



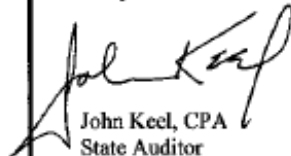
**INDEPENDENT AUDITOR'S REPORT ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Tom Craddick, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2007, and have issued our report thereon dated February 20, 2008.

Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note 1 to the Schedule of Expenditures of Federal Awards, the Schedule of Expenditures of Federal Awards does not include expenditures of federal awards for four component units of the State of Texas. Each of those component units has its own independent audit in compliance with OMB Circular A-133.



John Keel, CPA
State Auditor

February 20, 2008