540	72,934,030	2,816,510	3.9%
Cocurricular/extracurricular activities	16,439,635	11,895,625	4,544,010	38.2%
General administration	52,742,750	42,583,250	10,159,500	23.9%
Plant administration and operations	154,143,299	152,910,877	1,232,422	0.8%
Security and monitoring services	20,346,170	16,825,756	3,520,414	20.9%
Data processing services	29,336,406	20,235,055	9,101,351	45.0%
Community services	13,559,717	16,882,388	(3,322,671)	-19.7%
Debt service interest	85,075,051	80,960,896	4,114,155	5.1%
Facilities acquisition and construction	1,057,517	220,411	837,106	379.8%
Payments to agents/member district-shared services	8,490,380	23,780,198	(15,289,818)	-64.3%
Other	400,914	10,044,894	(9,643,980)	-96.0%
Total Expenses	<u>1,646,016,027</u>	<u>1,655,522,884</u>	<u>(9,506,857)</u>	
Increase (decrease) in net assets	104,283,694	(15,232,490)	119,516,184	-784.6%
Net asset-beginning	433,006,128	448,238,618	(15,232,490)	-3.4%
Net assets-ending	<u>\$ 537,289,822</u>	<u>\$ 433,006,128</u>	<u>\$ 104,283,694</u>	

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010**

The District's total revenues increased \$110.0 million, or 6.7%, over the prior year and the significant changes are as follows:

- An increase in operating grants and contributions of \$70.6 million, or 25.1%, due to the receipt of \$42.6 million of State Fiscal Stabilization Fund dollars which is an appropriation from the American Recovery and Reinvestment Act of 2009 (ARRA), \$37.4 million of Title I ARRA funds and \$14.9 million of IDEA-B ARRA funds. These increases were offset by decreases in funding received for IDEA-B, high school allotment and various other program grants.
- An increase in property taxes due to an increase in the debt service tax rate from \$0.14335 per \$100 of assessed value for the fiscal year ended June 30, 2009 to \$0.23129 per \$100 of assessed value for the fiscal year ended June 30, 2010. The increase in the tax rate was necessary to meet the debt service requirements of the additional debt issued in December 2008.
- The above mentioned increases were offset by a decrease in investment earnings of \$5.8 million due to a decrease in average investment balances.

Grants and contributions, unrestricted, increased \$20.6 million, or over 100%, from prior year primarily due to the following:

- Receipt of \$3.6 million of refund of prior year overcharges from the company providing the District's bus transportation services.
- Upon receipt of additional information, the District revised its estimates of contingencies and liabilities resulting in a decrease of liabilities totaling \$7.0 million.
- Receipt of \$3.7 million from the Schools and Libraries Program of the Universal Service Fund, commonly referred to as "E-Rate".

While the District's total expenses only decreased by \$9.5 million, or less than 1%, over the prior year, there were several significant changes in individual expense categories. The following categories experienced variances between June 30, 2010 and 2009:

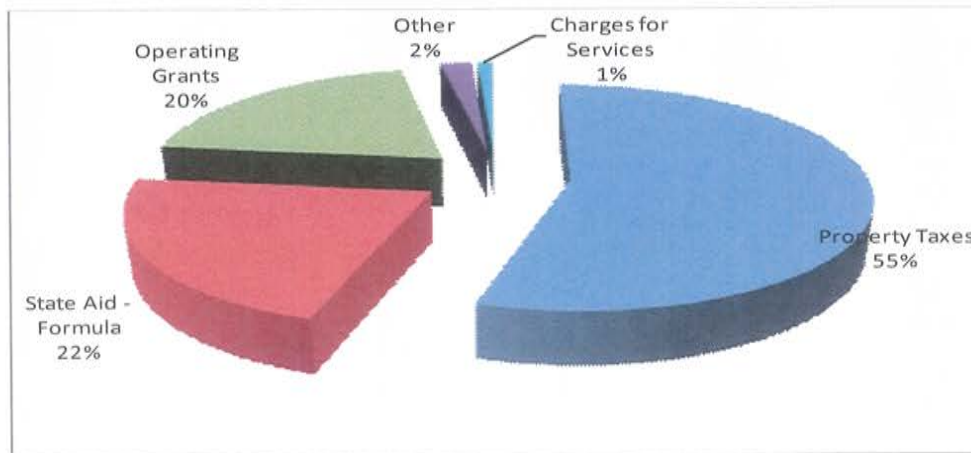
- Instruction expenses decreased \$14.9 million, or 1.6%, due to salary savings resulting from the reduction in force that occurred in the prior fiscal year.
- Curriculum and staff development increased \$7.5 million, or 20.2%, due to increased personnel and programs funded through ARRA funds.
- School leadership expenses decreased \$4.8 million, or 5.7%, primarily due to salary savings.
- Student transportation expenses decreased \$5.2 million, or 19.0%, primarily due to a renegotiation of the contracted rate that the District pays for basic student transportation services.
- Cocurricular/extracurricular activities increased \$4.5 million, or 38.2%, primarily due to an increase in personnel.
- General administration expenses increased \$10.2 million, or 23.9%, due to an increase in staffing, temporary staff augmentation costs and miscellaneous expenditures.
- Security and monitoring expenses increased \$3.5 million, or 20.9%, primarily due to an increase in personnel and programs funded through ARRA funds.
- Data processing services expenses increased \$9.1 million, or 45.0%, due to increase in non-capitalized software and equipment purchases and an increase in depreciation due to significant capital technology purchases during the year ended June 30, 2010.
- Community services expenses decreased by \$3.3 million, or 19.7%, as a result some of the personnel costs being moved to general administration expenses as this more accurately reflected the job duties.
- Debt service expenses increased \$4.1 million, or 5.1%, due to the increase in the average total outstanding debt for the year and the costs of the debt issuance.
- Payments to agents/member district shared services decreased \$15.3 million, or 64.3%, because while the District was classified as a property wealthy district subject to the provisions of Chapter 41 of the Texas Education Code for the 2009-10 fiscal year, the District's equalized wealth level did not require a recapture payment. In fiscal year 2008-09, this payment was \$13.7 million.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010**

Other Financial Highlights

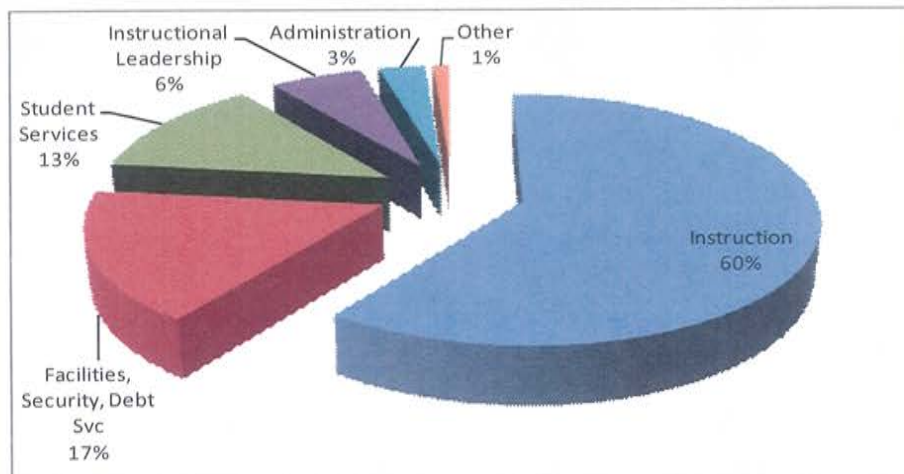
For the year ended June 30, 2010, the District's total revenues were \$1,750,299,721. Approximately 55% of the District's revenue was generated from property taxes, 22% was generated from state aid formula grants, 20% was generated from other operating grants and the remaining three percent was generated from miscellaneous revenue sources (See Exhibit 4).

**Exhibit 4
Sources of Revenue
Governmental Activities**



For the year ended June 30, 2010, the Districts' total cost of all programs and services was \$1,646,016,027. Approximately 60% of the District's governmental activities were dedicated to instructional areas. Combined with student support services, such as counseling, nursing, and transportation services, 73% of governmental expenses were dedicated to direct student services. The costs to operate facilities, including utilities, security services and debt payments comprised 17% of the cost of all programs (See Exhibit 5).

**Exhibit 5
Expenditure Allocations
Governmental Activities**



**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

For the fiscal year ending June 30, 2010, the District's governmental funds reported ending fund balances of \$565,039,264. Of this amount, \$91,017,435 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 \$82,111,760. 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 7.1% of the total General Fund expenditures, while total fund balance represents 8.6% of that same amount.

The District's General Fund balance increased \$62,431,169 primarily due to refunding of prior year overcharges and a renegotiation of the contracted rate that the District pays for basic student transportation services, salary savings and salary savings fully realized from the fiscal 2009 reduction in personnel. Additionally, the District requested that the state review the District's prior year state funding formula calculations which in part are based on local property values. Based upon this reassessment, the District received additional state aid of \$7.9 million, net of other adjustments.

The Debt Service Fund has a total fund balance of \$74,280,273 all of which is reserved for the payment of debt service requirements. The Capital Projects Fund balance decreased by \$134,367,298 to \$356,643,856, primarily due to facilities acquisition and construction costs expended during the year. Non-Major Governmental Funds have a total fund balance of \$34,015,884 representing an increase for the current year of \$6,373,876. The majority of this increase is attributable to the Food Service Fund which experienced an increase in fund balance of \$5,161,704 resulting from excess revenue over expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year ended June 30, 2010, the Board amended the general fund operating budget on a monthly basis. These amendments fall into the following categories:

- Amendments approved shortly after the beginning of the new fiscal year for amounts reserved and designated in the prior year totaling \$1.7 million.
- Amendments approved for receipt of insurance proceeds totaling \$2.3 million.
- Amendments to revise estimates for local and state revenue based upon the latest information on student attendance numbers and tax collections totaling \$2.9 million.
- Balance neutral amendments during the year to properly align the budget with the expenditures.

After these adjustments, budgeted revenues exceeded budgeted expenditures by \$22,432,090 in the final amended budget. Actual revenues exceeded actual expenditures by \$62,431,169.

The District's annual budgeted state program revenues for the General Fund are based upon projected enrollment applied to a state funding formula that has been in place since 2007. For the fiscal years ending June 30, 2010 and 2011, the state has kept the funding formula essentially the same as prior years' but \$46.1 million of the state's revenue commitment for the year ended June 30, 2010, was funded through federal ARRA Title XIV State Fiscal Stabilization Funds (SFSF). Because the SFSF funds are federal funds, the District is required to account for the funds separately in a separate non-major governmental fund.

The District used the SFSF funds to pay \$26.5 million of allowable utilities for schools and to fund \$19.6 million of allowable teacher salaries. However because these expenditures are normal operating expenditures of the District and have in previous years been accounted for in the General Fund, the District chose for the sake of consistency to continue to budget these revenues and expenditures in the General Fund.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010**

Exhibit 6 reflects the District's General Operating and SFSF revenue and expenditures combined and compares this combined total to the General Operating Budget.

**Exhibit 6
District's General Fund Expenditures with SFSF Funds**

Data Control Codes	Final General Operating Budget	General Operating Actual	State Fiscal Stabilization Fund (SFSF) Actual	Combined General Operating and SFSF Actual	Variance with Final Budget Positive (Negative)
Revenues:					
State revenue	\$ 430,069,247	\$391,146,276	\$46,083,492.00	\$437,229,768	\$ 7,160,521
Expenditures:					
11 Instruction	724,504,928	705,789,106	19,605,125	725,394,231	(889,303)
51 Plant maintenance and operations	154,268,224	120,428,774	26,478,367	146,907,141	7,361,083
Total expenditures			46,083,492		
Excess of revenues over expenditures			\$ -		

The food service fund budget was amended for the following reasons:

- Amendments approved upon the receipt of ARRA funds to purchase kitchen equipment totaling \$555,325.
- Balance neutral amendments to properly classify audit fees and utilities totaling \$3.7 million.

The debt service fund budget was amended for the following reasons:

- Amendments to adjust the budget for the issuance of refunding bonds and related expenditures totaling \$108.6 million.
- Amendments approved to increase budgeted revenue totaling \$16.6 million.

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010**

CAPITAL ASSETS

For the year ended June 30, 2010, the District had \$1.7 billion of capital assets, net of depreciation and loss on disposition of assets, including land, equipment, buildings, and vehicles. This amount represents a net increase of \$81.4 million or 5% over last year. (See Exhibit 7.)

**Exhibit 7
District's Capital Assets**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>\$ Change</u>	<u>% Change</u>
Land	\$ 173,516,986	\$ 152,321,780	\$ 21,195,206	13.9%
Buildings and improvements	2,210,770,243	2,208,646,157	2,124,086	0.1%
Furniture and equipment	180,675,978	167,959,858	12,716,120	7.6%
Construction in progress	128,162,604	21,537,022	106,625,582	495.1%
Total	<u>2,693,125,811</u>	<u>2,550,464,817</u>	<u>142,660,994</u>	
Accumulated depreciation	(985,389,677)	(924,143,630)	(61,246,047)	6.6%
Net Book Value	<u>\$ 1,707,736,134</u>	<u>\$ 1,626,321,187</u>	<u>\$ 81,414,947</u>	

For the year ended June 30, 2010, the District's capital spending totaled \$150.8 million in land, construction in progress, buildings and improvements and capital equipment. These expenditures resulted primarily from the projects committed to in the 2008 bond program. The District is committed to constructing 15 new campuses, making additions to 12 existing campuses, and conducting renovations at more than 200 locations. For more information on the District's capital assets see Note G in the financial statements.

DEBT ADMINISTRATION

For the year ended June 30, 2010, the District had \$1.8 billion in long-term debt outstanding as shown in Exhibit 8 below.

**Exhibit 8
Long Term Debt**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>\$ Change</u>	<u>% Change</u>
Bonds payable and notes payable	\$ 1,730,108,246	\$ 1,820,938,197	\$ (90,829,951)	-5.0%
Workers compensation liability	7,292,895	10,667,749	(3,374,854)	-31.6%
Deferred loss on refunding	(6,213,970)	(5,981,361)	(232,609)	3.9%
Premium on bonds	43,121,111	43,783,242	(662,131)	-1.5%
Arbitrage payable	-	437,078	(437,078)	-100.0%
Totals	<u>\$ 1,774,308,282</u>	<u>\$ 1,869,844,905</u>	<u>\$ (95,536,623)</u>	

**Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010**

Bonds payable and notes payable decreased \$90.8 million, resulting from scheduled debt payments and the refunding of the Series 1999 bonds and issuance of Series 2009 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.

The decrease in the workers' compensation liability is the result of continued improvement in loss claims history as a result of a program beginning July 1, 2009, that requires all employees injured on the job to use preselected doctors from a workers' compensation medical care panel.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Budgetary resource allocations are distributed to campuses and central organizations that support the programs of the District. The District's budget process begins with the development of enrollment projections by the District's Initiatives and Planning Department. Enrollment projections are then used to determine initial campus allocations through the use of board approved staffing formulas. The District uses line-item and site-based budgetary approaches to provide campuses with a standard allocation based on student enrollment.

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.

Central organizations use a zero-based budgetary approach for allocation based on historical expenditures and services provided.

Enrollment projections for the year ended June 30, 2011, show enrollment numbers to remain relatively stable with no significant increases or decreases.

The District continues to be classified as a property wealthy district subject to the provisions of Chapter 41 of the Texas Education Code for the 2010-11 fiscal year and the District's equalized wealth level continues to be within the range not requiring a recapture payment.

Projects authorized under the 2008 bond program continue to proceed and the District is anticipating selling additional bonds during 2010-11 to fund additional construction.

On July 15, 2010, the District issued \$80,000,000 in multi-draw Tax Anticipation Notes (the "TANS"). The TANS were issued for the purpose of funding the District's cash flow requirements. Two "Request for Purchase" agreements were issued under the TANS to fund on August 10, 2010 (\$30,000,000) and September 10, 2010 (\$50,000,000). The \$80,000,000 TANS are due by February 11, 2011.

On August 19, 2010, the District closed on the sale of the Unlimited Tax Refunding Bonds, Series 2010 \$156,730,000 (the "Bonds") to refund a portion of the District's Unlimited Tax School Building and Refunding Bonds, Series 2002 and the Unlimited Tax School Building and Refunding Bonds, Series 2003. The Bonds have various maturity dates beginning in 2011 through 2021 with an interest range between 1.25% and 5%.

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, 2010

Exhibit A-1

Data Control Codes		Total Primary Government Governmental Activities June 30, 2010	Component Unit December 31, 2009
	Assets:		
1110	Cash and cash equivalents	\$ 394,678,991	\$ 733,932
1120	Investments	224,407,905	-
1225	Property taxes receivable, net	42,546,701	-
1240	Due from other governments	189,265,247	-
1250	Accrued interest receivable	7,940	-
1260	Due from agency funds	499,665	-
1290	Other receivables, net	12,739,192	156,757
1300	Inventories	8,360,027	-
1490	Other current assets	1,155,894	-
1420	Bond issuance cost, net	11,667,531	-
	Capital assets, net:		
1510	Land	173,516,986	-
1520	Buildings and Improvements, net	1,367,258,944	-
1530	Furniture and equipment, net	38,797,600	-
1580	Construction in progress	128,162,604	-
1000	Total assets	<u>2,593,065,227</u>	<u>890,689</u>
	Liabilities:		
2110	Cash overdraft	9,854,445	-
2110	Accounts payable	67,573,349	114,744
2140	Bond interest payable	2,782,757	-
2150	Payroll deductions and withholdings	12,678,308	-
2160	Accrued wages and benefits payable	140,692,206	-
2180	Due to other governments	1,087,066	-
2200	Accrued liabilities	11,712,083	-
2300	Unearned revenue	2,688,423	-
2430	Accrued interest	32,377,475	-
	Long-term liabilities-due within one year:		
2121	Bonds and notes payable	59,551,453	-
2123	Workers compensation	2,618,023	-
	Long-term liabilities-due beyond one year:		
2210	Workers compensation	4,695,882	-
2510	Bonds and notes payable	1,670,556,793	-
2511	Deferred loss on refunding of bonds	(6,213,969)	-
2512	Premium on bonds	43,121,111	-
2000	Total liabilities	<u>2,055,775,405</u>	<u>114,744</u>
	Net assets:		
3200	Invested in capital assets, net of related debt	309,032,133	-
3800	Restricted for:		
	Debt Service	41,902,798	-
	Food Service	24,928,149	-
	Component Unit-Program Grants	-	779,395
3900	Unrestricted	161,426,742	(3,450)
3000	Total net assets	<u>\$ 537,289,822</u>	<u>\$ 775,945</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, 2010**

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, 2010
	Primary government governmental activities:				
11	Instruction	\$ 914,472,120	\$ 277,928	\$ 176,329,749	\$ (737,864,443)
12	Instructional resources and media services	23,935,081	-	286,091	(23,648,990)
13	Curriculum and staff development	44,632,038	-	33,338,171	(11,293,867)
21	Instructional leadership	24,822,153	-	4,908,047	(19,914,106)
23	School leadership	79,490,680	-	2,482,534	(77,008,146)
31	Guidance, counseling, and evaluation services	59,630,524	-	13,201,398	(46,429,126)
32	Social work services	2,299,973	-	86,701	(2,213,272)
33	Health services	17,363,982	-	1,734,843	(15,629,139)
34	Student transportation	22,027,097	-	1,156,155	(20,870,942)
35	Food services	75,750,540	7,150,852	72,969,799	4,370,111
36	Cocurricular/extracurricular activities	16,439,635	674,914	102,744	(15,661,977)
41	General administration	52,742,750	-	6,128,703	(46,614,047)
51	Plant maintenance and operations	154,143,299	1,168,255	26,651,921	(126,323,123)
52	Security and monitoring services	20,346,170	-	2,070,891	(18,275,279)
53	Data processing services	29,336,406	-	1,997,734	(27,338,672)
61	Community services	13,559,717	-	7,999,234	(5,560,483)
71	Interest and fiscal charges	85,075,051	-	-	(85,075,051)
81	Facilities acquisition and construction	1,057,517	-	10,020	(1,047,497)
91	Chapter 41 payments	-	-	-	-
95	Payments to juvenile justice alternative education	700,744	-	-	(700,744)
97	Payments to tax increment fund	4,029,110	-	-	(4,029,110)
99	Other intergovernmental charges	3,760,526	-	-	(3,760,526)
	Total	\$ 1,645,615,113	\$ 9,271,949	\$ 351,454,735	\$ (1,284,889,429)
	Component unit				
	Dallas Education Foundation	\$ 2,812,157	-	\$ 361,138	\$ (2,451,019)
	General revenues:				
	Taxes:				
	Property taxes, levied and collected for general purposes				\$ 779,573,697
	Property taxes, levied and collected for debt service				174,821,183
	State aid-formula grants not restricted to specific programs				391,146,276
	Grants and contributions not restricted to specific programs				40,952,513
	Investment earnings				3,079,368
	Disposal of capital assets				(276,118)
	Miscellaneous - Other				(124,796)
	Total general revenues and special item				1,389,172,123
	Change in net assets				104,283,694
	Net assets—beginning				433,006,128
	Net assets—ending				\$ 537,289,822
					\$ 775,945

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, 2010**

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	\$ 141,326,664	\$ 73,603,925	\$ 176,403,134	\$ 3,345,268	\$ 394,678,991
1120	Investments	-	-	224,407,905	-	224,407,905
1210-30	Receivables, net	36,435,261	6,111,440	-	-	42,546,701
1250	Accrued interest	7,940	-	-	-	7,940
1260	Due from other funds	6,245,161	-	-	62,962,114	69,207,275
1240	Receivables from other governments	188,943,886	321,361	-	-	189,265,247
1290	Other receivables, net	10,589,759	-	1,962,788	146,645	12,699,192
1300	Inventories	5,566,185	-	-	2,793,842	8,360,027
1490	Other current assets-prepaid expenses	973,834	-	-	182,060	1,155,894
	Total assets	\$ 390,088,690	\$ 80,036,726	\$ 402,773,827	\$ 69,429,929	\$ 942,329,172
Liabilities and fund balances:						
Liabilities:						
2110	Cash overdraft	\$ 9,854,445	\$ -	\$ -	\$ -	\$ 9,854,445
2110	Accounts payable	16,142,122	-	38,923,255	11,968,243	67,033,620
2120	Other liabilities	2,147,794	631,622	3,341	-	2,782,757
2150	Payroll deductions & withholdings	10,458,439	-	-	2,219,163	12,677,602
2160	Accrued wages and benefits payable	123,700,110	-	-	16,954,797	140,654,907
2170	Due to other funds	74,399,368	25,615	5,719,881	230,296	80,375,160
2180	Payable to other governments	1,001,478	-	-	85,588	1,087,066
2200	Accrued liabilities	10,425,310	-	19,238	1,267,535	11,712,083
2300	Deferred/Unearned revenue	41,860,373	5,099,216	1,464,256	2,688,423	51,112,268
	Total liabilities	289,989,439	5,756,453	46,129,971	35,414,045	377,289,908
Fund balances:						
Reserved for:						
3410	Inventories	5,566,185	-	-	1,488,832	7,055,017
3430	Prepaid expenses	973,834	-	-	182,060	1,155,894
3440	Encumbrances	11,447,472	-	235,238,482	-	246,685,954
3420	Debt service	-	74,280,273	-	-	74,280,273
3470	Capital projects	-	-	121,405,374	-	121,405,374
3450	Food services	-	-	-	23,439,317	23,439,317
Unreserved:						
3590	Designated - Campus Activity Fund	-	-	-	2,968,381	2,968,381
3600	Undesignated - General Fund	82,111,760	-	-	-	82,111,760
3600	Undesignated - Non-Major Funds	-	-	-	5,937,294	5,937,294
	Total fund balances	100,099,251	74,280,273	356,643,856	34,015,884	565,039,264
	Total liabilities and fund balances	\$ 390,088,690	\$ 80,036,726	\$ 402,773,827	\$ 69,429,929	\$ 942,329,172

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, 2010

Exhibit C-1R

Total fund balances--governmental funds (from C-1)		\$ 565,039,264
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of accumulated depreciation, less assets held in internal service funds, are not financial resources and therefore are not reported as assets in governmental funds.		1,707,714,331
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	(1,730,108,246)	
Deferred losses on refundings	6,213,969	
Premium on bonds	(43,121,111)	(1,767,015,388)
Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(32,377,475)
Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds.		48,423,845
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).		3,837,714
Bond issue costs are recognized currently at the fund level, but are deferred costs under the full accrual method of accounting.		11,667,531
Total net assets--governmental activities (see A-1)		<u>\$ 537,289,822</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, 2010

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	\$ 816,834,514	\$ 175,417,533	\$ 7,779,140	\$ 16,214,486	\$ 1,016,245,673
5800	State program revenues	391,146,276	-	-	32,731,610	423,877,886
5900	Federal program revenues	15,537,029	-	-	309,659,014	325,196,043
	Total revenues	1,223,517,819	175,417,533	7,779,140	358,605,110	1,765,319,602
Expenditures:						
Current:						
11	Instruction	705,789,106	-	-	175,840,289	881,629,395
12	Instructional resources and media services	22,952,862	-	-	315,795	23,268,657
13	Curriculum and staff development	11,398,034	-	-	33,216,094	44,614,128
21	Instructional leadership	19,780,100	-	-	4,912,521	24,692,621
23	School leadership	74,160,934	-	-	2,484,905	76,645,839
31	Guidance, counseling, and evaluation services	45,417,019	-	-	13,207,568	58,624,587
32	Social work services	2,200,648	-	-	86,701	2,287,349
33	Health services	15,955,708	-	-	978,834	16,934,542
34	Student transportation	20,867,759	-	-	1,156,155	22,023,914
35	Food services	-	-	-	72,319,312	72,319,312
36	Cocurricular/extracurricular activities	15,149,027	-	-	128,599	15,277,626
41	General administration	46,164,297	-	-	6,228,013	52,392,310
51	Plant maintenance and operations	120,428,774	-	99,847	29,235,255	149,763,876
52	Security and monitoring services	18,191,408	-	-	2,055,417	20,246,825
53	Data processing services	22,151,024	-	3,374,098	1,997,734	27,522,856
61	Community services	5,265,024	-	-	8,058,499	13,323,523
Debt service:						
71	Principal on long-term debt	4,307,253	82,385,000	-	-	86,692,253
71	Interest and fiscal charges	1,399,680	93,302,153	-	-	94,701,833
Capital outlay:						
81	Facilities acquisition and construction	29,459	-	138,672,493	10,020	138,711,972
Intergovernmental charges:						
91	Chapter 41 payments	-	-	-	-	-
95	Payments for juvenile justice alternative education	700,744	-	-	-	700,744
97	Payments to tax increment fund	4,029,110	-	-	-	4,029,110
99	Other intergovernmental charges	3,760,526	-	-	-	3,760,526
	Total expenditures	1,160,098,496	175,687,153	142,146,438	352,231,711	1,830,163,798
	Excess (deficiency) of revenues over expenditures	63,419,323	(269,620)	(134,367,298)	6,373,399	(64,844,196)
Other Financing Sources (Uses):						
7911	Proceeds from Issuance of refunding bonds	-	100,760,000	-	-	100,760,000
7912	Sale of real or personal property	28,227	-	-	477	28,704
7916	Premium or discount on issuance of bonds	-	5,397,999	-	-	5,397,999
8911	Transfers out	(862,881)	-	-	-	(862,881)
8941	Legal settlements	(153,500)	-	-	-	(153,500)
8949	Refunded bonds redeemed	-	(107,896,372)	-	-	(107,896,372)
7080	Total other financing sources (uses)	(988,154)	(1,738,373)	-	477	(2,726,050)
	Net change in fund balances	62,431,169	(2,007,993)	(134,367,298)	6,373,876	(67,570,246)
	Fund balances-beginning	37,668,082	76,288,266	491,011,154	27,642,008	632,609,510
	Fund balances-ending	\$ 100,099,251	\$ 74,280,273	\$ 356,643,856	\$ 34,015,884	\$ 565,039,264

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, 2010**

Exhibit C-3

Net change in fund balances--total governmental funds (from C-2) \$ (67,570,246)

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 capital asset additions (\$150,788,597) and net book value of capital asset disposals (\$276,118) exceeded depreciation (\$69,119,335) in the current period. 81,393,144

Repayment of bonds (\$82,385,000), loans (\$3,005,000) and capital leases (\$1,302,253), and refunded bond (\$105,060,000) are an expenditure in the governmental funds, but the repayment and refunded bonds reduces long-term liabilities in the statement of net assets. 191,752,253

Installment obligations provide current financial resources to governmental funds, but issuing bonds (\$100,760,000) and the related premium (\$5,397,999) and loans (\$162,302) increases long-term liabilities in the statement of net assets. (106,320,301)

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. 6,425,900

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. 6,199,556

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 decreased by this amount from the prior year. (15,019,881)

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). 7,423,269

Change in net assets of governmental activities (B-1) \$ 104,283,694

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, 2010

Exhibit D-1

Data Control Codes		Governmental Activities Internal Service Funds
	Assets	
	Current Assets:	
1260	Due from other funds	\$ 11,667,550
1290	Other receivables, net	40,000
	Total current assets	<u>11,707,550</u>
	Noncurrent Assets:	
	Capital Assets	
	Furniture and Equipment, net	21,803
	Total Noncurrent assets	<u>21,803</u>
	Total Assets	<u>11,729,353</u>
	Liabilities and fund balances:	
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	539,729
2120	Accrued liabilities-short-term	2,618,023
2150	Payroll deductions & withholdings	706
2160	Accrued wages and benefits payable	37,299
	Total current liabilities	<u>3,195,757</u>
	Long-term Liabilities:	
2200	Accrued liabilities-long-term	4,695,882
	Total Liabilities	<u>7,891,639</u>
	Net Assets	
3xxx	Invested in Capital Assets	21,803
3xxx	Unrestricted Net Assets	3,815,911
	Total net assets	<u>\$ 3,837,714</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, 2010

Exhibit D-2

Data Control Codes		Governmental Activities Internal Service Funds
	Operating revenues:	
5754	Charges for services	\$ 16,235,623
	Total operating revenues	<u>16,235,623</u>
	Operating expenses:	
6100	Personnel services	7,931,253
6200	Contractual services	1,168,384
6300	Supplies	510,961
6400	Other operating expenses	64,637
	Total operating expenses	<u>9,675,235</u>
	Operating income	<u>6,560,388</u>
	Nonoperating revenues (expenses):	
	Transfer in	<u>862,881</u>
	Change in net assets	7,423,269
	Total net assets (deficit)-beginning	<u>(3,585,555)</u>
	Total net assets-ending	<u><u>\$ 3,837,714</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, 2010

Exhibit D-3

	Governmental Activities Internal Service Funds
Cash flows from operating activities:	
Cash received from user charges	\$ 12,536,927
Cash payments for payroll costs	(2,544,860)
Cash payments for insurance claims	(8,702,235)
Cash payments for suppliers	(2,130,910)
Net cash used for operating activities	<u>(841,078)</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	(21,803)
Net cash used for capital financing activities	<u>(21,803)</u>
Cash flows from non-capital financing activities:	
Transfers in	862,881
Net cash provided by non-capital financing activities	<u>862,881</u>
Net (decrease) in cash and cash equivalents	-
Cash and cash equivalents — beginning	<u>-</u>
Cash and cash equivalents — ending	<u><u>\$ -</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income	\$ 6,560,388
Change in assets and liabilities:	
Decrease (increase) in receivables	(40,000)
Decrease (increase) in due from other funds	(3,658,696)
Increase (decrease) in accounts payable	(386,928)
Increase (decrease) in payroll deductions & withholdings	706
Increase (decrease) in accrued wages payable	37,296
Increase (decrease) in accrued expenses	(3,353,844)
Net cash used for operating activities	<u><u>\$ (841,078)</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, 2010

Exhibit E-1

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 3,893,691
Total assets	<u>\$ 3,893,691</u>
Liabilities	
Accounts Payables	\$ 89,587
Due to General Fund	499,665
Due to student groups	3,303,714
Accrued liabilities	725
Total liabilities	<u>\$ 3,893,691</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, 2010**

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**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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 District receives funding from local, state, and federal government sources and must comply with the requirements of these funding sources. The District 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.

There were no other significant transactions between the District and the Foundation during the year ended June 30, 2010.

The Foundation financial statements are prepared in accordance with generally accepted accounting principles, as promulgated by the Financial Accounting Standards Board. A copy of the complete, separately audited financial statements as of December 31, 2009 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, 2010**

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 non-fiduciary activities of the District. The effect of the interfund activity in the government-wide statements eliminates 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, state aid, grants and contributions not restricted to specific programs are properly excluded from program revenues and 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 do 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 \$5,080,687 and \$1,012,224 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 the related fund balance is designated until restrictions are satisfied. Amounts reported as program revenues include operating grants and contributions, food services user charges, 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, 2010**

The District has accrued Foundation School Program revenues of approximately \$119,027,818 which is included in receivables from other governments in the Balance Sheet-Governmental Funds, to reflect cash that will be received in fiscal year 2011, which was generated by attendance and related expenditures in fiscal year 2010.

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 Funds are used to account for services provided by one department to other departments of the District on a cost-reimbursement basis. For the District, these funds are used to provide workers' compensation insurance, unemployment insurance, printing services 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 program.

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. 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, 2010**

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. Uncollectible taxes are written off according to the Texas Property Tax Code. See Note C for the discussion of the write off of uncollectible taxes in the current year.

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, 2010**

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. Reservations of fund balance equal to outstanding encumbrances at year-end are provided for at June 30, 2010.

Government-Wide Net Assets

Invested in capital assets, net of related debt – the component of net assets that represents capital assets less capital debt plus unspent bond proceeds of \$309,032,133.

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 \$41,902,798.

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 \$24,928,149.

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 \$161,426,742.

Governmental Funds-Reserved Fund Balances

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

	<u>Governmental Funds/Reserved Fund Balances</u>
Food service	\$ 23,439,317
Debt service	74,280,273
Capital projects	121,405,374
Encumbrances	246,685,954
Inventories and prepaids	8,210,911
Total	<u><u>\$ 474,021,829</u></u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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.

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:

<u>Asset Classification</u>	<u>Useful Life in Years</u>
Buildings and Building Improvements	40
Heavy Installed Equipment	20
Portable Buildings and Building Systems	15
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
Software	3

During the year ended June 30, 2010, the District reevaluated the useful lives used for depreciating its capital assets and shortened the useful lives of its buildings from 45 years to 40 years and the useful lives of its portable buildings from 20 years to 15 years. This change resulted in an increase in depreciation expense of approximately \$9.5 million for the year ended June 30, 2010.

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 \$1,900,974 (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, 2010**

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, bond premiums and discounts, as well as bond issuance costs are recognized in the governmental funds, 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.

Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("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 published by the 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

The 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 Bank of New York Mellon, under a tri-party collateral agreement between the District, the depository bank and The Bank of New York Mellon, approved pledged securities, as authorized by Chapter 2257, Collateral for Public Funds of the Government Code, in an amount sufficient to protect the District's 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.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

The cash overdraft of \$9,854,445 reported by the District at June 30, 2010 represents checks recorded in the District's financial statements but not presented at the bank. At June 30, 2010, the net carrying amount of the District's cash deposits, excluding student activity fund deposits of \$3,893,691, was \$3,717,255. The bank balance of \$5,518,463 was on deposit with the contracted depository bank. Total District funds on deposit were secured by FDIC coverage of \$500,000, up to 100% of the bank balance, and by pledged United States government securities with a fair value of \$66,266,744 at June 30, 2010, held by The Bank of New York Mellon. Because The Bank of New York Mellon 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 were on deposit with the contracted depository. Non-centralized agency and activity funds were in separate bank accounts in the name of the schools, and as such, have FDIC insurance of up to \$500,000, up to 100% of the bank balance per bank account. At June 30, 2010, cash on hand in Agency Funds totaled \$3,893,691 and was on deposit with the contracted depository and separate bank accounts. The District's Agency Fund bank balance on June 30, 2010, was covered by federal depository insurance or by collateral held in the District's name.

The District's component unit had an unrestricted cash balance of \$733,932. 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.

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 January 13, 2010, with combined cash and certificates of deposit balance of \$174,500,071.
- c. On January 13, 2010, the amount of bonds, securities pledged, and FDIC coverage was \$191,413,766.
- d. The FDIC coverage portion of the collateral listed above was \$500,000.
- 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.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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, 2010

As of June 30, 2010, 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 and mutual funds	\$ 67,815,835	11.0%	\$ 67,815,835	11.0%	\$ 67,815,835	\$ 67,815,835	\$ -	AAA/Aaa
Investment pools:								
MBIA Texas Class	207,016,314	33.2%	207,016,314	33.2%	207,016,314	207,016,314	-	AAA/Aaa
LOGIC	33,639	0.0%	33,639	0.0%	33,639	33,639	-	AAA/Aaa
Lone Star	73,991,425	11.9%	73,991,425	11.9%	73,991,425	73,991,425	-	AAA/Aaa
TexPool	16,044,224	2.6%	16,044,224	2.6%	16,044,224	16,044,224	-	AAA/Aaa
TexasDAILY	26,060,299	4.2%	26,060,299	4.2%	26,060,299	26,060,299	-	AAA/Aaa
Total Investment pools	323,145,901	51.9%	323,145,901	51.9%	323,145,901	323,145,901	-	
Cash	7,610,946	1.2%	7,610,946	1.2%	7,610,946	7,610,946	-	N/A
Total cash and cash equivalents	398,572,682	64.0%	398,572,682	64.0%	398,572,682	398,572,682	-	
Securities:								
US Agency FAMICA	40,261,336	6.5%	40,225,605	6.5%	40,000,000	40,000,000	-	AAA/Aaa
US Agency FHLB	110,069,765	17.7%	110,023,260	17.7%	110,000,000	35,000,000	75,000,000	AAA/Aaa
US Agency FHLMC	24,983,438	4.0%	24,997,800	4.0%	25,000,000	25,000,000	-	AAA/Aaa
US Agency FNMA	49,093,366	7.9%	49,063,974	7.9%	48,500,000	30,000,000	18,500,000	AAA/Aaa
Total Investments	224,407,905	36.0%	224,310,639	36.0%	223,500,000	130,000,000	93,500,000	
Total cash, cash equivalents and investments	\$ 622,980,587	100.0%	\$ 622,883,321	100.0%	\$ 622,072,682	\$ 528,572,682	\$ 93,500,000	
Overdrafts	\$ 9,854,445		\$ 9,854,445					

As required by GASB Statement No. 31, the District's investments are recorded at fair value based upon quoted market prices as of June 30, 2010, with the increase or decrease in fair value being recorded as a component of earnings on investments. As of June 30, 2010, 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, 2010

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: Cutwater 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. These pools are operated in a manner consistent with SEC Rule 2a-7 of the Investment Company Act of 1940 (the "1940 Act") . All are rated "AAA" money market funds by Standard and Poor's. Bank of America 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 Bank of America 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. As of June 30, 2010, 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.

Foreign Currency Risk: As of June 30, 2010, there are no foreign investments in the District's portfolio.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE C: LOCAL REVENUES AND PROPERTY TAXES

Local revenues are comprised of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
Property taxes	\$ 794,731,093	\$ 175,320,784	\$ -	\$ -	\$ 970,051,877
Food services	-	-	-	6,731,926	6,731,926
Interest income	664,352	96,749	2,316,728	1,538	3,079,367
Tuition, fees and cocurricular	2,689,886	-	119,534	361,749	3,171,169
Gifts and bequests	124,795	-	-	2,201,879	2,326,674
Other	18,624,388	-	5,342,878	6,917,394	30,884,660
Totals	<u>\$816,834,514</u>	<u>\$ 175,417,533</u>	<u>\$ 7,779,140</u>	<u>\$ 16,214,486</u>	<u>\$ 1,016,245,673</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, 2009 was \$80,014,915,354. After deductions of all exemptions and reductions provided by law and those granted by the District, the levy for the 2010 fiscal year was based on property values of \$79,628,192,590.

The tax rates assessed for the year ended June 30, 2010, to finance General Fund operations and the payment of principal and interest on long-term debt were \$1.04005 and \$0.231293 per \$100 valuation, respectively, for a total of \$1.271343 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, 2010, were 96.42% 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 \$39,153,011 and \$4,791,599, respectively, based upon historical collection experience and historical experience of adjustments to tax receivables.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

The Texas Property Tax Code, directs tax collectors to cancel and remove from the tax rolls real property taxes that have been delinquent more than 20 years and personal property taxes that have been delinquent more than 10 years. Additionally, the Texas Property Tax Code provides that personal property may not be seized and a suit may not be filed to collect a tax on personal property that has been delinquent more than four years. Therefore, during the year ended June 30, 2010, the District wrote off the following amounts of delinquent and uncollectible taxes:

20 year real property	\$ 515,717
10 year personal property	4,958,248
Uncollectible personal property	<u>12,503,568</u>
	<u><u>\$ 17,977,533</u></u>

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.

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:		
Oak Cliff Gateway Tax		
Incremental Financing District	\$ 66,614,639	\$ 560,043
Cedars Tax Incremental Financing		
District	52,741,749	320,450
Sports Arena Tax Incremental		
Financing District	489,036,379	3,136,384
City of Farmers Branch:		
Tax Incremental Financing		
District #1	2,953,450	12,233
Totals	<u><u>\$ 611,346,217</u></u>	<u><u>\$ 4,029,110</u></u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE D: RECEIVABLES

Property tax receivable as of June 30, 2010, 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	\$ 75,588,272	\$ 10,903,039	\$ 86,491,311
Less: Allowance for uncollectible	(39,153,011)	(4,791,599)	(43,944,610)
Totals	<u><u>\$ 36,435,261</u></u>	<u><u>\$ 6,111,440</u></u>	<u><u>\$ 42,546,701</u></u>

The \$156,757 component unit receivables for unconditional promises is due in less than one year.

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 2010, 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	\$ 31,354,574	\$ 5,099,216	\$ -	\$ -	\$ 36,453,790
Medicare	10,121,859	-	-	-	10,121,859
Gifts and bequests	383,940	-	1,464,256	-	1,848,196
Unearned	-	-	-	2,688,423	2,688,423
Totals	<u><u>\$ 41,860,373</u></u>	<u><u>\$ 5,099,216</u></u>	<u><u>\$ 1,464,256</u></u>	<u><u>\$ 2,688,423</u></u>	<u><u>\$ 51,112,268</u></u>

Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

NOTE F: INTERFUND RECEIVABLES, AND TRANSFERS

Interfund balances at June 30, 2010, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
General Fund:		
Non-Major Governmental Funds	\$ -	\$ 62,962,114
Debt Service Fund	25,615	
Capital Projects Fund	5,719,881	-
Internal Service	-	11,437,254
Agency Fund	499,665	-
	<u>6,245,161</u>	<u>74,399,368</u>
Debt Service Fund:		
General Fund	-	25,615
Capital Projects Fund:		
General Fund	-	5,719,881
Non-Major Governmental Funds:		
General Fund	62,962,114	-
Internal Service Fund	-	230,296
	<u>62,962,114</u>	<u>5,975,792</u>
Internal Service Fund:		
General Fund	11,437,254	-
Non-Major Governmental Fund	230,296	-
	<u>11,667,550</u>	<u>-</u>
Agency Fund:		
General Fund	-	499,665
	<u>-</u>	<u>499,665</u>
Totals	<u>\$ 80,874,825</u>	<u>\$ 80,874,825</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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 Internal 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.

Interfund transfers are comprised of the following:

	<u>Transfers In</u>	<u>Transfers</u>
	<u>Internal Service Fund</u>	<u>Out</u>
Transfers Out - General Fund	\$ 862,881	\$ 862,881

All interfund transfers were to offset operating losses in internal service funds.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 is as follows:

	Balance at July 1, 2009	Additions	Transfers	Deletions	Balance at June 30, 2010
Capital assets, not being depreciated:					
Land	\$ 152,321,780	\$ 21,195,206	\$ -	\$ -	\$ 173,516,986
Construction in progress	21,537,022	109,858,952	(3,233,370)	-	\$ 128,162,604
Total capital assets, not being depreciated	<u>173,858,802</u>	<u>131,054,158</u>	<u>(3,233,370)</u>	<u>-</u>	<u>\$ 301,679,590</u>
Capital assets, being depreciated:					
Building and improvements	2,208,646,157	36,386	2,293,358	(205,658)	\$2,210,770,243
Furniture and equipment	167,959,858	19,719,856	940,012	(7,943,748)	\$ 180,675,978
Total capital assets, being depreciated	<u>2,376,606,015</u>	<u>19,756,242</u>	<u>3,233,370</u>	<u>(8,149,406)</u>	<u>\$ 2,391,446,221</u>
Less accumulated depreciation for:					
Buildings and improvements	787,898,845	55,612,454	-	-	\$ 843,511,299
Furniture and equipment	136,244,785	13,506,881	-	(7,873,288)	\$ 141,878,378
Total accumulated depreciation	<u>924,143,630</u>	<u>69,119,335</u>	<u>-</u>	<u>(7,873,288)</u>	<u>\$ 985,389,677</u>
Total capital assets, being depreciated, net	<u>1,452,462,385</u>	<u>(49,363,093)</u>	<u>3,233,370</u>	<u>(276,118)</u>	<u>\$1,406,056,544</u>
Capital assets, net	<u>\$1,626,321,187</u>	<u>\$ 81,691,065</u>	<u>\$ -</u>	<u>\$ (276,118)</u>	<u>\$ 1,707,736,134</u>

Capital assets include assets recorded in Internal Service Funds, net of depreciation, of \$21,803.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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

		<u>Depreciation Expense</u>
11	Instruction	\$ 41,733,419
12	Instructional resources and media services	784,118
13	Curriculum and staff development	206,170
21	Instructional leadership	211,319
23	School leadership	3,298,346
31	Guidance, counseling and evaluation services	1,165,849
32	Social work services	16,289
33	Health services	527,014
34	Student transportation	6,450
35	Food services	4,825,598
36	Curriculum/extracurricular activities	1,237,145
41	General administration	645,584
51	Plant maintenance and operations	5,133,719
52	Security and monitoring services	506,769
53	Data processing services	8,234,847
61	Community services	278,915
81	Facilities acquisition and construction	307,784
	Total	<u>\$ 69,119,335</u>

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.

During the year ended June 30, 2010, the District re-evaluated the useful lives used for depreciating its capital assets and shortened the useful lives of its buildings from 45 years to 40 years and the useful lives of its portable buildings from 20 years to 15 years. The change in useful lives of resulted in an increase in depreciation expense of approximately \$9.0 million.

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, 2010 are \$235,238,482 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, 2010. The District has no permanently impaired or temporarily impaired assets.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

NOTE H: LEASES

The District leases offices, copiers, computers, warehouse space and parking under non-cancelable operating leases. Rent expense including non-cancelable leases and other rent charges for the year ended June 30, 2010 was approximately \$13,598,000. Minimum future lease commitments on non-cancelable leases are summarized as follows:

For the Year Ending June 30	Minimum Future Lease Commitments
2011	\$ 5,626,382
2012	3,937,042
2013	2,100,997
2014	49,493
2015	9,645

NOTE I: LONG-TERM OBLIGATIONS

Long-term debt includes par bonds, contractual obligations, notes payable, long-term loans, maintenance tax notes and provisions for workers' compensation liability. Bond premiums and deferred loss on refundings 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 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, 2010**

At June 30, 2010, \$73,603,925 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)
2002	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2003 to February 15, 2022	4.00% - 5.50%	\$ 335,594	\$ 205,095
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	34,170
2004	Unlimited Tax School Building Bonds - Serially in varying amounts from August 15, 2004 to August 15, 2030	3.00% - 5.00%	300,000	294,400
2004A	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2005 to August 15, 2031	3.00% - 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	31,850
2006	Unlimited Tax School Building Bonds - Serially in varying amounts from August 15, 2007 to August 15, 2032	4.00% - 5.00%	290,205	284,690
2008	Unlimited Tax School Building Bonds- Serially in varying amounts from February 15, 2010 to February 15, 2034	5.00% 6.25%	393,325	374,995
2009	Unlimited Tax Refunding Bonds- Serially in varying amounts from August 15, 2009 to August 15, 2014	2.00% 5.00%	100,760	81,475
Total				<u>\$ 1,706,675</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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 Maintenance Tax Notes as of June 30, 2010 was as follows:

Series	Maintenance Tax Notes Maturity or Mandatory Redemption Date	Yield Rates	Total Outstanding Principal Amount (in thousands)
2001	Principal due at maturity - deposits made to escrow annually at May 1, 2002 to May 2015	6.82%	\$ 5,512
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%	13,990
Total			<u>\$ 20,622</u>

The Maintenance Tax Notes are paid from the General Fund.

Long-term Notes Payable

As of June 30, 2010, the accompanying government-wide financial statements include property under notes payable with a principal balance due of \$2,811,185. The notes payable were used to acquire equipment and services for the District's student information systems. Note Payable expenditures for fiscal year 2009-2010 were \$1,435,649, representing principal and interest payments that have been reflected as debt service expenditures in the General Fund of the accompanying fund financial statements.

Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The following is a summary of the changes in the District's long-term debt for the year ended June 30, 2010 (in thousands):

Description	Long-Term Liabilities Outstanding July 1, 2009	Additions and Interest Accretion	Retired/ Refunded	Long-Term Liabilities Outstanding June 30, 2010	Amount Due Within One Year From June 30, 2010
General obligation bonds:					
Series 1999	\$ 126,255	\$ -	\$ 126,255	\$ -	\$ -
Series 2002	215,390	-	10,295	205,095	17,125
Series 2003	35,435	-	1,265	34,170	310
Series 2004	297,285	-	2,885	294,400	1,285
Series 2004A	400,000	-	-	400,000	1,795
Series 2005	38,250	-	6,400	31,850	6,810
Series 2006	287,420	-	2,730	284,690	3,135
Series 2008	393,325	-	18,330	374,995	-
Series 2009	-	100,760	19,285	81,475	24,600
Total General Obligation Bonds	<u>1,793,360</u>	<u>100,760</u>	<u>187,445</u>	<u>1,706,675</u>	<u>55,060</u>
Maintenance Tax Notes Payable:					
Series 2001-QZAB	5,349	163	-	5,512	-
Series 2002-QZAB	1,120	-	-	1,120	-
Series 2008-SSYS/Vehicles	16,995	-	3,005	13,990	3,145
Total maintenance tax notes	<u>23,464</u>	<u>163</u>	<u>3,005</u>	<u>20,622</u>	<u>3,145</u>
Total bonds & maintenance Tax notes payable	1,816,824	100,923	190,450	1,727,297	58,205
Long-term Notes Payable					
IBM Master Agreement-2006	1,268	-	622	646	646
IBM Supplement-2008	2,846	-	681	2,165	701
Total capital leases	<u>4,114</u>	<u>-</u>	<u>1,303</u>	<u>2,811</u>	<u>1,347</u>
Total Bonds and Notes Payable	1,820,938	100,923	191,753	1,730,108	59,552
Other long-term obligations:					
Workers compensation	10,668	2,607	5,982	7,293	2,618
Deferred losses on refunding	(5,982)	(758)	990	(6,214)	-
Premium on bonds	43,784	5,397	6,060	43,121	-
Arbitrage payable	437	-	437	-	-
	<u>48,907</u>	<u>7,246</u>	<u>13,469</u>	<u>44,200</u>	<u>2,618</u>
Totals	<u>\$ 1,869,845</u>	<u>\$ 108,169</u>	<u>\$ 205,222</u>	<u>\$ 1,774,308</u>	<u>\$ 62,170</u>

Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010, are as follows (in thousands):

Year Ended June 30,	Principal	Interest	Total Requirements
2011	\$ 59,552	\$ 87,646	\$ 147,198
2012	52,067	85,068	137,135
2013	57,243	82,531	139,774
2014	48,425	79,816	128,241
2015	52,905	77,318	130,223
2016-2020	301,510	345,505	647,015
2021-2025	352,505	264,392	616,897
2026-2030	489,615	157,704	647,319
2031-2034	317,655	35,028	352,683
	<u>1,731,477</u>	<u>\$ 1,215,008</u>	<u>\$ 2,946,485</u>
Accreted interest to maturity (see note below)	(1,368)		
Totals	<u>\$ 1,730,109</u>		

Note: The \$1,368,245 of accreted interest to maturity represents the difference between the accreted value at June 30, 2010 of the invested escrow account at U.S. Bank and Trust of \$5,511,755 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 prior years, 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, 2010 is \$56,185,000.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

Debt Issuance

The District issued the following debt during fiscal year 2009-2010:

On August 10, 2009, the District approved \$100,000,000 in multi-draw "Dallas Independent School District and Revenue Tax Anticipation Notes, Series 2009" (the "TANS"). Three draws totaling \$85,000,000 were executed, as follows: (1) \$50,000,000 draw on August 10, 2009 at a rate of .731%; (2) \$15,000,000 draw on September 10, 2009 at a rate of .646%; and, (3) \$20,000,000 draw on October 29, 2009 at a rate of .722%. The total proceeds, less issuance costs of \$153,735, were used to provide for the seasonal cash flow needs of the District's general fund operations. The principal (\$85,000,000) and interest (\$272,705) was due in total on February 15, 2010, and was repaid in full on February 12, 2010 by the General Fund.

In July 2009, the District issued \$100,760,000 in "Dallas Independent School District Unlimited Tax Refunding Bonds, Series 2009" with interest rates ranging from 2.00% to 5.00%. The District received a net premium of \$5,397,999 on the issuance of the Series 2009 bonds. The total proceeds, less the issuance costs and underwriter's discount of \$343,216 and \$366,190, respectively, were used to refund the remaining \$105,060,000 of the Dallas Independent School District Unlimited Tax Refunding Bonds, Series 1999. Principal and interest payments are due each February 15 and August 15, beginning August 15, 2010 and ending August 15, 2014. The total interest requirements of these bonds, with interest rates ranging from 2.00% to 5.00%, aggregate \$10,781,874 as of June 30, 2010. The bond proceeds were used to currently refund the remaining \$105,060,000 of the Series 199 Bonds and purchase \$107,896,372 of U.S. State and Local Government Series (SLGS) Securities which were placed in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt service payments of the Series 1999 Bonds, which were called on September 1, 2009. As a result, the refunded bonds are considered to be legally defeased and the liability is not reflected in the statement of net assets. The refunding was undertaken to reduce total debt service payments by \$8,644,513 and resulted in an economic gain of \$6,982,615.

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. 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. At June 30, 2010, the District had no liability for Arbitrage.

NOTE J: GENERAL FUND FEDERAL SOURCE REVENUE

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

Junior ROTC	\$	1,844,494
E Rate	\$	3,711,674
Medicare		6,092,268
Indirect cost reimbursement		3,200,634
Other federal		687,959
Total	\$	<u>15,537,029</u>

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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.

Funding Policy

By statute, plan members must contribute 6.644% 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, 2008, June 30, 2009, and June 30, 2010, were \$63,944,579, \$64,255,930 and \$63,115,624, 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, 2008, June 30, 2009 and June 30, 2010 were \$21,153,142, \$22,523,356 and \$22,471,332, respectively, equal to the required contributions for each. In addition, the District has recorded, in the General Fund, approximately \$40.8 million in revenue and expenditures for pension contributions paid on behalf of the District by the state.

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.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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, and 100% vested 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. For the year ended June 30, 2010, the District contributed \$1,830,913 to the plan.

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.

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. During the year, the District entered into an agreement with a third party to contract directly with medical providers for their worker's compensation program and their injured employees. At June 30, 2010, the accrued liability for workers' compensation self-insurance of \$7.3 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.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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>
2008 - 2009	\$ 9,591,811	\$ 8,309,888	\$ (7,233,950)	\$ 10,667,749
2009 - 2010	10,667,749	2,627,738	(5,981,582)	7,313,905

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.

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended June 30, 2010 and 2009, these on-behalf payments were \$2,517,342 and \$2,331,151, respectively, as equal revenues and expenditures.

NOTE M: OTHER POST- EMPLOYMENT BENEFITS

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.

**Dallas Independent School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010**

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 2010, 2009, and 2008. 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. The District recorded revenue and expenditures in the General Fund of \$9.9 million for contributions paid on behalf of the District by the state for TRS-Care. District contributions were \$6,410,175, \$6,525,993, and \$6,543,036 for the years ended June 30, 2010, 2009 and 2008, respectively, 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 was effective for the District in the fiscal year ended 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 was effective for the District in the fiscal year ended June 30, 2010. The Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

The implementation of GASB Statement No. 51 and 53 had no impact on the District's financial statements.

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 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 will be effective for the District for fiscal year 2011.

The GASB issued Statement No. 59, *Financial Instruments Omnibus*, the objective of which is to update and improve financial reporting and disclosure requirements of certain financial instruments and external investment pools. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This statement will be effective for the District for 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, 2010**

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, 2010, 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, 2008, 2009, and 2010, conducted in accordance with the provisions of the Single Audit Act, identified a number of 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 \$9.6 million for all amounts expected to be repaid to the granting agencies, and TEA.

NOTE P: SUBSEQUENT EVENTS

On July 15, 2010, the District issued \$80,000,000 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 on August 10, 2010 (\$30,000,000) and September 10, 2010 (\$50,000,000). The \$80,000,000 TANS are due by February 11, 2011.

On August 19, 2010, the District closed on the sale of the Unlimited Tax Refunding Bonds, Series 2010 \$156,730,000 (the "Bonds") to refund a portion of the District's Unlimited Tax School Building and Refunding Bonds, Series 2002 and the Unlimited Tax School Building and Refunding Bonds, Series 2003. The Bonds have various maturity dates beginning in 2011 through 2021 with an interest range between 1.25% and 5%.

On October 28, 2010, the Board of Trustees authorized the issuance of Unlimited Tax School Building Bonds and Refunding Bonds in one or more series in an aggregate principal amount not to exceed \$1,030,000,000.

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, 2010

Data Control Codes	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	\$ 829,574,013	\$ 807,710,828	\$ 816,834,514	\$ 9,123,686
State sources	405,462,201	430,069,247	391,146,276	(38,922,971)
Federal sources	10,801,648	13,301,648	15,537,029	2,235,381
Total revenues	<u>1,245,837,862</u>	<u>1,251,081,723</u>	<u>1,223,517,819</u>	<u>(27,563,904)</u>
Expenditures:				
Current:				
11 Instruction	747,023,216	724,504,928	705,789,106	18,715,822
12 Instructional resources and media services	23,188,130	24,223,746	22,952,862	1,270,884
13 Curriculum and staff development	10,149,801	11,841,004	11,398,034	442,970
21 Instructional leadership	21,002,463	20,243,899	19,780,100	463,799
23 School leadership	72,723,211	76,252,640	74,160,934	2,091,706
31 Guidance, counseling, and evaluation services	46,855,102	46,212,275	45,417,019	795,256
32 Social work services	2,139,780	2,232,082	2,200,648	31,434
33 Health services	15,790,969	16,722,587	15,955,708	766,879
34 Student transportation	22,981,431	23,772,119	20,867,759	2,904,360
36 Cocurricular/extracurricular activities	15,379,230	14,823,718	15,149,027	(325,309)
41 General administration	48,997,188	46,044,113	46,164,297	(120,184)
51 Plant maintenance and operations	153,948,836	154,268,224	120,428,774	33,839,450
52 Security & monitoring services	19,964,762	19,048,150	18,191,408	856,742
53 Data processing services	24,119,327	26,798,132	22,151,024	4,647,108
61 Community services	5,530,599	5,973,823	5,265,024	708,799
71 Debt Service	6,596,550	5,706,936	5,706,933	3
81 Facilities acquisition and construction	296,772	78,762	29,459	49,303
95 Payments juvenile justice AE	750,000	750,000	700,744	49,256
97 Payments to tax increment fund	4,639,969	4,639,969	4,029,110	610,859
99 Other intergovernmental charges	3,760,526	3,760,526	3,760,526	-
Total expenditures	<u>1,245,837,862</u>	<u>1,227,897,633</u>	<u>1,160,098,496</u>	<u>67,799,137</u>
Excess (deficiency) of revenues over (under) expenditures	-	23,184,090	63,419,323	40,235,233
Other Financing Sources (Uses):				
Sale of real or personal property	-	-	28,227	28,227
Transfers out	-	-	(862,881)	(862,881)
Legal settlements	-	(752,000)	(153,500)	598,500
Total other financing sources (uses)	<u>-</u>	<u>(752,000)</u>	<u>(988,154)</u>	<u>(236,154)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 22,432,090</u>	62,431,169	<u>\$ 39,999,079</u>
Fund balance - beginning			37,668,082	
Fund balance-ending			<u>\$ 100,099,251</u>	

See notes to Required Supplementary Information.

Dallas Independent School District
Notes to the Required Supplementary Information (Unaudited)
For the Year Ended June 30, 2010

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.

The following reflects the final budget negative expenditure variances for the fiscal year ended June 30, 2010:

Data Control Codes	Function	Final Budget	Actual	Variance with Final Budget
36	Cocurricular/extracurricular activities	\$ 14,823,718	\$ 15,154,346	\$ (330,628)
41	General administration	46,044,113	46,170,385	(126,272)

**Dallas Independent School District
Schedule of Delinquent Taxes Receivable (Unaudited)
For the Year Ended June 30, 2010**

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													
2001 and prior years	Various	Various	\$ 53,136,828,664	\$ 18,576,476	\$ -	\$ 296,383	\$ 18,880					\$ (6,725,773)	\$ 11,535,440		
2002	1.47803	0.06950	57,284,326,734	4,086,699		66,309	3,118					(1,311,640)	2,705,632		
2003	1.47803	0.10950	58,484,300,287	5,939,359		118,236	8,760					(2,632,770)	3,179,593		
2004	1.50000	0.13950	58,380,724,174	6,820,450		234,362	21,796					(3,250,282)	3,314,010		
2005	1.50000	0.16694	59,372,699,642	6,790,008		386,373	43,634					(2,669,121)	3,690,880		
2006	1.50000	0.18836	62,682,170,090	7,931,436		763,709	95,902					(2,761,095)	4,310,730		
2007	1.33005	0.17259	69,473,558,853	8,736,582		1,178,742	152,955					(357,869)	7,047,016		
2008	1.04005	0.15959	77,232,250,745	10,796,464		2,196,960	337,118					(693,217)	7,569,169		
2009	1.04005	0.14335	82,815,157,987	34,141,435		6,366,395	877,492					(14,369,487)	12,528,061		
2010	1.04005	0.23129	80,014,915,354		979,714,539	772,770,333	171,853,637					(6,257,658)	28,832,911		
Wilmer Hutchins (2)				2,034,434		95,160						(161,404)	1,777,870		
1000 Totals				<u>\$ 105,853,343</u>	<u>\$ 979,714,539</u>	<u>\$ 784,472,962</u>	<u>\$ 173,413,292</u>	<u>\$ (41,190,316)</u>	<u>\$ 86,491,312</u>						

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

- (1) The District changed the fiscal year end for the fiscal year ending June 30, 2003. 2003 reflects 10 months activity. All other years reflect 12 months of activity.
(2) Wilmer Hutchins ISD 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, 2010

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	\$ 460,224	\$ -	\$ 498,401	\$ 17,367,076	\$ 1,555,787	\$ 6,605,345	\$ 26,486,833
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	5,954,228						5,954,228
6212	Audit services				1,378,612			1,378,612
6213	Tax appraisal and collection		478,194					478,194
621X	Other professional services	33,107			2,671,829	-		2,704,936
6220	Tuition and transfer payments						7,846	7,846
6230	Education Service Center Services				72,216		1,719,949	1,792,165
6240	Construction, maintenance and repair						273,403	273,403
6260	Rentals	11,595		12,965	294,444	2,806	69,754	391,564
6290	Miscellaneous contributions	29,700		38,120	8,245,786	59,385	1,279,399	9,652,390
6310	Supplies and materials				6,547			6,547
6320	Textbooks and reading materials	274		871	4,319		4,092	9,556
63XX	Other supplies materials	45,973		4,974	514,068	6,769	345,521	917,305
6410	Travel, subsistence and stipends	34,858		32,990	164,739	1,142	84,332	318,061
6420	Insurance							-
6430	Election costs	-						-
6490	Miscellaneous operating	931,484		15,540	575,786	-	156,619	1,679,429
6600	Capital outlay						347,329	347,329
6000	Total	\$ 7,501,443	\$ 478,194	\$ 603,861	\$ 31,295,422	\$ 1,625,889	\$ 10,893,589	\$ 52,398,398

Total expenditures for General and Special Revenue Funds

\$ 1,512,330,207

Less: Deductions of unallowable costs:

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

10 12,046,361

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

11 5,706,933

Plant maintenance (function 51, 6100-6400)

12 123,693,327

Food (function 35, 6341)

13 22,246,092

163,692,713

Net allowed direct cost

1,348,637,494

Total cost of buildings before depreciation (1520)

15 2,210,770,243

Historical cost of buildings over 50 years old

16 398,934,551

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

17 10,000

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

18 180,675,978

Historical cost of furniture & equipment over 16 years old

19 13,512,343

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

20 \$ 7,221,373

(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, 2010

Exhibit J-3

Data Control Code	Explanation	Amount
1	Total General Fund Balance 6/30/10 (Exhibit C-1 object 3000 for the General Fund Only)	<u>\$ 100,099,251</u>
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	<u>17,987,491</u>
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	<u>-</u>
4	Estimated amount needed to cover all cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues) (unaudited)	<u>-</u>
5	Estimate of two month's average cash disbursements during the fiscal year	<u>218,242,328</u>
6	Estimate of delayed payments from state sources (58xx)	<u>119,027,818</u>
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.	<u>-</u>
8	Estimate of delayed payments from federal sources (59xx)	<u>60,925,130</u>
9	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).	<u>-</u>
10	Adjustment to meet Board Policy	<u>-</u>
11	Optimum Fund Balance and Cash Flow (2+3+4+5+6+7+8+9+10) (unaudited)	<u>416,182,767</u>
12	Excess/(Deficit) Undesignated Unreserved General Fund Balance (1-11) (unaudited)	<u><u>\$ (316,083,516)</u></u>

Dallas Independent School District
Budgetary Comparison Schedule - Nonmajor Fund
Food Service Fund (Budgetary Basis)
(Unaudited)
For the Year Ended June 30, 2010

Exhibit J-4

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
0100	Fund Balance, July 1, 2009			\$ 19,766,445	
	Revenues				
5700	Local and intermediate sources	\$ 8,050,657	\$ 8,050,657	7,150,852	\$ (899,805)
5800	State program revenues	575,677	575,677	566,848	(8,829)
5900	Federal program revenues	71,428,995	71,984,320	72,302,187	317,867
5000	Amounts available for appropriation	80,055,329	80,610,654	80,019,887	(590,767)
	Expenditures				
0035	Food service	80,055,329	76,846,987	72,218,547	4,628,440
0041	General administration	-	62,775	62,773	2
0051	Plant maintenance and operations	-	3,700,892	2,576,863	1,124,029
6000	Total charges to appropriations	\$ 80,055,329	\$ 80,610,654	74,858,183	\$ 5,752,471
3000	Fund balance, June 30, 2010			\$ 24,928,149	

Dallas Independent School District
Budgetary Comparison Schedule - Debt Service Fund
(Budgetary Basis) (Unaudited)
For the Year Ended June 30, 2010

Exhibit J-5

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
0100	Fund Balance, July 1, 2009			<u>\$ 76,288,266</u>	
	Revenues				
5700	Local and intermediate sources	\$ 158,773,436	\$ 175,363,673	175,417,533	\$ 53,860
7900	Other Financing Sources	-	106,157,999	106,157,999	-
5000	Amounts available for appropriation	<u>158,773,436</u>	<u>281,521,672</u>	<u>281,575,532</u>	<u>53,860</u>
	Expenditures				
0071	Principal and interest on long-term debt	158,773,436	176,073,079	175,687,153	385,926
8900	Other Financing Uses	-	107,896,372	107,896,372	-
6030	Total charges to appropriations	<u>\$ 158,773,436</u>	<u>\$ 283,969,451</u>	<u>283,583,525</u>	<u>\$ 385,926</u>
3000	Fund balance, June 30, 2010			<u><u>\$ 74,280,273</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, Texas

We have audited the financial statements of the Dallas Independent School District (the "District") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 17, 2010. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Dallas Education Foundation, as described in our report on the District's financial statements. The financial statements of the Dallas Education Foundation were not audited in accordance with *Government Auditing Standards*.

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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (2010-01 through 2010-04). A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain other matters that we reported to management the District in a separate letter dated November 17, 2010.

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 17, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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, Texas

Compliance

We have audited the Dallas Independent School District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal 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 2010-05 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding equipment and real property management that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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 2010-07 through 2010-09 and 2010-11 through 16.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, and material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in 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 and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-05 through 2010-07 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-08, 2010-10 through 2010-15 to be significant deficiencies.

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 the responses.

This report is intended solely for the information and use of management, the Board of Trustees, others within the District, the Texas Education Agency, 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 17, 2010

**DALLAS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

EXHIBIT K-1

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			
	Project MASS	84.350	\$ 4,846
	Project MASS	84.350	8,250
	Indian Education	84.060	126,695
	Foreign Languages Assistance Program	84.293	17,707
	Foreign Languages Assistance Program	84.293	265,211
	Teaching American History	84.215	219,173
	Bridges To Teaching	84.350	180,157
	Bridges To Teaching	84.350	154,207
	Teacher Incentive	84.374	2,387,638
	Teacher Incentive Fund, Recovery Act	84.385	3,013,848
	Project KNOTT	84.350	301,117
	Dallas Arts Initiative	84.351	15,578
	Total Direct		6,694,427
Passed Through Texas Education Agency			
106600010579056600	IDEA-B Formula	84.027	25,769,170
10554001057905	IDEA-B Formula-ARRA	84.391	14,696,646
106600020579056673	IDEA-B Discretionary (Deaf)	84.027	154,057
106600010579056601	IDEA-B Formula (Deaf)	84.027	94,002
106610010579056610	IDEA-B Preschool	84.173	456,588
10555001057905	IDEA-B Preschool-ARRA	84.392	202,558
104100017110326	Adult Education	84.002	1,782,877
104100087110350	Adult Ed Engl Lit & Civics Education	84.002	75,052
104100017110326	Adult Basic Education Correctional Facilities	84.002	98,615
106610010579056611	IDEA-B Preschool (Deaf)	84.173	28,048
103911010579053911	IDEA-C ECI	84.181	4,760
10610101057905	Title I, Part A-Improving Basic Programs	84.010	68,801,521
10551001057905	Title I, Part A-ARRA	84.389	38,036,034
10610103057905	Title I, Part D, Subpart 2-Delinquent Program	84.010	25,240
08610104057905	Title I School Improvement Program	84.010	-
10551004057905	Title I School Improvement Program - ARRA	84.389	4,246,909
10610104057905	Title I School Improvement Program	84.010	6,733,792
10610701057905	School Improvement Grants	84.377	625,617
10557001057905	ARRA Title XIV SFSF	84.394	46,083,492
10420006057905	Carl D. Perkins, Title I, Part C	84.048	2,819,795
Q184D050011-07	Student Voluntary Drug Testing Program	84.184	9,585
10691001057905	Title IV, Part A-Safe & Drug Free School & Communities	84.186	904,715
086950107110007	TX 21st Century Learning Center, Cycle 2	84.287	558
086950107110010	TX 21st Century Learning Center, Cycle 2	84.287	279
086950107110009	TX 21st Century Learning Center, Cycle 2	84.287	(570)
096950017110009	TX 21st Century Learning Center, Cycle 3	84.287	(4,787)
096950017110008	TX 21st Century Learning Center, Cycle 3	84.287	2,439
086950117110013	TX 21st Century Learning Center, Cycle 4	84.287	(306)
096950117110013	TX 21st Century Learning Center, Cycle 4	84.287	513,650
10630001057905	Title II, Part D, Enhancing Education Through Technology	84.318	589,547
086455057110014	Texas Reading First Initiative for Grades K-3	84.357	328,770
096455117110003	Texas Reading First -Capacity Building	84.357	1,883,384
096455127110003	Texas Reading First -Demo Site	84.357	297,756
10671001057905	Title III, Part A- LEP	84.365	5,396,427
10694501057905	Title II, Part A-Teacher and Principal Training & Recruiting	84.367	9,535,228
	Summer School LEP	84.369	
10553001057905	Title II, Part D, Subpart 1 - Enhancing Ed Through Technology - ARRA	84.386	49,458
10551003057905	Title I, Part D- ARRA	84.389	-
	Summer School LEP	84.369	37,980
	Total Passed Through Texas Education Agency		230,278,886
Passed Through Texas Department of State Health Services			
53802C7018	Special Education Grants for Infants and Families with Disabilities	84.181	913,467
	Total Passed Through Texas Department of State Health Services		913,467

**DALLAS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010**

Pass-Through Grantor's Number	Federal/State Grantor-Pass Through Grantor/Program Title	Federal CFDA Number	Audit Period Expenditures
1066002271210	Passed Through Region X Education Service Center		
99022057905	IDEA-B Visually Impaired	84.027	9,191
00001057905	McKinney-Vento Homeless Education	84.196	87,582
A09-003	McKinney-Vento Homeless Education - ARRA	84.387	137,035
	Education for the Homeless Children and Youth-ARRA	84.387	246,351
	Total Passed Through Region X Education Service Center		480,159
	TOTAL U.S. DEPARTMENT OF EDUCATION		238,366,939
	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
	Direct		
	Medicaid	93.778	1,835,929
	Total Direct		1,835,929
529-07-0017-00001R2	Passed Through State Department Of Health		
529-07-0017-00001R3	Refugee and Entrant Assistance	93.576	16,233
5U87DP001254-02	Refugee School Impact	93.576	181,468
	Improving Health and Educational Outcomes of Young People	93.938	15,885
	Total Passed Through State Department Of Health		213,586
093625017110246	Passed Through Texas Education Agency		
103625017110305	Federal-TANF	93.558	18,938
093625017110246	Federal-TANF	93.558	123,998
103625017110305	Federal-TANF	93.558	1,706
	Federal-TANF	93.558	311,996
	Total Passed Through Texas Education Agency		456,638
057905-1	Passed Through Head Start of Greater Dallas		
	Head Start of Greater Dallas	93.600	87,784
	Total Passed Through Head Start of Greater Dallas		87,784
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		2,593,937
	U.S. DEPARTMENT OF AGRICULTURE		
057-905	Passed Through Texas Education Agency		
057-905	National School Breakfast	10.553	13,431,725
6TX340332	National School Lunch	10.555	53,402,970
	Food & Nutrition Program ARRA	10.579	363,547
	Total Passed Through Texas Education Agency		67,198,242
057-1034	Passed Through Texas Department of Agriculture		
	Summer Feeding Program	10.559	1,276,687
	Total Passed Through Texas Department of Agriculture		1,276,687
	Direct		
	Schools/Child Nutrition Commodity Program (Noncash)	10.555	3,827,259
	Total Direct		3,827,259
	TOTAL U.S. DEPARTMENT OF AGRICULTURE		72,302,188
	U.S. DEPARTMENT OF DEFENSE		
	JROTC	12.000	1,844,494
	TOTAL U.S. DEPARTMENT OF DEFENSE		1,844,494
	TOTAL FEDERAL ASSISTANCE		\$ 315,107,558

See the accompanying 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, 2010**

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, 2010, 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? _____ yes X no
3. Significant deficiencies identified that are not considered to be material weaknesses? X yes _____ none reported
4. Noncompliance material to financial statements noted? _____ yes X 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, except for equipment and real property management in the Child Nutrition Cluster
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 and 84.389 – Title I, Part A Cluster
- 84.367 – Title II, Part A
- 84.365 – Title III, Part A
- 84.027, 84.173, 84.391, and 84.392 – Special Education Cluster
- 84.374 and 84.385 – Teacher Incentive Fund
- 84.394 – State Fiscal Stabilization Funds
- 10.553, 10.555, and 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 NEW AND UNREMIEDIATED FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

DESCRIPTION	2010 REFERENCE	2009 REFERENCE
Financial Statement Findings:		
Information Technology Control Environment	2010-01	2009-01
User Access Management and Security	2010-02	2009-13
System Change Management	2010-03	2009-14
Financial Closing and Reporting Procedures	2010-04	2009-02
Single Audit Findings:		
Management of Capital Assets Purchased With Grant Funds	2010-05	2009-25
Controls Over Eligibility for the Teacher Incentive Fund	2010-06	2009-19
Parental Involvement	2010-07	2009-24
Unused Equipment Purchased With Grant Funds	2010-08	
Insufficient Documentation of Payroll and Payroll Related Costs	2010-09	2009-17
Time and Effort Documentation	2010-10	2009-16
Procurement	2010-11	2009-21
Monitoring Maintenance of Effort	2010-12	2009-23
Transfer of Personnel between Funds	2010-13	
Verification of Free and Reduced Price Lunch Applications	2010-14	2009-26
Construction Activities Financed by the American Recovery and Reinvestment Act	2010-15	
Allowable Costs in Title I, Part A	2010-16	2009-28

Section II—Financial Statement Findings

2010-01 INFORMATION TECHNOLOGY POLICIES AND PROCEDURES

Significant Deficiency in Controls

Observation: A set of standard Information Technology (IT) operating policies and procedures that is recognized District-wide, across all levels and functions is not in place. The District has taken steps to develop and document policies and procedures for IT services; however, they have not been formally reviewed and approved. Policies and procedures for Food Services IT have not been developed or documented.

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 safeguarding of assets.

Recommendation: Policies, procedures, and controls should be formally established, implemented, and communicated throughout the District to ensure employees fully understand their responsibilities and importance of control process. The District is currently in the process of formalizing policies and procedures for IT services and should continue identifying and documenting procedures for Food Services IT, as well. District management should consider implementing consistent policies and procedures between IT services and Food Services IT departments. Synergies may be gained with consistency established among the IT departments; policies, procedures, and other compliance monitoring services developed can be leveraged to help ensure IT controls are consistently enforced across the District.

Once documented, the policies, procedures, and controls should be formally approved by the District management and communicated to appropriate staff. The District should train key employees on how to properly execute and document the performance of key activities.

Management should 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, and 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

2010-02 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 VBOSS/Fast Lane/OneSource (Food Services IT) and Oracle Financials (IT Services):

- For the Food Services IT applications VBOSS, FastLane, and OneSource, the security parameters are not configured to force system users to use a strong password. This includes the system enforced requirements, where available, 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, failed login attempts, account lockout after failed login attempts, and encrypting the passwords when they are stored internally in the system.

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.

- IT Services management has initiated a periodic user access review process for Oracle Financials application, but this process was not completed during the fiscal year ended June 30, 2010. No periodic review of user access for the operating system or database is performed.
- Food Services IT management has not implemented a periodic access review process for the financially significant applications and underlying platforms for Food Services IT systems VBOSS, FastLane, and OneSource.
- Duties are not appropriately segregated with regards to the review of privileged access logs. The DBA manager for Oracle Financials reviews the privileged user access (SYS and SYSTEM accounts) log on Oracle database and also has the access to these accounts.
- Super user access on Windows domain for Food Services IT is granted inappropriately to one user.

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 potentially causing lack of integrity and reliability of information produced by the 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.

2010-03 SYSTEM CHANGE MANAGEMENT

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 IT systems, a sampled application change was installed, tested in a test environment, and approval and authorization of the change was documented. However, the change ticket to provide supporting evidence of the change control process was raised after the change was implemented in production and approvals were noted on the ticket postimplementation of the change.
- For Food Services IT, no formal change control process is followed for Windows operating system changes.

- For the Oracle Financials system, a documented change control process was not in place from July 1, 2009 to March 31, 2010.
- For the Food Services IT systems, a System Development Life Cycle (SDLC) methodology / processes for data conversion of FastLane/VBOSS into OneSource is not documented along with evidence of testing, test results, data conversion reconciliation, and documented approvals and authorizations. A SDLC policy and procedure does not exist.

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 information produced by the systems.

Recommendation: District management should implement appropriate change management procedures, data conversion procedures, and monitoring controls to prevent unauthorized changes.

2010-04 FINANCIAL CLOSING AND REPORTING PROCEDURES

Significant Deficiency in Controls

Observation: An effective internal control environment is evidenced by documented, sustainable policies and procedures, with strong ongoing communications between key departments where employees implement and maintain those internal control activities, with the ultimate goal of producing accurate and timely financial statements.

While management has made significant improvements to the overall internal control environment, certain procedures relating to year-end close and cutoff processes are not consistently applied. District management has demonstrated that controls have been identified to address risks of material misstatement in the financial statements for key business processes. However, in certain instances, those controls have not been formalized in a way that they can be communicated and sustained, or individuals that perform these control activities have not been adequately trained.

While this review is a key control that has been put in place to address many of the District's previously reported control weaknesses, strengthening the baseline internal control process should reduce corrections subsequent to year-end and make the year-end closing process more efficient and timely.

Recommendation: Develop and institute a sustainable internal controls management program to ensure controls are adequately designed, implemented, executed, and monitored on an ongoing basis.

Review the current assignment and qualifications of individuals responsible for controls to ensure they have the appropriate skills to perform their assigned duties. Ensure that those individuals have been appropriately trained, and possess the proper understanding of both the controls they are performing and the transactions that they are responsible for recording. Consider the need for cross-training of employees in various accounting functions. Consider developing written procedures or "desk manuals" that can be easily disseminated to employees to aid in cross-functional training.

Section III—Federal Award Findings and Questioned Costs

2010-05 MANAGEMENT OF CAPITAL ASSETS PURCHASED WITH GRANT FUNDS

Child Nutrition Cluster (10.555, 10.553, 10.559), Child Nutrition Discretionary Grants (10.579)

Equipment and Real Property Management –Material Weakness in Controls – Material 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. Additionally, physical inventory counts of federal program assets must be performed at least biennially.

Condition – The District has not performed a physical inventory of capital assets owned by the Child Nutrition Cluster in the past two years. Additionally, certain assets purchased in the current year were not tagged in a timely manner.

Perspective/Instances –

12 of 40 assets purchased prior to fiscal year 2010 and selected for physical inspection could not be located and had not been formally disposed of as of the date of testing.

1 of 46 assets selected for testing was found to be in use, but was coded to the incorrect location in the system.

3 of 6 assets selected for testing that were purchased in fiscal year 2010 had not been tagged for tracking purposes as of the date of testing.

Questioned Costs – Not applicable.

Cause – Controls have not been implemented to track fixed assets purchased for the Child Nutrition Cluster.

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. Ensure they are being used by the program for which they were acquired and are properly disposed of when they are no longer being used.

View of Responsible Officials – See corrective action plan.

2010-06 CONTROLS OVER ELIGIBILITY FOR THE TEACHER INCENTIVE FUND

Teacher Incentive Fund (84.374, 84.385)

Allowable Costs and Cost Principles, Eligibility – Material Weakness in Controls

Criteria – OMB Circular A-133 requires entities receiving federal funds to maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or agreements that could have a material effect on its federal programs.

Condition – The District was unable to provide support that sound internal control processes were in place to review and monitor the payout of incentives.

Perspective – We were unable to test internal controls over the eligibility of incentive pay in the Teacher Incentive Fund due to the inconsistent application and documentation of the control procedures at a centralized level.

Questioned Costs – Not applicable.

Cause – Employees responsible for administering the TIF program at a centralized level during the fiscal year 2010 payout were not knowledgeable of grant requirements and did not have an adequately designed and consistently documented process in place to ensure that all employees were eligible for the incentives paid.

Effect – Insufficient control processes and inconsistent documentation of procedures performed can result in payments to ineligible employees and overcharges to the federal grant program.

Recommendation – Establish policies and procedures to review the eligibility of all employees receiving incentive pay from grant funds prior to payment. Ensure that documentation of control procedures performed is maintained.

View of Responsible Officials – See corrective action plan.

2010-07 PARENTAL INVOLVEMENT

Title I, Part A Cluster (84.010, 84.389)

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 a requirement in place in which personnel monitor the campuses' compliance with parental involvement guidelines. However, in certain instances, documentation could not be provided that campuses were monitored during the year.

Perspective –

4 of 40 schools selected for testing could not provide support that they had a parental involvement policy in place.

12 of 40 schools selected for testing could not provide support showing that their parental involvement policy was developed jointly with parents.

30 of 40 campuses were not monitored during the year by a compliance trainer in accordance with District policy.

The parental involvement requirement represents one of six special tests and provisions required under the Title I, Part A Cluster.

Questioned Costs – Not applicable.

Cause – The District does not have controls in place to adequately monitor and document compliance with federal parental involvement 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.

2010-08 UNUSED EQUIPMENT PURCHASED WITH GRANT FUNDS

Special Education Cluster (84.027, 84.173, 84.391, 84.392)

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 – A server purchased in a prior year with funds from the Special Education Cluster was determined to have not been put into use as of the end of fiscal year 2010. The server was planned to be used for a software implementation project, but was not needed as the software was Internet-based.

Perspective/Instances – Not applicable.

Questioned Costs – \$23,613 from the 2009 grant year.

Cause – Controls are not in place to ensure that all equipment purchased with federal grant funds is used for the purpose it was intended.

Effect – The District did not comply with federal grant 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.

2010-09 INSUFFICIENT DOCUMENTATION OF PAYROLL AND PAYROLL RELATED COSTS

Teacher Incentive Fund (84.374, 84.385)

Allowable Costs and Cost Principles, Eligibility – 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. 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 – 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.

Perspective – The questioned costs below relate to the following missing supporting documentation:

- Support could not be provided to support the multiple observation requirement for 1 of 60 employees selected for testing.
- 1 of 60 employees selected for testing was paid two stipends from the TIF program, but only one of the stipends was supported by the appropriate documentation.

Questioned Costs – \$3,353

Cause – Controls over eligibility for incentive pay were not consistently applied or documented. Please refer to finding 2010-06.

Effect – The District did not comply with federal grant requirements.

Recommendation – Establish policies and procedures to review the eligibility of all employees receiving incentive pay from grant funds prior to payment. Ensure that documentation of control procedures performed is maintained.

View of Responsible Officials – See corrective action plan.

2010-10 TIME AND EFFORT DOCUMENTATION

Title I, Part A Cluster (84.010, 84.389); Title II, Part A (84.367); Title III, Part A (84.365); Teacher Incentive Fund (84.374, 84.385); Special Education Cluster (84.027, 84.173, 84.391, 84.392)

Allowable Costs and Cost Principles – Significant Deficiency in Controls Over 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 semiannually and [should] be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee."

Condition – Certifications for time and effort were not prepared or obtained timely. Additionally, conclusions regarding discrepancies in the time and effort process were not consistently documented. However, time and effort certifications were provided for all employees selected for testing.

Perspective/Instances – The time and effort certification process for the fall 2009 semester was not completed until April 2010. The time and effort certification process for the spring 2009 semester was not completed until October 2010.

Questioned Costs – Not applicable.

Cause – The process to match employee time and effort certifications to payroll allocations within Oracle and job assignments within the Human Resources system was revised multiple times throughout the year, resulting in delays in obtaining timely time and effort certifications.

Effect – The failure to prepare certifications timely resulted in delays to the audit process. Additionally, untimely certifications of employees' time and effort and inconsistent monitoring of payroll expenditures in grant funds can lead to overcharges to federal grants.

Recommendation –Implement procedures to monitor compliance with federal grant requirements on a regular basis. Develop a process to prepare and obtain certifications in a timely manner. The resolution of discrepancies in the certification process should be consistently documented, and that documentation should be maintained.

View of Responsible Officials – See corrective action plan.

2010-11 PROCUREMENT

Title I, Part A Cluster (84.010, 84.389); Title II, Part A (84.367); Title III, Part A (84.365); Special Education Cluster (84.027, 84.173, 84.391, 84.392); Child Nutrition Cluster (10.555, 10.553, 10.559); Child Nutrition Discretionary Grants (10.579)

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 \$50,000 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 three 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 and insufficient documentation of controls over the procurement process were identified in the following instances:

- In certain instances, documentation could not be provided to support the procurement process and related control activities, including evidence of proper procurement, suspension, or debarment clearance.
- Documentation could not be provided to explain variances between amounts invoiced from vendors and original contract terms or price quotes obtained during the bidding process.
- Conflict of interest documentation signed by a contracted vendor was not maintained.

Perspective/Instances – 61 contracts and related bid files were selected for testing across relevant major programs. Of those 61, the following exceptions were identified:

- 1 contract was missing a bid file and evidence of suspension or debarment clearance (Title I, Part A Cluster)
- 1 bid file tested did not contain documentation to support the departments review process (Child Nutrition Discretionary Grants).
- 2 contracts tested listed a lower agreed-upon price per item than what was actually paid to the vendor (Child Nutrition Cluster)
- 1 contract tested did not contain a signed conflict of interest statement (Title I, Part A Cluster)

Questioned Costs –

Child Nutrition Cluster - \$2,955

All other programs - \$0

Cause – Lack of communication between the purchasing department and user departments resulted in the failure to comply with the terms of procured contracts. In addition, the District does not have a process in place to ensure that all bid files, vendor files, and contracts are reviewed for proper documentation.

Effect – Failure to monitor the requirements of procured contracts can result in the purchase of goods and services for more than necessary or market prices. Additionally, failure to monitor the procurement process as a whole and maintain appropriate supporting documentation can lead to noncompliance with federal procurement laws and regulations.

Recommendation - Develop and implement controls to ensure that buyers and user departments comply with all contract requirements and that the process is monitored by management through a formal review process. Documentation should be kept to support that these procedures were performed.

View of Responsible Officials – See corrective action plan.

2010-12 MONITORING MAINTENANCE OF EFFORT

Special Education Cluster (84.027, 84.173, 84.391, 84.392)

Level of Effort – Significant Deficiency in Controls – Noncompliance With Grant Requirements

Criteria – The District must demonstrate that it maintained fiscal effort for its Special Education funding. Compliance with maintenance of effort requirements can be achieved if either the combined fiscal effort per student or the aggregate expenditures for the preceding fiscal year was not less than the combined fiscal effort or aggregate expenditures for the second preceding fiscal year.

Condition – The District failed to maintain effort for the Special Education Cluster.

Perspective/Instances – The District's aggregate expenditures for fiscal year 2010 were \$77,069,405. Aggregate expenditures for fiscal year 2009 were \$77,081,360, which is net of an Early Childhood Intervention Credit of \$1,022,398.

Questioned Costs – \$11,955

Cause – The District did not adequately monitor their maintenance of effort requirement.

Effect – If the District fails to demonstrate that it maintained effort, the Texas Education Agency may reduce the amount of the District's allocation of Special Education Cluster funds in future years.

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.

2010-13 TRANSFER OF PERSONNEL BETWEEN FUNDS

Title I, Part A Cluster (84.010, 84.389); Title II, Part A (84.367); Title III, Part A (84.365); Special Education Cluster (84.027, 84.173, 84.391, 84.392)

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, be supported by adequate documentation, and be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.

Condition – In certain instances, the District overcharged federal grants for payroll and payroll-related expenditures that were not allocable to the grant program.

Perspective/Instances – 87 employees receiving all or a portion of their annual salaries from grant funds were selected for testing for allowable cost requirements. Seven of the employees selected for testing were paid from multiple funding sources during the year and were noted to have earned payroll costs that were partially charged to the incorrect fund. The following exceptions contributed to the questioned costs listed below for each major grant program:

- 2 employees paid from the Title I, Part A Cluster
- 2 employees paid from Title II, Part A
- 1 employee paid from Title III, Part A
- 2 employees paid from the Special Education Cluster

Additionally, one employee was determined to have received a General Fund contract payout incorrectly charged to the Special Education Cluster.

We also noted that, in certain instances, the District undercharged payroll costs in each of the grant programs for certain employees selected for testing.

Questioned Costs –

Title I, Part A Cluster - \$5,264

Title II, Part A - \$1,206

Title III, Part A - \$5,608

Special Education Cluster - \$16,511

Cause – A control process is not in place to monitor the transfer of payroll costs between funds when an employee's funding source changes during the year.

Effect – The District is not in compliance with allowable cost criteria.

Recommendation – Develop a process to monitor payroll charges for employees whose contracts end or whose funding sources change to ensure that the payroll allocated for their contracts is recorded in the fund in which it was earned.

View of Responsible Officials – See corrective action plan.

2010-14 VERIFICATION OF FREE AND REDUCED PRICE LUNCH APPLICATIONS

Child Nutrition Cluster (10.555, 10.553, 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. Changes in a child's eligibility status based on documentation and other information obtained through the verification process must be reflected in the system.

Condition – Controls have been implemented that require a review of each selected child's verification file and related eligibility determination. However, in certain instances, there was either no supporting documentation available that the file was reviewed or the file was reviewed, but the eligibility determination was incorrect.

Perspective/Instances –

1 of 50 individuals selected for testing did not have an accurate "free, reduced, or ineligible" status in the system.

1 of 50 verification files selected was not available for review. However, the student whose file was missing was coded as "ineligible" in the system.

Questioned Costs – \$192 calculated based on the average number of meals per student.

Cause – The control activities in place to review the eligibility of free and reduced price lunch applications were not operating effectively for the volume of applications that are required to be verified.

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

Recommendation – Consider enhancing the controls processes related to the verification of free and reduced price meal applications to ensure that a proper review is performed on all applications tested through the verification process and that all related documentation is maintained.

View of Responsible Officials – See corrective action plan.

2010-15 CONSTRUCTION ACTIVITIES FINANCED BY THE AMERICAN RECOVERY AND REINVESTMENT ACT

Child Nutrition Discretionary Grants (10.579)

Davis-Bacon Act, Procurement, and Suspension and Debarment – Significant Deficiency in Controls – Noncompliance With Grant Requirements

Criteria – Construction contracts financed by federal grant funds are required to comply with the Davis-Bacon Act, which stipulates that all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the U.S. Department of Labor.

Additionally, construction contracts financed by the American Recovery and Reinvestment Act (ARRA) are required to comply with ARRA's "Buy American" provision. Sections 1605 of ARRA prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work, unless all of the iron, steel, and manufactured goods used in the project are produced in the United States.

Condition – The District used ARRA funding under the Child Nutrition Discretionary Grants to construct and install walk-in freezers in campus cafeterias. The contract for the construction required to prepare the cafeterias for the new freezers did not contain provisions for compliance with the Davis-Bacon Act or ARRA’s “Buy American” provision.

Perspective/Instances – Not applicable.

Questioned Costs – Not applicable.

Cause – District management was unaware of compliance requirements related to the Davis-Bacon Act and ARRA’s “Buy American” provision.

Effect – The District did not comply with grant requirements.

Recommendation – Develop controls to review contract terms for construction contracts funded by federal grants. Work with grant managers to ensure that an adequate understanding of compliance requirements is obtained prior to entering into grant-funded contracts.

View of Responsible Officials – See corrective action plan.

2010-16 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)

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.

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**DALLAS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2010**

2010-01 INFORMATION TECHNOLOGY POLICIES AND PROCEDURES

Responsible Party – Gray Salada and Dora Rivas

Corrective Action – Information Technology (“IT”) will continue to formalize consistent policies, procedures and controls and train appropriate District staff on how to properly execute and document the performance of key activities of IT systems and monitor compliance.

Food Services IT has established a control management committee that meets periodically to design, implement, execute and monitor policies and procedures. This committee will develop policies and procedures regarding equipment management, user account management, data conversions and backup and restore procedures.

Expected Completion Date – June 30, 2011

2010-02 USER ACCESS MANAGEMENT AND SECURITY

Responsible Party – Gray Salada and Dora Rivas

Corrective Action – IT instituted a periodic user access review process and will continue to formalize policies and procedures related to access management and security.

Food Services IT has implemented a periodic access review process of the Food Services systems and is in the process of validating all user access as it relates to appropriate segregation of duties.

Expected Completion Date – June 30, 2011

2010-03 SYSTEM CHANGE MANAGEMENT

Responsible Party – Gray Salada and Dora Rivas

Corrective Action – IT has implemented a change management process in April 2010 and has developed appropriate policies and procedures.

Food Services IT has implemented a change control system and has developed appropriate policies and procedures.

Expected Completion Date – Completed.

**DALLAS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2010**

2010-04 FINANCIAL CLOSING AND REPORTING PROCEDURES

Responsible Party – Steve Korby

Corrective Action – Accounting Services will continue to identify areas of needed training and provide qualified instruction in those areas and will modify the timeframe for completion of certain annual processes. Year end procedures will be appropriately documented and disseminated to aid in cross-functional training.

Expected Completion Date – June 30, 2011

2010-05 MANAGEMENT OF CAPITAL ASSETS PURCHASED WITH GRANT FUNDS

Responsible Party – Steve Korby and Dora Rivas

Corrective Action – During fiscal year 2011, Management will complete a comprehensive inventory of all fixed assets purchased with federal funds.

Expected Completion Date – June 30, 2011

2010-06 CONTROLS OVER ELIGIBILITY FOR THE TEACHER INCENTIVE FUND

Responsible Party – Leng Fritsche

Corrective Action – Management has established appropriate internal controls and policies and procedures to ensure that incentive awards are only paid to eligible employees and appropriate documentation is retained to support these payments.

Expected Completion Date – October 31, 2010

2010-07 PARENTAL INVOLVEMENT

Responsible Party – Michael Ralston and Steven Korby

Corrective Action – Management will continue to work with the parental involvement program director to develop procedures to ensure guidelines are followed at all levels as required by federal guidelines. Additionally staff will meet with Texas Education Agency (“TEA”) monitor for program guidance and training.

Expected Completion Date – June 30, 2011

2010-08 UNUSED EQUIPMENT PURCHASED WITH GRANT FUNDS

Responsible Party – Angela Pittman

Corrective Action – Departmental staff will receive additional training as necessary to ensure compliance with appropriate laws and regulations. The department will also conduct an annual physical inventory of capital assets purchased with federal grant funds.

Expected Completion Date – June 30, 2011

**DALLAS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2010**

2010-09 INSUFFICIENT DOCUMENTATION OF PAYROLL AND PAYROLL RELATED COSTS

Responsible Party – Leng Fritsche

Corrective Action – Management has established appropriate internal controls and policies and procedures to ensure that incentive awards are only paid to eligible employees and appropriate documentation is retained to support these payments.

Expected Completion Date – October 31, 2010

2010-10 TIME AND EFFORT DOCUMENTATION

Responsible Party – Steve Korby

Corrective Action – Management will establish policies and procedures for timely collection of accurate time and effort certifications. Management will also continue to review and reconcile employee assignment and general ledger postings on a regular basis and document the resolution of all discrepancies.

Expected Completion Date – June 30, 2011

2010-11 PROCUREMENT

Responsible Party – Gary Kerbow

Corrective Action – Management will develop a review process to ensure all required information is contained in each procurement file and the retrieval of required bid files can be obtained in a timely manner.

Expected Completion Date – June 30, 2011

2010-12 MONITORING MAINTENANCE OF EFFORT

Responsible Party – Steve Korby and Angela Pittman

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

Expected Completion Date – June 30, 2011

2010-13 TRANSFER OF PERSONNEL BETWEEN FUNDS

Responsible Party – Steve Korby

Corrective Action – Management will continue to review and reconcile employee assignment and general ledger postings on a regular basis, document the resolution of all discrepancies and ensure that employee transfers are appropriately accounted for in the proper grants.

Expected Completion Date – June 30, 2011

**DALLAS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
JUNE 30, 2010**

2010-14 VERIFICATION OF FREE AND REDUCED PRICE LUNCH APPLICATIONS

Responsible Party – Dora Rivas

Corrective Action – Food and Child Nutrition Services has restructured the staff in the meal application processing department to include a professional level staff member to oversee the entire meal application process. Additionally, the application process has been modified to include a review of applications and verification of pertinent information.

Expected Completion Date – September 30, 2010

2010-15 CONSTRUCTION ACTIVITIES FINANCED BY THE AMERICAN RECOVERY AND REINVESTMENT ACT

Responsible Party – Gary Kerbow and Dora Rivas

Corrective Action – Food and Child Nutrition Services and the Purchasing Department will ensure that construction bids and contracts will contain “Davis-Bacon” and “Buy American” language, where appropriate. Additionally, the staff will receive adequate compliance training regarding these requirements.

Expected Completion Date – June 30, 2011

2010-16 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.

Expected Completion Date – Not known as the resolution of this finding is dependent upon the Office of the Inspector General and TEA

**DALLAS INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2010**

2009-01 INFORMATION TECHNOLOGY CONTROL ENVIRONMENT

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.

This finding has been downgraded to a significant deficiency in the current year single audit report. See corrective action plan. (Finding 2010-01)

2009-02 BUSINESS PROCESSES POLICIES AND PROCEDURES

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.

This finding has been downgraded to a significant deficiency in the current year single audit report. See corrective action plan. (Finding 2010-04)

2009-03 GRANT COMPLIANCE AND REPORTING

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.

Finding was corrected through staff training and proper documentation.

2009-04 HUMAN RESOURCES DEPARTMENT 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.

Finding was corrected through staff training and proper documentation.

2009-05 CONTROLS OVER DISBURSEMENTS AND CONTRACT MONITORING

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.

Finding was corrected through staff training and proper documentation.

**DALLAS INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2010**

2009-06 BUDGETARY 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.

Finding was corrected through adherence to budgetary policies and procedures.

2009-07 STATE COMPLIANCE

Observation – 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 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.

Finding was corrected through adherence to budgetary policies and procedures and conversion of account codes.

2009-08 ANTI-FRAUD PROGRAMS AND 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.

Finding was partially corrected through a revised enterprise risk assessment process. Management is in the process of documenting controls for the identified risks.

**DALLAS INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2010**

2009-09 CONFLICT OF INTEREST STATEMENTS

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.

Finding was corrected through staff training and additional documentation.

2009-10 INTERNAL AUDIT FUNCTION

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.

Finding was corrected through implementation of the recommendations including an independent evaluation of the Department, redesigning the annual audit plan based upon the District's risk-assessment, improvement in the continuous audit program and auditor training.

2009-11 SEGREGATION OF DUTIES – IT FUNCTIONS

Observation – Segregation of duties was not appropriately implemented for some of the IT functions. 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.

Finding was corrected through implementation of segregation of duties.

**DALLAS INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2010**

2009-12 VENDOR SUPPORT FOR INFORMATION TECHNOLOGY APPLICATIONS

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.

Finding was corrected as both systems mentioned above were decommissioned in 2010.

2009-13 USER ACCESS MANAGEMENT AND SECURITY

Observation – Various 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).

This has been partially corrected with the decommissioning of the Paradox and GFAMS systems. Management is in the process of identifying controls to properly support user access and security in the Food Services System and Oracle Financials. See corrective action plan. (Finding 2010-02)

2009-14 CHANGE MANAGEMENT PROCESSES

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.

This is a repeat finding in the current year single audit report. IT implemented appropriate change management procedures for the Oracle Financials system in April 2010 and is in the process of identifying appropriate controls to support change control for the Food Services System. (Finding 2010-03)

**DALLAS INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2010**

2009-15 DISASTER RECOVERY AND BUSINESS CONTINUITY

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.

Finding was corrected through establishment of procedures and staff training.

2009-16 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 program. Management has established policies and procedures for timely collection of accurate time and effort certifications. Please see corrective action plan. (Finding 2010-10)

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

Observations - 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.

This is a repeat finding in the current year single audit report. Management has established appropriate internal controls, policies and procedures to ensure that incentive awards are only paid to eligible employees and to further ensure that appropriate documentation is retained to support the payments. Please see corrective action plan. (Finding 2010-09)

2009-18 MATCHING OF NON-GRANT FUNDS

Observation – 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.

This finding was corrected by providing additional support from the Department of Education.

2009-19 ELIGIBILITY FOR TEACHER INCENTIVES

Observation – 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.

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- Documentation supporting that employees met the required gains in student achievement necessary to receive an incentive could not be provided in all circumstances.

This is a repeat finding in the current year single audit report. Management has established appropriate internal controls, policies and procedures to ensure that incentive awards are only paid to eligible employees and to further ensure that appropriate documentation is retained to support the payments. Please see corrective action plan. (Finding 2010-06)

2009-20 GRANTS MANAGEMENT

Observation – 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.

This finding was corrected through staff training and documentation of procedures.

2009-21 PROCUREMENT

Observation – 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.

This finding was partially corrected. Management will develop a review process to ensure all required information is contained in each procurement file and the retrieval of required bid files can be obtained in a timely manner. (Finding 2010-11)

2009-22 EARMARKING

Observation – 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.

This finding was corrected through staff training and additional monitoring of expenditures.

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2009-23 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, 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.

This is a repeat finding in the current year single audit report. Management will continue to use Educational Service Center ("ESC") 12 Financial Benchmarking Tools to monitor Maintenance of Effort calculation on a semi-annual basis as recommended by ESC 12. See corrective action plan. (Finding 2010-12)

2009-24 PARENTAL INVOLVEMENT

Observation – 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.

This is a repeat finding in the current year single audit report. Management will continue to work with the program director to develop procedures to insure parental involvement guidelines are followed at all levels as required by federal guidelines. Additionally staff will meet with Texas Education Agency monitor for program guidance and training. See corrective action plan. (Finding 2010-07)

2009-25 MANAGEMENT OF FIXED ASSETS PURCHASED WITH GRANT FUNDS

Observation – 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.

This is a repeat finding. During fiscal year 2011, Management will complete a comprehensive inventory of all fixed assets purchased with federal funds. See corrective action plan. (Finding 2010-05)

2009-26 VERIFICATION OF FREE AND REDUCED PRICE LUNCH APPLICATIONS

Observation – 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.

This is a repeat finding. During the fiscal year 2011, Food and Child Nutrition Services has restructured the staff in the meal application processing department to include a professional level staff member to oversee the entire meal application process. Additionally, the application process has been modified to include a review of applications and verification of pertinent information. See corrective action plan. (Finding 2010-14)

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2009-27 SCHOOL LUNCH PROGRAM MENU PLANNING

Observation – 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.

Finding was corrected through staff training.

2009-28 ALLOWABLE COSTS IN TITLE I, PART A

Observation – 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.

The audit from the Department of Education Office of Inspector General remains open at this time and is under negotiation. (Finding 2010-16)

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

Observation – 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.

Finding was corrected through staff training.