

**DALLAS COUNTY SCHOOLS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED AUGUST 31, 2007**

**DALLAS COUNTY SCHOOLS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2007**

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**Certificate of Board**

Dallas County Schools  
Name of School District

Dallas  
County

057-000  
County-District Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and

(check one) \_\_\_\_\_ Approved \_\_\_\_\_ Disapproved

for the year ended August 31, 2007 at a meeting of the Board of Trustees of such school district on the 29<sup>th</sup> day of January, 2009.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

If the Board of Trustees disapproved of the auditor's report, the reason(s) for disapproving it is(are):



**WEAVER  
AND  
TIDWELL**

*L.L.P.*

CERTIFIED PUBLIC  
ACCOUNTANTS  
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To The Board of Trustees  
**DALLAS COUNTY SCHOOLS**  
Dallas, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Dallas County Schools (the "District") as of and for the year ended August 31, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administration. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities and each major fund of the District as of August 31, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 39 and 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued reports dated January 27, 2009, on our consideration of Dallas County School's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The T.E.A. required and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Dallas County Schools. The T.E.A. required and other schedules, excluding the fund balance and cash flow worksheet – general fund (which is marked unaudited, and for which we express no opinion), have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 27, 2009

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FORT WORTH

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**DALLAS COUNTY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2007**

This section of Dallas County Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2007. Please read it in conjunction with the District's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

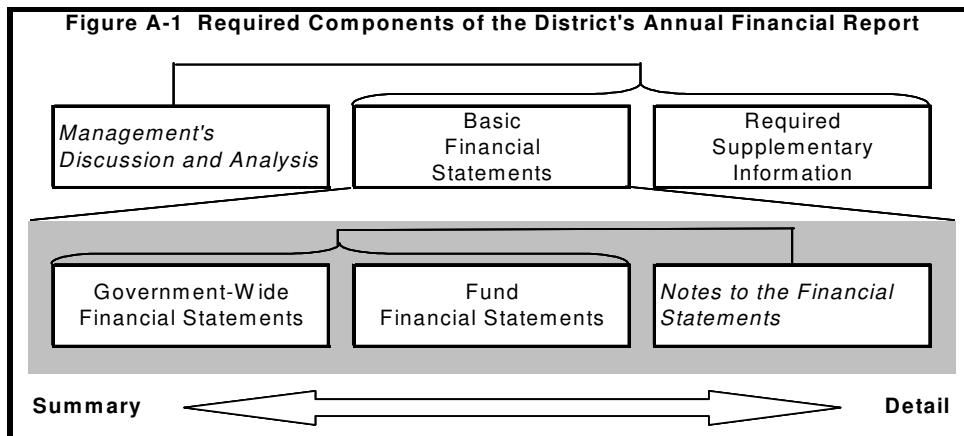
- The District's total combined net assets were \$52,705,929 at August 31, 2007.
- Total District's revenues were \$69,403,496.
- The District's expenses were \$67,623,282.
- The general fund reported a fund balance this year of \$15,525,978.

**I OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts 1) management's discussion and analysis (this section), 2) the basic financial statements, and 3) 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 funds statements tell how general government services were financed in the short term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.



**DALLAS COUNTY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2007**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

<b>Figure A-2 Major Features of the District's Government-wide and Fund Financial Statements</b>		
<i>Type of Statements</i>	<b>Government-wide</b>	<b>Fund Statements</b>
		<b>Governmental Funds</b>
<i>Scope</i>	Entire District's government (except fiduciary funds) and the District's component units	The activities of the district that are not proprietary or fiduciary
<i>Required financial statements</i>	* Statement of net assets	* Balance Sheet
	* Statement of activities	* Statement of revenues, expenditures & changes in fund balances
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

**DALLAS COUNTY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2007**

## **II 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 government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities 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—are 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, respectively.
- 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 include the Governmental activities. The District's functions include transportation, media and counseling services, extra-curricular activities, technology services, maintenance and general administration. Program revenues and property taxes finance 72% of these activities, state support provides another 23% and other revenues comprise the remaining 5%.

## **III Fund Financial Statements**

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of 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 money for particular purposes or to show that it is properly using resources or grants.

The District has one fund group:

**Governmental funds**—The District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash 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 one determine whether there are more or fewer financial resources available to finance services. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement, or on subsequent pages, to explain the relationship (or differences) between them.

**DALLAS COUNTY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2007**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net assets.** The District's *combined* net assets were approximately \$52.7 million. (See Table A-1).

**Table A-1  
The District's Net Assets**  
(in millions of dollars)

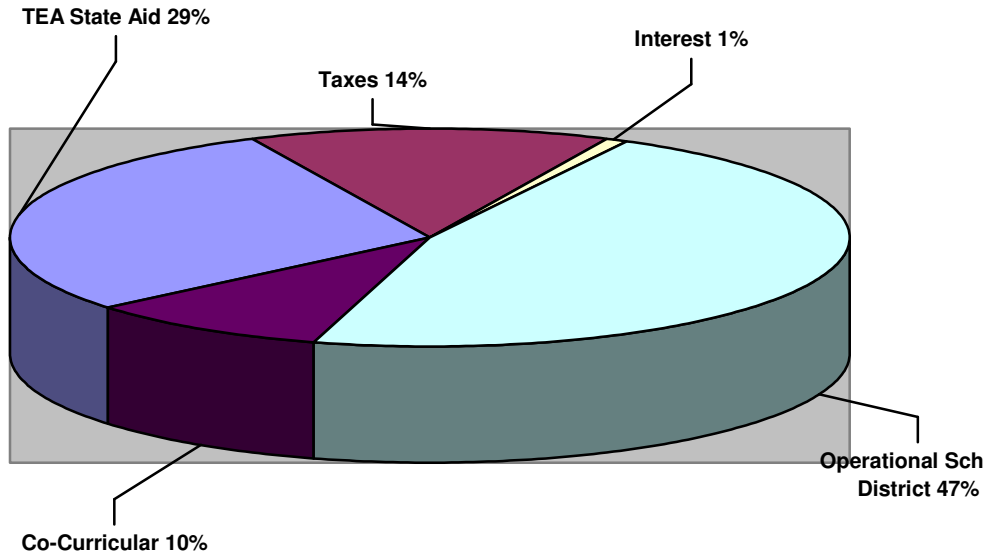
	<u>2006</u>	<u>2007</u>	<u>Total % change</u>
Current and other Assets	\$ 18.5	23.3	25.9%
Capital and non-current assets	38.2	36.3	-5.0%
Total Assets	<u>\$ 56.7</u>	<u>\$ 59.6</u>	5.1%
Current liabilities	\$ 5.9	\$ 6.7	13.6%
Long term liabilities	0.7	0.2	-71.4%
Total Liabilities	<u>\$ 6.6</u>	<u>\$ 6.9</u>	4.5%
Net assets invested in capital assets	\$ 37.8	\$ 36.4	-3.7%
Unrestricted net assets	12.3	16.3	32.5%
Total Net Assets	<u><u>\$ 50.0</u></u>	<u><u>\$ 52.7</u></u>	5.4%

**Changes in net assets.** The Districts total revenues were \$67 million. (See Table A-2.) A significant portion, 61.3% percent of the revenue comes from operational payments from client school districts, 23.8% percent comes from state aid, and most of the rest is from taxes. (See Figure A-3.)

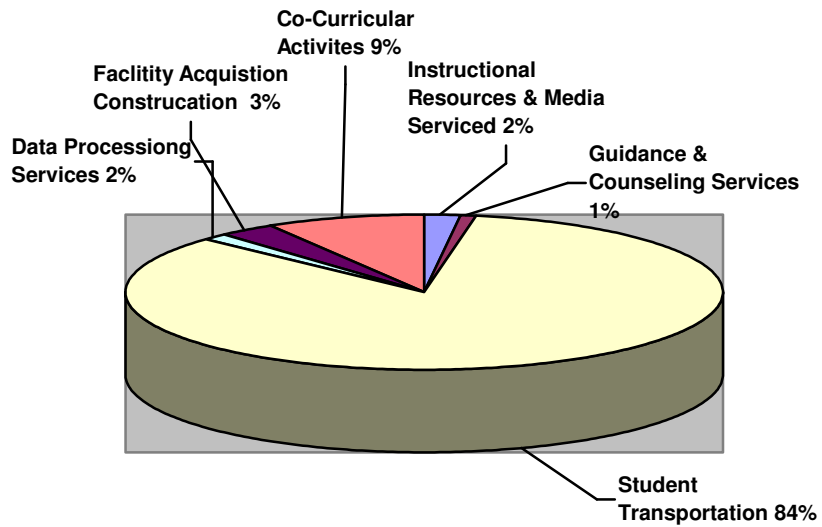
The total cost of all programs and services were \$67.6 million; 74% percent of these costs are for student transportation services and the rest for various services. (See Figure A-4.)

**DALLAS COUNTY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2007**

**Figure A-3  
Dallas County Schools  
Sources of Revenue for Fiscal Year 2007**



**Figure A-4  
Dallas County Schools  
Functional Expenses for Fiscal Year 2007**



**DALLAS COUNTY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2007**

**Governmental Activities**

- Property tax rates did not change from the prior year. Increasing property values enabled an increase of tax revenues to \$7.5 million.

**Table A-2  
Change in the School's Net Assets**  
*(in millions of dollars)*

	<u>2006</u>	<u>2007</u>	<u>Total % change</u>
Property Taxes	\$ 7.2	\$ 7.5	4.2%
Investment Earnings	0.5	0.9	80.0%
Operational	36.7	41.1	12.0%
Grants and Contributions	2.7	1.5	-44.4%
State Aid	16.6	16.0	-3.6%
Miscellaneous	0.3	2.4	
Total Revenues	<u>64.0</u>	<u>69.4</u>	8.4%
Instructional Resources and Media Services	0.7	0.7	0.0%
Guidance and Counsel Services	0.8	0.8	0.0%
Student Transportation	56.2	50.3	-10.5%
Co-Curricular Activities	6.7	6.3	-6.0%
General Administration	-	5.6	N/A
Plant Maintenance and Operations	-	1.1	N/A
Community Services	0.3	0.5	66.7%
Data Processing Services	1.4	2.3	64.3%
Total Expenses	<u>66.1</u>	<u>67.6</u>	2.3%
Increase/(Decrease) in Net Assets	(2.1)	1.8	-185.7%
Beginning Net Assets	52.5	50.1	-4.6%
Prior Period Adjustment	-	0.8	N/A
Ending Net Assets	<u>\$ 50.4</u>	<u>\$ 52.7</u>	4.6%

Table A-3 presents the costs for each of the District's major functions and each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what state revenues as well as local tax dollars funded.

- The cost of all governmental activities this year was \$67.6 million.
- The amount that our taxpayers paid for these activities through property taxes was \$7.5 million.
- Those who directly benefited from the programs paid 54.5% of those costs.

**DALLAS COUNTY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2007**

**Table A-3  
Net Cost of District's Governmental Activities**  
(in millions of dollars)

	Total Cost of Services			Net Cost of Services		
	2006	2007	% Change	2006	2007	% Change
Instructional Resources and Media Services	\$ 0.7	0.7	0.0%	\$ 0.7	0.7	0.0%
Guidance and Counsel Services	0.8	0.8	0.0%	0.4	-	-100.0%
Student Transportation	56.2	50.3	-10.5%	23.7	16.6	-30.0%
Co-Curricular Activities	6.7	6.3	-6.0%	0.4	(1.8)	-550.0%
General Administration	-	5.6	N/A	-	5.6	N/A
Plant Maintenance and Operations	-	1.1	N/A	-	1.1	N/A
Community Services	0.3	0.5	66.7%	0.3	0.5	66.7%
Data Processing Services	1.4	2.3	64.3%	1.4	2.3	64.3%
	<u>\$ 66.1</u>	<u>\$ 67.6</u>	2.3%	<u>\$ 26.9</u>	<u>\$ 25.0</u>	-7.1%

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

Revenues from governmental fund types totaled \$68.2 million, increase from the preceding year. The increase in local revenues is a result of increased charges for services provided to client districts. Additionally, increases in the number of campuses served required additional routes to several client districts.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual expenditures were \$4,910,759 above final budget amounts. The most significant variance resulted from student transportation operation increases in fuel and labor above expectations.

Resources available were \$5,087,721 above the final budgeted amount. As noted earlier:

- Capital outlay for new bus purchases budgeted in the current year was not received until subsequent school year. Additionally, expenditures in general administration and extracurricular activities were less than expected.

**CAPITAL ASSETS**

At the end of 2007, the District had invested \$93 million in a broad range of capital assets, including land, buildings, equipment, and vehicles. (See Table A-4). This amount represents a net increase (including additions and deductions) of \$3.3 million or 3.7% percent over last year.

**DALLAS COUNTY SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2007**

**Table A-4  
Schools' Capital Assets**  
(in millions of dollars)

	<b>2006</b>	<b>2007</b>	<b>Total % Change</b>
Land	\$ 1.0	\$ 1.0	0.0%
Buildings	19.5	19.6	0.5%
Furniture and Equipment	5.3	5.4	1.9%
Vehicles	63.8	66.9	4.9%
Duplication Rights	0.1	0.1	0.0%
<b>Totals at Historical Costs</b>	<u>153.5</u>	<u>159.9</u>	4.2%
Less Accumulated Depreciation for:			
Buildings and Improvements	5.2	6.3	21.2%
Vehicles	43.0	46.6	8.4%
Furniture and Equipment	3.2	3.7	15.6%
Duplication Rights	-	-	N/A
<b>Total Accumulated Depreciation</b>	<u>51.4</u>	<u>56.6</u>	10.1%
Increase/(Decrease) in Net Assets	<u>102.1</u>	<u>103.3</u>	1.2%
<b>Net Capital Assets</b>	<u>\$ 102.1</u>	<u>\$ 103.3</u>	1.2%

The District's fiscal year 2008 capital budget projects spending \$5,600,000 for capital outlay, principally for purchase of buses and purchase of radios and a Global Positioning System. Please reference Note 5 for more detailed information on the District's capital assets.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Factors affecting the economy were considered while adopting the 2008 budget. Appropriation in the general fund budget totals \$71.8 million, an increase of 14.3% over the final 2007 expenditures of \$62.8 million. Property tax collections will increase due to an increase in property values while the tax rate was reduced a slight \$.00317. State revenues are projected to increase with the additional bus routes due to Dallas County Schools assuming responsibility for additional routes for the client districts. These extra-curricular revenue increases will finance a portion of the programs DCS offers at present.

If management estimates are realized, the budgetary fund balance of Dallas County Schools will remain at current levels at the close of 2008.

**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 Business Office.

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## **BASIC FINANCIAL STATEMENTS**

**EXHIBIT A-1**

**DALLAS COUNTY SCHOOLS  
STATEMENT OF NET ASSETS  
AUGUST 31, 2007**

<u>Data Control Codes</u>		<u>Primary Government</u>
		<u>Governmental Activities</u>
	<b>ASSETS</b>	
1110	Cash	\$ 17,506,930
1220	Property taxes - delinquent	494,162
1230	Allowance for uncollectible taxes	(74,124)
1240	Due from other governments	4,211,815
1260	Other receivables	209,954
1300	Inventories	924,238
1510	Land	962,714
1520	Buildings	19,648,230
1571	Accumulated depreciation - buildings	(6,254,605)
1531	Vehicles	66,853,837
1572	Accumulated depreciation - vehicles	(46,651,240)
1539	Furniture and equipment	5,433,321
1573	Accumulated depreciation - furniture and equipment	(3,734,785)
1990	Duplication rights	140,967
1991	Accumulated amortization - duplication rights	(39,091)
		<hr/>
1000	<b>TOTAL ASSETS</b>	<b>59,632,323</b>
		<hr/>
	<b>LIABILITIES</b>	
2110	Accounts payable	372,949
2150	Accrued payroll deductions and withholdings	55,967
2160	Accrued wages payable	1,224,154
2183	Due to other governments	1,532,034
2210	Accrued expenditures	3,530,047
	Long term liabilities:	
2501	Due within one year	63,373
2502	Due in more than one year	147,870
		<hr/>
2000	<b>TOTAL LIABILITIES</b>	<b>6,926,394</b>
		<hr/>
	<b>NET ASSETS</b>	
3200	Investments in capital assets net of related debt	36,359,348
3900	Unrestricted net assets	16,346,581
		<hr/>
3000	<b>TOTAL NET ASSETS</b>	<b>\$ 52,705,929</b>
		<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**EXHIBIT B-1**

**DALLAS COUNTY SCHOOLS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2007**

Data Control Codes		Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>						
0011	Instruction	\$ 65,686	\$ -	\$ -	\$ -	\$ (65,686)
0012	Instructional resources and media services	618,962	-	-	-	(618,962)
0031	Guidance, counseling, and evaluation services	764,782	792,734	-	-	27,952
0034	Student transportation	50,336,506	32,258,933	-	1,513,674	(16,563,899)
0036	Extracurricular activities	6,306,601	8,104,467	-	-	1,797,866
0041	General administration	5,589,449	-	-	-	(5,589,449)
0051	Plant maintenance and operations	1,151,940	-	-	-	(1,151,940)
0053	Data processing services	2,309,569	-	-	-	(2,309,569)
0061	Community services	466,099	-	-	-	(466,099)
0071	Interest on long-term debt	13,688	-	-	-	(13,688)
<b>TOTAL PRIMARY GOVERNMENT</b>		<u>\$ 67,623,282</u>	<u>\$ 41,156,134</u>	<u>\$ -</u>	<u>\$ 1,513,674</u>	<u>\$ (24,953,474)</u>
<b>General Revenues</b>						
Property taxes						7,454,384
Investment earnings						877,427
State aid - formula grants						15,999,541
Miscellaneous						2,402,336
Total general revenues						<u>26,733,688</u>
Change in net assets						1,780,214
Net assets - beginning						50,071,033
Prior period adjustment						854,682
Net assets - ending						<u>\$ 52,705,929</u>

The Notes to Financial Statements are an integral part of this statement.

**DALLAS COUNTY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2007**

Data Control Codes		General Fund	Special Revenue Fund	Total Governmental Funds
	<b>ASSETS</b>			
1110	Cash and cash equivalents	\$ 17,506,930	\$ -	\$ 17,506,930
1220	Property taxes - delinquent	494,162	-	494,162
1230	Allowance for uncollectible taxes	(74,124)	-	(74,124)
1240	Due from other governments	3,433,315	778,500	4,211,815
1260	Due from other funds	137,501	-	137,501
1290	Other receivables	208,843	1,111	209,954
1300	Inventories	924,238	-	924,238
1000	<b>TOTAL ASSETS</b>	<u>\$ 22,630,865</u>	<u>\$ 779,611</u>	<u>\$ 23,410,476</u>
	<b>LIABILITIES</b>			
2110	Accounts payable	\$ 361,412	\$ 11,537	\$ 372,949
2150	Accrued payroll deductions and withholdings	55,967	-	55,967
2160	Accrued wages payable	844,625	379,529	1,224,154
2171	Due to other funds	66,763	70,738	137,501
2183	Due to other governments	1,532,034	-	1,532,034
2210	Accrued expenditures	3,530,047	-	3,530,047
2300	Deferred revenue - taxes	420,038	-	420,038
2300	Deferred revenue - other governments	294,001	-	294,001
2000	<b>TOTAL LIABILITIES</b>	<u>\$ 7,104,887</u>	<u>\$ 461,804</u>	<u>\$ 7,566,691</u>
	<b>FUND BALANCES</b>			
3410	Reserved for inventories	\$ 924,238	\$ -	\$ 924,238
3590	Designated for other purposes	9,072,387	-	9,072,387
3600	Unreserved	6,031,097	317,807	6,348,904
3000	<b>TOTAL FUND BALANCES</b>	<u>\$ 16,027,722</u>	<u>\$ 317,807</u>	<u>\$ 16,345,529</u>
4000	<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 23,132,609</u>	<u>\$ 779,611</u>	<u>\$ 23,912,220</u>

**DALLAS COUNTY SCHOOLS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
AUGUST 31, 2007**

**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 16,345,529

Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

- Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. 36,359,348
- The net book value of property tax receivables are deferred under the modified accrual basis of accounting in the fund statements, but are recognized as revenue under accrual basis accounting in the government-wide statements. 420,038
- The current and long term portion of compensated absences have not been reflected in the governmental fund financial statements. (211,243)
- Revenue that is not measurable and available at year end is deferred in the governmental funds, but is recognized on the accrual basis of accounting in the government-wide statements. 294,001

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES** \$ 53,207,673

**DALLAS COUNTY SCHOOLS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2007**

Data Control Codes		General Fund	Special Revenue Fund	Total Governmental Funds
	<b>REVENUES</b>			
5700	Local and operational sources	\$ 49,085,677	\$ 778,500	\$ 49,864,177
5800	State program revenues	18,774,734	75,240	18,849,974
5020	<b>TOTAL REVENUES</b>	<u>67,860,411</u>	<u>853,740</u>	<u>68,714,151</u>
	<b>EXPENDITURES</b>			
0011	Instruction	65,686	-	65,686
0012	Instructional resources and media services	632,706	-	632,706
0031	Guidance, counseling, and evaluation services	764,782	-	764,782
0034	Student transportation	46,573,510	-	46,573,510
0036	Extracurricular activities	5,517,653	75,240	5,592,893
0041	General administration	4,628,161	-	4,628,161
0051	Plant maintenance and operations	1,151,940	-	1,151,940
0053	Data processing services	2,309,569	-	2,309,569
0061	Community services	-	466,099	466,099
0071	Principal on long term debt	387,690	-	387,690
0081	Capital outlay	241,785	-	241,785
6030	<b>TOTAL EXPENDITURES</b>	<u>62,273,482</u>	<u>541,339</u>	<u>62,814,821</u>
1100	<b>EXCESS OF EXPENDITURES OVER REVENUES</b>	5,586,929	312,401	5,899,330
	<b>OTHER FINANCING SOURCES</b>			
7915	Transfers In	501,744	-	501,744
	<b>TOTAL OTHER FINANCING SOURCES</b>	<u>501,744</u>	<u>-</u>	<u>501,744</u>
	<b>NET CHANGE TO FUND BALANCES</b>	6,088,673	312,401	6,401,074
0100	<b>FUND BALANCE - SEPTEMBER 1 (BEGINNING)</b>	<u>9,939,049</u>	<u>5,406</u>	<u>9,944,455</u>
3000	<b>FUND BALANCE - AUGUST 31, (ENDING)</b>	<u>\$ 16,027,722</u>	<u>\$ 317,807</u>	<u>\$ 16,345,529</u>

**DALLAS COUNTY SCHOOLS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2007**

**TOTAL CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ 6,401,074

Amounts reported for *governmental activities* in the Statement of Activities are different because:

- Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. 3,436,937
- The difference between property tax revenues earned but not available in prior periods (\$411,568) and property tax revenues earned but not available in the current year (\$420,038) is recognized as a increase / (decreases) to net assets in the government-wide statements. 8,470
- Changes in liabilities for compensated absences are not reflected in the governmental fund financial statements, but are shown as (increases) / decreases to long-term liabilities on the government-wide financial statements. 1,590
- Current year depreciation expense is not recognized in the fund statements under the modified accrual basis of accounting, but is recognized in the government-wide statements under the accrual basis of accounting. (6,146,028)
- Changes in deferred revenues derived from delayed collection of user charges reflected on the fund financial statements are shown as increase/(decreases) in net assets on the government-wide financial statements. (1,577,922)
- Current year payments of capital leases are shown as a reduction of long-term liabilities on the government-wide financial statements. 374,002
- The internal service fund was closed in the current year and all net assets were transferred to the general fund. This amount represents the beginning net assets of the internal service fund which are included as other financing sources in the governmental fund statements. (216,165)

**TOTAL CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES** \$ 2,281,958

**DALLAS COUNTY SCHOOLS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
AUGUST 31, 2007**

	Governmental Activities	
	Internal Service Fund	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$	-
Due from general fund		-
<b>TOTAL ASSETS</b>		-
<b>LIABILITIES</b>		
Current liabilities:		
Accrued expenditures		-
Accounts payable		-
Due to general fund		-
<b>TOTAL LIABILITIES</b>		-
<b>NET ASSETS</b>		
Unrestricted net assets		-
<b>TOTAL NET ASSETS</b>	\$	-

**DALLAS COUNTY SCHOOLS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED AUGUST 31, 2007**

	Governmental Activities
	Internal Service Fund
<b>OPERATING REVENUES:</b>	
Local and Intermediate Sources	\$ 1,246,867
<b>TOTAL OPERATING REVENUES</b>	1,246,867
<b>OPERATING EXPENSES:</b>	
Other Operating Costs	961,288
<b>TOTAL OPERATING EXPENSES</b>	961,288
<b>OPERATING INCOME</b>	285,579
<b>OPERATING TRANSFERS OUT</b>	(501,744)
<b>TOTAL NET ASSETS - SEPTEMBER 1 (BEGINNING)</b>	216,165
<b>TOTAL NET ASSETS - AUGUST 31 (ENDING)</b>	\$ -

**EXHIBIT D-3**

**DALLAS COUNTY SCHOOLS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED AUGUST 31, 2007**

	Governmental Activities
	Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from District	\$ 1,089,098
Cash received from interest	157,769
Cash payments to TASB	(4,753,326)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>(3,506,459)</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Cash paid to other funds	(521,744)
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<b>(521,744)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,028,203)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>4,028,203</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>\$ -</b>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
<b>OPERATING INCOME</b>	<b>\$ 285,579</b>
<b>EFFECT OF INCREASES AND DECREASES IN CURRENT ASSETS AND LIABILITIES</b>	
Decrease in accrued liabilities	(3,792,038)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ (3,506,459)</b>

The Notes to Financial Statements are an integral part of this statement.

## **DALLAS COUNTY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1. REPORTING ENTITY**

Dallas County Schools (the “District”) operates under the Texas Education Code Subchapter G, Sec. 11.301 formerly Subchapter 17.62 of the Texas Education Code. The District operates under a Superintendent-Board form of government and provides the following services as authorized by its charter: transportation, audio visual aids, technology and other services.

The financial statements of the District consist only of the funds of the District. Members of the Board of Trustees are elected by the public for six year terms, and they have the authority to make decisions and to appoint administrators and managers. They significantly influence operations and have the primary accountability for fiscal matters. The District is not included in any other governmental “reporting entity” as defined by Governmental Accounting Standards Board (GASB), Statement No. 14, “The Financial Reporting Entity,” as amended by GASB 39, “Determining Whether Certain Organizations Are Component Units”. There are no component units included within the reporting entity.

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

### **NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Dallas County Schools substantially comply with the rules prescribed in the Texas Education Agency’s Financial Accountability Resource Guide (the Resource Guide). The accounting policies included in the Resource Guide conform to accounting principles generally accepted in the United States of America applicable to governmental units.

#### **Basis of Presentation**

*Government-Wide Financial Statements* – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government.

The government-wide statements are prepared using the economic resource measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Basis of Presentation – Continued**

*Fund Financial Statements* – Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources.

Interfund activities between governmental funds and proprietary funds appear as other resources and other uses on the governmental funds statement of revenues, expenditures and changes in fund balance and on the proprietary fund statement of revenues, expenses and changes in fund net assets. All interfund transactions between governmental funds and internal service funds are eliminated on the district-wide statements.

**Fund Accounting**

The District uses fund groups to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the District are grouped into governmental and proprietary fund types.

*Governmental Funds* – This group focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the governmental fund according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

*General Fund* – The District accounts for financial resources used for general operations in this fund. It is a budgeted fund, and any fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Accounting – Continued**

*Special Revenue Fund* – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund.

Additionally, the District reports the following non-major *proprietary fund*.

*Internal Service Fund* – This fund focuses on the revenue and expenses related to services provided inside the District on a cost reimbursement basis. This fund was closed in the current year.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and are reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting.

*Revenues* – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Revenues from local sources include property taxes. Property tax revenues and revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are recorded as revenues when received unless otherwise stipulated by provisions of the grant, when they 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Basis of Accounting – Continued**

*Expenses/Expenditures* – On the accrual basis of accounting, expenses are recognized at the time they are incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when obligations are expected to be liquidated with expendable available financial resources.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

**Cash and Cash Equivalents**

For presentation on the financial statements, investments in the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**Inventory**

Inventories are stated at cost, are expensed when used, and consist of expendable vehicle parts and supplies held for consumption. Inventory on hand at year-end is accounted for using the First-In-First-Out (FIFO) method.

**Capital Assets**

Capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Capital Assets – Continued**

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	40 Years
Furniture and equipment	5 Years
Vehicles and buses	10 Years
Duplication rights	4 – 7 Years

**Accumulated Unpaid Sick Leave Benefits**

It is the District’s policy to permit some employees to accumulate earned but unused sick pay benefits. District Board Policy contains a provision to compensate employees with more than 15 years of experience in the District for accrued leave days upon retirement. This policy allows any employee who retires from the District through the Teacher Retirement System of Texas to receive, following termination of employment, a lump sum payment for accrued leave days.

**Designations or Reservations of Fund Balance**

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.

**Net Assets**

Net assets represent the difference between assets and liabilities on the government-wide and proprietary fund statements. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors/grantors or laws/regulations of other governments.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses/expenditures. Actual results could differ from those estimates.

**Data Control**

Data Control codes refer to the account code structure prescribed by the TEA in the Financial Accountability System Resource Guide. The Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a state-wide data base for policy development and funding plans.

**NOTE 3. DEPOSITS AND INVESTMENTS**

The funds of the District must be deposited and invested under the terms of a depository contract, the contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank 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") Insurance.

On August 31, 2007, the carrying amount of the District's deposits (cash and certificates of deposit) was \$270,303 and the bank balance was \$585,299. The District's cash deposits at August 31, 2007 and during the year ended August 31, 2007 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Name of the bank: Bank of America.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was: \$3,704,756.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED**

- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$3,804,756 and occurred during the month of November, 2006.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$100,000.

**Legal and Contractual Provisions Governing Deposits and Investments**

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes and the District's investment policy authorized the District to invest in the following investments as summarized in the table below:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	10 Years	None	None
U.S. Agencies Securities	10 Years	None	None
Letters of Credit	10 Years	None	None
Certificates of Deposit	-	None	None
Repurchase Agreements	90 Days	None	None
Securities Lending Program	1 Year	None	None
Banker's Acceptance	270 Days	None	None
Commercial Paper	270 Days	None	None
No-load Money Market Mutual Funds	90 Days	None	None
No-load Mutual Funds	2 Years	None	None
Guaranteed Investment Contracts	5 Years	None	None
Investment Pools	-	None	None

The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Legal and Contractual Provisions Governing Deposits and Investments – Continued**

Cash and investments as of August 31, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets	
Total cash and investments	<u>\$ 17,506,930</u>

Cash and investments as of August 31, 2007 consist of the following:

Demand deposits with financial institutions	\$ 270,303
Other cash equivalent investments	<u>17,236,627</u>
Total cash and investments	<u>\$ 17,506,930</u>

**Disclosures Relating to Interest Rate Risk**

The risk that changes in market interest rates will adversely affect the fair market value of an investment is known as interest rate risk. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

As of August 31, 2007, the District had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2A-7 like Local Government Pools	<u>\$ 17,236,627</u>	5.34%	9/1/2007
Total	<u>\$ 17,236,627</u>		
Total investments	<u>\$ 17,236,627</u>		

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Disclosures Relating to Interest Rate Risk – Continued**

As of August 31, 2007 the District did not invest in any securities which are highly sensitive to interest rate fluctuations. All investments as of August 31, 2007 matured in less than 1 year.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization. All investment pools policies require a rating of AA or better from a nationally recognized rating organization. Government agency securities are not considered to have credit risk in that the U.S. government explicitly guarantees them.

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. As of August 31, 2007, the District's investments were in external investment pools, certificates of deposit, or government agency securities which do not expose the District to concentration of credit risk.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal to at least the bank balance less FDIC insurance at all times.

As of August 31, 2007, the District deposits and certificates of deposit with financial institutions in excess of federal depository insurance limits were fully collateralized.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3. DEPOSITS AND INVESTMENTS – CONTINUED**

**Custodial Credit Risk – Continued**

The investment pool the District participates in operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940; to the extent such rule is applicable to its operations. Accordingly, the investment pool used the amortized cost method permitted by SEC Rule 2a-7 to report net assets and share prices since that amount approximates fair value. A Board of Directors comprised of local government officers, including participants of the investment pool, performs regulatory oversight in the external investment pool.

**NOTE 4. PROPERTY TAXES**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the County in conformity with Subtitle E, Texas Property Tax Code. The assessed value of the roll upon which the levy for the 2007 fiscal year was based was \$146,318,028,516 (on January 1, 2007).

The tax rate levied for the year ended August 31, 2007, to finance General Fund operations was \$0.005034 per \$100 valuation.

Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which they were imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. (Property tax revenues are considered available when they become due and are received within the current period).

**Delinquent Taxes Receivable**

Allowances for uncollectible tax receivables are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended August 31, 2007, was as follows:

	Balance 08/31/06	Adjustments	Balance (as restated) 08/31/06	Additions	Reductions	Balance 08/31/07
Land	\$ 962,714	\$ -	\$ 962,714	\$ -	\$ -	\$ 962,714
Buildings	19,505,350	-	19,505,350	142,880	-	19,648,230
Vehicles	63,757,391	(57,343)	63,700,048	3,153,789	-	66,853,837
Furniture and equipment	5,323,095	-	5,323,095	110,226	-	5,433,321
Construction in progress	-	-	-	-	-	-
Duplication rights	112,925	-	112,925	30,042	(2,000)	140,967
<b>Totals at historical cost</b>	<b>89,661,475</b>	<b>(57,343)</b>	<b>89,604,132</b>	<b>3,436,937</b>	<b>(2,000)</b>	<b>93,039,069</b>
Accumulated depreciation						
Buildings	(5,213,373)	-	(5,213,373)	(1,041,232)	-	(6,254,605)
Vehicles	(42,968,619)	912,025	(42,056,594)	(4,594,646)	-	(46,651,240)
Furniture and equipment	(3,240,933)	-	(3,240,933)	(493,852)	-	(3,734,785)
Duplication rights	(24,793)	-	(24,793)	(16,298)	2,000	(39,091)
<b>Total accumulated depreciation</b>	<b>(51,447,718)</b>	<b>912,025</b>	<b>(50,535,693)</b>	<b>(6,146,028)</b>	<b>2,000</b>	<b>(56,679,721)</b>
Governmental activities						
Capital assets - net	<u>\$ 38,213,757</u>	<u>\$ 854,682</u>	<u>\$ 39,068,439</u>	<u>\$ (2,709,091)</u>	<u>\$ -</u>	<u>\$ 36,359,348</u>

Depreciation expense was charged to governmental functions as follows:

Student transportation	\$ 5,087,676
Extracurricular activities	1,042,054
Instructional resources and media services	<u>16,298</u>
<b>Total depreciation expense</b>	<b><u>\$ 6,146,028</u></b>

**NOTE 6. BOARD DESIGNATED FUNDS**

The Board has designated \$4,500,000 for vehicle replacement, \$1,500,000 for plant maintenance, \$1,400,000 for personnel units, \$1,000,000 for workers compensation contingencies, and \$672,387 for technology contingencies as of August 31, 2007.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. LONG TERM LIABILITIES**

The District is obligated under a lease accounted for as a capital lease. This lease meets the criteria of a capital lease as defined by Statement of Finance Account Standards No 13, "Accounting for Leases", which defines a capital lease generally as one, which transfers benefits and risks of ownership to the lessee. The leased assets are recorded under vehicles in the general capital assets with a stated value at cost of \$1,122,489. The lease was fully retired in the current year.

A summary of changes in the long term liabilities follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities:					
Capital leases	\$ 374,002	\$ -	\$ 374,002	\$ -	\$ -
Compensated absences	304,047	26,176	118,980	211,243	63,373
Total long-term liabilities	<u>\$ 678,049</u>	<u>\$ 26,176</u>	<u>\$ 492,982</u>	<u>\$ 211,243</u>	<u>\$ 63,373</u>

**NOTE 8. DEFINED BENEFIT PENSION PLAN**

**Plan Description**

Dallas County Schools contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provision of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8. DEFINED BENEFIT PENSION PLAN – CONTINUED**

**Funding Policy**

State law provides for fiscal years 2005, 2006, and 2007 a state contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2005, 2006, and 2007 were \$1,785,470, \$1,909,816 and \$2,039,093, respectively. No additional state contributions were made in 2005, 2006, and 2007 by the District since no employee's salaries exceeded the statutory minimum.

**NOTE 9. CONTINGENCIES**

The District has intergovernmental agreements with several independent school districts in which the District transports students to and from the receiving schools, including for extracurricular activities. In the event of dissolution by either party to the agreement, title to the buses will revert to that district.

The District is the defendant in a number of law suits arising in the normal course of operations. In the opinion of management, the outcome of these law suits will not have a materially adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund
Property taxes	\$ 7,445,915
Operational charges to local districts for transportation services	23,751,147
Contributions from local districts for capital purchases	1,675,437
Charges for psychological services	526,201
Charges to local districts for monitors	4,251,682
Charges for summer school transportation	255,303
Charges to others for transportation services	475,375
Charges for co-curricular transportation services	8,104,467
Publications workshop	65,510
Investment income	719,658
Other income	1,313,238
Total	\$ 48,583,933

**NOTE 11. 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. During fiscal year 2006, the District has maintained commercial insurance to cover liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years. Effective September 1, 2001, the District changed its vehicle liability coverage from fully insured to partially self-insured.

Beginning September 1, 1999, the District established its partial self-funding Workers' Compensation Program. Through its historical review of the Workers' Compensation Partial Self-Insurance Program, the District projected a liability of \$3,224,689 as of August 31, 2007, for the ultimate loss reserve of the program.

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11. RISK MANAGEMENT – CONTINUED**

Effective September 1, 2005, the District chose to eliminate the purchase of an aggregate retention for its partially self-funded Workers' Compensation Program. After review of claims trends and exposure risks, management determined that an ultimate specific attachment point of \$500,000 per occurrence would better manage the potential for loss. Within this attachment point there is a "cash flow" yearly limit per occurrence over a three year period. In year 1, the cash flow limit is \$200,000, in year 2, the limit is \$150,000 and in year 3, the limit is \$150,000. If a claim reaches \$500,000 prior to the beginning of the third year, the carrier will begin paying the claim for the remaining life of the claim. The District currently purchases excess coverage to statutory limits through the Safety National Insurance Company. Claims administration is provided by the Texas Association of School Boards.

The accrued liability for Workers' Compensation self-insurance of \$3,224,689 includes incurred but not reported claims. This liability reported in the Internal Service Fund as of August 31, 2007, is based on the requirements of GASB 10. 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 result necessarily in an exact amount.

	<u>2007</u>	<u>2006</u>
Claims payable, beginning of year	\$ 3,792,038	\$ 3,879,003
Claims incurred and changes in estimate	546,262	886,723
Claims payments	<u>(1,113,611)</u>	<u>(973,688)</u>
Claims payable, end of year	<u>\$ 3,224,689</u>	<u>\$ 3,792,038</u>

Beginning September 1, 2001, the District established its self-funding vehicle liability program. Through its historical review of the vehicle liability self-insurance program, the District projected a liability of \$305,358 as of August 31, 2007, for the ultimate loss reserve of the program.

The District purchases insurance of \$100,000 per occurrence above the specific self insured retention of \$400,000 per occurrence and \$1,000,000 of coverage in aggregate above the \$2,100,000 of self insured aggregate retention as of August 31, 2007. The District currently purchases coverage from Hanover ReGroup. Claims administration is provided by Barron Risk Management Services.

The accrued liability for vehicle liability self-insurance of \$305,358 includes incurred but not reported claims. This liability reported in the General Fund at August 31, 2007, is based on the requirements of GASB 10. 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 result necessarily in an exact amount.

	<u>2007</u>	<u>2006</u>
Claims payable, beginning of year	\$ 336,727	\$ 269,680
Claims incurred and changes in estimate	595,795	586,375
Claims payments	<u>(627,164)</u>	<u>(519,328)</u>
Claims payable, end of year	<u>\$ 305,358</u>	<u>\$ 336,727</u>

**DALLAS COUNTY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11. RISK MANAGEMENT – CONTINUED**

These liabilities are based on 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.

**NOTE 12. INTERFUND ACTIVITY**

All due to and due from's are considered to be temporary loans that will be repaid within one year.

**NOTE 13. PRIOR PERIOD ADJUSTMENT**

The District took an inventory of their capital assets during the fiscal year. The resulting decrease to capital assets and accumulated depreciation of \$57,343 and \$912,025, respectively, is a correction of prior year capital assets and accumulated depreciation.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**DALLAS COUNTY SCHOOLS  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2007**

Data Control Codes		Budget		Actual	Variance Favorable (Unfavorable)
		Original	Final		
<b>REVENUES</b>					
5700	Local and operational sources	\$ 48,130,247	\$ 48,789,821	\$ 49,085,677	\$ 295,856
5800	State program revenues	18,255,254	18,893,628	18,774,734	(118,894)
5020	TOTAL REVENUES	66,385,501	67,683,449	67,860,411	176,962
<b>EXPENDITURES</b>					
0011	Instruction	-	80,000	65,686	14,314
0012	Instructional resources and media services	616,784	685,430	632,706	52,724
0031	Guidance, counseling, and evaluation services	683,270	810,963	764,782	46,181
0034	Student transportation	43,479,707	49,544,647	46,573,510	2,971,137
0036	Extracurricular Activities	5,817,385	5,879,662	5,517,653	362,009
0041	General administration	11,851,646	5,215,913	4,628,161	587,752
0051	Plant maintenance and operations	1,055,728	1,247,426	1,151,940	95,486
0053	Data processing services	1,247,426	2,546,469	2,309,569	236,900
0071	Debt service	-	387,691	387,690	1
0081	Facility acquisition - construction	382,000	786,040	241,785	544,255
6030	TOTAL EXPENDITURES	65,133,946	67,184,241	62,273,482	4,910,759
1100	EXCESS OF EXPENDITURES OVER REVENUES	1,251,555	499,208	5,586,929	5,087,721
<b>OTHER FINANCING SOURCES</b>					
7915	Transfers In	-	-	501,744	501,744
<b>TOTAL OTHER FINANCING SOURCES</b>					
		-	-	501,744	501,744
<b>NET CHANGE TO FUND BALANCES</b>					
		1,251,555	499,208	6,088,673	5,589,465
0100	<b>FUND BALANCE - SEPTEMBER 1 (BEGINNING)</b>	9,939,049	9,939,049	9,939,049	-
3000	<b>FUND BALANCE - AUGUST 31 (ENDING)</b>	\$ 11,190,604	\$ 10,438,257	\$ 16,027,722	\$ 5,589,465

**DALLAS COUNTY SCHOOLS  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGETARY DATA**

The Board of Trustees adopts an “appropriated budget” on a GAAP basis for the General Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for this fund. The District compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data:

1. Prior to August 20, the district prepares a budget for the next succeeding fiscal year beginning September 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. At least ten day’s public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Budgeted amounts are amended by the Board. All budget appropriations lapse at year-end.

## **TEXAS EDUCATION AGENCY REQUIRED SCHEDULES**

**DALLAS COUNTY SCHOOLS  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2007**

Last Ten Years Ended August 31,	1 Tax Rate	3 Assessed/Appraised Value for School Tax Purposes	10 Beginning Balance September 1, 2006
1998 and prior years	0.006400	\$ 90,153,511,103	\$ 74,277
1999	0.006300	97,391,594,506	18,251
2000	0.005970	106,173,662,020	19,009
2001	0.005670	113,990,725,428	29,384
2002	0.005530	123,366,850,136	31,107
2003	0.005500	127,660,272,727	44,099
2004	0.005460	129,011,446,886	50,954
2005	0.005460	129,617,575,725	60,072
2006	0.005300	135,431,139,922	157,044
2007 (School year under audit)	0.005300	135,431,139,922	-
1000 TOTALS			<u>\$ 484,199</u>

**EXHIBIT F-1**

20 Current Year's Total Levy	31 Total Collections	40 Entire Year's Adjustments	50 Ending Balance August 31, 2007
\$ -	\$ 2,422	\$ (1,017)	\$ 70,838
-	575	(151)	17,525
-	1,269	(579)	17,161
-	2,635	(141)	26,608
-	5,520	777	26,364
-	6,305	1,189	38,983
-	8,192	(527)	42,235
-	13,000	(2,912)	44,160
	67,726	(28,393)	60,925
<u>7,377,485</u>	<u>7,213,029</u>	<u>(15,093)</u>	<u>149,363</u>
<u>\$ 7,377,485</u>	<u>\$ 7,320,673</u>	<u>\$ (46,847)</u>	<u>\$ 494,162</u>

**DALLAS COUNTY SCHOOLS  
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET  
GENERAL FUND AS OF AUGUST 31, 2007  
(UNAUDITED)**

1	Total General Fund Balance 8/31/07 (EXHIBIT C-1 Object 3000 for the General Fund only)		\$	16,027,722
2	Total Reserved Fund Balance (EXHIBIT C-1 - Total object 3400's for the General Fund only)	\$		924,238
3	Total Designated Fund Balance (EXHIBIT C-1 - Total object 3500's for the General Fund only)			9,072,387
4	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)			6,402,533
5	Estimate of one month's average cash disbursements during the regular school session (9/1/07 - 5/31/08)			<u>6,000,495</u>
6	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5)			<u>22,399,653</u>
7	Excess/(Deficit) Undesignated Unreserved General Fund Fund Balance (1-6)		\$	<u>(6,371,931)</u>

**OTHER SCHEDULES**

**DALLAS COUNTY SCHOOLS  
SCHEDULE OF GOVERNMENTAL FUND  
EXPENDITURES BY OBJECT CODE  
AUGUST 31, 2007**

	Instruction 0011			Instructional Resources and Media Services 0012		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Payroll Cost	\$ -	\$ -	\$ -	\$ 386,580	\$ 347,099	\$ 39,481
Professional and Contractual Services	49,050	40,023	9,027	35,350	31,488	3,862
Supplies and Materials	10,200	7,315	2,885	20,600	15,375	5,225
Other Operating Expenses	15,500	14,649	851	7,900	4,342	3,558
Debt Service	-	-	-	-	-	-
Capital Outlay	5,250	3,699	1,551	235,000	234,402	598
<b>TOTAL EXPENDITURES</b>	<u>\$ 80,000</u>	<u>\$ 65,686</u>	<u>\$ 14,314</u>	<u>\$ 685,430</u>	<u>\$ 632,706</u>	<u>\$ 52,724</u>

**EXHIBIT G-1**

Guidance, Counseling and Evaluation Services 0031			Student (Pupil) Transportation 0034		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 663,113	\$ 700,402	\$ (37,289)	\$ 36,862,416	\$ 36,444,862	\$ 417,554
140,800	60,450	80,350	657,464	530,312	127,152
5,825	3,700	2,125	7,229,871	6,368,094	861,777
1,225	230	995	54,546	36,259	18,287
-	-	-	-	-	-
-	-	-	4,740,350	3,193,983	1,546,367
<u>\$ 810,963</u>	<u>\$ 764,782</u>	<u>\$ 46,181</u>	<u>\$ 49,544,647</u>	<u>\$ 46,573,510</u>	<u>\$ 2,971,137</u>

**DALLAS COUNTY SCHOOLS  
SCHEDULE OF GOVERNMENTAL FUND  
EXPENDITURES BY OBJECT CODE  
AUGUST 31, 2007**

	Extracurricular Activities 0036			General Administration 0041		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Payroll Cost	\$5,254,162	\$5,055,095	\$ 199,067	\$2,158,942	\$ 1,760,402	\$ 398,540
Professional and Contractual Services	43,000	-	43,000	1,141,042	1,027,833	113,209
Supplies and Materials	547,000	460,872	86,128	104,409	86,834	17,575
Other Operating Expenses	35,500	1,686	33,814	1,789,925	1,735,817	54,108
Debt Service	-	-	-	-	-	-
Capital Outlay	-	-	-	21,595	17,275	4,320
<b>TOTAL EXPENDITURES</b>	<u><u>\$5,879,662</u></u>	<u><u>\$5,517,653</u></u>	<u><u>\$ 362,009</u></u>	<u><u>\$5,215,913</u></u>	<u><u>\$4,628,161</u></u>	<u><u>\$ 587,752</u></u>

**EXHIBIT G-1**(continued)

Plant Maintenance and Operations 0051			Data Processing Services 0053		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 495,594	\$ 466,523	\$ 29,071	\$ 569,269	\$ 527,361	\$ 41,908
620,052	574,949	45,103	1,696,450	1,541,957	154,493
131,780	110,468	21,312	74,000	57,310	16,690
-	-	-	25,350	16,970	8,380
-	-	-	-	-	-
-	-	-	181,400	165,971	15,429
<u>\$ 1,247,426</u>	<u>\$ 1,151,940</u>	<u>\$ 95,486</u>	<u>\$ 2,546,469</u>	<u>\$ 2,309,569</u>	<u>\$ 236,900</u>

**DALLAS COUNTY SCHOOLS  
SCHEDULE OF GOVERNMENTAL FUND  
EXPENDITURES BY OBJECT CODE  
AUGUST 31, 2007**

	Debt Service 0071			Facility Acquisition Construction 0081		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Payroll Cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Professional and Contractual Services	-	-	-	-	-	-
Supplies and Materials	-	-	-	-	-	-
Other Operating Expenses	-	-	-	-	-	-
Debt Service	387,691	387,690	1	-	-	-
Capital Outlay	-	-	-	786,040	241,785	544,255
<b>TOTAL EXPENDITURES</b>	<u>\$ 387,691</u>	<u>\$ 387,690</u>	<u>\$ 1</u>	<u>\$ 786,040</u>	<u>\$ 241,785</u>	<u>\$ 544,255</u>

**EXHIBIT G-1**(concluded)

Total All Functions 0000		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$ 46,390,076	\$ 45,301,744	\$ 1,088,332
4,383,208	3,807,012	576,196
8,123,685	7,109,968	1,013,717
1,929,946	1,809,953	119,993
387,691	387,690	1
5,969,635	3,857,115	2,112,520
<u>\$ 67,184,241</u>	<u>\$ 62,273,482</u>	<u>\$ 4,910,759</u>