Dallas County Community College District

Meeting with the audit committee
Dialogue discussion outline

September 18, 2007

Grant Thornton attendees:
Ben Kohnle, Engagement Partner
Jim Forson, Engagement Senior Manager
Purpose of meeting

- Reports to be issued
- Estimated fees and expenses
- Audit approach
- New auditing standards
- Timeline and expectations
- Audit committee questions and answers
Reports to be issued

• Financial statements
• A-133 report
• Review of the schedule of current funds expenditures by individual campus and central administrative function
• Richland Collegiate High School
• Memorandum of advisory comments
Estimated fees and expenses

<table>
<thead>
<tr>
<th>Service</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Statement Audit and Advisory Comment Letter</td>
<td>$65,900</td>
</tr>
<tr>
<td>A-133 Audit</td>
<td>$15,500</td>
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<tr>
<td>Review of Schedule of Expenditures (by campus)</td>
<td>$6,200</td>
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<tr>
<td>Richland Collegiate High School</td>
<td>up to $10,000</td>
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<tr>
<td>Administrative Expenses</td>
<td>(based on actual hours)</td>
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<td>(4% of fees)</td>
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- Assumes similar level of internal audit assistance as provided in previous years.
- Our methodology for fee increases is typically based on salary inflation, which approximates 5-6% annually.
- Out of pocket expenses are billed as incurred.
- 20% of effort committed to joint venture firms.
Audit approach

Audit to be performed in accordance with generally accepted government auditing standards, including single audit in accordance with OMB Circular A-133. Significant audit areas include:

- Governance
- State appropriations
- Maintenance ad valorem taxes
- Federal, state and non-governmental grants and contracts
- Tuition revenue and related receivable or deferral
- Investments/treasury
Audit approach (continued)

- Payroll and related liabilities
- Operating expenses and related payables
- LT debt
- Fixed assets
- Net assets
- Fraud inquiries and procedures
New auditing standards  
SAS 112 "Communicating Internal Control Related Matters Identified in an Audit"  
(effective fiscal year 2007)

- Conforms definition of control deficiency, significant deficiency and material weakness to PCAOB AS #2
- Definition "...More than a remote likelihood...a misstatement of the financial statements that is more than inconsequential..."
- Focus on "potential" impact not "actual" impact
- Anticipate increases in material weaknesses and significant deficiencies
New auditing standards
SAS 104 – 111 Auditing Risk Standards
(effective fiscal year 2008)

- Reasonable assurance defined as "high-level" (104)
- Additional emphasis on linkage between: (105)
  - understanding entity
  - assessing risks
  - designing further audit procedures
- "Appropriate" audit evidence/"understandable" disclosures (106)
- Inquiry-alone not sufficient to evaluate design of controls (106)
- "Must" consider audit risk, determine a materiality level, and can't default to maximum control risk (107)
- "overall audit strategy" vs. "audit approach" (108)
- Additional guidance regarding gaining an understanding of the entity and its environment (109)
- Assume "significant risks" exist on most engagements (109)
- Requires that certain substantive procedures be performed on all engagements (110)
- Provides enhanced guidance regarding "tolerable misstatements" (111)
Timeline and expectations

Audit Committee meeting
September 18, 2007

Financial statement audit
- Preliminary fieldwork and planning
  - Ongoing
- Final fieldwork
  - Oct. 29 – Nov. 16
- Audit kickoff meeting
  - October 29
- Weekly status meetings
  - November 2
  - November 9
  - November 16

- Closing meeting with management
  - December 3
  - December 16

Audit Committee meeting (SAS 61 communications)

Engagement team
- Ben Kohnle, Engagement Partner
  - ben.kohnle@gt.com
  - (214) 561-2260
- Jim Forson, Engagement Manager
  - jim.forson@gt.com
  - (214) 561-2278
- Fulya Bayolken, Engagement Senior
  - fulya.bayolken@gt.com
  - (214) 561-2614
- Deborah Beams, Engagement In-Charge
  - deborah.beams@gt.com
  - (214) 561-2628
- Reggie Hopkins, Joint Venture Firm
- Dan Serna, Joint Venture Firm