

Persons who address the board are reminded that the board may not take formal action on matters that are not part of the meeting agenda, and, may not discuss or deliberate on any topic that is not specifically named in the agenda that was posted 72 hours in advance of the meeting today. For any non-agenda topic that is introduced during this meeting, there are only three permissible responses: 1) to provide a factual answer to a question, 2) to cite specific Board of Trustees policy relevant to the topic, or 3) to place the topic on the agenda of a subsequent meeting.

Speakers shall direct their presentations ONLY to the Board Chair or the Board as a whole.

**BOARD OF TRUSTEES AUDIT COMMITTEE MEETING
DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
AND RICHLAND COLLEGIATE HIGH SCHOOLS**

**District Office
1601 South Lamar Street
Lower Level, Room 007
Dallas, TX 75215
Tuesday, July 6, 2010
3:00 PM**

AGENDA

1. Certification of Posting of Notice of Meeting Wright Lassiter
2. 2nd Quarter Report from Internal Audit Rafael Godinez
Committee Action: Review as required by Board Policy
CDC (LOCAL)
3. 3rd Quarter Report from Internal Audit Rafael Godinez
Committee Action: Review as required by Board Policy
CDC (LOCAL)
4. 3rd Quarter Financial Report Ed DesPlas
Committee Action: Motion to recommend approval by
the Board of Trustees at its regular meeting on July 6,
2010, as provided by Board Policy CDA (LOCAL)
5. Report of Chancellor's Travel Kathryn Tucker
6. Adjournment of Audit Committee

**CERTIFICATION OF POSTING OF NOTICE JULY 6, 2010
AUDIT COMMITTEE MEETING OF THE
DALLAS COUNTY COMMUNITY COLLEGE DISTRICT
AND RICHLAND COLLEGIATE HIGH SCHOOLS
BOARD OF TRUSTEES**

I, Wright L. Lassiter, Jr., Secretary of the Board of Trustees of the Dallas County Community College District, do certify that a copy of this notice was posted on the 2nd day of July, 2010, in a place convenient to the public in the District Office Administration Building, and a copy of this notice was provided on the 2nd day of July, 2010, to John F. Warren, County Clerk of Dallas County, Texas, and the notice was posted on the bulletin board at the George Allen Sr. Courts Building, all as required by the Texas Government Code, §551.054.



Wright L. Lassiter, Jr., Secretary

TO: Audit Committee of the Board of Trustees

FROM: Rafael J. Godinez, CPA

DATE: March 17, 2010

RE: Quarterly Summary of Activities
For the 2nd Quarter Ended February 28, 2010

The following is a summary of activities by the DCCCD Internal Audit Department since the Audit Committee meeting of December 15, 2009.

AUDITS COMPLETED

- Colleague Access Controls – Student Grading

The objective of the audit was to verify that only those employees who are responsible for recording or updating academic records have access to the applicable system screens. Additionally, the audit was to determine that only current employees have access to the screens. As in prior access control audits, we found that access is not being rescinded when employees transfer to other departments or when their responsibilities are reassigned. Access for these employees has been updated to reflect their current needs. However, we noted that access was rescinded for terminated employees.

- Colleague Access Controls – Financial System

The Colleague Financial System consists of the following modules: Accounts Payable, Budget Management, Fixed Assets, General Ledger, Inventory, and Purchasing. The objective of the audit was to verify that employees have access only to those screens necessary to perform their job duties. Additionally, the audit was to determine that only current employees have access to the screens. As stated above, we found that access is not being rescinded when employees transfer to other departments or when their responsibilities are reassigned. Access for these employees has been updated to reflect their current needs. However, we noted that access was rescinded for terminated employees.

- Upward Bound Grant – Cedar Valley College

The purpose of the audit was to determine compliance with Department of Education rules and regulations as well as grant provisions for Upward Bound activities. Cedar Valley's Upward Bound serves 50 qualifying students in the 9th through 12th grades from Lancaster, Seagoville and Carter High Schools. Special emphasis is placed on the mastery of mathematics, science, reading and writing. The audit focused on the program objectives pertaining to academic improvement, program retention, post secondary enrollment and retention, and record maintenance. Cedar Valley is meeting or exceeding all of the program objectives. The Upward Bound staff was commended for the excellent condition of the record keeping and tracking of students who have completed the program.

- Upward Bound Grant – Mountain View College

The purpose of the audit was to determine compliance with Department of Education rules and regulations as well as grant provisions for Upward Bound activities. Mountain View's Upward Bound serves 50 qualifying students in the 9th through 12th grades from Dallas ISD and 50 from Grand Prairie ISD. However, since the grant was in its initial year in 2008-09, the college decided to enroll participants only from the 9th and 10th grades. This would allow the participants a longer period in the program prior to graduation. Due to this decision, only one of the program's four objectives (pertaining to the rate of retention) was applicable during the audit period. Mt. View did not meet this objective for the Grand Prairie participants. Recommendations were made for the school to enhance their record keeping necessary for tracking student progress through the program.

AUDITS COMPLETED – Reports Pending

All audit work has been completed on the following audits and the reports are pending responses from the applicable locations' management.

- Full Time Faculty Load
- Capital Assets Disposal

AUDITS IN PROGRESS

The following audits are currently in progress:

- Software License
- Faculty Leave Banking
- Hazardous Materials

Audit Committee Report
March 17, 2010
Page 3

OTHER

Preparations for this year's Control Self Assessment program have been completed and the questionnaires should be sent out to managers and supervisors on Friday, April 9th. The two functional areas covered in this year's program are the Employee Performance/Employee Warning system and System Screen Access.

cc Wright Lassiter
Ed DesPlas

TO: Audit Committee of the Board of Trustees

FROM: Rafael J. Godinez, CPA

DATE: June 15, 2010

RE: Quarterly Summary of Activities
For the 3rd Quarter Ended May 31, 2010

The following is a summary of activities by the DCCCD Internal Audit Department during the third quarter of Fiscal Year 2010.

AUDITS COMPLETED – Reports Issued

- Surplus Property Disposal

The objective of the audit was to determine compliance with District policy and procedures for the disposition of fixed assets. The audit focused on surplus items that had been discarded, cannibalized, traded or sent to auction during 2009.

Some minor discrepancies were reported to management for corrective action, but no significant findings were noted during the audit. The items reported to management included: lack of acknowledgement by the auctioneer when picking up two items; lack of disposal documentation; and the untimely submission of a disposal form.

At the present time, the District does not have an auctioneer. The auction house of Brunson & Associates terminated their agreement with the District. District Purchasing is currently preparing a Request for Proposal for firms to handle disposal of all surplus property.

- Full-Time Faculty Load

The objective of the audit was to determine compliance with District policy pertaining to the assignment of teaching load for full-time faculty that consists of 15 credit hours per week. No exceptions were noted for most full-time faculty. However, as in prior audits, we continue to note occasional changes from the default load percentages of the master file without valid justification. Also, sections were assigned “large class” designation without meeting the required levels of enrollment. Finally, release times were not properly documented and entered in the Colleague system.

- Physical Property Inventory

The objectives of the audit were to determine compliance with District policy and ensure a complete and accurate physical count of capital assets. A random sample of items was selected for each District location and their physical presence was verified by the auditor. Documentation for items removed from the inventory listing during the year was examined for proper authorization. A complete and accurate count was completed at each location without significant exceptions.

AUDITS COMPLETED – Reports Pending

All audit work has been completed on the following audits and the reports are pending final responses from the applicable locations' management.

- Software Licenses
- Faculty Leave Banking

AUDITS IN PROGRESS

- The following audits are currently in various stages of progress:
- Hazardous Materials
- Travel Expenses
- Criminal Backgrounds

OTHER

The Control Self Assessment (CSA) questionnaire was sent out and completed. Preliminary results appear to indicate a good working knowledge by managers and supervisors of the process for evaluating employee performance and the warning system as well as procedures for requesting and obtaining system access.

We are gearing up to assist the new independent audit firm of McConnell Jones. A meeting was held on May 27th between the McConnell Jones audit team and applicable DSC managers to discuss the tentative calendar of activities. Associate Vice Chancellor Kim Green presented a comprehensive and informative review of the year's activities.

cc Wright Lassiter
Ed DesPlas

INFORMATIVE REPORT NO. 4

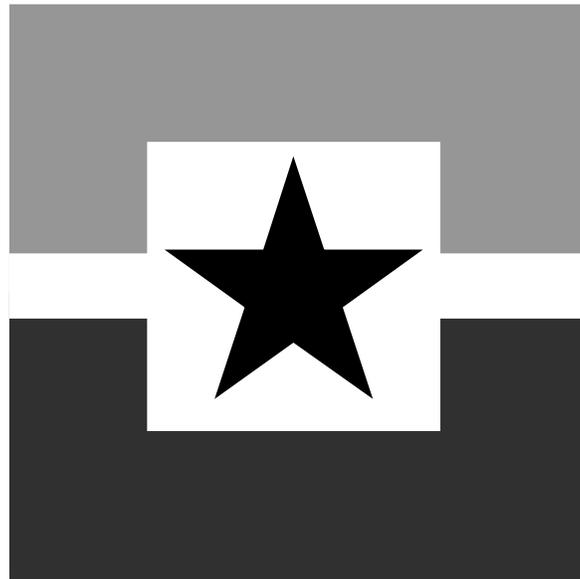
Presentation of 3rd Quarter Financial Statements

The 3rd Quarter financial statements are presented as provided by Board Policy CDA (Local) which states: *Periodic financial reports shall be submitted to the Board outlining the progress of the budget to that date and reporting on the status of all District funds and District accounts.*

Background

The 3rd Quarter financial statements are typical for this phase of the annual financial cycle.

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT



Financial Statements

As of May 31, 2010

**Dallas County Community College District
3rd Quarter Financial Report
Executive Summary**

There have been no significant changes or transactions affecting the financial position of the District for the period September 1, 2009 through May 31, 2010, with the exception of the issuance of \$47.1 million in Series 2010 General Obligation Bonds in February 2010. A brief analysis of each of the primary statements follows.

Balance Sheet

The schedule *Combined Balance Sheet* presents the unaudited Combined Balance Sheet by fund group as of May 31, 2010. The assets of the District continue to consist primarily of cash, investments, and plant assets (approximately 97.3% of total assets). Cash, cash equivalents, and investments increased approximately \$71.3 million (31.0%) from May 31, 2009. This increase is primarily due to the receipt of the Series 2009 and 2010 bond proceeds, reduced by payment of construction expenditures related to the voter-approved capital improvement projects. Receivables increased approximately \$2.2 million (15.6%) from May 31, 2009. This increase is primarily due to an increase in Federal grant receivables. Inventories and other assets increased approximately \$1.4 million (15.7%) from May 31, 2009. This increase is primarily due to the capitalization of bond issuance costs for the Series 2009 and 2010 General Obligation Bonds. Property, plant and equipment increased approximately \$199.2 million (43.7%) from May 31, 2009. This increase is primarily related to the capitalization of assets for major repairs and rehabilitation projects, construction projects and other capital equipment expenditures, net of asset disposals and depreciation. Total combined assets have increased from May 2009 by about \$273.1 million (38.5%). The District's Combined Assets, Liabilities and Fund Balances are depicted graphically in Figures 1-2.

District assets are funded approximately 48.6% by fund balances, and 51.4% by liabilities. Isolating the effects of interfund payables, total liabilities of the District have increased about \$139.8 million (38.3%) when compared to May 2009. This increase is mainly attributable to the issuance of the \$102.9 million of Series 2009 General Obligation Bonds and the issuance of the \$47.1 million of Series 2010 General Obligation Bonds.

Schedule of Fund Balances

The *Schedule of Fund Balances* presents the total fund balances of the District by fund and by type (i.e. Restricted, Designated, etc.). The largest components of

fund balance are the investment in plant assets (\$224.1 million, 47.0%) and current operating funds (\$179.4 million, 37.6%). Total current fund balances increased by approximately \$36.4 million (22.0%) for the year to date. The change in fund balance is cyclical in nature over the course of the fiscal year. The components of the fund balances are depicted graphically in Figure 3.

Statement of Current Funds Revenues, Expenditures, and Other Changes

The results of operations for the current funds are summarized in the *Combined Current Funds Revenues, Expenditures and Transfers* table. This table presents a comparison for the third quarter ended May 31, 2010, 2009 and 2008.

Current revenues have increased from the same period in the prior year. Although state appropriations in the first year of the new biennium increased approximately \$8.5 million, unrestricted state appropriations to date decreased approximately \$4.3 million (5.8%) from May 2009 as a result of payments from the state being paid in advance of the scheduled time in the prior year until vetoed funds for insurance benefits were restored by the legislature. Total tuition and charges have increased approximately \$10.1 million (13.0%) from May 2009 primarily due to an enrollment increase and a tuition increase that became effective in Spring 2009. Ad valorem tax revenue in the current funds increased approximately \$0.7 million (0.5%) from May 2009 primarily due to a modest increase in the tax rate for the current year. Investment revenue decreased approximately \$0.3 million (6.6%) from May 2009 as a result of decreased interest rates in the District's investment portfolio. Contracts and grants revenue increased approximately \$25.7 million (55.2%) from May 2009 as a result of increased Federal financial aid from the Department of Education. Auxiliary Enterprises revenue decreased approximately \$0.3 million (8.1%) from May 2009 as a result of a decrease in external support revenue. The District's Current Unrestricted Revenues are depicted graphically in Figure 4.

Current unrestricted funds expenditures are relatively unchanged from those from the same period in the prior year. Instruction and Academic Support grew proportionately larger than other expenditures due to increased enrollments. Current Unrestricted Expenditures are shown in Figure 5.

Restricted expenditures are approximately \$25.5 million (53.8%) ahead of those from the same period in the prior year primarily due to corresponding increases in expenditures resulting from the increased revenues for financial aid described above.

In summary, the net difference between total expenditures and transfers and total revenues results in an increase to fund balance of approximately \$36.4 million for

the first nine months of the 2009-10 fiscal year. This change is due primarily to the increase in tuition revenues.

Note: See Glossary for fund groups, functional areas and financial terms at the end of the report.

*Dallas County Community College District
 Combined Balance Sheet (Unaudited)
 May 31, 2010
 With Comparative Totals (000's)*

	<i>Current Funds</i>	<i>Plant Funds</i>	<i>Loan and Agency Funds</i>	<i>Quasi- Endowment Fund</i>	<i>Total Current Year</i>	<i>Total As Of 08/31/09</i>	<i>Total May 2009</i>
<u>ASSETS:</u>							
Cash and Cash Equivalents	\$5,684	\$41,010	\$2,156	\$189	\$49,039	\$24,054	\$35,103
Receivables, Net	15,472	257	37	200	15,966	38,789	13,812
Inventories and Other Assets	6,574	3,594			10,168	8,934	8,792
Due From Other Funds		74	3	1	78	113	939
Investments	205,713	40,751		5,359	251,823	250,249	194,484
Property, Plant, and Equipment		654,890			654,890	665,995	455,727
TOTAL ASSETS	\$233,443	\$740,576	\$2,196	\$5,749	\$981,964	\$988,134	\$708,857
<u>LIABILITIES:</u>							
Accounts Payable and Accrued Liabilities	\$26,508	\$24,161	\$161		\$50,830	\$82,517	\$42,268
Due to Other Funds	74		4		78	113	939
Deposits and Deferred Revenues	5,352		1,572	133	7,057	34,204	5,085
Notes Payable					-		
Bonds Payable		447,005			447,005	420,820	317,745
TOTAL LIABILITIES	\$31,934	\$471,166	\$1,737	\$133	\$504,970	\$537,654	\$366,037
<u>FUND BALANCES:</u>							
<u>Current Funds:</u>							
Operating	\$179,442				\$179,442	\$144,742	\$179,461
Auxiliary	21,208				21,208	19,866	20,617
Restricted	-				-	-	-
Richland Collegiate High School	859				859	500	468
<u>Plant Funds:</u>							
Unexpended		33,241			33,241	22,026	(13,145)
Retirement of Indebtedness		12,039			12,039	5,018	11,514
Investment in Plant		224,130			224,130	252,511	137,982
Loan Fund			459		459	459	463
Quasi-Endowment Fund				5,616	5,616	5,358	5,460
TOTAL FUND BALANCES	\$201,509	\$269,410	\$459	\$5,616	\$476,994	\$450,480	\$342,820
TOTAL LIABILITIES & FUND BALANCES	\$233,443	\$740,576	\$2,196	\$5,749	\$981,964	\$988,134	\$708,857

Combined Assets

As of May 31, 2010

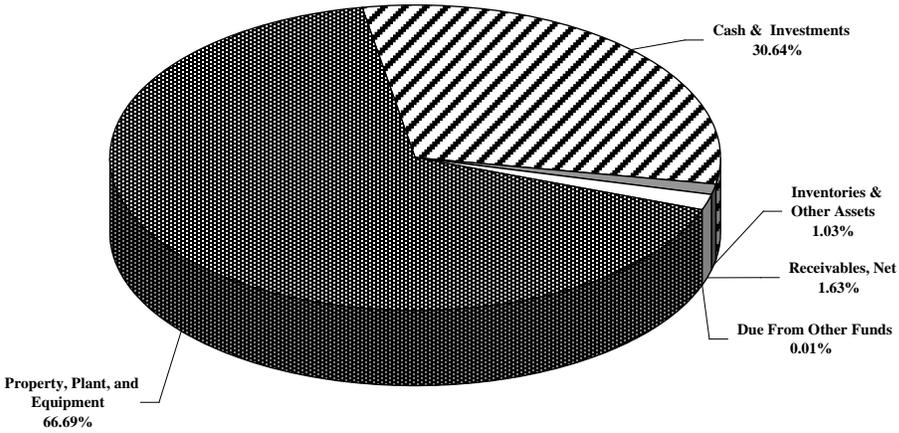


Figure 1 - Combined Assets

Combined Liabilities and Fund Balances

As of May 31, 2010

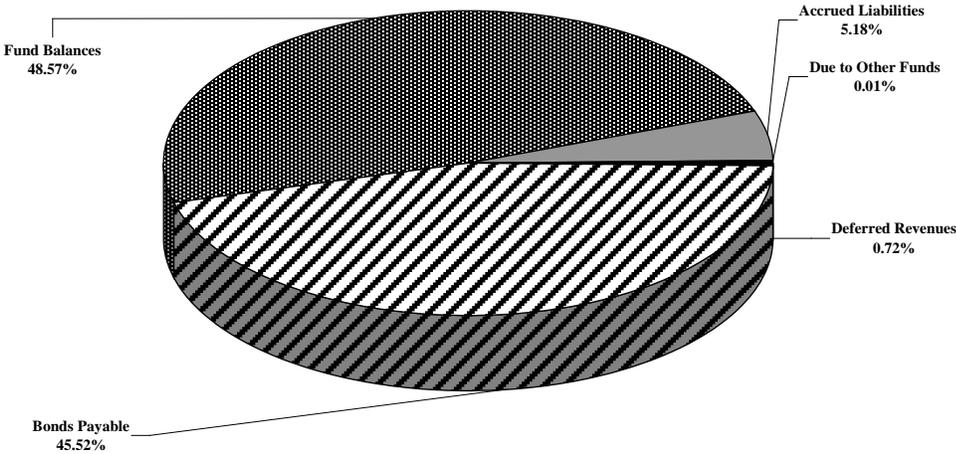


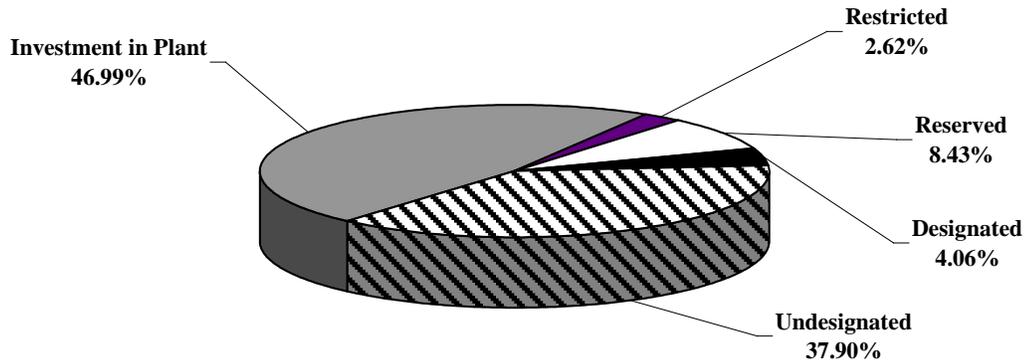
Figure 2 - Combined Liabilities and Fund Balances

Dallas County Community College District
Schedule of Fund Balances (Unaudited)
May 31, 2010
With Comparative Totals (000's)

	<i>Unrestricted</i>			<i>Restricted Debt</i>		<i>Net Investment in Plant</i>	<i>Total-Current Month</i>	<i>Fiscal Year Ending 08/31/09</i>	<i>Net Change Increase/(Decrease)</i>
	<i>Reserved</i>	<i>Designated</i>	<i>Undesignated</i>	<i>Service</i>	<i>Other</i>				
<u>FUND BALANCES:</u>									
<i>Current Funds:</i>									
Operating	\$15,274	\$4,484	\$159,684				\$179,442	\$144,742	\$34,700
Auxiliary	972	2	20,234				21,208	19,866	1,342
Restricted							-	-	-
Richland Collegiate High School	5		854				859	500	359
<i>Subtotal:</i>	16,251	4,486	180,772				201,509	165,108	36,401
<i>Plant Funds:</i>									
Unexpended	23,984	9,257					33,241	22,026	11,215
Retirement of Indebtedness				12,039			12,039	5,018	7,021
Investment in Plant						224,130	224,130	252,511	(28,381)
Loan Fund					459		459	459	
Quasi-Endowment Fund		5,616					5,616	5,358	258
TOTAL FUND BALANCES	\$40,235	\$19,359	\$180,772	\$12,039	\$459	\$224,130	\$476,994	\$450,480	\$26,514

Fund Balances by Type - All Funds

May 31, 2010



Fund Balances by Fund Group - All Funds

May 31, 2010

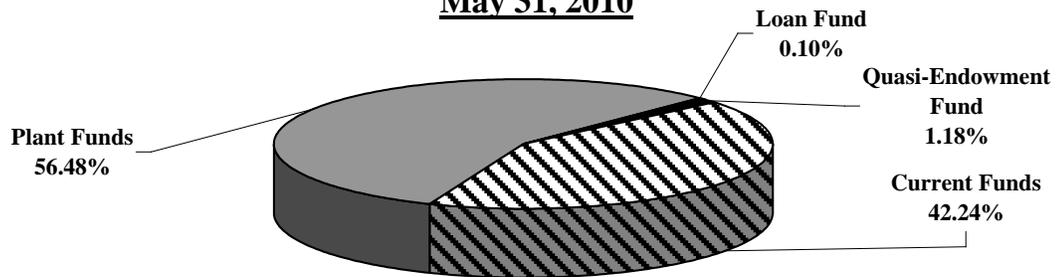
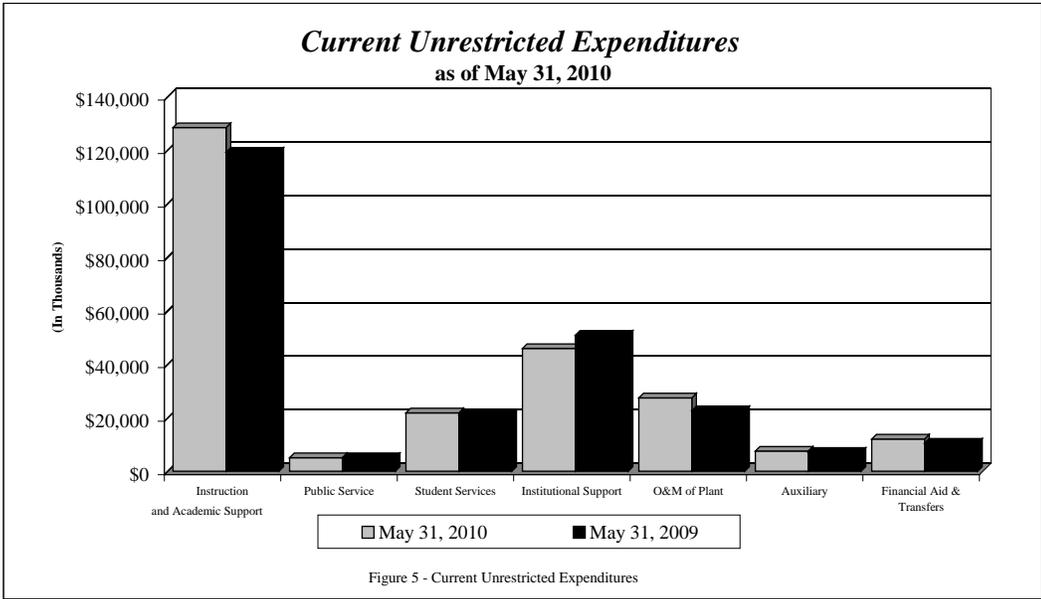
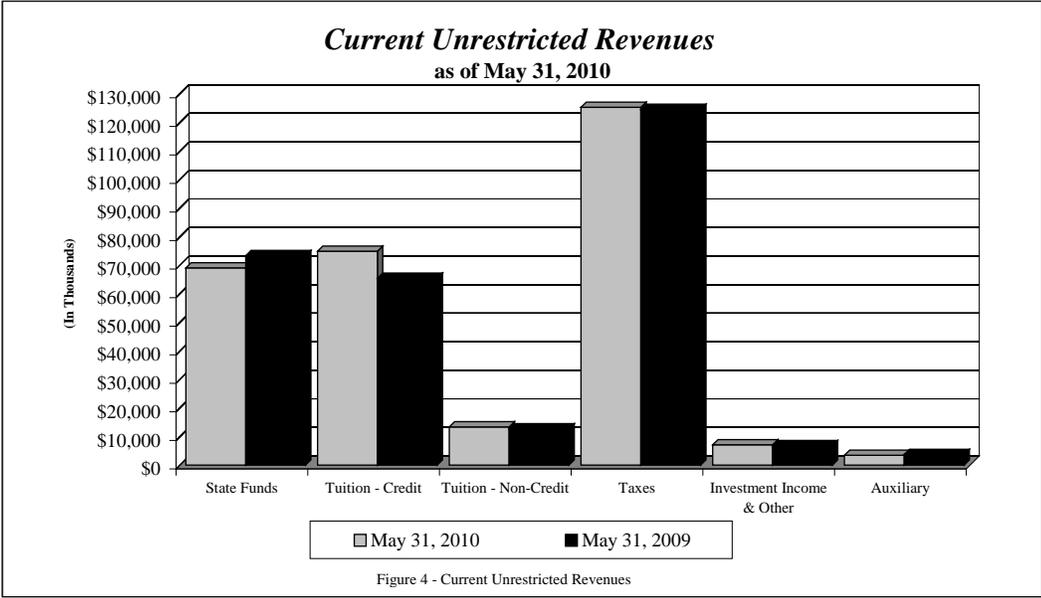


Figure 3 - Fund Balances By Type & Fund Group

*Dallas County Community College District
 Combined Current Funds Revenues, Expenditures, and Transfers (Unaudited)
 For the Nine Months Ending May 31, 2010
 With Comparative Totals (000's)*

	<i>Operating</i>	<i>Auxiliary</i>	<i>Restricted</i>	<i>RCHS</i>	<i>Total Current Year</i>	<i>Total May 2009</i>	<i>Total May 2008</i>
<u>REVENUES:</u>							
State Appropriations	\$69,060		\$20,681	\$1,760	\$91,501	\$84,852	\$84,823
Tuition & Charges - Credit	74,909				74,909	65,447	58,137
Tuition & Charges - Non-Credit	13,359				13,359	12,679	11,114
Total Tuition & Charges	88,268				88,268	78,126	69,251
Ad Valorem Taxes	125,304				125,304	124,633	119,017
Investment Income	3,727	348		10	4,085	4,372	6,487
Contracts & Grants	1,171	2	71,072		72,245	46,552	38,313
Other	1,851				1,851	1,470	1,437
Auxiliary Enterprises		3,409			3,409	3,710	3,882
TOTAL REVENUES	\$289,381	\$3,759	\$91,753	\$1,770	\$386,663	\$343,715	\$323,210
<u>EXPENDITURES:</u>							
Instruction and Academic Support	\$128,428		\$19,960	\$704	\$149,092	\$132,103	\$130,588
Public Service	5,074		5,255	158	10,487	9,602	7,850
Student Services	21,831		5,729	206	27,766	26,679	24,332
Institutional Support	45,876		10,142	343	56,361	57,137	44,443
Operation and Maintenance of Plant	27,417				27,417	22,643	20,791
Financial Aid	6,198		53,236		59,434	35,337	28,492
Auxiliary Enterprises		7,538			7,538	7,073	7,623
Mandatory Transfers	(5,772)	(61)	2,327		(3,506)	(3,060)	(2,321)
TOTAL EXPENDITURES & MANDATORY TRANSFERS	\$240,596	\$7,599	\$91,995	\$1,411	\$341,601	\$293,634	\$266,440
<u>Other Transfers and Additions, net</u>	(14,085)	5,182	242		(8,661)	(6,818)	(10,489)
NET INCR/(DECR) in FUND BALANCE	\$34,700	\$1,342	-	\$359	\$36,401	\$43,263	\$46,281



GLOSSARY

FUND GROUPS

Current funds: Funds available for current operating and maintenance purposes as well as those restricted by donors and other outside agencies for specific operating purposes. Current funds are segregated into separately balanced fund groups.

Unrestricted current funds: Funds that have no limitation or stipulations placed on them by external agencies or donors. The funds are used for carrying out the primary purpose of the District, i.e., educational, student services, extension, administration and maintenance of facilities.

Fund 08 – Richland Collegiate High School

Fund 11 – general unrestricted funds

Fund 14 – unrestricted fund used to track services charged back to locations

Fund 16 – unrestricted fund used to track non-capital projects funded by the District for the locations

Auxiliary enterprises: Funds for activities that serve students, faculty, or staff for charges that are directly related to, although not necessarily equal to, the cost of the service. Examples are food services and bookstores. The state of Texas expects auxiliary enterprises to be self-supporting on a perpetual basis. Fund 12

Restricted current funds: Funds available for current purposes but with restrictions from outside agencies or persons. Revenues are reported only to the extent of expenditures for the current year.

Fund 13 – restricted funds

Fund 17 – restricted funds related to program income

Plant funds: Plant funds are divided into three separately balanced fund groups.

Unexpended: Funds for the construction, rehabilitation, and acquisition of physical properties for institutional purposes.

Fund 45 – general unexpended plant fund

Fund 40 – GO Bond projects

Fund 91 – 2003 Maintenance Tax Note projects

Fund 92 – 2004 Maintenance Tax Note projects

Retirement of indebtedness: Funds accumulated to meet debt service charges and the retirement of indebtedness. Fund 46

Investment in plant: Funds already expended for plant properties. Physical properties are stated at cost at the date of acquisition or fair market value at the date of donation for gifts. Depreciation on physical plant and equipment is recorded. Fund 47

Loan funds: Funds available for loan to students. Fund 34

Agency funds: Funds held by the District as custodial or fiscal agent for students, faculty members, and/or others. Fund 24

Quasi-endowment and similar funds: Funds subject to certain Board-designated restrictions. Fund 58

FUNCTIONAL AREAS OF EXPENDITURES

Instruction: Salaries, wages, supplies, travel, office furniture, equipment and other expenses for the operation of general academic and technical/vocational instructional departments.

Public service: All costs of activities designed primarily to serve the general public, including correspondence courses, adult study courses, public lectures, workshops, institutes, and similar activities.

Academic support: Library – Salaries, wages, library materials (including books, journals, audiovisual media, computer-based information, manuscripts and other information sources), binding costs, equipment and other operating costs of the library. Also, Instructional Administration Expense – Salaries, wages, supplies, travel, equipment and other operating expense of the offices of academic deans or directors of major teaching department groupings.

Student services: Salaries, wages and all other costs associated with admissions and registration, student financial services (including financial aid), student recruitment and retention, testing and guidance, career placement services and other student services.

Institutional support: Salaries, wages and all other costs for the governance of the institution, executive direction and control, business and fiscal management, campus security, administrative data processing, central support services, purchasing and other general institutional activities.

Operation and maintenance of plant: Salaries, wages, supplies, travel, equipment, services and other operating expenses for physical plant administration services, building maintenance, custodial services, grounds maintenance, utilities and major repairs and rehabilitation of buildings and facilities.

Staff benefits: Premiums and costs toward staff benefit programs for employees. Examples of authorized staff benefits are group insurance premiums, workers' compensation insurance, Medicare, retirement contributions and parking stipends. For reporting purposes, staff benefits are allocated over the functional areas based on salaries.

Scholarships and fellowships: Expenditures for student financial aid including waivers, scholarships, and state and federal financial assistance.

Auxiliary enterprises: Expenditures related to bookstore, food service,

intercollegiate athletics, and Center for Educational Telecommunications operations.

OTHER FINANCIAL TERMS

Audit of financial statements: Generally the expression of an opinion by the auditor that the financial statements present fairly in accord with certain standards, in all material respects the financial position of the organization being audited. It is not a determination of the presence or absence of fraud or deliberate misrepresentation.

Fraud: A false representation of a matter of fact that should have been disclosed, which deceives another so that he/she acts upon it to his/her injury.

GAAP: Generally accepted accounting principles. Rules, conventions, standards, and procedures that are widely accepted among accountants. GAAP doctrine is established by a combination of authoritative standards set by policy boards such as the Governmental Accounting Standards Board (GASB), an independent, self-regulating organization, and accounting practices developed over time that have become universally accepted as appropriate.

GASB 31: A pronouncement by the Governmental Accounting Standards Board that provided for dissolution of distinct differences between book and market values. It caused there to be a “mark to market” on a regular basis, with recognition of gains or losses contemporaneously by booking an unrealized gain or loss.

GASB 34 and 35: Pronouncements by the Governmental Accounting Standards Board that were implemented beginning with the August 31, 2002 audited financial statements. Implementation of the pronouncements changed wording of the auditor's opinion, added a management's discussion and analysis section, reformatted financial statement line items, presented a single consolidated funds column, added a cash flow statement, and made various changes to the footnotes.

Internal control: The system of business procedures that limits and may prevent access of individuals to misappropriate the funds of an organization. One example is a separation of duties between execution and recording of transactions.

Management letter: A letter, generally issued by external auditors, pointing out various findings that were noted in connection with the audit engagement. Often these items involve observed weaknesses in internal control.

Materiality: A state of relative importance. Strict adherence to any accounting principle is not required when the lack of adherence does not produce an error or

misstatement sufficiently large as to influence a financial statement reader's judgment of a given situation.

OMB Circular A-133: The U.S. Office of Management and Budget's pronouncement that established the process of auditing all government grants of a specified threshold size, to be included in the regular annual audit of the grantee.

Repurchase agreement: Agreement between a seller and a buyer, usually of agency or treasury securities, where the seller agrees to repurchase the securities at an agreed upon price and date. A "flex-repo" allows periodic draws against the overall value without a complete repurchase of all principal values.

Unrealized gain or loss: The amount of difference between market value and book value of securities recorded on the financial records of an entity. The amount is an unrealized gain if market value is higher than book value. If the market value is lower than the book value, an unrealized loss is recorded. The amount is unrealized until such time as the security or asset is actually sold by the investor, at which time the amount of difference between market and book values is realized. A security held to maturity will not ever realize a gain or loss.