SANTA ROSA
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
AND
COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2007

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
Santa Rosa, Texas
Year Ended August 31, 2007

TRUSTEES

Joel Rodriguez - President

Raul Garza - Vice-President

Dina Escamilla - Secretary

Ruben Canales

Juan M. Perez

Armando Mendiola

Orlando Saldivar

SUPERINTENDENT

Heriberto Villarreal

BUSINESS MANAGER

Lucio Mendoza

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2007

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INTRODUCTORY SECTION

CERTIFICATE OF BOARD

Santa Rosa Independent School District	Cameron	031-914
Name of School District	County	Co.-Dist. Number

We the undersigned, do hereby certify that the attached annual financial reports of the above named school district were reviewed and X approved -- ___ disapproved for the year ended August 31, 2007 at a meeting of the board of school trustees of such school district on the 21 day of Jan., 2008.

Signature of Board Secretary

Signature of Board President

FINANCIAL SECTION

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

LONG CHILTON, LLP

A PARTNERSHIP OF PROFESSIONAL CORPORATIONS AND INDIVIDUALS

Members - Division of Firms,
American Institute of CPAs

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Harlingen, Texas 78550
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Santa Rosa Independent School District

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Rosa Independent School 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 management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 financial statements, 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 opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Rosa Independent School District as of August 31, 2007, and the respective changes in financial position, 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 January 11, 2008 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis, and the General Fund - Budgetary Comparison Schedule on pages 15 through 21 and 48 through 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Santa Rosa Independent School District's basic financial statements. The accompanying financial information listed as Other Schedules in the table of contents and the schedule of expenditures of federal awards are presented in accordance with requirements of the Texas Education Agency and for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information except for that portion marked "Unaudited" on which we express no opinion, 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.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 11, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Santa Rosa I.S.D.'s 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 $13,667,277 at August 31, 2007. Net assets decrease by $978,042 from the prior year.
- The general fund reported a fund balance this year of $2,879,119.
- The District received an above standard achievement rating for the Financial Integrity Reporting System of Texas (FIRST) for 2006. This rating rates quality performance in the management of school district's financial resources.

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 funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *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 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 further explains and 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.

Figure A-1F, Required Components of the District's Annual Financial Report

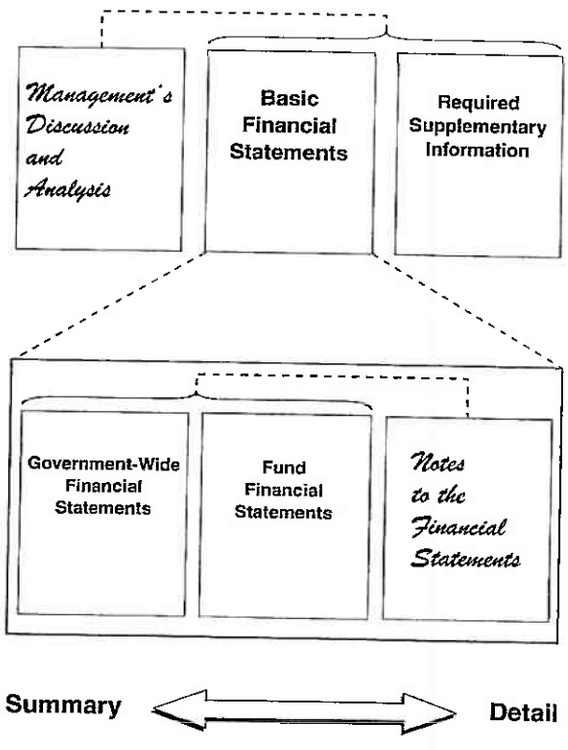


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of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

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

		Fund Statements		
Type of Statements	**Government-wide**	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures & changes in fund balances	• Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	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	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

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—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, respectively.
- To assess the overall health of the District, one needs 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*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. 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*—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 certain taxes and grants.

The District has the following kinds of funds:

Governmental funds—Most of 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 flow in and out 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 you determine whether there are more or fewer financial resources that can be spent in the near future 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 at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- *Fiduciary funds*—The District is the trustee, or *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 net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

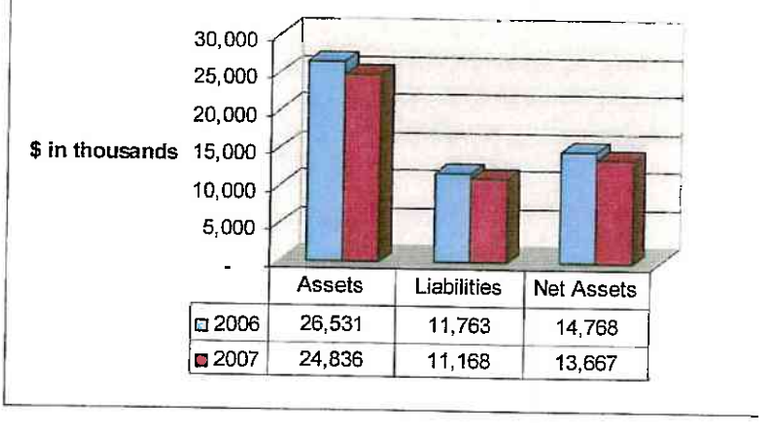
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were $13,667,277 as of August 31, 2007, a decrease of 7.5%. (See Table A-1).

Table A-1
Santa Rosa Independent School District's Net Assets
(in thousands of dollars)

	Governmental Activities	
	2007	2006
Current & other assets	$ 3,691	$ 5,229
Capital assets	21,144	21,302
Total assets	**$ 24,836**	**$ 26,531**
Current liabilities	775	671
Long-term liabilities	10,393	11,092
Total liabilities	**11,168**	**11,763**
Net Assets:		
Invested in capital assets-	10,584	10,926
Restricted	85	209
Unrestricted	2,997	3,633
Total Net Assets	**$ 13,667**	**$ 14,768**

Figure A-1 Santa Rosa ISD Net Assets



Net assets may serve over time as a useful indicator of a government's financial position. In the case of Santa Rosa ISD, assets exceeded liabilities by $13,667,277 at the close of August 31, 2007.

A portion of the Santa Rosa ISD's net assets (77%) reflects the investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Santa Rosa ISD uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Santa Rosa ISD's investment in 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, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets (.6%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($2,997,378) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

- Property tax rates decreased from 1.6200/$100 to 1.4900/1$100 to comply with state mandates; however, Property taxable values increased by 17% from the prior year.
- The cost of all governmental activities this year was $13,449,550, an increase of $397,838.
- Some of the cost was paid by those who directly benefited from the programs ($63,953) or by grants and contributions ($3,763,675).

Table A-2
Changes in Santa Rosa Independent School District's Net Assets
(in thousands of dollars)

	Governmental Activities	
	2007	2006
Program Revenues:		
Charges for Services	$ 64	$ 75
Operating Grants and Contributions	3,764	3,779
Capital Grants and Contributions		
General Revenues		
Property Taxes	869	872
State Aid – Formula	7,513	7,256
Investment Earnings	224	252
Other	38	221
Total Revenues	12,471	12,425
Instruction	56,108	5,770
Instructional Resources and Media Services	143	128
Curriculum Dev. And Instructional Staff Dev	306	378
Instructional Leadership	257	182
School Leadership	561	609
Guidance, Counseling and Evaluation Services	367	414
Health Services	143	98
Student (Pupil) Transportation	274	203
Food Services	811	704
Curricular/Extracurricular Activities	770	827
General Administration	805	858
Plant Maintenance & Operations	1,824	1,569
Security & Monitoring Services	252	222
Data Processing Services	152	236
Community Services	36	32
Debt Service – Interest on Long-Term Debt	577	600
Facilities Acquisition and Construction	21	120
Payments Related to Shared Services Arrangements	33	36
Payments to Juvenile Justice Alternative Education	3	66
Total Expenses	$ 13,450	$ 13,052
Increase (Decrease) in Net Assets	$ (979)	$ (627)

Figure A-4 Santa Rosa ISD Expenses FY 2006-2007

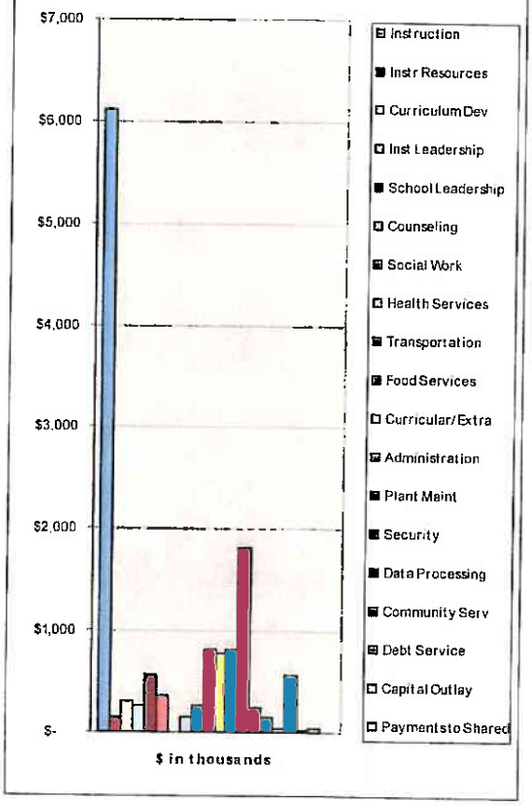


Figure A-5 Sources of Revenues for FY 2006-2007

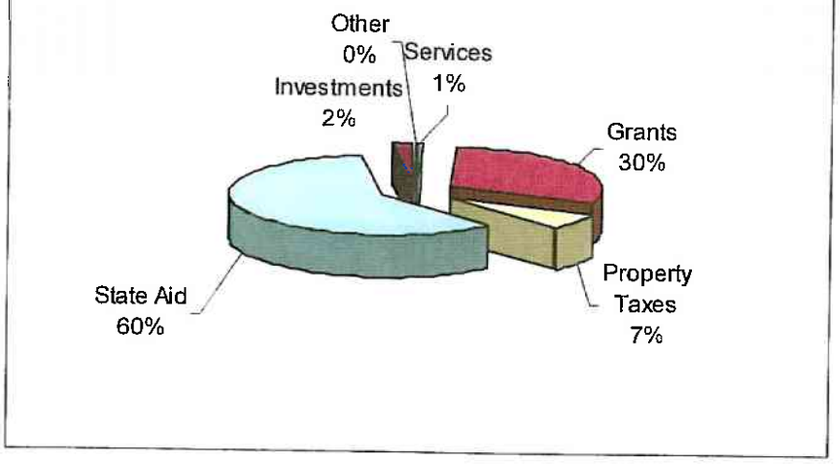


Table A-3 presents the cost of each of the District's largest functions/programs as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

Table A-3
Net Cost of Selected District Programs/Functions
(in thousands of dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2007	2006		2007	2006	
Instruction	6,108	5,770	5.85%	4,570	4,190	9.00%
School administration	561	609	-7.88%	540	581	-7.00%
Food Services	810	704	15.05%	32	22	45.0%
Plant Maintenance & Operations	1,824	1,569	16.25%	1,783	1,526	16.8%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, Santa Rosa ISD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General Fund

The fund balance of the Santa Rosa ISD's General Fund is $2,879,119 as of August 31, 2007. It decreased by $1,000,597 during the current fiscal year a decrease of 25%. The factors concerning the finances of this fund have already been addressed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the District had invested $21,144 million in a broad range of capital assets, including land, equipment, buildings, vehicles, and Construction in Progress. (See Table A-4.) This amount represents a net decrease (including additions and deductions) of 1 % over last year.

More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table A-4
District's Capital Assets
(in thousands of dollars

	Governmental Activities	
	2007	2006
Land	$305	$251
Buildings and improvements	23,077	23,011
Furniture & Equipment	1,668	1,799
Construction in Progress	278	0
Totals at historical cost	**25,328**	**25,061**
Total accumulated depreciation	4,184	3,759
Net capital assets	**$21,144**	**$21,302**

Long-Term Debt

At year-end the District had $10,560,000 in General Obligation Bonds outstanding as shown in Table A-5. Of this amount, $295,000 is due within the next year. The total long-term debt outstanding as of August 31, 2007 is $10,688,435. More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-5
District's Long-Term Debt
(In thousands of dollars)

General Obligation Bonds	Governmental Activities 2007	2006
Bonds – Series 1997	$ 3,055	$ 3,180
Bonds – Series 2000	3,860	3,940
Bonds – Series 2001	3,645	3,725
Total General Obligation Bonds	**10,560**	**10,845**
Loans Payable	-	98
Compensated Absences	128	149
Total Long-Term Debt	**$ 10,688**	**$ 11,092**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2008 budget preparation is up $ 6 million or 11% from 2006.
- General operating fund spending per student decreases in the 2008 budget from $9,148 to $9,110, a .4% decrease.
- The District's 2008 refined average daily attendance is expected to be 1,134 down .3% from last year.

These indicators were taken into account when adopting the general fund budget for 2008. Expenditures as budgeted are $10,331,140 a decrease of 3% from 2006-2007 actual expenditures. The District has added an Early College for Higher Opportunities program. The program was in its initial planning year during the 2006-2007 year. The first year of implementation will be during the 2007-2008 school year. The 2008 budget will have significant capital projects as mentioned above.

If these estimates are realized, the District's budgetary general fund balance is expected to decrease by the end of 2008.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and 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.

BASIC

FINANCIAL STATEMENTS

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS
AUGUST 31, 2007

Data Control Codes		1 Governmental Activities
	ASSETS:	
1110	*Cash and Cash Equivalents*	$ 2,646,532
1225	*Property Taxes Receivable (Net)*	338,230
1240	*Due from Other Governments*	449,370
1290	*Other Receivables (Net)*	7,792
1300	*Inventories*	29,942
1410	*Deferred Expenses*	219,944
	Capital Assets:	
1510	*Land*	305,271
1520	*Buildings and Improvements, Net*	19,979,041
1530	*Furniture and Equipment, Net*	581,880
1580	*Construction in Progress*	278,170
1000	Total Assets	24,836,172
	LIABILITIES:	
2110	*Accounts Payable*	70,162
2165	*Accrued Liabilities*	336,065
2180	*Due to Other Governments*	62,940
2300	*Unearned Revenue*	11,293
	Noncurrent Liabilities:	
2501	*Due Within One Year*	295,000
2502	*Due in More Than One Year*	10,393,435
2000	Total Liabilities	11,168,895
	NET ASSETS	
3200	Invested in Capital Assets, Net of Related Debt	10,584,363
	Restricted For:	
3820	Federal and State Programs	39,494
3850	Debt Service	44,248
3890	Other Purposes	1,794
3900	Unrestricted	2,997,378
3000	Total Net Assets	$ 13,667,277

The accompanying notes are an integral part of this statement.

EXHIBIT B-1

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues: Charges for Services	4 Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
	Government Activities:				
11	*Instruction*	$ 6,108,756	$ --	$ 1,537,828	$ (4,570,928)
12	*Instructional Resources and Media Services*	142,648	--	57,136	(85,512)
13	*Curriculum and Staff Development*	306,086	--	170,326	(135,760)
21	*Instructional Leadership*	257,501	--	231,087	(26,414)
23	*School Leadership*	561,230	--	20,649	(540,581)
31	*Guidance, Counseling, & Evaluation Services*	367,102	--	88,554	(278,548)
32	*Social Work Services*	1,296	--	--	(1,296)
33	*Health Services*	142,715	--	10,154	(132,561)
34	*Student Transportation*	274,299	--	11,957	(262,342)
35	*Food Service*	810,851	35,109	743,570	(32,172)
36	*Cocurricular/Extracurricular Activities*	770,487	28,844	20,287	(721,356)
41	*General Administration*	805,771	--	64,775	(740,996)
51	*Plant Maintenance and Operations*	1,824,741	--	42,119	(1,782,622)
52	*Security and Monitoring Services*	252,443	--	10,301	(242,142)
53	*Data Processing Services*	152,459	--	1,664	(150,795)
61	*Community Services*	36,268	--	11,819	(24,449)
72	*Interest on Long-term Debt*	575,098	--	741,449	166,351
73	*Bond Issuance Costs and Fees*	2,250	--	--	(2,250)
81	*Capital Outlay*	21,222	--	--	(21,222)
93	*Payments Related to Shared Services Arrangements*	33,418	--	--	(33,418)
95	*Payments to Juvenile Justice Alternative Ed. Programs*	2,909	--	--	(2,909)
TG	Total Governmental Activities	13,449,550	63,953	3,763,675	(9,621,922)
TP	Total Primary Government	$ 13,449,550	$ 63,953	$ 3,763,675	(9,621,922)
	General Revenues:				
MT	*Property Taxes, Levied for General Purposes*				776,098
DT	*Property Taxes, Levied for Debt Service*				92,963
IE	*Investment Earnings*				223,757
GC	*Grants and Contributions Not Restricted to Specific Programs*				7,513,117
MI	*Miscellaneous*				37,945
TR	Total General Revenues				8,643,880
CN	Change in Net Assets				(978,042)
NB	Net Assets - Beginning				14,768,440
PA	Prior Period Adjustment				(123,121)
	Net Assets - Beginning, as Restated				14,645,319
NE	Net Assets - Ending				$ 13,667,277

The accompanying notes are an integral part of this statement.

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2007

EXHIBIT C-1

Data Control Codes		10 General Fund	ESEA Title I Improving Basic Programs	Other Governmental Funds	98 Total Governmental Funds
	ASSETS:				
1110	*Cash and Cash Equivalents*	$ 2,478,454	$ 20,125	$ 147,953	$ 2,646,532
1225	*Taxes Receivable, Net*	306,400	--	31,830	338,230
1240	*Due from Other Governments*	21,313	221,490	206,567	449,370
1260	*Due from Other Funds*	649,036	--	35,983	685,019
1290	*Other Receivables*	7,740	--	52	7,792
1300	*Inventories*	29,942	--	--	29,942
1410	*Deferred Expenditures*	219,944	--	--	219,944
1000	Total Assets	$ 3,712,829	$ 241,615	$ 422,385	$ 4,376,829
	LIABILITIES:				
	Current Liabilities:				
2110	*Accounts Payable*	$ 6,250	$ --	$ 63,913	$ 70,163
2120	*Short-Term Debt Payable*	227	--	--	227
2150	*Payroll Deductions & Withholdings*	64,645	--	--	64,645
2160	*Accrued Wages Payable*	171,260	20,762	6,646	198,668
2170	*Due to Other Funds*	159,088	219,048	306,882	685,018
2180	*Due to Other Governments*	62,940	--	--	62,940
2200	*Accrued Expenditures*	57,788	1,805	12,932	72,525
2300	*Unearned Revenue*	311,512	--	31,153	342,665
2000	Total Liabilities	833,710	241,615	421,526	1,496,851
	FUND BALANCES:				
	Reserved Fund Balances:				
3410	*Investments in Inventory*	29,942	--	--	29,942
3420	*Debt Service*	--	--	44,248	44,248
3430	*Prepaid Items*	219,944	--	--	219,944
3450	*Reserve for Food Service*	59,785	--	19,042	78,827
	Designated Fund Balance:				
3510	*Construction*	2,000,000	--	(103,719)	1,896,281
3600	Unreserved	569,448	--	--	569,448
	Unreserved, Reported in Nonmajor:				
3610	*Special Revenue Funds*	--	--	39,494	39,494
3630	*Permanent Funds*	--	--	1,794	1,794
3000	Total Fund Balances	2,879,119	--	859	2,879,978
4000	Total Liabilities and Fund Balances	$ 3,712,829	$ 241,615	$ 422,385	$ 4,376,829

The accompanying notes are an integral part of this statement.

EXHIBIT C-1R

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2007

Total fund balances - governmental funds balance sheet	$	2,879,978
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not reported in the funds.		21,144,363
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		331,371
Payables for bond principal which are not due in the current period are not reported in the funds.		(10,560,000)
Payables for compensated absences which are not due in the current period are not reported in the funds.		(128,435)
Net assets of governmental activities - statement of net assets	$	13,667,277

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes		10 General Fund	ESEA Title I Improving Basic Programs	Other Governmental Funds	98 Total Governmental Funds
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 1,024,946	$ --	$ 115,370	$ 1,140,316
5800	*State Program Revenues*	7,942,576	--	1,021,810	8,964,386
5900	*Federal Program Revenues*	705,545	820,804	784,282	2,310,631
5020	Total Revenues	9,673,067	820,804	1,921,462	12,415,333
	EXPENDITURES:				
	Current:				
0011	*Instruction*	4,336,005	699,366	783,133	5,818,504
0012	*Instructional Resources and Media Services*	107,129	--	52,408	159,537
0013	*Curriculum and Staff Development*	127,026	--	163,363	290,389
0021	*Instructional Leadership*	20,749	63,685	159,861	244,295
0023	*School Leadership*	529,847	--	2,600	532,447
0031	*Guidance, Counseling, & Evaluation Services*	271,699	14,675	61,901	348,275
0032	*Social Work Services*	1,229	--	--	1,229
0033	*Health Services*	133,438	1,958	--	135,396
0034	*Student Transportation*	260,231	--	--	260,231
0035	*Food Service*	755,562	--	13,705	769,267
0036	*Cocurricular/Extracurricular Activities*	730,473	--	500	730,973
0041	*General Administration*	723,047	31,452	9,939	764,438
0051	*Plant Maintenance and Operations*	1,725,800	--	5,360	1,731,160
0052	*Security and Monitoring Services*	239,497	--	--	239,497
0053	*Data Processing Services*	151,733	--	--	151,733
0061	*Community Services*	23,550	9,668	1,190	34,408
0071	*Principal on Long-term Debt*	97,554	--	285,000	382,554
0072	*Interest on Long-term Debt*	7,088	--	568,010	575,098
0073	*Bond Issuance Costs and Fees*	750	--	1,500	2,250
0081	*Capital Outlay*	--	--	487,515	487,515
0093	*Payments to Shared Service Arrangements*	33,418	--	--	33,418
0095	*Payments to Juvenile Justice Alternative Education Programs*	2,909	--	--	2,909
6030	Total Expenditures	10,278,734	820,804	2,595,985	13,695,523
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(605,667)	--	(674,523)	(1,280,190)
	Other Financing Sources and (Uses):				
7915	*Transfers In*	--	--	273,717	273,717
8911	*Transfers Out*	(273,717)	--	--	(273,717)
7080	Total Other Financing Sources and (Uses)	(273,717)	--	273,717	--
1200	Net Change in Fund Balances	(879,384)	--	(400,806)	(1,280,190)
0100	Fund Balances - Beginning	3,879,714	--	403,575	4,283,289
1300	Prior Period Adjustment	(121,211)	--	(1,910)	(123,121)
	Fund Balances - Beginning, as Restated	3,758,503	--	401,665	4,160,168
3000	Fund Balances - Ending	$ 2,879,119	$ --	$ 859	$ 2,879,978

The accompanying notes are an integral part of this statement.

EXHIBIT C-3

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED AUGUST 31, 2007

Net change in fund balances - total governmental funds	$	(1,280,190)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA.		523,560
The depreciation of capital assets used in governmental activities is not reported in the funds.		(681,032)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		56,176
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		285,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.		97,554
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.		20,890
Change in net assets of governmental activities - statement of activities	$	(978,042)

The accompanying notes are an integral part of this statement.

EXHIBIT E-1

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2007

Data Control Codes		Agency Fund: Student Activity
	ASSETS:	
1110	*Cash and Cash Equivalents*	$ 46,233
1000	Total Assets	$ 46,233
	LIABILITIES:	
	Current Liabilities:	
2190	*Due to Student Groups*	$ 46,233
2000	Total Liabilities	46,233
	NET ASSETS	
3000	Total Net Assets	$ --

The accompanying notes are an integral part of this statement.

NOTE A – REPORTING ENTITY

This report includes the financial statements of the funds required to account for those activities, organizations and functions which are related to the Santa Rosa Independent School District (the District) and which are controlled by or dependent upon the District's governing body, the Board of Trustees. The Board of Trustees (the Board), includes seven eligible members elected at large by the qualified voters of the Santa Rosa Independent School District, the Board has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board.

The District receives funding from local, state and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 *The Financial Reporting Entity* 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. There are no component units with the reporting entity. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115. The District has no component units as defined by GASB Statement No. 39.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Santa Rosa Independent School District's (the "District") basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide"). The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

1. Basis of Presentation

Government-Wide Statements:

The government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants used for operational requirements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues such as grants.

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. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements:

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that compromise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

General Fund. This 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.

Capital Projects Fund. The capital projects fund of the District accounts for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and related capital asset acquisitions.

ESEA Title I, Improving Basic Programs – Special Revenue Fund. Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods.

Other Governmental Funds

Additionally, the District reports the following fund type(s):

Other Special Revenue Funds. Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods.

Debt Service Fund. The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds

Agency Funds. These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

2. *Basis of Accounting*

These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within the 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures in to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Unearned revenue is reported in the governmental funds when a potential revenue does not meet both the "measurable and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

3. *Budgets*

The official school budget was prepared for adoption for required Governmental Fund Types by August 20, 2006. The budget was formally adopted by the board of school trustees at a duly advertised public meeting prior to the expenditure of funds. The budget was amended by the board of school trustees throughout the year. Expenditures may not legally exceed budgeted appropriations at the function level.

4. *Cash and Cash Equivalents*

For the purposes of the statement of cash flows, investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less.

5. *Investments*

Money market investments which are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances and U.S. Treasury and agency obligations are reported at amortized cost. All other investments are reported at fair value.

6. *Inventory*

Inventory is valued at cost (average). The District accounts for gasoline by using the consumption method whereby expenditures are recognized only when inventory items are used. Maintenance supplies inventory is accounted for by using the purchase method whereby purchases of inventories are recognized as expenditures when the goods are received and the transaction is vouchered. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Commodity inventory is offset by deferred revenue.

7. *Other Current Assets*

Other current assets are prepaid expenses that will benefit periods beyond August 31, 2007. The only prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2007, and which extend beyond that date. The reported prepaid insurance is equally offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

8. *Capital Assets*

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of $5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Assets Class	Estimated Useful Lives
Buildings & Improvements	25-50
Vehicles	8
Furniture and Equipment	5-10

9. *Interfund Activity*

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting a fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

10. *Long-term Obligations*

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received and discounts incurred on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service requirements.

11. *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ.

12. *Compensated Absences*

The District allows all employees to accumulate sick leave days to a maximum of 30 workdays. An amount equal to the daily rate of pay of a substitute shall be deducted.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. *Accounting System*

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by TEA in the Resource Guide. Mandatory codes are recorded in the order provided in that section.

14. *Data Control Codes*

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a State-wide database for policy development and funding plans.

15. *Encumbrance Accounting*

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31st and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

NOTE C - CASH AND INVESTMENTS

Investment Accounting Policy

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), 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, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

NOTE C - CASH AND INVESTMENTS - Continued

The Act determines the types of investments, which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, the state of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The District policy authorizes all the State allowable investments.

The District's management believes that it has complied in all material respects with the requirements of the act and the District's investment policies.

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 (e.g., broker-dealer) 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, the District's investment policy, and Government Code Chapter 2257 "Collateral For Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public fund investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a $1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than .0995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At August 31, 2007, the District's carrying amount had a balance of $2,692,767 (cash, certificates of deposit, and interest-bearing savings accounts) and the bank balance was $3,016,585. 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 in the District's name by a bank other then the pledging bank.

The District's cash deposits at August 31, 2007 are maintained primarily at First National Bank of Edinburg. The deposits were collateralized in accordance with Texas Law, and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District. Deposits were properly secured at all times.

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

a. Name of Bank First National Bank of Edinburg, Texas.

b. Amount of bond and/or market value of securities pledged as of the date of the highest combined balance on deposit was $6,188,302.

c. Largest cash, savings and time deposit combined account balance amounted to $5,526,698 and occurred during the month of January 2007.

d. Total amount of FDIC coverage at the time of largest combined balance was $200,000.

NOTE C - CASH AND INVESTMENTS – Continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. At August 31, 2007, all of the District's certificates of deposits had matured and were included in interest bearing cash accounts. The District held no certificates of deposit during the year ended August 31, 2007.

Credit Risk

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 the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The Investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act. The above mentioned certificate of deposit represents 100% of total District investments.

Public Funds Investment Pools

The District had no funds in a public funds investment pool.

NOTE D - PROPERTY TAX

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. 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 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 or past due and receivable within the current period and those expected to be collected during a 60 day period after the close of the school fiscal year.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District's 2007 tax rate was $1.330 for maintenance and $0.160 for debt service per $100 assessed valuation. The 2007 assessed valuation was $59,748,334. Allowances for uncollectibles within the General and Debt Service Funds are based upon 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. At August 31, 2007 outstanding taxes in the general fund and debt service fund was $340,444 and $35,367 with a corresponding allowance for doubtful accounts of $34,044 and $3,537.

NOTE E - DUE TO AND FROM OTHER GOVERNMENTS AND AGENCIES

Amounts due to and from other governments and agencies are as follows:

	Due To	Due From
General Fund		
Texas Education Agency:		
Foundation Revenues	$ 62,940	$ -
Other Governmental Funds		
Texas Education Agency:		
ESEA Title I, Part A	-	221,489
ESEA Title I, Part C	-	44,560
Gear up Grant	-	44,464
State-Funded Optional Extended Year Program	-	2,548
Student Success Initiative	-	6,503
Reading First	-	15,269
ESEA Title II, Part A	-	27,290
Math Professional Development	-	6,799
State Funded Special Revenue Fund	-	8,832
ESEA Title III, Part A	-	12,190
ESEA Title VI, Part B	-	10,555
Texas High School Completion Success Grant	-	4,819
Foundation Revenues	-	4,010
Texas High School Initiative – Early College	-	14,635
Carl D. Perkins Basic Grant	-	4,092
U. S. Department of Agriculture:		
School Breakfast Program/National Lunch Program	-	21,315
Total due to/from other governments and agencies	$62,940	$449,370

NOTE F - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2007 were:

Due to	Due From	
General Fund	General Fund	$119,721
General Fund	Non-Major Funds	279,213
		398,934
Non-major Funds	General Fund	40,037
General Fund	Other Major Funds	218,517
Non-major Funds	Other Major Funds	531
		$685,019

The remaining balances resulted from a routine lag between the dates that transactions such as year-end payroll accruals and worker's compensation adjustments payments between the funds are made.

All amounts are rescheduled to be repaid within one year.

There were transfers within the general fund for co-curricular activities.

NOTE G – CAPITAL ASSETS

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

	September 1, 2006	Increase	Decrease	August 31, 2007
Governmental activities				
Capital assets not being depreciated				
Land	$ 250,835	$ 54,436	$ -	$ 305,271
Construction in progress	-	278,170	-	278,170
Total capital assets not being depreciated	250,835	332,606	-	583,441
Capital assets being depreciated				
Buildings and improvements	23,010,627	65,964	-	23,076,591
Furniture and equipment	1,799,503	124,990	256,111	1,668,382
Total capital assets being depreciated	24,810,130	190,954	256,111	24,744,973
Less accumulated depreciation:				
Building and improvements	2,636,018	461,532	-	3,097,550
Furniture and equipment	1,123,112	219,500	256,111	1,086,501
Total accumulated depreciation	3,759,130	681,032	256,111	4,184,051
Total capital assets being depreciated, net	21,051,000	(490,078)	-	20,560,922
Governmental activities capital assets, net	$21,301,835	$ (157,472)	$ -	$21,144,363

Depreciation was charged to the following functions:

Government Activities:

11 – Instruction	$324,490
12 – Instructional Resources and Media Services	8,897
13 – Curriculum and Staff Development	16,194
21 – Instructional Leadership	13,624
23 – School Leadership	29,694
31 – Guidance, Counseling and Evaluation Services	19,423
32 – Social Work	68
33 – Health Services	7,551
34 – Student Transportation	14,513
35 – Food Services	42,901
36 – Cocurricular/Extracurricular Activities	40,765
41 – General Administration	42,631
51 – Plant Maintenance and Operations	96,544
52 – Security and Monitoring Services	13,356
53 – Data Processing Services	8,462
61 – Community Services	1,919
	$681,032

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations include bonds, loans, capital leases and compensated absences. Changes in long-term obligations for the year ended August 31, 2007 are as follows:

Governmental Activities	Beginning Balance 09/01/06	Increase	Decrease	Ending Balance 08/31/07	Due Within One Year
General Obligation Bonds					
Bond Series 1997	$ 3,180,000	$ -	$125,000	$ 3,055,000	$ 130,000
Bond Series 2000	3,940,000	-	80,000	3,860,000	85,000
Bond Series 2001	3,725,000	-	80,000	3,645,000	80,000
Total general obligation bonds	10,845,000	-	285,000	10,560,000	295,000
Loans payable	97,554	-	97,554	-	-
Compensated absences	149,325	128,435	149,325	128,435	-
Total governmental activities	$11,091,879	$128,435	$531,879	$10,688,435	$ 295,000

General Obligation Bonds:

On October 15, 1997, the District issued $4,035,000 in Unlimited Tax School Building Bonds, Series 1997. The purpose of the bond issuance was to construct and equip a new elementary school and to pay the related issuance costs. The bonds mature or are subject to mandatory redemption prior to maturity, on August 15 in each of the years and in the amounts shown on the Official Bond Statement. Interest on the $4,035,000 accrued from October 15, 1997, and is payable February 15 and August 15 of each year commencing August 15, 1998. Furthermore, interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and the interest rate ranges from 4.60% - 6.60%. Principal and interest on the bonds is payable to Texas State Bank (Paying Agent/Registrar) in McAllen, Texas. All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal and interest on all bonds. Additionally, the payment of the bonds is guaranteed by the Permanent School Fund of Texas.

$ 3,055,000

On December 4, 2000, the District issued $4,330,000 in Unlimited Tax School Building Bonds, Series 2000. The purpose of the bond issuance is to construct various school building facilities in the District and the purchase of the necessary sites for that purpose. The bonds mature or are subject to mandatory redemption prior to maturity on August 15th in each of the years and in the amounts shown on the Official Bond Statement. Interest on the $4,330,000 accrued from December 4, 2000, and is payable February 15th and August 15th of each year commencing August 15, 2001. Furthermore, interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and the interest rate ranges from 5.25% - 7.00%. Principal and interest on the bonds is payable to Texas State Bank (Paying Agent/Registrar) in McAllen, Texas. All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal and interest on all bonds. Additionally, the payment of the bonds is guaranteed by the Permanent School Fund of Texas.

3,860,000

NOTE H - LONG-TERM OBLIGATIONS - Continued

On September 27, 2001, the District issued $4,100,000 in Unlimited Tax School Building Bonds, Series 2001. The purpose of the bond issuance was to construct and equip a new elementary school and to pay the related issuance costs. The bonds mature or are subject to mandatory redemption prior to maturity, on August 15 in each of the years and in the amounts shown on the Official Bond Statement. Interest on the $4,100,000 accrued from September 27, 2001, and is payable February 15 and August 15 of each year commencing August 15, 2002. Furthermore, interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and the interest rate ranges from 4.30% - 5.80%. Principal and interest on the bonds is payable to Texas State Bank (Paying Agent/Registrar) in McAllen, Texas. All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal and interest on all bonds. Additionally, the payment of the bonds is guaranteed by the Permanent School Fund of Texas.

	$ 3,645,000
Total general obligation bonds	10,560,000
Compensated absences	128,435
Total long-term obligations	$10,688,435

Debt service requirements on long-term debt at August 31, 2007 are as follows:

Year Ending August 31,	Bonds Payable Principal	Bonds Payable Interest	Total Requirement
2008	$ 295,000	$ 549,520	$ 844,520
2009	315,000	530,350	845,350
2010	330,000	512,470	842,470
2011	355,000	493,640	848,640
2012	380,000	476,448	856,448
2013-2017	2,205,000	2,081,188	4,286,188
2018-2022	2,875,000	1,462,335	4,337,335
2023-2027	2,045,000	809,308	2,854,308
2028-2031	1,760,000	216,865	1,976,865
	10,560,000	7,132,123	17,692,123
Accumulated sick leave	-	-	128,435
	$10,560,000	$7,132,123	$17,820,558

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2007.

NOTE I - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Capital Projects	Other Governmental Fund	Total Governmental Fund
Property taxes	$ 691,900	$ -	$ 82,605	$ 774,505
Food sales	35,109	-	-	35,109
Investment income	196,017	11,833	15,908	223,758
Penalties, interest and other tax-related income	34,587	-	3,796	38,383
Co-curricular student activities	28,844	-	-	28,844
Other	38,489	-	1,228	39,717
	$1,024,946	$ 11,833	$103,537	$1,140,316

Included in other income is an insurance settlement for alleged construction deficiencies on the District's elementary campus.

NOTE J - UNEARNED REVENUE

	Unavailable	Unearned	Total
SRISD taxes	$331,374	$ -	$331,374
Food Service receipts	-	11,291	11,291
	$331,374	$ 11,291	$342,665

Deferred property taxes will be recognized as revenue in the fiscal year that they become available.

Deferred revenues in the Special Revenue Funds represent revenues received in excess of expenditures incurred for those federal and state financial assistance programs for which the project period has not yet ended and commodities received but not used by year end.

NOTE K - GENERAL FUND FEDERAL SOURCE REVENUES

Programs or Source	CFDA Number	Amount
School Breakfast Program	10.553	$250,495
National School Lunch Program	10.555	434,177
USDA – Donated Commodities	10.565	20,873
		$705,545

NOTE L - CONTINGENT LIABILITIES

The District participates in a number of grant programs funded by State and Federal Agencies. These programs are subject to compliance audits by the grantor agencies or their representatives.

Audits of all of these programs for the year ended August 31, 2007 have not been conducted. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

The District is a party to various legal actions, none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such contingencies.

NOTE M - PENSION PLAN OBLIGATIONS

Plan Description. The District 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 provisions 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, under the TRS Publications heading.

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 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 $336,882, $407,711 and $423,982 respectively. The District paid additional state contributions for the years ended August 31, 2005, 2006 and 2007 in the amount of $41,146, $55,020 and $34,004 respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

NOTE N - 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 2007, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year. In addition, there were no settlements exceeding insurance for each of the past three fiscal years.

Health Coverage

Effective September 1, 2003, the District entered into a health insurance contract with TRS-Active Care. These plans are fully-funded, pure premium plans for which the District pays premiums of $150.00, respectively per month per employee to the plan, and the employees, at their opinion, may authorize payroll withholdings to pay premiums for dependents. Terms of coverage and premium costs are included in the contractual provisions.

The determination of such claims and expenses and the appropriateness of the related liability is continually reviewed and updated. It is reasonably possible that the accrued estimated liability for self-insured claims may need to be revised in the near term.

Workers' Compensation Insurance

During the year ended August 31, 2007, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund ("the Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All districts participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The District participates in the Fund's reimbursable aggregate deductible program. As such, the District is responsible for a certain amount of claims liability as outlined on the District's Contribution and Coverage Summary document. After the District's deductible has been met, the Fund is responsible for additional claims.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of $1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of May 31, 2005, the Fund carries a discounted reserve of $73,944,163 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2007, member districts will have no additional liability beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of Independent auditors to conduct an independent financial audit after the close of each plan year on August 31st and is approved by the Fund's Board of Trustees in February the following year. The Fund's audited financial statements as of August 31, 2007, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

NOTE O – JOINT VENTURE – SHARED SERVICE ARRANGEMENTS

The District participates in several shared service arrangements with the Regional Service Center ("Region One"). Those programs provided through the shared services include the Teacher and Principal Training through the ESEA Title II, Part A. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Region One Education Service Center, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Santa Rosa Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Presented below are the revenues and expenditures attributable to the District's participation.

Revenues		
5929	Federal revenue distributed by TEA	$172,259
	Total revenue	$172,259
Expenditures		
6100	Payroll costs	$ 41,329
6300	Supplies and materials	96,117
6400	Miscellaneous operating expenses	9,300
6600	Capital outlay	25,513
	Total expenditures	$172,259

NOTE P – COMPLIANCE AND ACCOUNTABILITY

a. Finance-Related Legal and Contractual Provision

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

School districts in Texas must comply with constitutional provisions, statutory laws, public policy established by common law, Title 19 of the Texas Administrative Code, and with regulations of the Texas Education Agency.

Instances were noted in which expenditures exceeded budgeted amounts at the functional level as detailed in the General Fund – Budgetary comparison Schedule (Exhibit G-1) for the following fund:

Function Code		Budget	Actual	Variances
General Fund:				
21	Instructional Leadership	$ 16,086	$ 20,749	$(4,663)
35	Food Services	$746,780	$755,562	$(8,782)

b. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

Fund Name	Amount	Remarks
Capital Projects	$(103,719)	Transfer will be required from general fund

NOTE Q – OTHER DESIGNATED FUND BALANCE

At August 31, 2007, the District had $2,000,000 of the fund balance designated for construction projects.

NOTE R – PRIOR PERIOD ADJUSTMENT

The District posted a prior period adjustment of $121,211 for payroll transactions from prior years incorrectly posted to various payroll deduction and withholding liability accounts and a prior period adjustment of $1,910 for the forfeiture of the Tobacco Grant in the current year but recorded as revenue in the prior year. The net effect on net assets is $123,121 as reflected on the Statement of Activities.

REQUIRED SUPPLEMENTAL INFORMATION

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2007

EXHIBIT G-1

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 1,072,396	$ 1,072,396	$ 1,024,946	$ (47,450)
5800	*State Program Revenues*	8,688,654	8,282,376	7,942,576	(339,800)
5900	*Federal Program Revenues*	649,835	649,835	705,545	55,710
5020	Total Revenues	10,410,885	10,004,607	9,673,067	(331,540)
	EXPENDITURES:				
	Current:				
	Instruction & Instructional Related Services:				
0011	*Instruction*	4,722,544	4,348,077	4,336,005	12,072
0012	*Instructional Resources and Media Services*	154,717	121,199	107,129	14,070
0013	*Curriculum and Staff Development*	119,845	127,393	127,026	367
	Total Instruction & Instr. Related Services	4,997,106	4,596,669	4,570,160	26,509
	Instructional and School Leadership:				
0021	*Instructional Leadership*	6,086	16,086	20,749	(4,663)
0023	*School Leadership*	428,607	548,101	529,847	18,254
	Total Instructional & School Leadership	434,693	564,187	550,596	13,591
	Support Services - Student (Pupil):				
0031	*Guidance, Counseling and Evaluation Services*	355,571	317,926	271,699	46,227
0032	*Social Work Services*	1,250	1,550	1,229	321
0033	*Health Services*	137,692	143,881	133,438	10,443
0034	*Student (Pupil) Transportation*	200,126	260,894	260,231	663
0035	*Food Services*	666,780	746,780	755,562	(8,782)
0036	*Cocurricular/Extracurricular Activities*	687,645	748,016	730,473	17,543
	Total Support Services - Student (Pupil)	2,049,064	2,219,047	2,152,632	66,415
	Administrative Support Services:				
0041	*General Administration*	722,310	799,927	723,047	76,880
	Total Administrative Support Services	722,310	799,927	723,047	76,880
	Support Services - Nonstudent Based:				
0051	*Plant Maintenance and Operations*	1,731,937	1,805,826	1,725,800	80,026
0052	*Security and Monitoring Services*	139,910	270,131	239,497	30,634
0053	*Data Processing Services*	155,065	191,115	151,733	39,382
	Total Support Services - Nonstudent Based	2,026,912	2,267,072	2,117,030	150,042
	Ancillary Services:				
0061	*Community Services*	20,300	30,080	23,550	6,530
	Total Ancillary Services	20,300	30,080	23,550	6,530
	Debt Service:				
0071	*Principal on Long-Term Debt*	100,000	97,554	97,554	--
0072	*Interest on Long-Term Debt*	--	12,289	7,088	5,201
0073	*Bond Issuance Costs and Fees*	--	750	750	--
	Total Debt Service	100,000	110,593	105,392	5,201
	Intergovernmental Charges:				
0093	*Payments to Fiscal Agent/Member Dist.-SSA*	30,000	65,000	33,418	31,582
0095	*Payments to Juvenile Justice Alternative Ed. Prograr*	30,500	3,500	2,909	591
	Total Intergovernmental Charges	60,500	68,500	36,327	32,173

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
6030	Total Expenditures	10,410,885	10,656,075	10,278,734	377,341
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(651,468)	(605,667)	45,801
	Other Financing Sources (Uses):				
8911	*Transfers Out*	--	(2,450,000)	(273,717)	2,176,283
7080	Total Other Financing Sources and (Uses)	--	(2,450,000)	(273,717)	2,176,283
1200	Net Change in Fund Balance	--	(3,101,468)	(879,384)	2,222,084
0100	Fund Balance - Beginning	3,879,714	3,879,714	3,879,714	--
1300	Prior Period Adjustment	--	--	(121,211)	(121,211)
0100	Fund Balance - Beginning, as Restated	3,879,714	3,879,714	3,758,503	(121,211)
3000	Fund Balance - Ending	$ 3,879,714	$ 778,246	$ 2,879,119	$ 2,100,873

Stewardship, compliance, and accountability

Budgetary information

The Board adopts an "appropriated budget" on a basis consistent with GAAP for the general fund and debt service fund. At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these two funds.

The following procedures are followed in establishing the budgetary data reflected in the general purpose financial statements:

- Prior to August 20 for a fiscal year start date of September 1, the District prepares a budget based on the modified zero-based budgeting concept for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.

- After one or more budget workshops with the Board, a meeting is called for the purpose of adopting the proposed budget. At least ten days but not more than 30 days public notice of the meeting is required.

- Prior to August 31st for a fiscal year start date of September 1, the Board legally adopts the budget for the general fund and debt service fund.

- After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.

- Expenditure budgets are controlled at the expenditure functional and object level by the appropriate administrator. Transfers may be authorized within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year-end.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments.

OTHER SCHEDULES

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2007

Year Ended August 31	1 Tax Rates Maintenance	2 Tax Rates Debt Service	3 Assessed/Appraised Value For School Tax Purposes
1998 and Prior Years	$ Various	$ Various	$ Various
1999	1.3822	0.0778	33,995,705
2000	1.3930	0.0670	36,245,225
2001	1.3930	0.1400	38,413,730
2002	1.4000	0.2200	39,450,160
2003	1.4600	0.1600	43,413,660
2004	1.4600	0.1600	47,235,186
2005	1.4600	0.1600	48,696,560
2006	1.4600	0.1600	51,042,884
2007 (School Year Under Audit)	1.3300	0.1600	59,748,334
1000 Totals			
9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code			

10 Beginning Balance 9/1/06	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/07
$ 59,495	$ --	$ 1,228	$ 32	$ --	$ 58,235
6,851	--	399	22	--	6,430
7,791	--	299	14	--	7,478
12,393	--	1,009	101	--	11,283
16,786	--	1,347	212	--	15,227
23,225	--	2,963	325	--	19,937
41,366	--	4,514	495	--	36,357
54,191	--	10,114	1,108	(1,003)	41,966
94,578	--	31,158	3,415	(2,506)	57,499
--	862,716	653,984	78,675	(8,658)	121,399
$ 316,676	$ 862,716	$ 707,015	$ 84,399	$ (12,167)	$ 375,811
$ --	$ --	$ --	$ --	$ --	$ --

Revised

031-914

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2008-2009
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

FUNCTION 41 - GENERAL ADMINISTRATION

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	$ 2,067	$ --	$ 206,962	$ 388,768	$ --	$ --	$ 597,797
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	--	--	58,586	--	--	--	58,586
6212	Audit Services	--	--	--	16,860	--	--	16,860
6213	Tax Appraisal and Collection	--	15,497	--	--	--	--	15,497
621X	Other Prof. Services	678	--	17,717	35,855	--	--	54,250
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	--	16,460	--	11,500	27,960
6240	Contr. Maint. and Repair	--	--	--	--	--	--	--
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	3,254	8,652	--	--	11,906
6290	Miscellaneous Contr.	--	--	--	--	--	--	--
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	--	--
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	4,261	--	11,290	25,522	--	--	41,073
6410	Travel, Subsistence, Stipends	19,094	--	3,604	5,531	--	--	28,229
6420	Ins. and Bonding Costs	--	--	--	--	--	--	--
6430	Election Costs	--	--	--	--	--	--	--
6490	Miscellaneous Operating	5,398	--	23,530	19,723	--	--	48,651
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	15,362	15,362
Total		$ 31,498	$ 15,497	$ 324,943	$ 517,371	$ --	$ 26,862	$ 916,171

Total expenditures for General and Special Revenue Funds (9) $ 12,090,834

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	$	65,153
Total Debt & Lease (6500)	(11)	$	110,593
Plant Maintenance (Function 51, 6100-6400)	(12)	$	1,712,287
Food (Function 35, 6341 and 6499)	(13)	$	117,873
Stipends (6413)	(14)	$	--
Column 4 (above) - Total Indirect Cost		$	517,371
Subtotal			2,523,277
Net Allowed Direct Cost			$ 9,567,557

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	$	23,076,591
Historical Cost of Buildings over 50 years old	(16)		7,447,623
Amount of Federal Money in Building Cost (Net of #16)	(17)		--
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)		1,668,382
Historical Cost of Furniture & Equipment over 16 years old	(19)		--
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	$	--

(8) Note A - $151,733 in Function 53 expenditures are included in this report on administrative costs.

Corrected Sybase

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

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

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2007 (Exhibit C-1 object 3000 for the General Fund only)	$ 2,879,119
2	Total General Fund Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	309,671
3	Total General Fund Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	2,000,000
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--
5	Estimate of one month's average cash disbursements during the regular school session (9/1/07 - 5/31/08)	1,142,082
6	Estimate of delayed payments from state sources (58XX) including August payment delays	--
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
8	Estimate of delayed payments from federal sources (59XX)	--
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
10	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)	3,451,753
11	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)	$ (572,634)

If Item 11 is a Positive Number

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	*Local and Intermediate Sources*	$ 101,228	$ 101,228	$ 102,230	$ 1,002
5800	*State Program Revenues*	754,782	754,782	741,449	(13,333)
5020	Total Revenues	856,010	856,010	843,679	(12,331)
	EXPENDITURES:				
	Debt Service:				
0071	*Principal on Long-Term Debt*	285,000	285,000	285,000	--
0072	*Interest on Long-Term Debt*	568,010	568,010	568,010	--
0073	*Bond Issuance Costs and Fees*	3,000	3,000	1,500	1,500
	Total Debt Service	856,010	856,010	854,510	1,500
6030	Total Expenditures	856,010	856,010	854,510	1,500
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	(10,831)	(10,831)
1200	Net Change in Fund Balance	--	--	(10,831)	(10,831)
0100	Fund Balance - Beginning	55,079	55,079	55,079	--
3000	Fund Balance - Ending	$ 55,079	$ 55,079	$ 44,248	$ (10,831)

FEDERAL AWARD SECTION

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*

To the Board of Trustees
Santa Rosa Independent School District

We have audited the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Santa Rosa Independent School District (the "District") as of and for the year ended August 31, 2007, and have issued our report thereon dated January 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 07-2 and 07-5 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 07-1 and 07-3.

We also noted certain matters that we reported to management of the District in a separate letter dated January 11, 2008.

This report is intended solely for the information and use of the audit committee, management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 11, 2008

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

To the Board of Trustees
Santa Rosa Independent School District

Compliance

We have audited the compliance of Santa Rosa Independent School District (the "District") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2007. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Santa Rosa Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2007. However, the result of our auditing procedures disclosed 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 07-4 and 07-5.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 11, 2008

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2007

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiencies identified that are not considered to be material weaknesses?	__X__ yes	_____ no
Noncompliance material to financial statements noted?	_____ yes	__X__ no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiencies identified that are not considered to be material weakness(es)?	__X__ yes	_____ no
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	__X__ yes	_____ no

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
84.011	Title I, Part C
84.367A	Title II, Part A
10.553, 10.555 and 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__X__ yes	_____ no

Section II - Financial Statement Findings

PROGRAM DESCRIPTION	DESCRIPTION
Schedule Reference Number: (07-1)	**State Compliance – Bidding**
General	
Condition Found:	We noted that bid files selected for testing contained insufficient supporting documentation for bids on purchases over $25,000.
Criteria:	State law requires competitive procurement for purchases over $25,000.
Questioned Costs/Basis:	Not applicable
Context:	Purchases in excess of $25,000.
Effect:	The District may not be in compliance with the State bidding requirements.
Recommendation:	The District should review internal control policies and procedures to ensure that supporting documentation for bid procedures is filed in a centralized location and that it has complied with competitive procurement guidelines.
Schedule Reference Number: (07-2)	**Internal Control – Payroll Liability Accounts**
Condition Found:	Payroll liability accounts have not been reconciled to supporting detail on a regular basis resulting in a prior period adjustment.
Criteria:	Payroll transactions should be reviewed on a timely basis for accuracy in posting.
Questioned Costs/Basis:	Not applicable
Recommendation:	The District should create, implement, and monitor policies and procedures to ensure payroll liability accounts are reviewed on a timely basis and reconciled to supporting detail.

Section II - Financial Statement Findings - Continued

PROGRAM DESCRIPTION	DESCRIPTION
Schedule Reference Number: (07-3)	**Expenditures in Excess of Budget Appropriations**
General	
Condition Found:	As indicated in the notes to the District's financial statements, we noted instances in which the District's budget had been exceeded on a functional level.
Criteria:	State law requires budget amendments to be made prior to exceeding a major functional category.
Questioned Costs/Basis:	Not applicable
Context:	We noted a negative variance in two functional expenditure categories.
Effect:	The District incurs expenditures that are not budgeted in advance by the Board of Trustees.
Recommendation:	Budget versus actual comparisons should be made on a monthly basis, and control over expenditures should include a review of available budget amounts prior to approval of purchase orders for the expenditure of funds.

Schedule III - Federal Award Findings and Questioned Costs

PROGRAM DESCRIPTION	DESCRIPTION
Schedule Reference Number: (07-4)	**Campus Improvement Plans**
Condition Found:	We noted that the Campus Improvement Plans do not include all of the core elements and components required under "Schoolwide".
Criteria:	Campuses running a schoolwide program must include the core elements and components in their Plans.
Questioned Costs/Basis:	Not applicable.
Context:	Not applicable.
Effect:	The District does not meet the compliance requirements of Schoolwide Programs under A-133.
Recommendation:	The District should revise its Campus Improvements Plans to include all required core elements and components under "Schoolwide".
Schedule Reference Number: (07-5)	**Food Service Program Expenditures**
Condition Found:	The District noted non-allowable amounts charged to the Food Service Program.
Criteria:	Policies and procedures should be in place to prevent any non-allowable costs from being charged to the Food Service program and detect on a timely basis any non-allowable costs charged to the program.
Questioned Costs/Basis:	$15,170
Context:	Original invoices were being sent directly to the Food Service department instead of the business office. In addition, purchase orders from the Food Service department were allowed to be submitted without adequate detail and description of items to be purchased.
Effect:	Food Service program was charged for non-allowable expenditures.

Schedule III - Federal Award Findings and Questioned Costs

PROGRAM DESCRIPTION	DESCRIPTION
Recommendation:	The District should create, implement and monitor policies and procedures to ensure non-allowable costs are prevented and detected in a timely manner, and the General Fund should reimburse the Food Service program for the non-allowable costs. Original invoices should be sent by vendors directly to the business office and purchase orders should be prepared in sufficient detail to identify items being purchased.
Total all questioned costs:	$15,170

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2007

PROGRAM DESCRIPTION	STATUS OF PRIOR YEAR'S FINDING/COMPLIANCE
Schedule Reference Number: (06-1)	**State Compliance – Bidding** Additional corrective action is needed as noted in the current year findings.
Schedule Reference Number: (06-2)	**Public Funds Investment Act** No additional instances were noted in the current year.
Schedule Reference Number: (06-3)	**Internal Control – Capital Asset Subsidiary** No additional instances were noted in the current year.

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2007

PROGRAM DESCRIPTION	CORRECTIVE ACTION PLAN
Schedule Reference Number: (07-1)	**State Compliance – Bid Procedures**
General	
Corrective Action Plan:	Administration will review the internal control policies and procedures to ensure supporting documentation is filed on all purchases made in accordance with District and State purchasing guidelines.
Schedule Reference Number: (07-2)	**Payroll Liability Accounts**
General	
Corrective Action Plan:	Payroll liability accounts will be reconciled on a monthly basis and appropriate adjustments made in a timely fashion.
Schedule Reference Number: (07-3)	**Expenditures in Excess of Budget Appropriations**
General	
Corrective Action Plan:	The District will monitor the budget throughout the fiscal year to ensure that amendments are made when needed.
Schedule Reference Number: (07-4)	**Campus Improvement Plans**
General	
Corrective Action Plan:	The District will revise its Campus Improvement Plans to include all required core elements.
Schedule Reference Number: (07-5)	**Food Service Program Expenditures**
General	
Corrective Action Plan:	District policies have been revised to require original vendor invoices to be sent directly to the business office and to require purchase orders to be prepared with more specific detail as to the items being purchased.
Contact Person:	Lucio Mendoza, Business Manager
Implementation Time Frame:	Within the next fiscal year

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007

EXHIBIT K-1

Data Control Codes	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
	Passed Through State Department of Education:			
211	*ESEA Title I Part A - Improving Basic Programs*	84.010A	7610101031914	$ 650,588
211	*ESEA Title I Part A - Improving Basic Programs*	84.010A	8610101031914	170,216
	Total CFDA Number 84.010A			820,804
212	*ESEA Title I Part C - Education of Migratory Children*	84.011	7615001031914	95,422
212	*ESEA Title I Part C - Education of Migratory Children*	84.011	8615001031914	19,561
	Total CFDA Number 84.011			114,983
244	*Vocational Education - Basic Grant*	84.048	742000603191401	24,870
244	*Vocational Education - Basic Grant*	84.048	842000603191401	4,092
	Total CFDA Number 84.048			28,962
243	*Vocational Education - Technical Preparation*	84.243A	1st GNY4-11	1,448
269	*Title V, Part A - Innovative Programs*	84.298	7685001031914	5,592
283	*Gear Up*	84.334A	514532	172,259
261	*Reading First*	84.357	7645501031914	250,271
270	*ESEA, Title VI, Part B, Subpart 2 - Rural and Low Income School*	84.358B	7696001031914	36,787
263	*ESEA Title III, English Language Acquisition Grants*	84.365	07671001031914	1,230
263	*Title III Part A English Language Acquisition and Language Enhance*	84.365A	07671001031914	23,748
263	*Title III Part A English Language Acquisition and Language Enhance*	84.365A	08671001031914	619
	Total CFDA Number 84.365A			24,367
288	*Math Professional Development*	84.366B	56944087110051	6,799
255	*ESEA Title II Part A - Teacher & Principal Training & Recruiting*	84.367A	07694501108950	89,031
255	*ESEA Title II Part A - Teacher & Principal Training & Recruiting*	84.367A	08694501108950	26,840
	Total CFDA Number 84.367A			115,871
	Total Passed Through State Department of Education			1,579,373
	Total U. S. Department of Education			1,579,373
	U. S. DEPARTMENT OF AGRICULTURE			
	Passed Through State Department of Education:			
240	School Breakfast Program *	10.553		250,495
240	National School Lunch Program *	10.555		434,177
240	Summer Feeding Program *	10.559		25,713
241	Commodity Supplemental Food Program	10.565		20,873
	Total Passed Through State Department of Education			731,258
	Total U. S. Department of Agriculture			731,258
	TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 2,310,631

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Santa Rosa Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2007

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	$ --

MEMORANDUM OF ADVISORY COMMENTS

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

August 31, 2007

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

LONG CHILTON, LLP

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Board of Trustees and Management
Santa Rosa Independent School District

In planning and performing our audit of the financial statements of the Santa Rosa Independent School District for the year ended August 31, 2007, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report, dated January 11, 2008, on the financial statements of the Santa Rosa Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the audit committee, management, 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.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 11, 2008

COMMENTS AND OBSERVATIONS

We have the following additional comments and observations that came to our attention during the performance of our audit procedures.

Resolve Bank Errors On A Timely Basis

During the course of our audit we noted a receivable in the amount of $6,484.48. The receivable represents two checks dated January 18, 2006 and January 20, 2006 which were erroneously debited from the District's Accounts Payable Operating Fund bank account a second time. The bank reconciliation serves as a tool to identify any timing differences or errors in transaction processing by either the District or the bank. This item has been outstanding since the prior fiscal year.

Support for Payroll Deductions

During our audit, we noted an instance where an employee payroll deduction for federal income tax withholding was not supported by the appropriate documentation. While, to our knowledge, there were no accounting errors as a result of this, complete and current personnel files containing support for all payroll deductions should be established and maintained for each employee. We recommend that personnel files should be reviewed for all existing employees and proper supporting documentation be obtained for all payroll deductions.

Food Service Physical Inventory Procedures

During our audit, we noted that the Food Service physical inventory is conducted by this respective department with no outside review of the results with the exception of the last month of the fiscal year. We strongly suggest that the results of the physical inventory should be reviewed by an individual independent of the Food Service department. We believe this change in procedures would allow for the timely identification of any discrepancies between the accounting records and the physical inventory.

Detailed Records for Construction in Progress near Year End

During our audit, we noted two instances in which the invoices received subsequent to year end were for services performed near the end of the current audit year and the beginning of the subsequent year. The combination of services performed in the two fiscal years into one lump sum billing adds difficulty to the determination of the liability for services performed as of August 31, 2007. We recommend the District request detailed information for invoices received near year end for construction projects not completed at year end. We believe this would allow the District to properly determine if a liability for services performed as of year end has been incurred.