Dallas Independent School District

Annual Financial Report

For The Fiscal Year Ended
June 30, 2007

3700 Ross Avenue / Dallas, TX 75204
www.dallasisd.org

Dallas Independent School District
Table of Contents
For the Fiscal Year Ended June 30, 2007

Exhibit		Page
	Certificate of the Board	i
	FINANCIAL SECTION	
	Independent Auditors' Report	1
	Management's Discussion and Analysis (Unaudited)	3
	BASIC FINANCIAL STATEMENTS	
	Government-Wide Financial Statements:	
A-1	Statement of Net Assets	13
B-1	Statement of Activities	14
	Governmental Fund Financial Statements:	
C-1	Balance Sheet-Governmental Funds	15
C-1R	Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	16
C-2	Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds	17
C-3	Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds to the Statement of Activities	18
	Fiduciary Fund Financial Statement:	
E-1	Statement of Fiduciary Assets and Liabilities	19
	Notes to the Basic Financial Statements	20
	REQUIRED SUPPLEMENTARY INFORMATION	
G-1	Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget (GAAP Basis) and Actual – General Fund	51
	Notes to Required Supplementary Information	52
	REQUIRED TEXAS EDUCATION AGENCY SCHEDULES	
J-1	Schedule of Delinquent Taxes Receivable (Unaudited)	54
J-2	Schedule of Expenditures for Computation of Indirect Cost (Unaudited)	55
J-3	Fund Balance and Cash Flow Calculation Worksheet (Unaudited)	56
J-4	Budgetary Comparison Schedule – Non Major Fund - Food Service Fund (Unaudited)	57
J-5	Budgetary Comparison Schedule – Debt Service Fund (Unaudited)	58
	COMPLIANCE SECTION	
	Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*	59
	Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	61
	Schedule of Expenditures of Federal Awards	63
	Notes to Schedule of Expenditures of Federal Awards	65
	Schedule of Findings and Questioned Costs	66
	Corrective Action Plan	99
	Status of Prior Year Findings	125

Certificate of the Board

Dallas Independent School District	Dallas	057-905-10
Name of School District	County	County-District-Regional No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ✓ approved ________ disapproved for the fiscal year ended June 30, 2007, at a meeting of the board of school trustees of such school district on the 26th day of June 2008.

Adam Medrano
Signature of Board Secretary

Signature of Board President

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Dallas Independent School District (the "District"), as of and for the year ended June 30, 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 Dallas Independent School District's management. Our responsibility is to express an opinion on the respective 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 respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Dallas Independent School District, as of June 30, 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.

Management's discussion and analysis and the budgetary comparison schedule – General Fund are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Dallas Independent School District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2008, on our consideration of the Dallas Independent School 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.

Deloitte & Touche LLP

June 26, 2008

Dallas Independent School District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2007

This section of Dallas Independent School District's (the district's) annual financial report reflects management's discussion and analysis of the district's financial performance for the fiscal year ended June 30, 2007. Please read it in conjunction with the district's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- On June 30, 2007, the district's assets exceeded its liabilities by $496,608,264, an increase of 6.3% over prior year, as restated. Of the total net assets, $159,234,239 is unrestricted.
- The district generated general revenue and special item of $1,303,968,057 and incurred net expenses of $1,274,754,280. This increased net assets by $29,213,777.
- The General Fund balance increased $13,938,365 over prior year, as restated to $120,124,634. The net increase in fund balance is 1.2% of total General Fund expenditures for the year.
- The district's bonded debt and maintenance tax notes decreased by $43.4 million over prior year, as restated, a decrease of 2.8% during the current fiscal year. No bonds were issued during the fiscal year ended June 30, 2007.
- The district restated beginning fund balance/net assets for certain adjustments related to prior years.
- House Bill 1 of the 79th Third Called Special Session ("House Bill 1") provided for a reduction of $0.17 reflecting an 11.3% decrease in current tax rates. Districts in the State of Texas negatively impacted by the bill were guaranteed the better of 2005-2006 or 2006-2007 state aid and local tax revenue.
- House Bill 1 also provided a $2,500 net pay increase for teachers, counselors, nurses, and librarians and retained a version of the $500 health supplement for both professional and auxiliary staff. These legislative changes occurred after the development of the 2006-2007 budget that was approved by the Board of Trustees, which subsequently caused major budget adjustments to reflect the enhanced salaries and modified funding mechanism.

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 reflect how *general government* services were financed in the *short term* as well as what remains for future spending. The *fiduciary fund* statements provide information about the financial relationships in which the district acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

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

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

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

Type of Statement	Government-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire district's government (except fiduciary funds)	The activities of the district that are not fiduciary	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 and changes in fund balances	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting
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 short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues in the period when use of the resources is required or first permitted by time requirements, or at the same time as the assets if the district has not established time requirements. Resources received or recognized as receivable before the time requirements are met are reported as deferred revenues.	All revenues and expenses during the year, regardless of when cash is received or paid (not applicable to agency funds).

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

The district has two kinds of funds:

- *Governmental funds*—All of the district's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* can readily be converted to cash flow and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine the availability of financial resources to finance the district's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information immediately following the governmental funds statement that explains the relationship (or differences) between them. These include debt financing and capital projects.
- *Fiduciary funds*—The district is the *fiduciary,* for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The district is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the district's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We excluded these activities from the district's government-wide financial statements because the district cannot use these assets to finance its operations.

GOVERNMENT–WIDE FINANCIAL ANALYSIS

Net Assets

The district's net assets were $496,608,264 at June 30, 2007. (See Exhibit 2).

Exhibit 2
Net Assets Schedule
(in millions of dollars)

		As of June 30, 2007		As of June 30, 2006, as restated
Current and other assets	$	728.4	$	874.2
Capital assets		1,595.3		1,459.6
Total assets		2,323.7		2,333.8
Long term liabilities		1,494.9		1,524.9
Other liabilities		332.2		341.5
Total liabilities		1,827.1		1,866.4
Net assets				
Invested in capital assets, net of related debt		256.0		230.1
Restricted		81.4		89.1
Unrestricted		159.2		148.2
Total net assets	$	496.6	$	467.4

Investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding is $255,968,628. The district used these capital assets to provide services to students and these assets are not available for future spending. Although the district's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources because the capital assets aren't available to liquidate these liabilities.

Of the remaining net assets, $81,405,397 is restricted resources that are subject to external restrictions on how they are used and $159,234,239 is unrestricted resources that are available to meet the district's ongoing obligations. For the fiscal year ended June 30, 2007, total net assets increased $29,213,777 over prior year, as restated.

The district spent $188.9 million in building improvements, land, and equipment, resulting in an increase in capital assets in 2007. The $145.8 million decrease over prior year, as restated, in current and other assets is due primarily to a decrease of $180.6 million in cash and investments, partially offset by a $33.8 million increase in receivables. The increase in receivables was the result of increases in receivables related to state aid and grants.

The district's total revenues were $1,571,467,500. Approximately 63% of the district's revenue is generated from property taxes, 17% is generated from state aid formula grants, 17% is generated from other operating grants and the remaining three percent is generated from miscellaneous revenue sources. (See Exhibit 3).

Exhibit 3
Sources of Revenue for Fiscal Year 2007

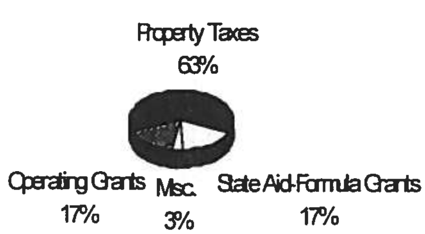

Exhibit 4
Schedule of Changes in Net Assets
(in millions of dollars)

	For the Year Ended June 30, 2007	For the Year Ended June 30, 2006, as restated
Revenues		
Program Revenues:		
Operating grants and contributions	$ 263.5	$ 254.8
Charges for services	9.5	9.4
General Revenues:		
Investment earnings	25.2	24.7
Property taxes	998.9	1,004.7
State aid - formula	264.9	167.5
Special item	9.5	-
Other		82.3
Total revenues	1,571.5	1,543.4
Expenses		
Instruction	842.2	790.3
Instruction resources and media services	28.0	21.4
Curriculum and staff development	43.6	41.3
Instructional leadership	23.9	21.1
School leadership	81.4	77.5
Guidance, counseling, and evaluation services	54.2	53.8
Social work services	2.3	2.4
Health services	15.9	14.3
Student transportation	18.5	18.4
Food services	69.2	58.4
Cocurricular/extracurricular activities	11.7	11.3
General administration	36.5	30.4
Plant maintenance and operations	161.0	163.3
Security and monitoring services	17.5	17.9
Data processing services	22.6	16.6
Community services	23.9	25.9
Debt service interest	76.2	60.2
Facilities acquisition and construction	10.2	13.1
Payments to agent/member districts-shared services	3.5	2.4
Total Expenses	1,542.3	1,440.0
Increase (decrease) in net assets	29.2	103.4
Beginning net assets, as restated	467.4	364.0
Ending net assets	$ 496.6	$ 467.4

The total cost of all programs and services was $1,542,253,723 of which 72% was for instructional and student services, 5% was for school leadership and 10% was for plant maintenance and operations. House Bill 1 of the 79th Third Called Special Session provided for a reduction of current tax rates. Districts in the State of Texas reducing tax rates by this amount were guaranteed the better of 2005-2006 or 2006-2007 state aid and local tax revenue. House Bill 1 also provided a $2,500 net pay increase for teachers and retained a version of the $500 health supplement for both professional and auxiliary staff. Instruction costs increased due to the salary modification by the Legislature and changes in the student / teacher requirements as sixth graders transitioned to middle school. The increase in debt service is due to debt service requirements for the issuance of the remaining traunches of the 2002 Bond Authorization in March 2006.

The district's net assets increased $29,213,777. Exhibit 5 reflects the cost of the district's largest functions as well as each function's *net cost* (total cost less charges for services generated by the activities and operating grants and contributions for specific services). The net cost reflects what was funded directly by state revenues as well as local tax dollars.

- The net cost of all governmental activities net of related program revenues this year was $1,274,754,280.
- The district taxpayers provided $998,972,644 for these activities through property taxes.
- The State of Texas provided $264,854,432 of school funding based on the State Aid Formula.
- Charges for services to those who directly benefit from the programs were $9,487,746 and total grants and contributions to specific functions were $258,011,697.

Exhibit 5
Net Cost of Selected Functions
(in millions of dollars)

	Total Cost of Services		Net Cost of Services	
	For the Year Ended June 30, 2007	For the Year Ended June 30, 2006, as restated	For the Year Ended June 30, 2007	For the Year Ended June 30, 2006, as restated
Instruction	$ 842.2	$ 790.4	$ (726.8)	$ (661.6)
School leadership	81.4	77.5	(79.7)	(76.6)
Food services	69.2	58.4	(0.2)	13.2
Plant maintenance and operations	161.0	163.3	(157.7)	(158.3)

Other Financial Highlights

The district restated beginning fund balance/net assets as a result of recording various prior period adjustments related to revenue recognition, accounts payable cutoff, correction of accrued liabilities and contingencies and correction of capital assets and debt related items. The adjustments are explained in detail in note M of the notes to the financial statements.

Exhibit 6
Restated
Fund Balance/Net Assets

	General Fund	Debt Service	Capital Projects	Non-Major Funds	Government - wide Governmental Funds
June 30, 2006 fund balance/net assets, as previously reported	$ 135,844,170	$ 79,152,730	$ 347,460,454	$ 19,495,382	$ 375,353,874
Total restatement	(29,657,901)	(560,165)	(196,758)	(878,390)	92,040,613
June 30, 2006 fund balance/net assets, as restated	$ 106,186,269	$ 78,592,565	$ 347,263,696	$ 18,616,992	$ 467,394,487

The district received an order annexing Wilmer-Hutchins ISD to Dallas ISD from the Texas Education Agency, Commissioner of Education in October 2005. The effective date of the annexation was July 1, 2006. The annexation is discussed in note N of the notes to the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues reported in governmental funds totaled $1,581,872,229. The decrease in local revenues is a result of a decrease in the tax rates. State revenues increased due to the change in state aid funding formulas for local school districts. The increase in state revenues is a result of changes in the State Aid Formula as set forth in House Bill 1 of the 79th Third Called Special Session. The increase in federal revenues is primarily due to an increase in federal program revenue distributed through other agencies.

At the end of the current fiscal year, the district's governmental funds reported ending fund balances of $420,759,122. Of this amount, $111,476,263 constitutes unreserved fund balance available for use in activities at the district's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to bond projects, debt service and other obligations of the district.

The General Fund is the chief operating fund of the district. At the end of the current fiscal year, unreserved fund balance of the General Fund was $105,750,898. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved and total fund balance to the total fund expenditures. Unreserved fund balance represents 9.1% of the total General Fund expenditures, while total fund balance represents 10.4% of that same amount.

The district's General Fund balance increased $13,938,365 due primarily to a $101,927,014 increase in state funding partially offset by a $78,929,809 decrease in property tax revenue. The changes are the result of the change in the state aid funding formula and corresponding change in property tax rates.

The Debt Service Funds has a total fund balance of $78,991,204 all of which is reserved for the payment of debt service. The Capital Projects Fund balance decreased by $160,393,729 to $186,869,967 primarily due to facilities acquisition and construction of $170,768,922. Non-major governmental funds have a total fund balance of $34,773,317 representing an increase for the current year of $16,156,325, primarily due to an increase in funding from private contributions to the district.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year ended June 30 2007, the district amended the operating budget on a monthly basis. After these adjustments, budgeted expenditures exceeded budgeted revenues by $13,658,855 in the final amended budget. Actual revenues exceeded actual expenses by $13,938,365.

The General Fund revenue budget projection was affected greatly due to the recognition of modifications related to the configuration of school funding that resulted from changes made during the 79th Legislature, 3rd called special session. These changes were enacted literally days before the adoption of the 2006-2007 Budget and the interpretation of the new laws were yet to be determined. The legislative change also provided for a reduction of $0.17 reflecting an 11.3% decrease. Districts in the State of Texas reducing tax rates by this amount were guaranteed the better of 2005-2006 or 2006-2007 state aid and local tax revenue. These modifications to the funding mechanisms resulted in the reduction of property tax revenue and the increase in state aid.

Additionally, House Bill 1 provided a $2,500 net pay increase for teachers and retained a version of the $500 health supplement for both professional and auxiliary staff. These legislative changes occurred after the development of the 2006-2007 budget that was approved by the Board of Trustees ("the Board"), which subsequently caused major budget adjustments to reflect the enhanced salaries and modified funding mechanism. Instruction and school leadership costs increased due to the salary modification by the Legislature. Also the district incurred higher than anticipated plant maintenance and operations costs due to higher utility costs caused by higher oil prices.

Prior to 2006-2007, funding for the administration of the Benefits Program was coded to General Administration. In fiscal year 2007, the funding was moved to the appropriate function to reflect the proportion of staff in each function.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2007, the district had $1,595.3 million of capital assets, net of depreciation, including land, equipment, buildings, and vehicles. This amount represents a net increase $135.7 million or 9.3% over last year. (See Exhibit 7.)

Exhibit 7
Capital Assets
(in millions of dollars)

	As of June 30, 2007	As of June 30, 2006, as restated
Land	$ 150.1	$ 136.6
Buildings and improvements	2,012.9	1,605.5
Furniture and equipment	173.0	154.4
Construction in progress	105.5	356.3
Totals at historical cost	2,441.5	2,252.8
Total accumulated depreciation	(846.2)	(793.2)
Net capital assets	$ 1,595.3	$ 1,459.6

The district's fiscal year 2007 capital spending totaled $188.9 million in buildings and improvements and capital equipment. During this period, the district was engaged in the completion of 4 new schools, 2 additions to existing schools, and renovations to 27 existing schools. The total construction commitments are $59,025,538 as of June 30, 2007. Additional information on the district's capital assets can be found in note G in the district financial statements.

At year-end, the district had $1,547.4 million in long-term debt outstanding as shown in Exhibit 8. Bonds payable and notes payable decreased $43.4 million, resulting from normal repayment of debt. The district's bonds presently carry ratings as follows: Moody's Investor Services "Aaa" and Standard & Poors "AAA", as guaranteed by the Permanent School Fund (PSF). The district's underlying bond ratings are Moody's "Aa3" and S&P "AA". For more detailed information on the district's financial statements note I.

Exhibit 8
Long Term Debt
(in millions of dollars)

	As of June 30, 2007	As of June 30, 2006, as restated
Capital leases payable	$ 2.3	$ 5.8
Bonds payable and notes payables	1,497.6	1,540.9
Workers compensation	11.7	11.4
Loans payable	0.0	0.2
Deferred loss on refunding	(6.7)	(7.1)
Premium on bonds	42.5	46.8
Total long-term liabilities	$ 1,547.4	$ 1,598.0

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The taxable levy values for the 2006-2007 school year were $69.5 billion, an increase of 10.8% from the previous year. The values for the upcoming school year are $77.2 billion, an increase of 11.1%.

Funding from the state is based on Average Daily Attendance (ADA). ADA for 2006-2007 was 145,978. For 2007-2008, the district is projecting a decrease of approximately 0.4% for an ADA of 145,360.

Cost per student based on student enrollment for 2006-2007 was $7,200, while cost per student for 2007-2008 is budgeted at $7,400. The increase is related to declining enrollment while continuing to maintain and in some cases enhancing the level of services that directly impact campuses.

General Fund revenues and other sources are budgeted to increase 7.4% over prior year budget. Budgeted expenditures reflect an increase of 2.7% over prior year budget. The $1,163 million budget for 2007-2008 includes $11.7 million for the provision of additional high school teacher positions in the core curriculum areas of English, math, science, and social studies. It also includes $4.3 million for additional teacher positions at the middle school level for core content areas. This additional funding effectively reduces the student/teacher ratio to 1:25 (High School) and 1:23 (Middle School), and the classroom instructional periods to five, allowing teachers to share ideas during a collaborative learning period. Additional funding in the amount of $3.1 million has been included in the adopted budget for additional coaching positions at each of the 29 middle schools that offer competitive athletics. The adopted general operating budget also includes $2.1 million for elementary school level fine arts teachers.

The district's adopted 2007-08 budget provides approximately $27.1 million in general operating expenses for increases in staff compensation. Included in these enhancements is an average increase of 4% for teachers, related instructional personnel, and professional support. A 3% increase is budgeted for campus leadership, central office employees, and technical staff. The starting salary for teachers with a bachelor degree increased from $42,000 to $43,500 per year. Also included in the adopted general operating budget was $9 million for a teacher pay-for-performance incentive. The budget also contains an additional $5 million, due to rate increases, for the district's contribution to TRS ActiveCare plans for eligible district employees.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the district's Financial Services Department.

Dallas Independent School District
Government-Wide Statement of Net Assets
June 30, 2007

Exhibit A-1

Data Control Codes		Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	$ 472,855,694
1120	Investments	17,295,963
1225	Property taxes receivable, net	49,785,982
1240	Due from other governments	165,622,408
1250	Accrued interest receivable	14,865
1290	Other receivables, net	4,053,970
1300	Inventories	7,710,850
1490	Other current assets	1,597,175
1420	Bond issuance cost, net	9,513,714
	Capital assets, net:	
1510	Land	150,077,328
1520	Buildings and improvements, net	1,294,409,905
1530	Furniture and equipment, net	45,268,222
1580	Construction in progress	105,506,231
1000	Total assets	2,323,712,307
	LIABILITIES	
2110	Cash overdraft	20,029,147
2110	Accounts payable	59,676,497
2150	Payroll deductions and withholdings	8,493,411
2160	Accrued wages and benefits payable	137,628,912
2180	Due to other governments	10,276,821
2200	Accrued liabilities	13,086,824
2300	Unearned revenue	425,230
2430	Interest payable	27,255,145
	Long-term liabilities-due within one year	
2121	Bonds and notes payable	49,700,000
2123	Workers compensation	3,275,000
2131	Capital lease purchases payable	2,309,684
	Long-term liabilities-due beyond one year	
2210	Workers compensation	8,434,589
2510	Bonds and notes payable	1,447,849,593
2511	Deferred loss on refunding of bonds	(6,704,643)
2512	Premium on bonds	42,522,106
2590	Arbitrage payable	2,845,727
2000	Total liabilities	1,827,104,043
	NET ASSETS	
3200	Invested in capital assets, net of related debt	255,968,628
3800	Restricted for:	
	Capital Projects	14,139,507
	Debt Service	51,736,059
	Food Service	15,529,831
3900	Unrestricted	159,234,239
3000	Total net assets	$ 496,608,264

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

Dallas Independent School District
Government-Wide Statement of Activities
For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental activities:				
11 Instruction	$ 842,211,888	$ 231,002	$ 115,147,728	$ (726,833,158)
12 Instructional resources and media services	28,009,317	-	2,830,477	(25,178,840)
13 Curriculum and staff development	43,644,222	-	29,411,402	(14,232,820)
21 Instructional leadership	23,917,179	-	7,473,625	(16,443,554)
23 School leadership	81,421,654	-	1,709,552	(79,712,102)
31 Guidance, counseling, and evaluation services	54,186,061	-	11,399,038	(42,787,023)
32 Social work services	2,254,864	-	360,397	(1,894,467)
33 Health services	15,916,986	-	2,733,099	(13,183,887)
34 Student transportation	18,480,368	-	2,252,494	(16,227,874)
35 Food services	69,187,401	7,676,736	61,343,551	(167,114)
36 Cocurricular/extracurricular activities	11,723,203	787,321	308,415	(10,627,467)
41 General administration	36,497,765	-	3,767,328	(32,730,437)
51 Plant maintenance and operations	161,001,052	792,687	2,533,540	(157,674,825)
52 Security and monitoring services	17,472,481	-	474,877	(16,997,604)
53 Data processing services	22,551,939	-	455,916	(22,096,023)
61 Community services	23,868,348	-	15,810,258	(8,058,090)
71 Interest on long-term debt	76,165,858	-	-	(76,165,858)
81 Facilities acquisition and construction	10,159,043	-	-	(10,159,043)
95 Payments to juvenile justice alternative education	629,987	-	-	(629,987)
97 Payments to tax increment fund	2,954,107	-	-	(2,954,107)
Total governmental activities	$ 1,542,253,723	$ 9,487,746	$ 258,011,697	$ (1,274,754,280)
Total	$ 1,542,253,723	$ 9,487,746	$ 258,011,697	$ (1,274,754,280)

General revenues:	
Taxes:	
Property taxes, levied and collected for general purposes	$ 884,553,125
Property taxes, levied and collected for debt service	114,419,519
State aid-formula grants not restricted to specific programs	264,854,432
Grants and contributions not restricted to specific programs	5,457,848
Investment earnings	25,200,633
Special item—Wilmer Hutchins ISD Annexation	9,482,500
Total general revenues and special item	1,303,968,057
Change in net assets	29,213,777
Net assets—beginning, as restated (Note M)	467,394,487
Net assets—ending	$ 496,608,264

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

Exhibit C-1

Dallas Independent School District
Balance Sheet
Governmental Funds
June 30, 2007

Data Control Codes		General	Debt Service	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
	ASSETS					
1110-50	Cash and cash equivalents	$ 172,488,345	$ 78,077,358	$ 199,405,580	$ 22,884,411	$ 472,855,694
1120	Investments	17,295,963	-	-	-	17,295,963
1210-30	Receivables, net	45,604,914	4,181,068	-		49,785,982
1250	Accrued interest	1,038	-	-	13,827	14,865
1260	Due from other funds	8,261,590	439,016	2,503,912	45,998,202	57,202,720
1240	Receivables from other governments	156,754,993	125,396	8,742,019	-	165,622,408
1290	Other receivables, net	2,265,301	-	-	1,146,105	3,411,406
1300	Inventories	4,425,344	-	-	3,285,506	7,710,850
1490	Other current assets-prepaid expenses	1,097,182	-	-	499,992	1,597,174
	Total assets	$ 408,194,670	$ 82,822,838	$ 210,651,511	$ 73,828,043	$ 775,497,062
	LIABILITIES AND FUND BALANCES					
	Liabilities:					
2110	Cash overdraft	$ 20,029,147	$ -	$ -	$ -	$ 20,029,147
2110	Accounts payable	25,243,004	-	20,509,018	13,924,474	59,676,496
2150	Payroll deductions & withholdings	8,493,411	-	-	-	8,493,411
2160	Accrued wages and benefits payable	125,812,557	-	15	15,091,340	140,903,912
2170	Due to other funds	48,941,130	587,531	426,784	6,604,711	56,560,156
2180	Payable to other governments	8,854,171	-	2,845,727	1,422,650	13,122,548
2200	Accrued liabilities	12,521,258	-	-	565,566	13,086,824
2300	Deferred/Unearned revenue	38,175,358	3,244,103	-	1,445,985	42,865,446
	Total liabilities	288,070,036	3,831,634	23,781,544	39,054,726	$ 354,737,940
	Fund balances:					
	Reserved for:					
3410	Inventories	4,425,344	-	-	3,285,506	$ 7,710,850
3430	Prepaid expenses	1,097,182	-	-	499,992	1,597,174
3440	Encumbrances	8,851,210	-	-	-	8,851,210
3420	Debt service	-	78,991,204	-		78,991,204
3470	Capital projects	-	-	186,869,967	13,018,129	199,888,096
3450	Food services	-	-	-	12,244,325	12,244,325
	Unreserved:					
3590	Designated - Campus Activity Fund	-	-	-	2,413,949	2,413,949
3600	Undesignated - General Fund	105,750,898	-	-	-	105,750,898
3600	Undesignated - Special Revenue Funds	-	-	-	3,311,416	3,311,416
	Total fund balances	120,124,634	78,991,204	186,869,967	34,773,317	420,759,122
	Total liabilities and fund balances	$ 408,194,670	$ 82,822,838	$ 210,651,511	$ 73,828,043	$ 775,497,062

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

Dallas Independent School District
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets
June 30, 2007

Exhibit C-1R

Total fund balances--governmental funds (from C-1)		$ 420,759,122
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of accumulated depreciation used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		1,595,261,686
Some liabilities, including bonds payable, and claims and judgments are not due and payable in the current period and, therefore are not reported in the funds:		
Bonds and notes payable	(1,497,549,593)	
Capital leases	(2,309,684)	
Deferred losses on refundings	6,704,643	
Premium on bonds	(42,522,106)	
Long-term workers compensation	(8,434,589)	(1,544,111,329)
Interest payable is recognized when due at the fund level, but is recognized currently under full accrual.		(27,255,145)
Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds.		42,440,216
Bond issue costs are recognized currently at the fund level, but are deferred costs under the full accrual method.		9,513,714
Total net assets--governmental activities (see A-1)		$ 496,608,264

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

Exhibit C-2

Dallas Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General Fund	Debt Service	Capital Projects	Non-major Governmental Funds	Total Governmental Funds
REVENUES					
5700 Local and intermediate sources	$ 900,261,831	$ 117,353,991	$ 12,347,815	$ 31,492,411	$ 1,061,456,048
5800 State program revenues	264,854,432	-	-	37,591,075	302,445,507
5900 Federal program revenues	5,691,260	-	-	212,279,414	217,970,674
Total revenues	1,170,807,523	117,353,991	12,347,815	281,362,900	1,581,872,229
EXPENDITURES					
Current:					
11 Instruction	695,010,602	-	-	114,708,104	809,718,706
12 Instructional resources and media services	22,353,404	-	1,083,862	2,827,181	26,264,447
13 Curriculum and staff development	14,185,332	-	-	29,340,205	43,525,537
21 Instructional leadership	16,456,274	-	-	7,459,486	23,915,760
23 School leadership	78,460,370	-	-	1,709,552	80,169,922
31 Guidance, counseling, and evaluation services	42,784,691	-	-	11,398,554	54,183,245
32 Social work services	1,893,863	-	-	360,397	2,254,260
33 Health services	13,033,453	-	-	2,730,112	15,763,565
34 Student transportation	16,178,389	-	-	2,252,494	18,430,883
35 Food services	-	-	-	64,984,662	64,984,662
36 Cocurricular/extracurricular activities	10,122,117	-	-	197,006	10,319,123
41 General administration	32,703,453	-	-	3,736,644	36,440,097
51 Plant maintenance and operations	155,462,500	-	888,760	2,466,480	158,817,740
52 Security and monitoring services	18,383,925	-	-	473,783	18,857,708
53 Data processing services	19,884,312	-	-	453,104	20,337,416
61 Community services	8,457,932	-	-	15,424,751	23,882,683
Debt service					
71 Principal on long-term debt	3,678,039	44,317,894	-	-	47,995,933
71 Interest on long-term debt	340,844	72,637,458	-	-	72,978,302
Capital outlay					
81 Facilities acquisition and construction	3,895,564	-	170,768,922	4,684,060	179,348,546
Intergovernmental charges					
95 Payments juvenile justice alternative education	629,987	-	-	-	629,987
97 Payments to tax increment fund	2,954,107	-	-	-	2,954,107
Total expenditures	1,156,869,158	116,955,352	172,741,544	265,206,575	1,711,772,629
Excess (Deficiency) of revenues over (under) expenditures	13,938,365	398,639	(160,393,729)	16,156,325	(129,900,400)
Net change in fund balances	13,938,365	398,639	(160,393,729)	16,156,325	(129,900,400)
Fund balances, beginning of year, as restated (Note M)	106,186,269	78,592,565	347,263,696	18,616,992	550,659,522
Fund balances-ending	$ 120,124,634	$ 78,991,204	$ 186,869,967	$ 34,773,317	$ 420,759,122

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

Exhibit C-3

Dallas 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 June 30, 2007

Net change in fund balances--total governmental funds (from C-2)	$ (129,900,400)
Amounts reported for *governmental activities* in the statement of activities (B-1) are different because:	
Governmental funds reports capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. (This is the amount by which capital outlays ($178,268,540) exceeded depreciation ($53,181,010) in the current period	125,087,530
Contribution of the capital assets of Wilmer Hutchins ISD as a result of its annexation	9,482,500
Repayment of bonds, loans, and capital leases are an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets	48,022,717
Accrued interest expense at the government wide level does not require the use of current financial resources and therefore is not reported as expenditure in governmental funds	(5,734,949)
Workers compensation expenses at the government wide level do not require the use of current financial resources and therefore is not reported as expenditure in governmental funds	(377,000)
Amortization of bond issue costs, premium on bond, and deferred losses on refunding	3,432,131
Capital assets contributed by outside source that are recognized at the government-wide level	1,118,690
Interest accretion on capital appreciation bonds and QZAB bonds payable	(911,522)
Some property taxes and pledged construction donations will not be collected within 60 days and, therefore they are not considered available revenues and are deferred in the governmental funds. Deferred revenue decreased by this amount.	(21,005,920)
Change in net assets of governmental activities (B-1)	$ 29,213,777

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

Exhibit E-1

Dallas Independent School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2007

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 4,353,782
Total assets	$ 4,353,782
LIABILITIES	
Due to General Fund	$ 642,564
Due to student groups	3,711,218
Total liabilities	$ 4,353,782

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

Dallas Independent School District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

Index

Note		Page
A.	Summary of Significant Accounting Policies	21
B.	Cash/Cash Equivalents and Investments	26
C.	Local Revenues and Property Taxes	32
D.	Receivables	33
E.	Deferred/Unearned Revenue	34
F.	Interfund Receivables and Payables	34
G.	Capital Assets	35
H.	Leases	36
I.	Long-Term Obligations	37
J.	General Fund Federal Source Revenues	43
K.	Pension Plan Obligations	44
L.	Risk Management	45
M.	Prior Period Adjustments	46
N.	Wilmer-Hutchins ISD Annexation	47
O	New Accounting Pronouncements	48
P.	Litigation, Contingencies and Commitments	48
Q.	Subsequent Events	50

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

For financial reporting purposes, in conformance with governmental accounting standards, the district's management has considered all potential component units. By applying the criteria set forth in GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, the district has determined that no organizations require inclusion in its reporting entity. The Dallas Education Foundation ("DEF") was organized exclusively for charitable and educational purposes to benefit the district. However this organization is not reported as a component unit because the funds held by the organization are not significant to the district's financial statements.

Government-Wide and Fund Financial Statements

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

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

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

Basis of Accounting/Measurement Focus

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized, when they are susceptible to accrual, as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, arbitrage, and claims and judgments, are recorded only when matured and payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Property tax revenues and revenues received from the State of Texas and investment earnings are considered to be susceptible to accrual and so have been recognized as revenues in the current period. Property taxes collected within 60 days of year-end and included in revenue were $7,529,879 and $936,966 for the General Fund and Debt Service Funds, respectively.

Grant revenues and contributions are recognized when all eligibility requirements have been met. Grant funds received in advance are recorded as deferred revenue until earned. Contributions received with purpose restrictions are recorded as revenue and related fund balance is designated until restrictions are satisfied. Charges for services and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

The district has accrued Foundation School Program revenues of approximately $54,220,064 to reflect cash that will be received in fiscal year 2008, which was generated by attendance and related expenditures in fiscal year 2007.

The district reports the following major governmental funds:

The General Fund is the district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

The Debt Service Funds, a budgeted fund, accounts for the use of ad valorem taxes and other revenues collected for the purposes of retiring bond principal and paying interest when due. The Debt Service Funds does not meet the quantitative criteria of a major fund, however, due to the qualitative significance of the fund, management has decided to present it as a major fund.

The Capital Projects Fund is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Additionally, the district reports the following non-major fund types:

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

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

Amounts reported as program revenues include operating grants and contributions, food services user charges, and rentals and tuition. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Assets, Liabilities and Net Assets

Cash, Cash Equivalents and Investments

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. All investments in pools are considered cash equivalents.

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

Interfund Transaction and Receivables and Payables

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

Property Taxes

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

Inventories and Prepaid Items

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in the accounting system in order to reserve the portion of the applicable appropriation, is employed in the governmental fund financial statements. Encumbrances which have not been liquidated are reported as designations of fund balance since they do not constitute expenditures or liabilities. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2007.

Net Assets Government-Wide

Invested in capital assets, net of related debt – component of net assets represents capital assets, less capital debt plus unspent bond proceeds. ($255,968,628)

Restricted for capital projects – funds contributed and restricted for capital construction liabilities of the Capital Projects Fund that consists of assets with constraints placed on their use by the bond covenants. ($14,139,507)

Restricted for debt service – the component of net assets that reports the difference between assets and liabilities of the Debt Service Funds net of accrued interest at June 30, that consists of assets with constraints placed on their use by the bond covenants. ($51,736,059)

Restricted for food service – the component of net assets that reports the difference between assets and liabilities of the Food Services Fund that consists of assets with constraints placed on their use by the Department of Agriculture and Texas Education Agency ("TEA"). ($15,529,831)

Unrestricted – the difference between the assets and liabilities that is not reported in net assets invested in capital assets, net of related debt, net assets restricted for debt service, and net assets restricted for food service. ($159,234,239)

Reserved Governmental Funds

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

		Reserved Government Funds
Food service	$	12,244,325
Debt service		78,991,204
Capital projects		199,888,096
Encumbrances		8,851,210
Inventories and prepaids		9,308,024
Total reserved governmental funds	$	309,282,859

Capital Assets

Capital assets, which include land, buildings, furniture and equipment, and construction in progress are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Construction cost includes direct and all indirect costs. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives, are not capitalized, and land and construction in progress are not depreciated. The district received capital assets, valued at $9,482,500 as a result of the Wilmer Hutchins ISD annexation which was reported as a special item in the accompanying statement of activities. Capital assets of the district are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings	45
Building improvement	20
Portable buildings	20
Tractors and construction equipment	12
Kitchen equipment	10
Other-furniture, fixtures and equipment	10
Buses/trucks/vans	7
Mainframes/servers/telephone systems	7
Vehicles	5
Technology equipment	3
Software	3
Musical instruments	3

Compensated Absences

Certain employees are entitled to receive accrued vacation and compensatory pay in a lump-sum cash payment upon termination of employment with the district. The amount of $1,390,366 (wages and benefits) represents the recorded liability for employees vested in accumulated vacation and compensatory pay. The General Fund and special revenue funds are used to liquidate compensated absences.

Long-Term Obligations

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

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

Fund Balances

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

Use of Estimates

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

Data Control Codes

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

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS

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

The cash overdraft of $20,029,147 reported by the district at June 30, 2007 represents checks recorded in the district's financial statements but not presented at the bank. At June 30, 2007, the net carrying amount of the district's cash deposits was $9,228,199 and the bank balance of $8,068,079 was on deposit with the contracted depository bank. Total district funds on deposit were secured by FDIC coverage of $200,000 and by pledged United States government securities with a fair value of $9,790,254 at June 30, 2007, held by the Federal Reserve Bank of Dallas. Because the Federal Reserve Bank of Dallas holds the pledged securities in trust on behalf of the district, the deposits were deemed collateralized under Texas law. Secondary campuses activity funds were centralized and are now on deposit with the contracted depository. Non-centralized agency and activity funds are in separate bank accounts in the name of the schools, and as such, have FDIC insurance of $100,000 per bank account. A total of $4,353,782 of Agency Funds cash was on deposit with the contracted depository and separate bank accounts.

The district's Agency Fund bank balance on June 30, 2007, was covered by federal depository insurance or by collateral held in the district's name. In addition, the following is disclosed regarding coverage of combined cash and certificates of deposit balances on the date of highest deposit:

a.) Depository bank: Bank of America, N.A.
b.) The date of highest deposit was October 4, 2006, with combined cash and certificates of deposit balance of $2,261,945.
c.) On October 4, 2006, the amount of bonds, securities pledged, and FDIC coverage was $2,818,060.
d.) The FDIC coverage portion of the collateral listed above was $200,000.
e.) The district had no occasions during the year of not being sufficiently collateralized, in which the pledged collateral requirement was less than the collateral requirement.

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

- Obligations of the United States or its agencies and instrumentalities,
- Obligations of the State of Texas or its agencies,

- Other obligations guaranteed by the United States or the State of Texas or their agencies and Instrumentalities,
- Public funds investment pools,
- No load money market funds with a weighted average maturity of 90 days or less
- Fully collateralized repurchase agreements,
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less than an "A", or its equivalent, by a nationally recognized investment rating firm,
- Guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds,
- Guaranteed or secured certificates of deposit, issued by state and national banks domiciled in Texas, and insured by federal depository insurance or secured by the obligations mentioned above and
- Bonds issued, assumed or guaranteed by the State of Israel was added by H.B. 3009, and was effective September 1, 1999.

The Public Funds Investment Act requires an annual review and approval of investment policies and practices. The review disclosed that in this area of investment practices, management reports and establishment of appropriate policies, the district materially adhered to the requirements of the Act. Additionally, investment practices of the district were in accordance with local policies, which are no more restrictive than state statutes. "Other Revenues: Investments" was updated to more fully define the investment strategy of the district.

As of June 30, 2007, the following are the district's cash equivalents and investments, with respective maturities and credit quality:

Type of Investment		Fair Value	Percent		Maturity Amount		Maturity in 0-6 Months	Credit Rating S&P/Moody's
Money markets and mutual funds	$	51,775,435	10.5	$	51,775,435	$	51,775,435	AAA/Aaa
Investment pools:								
MBIA Texas Class		250,217,155	50.6		250,217,155		250,217,155	AAA/Aaa
LOGIC		17,461,075	3.5		17,461,075		17,461,075	AAA/Aaa
Lone Star		114,984,467	23.2		114,984,467		114,984,467	AAA/Aaa
TexPool		11,339,271	2.3		11,339,271		11,339,271	AAA/Aaa
TexasDAILY		20,631,125	4.2		20,631,125		20,631,125	AAA/Aaa
Total investment pool		414,633,093	83.8		414,633,093		414,633,093	
Cash		10,800,948	2.2		10,800,948		10,800,948	N/A
Total cash and cash equivalents		477,209,476	96.5		477,209,476		477,209,476	
Securities:								
Federal National Mortgage Association		4,982,000	1.0		5,000,000		5,000,000	AAA/Aaa
Federal Home Loan Mortgage Association		9,959,174	2.0		10,000,000		10,000,000	AAA/Aaa
Other		2,354,789	0.5		2,354,789		2,354,789	N/A
Total investments		17,295,963	3.5		17,354,789		17,354,789	
Total cash, cash equivalents and investments	$	494,505,439	100.0	$	494,564,265	$	494,564,265	
Overdrafts	$	(20,029,147)		$	(20,029,147)	$	(20,029,147)	

As required by GASB Statement No. 31, the district recognizes the unrealized gain/loss on investments with a maturity date greater than one year from the acquisition date and investments that are callable. As of June 30, 2007, the remaining cash equivalents and securities in the district's portfolio all had maturity dates of less than one year from their acquisition date.

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

Credit Risk: State law limits investments in commercial paper to not less than A1-P1 or equivalent rating by at least two nationally recognized credit rating agencies. As of June 30, 2007, the district had no commercial paper in its portfolio. The district's investments in Local Government Public Fund Investment Pools ("LGIP's") include: MBIA Texas Class, LOGIC, Lone Star, TexPool and TexasDAILY. The district's utilizes Columbia Money Market Reserves for money market investments and Bank of America N.A. for the daily operating funds.

These are all public funds investment pools and money markets operating in full compliance with the Public Funds Investment Act of 1940 (the "1940 Act"). All are rated AAA money market funds by Standard and Poor's. Investments in Federal National Mortgage Association and Federal Home Loan Mortgage Association securities were backed by U.S. Agencies with an AAA/Aaa senior debt rating by Standard and Poor's and Moody's. The following summarizes each LGIP's and the money market mutual fund.

MBIA Texas Class - administered by the MBIA Municipal Investors Service Corp with Wells Fargo serving as the custodial bank. MBIA Texas Class funds may be invested in any or all of the legal investments specified in Sections 2256.009 through 2256.016, Public Funds Investment Act, Texas Government Code, as the same may be hereafter amended, or in any successor statute, but only to the extent that such investments would be permitted by Rule 2a-7, as amended from time to time, promulgated by the United States Securities and Exchange Commission ("SEC") pursuant to the 1940 Act, as amended (the "Rule") if the Rule were applicable to the trust. Net Asset Value from October 1, 2007 to December 31, 2007 is equal to 1.00. The final maturity dates of all securities are less that one year. As of the Effective Date, such investments may include, without limitation, the following:

- United States bonds, notes and treasury bills,
- United States Government agency or instrumentality obligations,
- State and local government obligations (subject to limitations),
- Repurchase agreements,
- Commercial paper,
- Bankers acceptances,
- Mutual funds and
- Guaranteed investment contracts (bond proceeds only).

LOGIC - governed by a six-member board of directors comprised of employees, officers or elected officials of participant government entities or individuals who do not have a business relationship with the cooperative and are qualified to advise it. It is the intention of LOGIC to maintain a net asset value per unit of $1.00. In compliance with the 1940 Act, all portfolios will maintain an AAA or equivalent rating from at least one nationally recognized rating agency. LOGIC may invest in the following securities:

- Obligations, including letters of credit, of the United States or its agencies and instrumentalities with a maximum final stated maturity of 397 days for fixed rate securities and 24 months for variable rate notes,
- Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the United States with a maximum maturity of 13 months,
- Fully Collateralized Repurchase Agreements with a defined termination dates secured by obligations of the United States or its agencies and instrumentalities, including certain mortgage backed securities, pledged to the investing entity or third party. The maturity of the repurchase agreements may not exceed 95 days unless the repurchase agreements have a put option that allows the fund to liquidate the position at par (principal plus interest) with no more than 7 days notice to the counterparty,
- SEC registered money market funds authorized by the 1940 Act and rated in the highest rating category by at least one nationally recognized rating agency and
- Commercial paper that has stated maturity of 270 days or fewer from the date of its issuance that is rated A-1 or P-1 or equivalent by two nationally recognized rating agencies or that is rated A-1 or P-1 or equivalent by one nationally recognized rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

Lone Star – governed by an 11 member board of pool members. The fair value of the district's position in Lone Star is the same as the value of the pool shares. Lone Star is operated in a manner consistent with the SEC's Rule 2A-7 of the investment company Act of 1970. Lone Star seeks to maintain a dollar-weighted average maturity of 120 days or fewer. Lone Star is authorized for the following investments:

- Obligations of the United States Government, its agencies or instrumentalities,
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States Government, or its agencies and instrumentalities,

- Fully collateralized repurchase agreements that meet the following criteria: 1) have a defined termination date; 2) are secured by obligations of the United States Government or its agencies and instrumentalities; 3) require the securities being purchased by Lone Star to the pledged to Lone Star, held in Lone Star's name, and deposited at the time the investment is made with Lone Star or with a third party selected and approved by Lone Star; and 4) are placed through primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas. The market value of repurchase agreement collateral is required to initially be 102 percent of the principal amount of such repurchase agreement. Thereafter, the market value of such collateral will be determined (market-to-market) daily and reset to 102 percent of the principal amount if it falls below 100 percent and
- No-load money market mutual funds regulated by the SEC, provided Lone Star shall not invest its funds in any one money market fund in an amount that exceeds 10 percent of the total assets of such money market mutual fund.

TexPool – administered by The Texas Comptroller of Public Accounts. The fair value of the district's position in TexPool is the same as the value of the pool shares. TexPool is operated in a manner consistent with the SEC's Rule 2A-7 of the investment company Act of 1970. The weighted average maturity of TexPool cannot exceed 60 days. TexPool is authorized for the following investments:

- Obligations of the United States Government, its agencies or instrumentalities with a maximum final maturity of 397 days for fixed rate securities and 24 months for variable rate notes,
- Fully collateralized repurchase agreements or reverse repurchase agreements 1) with defined termination dates, 2) secured obligations of the United States, its agencies or its instrumentalities, including mortgage-backed securities, 3) that require purchased securities to be pledged to the investing entity or a third party, and 4) that are placed through primary government securities dealers or a financial institution doing business in the State of Texas. The maximum maturity on repurchase agreements may not exceed 90 days unless the repurchase agreements have a put option that allows TexPool to liquidate the position at par with no more than 7 days' notice to the counterparty. The maximum maturity on repurchase agreements may not exceed 181 days,
- No-load money market mutual funds that 1) are registered with and regulated by the Securities and Exchange Commission 2) provide a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, 3) maintain a dollar weighted average stated maturity of 90 days or less, 4) included in its investment objectives the maintenance of a stable net asset value of $1.00, and 5) are rated AAA or equivalent by at least one nationally recognized statistical rating organization.

TexasDAILY – is administered by a seven member board of advisors. The fund is managed so that the average maturity of all the investments (on a dollar-weighted basis and using the contract maturity date of repurchase agreements rather than maturities of securities underlying such contracts) will not exceed 90 days. TexasDAILY is managed to ensure that it meets all the requirements necessary to maintain an AAAm rating (or the equivalent) by a nationally recognized credit rating organization. TexasDAILY invested only in the following instruments:

- Obligations of or unconditionally guaranteed by the United States Government or its agencies and instrumentalities with a maximum of 13 months,
- Fully collateralized direct repurchase agreements having a defined termination date and secured by obligations of the United States Government or its agencies and instrumentalities,
- Repurchase agreements are only to be placed with primary government securities dealers or financial institutions doing business in the State of Texas,
- Certificates of deposit issued by depository institutions that have their main office or a branch office in the State of Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor; or, to the extent not insured, secured by obligations of the U.S. Government or its agencies and instrumentalities,

- No-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service whose investments consist only of government obligations and fully collateralized repurchase agreements as described in sections A and B above. The money market mutual fund must maintain a dollar-weighted average stated maturity of 60 days or less and include in its investment objectives the maintenance of a stable net asset value of $1.00.

Columbia Money Market Reserves - a no-load money market that maintains a weighted-average maturity of 90-days or less. This money market fund invests only in first-tier securities. Under SEC Rule 2a-7 of the 1940 Act, a first-tier security is a debt instrument that is an eligible investment for money market funds and has received a rating in the highest short-term category from a nationally recognized statistical rating organization.

Concentration of Credit Risk: The district's investment portfolio is diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting form over-concentration of assets in a specific class of investments, specific maturity or specific issuer. Less than five percent of the district's investments are invested in securities as of June 30, 2007.

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

Foreign Currency Risk: As of June 30, 2007, there are no foreign investments in the district's portfolio.

Line Of Credit: The district has established a $20,000,000 line of credit with Bank of America N.A., which is available for seasonal borrowing needs from November 1 to January 31 of each year. Interest on amounts owed is assessed at the Bank of America, N.A. prime rate. The district has not utilized this line of credit during the last seven fiscal years. The district did not issue a Tax Anticipation Note in fiscal year 2007.

NOTE C: LOCAL REVENUES AND PROPERTY TAXES

Local revenues are comprised of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Funds	Total Governmental Funds
Property taxes	$ 884,553,125	$ 114,419,519	$ -	$ -	$ 998,972,644
Food services	-	-	-	7,676,736	7,676,736
Interest income	9,918,609	2,934,472	12,347,551	552,793	25,753,425
Tuition, fees and cocurricular	463,579	-	-	-	463,579
Gifts & bequests	3,457,450	-	-	19,063,308	22,520,758
Other	1,869,068	-	264	4,199,574	6,068,906
Total	$ 900,261,831	$ 117,353,991	$ 12,347,815	$ 31,492,411	$ 1,061,456,048

Property Taxes

The district's ad valorem property tax is levied each October 1 on the assessed value as of the prior January 1 for all real and business personal property located in the district. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the subsequent year. On January 1 of each year a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. The assessed value of the roll on January 1, 2006 was $69,473,558,853. After deductions of all exemptions and reductions provided by law and those granted by the district, the levy for the 2007 fiscal year was based on property values of $68,417,606,505.

The tax rates assessed for the year ended June 30, 2007, to finance General Fund operations and the payment of principal and interest on long-term debt were $1.33005 and $0.17259 per $100 valuation, respectively, for a total of $1.50264 per $100 valuation. The resolution levying the ad valorem taxes specifies the individual tax rates for the General Fund and Debt Service Funds. Current tax collections for the year ended June 30, 2007, were 97.0% of the tax levy.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The district has provided an allowance for estimated uncollectible property taxes within the General Fund and Debt Service Funds of $39,163,827 and $4,958,008, respectively based upon historical collection experience and historical experience of adjustments to tax receivables. The district is prohibited from writing off real property taxes without specific statutory authority from the Texas State Legislature.

At June 30, 2007, taxes receivable, net of estimated uncollectible taxes, aggregated $45,604,914 and $4,181,068 for the General Fund and Debt Service Funds, respectively. Effective September 1, 1991, the Texas State Legislature established County Education Districts ("CED") to redistribute property taxes from high-property value districts to low-property value districts. As of September 1, 1993, CED's were abolished by the enactment of Senate Bill 7 (S.B. 7). Residual collections of taxes assessed throughout the CED's prior to September 1, 1993, continued to be recognized as revenue when received through June 30, 2007. As part of this plan, the district recognized approximately $184,323 as revenue in fiscal year 2007.

The City of Dallas has established 16 Tax Increment Financing Zones as authorized under

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

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

	Captured Values	Taxes Collected/ Paid ($1.33005/$100)
City of Dallas:		
Cityplace Tax Increment Financing District	$ 109,332,067	$ 1,454,171
Oak Cliff Gateway Tax Increment Financing District	13,618,855	181,138
Cedars Tax Increment Financing District	6,770,942	90,057
Sports Arena Tax Increment Financing District	92,232,522	1,226,739
City of Farmers Branch:		
Tax Increment Financing District #1	133,459	2,002
Total	$ 222,087,845	$ 2,954,107

NOTE D: RECEIVABLES

Receivables as of June 30, 2007, for the district's major funds and non-major funds in the aggregate including the applicable allowances for uncollectible accounts are as follows:

	General	Debt Service	Capital Projects	Non-Major	Totals
Property taxes	$ 84,768,741	$ 9,139,076	$ -	$ -	$ 93,907,817
Due from other Government	156,754,993	125,396	8,742,019	-	165,622,408
Accrued interest	1,038	-	-	13,827	14,865
Other receivables	5,925,162	-	-	1,146,105	7,071,267
Less: allowance for uncollectible	(42,823,688)	(4,958,008)	-	-	(47,781,696)
Total	$ 204,626,246	$ 4,306,464	$ 8,742,019	$ 1,159,932	$ 218,834,661

The amount due from other governments represents payments due from the TEA and other governmental entities for grants entitlements and foundation revenue.

NOTE E: DEFERRED/UNEARNED REVENUE

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

At the end of fiscal year 2007, the various components of deferred and unearned revenue reported in the General Fund, Debt Service Funds, Capital Projects Fund and non-major governmental funds were as follows:

	General	Debt Service	Non-Major	Totals
Deferred:				
Property taxes	$ 38,075,035	$ 3,244,103	$ -	$ 41,319,138
Gifts and Bequests	-	-	1,121,078	1,121,078
Unearned	100,323	-	324,907	425,230
Total	$ 38,175,358	$ 3,244,103	$ 1,445,985	$ 42,865,466

NOTE F: INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2007, consisted of the following individual fund receivables and payables:

Fund	Receivables	Payables
General Fund:		
Non-major governmental funds	$ 6,604,711	$ 45,998,202
Debt Service Funds	587,531	439,016
Capital Projects Fund	426,784	2,503,912
Agency Fund	642,564	-
	8,261,590	48,941,130
Non-major governmental funds:		
General Fund	45,998,202	6,604,711
Debt Service Funds:		
General Fund	439,016	587,531
Capital Projects Fund:		
General Fund	2,503,912	426,784
Agency Fund:		
General Fund	-	642,564
Totals	$ 57,202,720	$ 57,202,720

The interfund receivable and payable between General Fund and special revenue fund occur when expenditures take place before the reimbursement is received from the granting agency.

The interfund balance between General Fund and Capital Projects Fund, Debt Service Funds, and Agency Fund occur due to payments made from the General Fund operating account. Transfers back occur monthly, unless significantly larger payments are noted and the transfer occurs more frequently. All interfund balances are expected to be repaid within the next fiscal year.

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 is as follows:

	Balance 6/30/06, as previously reported	Prior period adjustment (Note M)	Additions	Deletions/ Transfers	Balance 6/30/2007
Capital assets, not being depreciated:					
Land	$ 136,590,470	$ -	$ 13,486,858	$ -	$ 150,077,328
Construction in progress	404,069,128	(47,786,508)	159,697,851	(410,474,240)	105,506,231
Total capital assets, not being depreciated	540,659,598	(47,786,508)	173,184,709	(410,474,240)	255,583,559
Capital assets, being depreciated:					
Building and improvements	1,464,417,094	141,058,953	2,026,000	405,372,961	2,012,875,008
Furniture and equipment	154,497,651	-	13,659,020	4,888,028	173,044,699
Total capital assets, being depreciated	1,618,914,745	141,058,953	15,685,020	410,260,989	2,185,919,707
Less accumulated depreciation for:					
Buildings and improvements	690,279,709	(169,213)	28,354,607	-	718,465,103
Furniture and equipment	103,163,325	-	24,826,403	(213,251)	127,776,477
Total accumulated depreciation	793,443,034	(169,213)	53,181,010	(213,251)	846,241,580
Total capital assets, being being depreciated, net	825,471,711	141,228,166	(37,495,990)	410,474,240	1,339,678,127
Capital assets, net	$ 1,366,131,309	$ 93,441,658	$ 135,688,719	$ 0	$ 1,595,261,686

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

		Depreciation Expense
11	Instruction	$ 32,919,765
12	Instructional resources and media services	1,780,110
13	Curriculum and staff development	124,190
23	School leadership	1,230,264
31	Guidance, counseling and evaluation services	274,970
33	Health services	149,200
34	Student transportation	44,550
35	Food services	4,225,332
36	Curriculum/extracurricular activites	1,401,317
41	General administration	559,621
51	Plant maintenance and operations	4,352,769
52	Security and monitoring services	642,875
53	Data processing services	5,476,047
	Total	$ 53,181,010

During the year ended June 30, 2007, the district changed the method of allocating depreciation charges to various functions of governmental activities. Depreciation is allocated to functions of governmental activities by specific identification whenever possible. Depreciation related to campus facilities is allocated to functions based on the relative square footage of the respective functional areas. Technology equipment is allocated in total to data processing services.

The district has active construction projects. These projects include new school construction and renovation of existing facilities. The remaining balance for these construction commitments as of June 30, 2007 is $59,025,538.

NOTE H: LEASES

Capital Leases

As of June 30, 2007, the accompanying government-wide financial statements include property under capital leases with a principal balance due of $2,309,684. Capital leases were utilized to acquire equipment to improve the district's energy management and telephone systems. At fiscal year end, assets of $17,853,583 acquired through capital leases still outstanding at June 30, 2007 are included in furniture and equipment. Capital lease expenditures for fiscal year 2006-2007 were $3,772,411, representing principal and interest payments that have been reflected as debt service expenditures in the General Fund of the accompanying fund financial statements.

Date of Issue	Purpose/Lawful Authority (Maturity)	Interest Rate		Total Outstanding Principal Amount (in thousands)
4/14/97	Energy Management Systems Honeywell, Inc. – Phase IIA (03/01/08)	6.89%	$	1,155
4/14/97	Energy Management Systems/ Honeywell, Inc. – Phase IIB (03/01/08)	6.89%		1,155
Total			$	2,310

Pursuant to the terms of the capital lease agreements, the following schedule presents future minimum lease payments, including principal and interest, by year, as of June 30, 2007:

		Year Ended June 30 (in thousands)
Total future lease payments – 2008	$	2,417
Less: Amount representing future interest – 2008		107
Amount representing future principal - 2008	$	2,310

Operating Leases

The district leases offices, warehouse space and parking under non-cancelable long term operating leases. Lease expense for the year ended June 30, 2007 was approximately $1,541,000. Minimum future lease commitments on non-cancelable leases are summarized as follows:

For the year ending June 30,		Minimum Future Lease Commitments
2008	$	1,426,000
2009		154,000
2010		17,100
2011		17,100
2012		2,850

NOTE I: LONG-TERM OBLIGATIONS

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

General Obligation Bonds

These bonds are secured by ad valorem taxes levied against all taxable property and are serviced, with the exception of the contractual obligation bonds, by the Debt Service Funds with an apportionment of the ad valorem tax levy. Interest rates on the bonds range from 1.75% to 5.5% and are due through 2032.

At June 30, 2007, $78,991,204 in cash equivalents was reserved in the Debt Service Funds to service the outstanding bonds.

Series	Bond Series Name - General Obligation Bonds Maturity or Mandatory Redemption Date	Interest Rates	Original Issue Amount (in thousands)	Total Outstanding Principal Amount (in thousands)
1999	Unlimited Tax Refunding Bonds - Serially in varying amounts from August 15, 2000 to August 15, 2014	3.70%-5.25%	$ 165,460	$ 151,915
2002	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2003 to February 15, 2022	4.0%-5.5%	335,594	238,375
2003	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from February 15, 2004 to February 15, 2027	1.75%-5.0%	156,665	53,385
2004	Unlimited Tax School Building Bonds - Serially in varying amounts from August 15, 2004 to August 15, 2030	3.0%-5.0%	300,000	300,000
2004A	Unlimited Tax School Building and Refunding Bonds - Serially in varying amounts from August 15, 2005 to August 15, 2031	3.0%-5.0%	400,000	400,000
2005	Unlimited Tax Refunding Bonds - Serially in varying amounts from August 15, 2008 to August 15, 2014	5.25%	44,135	44,135
2006	Unlimited Tax Refunding Bonds - Serially in varying amounts from August 15, 2007 to August 15, 2032	4.0%-5.0%	290,205	290,205
				$ 1,478,015

Capital Appreciation Bonds

The debt service requirements on capital appreciation bonds are payable only upon maturity. The original principal amount of the Capital Appreciation Bonds, Series 1995, plus the accreted interest of $6,961,131 is recorded as a component of long-term obligation in the statement of net assets.

Series	Capital Appreciation Bonds Maturity or Mandatory Redemption Date	Interest Rates		Total Outstanding Principal Amount (in thousands)
1995	August 15, 2007	6.40%	$	13,320

The total amount of the Capital Appreciation Bonds due at maturity on August 15, 2007, is $13,425,000.

Maintenance Tax Notes

On October 1, 2001, the district issued $6,880,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2001. An additional $1,120,000 of Qualified Zone Academy Maintenance Tax Notes, Series 2002, was issued on September 1, 2002. The amount outstanding for Qualified Zone Academy Maintenance Tax Notes as of June 30, 2007 was as follows:

Series	Maintenance Tax Notes Maturity or Mandatory Redemption Date	Yield Rates		Total Outstanding Principal Amount (in thousands)
2001	Principal due at maturity. Deposits made to escrow annually at May 1, 2002 to 2015	6.82%	$	5,095
2002	Principal due at maturity; interest due each February 15 and August 15 from February 15, 2003 to September 15, 2016	6.14%		1,120
Total			$	6,215

Restatement of June 30, 2006 Balances

The following is a summary of prior period adjustments made to long-term liabilities as of June 30, 2006 (in thousands):

	June 30, 2006 As Previously Reported	Correction of Interest Accretion	Add Back Revocable Escrow QZAB Notes	Losses on Refunding	Adjustment to Bond Premiums	June 30, 2006 As Restated
General obligation bonds	$ 1,522,320	$ -	$ -	$ -	$ -	$ 1,522,320
Capital appreciation bonds	13,425	(922)	-	-	-	12,503
Maintenance tax notes	4,219	-	1,902	-	-	6,121
Capital leases	5,795	-	-	-	-	5,795
Loans payable	233	-	-	-	-	233
Workers compensation	11,351	-	-	-	-	11,351
Losses on refunding	2,402	-	-	(9,468)	-	(7,066)
Premium on bonds	53,599	-	-	-	(6,813)	46,786
Totals	$ 1,613,344	$ (922)	$ 1,902	$ (9,468)	$ (6,813)	$ 1,598,043

The following is a summary of the changes in the district's long-term debt for the year ended June 30, 2007 (in thousands):

Description	Long-Term Liabilities Outstanding July 1,2006, as restated	Additions and Interest Accretion	Retired	Long-Term Liabilities Outstanding June 30, 2007	Amounts Due Within One Year From June 30, 2007
General Obligation Bonds					
Series 1999	$ 160,390	$ -	$ 8,475	$ 151,915	$ 6,085
Series 2002	249,545	-	11,170	238,375	11,580
Series 2003	78,045	-	24,660	53,385	17,335
Series 2004	300,000	-	-	300,000	-
Series 2004A	400,000	-	-	400,000	-
Series 2005	44,135	-	-	44,135	-
Series 2006	290,205	-	-	290,205	1,380
Total General Obligation Bonds	1,522,320	-	44,305	1,478,015	36,380
Capital Appreciation Bonds					
Series 1995	12,503	817	-	13,320	13,320
Maintenance Tax Notes					
Series 2001-QZAB	5,001	94	-	5,095	-
Series 2002-QZAB	1,120	-	-	1,120	-
Total Maintenance Tax Notes	6,121	94	-	6,215	-
Capital Leases					
Johnson Controls	666	-	666	-	-
Honeywell - Phase I	617	-	617	-	-
Honeywell – Phase IIA	2,256	-	1,101	1,155	1,155
Honeywell – Phase IIB	2,256	-	1,101	1,155	1,155
Total Capital Leases	5,795	-	3,485	2,310	2,310
Loans Payable					
Vehicle Acquisition	233	-	233	-	-

Description	Long-Term Liabilities Outstanding July 1,2006, as restated	Additions and Interest Accretion	Retired	Long-Term Liabilities Outstanding June 30, 2007	Amounts Due Within One Year From June 30, 2007
Workers compensation	11,351	359	-	11,710	3,275
Deferred losses on refunding	(7,066)	362	-	(6,704)	-
Premium on bonds	46,786	-	4,264	42,522	-
Total other debt	51,071	721	4,264	47,528	3,275
Total long term liabilities	$ 1,598,043	$ 1,632	$ 52,287	$ 1,547,388	$ 55,285

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

Debt Service Requirements

The annual requirements to pay principal and interest on the bond obligations and maintenance tax notes outstanding as of June 30, 2007, are as follows (in thousands):

Year Ended June 30	Principal	Interest	Total Requirements
2007-2008	$ 49,805	$ 72,238	$ 122,043
2008-2009	41,600	70,248	111,848
2009-2010	44,770	68,247	113,017
2010-2011	52,875	66,097	118,972
2011-2012	45,730	63,610	109,340
2012-2017	266,795	279,133	545,928
2017-2022	278,755	214,437	493,192
2022-2027	320,890	140,285	461,175
2027-2032	363,550	53,567	417,117
2032-2033	34,670	824	35,494
Total	$ 1,499,440	$ 1,028,686	$ 2,528,126

In 1985, 1995, 1999, 2002, 2003 and 2005, the district legally defeased certain bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the district's basic financial statements. The total amount of defeased bonds that remain outstanding at June 30, 2007, is $67,740.

Debt Issuance

The district did not issue new debt during fiscal year 2006-2007.

2002 Bond Authorization

On January 19, 2002, the voters of the district approved the issuance of construction obligations (the "New Construction Authorization") in the amount of $1,366,295,000 to acquire, construct and equip school buildings. On that same day, the voters also approved the issuance of refunding obligations (the "Refunding Authorization") in the amount of $38,760,000.

The district has $302,077 authorized but unissued New Construction Authorization bonds remaining under the 2002 Bond Authorization, determined as follows:

2002 Bond Authorization:	$ 1,366,295,000
Bonds Sold For Capital Projects:	
(amount deposited to Capital Projects Fund)	
Series 2002	300,000,000
Series 2003	54,579,313
Series 2004	310,548,508
Series 2004-A	402,869,233
Series 2005 (refunding only)	-
Series 2006	297,995,869
Total Authorization Used:	1,365,992,923
Total Authorized but Unissued:	$ 302,077

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management believes that the district is in compliance with all significant limitations and restrictions as of June 30, 2007.

Arbitrage

The Federal Tax Reform Act of 1986 requires issuers of tax exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. Arbitrage liability for tax exempt debt subject to the Tax Reform Act issued through June 30, 2007, amounted to $2,845,727. The estimated liability is updated annually for any tax-exempt issuances or changes in yields until such time payment of the calculated liability is due.

NOTE J: GENERAL FUND FEDERAL SOURCE REVENUE

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

Junior ROTC	$ 1,638,239
Medicaid	2,136,830
Indirect Cost	1,870,691
Other Federal	45,500
	$ 5,691,260

NOTE K: PENSION PLAN OBLIGATIONS

Teacher Retirement System of Texas

Plan Description - All employees of the district employed for one-half or more of the standard workload and who are not exempted from membership under the Texas Government Code, Title 8, Subtitle C, Section 822.002, participate in the Teacher Retirement System of Texas (the "System"), a multiple-employer Public Employee Retirement System ("PERS"). It is a cost-sharing PERS with one exception: all risks and costs are not shared by the district, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

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

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

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

Funding Policy - By statute, plan members must contribute 7.55% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the district's covered payroll. For members of the retirement system entitled to the minimum salary for certain personnel under Section 16.056, Texas Education Code, the district will pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum. The district's employees' contributions to the System for the years ending June 30, 2005, June 30, 2006, and June 30, 2007, were $52,885,340, $53,893,516 and $58,215,603, respectively equal to the required contributions for each year. Other contributions made from Federal and private grants and from the district for salaries above the statutory minimum for the years ending June 30, 2005, June 30, 2006, and June 30, 2007, were $15,017,379, and $16,937,214 and $17,267,811 respectively, equal to the required contributions for each year. The district was notified of a shortfall in contributions paid to the Teacher retirement System for the 2006-2007 school year. See Note P, "Litigation, Commitments and Contingencies". In addition, the district has recorded, in the General Fund, approximately $51.4 million in revenue and expenditures for pension contributions paid on behalf of the district by the state.

Teacher/Employee Recruitment and Retention Program Trust

Plan Description - The district contributes to the Teacher/Employee Recruitment and Retention Program Trust ("TERRP or "Plan"). The Trust is a defined contribution retirement plan established by the Education Service Center Region 10. The district's Board has the authority for amending plan provisions including establishing and amending contribution requirements. The Board appoints an employee as the Plan Administrator. The Trust's annual financial report and other required disclosure information are available by writing the TERRP Plan Record Keeper JEM Resource Partners, 4201 Bee Caves Rd C-101, Austin, Texas 78746.

Under the plan provisions, the district contributes 100% of plan member contributions as follows: For Tier I, the district shall make a matching contribution to the Plan for the greater of a) or b): a) The district shall match fifty percent (50%) of participant contributions to a 403(b) or 457(b) plan maintained by the district, up to a maximum of 1% of the participant's base compensation. The district contribution per participant shall not exceed $180 annually. b) Participants shall receive a contribution to the Plan based on the following attendance criteria: 1) for participants with excellent attendance, the district shall match 75% of participant contributions to a 403(b) or 457(b) plan maintained by the district, up to a maximum of 1.5% of the participant's base compensation.

The district contribution per participant shall not exceed $270 for any Plan year. Excellent attendance is defined as 3 days or fewer of absence during the Plan year. 2) For participants with perfect attendance, the district shall match 100% of participant contributions to a 403(b) or 457(b) plan maintained by the district, up to a maximum of 2% of the participant's base compensation. The district contribution per participant shall not exceed $360 for any Plan year. Perfect attendance is defined as zero absences during the plan year. For Tier II, the district shall make a direct contribution to the Plan for campus-based professional employees and support staff ("Campus-based Employees") whose campus achieves the following criteria: (a) a minimum average student attendance rate for the school year ending during the Plan year of 97.5%; or (b) if the campus met or exceeded requirement (a) in the preceding Plan year, then the requirement for the contribution shall be the current campus average student attendance rate plus 0.5%. District contributions for the year ended June 30, 2007 was $1,945,474. There were 13,106 plan participants at June 30, 2007.

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

NOTE L: RISK MANAGEMENT

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

Workers' Compensation

Beginning in 1989, the district moved from a self-insured workers' compensation program administered by a third party to a self-insured program administered by the district. The district currently reports all of its risk management activities in its General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by district management.

At June 30, 2007, the accrued liability for workers' compensation self-insurance of $11,709,589 includes incurred but not reported claims. The amount due and payable at fiscal year end is $3.275 million, which is recorded in accrued liabilities in the General Fund and the long-term portion of $8,434,589 is recorded as a long-term liability in the Statement of Net Assets.

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

Changes in the reported liability resulted from the following:

Fiscal Year		Balance July 1		Current Year Claims and Changes In Estimates		Claims Payments		Balance June 30
2006-2007	$	11,351,327	$	6,789,523	$	(6,431,253)	$	11,709,589
2005-2006		15,377,610		2,576,791		(6,603,074)		11,351,327

Health Insurance

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

NOTE M: PRIOR PERIOD ADJUSTMENTS

The district restated beginning fund balance/net assets related to prior years:

		General Fund		Debt Service Fund		Capital Projects Fund		Non-Major Funds		Government-Wide Governmental Activities
June 30, 2006 Fund Balance/Net Assets as previously reported	$	135,844,170	$	79,152,730	$	347,460,454	$	19,495,382	$	375,353,874
Adjustments for payroll Related items		(15,378,654)		-		-		(28,784)		(15,407,438)
Adjustments for revenue Related items		1,280,629		-		1,375,303		(849,606)		15,577,663
Adjustments for vendor payable related items		(9,461,238)		-		(1,572,061)		-		(11,033,299)
Adjustments for debt Related items		1,901,362		(560,165)		-		-		17,462,033
Adjustments for capital asset related items		-		-		-		-		93,441,654
Adjustment for contingencies and claims		(8,000,000)		-		-		-		(8,000,000)
Total Restatement		(29,657,901)		(560,165)		(196,758)		(878,390)		92,040,613
June 30, 2006 Fund Balance/Net Assets, as restated	$	106,186,269	$	78,592,565	$	347,263,696	$	18,616,992	$	467,394,487

Adjustments for payroll related items: Adjustments were made to correct annual accrual for payroll cost earned and not paid at fiscal year end for all district employees. In addition, adjustments were made to correct benefit accruals associated with these payroll accruals, including any related vacation benefits. The adjustments for these items amounted to $13,678,366. The adjustment also includes a $1,729,072 accrual for benefits payable to TEA for over charges to grant programs under the district's self-insurance programs for the last four fiscal years.

Adjustments for revenue related items: Adjustments were made to provide for appropriate recognition of revenue items in the fund level and government-wide statements. The adjustments to the fund level statements netted to an increase in fund balances of $1,806,326 and an increase to the net assets of $5,276,336. The district recognized revenue from community pledges at the government-wide level of $19,914,195 that were not previously recognized. The district recorded a decrease of $9,612,768 to correct the allowance for uncollectible property taxes that were not previously recognized.

Adjustments for vendor payable related items: Adjustments were made to recognize expenses related to utility services in the fiscal year in which they were provided. These adjustments amounted to a reduction of $5,953,475 in the fund balances and net assets at June 30, 2006. The district recorded other adjustments in both the fund level and government-wide financial statements for expenses amounting to $5,079,824 incurred in fiscal year 2006 and not recorded until fiscal year 2007.

Adjustment for debt related items: The district increased net assets by $17,202,496 to correct prior year recognition of debt related items including premium on bonds, deferred losses from refunding and accretion on capital appreciation bonds. The district's also made an adjustment to correct bond issuance cost of $819,702. It was determined the escrow account used to retire QZAB debt is not an irrevocable trust and, accordingly, an adjustment of $1,901,362 was made to record the QZAB debt and current escrow payments. In addition, $560,165 was recorded to correct accrued interest from prior year.

Adjustment for capital asset related items: The district capitalized program overhead costs related to the current construction program that began in 2002. In prior years, the amounts had been expensed on the government-wide statements. The adjustment to capitalize these costs was $93,794,312. The district also capitalized professional costs of $3,542,950 for building design paid by outside agencies on behalf of the district. The district reduced capital assets to correct operating lease payments in the amount of $4,064,818 that had been capitalized in prior years. Net accumulated depreciation adjustments related to these corrections were $169,214.

Adjustment for contingencies and claims: As discussed in Note P, the district is currently undergoing an audit of the 2005-2006 Title I program and is conducting a "self-report" for amounts claimed to grants from the district's P-card program from 2002-2006. As all amounts resulted from prior fiscal years, the district recorded a reserve of $3,200,000 for the Title I audit and a $4,200,000 reserve for the P-card program. The district also recorded other reserves totaling $600,000 for various contingencies and claims.

NOTE N: WILMER-HUTCHINS ISD ANNEXATION

In October 2005, the district received an order from the Texas Education Agency, Commissioner of Education requiring the district to annex Wilmer-Hutchins ISD. The effective date of the annexation was July 1, 2006. Land fair value of $7,456,500 and buildings fair value of $2,026,000 were recorded as a special item and are depreciated over expected useful lives that match approximate dates of anticipated renovations or existing lease agreements with third parties. In addition to the amount payable to the district in July 1, 2006, the Texas Education Agency agreed to reimburse the district for other amounts paid in 2006-2007 less amounts collected for taxes collected on Wilmer-Hutchins ISD delinquent tax accounts. The amount due from the Texas Education Agency at June 30, 2007 is $1,662,444.

NOTE O: NEW ACCOUNTING PRONOUNCEMENTS

The GASB issued Statement No. 45, *Accounting and Financial reporting by Employers for Post Employment Benefits Other Than Pensions,* which will be effective for the district in the fiscal year ending June 30, 2008. This Statement establishes standards of accounting and financial reporting for post employment health care and other benefits if provided separately from a pension plan.

The GASB issued Statement No. 47, *Accounting for Termination Benefits*. This is effective for the district in two parts: (1) for those benefits that relate to other post-employment benefits, the district is to implement at the same time as GASB 45 and (2) for other termination benefits, in the current fiscal year for the district. There was no impact in the current year on the district's financial statements. This statement defines the accounting for voluntary and involuntary termination benefits (i.e. early retirement incentives).

The GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which will be effective for the district in the fiscal year ending June 30, 2008. This Statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent taxes, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements. The district plans to account for and disclose this type of sale if there is a transaction that applies to this Statement in fiscal year 2008.

The GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which will be effective for the district in the fiscal year ending June 30, 2009. This Statement addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

The GASB issued Statement No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*, which will be effective for the district in the fiscal year ending June 30, 2008. This Statement more closely aligns the financial reporting requirements for pensions and those for other postemployment benefits.

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

The GASB has also issued Statement No. 52, *Land and other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This Statement is effective for the district in fiscal year 2009.

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

NOTE P: LITIGATION, CONTINGENCIES AND COMMITMENTS

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

The district participates in a number of federal and state financial assistance programs. Although the district's grant programs have been audited in accordance with the provisions of the Single Audit Act through June 30, 2007, these programs are subject to financial and compliance audits by the grantor agencies.

The Department of Education is currently auditing the district's Title I grant funds for 2005-2006. The preliminary findings of the Office of the Inspector General indicate that the district charged unallowable and unsupported expenses to the Title I grant. Based on review of the findings and discussions with the Department of Education, the district has recorded approximately $3.2 million for this contingency at June 30, 2007. Subsequent to the final issuance of the report by the Department of Education, the district will have the opportunity to review any findings and request adjustments.

The audit for the year ended June 30, 2007, conducted in accordance with the provisions of the Single Audit Act, identified several material weaknesses and significant deficiencies in the district's system of internal accounting controls, along with several instances of non-compliance with the requirements, rules, and regulations of the underlying federal and state programs.

The district is conducting an internal audit of the district's P-card program for expenditures incurred for grant programs from 2002-2006. Based on the internal review, the district has estimated the range of expected losses to be $4.2 million to $7.4 million. The district believes that the loss of $4.2 million is the expected future outcome and has recorded a reserve in this amount at June 30, 2007.

The district has received a request from the TEA regarding repayment of questioned amounts in findings identified in the district's June 30, 2006 audit. The district has requested adjustment based on subsequent information to support the claimed costs. The district has remitted $111,000 of the $1.3 million requested. Results of an independent review requested from the TEA indicate the district should remit an additional $8,000. The district does not anticipate any further repayments than the $119,000 previously described.

The district is subject to audits by the TEA of the attendance data upon which the payments from the Agency are based. The TEA currently is reviewing the 2003-2004 and 2005-2006 school year. All other prior years have been reviewed and any amounts owed have been paid or accrued. Any claims for reimbursement from these audits will be addressed when the audit is completed. The district has recorded a liability for additional amounts to be repaid to granting agencies, in addition to amounts described above at June 30, 2007 of $527,298.

The 79th Texas Legislature, Third Called Special Session, passed House Bill 1 in May 2006. Governor Perry signed House Bill 1 on May 31, 2006. In particular, House Bill 1 amended the Texas Education Code, Section 21.402, which establishes the State's minimum salary schedule for certain professional staff. For the 2006-2007 school year, The Texas Government Code, Section 825.405 requires the employing school district to pay the State's contribution on the portion of an employee's salary that exceeds the statutory minimum, as determined by Section 21.402, for covered professional personnel, multiplied by each district's cost of education adjustment. The district calculated its contribution for Teacher Retirement System of Texas ("TRS") statutory minimum contribution under the new law. TRS has indicated to the TEA that the district has underpaid this contribution. The underpayment results from TEA using a different minimum salary than that outlined in House Bill 1. The district received a letter from TRS requesting the payment of $7,120,635. The district contested this payment and the TEA has submitted a request for an opinion to the Attorney General of Texas.

NOTE Q: SUBSEQUENT EVENTS

In May, 2008 a $1.35 billion bond proposal was approved by voters. Proceeds from bond issuances will be dedicated to the construction of 15 schools and the renovation of numerous other schools.

Exhibit G-1

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

General Fund
For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	$ 774,754,207	$ 903,244,070	$ 900,261,831	$ (2,982,239)
State sources	301,398,339	209,655,339	264,854,432	55,199,093
Federal sources	6,575,000	6,575,000	5,691,260	(883,740)
TOTAL REVENUES	1,082,727,546	1,119,474,409	1,170,807,523	51,333,114
EXPENDITURES				
Current:				
11 Instruction	663,933,334	689,940,260	695,010,602	(5,070,342)
12 Instructional resources and media services	20,356,878	22,444,238	22,353,404	90,834
13 Curriculum and staff development	15,727,422	10,661,641	14,185,332	(3,523,691)
21 Instructional leadership	14,882,310	15,978,401	16,456,274	(477,873)
23 School leadership	70,585,444	77,508,204	78,460,370	(952,166)
31 Guidance, counseling, and evaluation services	42,709,158	42,665,806	42,784,691	(118,885)
32 Social work services	1,880,525	1,905,651	1,893,863	11,788
33 Health services	12,827,158	12,666,362	13,033,453	(367,091)
34 Student transportation	14,666,695	15,903,349	16,178,389	(275,040)
36 Cocurricular/extracurricular activities	10,736,788	10,320,587	10,122,117	198,470
41 General administration	34,069,840	31,543,207	32,703,453	(1,160,246)
51 Plant maintenance and operations	127,408,051	141,080,133	155,462,500	(14,382,367)
52 Security & monitoring services	15,860,064	19,738,895	18,383,925	1,354,970
53 Data processing services	18,538,189	20,371,859	19,884,312	487,547
61 Community services	8,829,349	7,820,886	8,457,932	(637,046)
71 Debt Service	4,363,203	7,138,267	4,018,883	3,119,384
81 Facilities acquisition and construction	1,540,931	1,633,311	3,895,564	(2,262,253)
95 Payments juvenile justice AE	765,000	765,000	629,987	135,013
97 Payments to tax increment fund	3,047,207	3,047,207	2,954,107	93,100
TOTAL EXPENDITURES	1,082,727,546	1,133,133,264	1,156,869,158	(23,735,894)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(13,658,855)	13,938,365	27,597,220
FUND BALANCE - BEGINNING OF YEAR, as restated	135,844,170	135,844,170	106,186,269	(29,657,901)
FUND BALANCE - END OF YEAR	$ 135,844,170	$ 122,185,315	$ 120,124,634	$ (2,060,681)

Dallas Independent School District
Notes to the Required Supplementary Information
For the Year Ended June 30, 2007

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

1. Before June 20 of the preceding fiscal year, the district prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.

3. Before July 1, the Board legally enacts the budget through passage of a resolution.

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

The General Fund revenue budget projection was affected greatly due to the recognition of modifications related to the configuration of school funding that resulted from changes made during the 79th Legislature, 3rd called special session. These changes were enacted literally days before the adoption of the 2006-2007 Budget and the interpretation of the new laws were yet to be determined.

Changes to expenditure budgets included an increase in instruction resulting from student / teacher requirements and considerable salary increases as a result of the actions taken by the 79th Legislature, 3rd called special session. Expenditures for school leadership increased significantly due to a more competitive salary structure for campus leadership, primarily principals. Higher than anticipated utility costs due to the opening of additional campuses resulted in an extraordinary increase to the plant maintenance and operations budget.

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

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

At the time of the final amended budget was approved, the district was not aware of certain accrual issues principally in the payroll and accounts payable areas which impacted several functions. In addition, the district significantly underestimated revenue due from the TEA under the new funding mechanism enacted in 2006. The revenue issue more than offset the expense issues resulting in excess revenue over expenditures of $13,938,365 or an improvement of $27,597,220 over the fund amended budget.

Dallas Independent School District
Notes to the Required Supplementary Information
For the Year Ended June 30, 2007

The following reflects the final budget negative expenditure variances for the fiscal year ended June 30, 2007:

	Final Budget	Actual	Variance with Final Budget (Negative)
11 Instruction	$ 689,940,260	$ 695,010,602	$ (5,070,342)
13 Curriculum and staff development	10,661,641	14,185,332	(3,523,691)
21 Instructional leadership	15,978,401	16,456,274	(477,873)
23 School leadership	77,508,204	78,460,370	(952,166)
31 Guidance, counseling, and evaluation services	42,665,806	42,784,691	(118,885)
33 Health services	12,666,362	13,033,453	(367,091)
34 Student transportation	15,903,349	16,178,389	(275,040)
41 General administration	31,543,207	32,703,453	(1,160,246)
51 Plant maintenance and operations	141,080,133	155,462,500	(14,382,367)
61 Community services	7,820,886	8,457,932	(637,046)
81 Facilities acquisition and construction	1,633,311	3,895,564	(2,262,253)

Exhibit J-1

Dallas Independent School District
Schedule of Delinquent Taxes Receivable (Unaudited)
For the Year Ended June 30, 2007

	1	2	3	10	20	31	32	40	50
	Tax Rates		Net Assessed/Appraised Value For School Tax Purposes	Beginning Balance	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance
Fiscal year (1)	Maintenance	Debt Service							
1998 and prior years	Various	Various	$ 40,469,448,988	$ 12,395,462	$ -	$ 515,402	$ 40,861	$ (244,932)	$ 11,594,267
1999	1.3740	0.8650	44,624,425,308	2,640,002	-	105,920	6,668	(21,197)	2,506,217
2000	1.3980	0.0063	49,107,307,100	2,901,968	-	135,561	8,534	(118,208)	2,639,665
2001	1.4780	0.0695	53,136,828,664	4,617,156	-	282,652	13,291	(146,066)	4,175,147
2002	1.4780	0.0695	57,284,326,734	5,446,029	-	441,531	20,762	(188,041)	4,795,695
2003	1.4780	0.1095	58,484,300,287	7,859,986	-	674,995	50,018	(187,766)	6,947,207
2004	1.5000	0.1395	58,380,724,174	9,931,083	-	1,083,270	100,819	(577,257)	8,169,737
2005	1.5000	0.1669	59,372,699,642	12,675,617	-	1,932,590	218,822	(1,607,593)	8,916,612
2006	1.5000	0.1884	62,682,170,090	34,632,885	-	13,908,924	1,751,540	(5,597,707)	13,374,714
2007	1.3301	0.1726	69,473,558,853		1,000,995,496	856,537,762	111,148,836	(3,176,121)	30,132,777
1000 TOTALS				$ 93,100,188	$ 1,000,995,496	$ 875,618,607	$ 113,360,151	$ (11,864,888)	$ 93,252,038
Wilmer Hutchins (2)									655,781
				$ 93,100,188	$ 1,000,995,496	$ 875,618,607	$ 113,360,151	$ (11,864,888)	$ 93,907,819
9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code						$ 2,954,107			

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

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

Exhibit J-2

Dallas Independent School District
Schedule of Expenditures for Computations of Indirect Costs
General and Special Revenue Funds (Unaudited)
For the Year Ended June 30, 2007

FUNCTION 41 AND RELATED FUNCTION 53 - 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)	7 Total
611X-6146	PAYROLL COSTS	$ 383,162	$ -	$ 464,798	$ 15,914,919	$ 1,008,948	$ 1,921,720	$ 19,693,547
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	6,066,503	-	-	-	-	-	6,066,503
6212	Audit Services	-	-	-	308,670	-	-	308,670
6213	Tax Appraisal and Collection	-	4,183,488		-	-	-	4,183,488
621X	Other Professional Services	23,098	-	164,588	1,852,342	233	326,847	2,367,108
6220	Tuition and Transfer Payments	-	-	-	-	-	2,816	2,816
6240	Contr. Maint. and Repair	-	-	-	-	22,186		22,186
6260	Rentals	12,982	-	17,633	185,701	40,724	71,375	328,415
6290	Miscellaneous Contributions	5,905		3,151	74,160		9,505	92,721
6310	Supplies and Materials	-	-	-	3,882	-	-	3,882
6320	Textbooks and Reading Materials	559	-	264	21,634	-	493	22,950
63XX	Other Supplies Materials	40,704	-	12,740	504,775	11,796	195,024	765,039
6410	Travel, Subsistence, Stipends	30,567	-	16,974	172,873	-	431,086	651,500
6420	Insurance	-	-	-	-	-	1,315	1,315
6430	Election Costs	89,307	-	-	-	-	-	89,307
6490	Miscellaneous Operating	144,715	-	93,621	558,691	-	911,442	1,708,469
6600	Capital Outlay	-	-	-	-	-	132,180	132,180
6000	TOTAL	$ 6,797,502	$ 4,183,488	$ 773,769	$ 19,597,647	$ 1,083,887	$ 4,003,803	$ 36,440,096

Total expenditures for General and Special Revenue Funds		$ 1,422,075,733
LESS: Deductions of Unallowable Costs		
Total Capital Outlay (6600)(Only Funds 100-199/200-499,	10 42,550,675	
Total Debt & Lease (6500)(Only Funds 100-199/200-499/	11 4,018,883	
Plant Maintenance (Function 51, 6100-6400)	12 157,928,980	
Food (Function 35, 6341)	13 19,253,562	
Stipends (6132 and 6412)	14 -	
		223,752,100
Net Allowed Direct Cost		1,198,323,633

Total Cost of Buildings before Depreciation (1520)	15	1,464,417,094
Historical Cost of Buildings over 50 years old	16	121,907,590
Amount of Federal Money in building Cost (Net of Above)	17	10,000
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18	154,497,651
Historical Cost of Furniture & Equipment over 16 years old	19	39,181,261
Amount of Federal Money in Furniture & Equipment (Net of Above)	20	$ 31,181,261

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

Exhibit J-3

Dallas Independent School District
Fund Balance and Cash Flow Calculation Worksheet
General Fund (Unaudited)
June 30, 2007

Data Control Code	Explanation		Amount
1	Total General Fund Balance 6/30/07 (Exhibit C-1 object 3000 for the General Fund Only)		$ 120,124,634
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	$ 14,373,736	
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	$ -	
4	Estimated amount needed to cover all cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues) (unaudited)	$ -	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/07-5/31/08) (unaudited)	$ 96,405,763	
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 expenditures to be reimbursed to General Fund from Capital Projects Funds (uses of General Fund cash after bond referendum and prio to issuance of bonds).	$ -	
9	Optimum Fund Balance and Cash Flow (2 + 3 + 4 + 5) (unaudited)		$ 110,779,499
10	Excess/(Deficit) Undesignated Unreserved General Fund Fund Balance (1 - 6) (unaudited)		$ 9,345,135

Dallas Independent School District
Budgetary Comparison Schedule - Nonmajor Fund
Food Service Fund (Unaudited)
For the Year Ended June 30, 2007

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
0100	Fund Balance, July 1, 2006 (actual as restated)	$ 14,217,760	$ 14,217,760	$ 13,521,929	$ -
	REVENUES				
5700	Local and intermediate sources	13,623,971	13,623,971	7,676,736	(5,947,235)
5800	State program revenues	865,116	865,116	592,075	(273,041)
5900	Federal program revenues	56,304,301	56,304,301	60,751,476	4,447,175
5000	Amounts available for appropriation	70,793,388	70,793,388	69,020,287	(1,773,101)
	EXPENDITURES				
0035	Food Service	68,206,748	68,206,748	64,901,357	3,305,391
	Co-Curricular Activities	-	-	-	-
0051	Plant maintenance and operations	2,586,640	2,586,640	2,111,027	475,613
6000	Total charges to appropriations	70,793,388	70,793,388	67,012,384	3,781,004
3000	Fund balance, June 30, 2007	$ 14,217,760	$ 14,217,760	$ 15,529,832	$ 2,007,903

Exhibit J-5

Dallas Independent School District
Budgetary Comparison Schedule - Debt Service Fund (Unaudited)
For the Year Ended June 30, 2007

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
0100	Fund Balance, July 1, 2006 (actual as restated)	$ 79,152,730	$ 79,152,730	$ 78,592,565	$ -
	REVENUES				
5700	Local and intermediate sources	118,412,273	118,412,273	117,353,991	(1,058,282)
5000	Amounts available for appropriation	118,412,273	118,412,273	117,353,991	(1,058,282)
	EXPENDITURES				
0071	Principal and interest on long-term debt	118,412,273	118,412,273	116,955,352	1,456,921
6030	Total charges to appropriations	118,412,273	118,412,273	116,955,352	1,456,921
3000	Fund balance, June 30, 2007	$ 79,152,730	$ 79,152,730	$ 78,991,204	$ (2,515,203)

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

We have audited the basic financial statements of the Dallas Independent School District (the "District") as of and for the year ended June 30, 2007, and have issued our report thereon dated June 26, 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.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider items 2007-01 through 2007-12 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007 – 01 through 2007 – 07 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2007-07, 2007-13 through 2007-16.

We also noted certain matters that we reported to management and the Board of Trustees of the Dallas Independent School District in a separate letter dated June 26, 2008.

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

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

Deloitte & Touche LLP

June 26, 2008

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

Compliance

We have audited the compliance of the Dallas Independent School District (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 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 Dallas Independent School District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

As described in items 2007 – 19, 2007 – 20, 2007 – 22, 2007 – 23, 2007 – 24, and 2007 – 25 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs that are applicable to its Title I, Title II, 21st Century, Special Education Cluster, and Texas Reading First programs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Dallas Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-17, 2007-18, and 2007-26 through 2007-34.

Internal Control Over Compliance

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

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007 – 17 through 2007 – 28 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007 – 17 through 2007 – 22 to be material weaknesses.

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

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

Deloitte & Touche LLP

June 26, 2008

DALLAS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Pass-Through Grantor's Number	Federal/State Grantor-Pass Through Grantor/Program Title	Federal CFDA Number	Indirect Cost	Period Expenditures
	U.S. DEPARTMENT OF EDUCATION			
	Direct			
Q215E030078-05	ESEA Counseling Demonstration Program	84.215E	$ 875	$ 49,729
S215X020386	Teaching American History	84.215X	(1,312)	(1,312)
S060A060194	Indian Education	84.060A	2,379	139,364
T293B040113	Foreign Languages Assistance Program	84.293B	2,296	205,742
U350A060002A	Bridges To Teaching	84.350A	440	30,207
S374A070003	Teacher Incentive	84.374A	276	29,270
V215L042007	Smaller Learning Communities	84.215L	5,506	875,328
U351D060153	Dallas Arts Initiative	84.351D		-
	Total Direct		10,460	1,328,328
	Passed Through Texas Education Agency			
076600010579056600	IDEA-B Formula	84.027	352,661	26,188,182
076600020579056673	IDEA-B Discretionary (Deaf)	84.027	-	251,728
076600010579056601	IDEA-B Formula (Deaf)	84.027	2,321	175,225
076600060579056680	Idea B High Cost Risk Pool	84.027	-	340,440
076610010579056610	IDEA-B Preschool	84.173	7,040	482,733
076610010579056611	IDEA-B Preschool (Deaf)	84.173	411	28,184
66018057905	McKinney-Vento Homeless Education	84.196	900	900
77022057905	McKinney-Vento Homeless Education	84.196	-	251,746
074100017110162	Adult Education & Family Literacy Section 231	84.002A	977	67,020
074100017110162	Adult Education & Family Literacy Section 231	84.002A	37,583	2,576,969
074100087110155	Adult Ed Engl Lit & Civics Education	84.002A	999	68,470
064100037110016	Adult Education - State Leadership,Project Great	84.002A	-	-
074100037110021	Adult Education - State Leadership,Project Great	84.002A	2,147	262,785
07610101057905	Title I, Part A-Improving Basic Programs	84.010A	1,011,099	78,601,133
06610104057920042	Title I School Improvement Program	84.010A	1,247	32,593
07610103057905	Title I, Part D, Subpart 2-Delinquent Program	84.010A	176	12,056
06520201057905	Hurricane-Homeless Youth	84.938B	1,931	132,395
07610104057905	Title I School Improvement Program	84.010A	-	1,508,428
06610104057905	Title I School Improvement Program	84.010A	56,385	3,661,629
07615001057905	Title I, Part C- Migrant	84.011A	3,093	212,053
074200060579051O	Carl D. Perkins, Title I, Part C	84.048A	11,484	2,121,030
Q184D050011A	Student Voluntary Drug Testing Program	84.184D	5,038	296,191
07691001057905	Title IV, Part A-Safe & Drug Free School & Communities	84.186A	13,936	1,285,566
073911010579053911	IDEA-C Early Intervention	84.181	-	4,486
076120017110303	Even Start Literacy Program - Cochran	84.213C	-	153,020
066120017110224	Even Start Literacy Program - Peeler	84.213C	-	-
066120017110225	Even Start Literacy Program - Cochran	84.213C	-	-
066950097110009	TX 21st Century Learning Center, Cycle 1 - Success Express	84.287C	-	490,389
066950097110007	TX 21st Century Learning Center, Cycle 1 - Passing Zone	84.287C	-	525,359
066950097110008	TX 21st Century Learning Center, Cycle 1 - Bridge to Success	84.287C	-	676,764
066950097110011	TX 21st Century Learning Center, Cycle 1 - Neighborhood Now	84.287C	-	515,941
066950087110010	TX 21st Century Learning Center, Cycle 1 - The Learning Zone	84.287C	-	446,974
066950107110009	TX 21st Century Learning Center, Cycle 2 - Achievement Connection	84.287C	8,874	626,233
066950107110012	TX 21st Century Learning Center, Cycle 2 - Project Success	84.287C	-	682,705
066950107110011	TX 21st Century Learning Center, Cycle 2 - After School/Lab Learning	84.287C	9,933	627,265
066950107110010	TX 21st Century Learning Center, Cycle 2 - Achievement Avenue	84.287C	10,144	653,896
076950017110009	TX 21st Century Learning Center, Cycle 3 - After-School Ambassador	84.287C	3,092	621,160
076950017110008	TX 21st Century Learning Center, Cycle 3 - The Learning Place	84.287C	9,414	647,417
07685001057905	Title V,Part A Innovative Programs	84.298A	3,401	312,284
07630001057905	Title II, Part D, Enhancing Education Through Technology	84.318X	8,888	720,013
066160017110035-53	Title I, Part F, Comprehensive School Reform	84.332	-	-
066160037110035-65	Title I, Part F, Comprehensive School Reform	84.332A	2,230	137,476
056455057110016	Texas Reading First Initiative for Grades K-3	84.357A	(33,023)	1,261,548
066455057110016	Texas Reading First Initiative for Grades K-3	84.357A	50,483	3,461,467
07671001057905	Title III, Part A- LEP	84.365A	72,348	5,333,571
07694501057905	Title II, Part A-Teacher and Principal Training & Recruiting	84.367A	153,880	12,281,641
066945157110022-29	Govenor's Educator Excellence Award Grant Programs	84.367A	11,949	819,298
	Total Passed Through Texas Education Agency		1,821,041	149,556,362
	Passed Through State Department Of Health			
53802C6018	Special Education Grants for Infants and Families with Disabilities	84.181	2,710	2,710
53802C7018	Special Education Grants for Infants and Families with Disabilities	84.181	26,361	1,210,723
C6018	Special Education Grants for Infants and Families with Disabilities	84.181		-
C7018	Special Education Grants for Infants and Families with Disabilities	84.181	-	175,496
U87/CCU622615-05	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	3,316	297,428
	Total Passed Through State Department Of Health		32,387	1,686,357
	TOTAL U.S. DEPARTMENT OF EDUCATION		1,863,888	152,571,047

DALLAS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Pass-Through Grantor's Number	Federal/State Grantor-Pass Through Grantor/Program Title	Federal CFDA Number	Indirect Cost	Period Expenditures
	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
	Passed Through State Department Of Health			
5APHPA002073-05-00	Promoting Safe and Stable Families	93 995	$ 1,247	$ 157,124
2007-021513	Abstinence Education	93 235	1,139	154,100
	Total Passed Through State Department Of Health		2,386	311,224
	Passed Through Texas Education Agency			
073625017110150	Federal-TANF	93 558	3,581	245,554
	Total Passed Through Texas Education Agency		3,581	245,554
	TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		5,967	556,778
	U.S. DEPARTMENT OF AGRICULTURE			
	Passed Through Texas Education Agency			
N/A	National School Breakfast	10 553	-	9,647,675
N/A	National School Lunch	10 555	-	45,307,321
	Total Passed Through Texas Education Agency		-	54,954,996
	Direct			
N/A	Schools/Child Nutrition Commodity Program (Noncash)	10 550	-	4,477,624
N/A	Summer Feeding Program	10 559	-	1,318,856
	Total Direct		-	5,796,480
	TOTAL U.S. DEPARTMENT OF AGRICULTURE		-	60,751,476
	OTHER FUNDING AGENCIES			
N/A	Juvenile Mentoring Program	16 726	49	7,168
N/A	Texas Women's University	45 313	-	25,044
N/A	COPS in Schools Award	16 710	-	221,962
N/A	Texas Effectiveness Study	84 027	-	3,102
0766002271210	IDEA-B Visually Impaired	84 027	-	12,739
N/A	Medicaid and School Health Related Services	93 778	-	2,136,829
N/A	JROTC	12 000	-	1,638,239
	Other Federal Revenue	N/A	-	45,501
	TOTAL OTHER FUNDING AGENCIES		49	4,090,584
	TOTAL FEDERAL ASSISTANCE		$ 1,869,903	$ 217,969,885

Reconciliation to Exhibit C-2

Total Federal Assistance		$ 217,969,885
Less:		
Medicaid and School Health Related Services	(2,136,829)	
JROTC Expenditures	(1,638,239)	
Indirect Cost for Federal Awards Grants	(1,869,903)	
Summer School LEP (CFDA# 84 369A)	(45,501)	
Revised Total Federal Assistance		$ 212,279,414

Note
The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note A to the District's Basic Financial Statements. Schools/Child Nutrition Commodity Program is a non cash transaction for $4,477,624

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

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

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

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

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 30 days beyond the federal project period ending date, in accordance with provisions in Section H: Period of Availability of Federal Funds, Part 3, *OMB Circular A-133 Compliance Supplement*.

4. The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the District has not complied with rules and regulations governing the grants, refund of any money received may be required and the collectibility of any related receivable at June 30, 2007 may be impaired. Currently, the Department of Education is auditing Title I funds for 2005-2006. Preliminary draft reports presented by the Office of Inspector General identified the possibility of unallowable or unsupported expenses.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I—Summary of Auditor's Results

Financial Statements

1. Type of auditor's report issued: unqualified

   Internal control over financial reporting:

2. Material weaknesses identified? __X__ yes ______ no
3. Significant deficiencies identified that are not considered to be material weaknesses? __X__ yes ______none reported
4. Noncompliance material to financial statements noted? __X__ yes ______ no

Federal Awards

   Internal control over major programs:

5. Material weaknesses identified? __X__ yes ______ no
6. Significant deficiencies identified that are not considered to be material weaknesses? __X__ yes ______none reported
7. Type of auditor's report issued on compliance for major programs: Unqualified for all major programs except Title I, Part A, Title II, Part A, 21st Century Learning Centers, Texas Reading First Initiative, and the Special Education Cluster which were qualified.
8. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? __X__ yes ______ no
9. Identification of major programs:

   84.010 – Title I, Part A

   84.367 – Title II, Part A

   84.365 – Title III, Part A

   84.287 – 21st Century Learning Centers

   84.357 – Texas Reading First Initiative

   10.550 – Commodities Food Program (Noncash)

   84.027 & 84.173 – Special Education Cluster

10. Dollar threshold used to distinguish between Type A and Type B programs: $3,000,000
11. Auditee qualified as low-risk auditee? ______ yes __X__ no

Section II—Financial Statement Findings

MATERIAL WEAKNESSES

Finding 2007-01 – Control Environment

Observation — The District has not developed a sound internal control environment that is supported by effective policies and procedures for each of its key business processes. Current policies and procedures around payroll, disbursements, fixed assets, inventory, and revenues are inadequately documented and inconsistently applied and communicated to employees. In several instances, no evidence was available to support the performance of a control. The District has not developed a program to train employees on the importance of maintaining controls and taking action when controls fail or imposing discipline when controls are circumvented.

A control environment that is not supported by thoroughly documented and consistently enforced policies and procedures exposes the District to the potential for fraud, waste, and abuse and increases the risk that errors and irregularities occur and do not get detected on a timely basis by employees in their normal course of business.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — The control environment sets the tone of an organization, influencing the control-consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include integrity, ethical values, and competence of the entity's people, management's philosophy and operating style, the way management assigns authority and responsibility and organizes and develops its people, and the attention and direction provided by the Board of Trustees.

Management's philosophy and operating style have a pervasive effect on the organization. One consistent with a sound control environment is demonstrated when management regards the accounting function as a means for monitoring and exercising control over an entity's various activities. When improper activities are reported to management, they should be communicated to all appropriate parties and addressed in a thorough and timely manner. Management should also openly encourage and acknowledge the practices of employees or departments that promote a sound control environment and ethical behavior.

Management should develop, implement, and enforce a structured program to establish a comprehensive system of internal controls around the key business processes in the District. This program should include:

- Identification of potential errors and related effective controls that should be put in place to address them.
- Documentation of all key policies, procedures, and controls by process. If policies and procedures exist, such policies should be reviewed and revised to ensure they are complete and reflect current practices.
- Communication and training across the key business processes in the District about the importance of controls and each individual's responsibility for maintaining a strong system of controls.
- A system to routinely evaluate and monitor the design and operating effectiveness of controls.

- Clearly communicated expectations regarding controls and accountability to employees and holding employees accountable for breaches of policy, procedures, and controls.

- Requirements for all employees to clearly document their work through retention of sufficient supporting documentation to ensure consistent application of controls and complete and accurate processing of transactions.

Finding 2007-02 – Financial Accounting and Reporting

Observation — Financial accounting and reporting in a large organization such as the District is complex and requires not only an understanding of the internal processes of the District, but also a strong accounting knowledge and ability to analyze transactions and determine their impact on financial statements. Several errors were noted during the audit that resulted in material adjustments to current-year financial statements; a number of these errors related to accounting and reporting errors in the prior year which resulted in prior-year adjustments to the opening fund balance and net assets. During the audit process, we noted weaknesses in the general condition of the accounting records relating to many areas, including the following:

1. Staff had difficulty explaining changes in account balances and explaining relationships between changes in operations and related financial accounts.

2. Accounts receivable and payable detail ledgers were not reconciled to the general ledger and several outstanding receivables and payables were not analyzed to determine whether they are valid accounts.

3. The allowance for doubtful accounts related to property taxes receivable was not evaluated to determine the adequacy of the allowance in relation to recent history of collections and adjustments.

4. A number of suspense and inventory accounts improperly carried unresolved balances from prior years.

5. Accrued salaries and wages were understated due to programming errors that resulted in the exclusion of certain employee contracts from the accruals and erroneous management assumptions made about the immateriality of such amounts without proper analysis to determine whether such amounts were significant to the financial statements. Additionally, the related payroll benefits were not properly accrued.

6. Contributions made by third parties for the construction and improvements to the Booker T. Washington campus and for the enhancement of the District's programs had not been analyzed for the proper recording of the related receivables and recognition of revenues.

7. Transactions with other governments were not analyzed to determine the proper recording in the general ledger.

8. Numerous errors were noted related to accounts payable cut-off, including utilities, construction contracts, and other cash disbursement.

9. Nonroutine transactions were not identified and evaluated for proper recording.

All of the above resulted in numerous errors in the financial statements requiring the District to record numerous prior-period adjustments in addition to adjusting entries to correct current-year financial statements. This has also resulted in substantial delays in closing the books and preparing final financial statements and created significant delays in the reporting timeline.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — An evaluation and restructuring of the financial and accounting processes is imperative to achieve the goal of timely closing of the general ledger, timely preparation of account reconciliations and identification and proper analysis of transactions, and proper accounting and reporting of financial transactions. In order to achieve this, the district should:

1. Perform a business process analysis in the Finance Department of the accounting procedures to ensure that the most effective and efficient transaction flows and approvals are in place to strengthen internal controls and reliability of the financial information.

2. Perform an assessment of the staffing requirements for the financial department, qualifications of staff needed, and job responsibilities.

3. Identify job descriptions, responsibilities, and qualifications needed for various positions and identify the right individuals to assume those roles.

4. Identify the training needs for staff based on the comparison of the qualifications and skills available and those needed to perform at the required level of expertise and develop a comprehensive training program to fulfill those needs.

5. Ensure that all policies and procedures are documented in a detailed manual. A comprehensive accounting policies and procedures manual should be a readily accessible reference to accounting personnel to ensure that accounting policies and procedures are known and followed. Such a manual also benefits the District during turnover of key accounting individuals. With thoroughly documented policies and procedures, the learning period of new employees is reduced and management may have increased assurance that accounting policies and procedures are consistently followed during the transition period.

6. Establish responsibilities for appropriate monitoring and reconciliation of accounts and for the appropriate preparation of reports such as aging of receivables and development of "allowance rates" for estimates of uncollectible amounts and unearned revenues.

7. Develop and implement procedures to review all invoices received subsequent to year-end to ensure proper inclusion in or exclusion from accounts payable.

8. Implement procedures that require the review of nonroutine contracts and arrangements into which the District enters to ensure proper accounting and reporting.

Finding 2007-03 – Policies and Procedures

Formalized and up-to-date policies and procedures for the District's key business processes either do not exist, are ineffective, or are inconsistently applied in many key business processes within the District. We noted a number of instances where control activities could not be identified and others where supporting documentation evidencing the control was not complete or did not exist so we could not determine whether these controls were operating effectively. Specifically:

- *Information Technology* — A comprehensive set of information technology- (IT) related policies and procedures have not been established and implemented for the following areas: logical and physical security, change control, database management, and operations management. When IT policies and procedures are not established and implemented by formally documenting and communicating them to employees, its likely that management's control expectations will not be fully understood or consistently followed.

- *Bank Reconciliations* — The monthly bank reconciliation performed by the Finance Department did not include preparer and reviewer signoff. Preparer and reviewer signoffs are important to be documented in evidence of the performance of the procedure.

- *Grant Revenues* — The supervisory review performed to verify that the total sum amount on the Notice of Grant Award agreed to the Oracle general ledger did not include management review and signoff. Without reviewer signoff, it is difficult to determine whether the control was performed.

- *Reconciliation of General Ledger to Subsidiary Ledgers* — The District does not have a process requiring the reconciliation of general ledger accounts to supporting detail for various accounts receivable and payable balances and does not require the signature of a preparer and supervisory review in evidence of the review. The performance and review of reconciliations between the general ledger accounts and supporting detail for various accounts receivable and payable balances is a key control for detecting potential errors or irregularities in the District's financial activities. All reconciliations should be evidenced with preparer and reviewer signoffs.

- *Payroll* — The District was unable to provide supporting evidence that departmental managers review listings of current employees within their departments and notify the personnel department of necessary changes. Without a periodic review of underlying payroll data by department managers, the District cannot be sure that data used to process payroll is complete and accurate.

  Personnel records did not contain all supporting documentations to support changes made to employee compensation, position, or level. As a result, in a number of instances where there were changes in employee levels or positions, we were unable to trace the approval of these changes to original supporting documentation in the employee file.

  The Records Inventory Checklist used to verify the completeness of each employee's personnel file does not require signatures to verify that someone actually reviewed the employee's file and made sure that all documentation was included. The checklist was designed by the District to ensure completeness of information in employee files.

  The Payroll Module Reconciliation, which reconciles the payroll register to the general ledger, did not include the evidence of the accounting supervisor's review and signoff.

  Before the withholding table patch from Oracle is applied to production, payroll personnel indicate that an employee's withholdings are manually calculated to ensure that the correct taxes are being withheld based upon the test data on the test server. However, the District was unable to provide supporting documentation that this test is actually being performed. Without proper supporting documentation, it is difficult to determine whether this control was performed in accordance with expectations. The performance of this manual test is a key control to ensure that the patch applied to production to update the withholding tables was done accurately.

- *Inventory* — On a monthly basis, the Inventory Clerk generates movement reports from Oracle, and the Inventory Director matches the adjustment log to the Warehouse Supervisor's file showing what to discard. Reviews are not performed in regular, set intervals and discarding of items is a manual process with discarded items manually listed in a notepad. No evidence of review or approval prior to the discard process is maintained.

- *Fixed Assets* — The Fixed Assets group relies on the General Fixed Asset Management System (GFAMS) module to calculate all depreciation. There is no evidence that controls are in place to ensure that depreciation charges calculated within GFAMS are valid, accurately calculated, and recorded in the appropriate period.

  On a monthly basis, the fixed assets accountant reviews and approves the asset additions report and the fixed asset disposal report for accuracy, validity, and timeliness. However, the Fixed Assets group does not maintain copies of the reports; therefore, no information was available to verify whether this activity was being performed.

When policies and procedures are not formally established, documented, and communicated and when employees are not adequately trained on them or held accountable for applying them consistently and documenting their performance of the controls, the District puts itself at risk for the inappropriate processing of transactions and safeguarding of its assets.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — Policies, procedures, and controls should be formally established, implemented, and communicated throughout the District at all levels and across all functions. This helps to ensure that all employees fully understand their responsibilities, how controls operate, and the importance of the control process. The District should document is policies and procedures and key control objectives and activities should be identified and documented for each of the District's key business processes. Once documented, the policies, procedures, and controls should be formally approved by the District management and communicated to appropriate staff. The District should also train key employees on how to properly execute and document the performance of key activates.

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

- Adoption of a formal control framework such as the Committee of Sponsoring Organization's (COSO) Control framework to set the expectations for controls

- Accountability for the execution of controls residing with the control owners

- Formal documentation of policies, procedures, and controls

- Linkage of risks (financial, regulatory, programmatic, fraud) to identified control objectives

- Identification of key control objectives and activities by business process

- Development of a control repository to house key controls to their control owners

- Ongoing monitoring of control expectations through periodic self-assessment and/or management testing of key controls across the organization

Finding 2007-04 – Anti-fraud Programs and Controls

Observation — While the District has established an internal audit department, the Office of Professional Responsibility, and an Audit Committee in recognition of the importance of maintaining fraud prevention and detection programs, the District currently does not have a documented fraud risk assessment process in place.

The AICPA has published a document entitled *Management Antifraud Programs and Controls — Guidance to Help Prevent and Deter Fraud.* As stated in the publication, "this document identifies measures entities can implement to prevent, deter, and detect fraud. It discusses these measures in the context of three fundamental elements. Broadly stated, these fundamental elements are (1) create and maintain a *culture* of honesty and high ethics; (2) *elevate* the risks of fraud and implement the processes, procedures, and controls needed to mitigate the risks and reduce the opportunities for fraud; and (3) develop an appropriate *oversight* process."

Although the District has certain programs in place to address the measures described in the AICPA document, we believe that the District could strengthen its fraud deterrence programs through a comparison of its programs to the measures cited by the AICPA. For example, the District should initiate a risk assessment process that evaluates factors that could prevent the occurrence of fraud to occur in the District. This process should involve participation from managers from selected District departments, the District's internal auditors, and members of the Audit Committee of the Board of Trustees. The objective of such a process is to document the results and conclusions reached to assist in the design and implementation of new anti-fraud programs and control activities.

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

- Has management linked risks and schemes identified in the fraud risk assessment process to mitigating programs and controls by analyzing management's mapping of fraud risks to applicable mitigating programs and controls?

- What are the procedures for handling complaints and for accepting and investigating confidential submissions of concerns about questionable accounting or auditing matters?

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

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — Review the AICPA publication noted above to determine that the focus of the District's anti-fraud evaluation efforts is adequate and complete. Perform a Districtwide risk management analysis under the direction of the Audit Committee of the Board of Trustees and management to identify vulnerabilities to significant fraud, operational and financial risks. A review by the Audit Committee, on an annual basis, of the District's documented risk assessment should be considered. A comprehensive risk assessment process includes the following steps: identify risks, assess impact, prioritize risks, develop action plans, and implement, monitor, and report on necessary changes. These procedures should be performed on a continual basis in order to minimize the following kinds of risk:

Strategic Risk — the risk that the organizational goals will not be achieved due to inadequate responses to external risk factors

Operational Risk — the risk that organizational goals will not be achieved due to the inability to implement effective business or operating decisions and practices.

Financial Reporting Risk — the risk that the objectives of adequate, timely, and reliable financial reporting and disclosure will not be achieved

Regulatory Risk — the risk that the district will not be in compliance with applicable laws and regulations

Fraud Risk — the risk that assets (liquid and other) will be lost through theft or other misappropriation

The results of such assessment should be a comprehensive plan that addresses the above risks. Monitoring controls should be implemented to ensure that the policies and procedures designed by management are implemented appropriately and in a timely manner.

Finding 2007-05 – Capital Assets Reporting

Observation — A number of errors were noted in the capital assets balances that required material adjustments to beginning balances and current additions. These errors resulted from a lack of a detailed review and reconciliation process, weaknesses in communication among District departments with regards to capital asset transactions and transfers out of construction in progress, and the absence of the timely reconciliation of additions to capital outlay expenditures. These errors included:

- Improper capitalization of assets that are leased under operating leases
- Failure to record assets that are leased under capital lease agreements
- Failure to capitalize assets donated by other entities or paid for by other entities on behalf of the District
- Improper expensing of capitalizable costs related to the bond-funded construction program
- Failure to perform periodic counts of capital assets
- Failure to evaluate assets for impairment in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*

- Failure to reconcile capital asset additions to capital outlay expenditures in a timely manner
- Failure to identify ending construction in progress balances and transfer of completed assets to completed capital assets in a timely manner

Due to increased reporting and accounting requirements brought about by recent statements issued by GASB, an additional reporting burden has been placed on the capital assets accounting function. Additionally, tracking, accounting for, inventorying, and depreciating capital assets must be done on an ongoing basis to comply with the requirements of GASB statements and to enhance controls over capital assets.

The District's capital assets as of June 30, 2007, exceeded $2.2 billion. The lack of a timely, detailed ongoing reconciliation process for capital assets and communications among District departments and the absence of regular review procedures of capital assets accounting and reporting increases the risk of erroneous financial reporting.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — Proper accounting and reporting for is crucial for reliable financial reporting. Implement policies and procedures that require the timely reconciliation and review over capital asset information. These procedures should include:

- Maintaining capital asset detail listings and records on a timely basis
- Calculating depreciation and accumulated depreciation on assets
- Reconciling capital outlay expenditures (including all capitalizable construction-related costs) to additions to capital assets and construction-in-progress
- Identifying the financial statement reporting requirement of capital assets and ensuring that staff have the proper training and knowledge of the related GASB reporting requirements
- Establishing a policies and procedures guide to ensure correct identification and reporting of capital assets and the correct lives and depreciation methods and updating the lives based on District experience
- Establishing the business processes and related written procedures between the operating departments and the accounting department to ensure timely and accurate reporting of capital asset activities such as leases, acquisitions, and donations
- Establishing and maintaining physical inventory procedures including an independent verification process on a regular basis in total or sample basis to ensure the existence of assets recorded and the tagging of such by operating departments
- Tracking the status of completion of construction progress and transferring completed projects to the proper asset category
- Performing and documenting the evaluation of capital assets for impairment on annual basis

Assessing whether the current capital assets module used by the District is adequate for the needs of the District

Finding 2007-06 – Debt Accounting and Reporting

Observation — Several accounting errors were noted during the audit of the District's debt transactions. These errors included:

- Improper calculation of losses on refundings in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*

- Improper recording of such losses on the governmentwide financial statements

- Improper recording of bond issuance costs

- Failure to use the interest method to amortize premiums on outstanding debt

- Inability to explain activity related to debt transactions

- Recording of defeased debt when the transaction did not meet the definition of an in-substance defeasance

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — Review the current assignment and qualifications of individuals responsible for debt transactions. Ensure that individuals possess the proper understanding of the transactions and that they have been through the appropriate training on how to record and report the transactions. Consider documenting the policies and procedures on how to account and reconcile debt transactions on a fund level and governmentwide basis. It is imperative that this be completed prior to issuing the bonds that the District is planning to issue as part of any future bond program.

Finding 2007-07 – Grant Compliance, Accounting, and Reporting

Observation — The District does not have formal, Districtwide procedures in place to monitor compliance with grant regulations on the front-end of each transaction. In addition, program management for several grant programs has not been consistent due to employee turnover.

The District does not have written accounting procedures for grant accountants to maintain consistency and accuracy in the accounting process. Weaknesses around the grant accounting and monitoring processes include:

- Accruals for grant-related expenditures are not monitored to ensure that they are properly supported during the year. This leads to the over- or under-requesting of grant funds due to improper accruals.

- The District does not have a process in place that requires timely submission of reimbursement requests from granting agencies. Texas Education Agency (TEA) does not, in most cases, set formal deadlines for drawdown requests as most grants can be rolled over to the next fiscal year. However, untimely requests make the accounting and reconciliation process more difficult and negatively impact the available cash flow for the District.

- The District does not use account codes consistently during the grant accounting process. For example, liabilities are often recorded as negative receivables; revenues are occasionally recorded as negative expenditures.

- The District has not reconciled its receivable and revenue balances in grant funds for at least three years.

The lack of consistent program management and incongruities in the accounting process led to questioned costs during the Single Audit and other audits performed by granting agencies.

In addition, 2 out of 15 drawdowns tested during the Single Audit for cash management and reporting compliance requirements were submitted to TEA more than 3 months after year-end. Sixteen out of 29 funds selected for receivables testing had requests for reimbursement made 3 months or more after year-end. One of those 29 funds had not had any reimbursement requests submitted as of December 2007, 6 months after year-end.

Lack of consistent program management has caused the District to request reimbursement for disallowed expenditures. Erroneous accruals have also led the District to either over- or under-request funds from granting agencies, thus making the year-end reconciliation process more difficult and causing adjustments in the majority of grant-related funds.

Finally, as the grants referred to above are reimbursement in nature, the District is utilizing general fund money to subsidize the special revenue funds until reimbursements are requested and received. As such, decreased cash flows in the general fund ultimately result in lower investment earnings to the general fund.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — Implement policies and procedures that require the following:

- Require centralized approval for all grant expenditures, including payroll, by one consistent person or group of people knowledgeable of grant requirements. This policy would ensure that no specific grants are unmonitored during times of employee turnover.

- Implement more rigorous training for individuals responsible for both monitoring grant compliance and accounting for grant-related transactions. In addition, the District should train all employees involved in spending grant funds regarding allowable costs and other granting agency requirements.

- Implement written accounting procedures to achieve a more appropriate and more consistent use of accounting line codes.

- Establish set self-imposed deadlines for reimbursement requests and more closely monitor the timeliness of requests for each grant.

- Perform a reconciliation of grant receivables and revenue. Subsequent receipts should be reconciled with each drawdown requested to ensure that the District does not have any uncollectible receivables or any liabilities to the granting agency.

SIGNIFICANT DEFICIENCIES

Finding 2007-08 – User Access Management and Security

Observation — Security configurations and the access management processes for IT systems were found to be weak which could impact the integrity and confidentiality of data processed by the financial systems. Specific weaknesses include:

- Generic accounts and their common password (as opposed to individual accounts) are shared by multiple personnel administrating the IT systems. The sharing of passwords makes it difficult to hold any one person accountable for the proper administration of these accounts.

- Security parameters are not properly configured to force IT systems users to use a strong password on financial data processing applications, databases, the network, and the operating systems. If strong passwords are not used, access to the IT systems can be easily compromised by internal as well as external parties.

- Security parameters over the file systems and databases are not adequate. Specific weaknesses include:

  i) Access to use the high-privileged account (root) in the Unix system appears to be excessive and a large number of files are configured to be readily modifiable (world-writable) by anybody having a user account on the system, which leads to increases in the risk of unauthorized changes being made to the system

  ii) The key tables in the Paradox system are not encrypted; therefore, it is possible for the administrative personnel to view confidential information

  iii) The default account passwords for the Oracle Database have not been changed and database security parameters are not as strong as they need to be to prevent unauthorized access

- The number of people with administrative privileges to Oracle Financials (32 users), Oracle database (9 users), and UNIX system (8 users) is excessive compared to the size of the IT organization. Administrative privileges should be limited only to those individuals that need to properly administer each of the IT systems. Having this many users with this type of open privilege increases the District's risk for error and irregularities.

- Controls over and monitoring of user access privileges were found to be insufficient or inconsistently applied which increases the risk for unauthorized access and modification to District information. Specific weaknesses include:

  i) Access privileges are not periodically reviewed to ensure privileges are limited to current employees and that the levels of access of employees have is consistent with their job responsibilities

  ii) Terminated employees access is not consistently and timely removed

The access of users who recently transferred to new responsibilities is not consistently reviewed and modified according to the new responsibilities. Poor controls over access to IT systems and inappropriate configuration of security parameters can lead to execution of unauthorized transactions, compromised segregation of duties, and integrity and reliability issues for the information produced by the IT systems.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — The District should enhance its access management processes and security configurations to address each of the identified weaknesses above. IT system policies and procedures for these areas should be documented and communicated to employees and appropriate monitoring controls should be established to ensure they are being consistently followed by the administrators and users of the IT systems.

Finding 2007-09 – Controls Over Master Files

Observation — The District has not implemented adequate master file controls to appropriately manage the vendor, payroll, food service inventory, and fixed assets master files. These master files contain critical data that supports the operations of various business processes of the District. Data from these master files is used as the basis for transaction processing that is ultimately reported in the financial statements. Specific weaknesses include:

Vendor Master File:

- Vendor master file data is not periodically reviewed by management for accuracy and ongoing pertinence.

- Significant changes to the vendor master file are not approved by management and there are no controls in place to ensure that recorded changes to the vendor master file are input accurately. If changes to the vendor master file are not input and processed or are input and processed incorrectly, the results could include ordering goods or services from unapproved vendors, sending payments to incorrect addresses, or changing payment and discount terms without proper authorization.

Fixed Asset Master File — Controls do not exist to ensure that recorded changes to the fixed asset master file are input accurately. Failure to process all valid changes to the fixed asset register and/or master file could result in errors in classifications of capital assets, valuation of capital assets, or the use of incorrect depreciation rates.

Inventory Master File — Controls are not adequately designed to ensure that only valid changes to the inventory master file are made and that they are input accurately and processed timely. Inaccurate, unauthorized, or delayed changes to the inventory management master file could result in order, processing, and pricing errors.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — Enhance control procedures over all master files. Input of, changes to, and processing of master data should be controlled appropriately to ensure reliability of financial information. Documentation should be maintained to evidence that changes to the master files are validated. A good balance of preventive and detective controls over master files should be established as part of the District's internal controls structure for maintaining the integrity of financial information.

Finding 2007-10 – Change Management Processes

Observation — The District has not implemented a formal process for change management for the IT systems and the documentation of testing and approval of changes is not being maintained. Additionally, separate test, development, and production environments are not maintained for financial systems.

Failure to establish and enforce effective change management procedures could lead to unauthorized or incorrect changes to be implemented in the production environment, ultimately affecting the integrity of financial information produced by the systems.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — The District should implement a formal process for change management of IT systems. The process should include:

- Documentation of formal policies and procedures
- Authorization requirements for making changes
- Adequacy of testing
- Responsibility for authorizing and implementing changes
- Controls for making emergency changes in the production environment directly
- Segregation of duties measures to prevent unauthorized changes

Additionally, all modifications to applications should be tested in an environment that is separate from the production environment and only moved into production after a final review of the change is performed by management.

Finding 2007-11 – Disaster Recovery and Business Continuity

Observation — The existing Disaster Recovery process for financial data was found to be ineffective. The off-site storage of data backups and disaster recovery testing have not been properly implemented. Specific weaknesses include:

- Management has not tested the disaster recovery plan for key IT systems in the current year.

- Backup tapes have not been sent to the contracted off-site facility since July 2006.

- According to District policy, tapes are to be rotated six days a week to a tape vault located within the same building where the Oracle production server is and only once a week are the tapes to be rotated to the off-site facility. As a result, tapes are in very close proximity of the actual production systems for six days until they are moved off-site and are therefore at risk of being comprised in the event of disaster affecting the building.

- The tapes for food service systems are rotated to the off-site facility only on a monthly basis while the administrators take the daily backup tapes with them to their home. Although the daily backups are removed from the site, the history of monthly transaction would be lost in the event of a disaster at the food service location. Additionally, the District increases its risk of unauthorized access to or loss of highly sensitive District information by allowing employees to take backup tapes home with them.

- Only one person is configured in the backup utility software to be responsible for backups of the food services system. Required backups may not be performed in the absence of this one individual which puts the District at risk if a disaster were to occur.

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

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — The District should implement a process for reviewing and redesigning the current disaster recovery practices including disaster recovery requirements, backup schedule, off-site rotation requirements, and testing procedures with a planned approach to recovering the information system resources in case of disaster. The established plan should be tested on a periodic basis (preferably on a yearly basis) to ensure that the systems could be recovered in a timely manner as planned.

Finding 2007-12 – Allocation of Internal Service Activities

Observation — The District has set up a number of internal service funds that are consolidated with the General Fund for reporting purposes. These funds are used to allocate costs to all of the District's funds and organizations for the charges and services relate to evaluation and accountability, graphics, workers' compensation, building improvements force, and alternative certifications. Costs are accumulated in the General Fund and then billed to the other District funds at predetermined rates. At the end of the year, the District is crediting any excess of charges over actual expenditures back to the general fund. Allocation to other funds made from the general fund should be set up to break even and excess charges over actual expenses should be allocated back equitably to all the funds and organizations.

Failure to charge grants based on actual or appropriate rates and allocation of expenditures to grant funds in excess of actual cost is considered an unallowable charge to grant funds.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation — The periodic review of internal service funds and subsequent settle-up of overcharges should be evaluated to include an allocation of any refunds or credits back to the original funds charged. Credit should never be given to a single fund when multiple funds originally paid for the services unless a supportable case can be made for refunding the overcharge in a disproportionate amount

NONCOMPLIANCE AND OTHER MATTERS

Finding 2007-13 – Employment of Unauthorized Alien

Observation – ***Title 8, Chapter 12, subchapter II, part VIII,*** Section 1324 a of the U.S. Code states that it is unlawful for a person or other entity to hire or to recruit or to refer for a fee for employment in the United States an alien knowing that the alien is an unauthorized alien. A test of the District's active employees revealed that the District employed and paid one unauthorized alien during fiscal year 2007. The employee was using a deceased person's social security number.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation – Verify all social security numbers upon hiring. Implement procedures to ensure that the potential employee's information (name, date of birth, etc.) matches the information associated with the social security number.

Finding 2007-14 – Monitoring of State Mandated Programs

Observation – As defined in the Texas Education Agency Resource Guide, "for programs financed under the Foundation School Program Act (state mandated programs), rules of the State Board of Education provide that allocations must be used in the program areas prescribed by law, except for percentages as indicated below. The percentages indicated below can be used for any legal purpose including indirect costs in support of the program:

Program	Percentage Allowable
Bilingual Education	15%
Compensatory Education	15%
Gifted and Talented	15%
Career and Technology	10%
Special Education	15%

As such, the District is required to monitor and spend 85% of each of its state mandated programs' allotment on total direct costs for each program. However, during fiscal year 2007, the District spent only 79% of its Foundation School Programs Compensatory Education Allotment on direct program costs.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation – Monitor spending and compliance with state requirements for all state mandated programs on a regular basis. Compliance should not be dependent on the final assessment of "unallocated" expenditures by the State.

Finding 2007-15 – Conflict of Interest Statements

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

Code, and includes a nepotism clause. Chapter 171 of the Local Government Code defines a person as having a substantial interest in a business entity if: (1) the person owns 10 percent or more of the voting stock or shares of the business entity or owns either 10 percent or more or $15,000 or more of the fair market value of the business entity; or (2) funds received by the person from the business entity exceed 10 percent of the person's gross income for the previous year.

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

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

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

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

Finding 2007-16 – Budgetary Noncompliance

Observation – The Texas Education Agency Resource Guide states that "all necessary budget amendments must be formally adopted by the school board and recorded in the board minutes. To provide an adequate audit trail for budget amendments, the amendments should include: the original budget amount by fund and function; the amount of the amendment by fund and function; and the amended budget amount by fund and function. Even if budget changes do not have to be formally reviewed and adopted by the school board, major program or budget changes should be reviewed by District administrators to ensure the district's legal compliance with state expenditure mandates."

District management informed us that they misinterpreted the State law that requires that the Board of Trustees approve the final amended budget prior to the completion of the fiscal year. The District's Board of Trustee approved the final amendment for the fiscal year 2007 budget in June of 2007 which included the following statement:

"Recommended Action: That the Board of Trustees authorizes the amendments to the General Operating, Food Service, and Debt Service budgets. Although this item reflects all known changes, there may be additional changes needed, and this item requests authority to make adjustments, if necessary, for year-end."

Section 44.006 of the Texas Education Code states:

"(a) Public funds of the school district may not be spent in any manner other than as provided for in the budget adopted by the board of trustees, but the board may amend a budget or adopt a supplementary emergency budget to cover necessary unforeseen expenses. (b) Any amendment or supplementary budget must be prepared and filed according to rules adopted by the State Board of Education."

Actual expenditures of the District's General Fund exceeded the final amended budget approved by the Board of Trustees by $23,735,894.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Recommendation -- Implement procedures that prohibit encumbering or expending the District's funds prior to ensuring that funds are available. Prepare and present all budget amendments for Board approval prior to completion of the fiscal year.

Section III—Federal Award Findings and Questioned Costs

Finding 2007-17 – Reconciliation of Reimbursement Requests in Grant Funds

Cash management – material weakness – noncompliance with grant requirements

Programs – All

Criteria – Per the March 2007 Compliance Supplement, "when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government."

Condition – The District has not reconciled amounts requested with amounts received and disallowed costs in grant funds for the past several years. This resulted in a number of unreconciled differences that have been carried forward over time and accumulated on the District's general ledger. Certain prior period adjustments were recorded to correct amounts reconciled during fiscal year 2007.

Perspective/Instances – For the year ended June 30, 2007, the District recorded several adjustments and write offs to correct previously unreconciled balances and reported $1,422,886 in liabilities due to granting agencies as of year-end in 45 (out of 122) different grant programs.

Questioned Costs – Not applicable.

Cause – Lack of monitoring of general ledger accounts and timely reconciliations led to stale receivable and payable balances related to federal grant funds, many of which include unreconciled differences that required significant research to resolve stretching back multiple years.

Effect – Failure to reconcile reimbursements requested to amounts received and amounts disallowed resulted in previously unrecorded liabilities due to federal agencies or unclaimed receivables.

Recommendation – Perform timely reconciliations of amounts requested from granting agencies, expenditures recorded, and amounts received, and research and resolve any differences in a timely manner. On a regular basis, review all general ledger accounts related to federal grant funds to identify whether any amounts are required to be remitted to federal or state agencies and settle up such accounts in a timely manner.

View of Responsible Officials – Management agreed with the finding. See corrective action plan.

Finding 2007-18 – Tracking of Availability of Grants

Period of Availability of Federal Funds – material weakness – noncompliance with grant requirements

Programs – All

Criteria – Where a funding period is specified, a non-Federal entity may charge to the award only costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. Also, if authorized by the Federal program, deobligated balances may be carried over and charged for obligations of the subsequent funding period.

Condition – Funds that are carried over to the following year are not tracked to determine whether or not authorized awards are overspent.

Perspective/Instances – Not applicable.

Questioned Costs – Not applicable.

Cause – The District has not prepared schedules or other mechanisms to track period of availability of rolling grant programs with carry-over funding.

Effect – As the District has not sufficiently tracked spending by year, it was difficult to determine whether the District has cumulatively over or under-spent funds. However, the District does not appear to have spent beyond its Notice of Grant Award amount in the current year for the major programs selected for testing.

Recommendation – In order to maximize the availability of grant funds, develop and implement procedures and methodologies for monitoring spending of funds by grant year to ensure that all potential funds are used prior to their expiration. Additionally, implement procedures to monitor timing of spending to ensure that deobligated funds are not used by the District in the grant programs.

View of Responsible Officials – Management agreed with the finding. See corrective action plan.

Finding 2007-19 – Insufficient Documentation of Payroll and Payroll-Related Costs

Allowable Costs and Cost Principles – material weakness – material noncompliance with grant requirements

Programs - Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), 21st Century Learning Centers (84.287), Texas Reading First (84.357), Special Education Cluster (84.027 and 84.173)

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

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

Perspective/Instances – 20 of 291 payroll selections revealed salaries with pay rates above the management-approved rate or rate per the District's salary manual. While the Board-approved salary manual allows for the payment of individuals above the approved standard range, the amount above the range maximum should not be charged to federal funds.

9 of 246 payroll selections were missing documentation to support costs charged to the grant. 4 of 246 payroll selections were missing time and effort certifications. 4 of 132 payroll selections were charged an amount higher than approved due to an improper rate or allocation.

Questioned Costs -

Title I, Part A: $24,125
Title II, Part A: $147,546
Title III, Part A: $666
21st Century Learning Centers: $2,638
Texas Reading First: $21,746
Special Education Cluster: $66,291

Cause - District management has not implemented policies and procedures to monitor the status or completeness of personnel records. No department has been assigned full responsibility for such files. Checklists exist for the documents that should be contained in such files, but are not consistently completed or checked.

The District's payroll system is programmed with a number of allocations and exceptions. Numerous manual entries and adjustments must be made monthly to correct exceptions to the standard allocations. Due to original system programming and decisions made by District management to allocate each salary-related line item on a monthly basis, the volume of manual adjustments made monthly increases the risk that errors will occur and grants will be over- or under-charged.

Effect - District payroll and personnel records are incomplete and documentation is inconsistent. No single department "owns" such files and takes responsibility for correcting missing documentation.

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

Recommendation - When there are changes in positions or salaries, update employee personnel files with supporting documentation, such as personnel payroll authorization forms. Ensure that all amounts charged to grants are necessary, reasonable, and in compliance with federal grant requirements.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Finding 2007-20 – Time and Effort Documentation

Allowable Costs and Cost Principles – material weakness –material noncompliance with grant requirements

Programs – Title I, Part A (84.010) and 21st Century Learning Centers (84.287)

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

Condition – Certifications of time and effort were not obtained at least semi-annually in accordance with federal requirements for personnel charged to the Title I, Part A and 21st Century Learning Centers programs.

Perspective/Instances – Not applicable.

Questioned Costs - Not applicable.

Cause – Lack of monitoring of compliance with grant requirements appears to have caused the oversight. Internal controls were not in place to ensure that employees charged to the Title I, Part A and 21st Century Learning Centers grants maintained the required time and effort documentation to support the allocation of their payroll to the grants.

Effect – The District did not comply with federal documentation requirements. However, it appears that the actual personnel charged to the grant during the fiscal year matched the personnel intended to be charged per reports obtained from the District's budget office. The District obtained certifications retroactively in October 2007 for fiscal year 2007.

Recommendation – Obtain and review semi-annual certifications for all personnel working in federal grant programs in accordance with OMB Circular A-87. Implement procedures to monitor compliance with federal grant requirements on a regular basis.

View of Responsible Officials – Management agreed with the finding. See corrective action plan.

Finding 2007-21 – Grants Management

Allowable Costs and Cost Principles – material weakness – controls over grant requirements

Programs – Title I, Part A (84.010), Title II, Part A (84.367), 21st Century Learning Centers (84.287)

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

Condition – All grant expenditures are not required to be reviewed by people who are knowledgeable of the compliance requirements and allowable cost principles.

Perspective/Instances – Not applicable.

Questioned Costs – Not applicable.

Cause – The District does not have a process in place to review all grant expenditures to determine if they comply with grant requirements.

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

Recommendation – Develop control procedures that require all grant expenditures to be reviewed by someone knowledgeable of the compliance requirements and allowable cost principles.

View of Responsible Officials – Management agreed with the finding. See corrective action plan.

Finding 2007-22 – Costs Charged to Central Organization Codes

Allowable Costs and Cost Principles – material weakness – material noncompliance with grant requirements

Programs - Title I, Part A (84.010), 21st Century Learning Centers (84.287), Texas Reading First (84.357)

Criteria – Grant funds should be spent only for appropriate allowable costs, which include certain program administrative costs, and direct costs related to eligible campuses only. Costs should not be allocated to ineligible campuses.

Allowability of costs is partially dependent on campus eligibility as a designated Title I, 21st Century, or Texas Reading First school. As the District has implemented "schoolwide" Title I programs, eligible campuses must meet the criteria for Title I schoolwide attendance areas set forth in the March 2007 Compliance Supplement. 21st Century and Texas Reading First campuses must be approved by the Texas Education Agency in the funding application submitted by the District prior to funding approval. Use of central organization codes for charges that are non-administrative in nature does not allow the District to show that funds were spent on eligible campuses only.

Condition - All expenditures in the 21st Century Learning Centers program and a large portion of the expenditures for Texas Reading First and Title I, Part A programs were charged to central organization codes on the general ledger. Allowability of costs is partially dependent on campus eligibility as a designated campus. Use of central organization codes for charges that are non-administrative in nature does not allow the District to demonstrate that funds were spent on eligible campuses only without going to the original supporting documentation.

Perspective/Instances – We were unable to trace to eligible campuses the following expenditures selected for testing:

Title I, Part A: 13 of 75
21st Century Learning Centers: 9 of 75
Texas Reading First: 6 of 25

Questioned Costs –

Title I, Part A: $106,036
21st Century Learning Centers: $2,637
Texas Reading First: $17,116

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

Effect - We are unable to determine whether Title I, Part A, 21st Century, and Texas Reading First funds coded to central organization codes were spent on either appropriate administration functions or properly allocated to eligible campuses only.

Failure to use proper account codes for expenditures or to otherwise track expenditures by location results in incomplete and inaccurate record keeping. An inordinate amount of time is required to determine the locations to which goods and services are distributed when simple proper use of account codes could accomplish the same task.

Recommendation - Review and revise the current account code structure for central organization codes and utilize the TEA-approved code structure, limiting the number of locally-defined organizations to the minimum necessary. Alternately, assign responsibility for tracking and monitoring the activity of central organizations to ensure that ineligible campuses are not served by the respective funds.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Finding 2007-23 – Allocation of Internal Service Funds

Allowable Costs and Cost Principles – significant deficiency – material noncompliance with grant requirements

Programs - All

Criteria - Rates for internal charges should be based on supportable actual costs to the District and reviewed annually to determine their reasonableness. Internal service fund-like transactions should be set up to break even and excess charges over actual expenses should be allocated back equitably to all the funds and organizations.

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

Costs are accumulated in the General Fund and then billed to the other District funds at predetermined rates. At the end of the year, the District credits any excess of charges over actual expenditures back to the general fund.

Perspective/Instances - Not applicable.

Questioned Costs – $737,335

Effect - Failure to charge grants based on actual or appropriate rates – or to allocate credits for overbillings – is an unallowable charge to grant funds and a questioned cost.

Cause - The District has not reviewed the charges or rates made by internal services to determine reasonableness in several years.

Recommendation - Determine the actual costs for evaluation services and compare to the rate used by the District and charged to the grant programs. Determine whether adjustments to the rates are necessary and refund or make additional charges to the grants (if the grant budget allows) as required based on the rate review.

The periodic review of internal service funds and subsequent settle up of overcharge should be evaluated to include an allocation of any refunds or credits back to the original funds charged. Credit should not be given to a single fund when multiple funds originally paid for the services unless a supportable case can be made for refunding the overcharge in a disproportionate amount.

View of Responsible Officials - Management agreed with the finding and recorded a liability of \$2,466,407 representing health and workers' compensation costs overcharged to grants during fiscal years ending in 2005, 2006 and 2007. See corrective action plan.

Finding 2007-24– Charges for Employee Benefits

Allowable Costs and Cost Principles – significant deficiency – noncompliance with grant requirements

Programs - Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), 21st Century Learning Centers (84.287), Texas Reading First (84.357), Special Education Cluster (84.027 and 84.173)

Criteria - Per OMB A-87, Attachment B (Selected Items of Cost): "The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, workers' compensation insurance, pension plan costs and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities."

Condition - The District's system program which is used to calculate benefits for employees whose salaries are allocated to federal funds was found to contain a programming error.

Perspective/Instances - Errors were identified in 30 of 291 employees whose benefits were selected for testing.

Questioned Costs –

Title I, Part A: \$269
Title II, Part A: \$2,070
Title III, Part A: \$64
21st Century Learning Centers: \$11
Texas Reading First: \$1,569
Special Education Cluster: \$688

Cause - The District has not reviewed the system-calculated payroll allocations to determine whether benefits are being appropriately allocated to federal funds.

Effect - Errors in programming and allocations between federal and non-federal funds can result in over- or under-charges to federal funds for employee benefits.

Recommendation - Review system calculations for payroll allocations to Federal awards and determine that all benefits are being appropriately allocated in a consistent manner.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Finding 2007-25 – Time and Effort Documentation (Supplemental Pay)

Allowable Costs and Cost Principles – significant deficiency – noncompliance with grant requirements

Programs - Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), 21st Century Learning Centers (84.287), Texas Reading First (84.357), Special Education Cluster (84.027 and 84.173)

Criteria - OMB Circular A-87 Attachment B #8h requires that "where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the following standards: (a) They must reflect an after the fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee..."

Condition - Supplemental pay for persons whose base salary is non-grant-funded is not properly supported by signed time and effort documentation.

Perspective/Instances - All supplemental pay charged to the grants where the respective employees' base salary was funded by the general fund

Questioned Costs - Not applicable.

Cause - District policy requires only employees with base salary paid from grant funds to complete time and effort certifications.

Effect - The District's policy does not comply with federal guidelines.

Recommendation - Revise the District policy to require all employees who have a portion of their pay charged to a grant (base or supplemental) to complete time and effort certifications in a timely manner.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Finding 2007-26 – Insufficient Documentation for Non-Payroll Expenditures

Allowable Costs and Cost Principles – significant deficiency – noncompliance with grant requirements

Programs - Title III, Part A (84.365), 21st Century Learning Centers (84.287), Texas Reading First (84.357)

Criteria - In accordance with OMB Circular A-87, all grant expenditures must be supported by adequate documentation.

Condition - The District was unable to provide adequate documentation to support grant expenditures related to non payroll expenditures.

Perspective/Instances – 9 of 93 selections (Title III, Part A 2 of 43 selections, 21st Century Learning Centers 2 of 29 selections, and Texas Reading First 5 of 21 selections) were missing documentation to support costs

Questioned Costs –

Title III, Part A: $562
21st Century Learning Centers: $12,075
Texas Reading First: $384

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

Effect - Overcharges to federally funded programs can occur when sufficient monitoring of invoices and supporting documentation does not occur prior to approval for payment.

Recommendation - Implement procedures to monitor compliance with federal grant requirements on a regular basis.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Finding 2007-27 –Suspension and Debarment Noncompliance

Procurement, Suspension and Debarment – significant deficiency – noncompliance with grant requirements

Programs - Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365), 21st Century Learning Centers (84.287), Texas Reading First (84.357), Special Education Cluster (84.027 and 84.173)

Criteria - In accordance with the OMB A-133 Compliance Supplement Suspension and Debarment compliance requirement, all vendors - for goods and services - should be reviewed to determine if they are suspended or debarred.

Condition - The District has not examined certain professional service contracts under $25,000 for suspension and debarment compliance. Additionally, several others vendors selected for testing were not checked by the District's management for federal suspension or debarment with the National Excluded Parties database.

Perspective/Instances – 9 of 47 contracts selected for testing (Title I, Part A 2 of 14, Title II, Part A 1 of 8, Title III, Part A 4 of 10, 21st Century Learning Centers 1 of 5, TX Reading First 1 of 10) were not checked for suspension and debarment.

Questioned Costs - Not applicable.

Cause - The District's policies and procedures require vendors selected for contracts under $25,000 related to goods be subject to review for compliance with suspension and debarment, but no such policy exists for professional service contracts. Additionally, certain older contracts (dating back to fiscal year 2000) have been renewed with vendors; however, the District's Procurement Department has not checked the National Excluded Parties Database for a current status of the vendors.

Effect - Contracts with suspended or debarred vendors could be entered into unknowingly by the District for professional services. Additionally, as Federal laws regarding suspension and debarment were updated in 2003, many older District contracts may never have been checked for suspension and debarment. The District could be doing business with unapproved vendors unknowingly as a result of the failure to fully implement the proper policies and procedures necessary to comply with federal regulations.

Recommendation - Implement control procedures to ensure that all vendors are checked to ensure that they are not suspended or debarred. Check the National Excluded Parties Database for all covered parties prior to entering into contracts with any vendors. Vendor status should be updated on a regular basis and the status should be verified against the National Excluded Parties Database each time a contract is renewed or carried forward.

View of Responsible Officials – Management agreed with the finding. See corrective action plan.

Finding 2007-28 Per-Pupil Allocation for Private School Children

Special Tests and Provisions – significant deficiency –noncompliance with grant requirements

Program - Title I, Part A (84.010)

Criteria - TEA calculates an amount to be allocated to each student eligible to receive Title I, Part A funds within the District. The same amount should be allocated to private school children at participating private schools.

Condition - The District applied an internally-calculated per-pupil allocation rate for private school students receiving Title I, Part A funds instead of the TEA-approved rate.

Perspective/Instances - The per-pupil allocation rate used by the District in fiscal year 2007 was $981 lower than the TEA-approved rate calculated, which resulted in a total of $1,196,543 that was not allocated to private school students.

Questioned Costs - Not applicable.

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

Effect - Title I, Part A funds allocated to private schools were $1,196,543 below TEA required allocations. However, this noncompliance would not have had any impact on the amounts disbursed by the District since private schools did not spend the funds actually allocated to them by the District during fiscal year 2007.

Recommendation - Review per-pupil allocation rates for Title I, Part A funds to ensure the rate used is the TEA-approved rate. Assign responsibility for monitoring funds reserved for and used by private schools participating in the Title I, Part A program.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

OTHER DEFICIENCIES

Finding 2007-29 – Capital Asset Inventory

Equipment and Real Property Management – control deficiency – noncompliance with grant requirements

Programs – All

Criteria - OMB Circular A-133 and 34 CFR 84.31 require that an actual physical inventory of all capital assets purchased with federal funds be taken every two years. This count should then be reconciled to equipment records

Condition - The District's capital asset verification process consists of sending inventory lists to departments and campuses and asking them to verify the existing of such assets not less than every two years.

Perspective/Instances - Not applicable.

Questioned Costs - Not applicable.

Effect - The District is not in compliance with federal requirements. In addition, the failure to physically count capital assets could result in the misappropriation of assets.

Cause - The District has not monitored grant requirements that indicate physical inventories are required biennially for all grant-funded assets.

Recommendation - Perform actual physical counts of all capital assets purchased with federal funds at least every two years. This could be conducted by the Internal Audit Department, Grants Management, or Finance Department, but should be independently verified by someone other than the department that keeps the asset.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Finding 2007-30 – Special Education Reporting

Reporting – control deficiency – noncompliance with grant requirements

Programs - Special Education Cluster (84.027 and 84.173)

Criteria - In accordance with Texas Education Agency (TEA) guidance, "Each State Education Agency is required to report to the Secretary an unduplicated count of children with disabilities receiving special education and related services. Local Education Agencies must report data through Public Education Information Management System in accordance with established procedures."

Condition – The report provided to us by the District does not match the report prepared by TEA located on TEA's website. The District does not appear to be in compliance with this requirement.

Perspective/Instances - The report provided by the District included 90 more students eligible for Special Education funds than the report published by TEA.

Questioned Costs - Not applicable.

Cause - The District failed to monitor compliance with this grant requirement and did not monitor information reported to TEA. Grant managers could not explain the data reported by TEA.

Effect - As the District cannot explain the data reported by TEA, any information generated by the state based upon this data will be unreliable if uncorrected.

Recommendation - Accurately report the unduplicated count of children with disabilities receiving special education and related services.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Finding 2007-31 – Procurement of Services (non-sole-source)

Procurement, Suspension and Debarment – control deficiency – noncompliance with grant requirements

Program - Title II, Part A (84.367)

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

a) Competitive bidding
b) Interlocal agreements
c) Sole source
d) Price Quotes
e) Petty cash purchases

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

Condition - The District failed to obtain competitive bids for a non-sole-source supplies contract, resulting in noncompliance with federal procurement, suspension and debarment requirements as set forth in OMB Circular A-133.

Perspective/Instances - One of 8 contracts selected for testing does not appear to be properly procured under the above criteria.

Questioned Costs - Not applicable.

Cause - Failure to identify the contract as subject to standard procurement laws resulted in the noncompliance with laws.

Effect - Entering into contracts without subjecting the goods or services to the District's standard bidding process can result in the purchase of goods and services for more than necessary or market prices. Additionally, circumventing the procurement, suspension and debarment procedures places the District at risk that purchases with unapproved, related party, or suspended or debarred vendors can occur and go undetected.

Recommendation - Implement procedures to review all bid files related to contracts exceeding the "covered transaction" threshold of $25,000 to ensure that all procurement, suspension and debarment requirements were followed prior to awarding the contract.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Finding 2007-32 – Participation of Private School Children

Special Tests & Provisions – control deficiency – noncompliance with grant requirements

Programs - Title I, Part A (84.010), Title II, Part A (84.367), Title III, Part A (84.365)

Criteria - Educational services and materials reserved for private schools should be provided to private schools.

Condition - Actual expenditures related to private school participation were less than amounts budgeted for private schools in fiscal year 2007.

Perspective/Instances - Differences between budgeted and actual expenditures were as follows:

Title I, Part A - ($15,402)
Title II, Part A - ($163,454)
Title III, Part A - ($7,371)

Questioned Costs - Not applicable.

Cause - The District does not have procedures in place to monitor the timely spending of funds by private schools and encourage them to use 100% of the funds reserved for them during the budgeting process.

Effect - Budgeted funds set aside for private schools go unused.

Recommendation - Encourage private schools to use all of the funds budgeted for them or reallocate them to the District's campuses if the budget to private schools is not deemed appropriate.

View of Responsible Officials - Management agreed with the finding. See corrective action plan.

Finding 2007-33 – Allowable Costs in Title I, Part A – Wilmer Hutchins ISD

Allowable Costs and Cost Principles – control deficiency –non compliance with grant requirements

Program - Title I, Part A (84.010)

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

Condition - Certain expenditures were not allowed under the provisions of the grant award.

Perspective/Instances - $9,986 of the $73,454 selected for testing for Title I School Improvement for Wilmer-Hutchins ISD was determined to be unallowable per OMB Circular A-87.

Questioned Costs - $9,986

Cause - Amounts expended under the former Wilmer-Hutchins ISD grant were not reviewed to determine if they were allowable under the provisions of the grant award.

Effect - The District may be liable for Wilmer-Hutchins expenditures that were improperly expended with grant funds.

Recommendation – Perform a timely review of the expenditures charged to Federal awards to determine that costs are allowable.

View of Responsible Officials – Management agreed with the finding. See corrective action plan.

Finding 2007-34 – Allowable Costs in Title I, Part A

Allowable Costs and Cost Principles – noncompliance with grant requirements

Program - Title I, Part A (84.010)

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

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

Perspective/Instances – Amount identified by the OIG as questioned costs in the draft dated June 5, 2008, net of amounts approved by the Texas Education Agency or otherwise questioned was $3,753,263.

Questioned Costs - $3,753,263

Cause – Lack of proper supporting documentation

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

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

View of Responsible Officials – Management agreed with the finding. See corrective action plan.

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OVERVIEW

The district developed a comprehensive Corrective Action Plan to address the control weaknesses and findings reported by the auditor in the Fiscal Year 2006-2007 schedule of findings and questioned cost and has begun to implement the plan. The Corrective Action Plan is part of a larger Financial Transformation plan begun in the district in March 2008. Responses to the audit findings and recommendations are written within the context of Financial Transformation.

In February, the district engaged two experienced CFOs to lead the financial functions of the district. These two individuals will oversee not only the operational activities of the district, but also have begun the implementation of a short-term "rapid remediation" plan and comprehensive financial transformation effort. Additionally, resources from the Texas Association of School Business Officials (TASBO) and other prominent accounting and consulting organizations have been retained to guide the district in its transformation efforts.

The financial transformation has been initiated and is moving rapidly: The plan consists of three components: Strong Financial Strategy, Strict Controls and Improved Efficiencies.

PHASE	DESCRIPTION OF WORK	TARGETED TIME FRAME
I STRONG FINANCIAL STRATEGY	The district, working with TASBO and other external resources as needed, is crafting a comprehensive 5-year financial strategy. This strategy will establish financial goals that are clearly defined, well articulated and quantified. The strategy will form the basis for budgeting, spending and allocation decisions and will be transparent and benchmark driven.	Begun in March, 2008. Targeted completion in November, 2008.
II. STRICT CONTROLS	The district recognizes that the foundation for timeliness, stability and reliability of financial information rests in strict financial controls. The work is underway to reinforce existing controls and identify any additional needed controls.	
A. Rapid Remediation	The district deployed external resources to augment internal resources to remediate issues addressed in the Report to Management that have a direct impact on FY 07-08 Financial Statements. Multiple projects have been identified and begun – including reconciliations of accounts, technical corrections of the posting of certain transactions and accruals, methodologies for calculations, and streamlining the year-end closing process.	Begun in March, 2008. Targeted Completion in November, 2008.
B. Risk Assessment and Monitoring	The district will deploy external resources for an independent Enterprise Risk Assessment of	Targeted to begin in July, 2008 and end in

PHASE	DESCRIPTION OF WORK	TARGETED TIME FRAME
	the business and accounting processes in the district. This work will be coordinated by the three control functions in the district: (1) the Office of Professional Responsibility (OPR), recently established by and reporting directly to the Superintendent, whose charter is to identify and report waste, fraud and abuse; (2) The Internal Audit department, recently re-constituted to report directly to the Audit Committee of the Board of Trustees to ensure independence, and (3) the office of the CFO, recently reinforced by the addition of two highly experienced financial professionals and the resources of TASBO.	the Fall of 2008. Monitoring will be continuous.
C. Policies and Procedures Documentation and Training	The district will deploy external resources to augment internal resources to create a comprehensive documentation of current-state policies and procedures. Control weaknesses will be identified and short-term remediation will be implemented. Subsequently, training of the appropriate staff will be conducted.	Targeted to begin September, 2008 and be completed concurrently with re-design efforts.
III. IMPROVED EFFICIENCIES	The district is committed to creating processes that achieve improved efficiencies to meet its commitment to strong stewardship of public funds.	
A. Fast-track redesign efforts	Recognizing that short-term remediation will not produce long-term efficiencies, the district is committed to redesign and provide appropriate infrastructure and training for significant financial processes. Certain processes will be fast-tracked, including Budgeting, Payroll and Capital Assets accounting. The total list of fast-track re-engineering efforts will be based on the Risk Assessment.	Efforts have begun. In general, the fast track redesign efforts will be completed by year end 2009.
B. Redesign of remaining accounting processes and systems.	All significant financial processes that have not been "fast-tracked" will be redesigned in this time frame. Financial governance, organizational framework, systems and training will also be reviewed for change.	Targeted to begin in Fall, 2008 and will likely require 3 years.
C. Integrated upgrade of systems and processes.	At this time, the re-designed processes and systems will be planned and implemented. A major systems implementation will support this activity. Significant training will follow.	Planning will begin in Fall, 2008. Completion is targeted for early 2011.
References to specific projects are underlined throughout this response.		

The fiscal transformation of the Dallas Independent School District is an integral part of the overall transformation of the district, which has been ongoing under the banner of "Dallas Achieves!" The first step in fiscal transformation effort began with the engagement of external auditors to perform an audit of the district's financial statements. These recommendations are contained in the "*Report to Management.*" Transformation action plans are in place, resources are deployed and work has begun.

Most notable in terms of transformation, however, is the clear "Tone at the Top" of fiscal discipline and a call to ethics, responsibility and quality performance of fiscal duties for every employee in the district. With the support of the Board of Trustees and the district's executives, and with the commitment and hard work of the thousands of district employees who touch financial transactions, the district's financial functions will be fully aligned with the goals of the Dallas Achieves! program of district-wide transformation.

The district official responsible for the Corrective Action Plan is Mr. Eric Anderson, Chief Operating Officer.

MATERIAL WEAKNESSES

Finding 2007 – 01 CONTROL ENVIRONMENT

The district initiated several projects to address the Control Environment. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Projects range in scope from reconciliation of all non-reconciled accounts, review of calculations and posting processes for various technical accruals and entries, review of the usage of the "line code," and general ledger accounts and fund codes, including the use of Internal Service Funds, review of all balance sheet accounts on a periodic basis, redesign of the closing processes, redesign of internal financial and managerial reports and remediation training. The district engaged external resources to assist in this effort.

Additionally, the district initiated a program to provide additional rapid assessments, including a full enterprise risk assessment for the business and accounting processes of the district. This assessment will be conducted in the framework adopted by major publically traded companies subsequent to the passage of the Sarbanes Oxley legislation[1]. The assessment is being performed by independent, external resources. It is the fundamental foundation for rebuilding the control environment at Dallas ISD.

The risk assessment will be followed by, and will in some cases be concurrent with, a process redesign and additional assessments of specific control weaknesses. This documentation will form the basis for remediating control weaknesses, as well as for subsequent communication and training efforts. For purposes of speed, independence and comparability, this work will also be performed by external resources that specialize in these areas.

To adequately monitor the control environment, the district recently added the function of the Office of Professional Responsibility (OPR) to assist in the prevention of fraud, waste and abuse. Additionally, the recently reorganized Internal Audit function, reporting directly to a newly established Audit Committee of the Board of Trustees, serves to reinforce monitoring activities. Communication activities regarding monitoring activities will be expanded to these units and to management.

Notwithstanding the efforts of OPR and Internal Audit, the district will also add monitoring and control reports to key functions such as Payroll, Accounts Payable and Fixed Assets accounting. Monitoring of the control environment may also require changes in job content of certain positions and/or the addition of specific monitoring positions within the Financial Services areas.

The cooperation and interaction of the OPR, Internal Audit and the newly staffed Office of the CFO has been reinforced by the establishment of a regularly scheduled meeting to discuss issues

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[1] Specifically, the framework adopted by the Committee of Sponsoring Organizations (COSO). The members of COSO are: the American Institute of Certified Public Accountants (AICPA), The Institute of Internal Auditors (IIA), Financial Executives International (FEI), Institute of Management Accountants (IMA) and the American Accounting Association (AAA).

and events in each area. Most significantly, the district is committed to maintain the "tone at the top" as one of financial discipline and business ethics.

The district will not end its efforts for improvement with the establishment and monitoring of strong controls. Dallas ISD intends to move forward into a plan of financial process redesign, integrated with upgrades of the financial organization and systems. The utilization of the Oracle financial systems installed by the district in 2002 will be reviewed in the redesign process, and an integrated upgrade of financial processes, organization and systems is contemplated over a multi-year period.

Finding 2007 – 02 FINANCIAL ACCOUNTING AND REPORTING

On these technical accounting issues, the district recognizes that certain complex transactions have not been correctly calculated and/or correctly posted in the general ledger.

The district initiated several projects to address the Control Environment. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Projects range in scope from reconciliation of all non-reconciled accounts, review of calculations and posting processes for various technical accruals and entries, review of the usage of the "line code," and general ledger accounts and fund codes, including the use of Internal Service Funds, review of all balance sheet accounts on a periodic basis, redesign of the closing processes, redesign of internal financial and managerial reports and remediation training.

The district engaged external resources to assist in this effort. Additionally, working with TASBO, the district has obtained many useful tools and techniques from other districts and plans to incorporate these tools into its rapid remediation plans.

Accounting staff has been reinforced with external expertise to "catch up" on certain efforts and to provide in-depth technical expertise where it does not currently exist in sufficient quantities in the district. Nevertheless, the district is also committed to completing the more extensive efforts of completing the projects mentioned above (enterprise risk assessment, documentation and analysis of current financial processes, communications and training relative to remediation and ongoing monitoring) to fully identify and remediate accounting and reporting errors.

Additionally, remediation will require a review of utilization of current accounting transaction and reporting systems, with potential short-term remediation efforts required.

It is the district's goal, however, to extend beyond corrective actions. It is the goal to transform the district's approach to technical accounting and reporting by conducting a comprehensive redesign of business processes supported by a fully utilized and integrated implementation of the available Oracle systems. While the district purchased the full suite of Oracle modules, several are not currently utilized or have been highly customized, thus minimizing the benefits of the system. Work has already begun on the transformative effort by initiating a project to evaluate implementation options, with the goal of a comprehensive, integrated implementation of Oracle as part of the fiscal transformation effort.

Finding 2007 – 03 POLICIES AND PROCEDURES

The evaluation of all policies in the district, including the financial policies, is an effort underway under the direction of the Board of Trustees.

The remediation of the current policies and procedures has begun in "Rapid Remediation" efforts discussed above. Most significantly, the district is committed to maintain the "tone at the top" as one of financial discipline and business ethics.

Additionally, the district initiated a program to provide additional rapid assessments, including a full enterprise risk assessment for the business and accounting processes in the district.

The risk assessment will be a valuable tool for making a rapid assessment of which financial processes need to be "improved" versus "redesigned." Where improvement is a viable option, processes will be remediated and followed by a comprehensive documentation and training effort. For those processes which require redesign, there will be a prioritization process and key processes will be selected for "fast track" redesign. It is anticipated that Budgeting, Payroll and Capital Assets accounting will be "fast tracked," but the determination could change subsequent to the risk assessment. For purposes of speed, independence and comparability, this work will also be performed by external resources.

Monitoring of adherence to established policies and administrative procedures is an integral control function. Monitoring activities will be expanded to improve the detection of departures from established policies and administrative procedures. Communication activities will be expanded to ensure appropriate notification of management and the board, and to prevent its recurrence.

Finding 2007 – 04 ANTI FRAUD PROGRAMS AND CONTROLS

The Dallas ISD Board of Trustees and management are committed to a process that will reduce the risk and occurrence of fraud. As part of the fiscal transformation process, the district will utilize external, independent resources to conduct an Enterprise Risk Assessment, which will include a fraud risk assessment.

The recommended AICPA publication, *Management Antifraud Programs and Controls — Guidance to Help Prevent and Deter Fraud,* has been obtained and reviewed. The district is actively implementing the five principles outlined in the draft exposure guide.

Principle 1: A fraud risk policy should be written to convey to the organization the expectations of the board of directors and executive management regarding managing fraud risks.
The district adapted the fraud policy listed in the exposure draft to Dallas ISD. The policy assigns responsibilities to various functions in Dallas ISD. The policy will be presented to the full Board through the Audit Committee for adoption into district Policies along with the on-going fraud risk assessment process.

Principle 2: Fraud risk exposures should be assessed by the organization to identify specific potential events that the organization needs to mitigate.
As part of the Dallas ISD fiscal transformation process, the district will engage outside resources and will conduct a comprehensive enterprise risk assessment. This process will include an enterprise fraud risk assessment. After the initial financial assessment, the assessment will be extended to other departments.

Principle 3: Prevention techniques to avoid potential key fraud risk events should be established, where feasible, to mitigate potential impacts on the organization.
Prevention techniques include annual training in ethical conduct given to all employees. The Office of Professional Responsibility is tasked to provide one-hour of ethics training to all employees. This is being accomplished now. This strengthens the tone at the top that fraud and ethical conduct is taken seriously within the district. Employees are aware of the expectation that they conduct themselves in an ethical manner.

Fraud perpetrators are being disciplined consistently and quicker. Results are being made known throughout the district. Employees now realize fraud will not be tolerated and understand dismissal will result.

Principle 4: Detection methods should be established to uncover fraud events when preventive measures or unmitigated risks are realized.
Dallas ISD increased the awareness in the workforce that fraud perpetrators will be caught and prosecuted.

A fraud reporting system is in place, Ethics Point, and is actively monitored by the Office of Professional Responsibility (OPR). The link to Ethics Point is in a prominent position on the DALLAS ISD home Internet web page. Employees receive a monthly newsletter from OPR detailing current fraud situations within the district. The newsletter gives contact points including OPR and Ethics Point contact information.

Internal Audit department of the Dallas ISD revised its procedures concerning fraud. Each audit preliminary survey will document the red flags of fraud for the area under consideration. The auditor will be aware of the red flags as he/she goes through the testing process. For activity funds, on-site audits are being conducted so school personnel see the auditor and know they are being scrutinized. Internal Audit will review each school activity fund at least every two years. Those that have not demonstrated adequate control will be reviewed more frequently. Internal Audit is also implementing a continuous audit process, especially in the payroll arena. Regular analytics will be performed in several areas and the program will expand as the auditors gain proficiency in analysis.

Principle 5: A reporting process should be in place to solicit inputs on potential fraud events and a coordinated investigation approach should be used to ensure potential fraud events are dealt with in a timely manner.
A reporting process is in place. The Ethics Point hotline allows confidential reporting concerning suspected fraud within Dallas ISD. A link to Ethics point is predominately displayed on the Internet home page of Dallas ISD. In addition, OPR has other reporting methods that are advertised in the *Integrity Insight* newsletter such as E-mail to OPR, OPR phone number, reporting to OPR in person at their office or reporting to Internal Audit.

OPR assigns the case to the appropriate party and monitors the status of corrective actions. OPR and Internal Audit have a weekly meeting to review progress of cases.

OPR briefs the Audit Committee at the quarterly meeting on the status and results of investigation.

Finding 2007 – 05 CAPITAL ASSETS ACCOUNTING AND REPORTING

On these technical accounting issues, the district recognizes that certain complex transactions have not been correctly calculated and/or correctly posted. These errors have occurred in the general ledger and do not reflect on the separate, complete accounting records that are maintained in the Construction Services ("bond office") department, which was without comment in the audit.

The district initiated several projects to address accounting and reporting. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit. The district will, on an annual basis, evaluate assets for impairment in accordance with GASB #42.

Additional projects range in scope from reconciliation of all non-reconciled accounts, review of calculations and posting processes for various technical accruals and entries, review of the usage of the "line code," and general ledger accounts and fund codes, including the use of Internal Service Funds, review of all balance sheet accounts on a periodic basis, redesign of the closing processes, redesign of internal financial and managerial reports and remediation training.

The district engaged external resources to assist in this effort. Additionally, working with TASBO, the district has obtained many useful tools and techniques from other districts and plans to incorporate these tools into its rapid remediation plans.

Accounting staff has been reinforced with external expertise to "catch up" on certain efforts and to provide in-depth technical expertise where it does not currently exist in sufficient quantities in the district. Nevertheless, the district is also committed to completing the more extensive efforts of completing the projects mentioned above (enterprise risk assessment, documentation and analysis of current financial processes, communications and training relative to remediation and ongoing monitoring) to fully identify and remediate accounting and reporting errors.

Additionally, the district recognizes that the current Fixed Asset system (GFAMS) is antiquated and that the key financial system, Oracle, may not have been implemented in a way to maximize efficiencies and minimize errors in this area. Recognizing that short-term remediation will not produce long-term efficiencies, the district is committed to re-engineer and provide appropriate infrastructure and training for significant financial processes. Certain processes will be fast-tracked, including Capital Assets acquisition and accounting. The district will also review the timing of its physical inventory process. It is anticipated that both new processes and new infrastructure will be required to create a long-term solution.

It is the district's goal, however, to extend beyond corrective actions. It is the goal to transform the district's approach to technical accounting and reporting by conducting a comprehensive redesign of business processes supported by a fully utilized and integrated implementation of the available Oracle systems. While the district purchased the full suite of Oracle modules, several are not currently utilized or have been highly customized, thus minimizing the benefits of the system. Work has already begun on the transformative effort by initiating a project to evaluate implementation options, with the goal of a comprehensive, integrated implementation of Oracle as part of the fiscal transformation effort.

Finding 2007 – 06 DEBT ACCOUNTING AND REPORTING

On these technical accounting issues, the district recognizes that certain complex transactions have not been correctly calculated and/or correctly posted. These errors have occurred in the general ledger and do not reflect on the separate, complete accounting records that are maintained in the Construction Services ("bond office") department, which was without comment in the audit.

The district initiated several projects to address accounting and reporting. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit. The district will review the procedures for accounting for and reconciling debt transactions prior to issuance of future bonds.

Additional projects range in scope from reconciliation of all non-reconciled accounts, review of calculations and posting processes for various technical accruals and entries, review of the usage of the "line code," and general ledger accounts and fund codes, including the use of Internal Service Funds, review of all balance sheet accounts on a periodic basis, redesign of the closing processes, redesign of internal financial and managerial reports and remediation training.

The district engaged external resources to assist in this effort. Additionally, working with TASBO, the district has obtained many useful tools and techniques from other districts and plans to incorporate these tools into its rapid remediation plans.

Accounting staff has been reinforced with external expertise to "catch up" on certain efforts and to provide in-depth technical expertise where it does not currently exist in sufficient quantities in the district. Nevertheless, the district is also committed to completing the more extensive efforts of completing the projects mentioned above (enterprise risk assessment, documentation and analysis of current financial processes, communications and training relative to remediation and ongoing monitoring) to fully identify and remediate accounting and reporting errors.

Finding 2007 – 07 GRANT COMPLIANCE, ACCOUNTING AND REPORTING

The district has several projects initiated for remediation in this area. These projects include a comprehensive review of funds utilization with potential redesign as part of the transformation effort, organizational enhancement with additional qualified resources, a significant remediation effort ("Rapid Remediation") relative to account reconciliations by incremental short-term external staffing, and the above mentioned project to create comprehensive documentation and analysis of current financial processes.

The district recognizes that certain calculations for complex transactions have not been correctly calculated and/or correctly posted. The review of calculations and posting processes for various

technical accruals and entries, describe above, will be a project which addresses grant accounting and reporting. The district engaged external resources to assist in this effort.
Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The subject areas will also be included in the longer-term transformation efforts, wherein the processes are re-engineered and supported by a fully utilized systems infrastructure.

SIGNIFICANT DEFICIENCIES

Finding 2007 – 08 USER ACCESS MANAGEMENT AND SECURITY

Actions have already been taken to reinforce security for Information Technology ("IT") systems.

The district has several project plans for remediation in this area. These projects include providing periodic security based reports to review and refine based on current duties, with a long-range plan after a comprehensive review of all security parameters, Oracle application responsibilities, and establishing policy and procedures for migrating to a role based security tracking within systems. The review would encompass both operating system level access as well as ERP application access. From the review we will set out to adopt industry standards for user management and security processes to develop policies and procedures for all levels and areas of IT Services. Policies and procedures will be communicated and monitored throughout the IT and end user departments for proper implementation with the assistance of Internal Audits IT Audit staff. To help support the proper management of access requests and approvals IT Services will develop a security matrix for all ERP applications. This matrix will assist in properly evaluating and approving user access request. Additionally, an Identity Management has been defined, and federal grant funding is being sought to help the district move towards IT governance standards.

Additionally, the district initiated a program to provide additional rapid assessments, including a full enterprise risk assessment for the business and accounting processes of the district. This assessment will be conducted in the framework adopted by major publically traded companies subsequently to the passage of the Sarbanes Oxley legislation. Additionally, the district launched a program to provide additional rapid assessments, including a full enterprise risk assessment for the business and accounting processes in the district. The IT department will be included in this risk assessment.

For purposes of speed, independence and comparability, this work will also be performed by external resources.

To adequately monitor the control environment, the district recently added the function of the Office of Professional Responsibility (OPR) to assist in the prevention of fraud, waste and abuse. Additionally, the recently reorganized Internal Audit function, reporting directly to a newly established Audit Committee of the Board of Trustees, serves to reinforce monitoring activities. Monitoring the control environment may also require changes in job content of certain positions and/or the addition of specific monitoring positions within the Financial Services areas. The cooperation and interaction of the OPR, Internal Audit and Financial Services has been reinforced by the establishment of a regularly scheduled meeting to discuss issues and events in each area.

Since the IT function will be included in this enterprise risk assessment effort and in the effort to document processes, the department will be subject to the same ongoing controls and monitoring processes as Financial Services.

Additionally, as part of the longer-term efforts to implement a comprehensive, integrated Oracle system, the additional efforts of re-engineering security processes to include Identity Management and Role Based Security will also be implemented.

Finding 2007 – 09 CONTROLS OVER MASTER FILES

The district is reviewing controls over all master files. A recommendation for centralized controls of the vendor master file, combined with decentralized periodic review, has been accepted and is scheduled for implementation. The fixed asset and inventory master files will be reviewed and controls will be implemented as part of the rapid remediation effort that has begun in the district. Clear lines of authority over changes to and monitoring of master files will be established for each of the types of master files: vendor master files, fixed asset master files and inventory master files.

Additionally, to reinforce controls in all areas, the district launched a program to provide additional rapid assessments, including a full enterprise risk assessment for the business and accounting processes of the district. This assessment will be conducted in the framework adopted by major publically traded companies subsequently to the passage of the Sarbanes Oxley legislation. The assessment is being performed by independent, external resources. It is the fundamental foundation for rebuilding the control environment at DALLAS ISD.

To adequately monitor the control environment, the district recently added the function of the Office of Professional Responsibility (OPR) to assist in the prevention of fraud, waste and abuse. Additionally, the recently reorganized Internal Audit function, reporting directly to a newly established Audit Committee of the Board of Trustees, serves to reinforce monitoring activities. Monitoring the control environment may also require changes in job content of certain positions and/or the addition of specific monitoring positions within the Financial Services areas. The cooperation and interaction of the OPR, Internal Audit and Financial Services has been reinforced by the establishment of a regularly scheduled meeting to discuss issues and events in each area.

Notwithstanding the efforts of OPR and IA, the district will also add monitoring and control reports to key functions such as Payroll, Accounts Payable and Fixed Assets accounting. The monitoring the control environment may also require changes in job content of certain positions and/or the addition of specific monitoring positions within the Financial Services areas.

The use of Master Files is an integral control point, and will be included in all of the above efforts and, in particular, in our eventual comprehensive review of utilization of the Oracle financial systems.

Finding 2007 – 10 CHANGE MANAGEMENT PROCESSES

IT Management will continue to review, revise and enhance policies and procedures to control the movement of applications - composed of jobs or programs- from the test environment, where development occurs, to the staging environment, where thorough testing occurs, and then to the production environment.

All test results will be documented, reviewed, and approved by prior to production use. Accordingly, this process will include proper controls/sign-offs/authorization for all change requests. Responsibilities for authorizing and implementing changes will be documented to describe the required communications/coordination points for properly processing changes.

The district will continue to establish, enhance, and maintain a stable controlled environment for the implementation of changes within the production software environment. Also, Internal Audit Services' IT Auditor will monitor and test our procedures to determine compliance to IT best practices.

Finding 2007 – 11 DISASTER RECOVERY AND BUSINESS CONTINUITY

The district is working towards developing a viable and comprehensive business continuity plan (BCP) and disaster recovery plan (DRP). The IT area plans to create an environment consisting of redundant data centers, alternative processing capabilities and alternate locations capable of supporting the IT needs of the business functions of the district. A liaison will be assigned responsibility for monitoring the BCP development, and measuring its impact on the DRP. Developing the plan is a seven-stage project and IT is committed to complete the project.

1. Project initiation: A project manager will be assigned, business requirement goals will be listed, critical assets will be identified, and costing will be outlined. Risk analysis: The district must determine what information systems, data, and associated assets—facilities, equipment, and personnel—are critical. We will identify vulnerabilities, threats and exposures. Based on the risks, we will identify risk reduction and mitigation alternatives. Priorities will be established for processing and operations.
2. Risk analysis: The district must determine what information systems, data and associated assets – facilities, equipment and personnel – are critical. We will identify vulnerabilities, threats and exposures. Based on the risks, we will identify risk reduction and mitigation alternatives. Priorities will be established for processing and operations.
3. Business impact analysis: This is a systematic process to gather and analyze information about the district's functions and processes.
4. Build the plan: IT will develop and implement preventive measures including recovery strategies.
5. Test and validate the plan. Testing will insure the plan works and will be conducted on a periodic basis. Testing will be monitored by Internal Audit.
6. Modify and update the plan: The project manager will update the plan as necessary based on test results and changes to core systems.
7. Approve and implement the plan. Management will review and approve the plan.

Finding 2007 – 12 ALLOCATION OF INTERNAL SERVICE ACTIVITIES

The accounting for and use of the Internal Service funds, other funds and allocation of internal service costs is one of the technical accounting issues to be addressed in the "Rapid Remediation" efforts underway at the district. Additionally, the use of the funds is under review as part of the annual Budgeting process. External resources have been secured to assist in this effort.

Rapid Remediation projects range in scope from reconciliation of all non-reconciled accounts, review of calculations and posting processes for various technical accruals and entries, review of the usage of the "line code," and general ledger accounts and fund codes, including the use of Internal Service Funds, review of all balance sheet accounts on a periodic basis, redesign of the closing processes, redesign of internal financial and managerial reports and remediation training.

The district engaged external resources to assist in this effort. Additionally, working with TASBO, the district has obtained many useful tools and techniques from other districts and plans to incorporate these tools into its rapid remediation plans.

Accounting staff has been reinforced with external expertise to "catch up" on certain efforts and to provide in-depth technical expertise where it does not currently exist in sufficient quantities in the district. Nevertheless, the district is also committed to completing the more extensive efforts of completing the projects mentioned above (enterprise risk assessment, documentation and analysis of current financial processes, communications and training relative to remediation and ongoing monitoring) to fully identify and remediate accounting and reporting errors.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

Finding 2007 – 13 UNAUTHORIZED ALIEN

The district recognizes that enhanced controls over hiring and employee social security number verification are necessary, and the district has begun the implementation of programs to manage the risk. There are two specific programs for this effort: The key control is that the Payroll Department will begin to match social security numbers with the Social Security Administration files. Secondarily, a new biometrics program will begin to screen employees for criminal records. The plan is to fingerprint all employees.

This is one of many programs initiated by the district to address internal controls, accounting and reporting. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

As part of its Financial Transformation efforts, the district is improving processes employee verification. The district will comply with federal requirements and implement improved controls over hiring and social security number integrity. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 14 MONITORING OF STATE MANDATED PROGRAMS

The district recognizes that spending for compensatory education did not increase sufficiently to cover the increase of the proportional revenue allotment in Fiscal Year 2006-2007. The district has implemented plans to manage and monitor the alignment of revenue and spending for compensatory education to comply with the 85% rule.

This is one of many programs initiated by the district to address internal controls, accounting and reporting. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

As part of its Financial Transformation efforts, the district is improving processes related to State mandated programs. The district will comply with federal requirements and implement improved controls. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 15 CONFLICT OF INTEREST STATEMENTS

The district recognizes that enhanced controls over employee conflict of interest documentation are appropriate and has begun a several programs to implement changes. The district plans to review all employee files in 2008 to ensure completeness of information. As part of this plan, conflict of interest statements will be copied and supplied to Purchasing. Additionally, the district is reviewing automated tracking solutions within the Oracle system.

As part of its Financial Transformation efforts, the district is improving processes related to conflicts of interest documentation for employees. The district will comply with federal requirements and implement improved controls over conflict of interest statements. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 16 BUDGETARY COMPLIANCE

The district misinterpreted the State law regarding approval of the final amended budget prior to the completion of the fiscal year. Language had been added to the amendment would mitigate the risk of unknown year-end adjustments. The district will adjust its year-end calculations prior to the final amendment.

As part of its Financial Transformation efforts, the district is improving processes related to budgeting and planning. The district will review its year end budget amendments process and will comply with federal requirements and implement improved controls over budget amendments. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 17 RECONCILIATION OF REIMBURSEMENT REQUESTS IN GRANT FUNDS

The district has initiated several corrective action projects for Grants. These projects include a comprehensive review of funds utilization, which has begun in the district and is utilizing external resources. Additionally, the district has begun a financial organizational enhancement with additional qualified resources, a significant remediation effort ("Rapid Remediation") relative to account reconciliations by incremental short-term external staffing, and a project to create comprehensive documentation and analysis of all major financial processes.

Grants Management will also be included in the longer-term transformation efforts, wherein the processes are re-engineered and supported by a fully utilized systems infrastructure. The district will implement improved controls related to federal grant accounting processes in the re-design efforts and ensure timely reconciliation of general ledger accounts. District staff will receive additional training as necessary to insure proper reconciliations occur in the future. Additional controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

In February, 2008, the district engaged two experienced Chief Financial Officers to lead the remediation and transformation efforts in the district. The Chief Financial Officers receive reports on the accomplishment of grants reconciliation processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. Additionally, both groups are actively managing all transformation efforts.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

Finding 2007 – 18 TRACKING OF AVAILABILITY OF GRANTS

The district initiated several projects to address accounting and reporting, particularly in the area of Federal Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The district will comply with federal regulations regarding the accounting for carryover of grants amounts. The district will maintain separate accountability for carryover grant amounts to ensure charges to these and subsequent grant awards are authorized in accordance with respective program applications and program terms and conditions. District staff will receive additional training as necessary to insure accurate tracking of federal grants occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 19 INSUFFICIENT DOCUMENTATION OF PAYROLL AND RELATED COSTS

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The Grants Management area will monitor performance of grant administration processes by Federal Grant staff. The Chief Financial Officer will receive reports on the accomplishment of monitoring grant management processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

As part of its Financial Transformation efforts, the district is improving processes related to federal grant administration, including adequate payroll documentation. The district will comply with federal requirements and implement improved controls to ensure adequate records are maintained for time and effort, payroll and personnel records. District staff will receive additional training as necessary to insure accurate payroll documentation occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 20 TIME AND EFFORT DOCUMENTATION

The district has initiated corrective action for time and effort documentation, which is a component of the overall corrective action projects for Grants. These projects include a comprehensive review of funds utilization, which has begun in the district and is utilizing external resources. Additionally, the district has begun a financial organizational enhancement with additional qualified resources, a significant remediation effort ("Rapid Remediation") relative to account reconciliations by incremental short-term external staffing, and a project to create comprehensive documentation and analysis of all major financial processes.

Grants Management will also be included in the longer-term transformation efforts, wherein the processes are re-engineered and supported by a fully utilized systems infrastructure. The district will implement improved controls related to federal grant accounting processes in the re-design efforts and ensure timely reconciliation of general ledger accounts. District staff will receive additional training as necessary to insure proper reconciliations occur in the future. Additional controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems. Time and Effort documentation will be included in these efforts.

In February, 2008, the district engaged two experienced Chief Financial Officers to lead the remediation and transformation efforts in the district. The Chief Financial Officers receive reports on the accomplishment of grants reconciliation processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. Additionally, both groups are actively managing all transformation efforts.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

Finding 2007 – 21 GRANTS MANAGEMENT

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The Grants Management area will monitor performance of grant administration processes by Federal Grant staff. The Chief Financial Officer will receive reports on the accomplishment of monitoring grant management processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 22 COSTS CHARGED TO CENTRAL ORGANIZATION CODES

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

As part of its Financial Transformation efforts, the district is improving processes related to federal grant administration, including the utilization of central organizational codes. Wherever possible, the district will maintain separate accountability by unique organization/campus account codes to improve federal grant management. Where central organizational codes are required, the district will ensure proper charge-out and reconciliations. District staff will receive additional training as necessary to insure proper organization codes are used in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 23 ALLOCATION OF INTERNAL SERVICE FUNDS

The accounting for and use of the Internal Service funds, other funds and allocation of internal service costs is one of the technical accounting issues to be addressed in the "Rapid Remediation" efforts underway at the district. External resources have been secured to assist in this effort. The accounting and allocation methods for internal service funds, particularly as relates to workers compensation, will be included in this review. Procedures will be implemented to ensure grants are not charged for workers comp expenses.

Finding 2007 – 24 CHARGES FOR EMPLOYEE BENEFITS

The district recognizes that there was a programming error in the calculation of benefits allocated to federal grants, and the district has corrected this error.

It is the district's goal, however, to extend beyond corrective actions. It is the goal to transform the district's approach to technical accounting and reporting by conducting a comprehensive redesign of business processes supported by a fully utilized and integrated implementation of the available Oracle systems. While the district purchased the full suite of Oracle modules, several are not currently utilized or have been highly customized, thus minimizing the benefits of the system. Work has already begun on the transformative effort by initiating a project to evaluate implementation options, with the goal of a comprehensive, integrated implementation of Oracle as part of the fiscal transformation effort.

In February, 2008, the district engaged two experienced Chief Financial Officers to lead the remediation and transformation efforts in the district. The Chief Financial Officers receive reports on the accomplishment of remediation efforts and the Internal Audit Office will apply procedures to verify the status of corrective actions. Additionally, both groups are actively managing all transformation efforts.

The district will comply with federal regulations requiring that charges for employee benefits to federal grants are consistent with federal guidelines. District staff will receive additional training as necessary to insure proper distribution of charges for employee benefits occur in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 25 TIME AND EFFORT DOCUMENT (SUPPLEMENTAL PAY)

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The Grants Management area will monitor performance of grant administration processes by Federal Grant staff. The Chief Financial Officer will receive reports on the accomplishment of monitoring grant management processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

As part of its Financial Transformation efforts, the district is improving processes related to federal grant administration, including improving processes related to time and effort documentation involving regular and supplemental pay. The district will comply with federal requirements related to time and effort documentation and certification by staff funded by federal grants. District staff will receive additional training as necessary to insure proper documentation of supplemental pay is available in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 26 LACK OF DOCUMENTATION FOR NON-PAYROLL RELATED EXPENDITURES

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The Grants Management area will monitor performance of grant administration processes by Federal Grant staff. The Chief Financial Officer will receive reports on the accomplishment of monitoring grant management processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

As part of its Financial Transformation efforts, the district is improving processes related to federal grant administration, including processes to ensure that adequate documentation is maintained for salaries and for non-payroll chares funded from federal grants. District staff will receive additional training as necessary to insure proper allocation of funds occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 27 SUSPENSION AND DEBARMENT NON-COMPLIANCE

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

The Grants Management area will monitor performance of grant administration processes by Federal Grant staff. The Chief Financial Officer will receive reports on the accomplishment of monitoring grant management processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

As part of its Financial Transformation efforts, the district is improving processes related to federal grant administration, including the review of federal databases containing information on suspended and debarred contractors for professional services. The district will comply with federal rules and regulations requiring verification that potential contractors or vendors for professional services are not suspended or debarred contractors. District staff will receive additional training as necessary to insure proper suspension and debarment reviews of contractors occur in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 28 TITLE I PART A PER PUPIL ALLOCATION FOR PRIVATE SCHOOL CHILDREN

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

The Grants Management area will monitor performance of grant administration processes by Federal Grant staff. The Chief Financial Officer will receive reports on the accomplishment of monitoring grant management processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

As part of its Financial Transformation efforts, the district is improving processes related to federal grant administration, including per pupil allocations for services for eligible children in private schools. The district will improve federal grant management involving per pupil allocations of federal funds for services for eligible children in private schools to ensure compliance with federal rules and regulations. District staff will receive additional training as necessary to insure proper allocation of funds occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 29 CAPITAL ASSET INVENTORY

The district recognizes that a new approach to Capital Assets recording and reporting, along with an updated Capital Assets Inventory process, is required.

These two groups will monitor completion of the Corrective Action Plan. The district will comply with federal regulations requiring an inventory at least every two years of capital assets purchased from federal grant funds. District staff will receive additional training as necessary to insure accurate inventories are recorded in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 30 SPECIAL EDUCATION REPORTING

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Accounting staff has been reinforced with external expertise to "catch up" on certain efforts and to provide in-depth technical expertise where it does not currently exist in sufficient quantities in the district. Also, the district is also committed to completing the more extensive efforts of comprehensive Financial Transformation, including an enterprise risk assessment, documentation and analysis of current financial processes, communications and training relative to remediation and ongoing monitoring to fully identify and remediate accounting and reporting errors.

The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

As part of its Financial Transformation efforts, the district is improving processes related to federal grant administration, including ensuring the accuracy of data organized in student record systems and data included in reports submitted by the district to outside organizations. District staff will receive additional training as necessary to insure proper organization codes are used in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 31 PROCUREMENT OF SERVICES (NON-SOLE-SERVICE)

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

In February, 2008, the district engaged two experienced Chief Financial Officers to lead the remediation and transformation efforts in the district. The Chief Financial Officers receive reports on the accomplishment of remediation efforts and the Internal Audit Office will apply procedures to verify the status of corrective actions. Additionally, both groups are actively managing all transformation efforts.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The Grants Management area will monitor performance of grant administration processes by Federal Grant staff. The Chief Financial Officer will receive reports on the accomplishment of monitoring grant management processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

As part of its Financial Transformation efforts, the district is improving processes related to contracting for labor, goods and services. The district will comply with requirements to competitively award contracts for labor, goods and services. Documentation will be maintained on file for all sole-source contracts that were not required to be competitively awarded, in accordance with federal rules and regulations. District staff will receive additional training as necessary to insure proper procurement procedures are followed in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 32 PARTICIPATION OF PRIVATE SCHOOL CHILDREN

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The Grants Management area will monitor performance of grant administration processes by Federal Grant staff. The Chief Financial Officer will receive reports on the accomplishment of monitoring grant management processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

As part of its Financial Transformation efforts, the district is improving processes related to federal grant administration, including effective use of funds allocated for services for eligible children in private schools. The district will improve federal grant management involving services to private schools to ensure the effective use of federal grant funds. District staff will receive additional training as necessary to insure effective use of funds budgeted for use by private schools occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 33 TITLE I PART A WILMER HUTCHINS ISD

The district initiated several projects to address internal controls, accounting and reporting, particularly in the area of Grants. Already in process is a series of projects designed to provide "Rapid Remediation" to the issues outlined in the Fiscal Year 06-07 audit.

In February, 2008, the district engaged two experienced Chief Financial Officers to lead the remediation and transformation efforts in the district. The Chief Financial Officers receive reports on the accomplishment of remediation efforts and the Internal Audit Office will apply procedures to verify the status of corrective actions. Additionally, both groups are actively managing all transformation efforts.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

The Grants Management area will monitor performance of grant administration processes by Federal Grant staff. The Chief Financial Officer will receive reports on the accomplishment of monitoring grant management processes and the Internal Audit Office will apply procedures to verify the status of corrective actions. The district will maintain controls to ensure compliance with federal rules and regulations, including the federal Allowable Costs Principles. District staff will receive additional training as necessary to ensure proper grant compliance and management of grant funding occurs in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.
As part of its Financial Transformation efforts, the district is improving processes related to federal grant administration, including per pupil allocations for services for eligible children in private schools. The district will improve federal grant management involving per pupil allocations of federal funds for services for eligible children in private schools to ensure compliance with federal rules and regulations. District staff will receive additional training as necessary to insure Title 1, Part A funds designated for Wilmer Hutchins are correctly expended and accounted for in the future. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Finding 2007 – 34 ALLOWABLE COSTS IN TITLE I, PART A

The district has received a draft of the Department of Education Office of Inspector General audit and has met with representatives of the organization to discuss findings. The district is continuing its efforts to produce documentation for the questioned costs. External resources have been secured to assist in this effort.

In February, 2008, the district engaged two experienced Chief Financial Officers to lead the remediation and transformation efforts in the district. The Chief Financial Officers receive reports on the accomplishment of remediation efforts and the Internal Audit Office will apply procedures to verify the status of corrective actions. Additionally, both groups are actively managing all transformation efforts.

Additionally, immediate organizational and managerial changes have been made in the Grants management area, including the placement of an experienced district manager as the departmental lead, the launching of several projects to review grants charges (staffed with internal and external resources), and the merging of grants review and grants accounting into one group. Most significantly, the Grants Management has begun adding 6 new Compliance positions into the centralized Grants Management area. This additional staffing and oversight, combined with other remediation efforts, will ensure improved grant compliance, accounting and reporting in the future.

As part of its Financial Transformation efforts, the district is improving processes related to grants expenditures. The district will comply with federal requirements and implement improved controls in this area. These controls and procedures will be incorporated into the financial redesign and integrated with upgrades of the financial organization and systems.

Status of Prior Year Audit Findings

Finding 2006 – 01 SUSPENSION AND DEBARMENT

The district had not been consistently documenting adherence to internal controls requiring a review of the Excluded Parties List System.

This finding is a repeat finding in the current year single audit report. Management has begun a comprehensive program to improve controls over grants management. Please see Findings 2007-21 and 27 for corrective action plans.

Finding 2006 –02 MAINTENANCE OF EFFORT

The internal controls over collection of maintenance of effort documentation were not effective.

This finding is a repeat finding in the current year single audit report. Management has begun a comprehensive program to improve controls over grants management, including maintenance of effort documentation. Please see Findings 2007-20 and 21 for corrective action plans.

Finding 2006 – 03 ALLOWABLE COSTS/COST PRINCIPLES

The district had not obtained periodic certifications for all appropriate employees.

This finding is a repeat finding in the current year single audit report. Management has begun a comprehensive program to improve controls over grants management. Please see Findings 2007-21 and 27 for corrective action plans.

Finding 2006 – 04 HIGHLY QUALIFIED TEACHERS AND PARAPROFESSIONALS

The district did not obtain supporting documentation for two paraprofessionals selected for testing.

An audit of all paraprofessionals was performed and no paraprofessional was found to be non-highly qualified. The results of our audits are not typically placed in the specific personnel file, but are recorded in the Oracle systems. The non-highly qualified paraprofessional noted in the auditors' report was terminated in September 2006.

The district will continue to monitor this area for compliance.

Finding 2006 – 05 DOCUMENTATION OF ENROLLMENT STATUS – EMERGENCY IPACT AID

The district did not have appropriate documentation for students displaced by hurricanes Katrina and Rita.

Enrollment information for Emergency Impact Aid eligible students was reviewed and corrected in the student data system prior to the District submitting its final grant reimbursement report. Because fiscal year 2006 was the last year that the district received an award under this grant, no further action is required.

Finding 2006 – 06 MATCHING, LEVEL OF EFFORT AND EARMARKING

The district did not prepare appropriate maintenance of effort documentation for the Special Education Cluster and for Emergency Impact Aid related to hurricanes Katrina and Rita.

The district has monitored the use of State and local funds for Special Education in the fiscal year 2007-2008. Spending of state and local funds will not fall below the level of the preceding year. The district will continue to monitor this and all funds expended for the Special Education Cluster in the future.

The Emergency Impact Aid was a one time event and no further action is required.

Finding 2006 – 07 ELIGIBILITY

The district did not have the proper documentation in place for determining eligibility of non-public and charter schools that participated in the Emergency Impact Aid related to hurricanes Katrina and Rita.

Documentation was received from the private school and provided to the auditor. Because fiscal year 2006 was the last year that the district received an award under this grant, no further action is required.

Finding 2006 – 08 ACTIVITIES ALLOWED OR UNALLOWED AND ALLOWABLE COST PRINCIPLES

Costs had been included in the allocation of expenses to the grant for Emergency Impact Aid that were unallowable.

Documentation for the allocation of costs was reviewed. Because fiscal year 2006 was the last year that the district received an award under this grant, no further action is required.