

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED AUGUST 31, 2007

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CERTIFICATE OF BOARD

Little Elm Independent School District
Name of School District

Denton
County

061-914
Co. - Dist. Number

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 year ended August 31, 2007, at a meeting of the Board of Trustees of such school district on the ___ day of January, 2008.

Signature of Board Secretary

Signature of Board President

Independent Auditor's Report

Board of Trustees
Little Elm Independent School District
Little Elm, Texas

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Little Elm Independent School District (the District), as of and for the year ended August 31, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on them based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the business-type activities, each major fund, and the aggregate remaining fund information of Little Elm Independent School District as of August 31, 2007, and the respective changes in financial position and cash flows, where applicable, 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 information on pages 5 through 10 and 23, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Little Elm Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose 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 in addition to the combining and individual nonmajor fund financial statements and the required TEA schedules listed in the table of contents, are not a required part of the basic financial statements. Such information, excluding the Fund Balance and Cash Flow Calculation Worksheet - General Fund (Exhibit J-3) which is marked unaudited and on which we express no opinion, has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2008, on our consideration of the District's internal control over financial reporting and on 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.

"Authorized signatures available on the reports filed with TEA"

Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

January 7, 2008

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2007
(UNAUDITED)**

As management of Little Elm Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2007. The District has implemented Government Accounting Standards Board Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 13.

FINANCIAL HIGHLIGHTS

- The liabilities of Little Elm Independent School District exceeded its assets at the close of the most recent fiscal period by \$226,110 (net assets). Of this amount, \$15,530,044 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors in accordance with the District's fund designation and fiscal policies.
- The District's total net assets increased by \$1,379,243.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$31,385,383. 93% of this total amount (\$29,196,016) is unreserved and available for use within the District's designation and policies.
- At the end of the current fiscal period, unreserved fund balance for the general fund was \$14,669,530 or 42.8% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 13 through 15). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 28) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 13. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting (the basis used by private sector companies).

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

- Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- Business-type activities—The District charges a fee to “customers” to help it cover all or most of the cost of services it provides in its child care operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 16 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—government and proprietary—use different accounting approaches.

- Governmental funds—All of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

· Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the District’s enterprise funds (one category of propriety funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the District’s other programs and activities-such as the District’s print shop.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. The District's fiduciary activity is reported in a separate Statement of Fiduciary Net Assets on page 27. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in this fund are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District implemented GASB Statement #34 in a prior year. Therefore, our analysis of comparative balances and changes therein is presented for the current and prior year's operations and a discussion of significant changes in the accounts. Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental activities.

Net assets of the District's governmental activities increased from \$(1,564,128) to (\$232,844). Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$15,523,310 at August 31, 2007. This increase in governmental net assets was the result of the District's revenues exceeding expenditures by \$1,331,284.

Table I
NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Current and other assets	35,497,706	35,676,611	(40,368)	11,543	35,457,338	35,688,154
Capital assets	115,859,880	117,779,534	-	-	115,859,880	117,779,534
Total assets	151,357,586	153,456,145	(40,368)	11,543	151,317,218	153,467,688
Long-term liabilities	150,141,331	150,739,602	-	-	150,141,331	150,739,602
Other liabilities	2,780,383	2,949,387	857	4,809	2,781,240	2,954,196
Total liabilities	152,921,714	153,688,989	857	4,809	152,922,571	153,693,798
Net Assets:						
Invested in capital assets net of related debt	(16,534,572)	(18,046,670)	-	-	(16,534,572)	(18,046,670)
Restricted	2,287,598	2,290,516	-	-	2,287,598	2,290,516
Unrestricted	12,682,846	15,523,310	(41,225)	6,734	12,641,621	15,530,044
Total net assets	(1,564,128)	(232,844)	(41,225)	6,734	(1,605,353)	(226,110)

Table II
CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2006	2007	2006	2007	2006	2007
Revenues:						
Program Revenues:						
Charges for services	168,246	166,667	452,263	550,320	620,509	716,987
Operating grants and contributions	10,380,972	10,204,472	-	-	10,380,972	10,204,472
General Revenues:						
Maintenance and operations taxes	16,641,698	17,914,597	-	-	16,641,698	17,914,597
Debt service taxes	3,914,440	4,981,788	-	-	3,914,440	4,981,788
State aid	11,714,480	14,716,839	-	-	11,714,480	14,716,839
Investment earnings	1,322,110	1,986,359	-	-	1,322,110	1,986,359
Miscellaneous	82,468	119,275	-	-	82,468	119,275
Other federal revenue	737,804	713,511	-	-	737,804	713,511
Total Revenue	44,962,218	50,803,508	452,263	550,320	45,414,481	51,353,828
Expenses:						
Instruction, curriculum and media services	20,748,282	23,363,906	-	-	20,748,282	23,363,906
Instructional and school leadership	2,736,835	3,187,995	-	-	2,736,835	3,187,995
Student support services	3,747,117	4,186,783	-	-	3,747,117	4,186,783
Child nutrition	2,119,484	2,125,139	-	-	2,119,484	2,125,139
Cocurricular activities	967,982	1,824,558	-	-	967,982	1,824,558
General administration	1,234,681	1,362,731	-	-	1,234,681	1,362,731
Plant maintenance, security & data processing	4,633,148	4,826,000	-	-	4,633,148	4,826,000
Community services	200,769	216,402	-	-	200,769	216,402
Childcare services	-	-	431,229	502,361	431,229	502,361
Debt services	8,210,472	8,213,124	-	-	8,210,472	8,213,124
Facilities acquisition, construction	472,931	117,502	-	-	472,931	117,502
Intergovernmental charges	53,115	48,084	-	-	53,115	48,084
Total Expenses	45,124,816	49,472,224	431,229	502,361	45,556,045	49,974,585
Increase (decrease) in net assets	(162,598)	1,331,284	21,034	47,959	(141,564)	1,379,243
Net assets at beginning of year	(1,401,530)	(1,564,128)	(62,259)	(41,225)	(1,463,789)	(1,605,353)
Net assets at end of year	(1,564,128)	(232,844)	(41,225)	6,734	(1,605,353)	(226,110)

The District notes the following highlights for the 2006-2007 school year in response to changes in personnel and continued growth in student enrollment.

- The District broke ground on its newest elementary school in Oak Point. It will open in August 2008.
- The District maintained its contract with a professional demographer in an effort to plan for future facility needs.
- The District's enrollment at the end of the 2007 school year grew to 5,112 students. This was an increase of 10% from the end of 2007.
- The District maintained the employer's health insurance contribution of \$225 per month and began a teacher attendance incentive plan for perfect and near perfect attendance.
- The District maintained an Energy management Plan including special monitoring equipment.
- The District's Child Care Program was expanded to a satellite location at Hackberry Elementary School and plans are being made to include child care services at the new elementary site in Oak Point. With revenue exceeding expenses in the Child Care program by nearly \$48,000 the program cleared its negative fund balance and begins the 2007-2008 school year in the black.
- The Board of Trustees approved a property tax rate of \$1.74/100 (1.361 for M&O and .379 for Debt Service).
- The District maintained an employee induction program for new teachers that provides training and incentives for staff development.
- The District implemented a new salary scale that reflected a 4% increase to the teacher scale and a 4% increase of the midpoints for all other staff.
- The District entered into a cooperative with nearby Denton ISD, allowing our high school students to take vocational classes in Denton. The District also entered into an agreement with North Central Texas College allowing the College to provide credit and non-credit courses at our High School location for the benefit of our students and Denton County residents, especially those residing within District boundaries.

The cost of all governmental activities for the current fiscal year was \$49,472,224. However, as shown in the Statement of Activities on pages 14 and 15, the amount that our taxpayers ultimately financed for these activities through District taxes was \$22,896,385 because some of the costs were paid by those who directly benefited from the programs (\$166,667) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10,204,472) or by State equalization funding (\$14,716,839), or by other federal funding (\$713,511).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$31,385,383, which is \$56,506 lower than last year's total of \$31,441,889. Included in this year's total change in fund balance is an increase of \$3,413,513 in the District's General Fund. The primary reasons for the General Fund's gain was due to revenues exceeding expenditures.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2006). The second category includes changes that the Board made during the year to reflect new information regarding revenue sources and expenditure needs. The third category involves amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$14,669,530 reported on page 16 differs from the General Fund's budgetary fund balance of \$11,221,017 reported in the budgetary comparison schedule on page 23. This is principally due to revenues exceeding expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2007, the District had \$117,779,534 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$1,919,654 or 2 percent, above last year.

This year's major addition was the start of construction on an elementary school, paid for with prior year bond proceeds.

More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Debt Administration

At year-end, the District had \$150,739,602 in bonds, loans and leases outstanding (including accreted interest on bonds) versus \$150,141,331 last year—an increase of .40 percent. The District's general obligation bond rating is AAA (as a result of guarantees of the Texas Permanent School Fund), according to national rating agencies.

More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District took actions for 2007-2008 to compensate for some increases in costs and continued increases in enrollment:

- The Board adopted a \$49.2 million dollar budget including General Operating, Child Nutrition, Debt Service, Technology, Child Care, and Print Shop.
- Property values have risen to \$1.45 billion dollars from \$1.28 billion a year ago or +13%.
- The Board adopted tax rate is \$1.46/100 (1.03 for M&O and .43 for Debt Service).
- The District implemented changes to the teacher pay scale that ranged from 7 to 10% depending on years of experience, and increased salaries to staff members on the midpoint scale 6% of the respective midpoints.
- The District anticipates continued increases in salaries, utilities, insurance, and transportation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show 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 business office, at Little Elm Independent School District, 500 Lobo Lane, Little Elm, Texas 75068, (972) 292-1847.

BASIC FINANCIAL STATEMENTS

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LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2007

Data Control Codes	1	2 Primary Government	3
	Governmental Activities	Business Type Activities	Total
ASSETS			
1110 Cash and Cash Equivalents	\$ 31,960,504	\$ 11,543	\$ 31,972,047
1220 Property Taxes Receivable (Delinquent)	1,039,502	-	1,039,502
1230 Allowance for Uncollectible Taxes	(67,568)	-	(67,568)
1240 Due from Other Governments	2,360,800	-	2,360,800
1290 Other Receivables, net	5,283	-	5,283
1410 Deferred Expenses	8,183	-	8,183
1420 Capitalized Bond and Other Debt Issuance Costs	1,461,361	-	1,461,361
1430 Discount and Premium on Issuance of Debt	(1,091,454)	-	(1,091,454)
Capital Assets:			
1510 Land	10,819,265	-	10,819,265
1520 Buildings, Net	102,102,583	-	102,102,583
1530 Furniture and Equipment, Net	1,017,479	-	1,017,479
1580 Construction in Progress	3,840,207	-	3,840,207
1000 Total Assets	<u>153,456,145</u>	<u>11,543</u>	<u>153,467,688</u>
LIABILITIES			
2110 Accounts Payable	1,754,742	3,505	1,758,247
2150 Payroll Deductions & Withholdings	64	-	64
2160 Accrued Wages Payable	1,092,149	1,285	1,093,434
2200 Accrued Expenses	27,148	19	27,167
2300 Deferred Revenues	75,284	-	75,284
Noncurrent Liabilities			
2501 Due Within One Year	<u>150,739,602</u>	<u>-</u>	<u>150,739,602</u>
2000 Total Liabilities	<u>153,688,989</u>	<u>4,809</u>	<u>153,693,798</u>
NET ASSETS			
3200 Invested in Capital Assets, Net of Related Debt	(18,046,670)	-	(18,046,670)
Restricted for:			
3840 Restricted for Food Service	446,734	-	446,734
3850 Restricted for Debt Service	1,742,633	-	1,742,633
3870 Restricted for Campus Activities	101,149	-	101,149
3900 Unrestricted Net Assets	<u>15,523,310</u>	<u>6,734</u>	<u>15,530,044</u>
3000 Total Net Assets	<u>\$ (232,844)</u>	<u>\$ 6,734</u>	<u>\$ (226,110)</u>

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 22,137,247	\$ 24,061	\$ 2,912,401
12 Instructional Resources and Media Services	783,637	-	26,232
13 Curriculum and Instructional Staff Development	443,022	-	145,632
21 Instructional Leadership	636,581	-	40,725
23 School Leadership	2,551,414	-	141,302
31 Guidance, Counseling and Evaluation Services	1,329,907	-	351,319
32 Social Work Services	1,546,176	-	1,546,159
33 Health Services	329,954	-	15,075
34 Student (Pupil) Transportation	980,746	-	269,288
35 Food Services	2,125,139	-	1,963,465
36 Cocurricular/Extracurricular Activities	1,746,182	103,147	249,710
41 General Administration	1,362,731	-	42,300
51 Plant Maintenance and Operations	4,174,718	39,459	93,793
52 Security and Monitoring Services	195,652	-	2,738
53 Data Processing Services	472,388	-	12,478
61 Community Services	216,402	-	216,402
72 Debt Service - Interest on Long Term Debt	8,207,219	-	2,175,453
73 Debt Service - Bond Issuance Cost and Fees	5,905	-	-
81 Facilities Acquisition and Construction	179,120	-	-
93 Payments to Fiscal Agent/Member Districts of SSA	22,162	-	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	25,922	-	-
[TG] Total Governmental Activities:	<u>49,472,224</u>	<u>166,667</u>	<u>10,204,472</u>
BUSINESS-TYPE ACTIVITIES:			
01 Childcare	502,361	550,320	-
[TB] Total Business-Type Activities:	<u>502,361</u>	<u>550,320</u>	<u>-</u>
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 49,974,585</u>	<u>\$ 716,987</u>	<u>\$ 10,204,472</u>

Data Control Codes	General Revenues:
	Taxes:
MT	Property Taxes, Levied for General Purposes
DT	Property Taxes, Levied for Debt Service
SF	State Aid - Formula Grants
IE	Investment Earnings
MI	Miscellaneous Local and Intermediate Revenue
S1	Special Item - Other Federal Revenue
TR	Total General Revenues and Special Items
CN	Change in Net Assets
NB	Net Assets--Beginning
NE	Net Assets--Ending

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

Net (Expense) Revenue and Changes in Net Assets		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (19,200,785)	\$ -	\$ (19,200,785)
(757,405)	-	(757,405)
(297,390)	-	(297,390)
(595,856)	-	(595,856)
(2,410,112)	-	(2,410,112)
(978,588)	-	(978,588)
(17)	-	(17)
(314,879)	-	(314,879)
(711,458)	-	(711,458)
(161,674)	-	(161,674)
(1,393,325)	-	(1,393,325)
(1,320,431)	-	(1,320,431)
(4,041,466)	-	(4,041,466)
(192,914)	-	(192,914)
(459,910)	-	(459,910)
-	-	-
(6,031,766)	-	(6,031,766)
(5,905)	-	(5,905)
(179,120)	-	(179,120)
(22,162)	-	(22,162)
(25,922)	-	(25,922)
<u>(39,101,085)</u>	<u>-</u>	<u>(39,101,085)</u>
-	47,959	47,959
-	47,959	47,959
<u>(39,101,085)</u>	<u>47,959</u>	<u>(39,053,126)</u>
17,914,597	-	17,914,597
4,981,788	-	4,981,788
14,716,839	-	14,716,839
1,986,359	-	1,986,359
119,275	-	119,275
713,511	-	713,511
<u>40,432,369</u>	<u>-</u>	<u>40,432,369</u>
1,331,284	47,959	1,379,243
(1,564,128)	(41,225)	(1,605,353)
<u>\$ (232,844)</u>	<u>\$ 6,734</u>	<u>\$ (226,110)</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2007

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 14,136,453	\$ 1,742,633	\$ 15,665,021
1220 Property Taxes - Delinquent	816,781	222,721	-
1230 Allowance for Uncollectible Taxes (Credit)	(53,091)	(14,477)	-
1240 Due from Other Governments	1,724,488	-	-
1290 Other Receivables	3,225	-	-
1410 Deferred Expenditures	8,183	-	-
1000 Total Assets	<u>\$ 16,636,039</u>	<u>\$ 1,950,877</u>	<u>\$ 15,665,021</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 167,382	\$ -	\$ 1,536,198
2150 Payroll Deductions and Withholdings Payable	64	-	-
2160 Accrued Wages Payable	1,007,765	-	-
2200 Accrued Expenditures	19,100	-	-
2300 Deferred Revenues	772,198	208,244	-
2000 Total Liabilities	<u>\$ 1,966,509</u>	<u>\$ 208,244</u>	<u>\$ 1,536,198</u>
Fund Balances:			
Reserved For:			
3420 Retirement of Long Term Debt	\$ -	\$ 1,742,633	\$ -
3430 Deferred Expenditures	8,183	-	-
3450 Food Service	-	-	-
Unreserved Designated For:			
3510 Construction	-	-	14,128,823
3590 Other Purposes-Future Growth	7,000,000	-	-
Unreserved and Undesignated:			
3600 Reported in the General Fund	7,661,347	-	-
3610 Reported in Special Revenue Funds	-	-	-
3000 Total Fund Balances	<u>\$ 14,669,530</u>	<u>\$ 1,742,633</u>	<u>\$ 14,128,823</u>
4000 Total Liabilities and Fund Balances	<u>\$ 16,636,039</u>	<u>\$ 1,950,877</u>	<u>\$ 15,665,021</u>

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

Other Funds	Total Governmental Funds
\$ 416,397	\$ 31,960,504
-	1,039,502
-	(67,568)
636,312	2,360,800
2,058	5,283
-	8,183
<u>\$ 1,054,767</u>	<u>\$ 35,306,704</u>
\$ 51,162	\$ 1,754,742
-	64
84,384	1,092,149
8,048	27,148
66,776	1,047,218
<u>\$ 210,370</u>	<u>\$ 3,921,321</u>
\$ -	\$ 1,742,633
-	8,183
446,734	446,734
-	14,128,823
-	7,000,000
-	7,661,347
397,663	397,663
<u>\$ 844,397</u>	<u>\$ 31,385,383</u>
<u>\$ 1,054,767</u>	<u>\$ 35,306,704</u>

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LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 AUGUST 31, 2007

Total Fund Balances - Governmental Funds	\$	31,385,383
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.		136,225,877
2 Accumulated depreciation has not been included in the fund financial statements.		(18,446,343)
3 Bonds payable and leases payable have not been included in the fund financial statements.		(132,555,710)
4 Accreted interest on capital appreciation bonds has not been included in the fund financial statements.		(19,367,494)
5 Deferred loss on bond refunding has not been included in the fund financial statements.		1,183,602
6 Bond issuance cost is not capitalized in the fund financial statements.		1,461,361
7 Bond discounts and premiums are not recognized in the fund financial statements.		(1,091,454)
8 Property tax revenue reported as deferred revenue in the fund financial statements was recognized as revenue in the government-wide financial statements.		971,934
19 Net Assets of Governmental Activities	\$	(232,844)

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 19,001,119	\$ 5,211,998	\$ 830,729
5800 State Program Revenues	16,279,520	2,175,453	-
5900 Federal Program Revenues	713,511	-	-
5020 Total Revenues	<u>35,994,150</u>	<u>7,387,451</u>	<u>830,729</u>
EXPENDITURES:			
Current:			
0011 Instruction	18,379,889	-	-
0012 Instructional Resources and Media Services	662,858	-	-
0013 Curriculum and Instructional Staff Development	296,829	-	-
0021 Instructional Leadership	617,965	-	-
0023 School Leadership	2,428,869	-	-
0031 Guidance, Counseling and Evaluation Services	1,000,880	-	-
0032 Social Work Services	17	-	-
0033 Health Services	314,684	-	-
0034 Student (Pupil) Transportation	936,067	-	-
0035 Food Services	-	-	-
0036 Cocurricular/Extracurricular Activities	1,295,436	-	-
0041 General Administration	1,343,025	-	-
0051 Facilities Maintenance and Operations	4,062,307	-	-
0052 Security and Monitoring Services	208,998	-	-
0053 Data Processing Services	428,383	-	59,495
0061 Community Services	-	-	-
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	57,138	1,482,679	-
0072 Debt Service - Interest on Long Term Debt	44,980	6,001,730	-
0073 Debt Service - Bond Issuance Cost and Fees	-	82,112	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	454,228	-	4,389,290
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	22,162	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	25,922	-	-
6030 Total Expenditures	<u>32,580,637</u>	<u>7,566,521</u>	<u>4,448,785</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,413,513</u>	<u>(179,070)</u>	<u>(3,618,056)</u>
OTHER FINANCING SOURCES (USES):			
7916 Premium or Discount on Issuance of Bonds	-	97,059	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>97,059</u>	<u>-</u>
1200 Net Change in Fund Balances	3,413,513	(82,011)	(3,618,056)
0100 Fund Balance - September 1 (Beginning)	<u>11,256,017</u>	<u>1,824,644</u>	<u>17,746,879</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 14,669,530</u>	<u>\$ 1,742,633</u>	<u>\$ 14,128,823</u>

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

Other Funds	Total Governmental Funds
\$ 1,926,143	\$ 26,969,989
1,910,302	20,365,275
<u>2,645,053</u>	<u>3,358,564</u>
6,481,498	50,693,828
1,786,834	20,166,723
-	662,858
139,199	436,028
18,616	636,581
43,112	2,471,981
308,894	1,309,774
1,546,159	1,546,176
1,347	316,031
-	936,067
1,963,465	1,963,465
216,802	1,512,238
6,010	1,349,035
3,110	4,065,417
1,500	210,498
-	487,878
216,402	216,402
-	1,539,817
-	6,046,710
-	82,112
-	4,843,518
-	22,162
-	<u>25,922</u>
<u>6,251,450</u>	<u>50,847,393</u>
<u>230,048</u>	<u>(153,565)</u>
-	<u>97,059</u>
-	<u>97,059</u>
230,048	(56,506)
<u>614,349</u>	<u>31,441,889</u>
<u>\$ 844,397</u>	<u>\$ 31,385,383</u>

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

Total Net Change in Fund Balances - Governmental Funds	\$	(56,506)
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of reclassifying the 2007 capital outlays is to increase net assets.		5,018,526
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets in the government-wide financial statements.		(3,098,872)
Current year long-term debt principal payments on loans payable and bonds payable and payments of accreted interest on capital appreciation bonds are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.		1,539,817
Current year interest accretion on capital appreciation bonds is not reflected in the fund financial statements, but is shown as an increase in long term liabilities in the government-wide financial statements.		(2,138,088)
Bond issuance costs and premiums associated with bonds issued are shown as current expenditures or other resources in the fund financial statements, but capitalized and amortized in the government-wide financial statements.		(97,059)
Bond issuance costs and bond premiums are not amortized in the fund financial statements, but are shown net of amortization in the government-wide financial statements.		53,786
Revenues from property taxes are deferred in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible amounts, in the government-wide financial statements.		109,680
Change in Net Assets of Governmental Activities	\$	1,331,284

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 17,654,154	\$ 17,713,811	\$ 19,001,119	\$ 1,287,308
5800 State Program Revenues	16,339,401	16,339,401	16,279,520	(59,881)
5900 Federal Program Revenues	300,000	438,500	713,511	275,011
5020 Total Revenues	34,293,555	34,491,712	35,994,150	1,502,438
EXPENDITURES:				
Current:				
0011 Instruction	19,799,755	19,598,711	18,379,889	1,218,822
0012 Instructional Resources and Media Services	608,178	681,360	662,858	18,502
0013 Curriculum and Instructional Staff Development	256,379	315,251	296,829	18,422
0021 Instructional Leadership	615,538	632,665	617,965	14,700
0023 School Leadership	2,373,622	2,439,752	2,428,869	10,883
0031 Guidance, Counseling and Evaluation Services	1,084,572	1,073,884	1,000,880	73,004
0032 Social Work Services	-	50	17	33
0033 Health Services	356,679	356,118	314,684	41,434
0034 Student (Pupil) Transportation	1,109,250	1,108,352	936,067	172,285
0036 Cocurricular/Extracurricular Activities	1,300,642	1,315,467	1,295,436	20,031
0041 General Administration	1,343,286	1,364,164	1,343,025	21,139
0051 Facilities Maintenance and Operations	4,274,003	4,335,762	4,062,307	273,455
0052 Security and Monitoring Services	194,114	225,789	208,998	16,791
0053 Data Processing Services	408,537	444,387	428,383	16,004
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	58,000	58,000	57,138	862
0072 Debt Service - Interest on Long Term Debt	46,000	46,000	44,980	1,020
Capital Outlay:				
0081 Facilities Acquisition and Construction	400,000	466,000	454,228	11,772
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	30,000	30,000	22,162	7,838
0095 Payments to Juvenile Justice Alternative Ed. Prg.	35,000	35,000	25,922	9,078
6030 Total Expenditures	34,293,555	34,526,712	32,580,637	1,946,075
1200 Net Change in Fund Balances	-	(35,000)	3,413,513	3,448,513
0100 Fund Balance - September 1 (Beginning)	11,256,017	11,256,017	11,256,017	-
3000 Fund Balance - August 31 (Ending)	\$ 11,256,017	\$ 11,221,017	\$ 14,669,530	\$ 3,448,513

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2007

EXHIBIT D-1

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 11,543	\$ -
Total Assets	11,543	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	3,505	-
Accrued Wages Payable	1,285	-
Accrued Expenses	19	-
Total Liabilities	4,809	-
NET ASSETS		
Unrestricted Net Assets	6,734	-
Total Net Assets	\$ 6,734	\$ -

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES:		
Local and Intermediate Sources	\$ 527,093	\$ 51,613
State Program Revenues	23,227	866
Total Operating Revenues	550,320	52,479
OPERATING EXPENSES:		
Payroll Costs	452,350	17,960
Professional and Contracted Services	4,186	25,540
Supplies and Materials	40,665	8,979
Other Operating Costs	5,160	-
Total Operating Expenses	502,361	52,479
Operating Income	47,959	-
Total Net Assets - September 1 (Beginning)	(41,225)	-
Total Net Assets - August 31 (Ending)	\$ 6,734	\$ -

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

EXHIBIT D-3

	Business-Type Activities	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>		
Cash Received from User Charges	\$ 550,445	\$ -
Cash Received from District	-	52,479
Cash Payments for Payroll Costs	(451,065)	(17,960)
Cash Payments for Professional Services	(4,186)	(25,540)
Cash Payments for Supplies and Materials	(38,017)	(8,979)
Cash Payments for Other Costs	(5,141)	-
Net Cash Provided by Operating Activities	52,036	-
Net Increase in Cash and Cash Equivalents	52,036	-
Cash and Cash Equivalents at Beginning of the Year:	(40,493)	-
Cash and Cash Equivalents at the End of the Year:	\$ 11,543	\$ -
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>		
Operating Income (Loss):	\$ 47,959	\$ -
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Receivables	125	-
Increase (decrease) in Accounts Payable	2,648	-
Increase (decrease) in Accrued Wages Payable	1,285	-
Increase (decrease) in Accrued Expenses	19	-
Net Cash Provided by Operating Activities	\$ 52,036	\$ -

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2007

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 45,782
Total Assets	<u>\$ 45,782</u>
LIABILITIES	
Accounts Payable	\$ 59
Due to Student Groups	45,723
Total Liabilities	<u>\$ 45,782</u>

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Little Elm Independent School District's (the "District") combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The Board of Trustees, a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees are elected by the public. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the district. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basis financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, Little Elm Independent School District has no component units.

B. BASIS OF PRESENTATION

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.
3. **Capital Projects Fund** - This fund is established to account for proceeds, from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Enterprise Fund** - The District utilizes an enterprise fund to account for the Districts' activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District uses this fund to account for its child care program, because the child care program is self-supporting and does not require subsidies from the general fund.
3. **Internal Service Funds** - The District utilizes Internal Service Funds to account for revenues and expenses related to services provided to parties inside the District on a cost reimbursement basis. These funds facilitate distribution of support costs to the users of support services. The District has internal service funds for its print shop.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

4. **Agency Funds** - These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenue susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pool, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

In accordance with the FAR, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

D. BUDGETARY CONTROL

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FAR module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Debt Service Fund. The special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget is amended throughout the year by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

E. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2007 that were subsequently provided for in the 2007-08 budget.

F. PREPAID ITEMS

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

G. INVENTORIES

The consumption method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed.

H. INTERFUND RECEIVABLES AND PAYABLES

Short-term amounts owed between funds are classified as "Due to/from other funds". Interfund loans are classified as "Advances to/from other funds" and are offset by a fund balance reserve account.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

I. CAPITAL ASSETS

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	40 Years
Furniture and Equipment	7-10 Years

J. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

K. NATURE AND PURPOSE OF RESERVATIONS AND DESIGNATIONS OF FUND BALANCES

The District classifies fund balances as follows:

- A. Reserves – Used to denote that portion of fund balance, which is not appropriable for expenditure or is legally segregated for specific future use.
 - 1. Reserve for retirement of long-term debt represents that portion of the fund balance legally restricted to debt service.
 - 2. Reserve for deferred expenditures represents that portion of fund balance already disbursed on supplies, materials and other items which are expenditures for a future period.
 - 3. Reserve for food service represents that portion of fund balance restricted for child nutrition operations.
- B. Designations – Used to indicate tentative plans for financial resource utilization:
 - 1. Designated for construction projects represents management's intent to utilize resources for construction and renovations.
 - 2. Designated for future growth represents management's intent to save resources for future growth needs.
- C. Undesignated – Used to denote that portion of fund balance which is available for appropriation.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

L. CASH EQUIVALENTS

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

M. NET ASSETS

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation's adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net assets are available for general governmental uses. When both restricted and unrestricted net assets are available, restricted net assets are expended before unrestricted net assets if such use is consistent with the restricted purpose.

N. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. 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.

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.

O. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For fiscal year 2002, the District implemented GASB Statement No. 33 (GASB 33), "Accounting and Financial Reporting for Nonexchange Transactions", GASB Statement No. 34 (GASB 34), "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37 (GASB 37), "Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus" and GASB Statements No. 38 (GASB 38), "Certain Financial Statement Disclosures".

GASB 34 created new basis financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The government-wide financial statements split the District programs between governmental and business-type activities.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

P. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2007, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Q. ESTIMATES

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

NOTE 2. DEPOSITS AND INVESTMENTS

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

1. Cash Deposits:

At August 31, 2007, the carrying amount of the District's deposits in checking accounts and interest-bearing savings accounts was \$524,112, which includes \$9,875 cash on hand. The combined bank balance was \$614,370. The District's cash deposits at August 31, 2007 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk – Deposits: 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. As of August 31, 2007, the District’s cash balances totaled \$614,370. This entire amount was either collateralized with securities held by the District’s financial institution’s agent in the District’s name or covered by FDIC insurance. Thus, the District’s deposits were not exposed to custodial credit risk.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At August 31, 2007, the District held investments in bank certificates of deposit and in four public funds investment pools (TexPool, TexSTAR, Lonestar and MBIA). The District is not exposed to custodial credit risk for its certificates of deposit as all are collateralized with securities held by the financial institution’s agent. Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. Credit Risk: This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for the three investment pools range from AAA (Standard & Poor’s) to AAAM (Standard & Poor’s).
- d. Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for both TexPool and TexStar is less than 60 days. Additionally, all investments in bank certificates of deposit are covered by the District’s depository pledge.
- e. Foreign Currency Risk: This is the risk that exchange rates will adversely affect the fair value of an investment. At August 31, 2007, the District was not exposed to foreign currency risk.
- f. Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District’s investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools and government securities are excluded from the 5 percent disclosure requirement.

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

The District's investments pools and certificates of deposit at August 31, 2007, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool	\$ 1,661,893	\$ 1,661,893
TexSTAR	7,999,524	7,999,524
Lonestar	4,370,379	4,370,379
MBIA	15,663,921	15,663,921
Certificates of Deposit	<u>1,798,000</u>	<u>1,798,000</u>
Total	<u>\$31,493,717</u>	<u>\$31,493,717</u>

NOTE 3. CAPITAL ASSETS

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

	<u>Balance September 1</u>	<u>Additions/ Completions</u>	<u>Retirement/ Adjustments</u>	<u>Balance August 31</u>
Governmental Activities:				
Land	\$ 10,487,540	\$ 331,725	\$ -	\$ 10,819,265
Construction in Progress	-	3,840,207	-	3,840,207
Buildings	119,957,284	92,941	-	120,050,225
Furniture and Equipment	<u>762,527</u>	<u>753,653</u>	-	<u>1,516,180</u>
Totals at historic cost	<u>131,207,351</u>	<u>5,018,526</u>	-	<u>136,225,877</u>
Less accumulated depreciation for:				
Buildings	(14,982,123)	(2,965,519)	-	(17,947,642)
Furniture and Equipment	<u>(365,348)</u>	<u>(133,353)</u>	-	<u>(498,701)</u>
Total accumulated depreciation	<u>(15,347,471)</u>	<u>(3,098,872)</u>	-	<u>(18,446,343)</u>
Governmental activities capital assets, net	<u>\$115,859,880</u>	<u>\$ 1,919,654</u>	<u>\$ -</u>	<u>\$117,779,534</u>

Depreciation expense was charged as direct expense to programs of the District as follows:

Governmental activities:	
Instruction	\$1,982,496
Instructional Resources & Media Services	120,779
Curriculum & Instructional Staff Development	6,994
School Leadership	79,433
Guidance, Counseling & Evaluation Services	20,133
Health Services	13,923
Student (Pupil) Transportation	44,679
Food Services	187,771
Cocurricular/Extracurricular Activities	484,354
General Administration	13,696
Plant Maintenance and Operations	133,495
Data Processing Services	9,470
Security and Monitoring Services	<u>1,649</u>
Total depreciation expense-Governmental activities	<u>\$3,098,872</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2007

NOTE 4. CAPITAL LEASES

The District is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$1,034,305 at August 31, 2007.

A summary of changes in capital leases payable for the year ended August 31, 2007 is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Amount Outstanding 9-1-06</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding 8-31-07</u>	<u>Due Within One Year</u>
Equipment	5.36%	<u>\$829,807</u>	<u>\$ -</u>	<u>\$ 57,138</u>	<u>\$772,669</u>	<u>\$60,235</u>

The following is a schedule of future minimum lease payments under capital leases:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2008	\$ 60,235	\$ 41,883	\$ 102,118
2009	63,500	38,618	102,118
2010	66,942	35,176	102,118
2011	70,571	31,547	102,118
2012	74,396	27,722	102,118
2013-2017	<u>437,025</u>	<u>73,565</u>	<u>510,590</u>
	<u>\$ 772,669</u>	<u>\$248,511</u>	<u>\$1,021,180</u>

NOTE 5. LONG-TERM DEBT

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds and one capital lease. All long-term debt represents transactions in the District's governmental activities.

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007**

The following is a summary of the changes in the District's Long-term Debt for the year ended August 31, 2007:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Outstanding 9/1/06</u>	<u>Additions</u>	<u>Refunded/ Retired</u>	<u>Amounts Outstanding 8/31/07</u>	<u>Due Within One Year</u>
Bonded Indebtedness:						
1995 Refunding	7.00%	\$ 1,585,000	\$ -	\$ 95,000	\$ 1,490,000	\$ 100,000
1995A School Bldg.	5.90%	135,000	-	15,000	120,000	10,000
1999 School Bldg. & Ref.	6.22%	3,584,933	-	162,500	3,422,433	150,000
2000 School Bldg. & Ref.	6.13%	200,000	-	12,900	187,100	12,100
2001 School Bldg. & Ref.	5.625%	9,647,404	-	144,375	9,503,029	132,344
2002 School Bldg. & Ref.	6.29%	24,717,381	-	740,333	23,977,048	135,102
2002A School Bldg. & Ref.	5.98%	32,619,145	-	72,571	32,546,574	279,940
2003 School Bldg. & Ref.	5.93%	12,441,037	-	-	12,441,037	26,182
2004 School Bldg. & Ref.	4.00%	14,244,181	-	240,000	14,004,181	447,609
2006 School Bldg. & Ref.	5.00%	34,091,639	-	-	34,091,639	-
Total Bonded Indebtedness		<u>133,265,720</u>	<u>-</u>	<u>1,482,679</u>	<u>131,783,041</u>	<u>1,293,277</u>
Capital Lease	5.36%	829,807	-	57,138	772,669	60,235
Accreted Interest	5.17%	17,270,220	2,726,831	629,557	19,367,494	-
Deferred Loss on Bond Ref.		(1,224,416)	-	(40,814)	(1,183,602)	(40,814)
Total Other Obligations		<u>16,875,611</u>	<u>2,726,831</u>	<u>645,881</u>	<u>18,956,561</u>	<u>19,421</u>
Total Obligations of District		<u>\$150,141,331</u>	<u>\$ 2,726,831</u>	<u>\$ 2,128,560</u>	<u>\$150,739,602</u>	<u>\$1,312,698</u>

The 1999, 2001, 2002, 2002A, 2003, 2004 and 2006 bond series include outstanding capital appreciation bonds in the principal amount of \$34,966,403. The bonds mature variously beginning in 2008 through 2037. Interest accrues on these bonds each February 15 and August 15, even though the interest is not paid until maturity. The accrued interest of \$19,367,494 is accounted for as Accrued Interest Payable-Capital Appreciation Bonds.

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General Obligation Bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement.

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2007.

Presented below is a summary of general obligation bond requirements to maturity:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2008	\$ 1,293,277	\$ 7,329,824	\$ 8,623,101
2009	1,882,386	7,140,403	9,022,789
2010	3,230,523	6,416,906	9,647,429
2011	3,356,542	6,888,781	10,245,323
2012	3,843,582	7,250,020	11,093,602
2013-2017	15,823,284	37,437,278	53,260,562
2018-2022	18,743,271	34,175,698	52,918,969
2023-2027	15,288,165	37,633,323	52,921,488
2028-2032	24,404,510	28,520,369	52,924,879
2033-2037	<u>43,917,501</u>	<u>9,002,318</u>	<u>52,919,819</u>
	<u>\$131,783,041</u>	<u>\$181,794,920</u>	<u>\$313,577,961</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

NOTE 6. DEFEASED BONDS OUTSTANDING

In prior years, the District issued refunding bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The District has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. Although defeased, the refunded debt from those earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On August 31, 2007, \$22,476,639 of bonds outstanding are considered defeased.

NOTE 7. PROPERTY TAXES

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2006-07 fiscal year was based was \$1,271,013,054. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2007, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.361 and \$0.379 per \$100 valuation, respectively, for a total of \$1.74 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2007 were 97.47% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2007, property taxes receivable, net of estimated uncollectible taxes, totaled \$763,690 and \$208,244 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

NOTE 8. PENSION PLAN OBLIGATIONS

Plan Description - The District contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan 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 operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. 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) 233-8778.

Funding Policy - Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the District's covered payroll.

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007**

In certain instances the District is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. The District's employees' contributions to the System for the years ending August 31, 2005, 2006, and 2007 were \$1,104,858, \$1,388,831 and \$1,703,172, 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 August 31, 2005, 2006, and 2007 were \$170,309, \$169,118 and \$213,430, respectively, equal to the required contributions for each year. The amounts contributed by the State, for the years ended August 31, 2005, 2006, and 2007 were \$1,035,804, \$1,154,575 and \$1,445,185, respectively, and are reflected in the financial statements in the General Fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24.

NOTE 9. HEALTH CARE

During the year ended August 31, 2007, employees of Little Elm Independent School District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee to the Plan (and employees, at their option, authorized payroll withholdings to pay contributions for dependents). All premiums were paid to a licensed insurer. The District also offers, for employees covered by their spouses' plans, an in-hospital indemnity option. The cost of this to the District varies with the age of the employee. The Plan was authorized by Sections 21.022, Texas Education Code and was documented by contractual agreement.

The contract between Little Elm Independent School District and the licensed insurer is renewable September 1, 2007, and the terms of coverage and premium costs are included in the contractual provisions. Latest financial statements of Blue Cross Blue Shield Insurance Company are available with the Texas State Board of Insurance, Austin, Texas and are public records.

NOTE 10. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2007, are summarized below. All federal grants shown below are passed through the TEA and are reported on the financial statements as Due from Other Governments.

<u>Fund</u>	<u>State Grant</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$1,724,488	\$ -	\$1,724,488
Special Revenue	<u>441,601</u>	<u>194,711</u>	<u>636,312</u>
Total	<u>\$2,166,089</u>	<u>\$194,711</u>	<u>\$2,360,800</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2007

NOTE 11. LITIGATION AND CONTINGENCIES

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 adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2007 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 12. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$17,549,174	\$ -	\$4,870,722	\$ -	\$22,419,896
Food Sales	-	914,646	-	-	914,646
Investment Income	876,608	15,160	263,862	830,729	1,986,359
Penalties, interest and other tax related income	289,646	-	77,414	-	367,060
Co-curricular student activities	103,147	-	-	-	103,147
Other	<u>182,544</u>	<u>996,335</u>	<u>-</u>	<u>-</u>	<u>1,178,881</u>
Total	<u>\$19,001,119</u>	<u>\$1,926,143</u>	<u>\$5,211,998</u>	<u>\$ 830,729</u>	<u>\$26,969,989</u>

NOTE 13. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net Tax Revenue	\$763,690	\$ -	\$208,244	\$ 971,934
Grants	-	66,776	-	66,776
Athletic Receipts	8,040	-	-	8,040
Tuition	<u>468</u>	<u>-</u>	<u>-</u>	<u>468</u>
	<u>\$772,198</u>	<u>\$66,776</u>	<u>\$208,244</u>	<u>\$1,047,218</u>

NOTE 14. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in shared services arrangements for Dropout Prevention Services with another entity. The District accounts for revenues or expenditures in this program and discloses them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the entity, nor does the District have a net equity interest in the entity. The entity is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Little Elm ISD. During the year ended August 31, 2007, the District contributed \$22,162 to the entity as its share of the costs of the joint venture.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2007

NOTE 15. GENERAL FUND FEDERAL SOURCE REVENUES

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>	<u>Total Grant or Entitlement</u>
General Fund:			
Medicaid Reimbursement	N/A	\$ 85	\$ 85
Impact Aid	84.041	557,657	557,657
Federal Flood Control	10.904	<u>155,769</u>	<u>155,769</u>
Total for General Fund		<u>\$713,511</u>	<u>\$713,511</u>

NOTE 16. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION

The Texas Education Agency requires the budgets for the Governmental fund types to be filed with the Texas Education Agency. The budget should not be exceeded in any functional category under TEA requirements. Expenditures exceeded appropriations in one functional category in the Child Nutrition Fund for the year ended August 31, 2007.

COMBINING SCHEDULES

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2007

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	213 ESEA Title I Part B Even Start	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ (4,432)	\$ -	\$ (90,029)
1240	Due from Other Governments	-	10,694	-	92,303
1290	Other Receivables	-	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ 6,262</u>	<u>\$ -</u>	<u>\$ 2,274</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	-	5,707	-	1,971
2200	Accrued Expenditures	-	555	-	303
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>6,262</u>	<u>-</u>	<u>2,274</u>
Fund Balances:					
Reserved For:					
3450	Food Service	-	-	-	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 6,262</u>	<u>\$ -</u>	<u>\$ 2,274</u>

224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 Title V, Pt.A Innovative Programs	289 Texas Placement Spanish
\$ (22,436)	\$ (9,911)	\$ 493,948	\$ -	\$ (3,376)	\$ -	\$ -	\$ 8,776
46,616	9,911	28,210	-	3,386	3,591	-	-
-	-	877	-	-	-	-	-
<u>\$ 24,180</u>	<u>\$ -</u>	<u>\$ 523,035</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 3,591</u>	<u>\$ -</u>	<u>\$ 8,776</u>
\$ -	\$ -	\$ 44,792	\$ -	\$ -	\$ -	\$ -	\$ -
21,990	-	27,539	-	-	3,033	-	-
2,190	-	3,970	-	10	558	-	-
-	-	-	-	-	-	-	8,776
<u>24,180</u>	<u>-</u>	<u>76,301</u>	<u>-</u>	<u>10</u>	<u>3,591</u>	<u>-</u>	<u>8,776</u>
-	-	446,734	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	446,734	-	-	-	-	-
<u>\$ 24,180</u>	<u>\$ -</u>	<u>\$ 523,035</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 3,591</u>	<u>\$ -</u>	<u>\$ 8,776</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2007

Data Control Codes	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment	415 Kindergarten and Pre-K Grants
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ (126,238)	\$ 6,144	\$ (34,531)
1240 Due from Other Governments	-	129,623	-	48,875
1290 Other Receivables	-	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ 3,385</u>	<u>\$ 6,144</u>	<u>\$ 14,344</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ 6,144	\$ -
2160 Accrued Wages Payable	-	3,322	-	14,069
2200 Accrued Expenditures	-	63	-	275
2300 Deferred Revenues	-	-	-	-
2000 Total Liabilities	<u>-</u>	<u>3,385</u>	<u>6,144</u>	<u>14,344</u>
Fund Balances:				
Reserved For:				
3450 Food Service	-	-	-	-
Unreserved and Undesignated:				
3610 Reported in Special Revenue Funds	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 3,385</u>	<u>\$ 6,144</u>	<u>\$ 14,344</u>

427 High School Allotment	428 LEP SSI Pre K Pilot Program	429 LEP SSI Cycle 3	455 Communities In Schools	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ 132,025	\$ (70,693)	\$ (79,214)	\$ 115,170	\$ 101,194	\$ 416,397
-	70,693	79,264	113,146	-	636,312
-	-	-	1,100	81	2,058
<u>\$ 132,025</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 229,416</u>	<u>\$ 101,275</u>	<u>\$ 1,054,767</u>
\$ -	\$ -	\$ -	\$ 100	\$ 126	\$ 51,162
6,753	-	-	-	-	84,384
124	-	-	-	-	8,048
-	-	-	58,000	-	66,776
<u>6,877</u>	<u>-</u>	<u>-</u>	<u>58,100</u>	<u>126</u>	<u>210,370</u>
-	-	-	-	-	446,734
125,148	-	50	171,316	101,149	397,663
<u>125,148</u>	<u>-</u>	<u>50</u>	<u>171,316</u>	<u>101,149</u>	<u>844,397</u>
<u>\$ 132,025</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 229,416</u>	<u>\$ 101,275</u>	<u>\$ 1,054,767</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	213 ESEA Title I Part B Even Start
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	12,422	253,814	47,878	199,091
5020 Total Revenues	<u>12,422</u>	<u>253,814</u>	<u>47,878</u>	<u>199,091</u>
EXPENDITURES:				
Current:				
0011 Instruction	7,017	178,190	200	-
0013 Curriculum and Instructional Staff Development	-	30,000	-	-
0021 Instructional Leadership	-	263	324	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0032 Social Work Services	-	41,127	46,745	-
0033 Health Services	1,347	-	-	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	2,376	-	-	-
0041 General Administration	182	4,234	609	-
0051 Facilities Maintenance and Operations	-	-	-	-
0052 Security and Monitoring Services	1,500	-	-	-
0061 Community Services	-	-	-	199,091
6030 Total Expenditures	<u>12,422</u>	<u>253,814</u>	<u>47,878</u>	<u>199,091</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 Title V, Pt.A Innovative Programs	289 Texas Placement Spanish
\$ -	\$ -	\$ 929,806	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	58,696	-	-	-	-	-
667,663	33,069	1,053,353	17,546	73,461	82,661	6,007	-
667,663	33,069	2,041,855	17,546	73,461	82,661	6,007	-
358,907	31,931	-	16,561	920	56,698	6,007	-
-	1,000	-	-	51,752	3,321	-	-
-	-	-	-	16,767	781	-	-
-	-	-	-	4,022	-	-	-
308,756	138	-	-	-	-	-	-
-	-	-	-	-	4,550	-	-
-	-	-	-	-	-	-	-
-	-	1,963,465	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	985	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	17,311	-	-
667,663	33,069	1,963,465	17,546	73,461	82,661	6,007	-
-	-	78,390	-	-	-	-	-
-	-	368,344	-	-	-	-	-
\$ -	\$ -	\$ 446,734	\$ -	\$ -	\$ -	\$ -	\$ -

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment	415 Kindergarten and Pre-K Grants
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	450	172,169	133,783	303,527
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>450</u>	<u>172,169</u>	<u>133,783</u>	<u>303,527</u>
EXPENDITURES:				
Current:				
0011 Instruction	-	166,268	134,321	297,524
0013 Curriculum and Instructional Staff Development	450	9,308	-	-
0021 Instructional Leadership	-	481	-	-
0023 School Leadership	-	8,033	-	6,003
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0032 Social Work Services	-	-	-	-
0033 Health Services	-	-	-	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
0061 Community Services	-	-	-	-
6030 Total Expenditures	<u>450</u>	<u>184,090</u>	<u>134,321</u>	<u>303,527</u>
1200 Net Change in Fund Balance	-	(11,921)	(538)	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>11,921</u>	<u>538</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

427 High School Allotment	428 LEP SSI Pre K Pilot Program	429 LEP SSI Cycle 3	455 Communities In Schools	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 744,818	\$ 251,519	\$ 1,926,143
314,521	205,031	178,864	543,261	-	1,910,302
-	-	-	198,088	-	2,645,053
<u>314,521</u>	<u>205,031</u>	<u>178,864</u>	<u>1,486,167</u>	<u>251,519</u>	<u>6,481,498</u>
184,097	168,599	163,284	-	16,310	1,786,834
-	15,093	14,031	-	14,244	139,199
-	-	-	-	-	18,616
5,276	18,229	1,549	-	-	43,112
-	-	-	-	-	308,894
-	-	-	1,453,737	-	1,546,159
-	-	-	-	-	1,347
-	-	-	-	-	1,963,465
-	-	-	-	214,426	216,802
-	-	-	-	-	6,010
-	3,110	-	-	-	3,110
-	-	-	-	-	1,500
-	-	-	-	-	216,402
<u>189,373</u>	<u>205,031</u>	<u>178,864</u>	<u>1,453,737</u>	<u>244,980</u>	<u>6,251,450</u>
125,148	-	-	32,430	6,539	230,048
-	-	50	138,886	94,610	614,349
<u>\$ 125,148</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 171,316</u>	<u>\$ 101,149</u>	<u>\$ 844,397</u>

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REQUIRED T.E.A. SCHEDULES

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2007

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1998 and prior years	Various	Various	\$ Various
1999	1.311000	0.388000	202,245,158
2000	1.362000	0.222500	235,136,942
2001	1.183000	0.347000	313,405,472
2002	1.276500	0.322500	410,037,490
2003	1.274800	0.436300	555,676,377
2004	1.349000	0.381000	738,243,717
2005	1.470000	0.350000	892,112,527
2006	1.490000	0.350000	1,075,733,422
2007 (School year under audit)	1.361000	0.379000	1,271,013,054
1000 TOTALS			

(10) Beginning Balance 9/1/2006	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2007
\$ 33,670	\$ -	\$ 1,059	\$ 318	\$ (4,460)	\$ 27,833
11,361	-	3,002	889	(239)	7,231
14,394	-	3,157	516	(361)	10,360
26,396	-	12,175	3,571	897	11,547
39,006	-	16,920	4,274	16,466	34,278
48,226	-	36,842	12,612	51,158	49,930
92,868	-	76,129	21,501	75,321	70,559
140,458	-	100,487	23,925	86,140	102,186
515,817	-	330,217	77,569	54,248	162,279
-	22,115,627	16,969,186	4,725,549	142,407	563,299
<u>\$ 922,196</u>	<u>\$ 22,115,627</u>	<u>\$ 17,549,174</u>	<u>\$ 4,870,724</u>	<u>\$ 421,577</u>	<u>\$ 1,039,502</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2008-2009
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2007

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 198,408	\$ 633,313	\$ -	\$ -	\$ 831,721
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	7,136	-	-	-	7,136
6212	Audit Services	-	-	-	16,000	-	-	16,000
6213	Tax Appraisal and Collection	-	206,924	-	-	-	-	206,924
621X	Other Professional Services	-	-	-	52,961	-	-	52,961
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	-	-
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	22,967	-	-	22,967
6290	Miscellaneous Contr.	6,824	-	2,791	63,619	-	-	73,234
6320	Textbooks and Reading	-	-	392	150	-	-	542
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	304	-	1,672	30,467	-	-	32,443
6410	Travel, Subsistence, Stipends	3,968	-	10,412	14,753	-	-	29,133
6420	Ins. and Bonding Costs	-	-	45	-	-	-	45
6430	Election Costs	2,299	-	-	-	-	-	2,299
6490	Miscellaneous Operating	2,220	-	21,997	43,403	-	-	67,620
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 15,615	\$ 206,924	\$ 242,853	\$ 877,633	\$ -	\$ -	\$ 1,343,025

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 38,832,082

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 692,544
Total Debt & Lease(6500)	(11)	102,118
Plant Maintenance (Function 51, 6100-6400)	(12)	4,007,970
Food (Function 35, 6341 and 6499)	(13)	880,914
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		877,633

SubTotal:

6,561,179

Net Allowed Direct Cost

\$ 32,270,903

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 120,050,225
Historical Cost of Building over 50 years old	(16)	\$ -
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 1,516,180
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: No amounts in Function 53 expenditures are included in this report on administrative costs.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 FUNDBALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2007

UNAUDITED

1	Total General Fund Balance as of 8/31/07 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 14,669,530
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 8,183	
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	7,000,000	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	-	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/07-5/31/08).	4,400,000	
6	Estimate of delayed payments from state sources (58xx) including August payment delays	2,000,000	
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.	(930,000)	
8	Estimate of delayed payments from federal sources (59xx)	26,000	
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-	
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>12,504,183</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		<u>\$ 2,165,347</u>

Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Fund Balance:

The projected use of the Undesignated/Unreserved Fund Balance is to offset cash flow deficits due to the timing of state funding revenue or property tax collections, deficits caused by the reimbursement plan for Special Revenue Funds, and the general facility and equipment needs of a growing school district.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 950,200	\$ 950,200	\$ 929,806	\$ (20,394)
5800 State Program Revenues	56,771	56,771	58,696	1,925
5900 Federal Program Revenues	951,501	951,501	1,053,353	101,852
5020 Total Revenues	<u>1,958,472</u>	<u>1,958,472</u>	<u>2,041,855</u>	<u>83,383</u>
EXPENDITURES:				
0035 Food Services	<u>1,958,472</u>	<u>1,958,472</u>	<u>1,963,465</u>	<u>(4,993)</u>
6030 Total Expenditures	<u>1,958,472</u>	<u>1,958,472</u>	<u>1,963,465</u>	<u>(4,993)</u>
1200 Net Change in Fund Balances	-	-	78,390	78,390
0100 Fund Balance - September 1 (Beginning)	<u>368,344</u>	<u>368,344</u>	<u>368,344</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 368,344</u>	<u>\$ 368,344</u>	<u>\$ 446,734</u>	<u>\$ 78,390</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 4,935,000	\$ 4,985,000	\$ 5,211,998	\$ 226,998
5800 State Program Revenues	2,042,000	2,042,000	2,175,453	133,453
5020 Total Revenues	6,977,000	7,027,000	7,387,451	360,451
EXPENDITURES:				
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	1,337,000	1,482,679	1,482,679	-
0072 Debt Service - Interest on Long Term Debt	6,000,000	6,001,730	6,001,730	-
0073 Debt Service - Bond Issuance Cost and Fees	90,000	89,591	82,112	7,479
6030 Total Expenditures	7,427,000	7,574,000	7,566,521	7,479
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(450,000)	(547,000)	(179,070)	367,930
OTHER FINANCING SOURCES (USES):				
7916 Premium or Discount on Issuance of Bonds	-	97,000	97,059	59
7080 Total Other Financing Sources (Uses)	-	97,000	97,059	59
1200 Net Change in Fund Balances	(450,000)	(450,000)	(82,011)	367,989
0100 Fund Balance - September 1 (Beginning)	1,824,644	1,824,644	1,824,644	-
3000 Fund Balance - August 31 (Ending)	\$ 1,374,644	\$ 1,374,644	\$ 1,742,633	\$ 367,989

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FEDERAL AWARDS 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*

Board of Trustees
Little Elm Independent School District
Little Elm, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Little Elm Independent School District (the "District") as of and for the year ended August 31, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 7, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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 District's internal control.

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

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 appropriate 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.

"Authorized signatures available on the reports filed with TEA"

Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

January 7, 2008

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

Board of Trustees
Little Elm Independent School District
Little Elm, Texas

Compliance

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2007.

Internal Control Over Compliance

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

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

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

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

This report is intended solely for the information and use of 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.

“Authorized signatures available on the reports filed with TEA”

Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

January 7, 2008

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2007

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unqualified.
2. No internal control findings required to be reported in this schedule were disclosed in the audit of the financial statements.
3. Noncompliance which is material to the financial statements: None
4. No internal control findings required to be reported in this schedule were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unqualified.
6. Did the audit disclose findings which are required to be reported under Sec. 5 I O (a): No
7. Major programs include: 84.041 Impact Aid
84.027 IDEA-B, Formula
8. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
9. Low risk auditee: Yes

II. Findings Related to the Financial Statements

The audit disclosed no findings or questioned costs to be reported.

III. Other Findings

Finding 2007-1	The District exceeded appropriations in one functional category in the Child Nutrition Fund.
Criteria	The District is required to monitor and amend the budget and control expenditures to make sure appropriations are not exceeded in any one functional category.
Condition Found	The District exceeded appropriations in one functional category in the Child Nutrition Fund.
Instance/Universe	Only one category in the Child Nutrition Fund exceeded appropriations by \$4,993 during the year.
Recommendation	The District should review expenditures and amend the budget as needed to make sure expenditures don't exceed appropriations.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2007

CORRECTIVE ACTION PLAN

Contact Person – Mr. William Moeller, Assistant Superintendent of Business Services

FINDING 2007-1 The District exceeded appropriations in one functional category in the Child Nutrition Fund.

CORRECTIVE ACTION

District expenses exceeded appropriations in the Child Nutrition Fund by \$4,993 due to under-estimating expenses in the month of August that were paid in September. Overall, the District added \$78,000 to the Child Nutrition reserves due to excess revenue collections. District staff will review procedures for the Final Budget Amendment especially as it applies to the Child Nutrition Fund.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2007

FINDING/NONCOMPLIANCE

Finding 2006-1 The District's cash deposits were not entirely covered by FDIC Insurance or pledged collateral securities on one day during the year.

STATUS OF PRIOR YEAR'S FINDING/NONCOMPLIANCE

The District's cash deposits were fully collateralized at all times during the 2006-2007 year.

FINDING/NONCOMPLIANCE

Finding 2006-2 The District exceeded appropriations in one functional category in the Child Nutrition Fund.

STATUS OF PRIOR YEAR'S FINDING/NONCOMPLIANCE

The District was closer in budgeting in the Child Nutrition Fund but still exceeded the budget in one category by \$4,993.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Direct Programs</u>			
Impact Aid - P.L. 81.874 (Note A)	84.041		\$ 557,657
Mentoring Program Grant	84.184B		198,088
Total Direct Programs			\$ 755,745
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	07-610101061914	\$ 243,120
ESEA, Title I, Part A - Improving Basic Programs	84.010A	08-610101061914	10,694
Total CFDA Number 84.010A			253,814
ESEA, Title I, Part C - Migratory Children	84.011	07-615001061914	47,878
IDEA - Part B, Formula	84.027	07-660001061914	621,047
IDEA - Part B, Formula	84.027	08-660001061914	46,616
Total CFDA Number 84.027			667,663
Vocational Education - Basic Grant	84.048	07-420006061914	17,546
IDEA - Part B, Preschool	84.173	07-661001061914	33,069
ESEA Title IV - Safe and Drug-Free Schools	84.186A	07-691001061914	12,422
ESEA, Title I, Part B - Even Start Family Literacy	84.213	07-6120017110283	199,091
Title V, Part A - Innovative Programs	84.298	07-685001061914	6,007
Title III, Part A - English Language Acquisition	84.365A	07-671001061914	79,070
Title III, Part A - English Language Acquisition	84.365A	08-671001061914	3,591
Total CFDA Number 84.365A			82,661
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	07-694501061914	70,075
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	08-694501061914	3,386
Total CFDA Number 84.367A			73,461
Total Passed Through State Department of Education			\$ 1,393,612
TOTAL DEPARTMENT OF EDUCATION			\$ 2,149,357
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast & Lunch Program*	10.555	07-71300601	\$ 976,352
Commodities	10.550		77,001
Watershed Protection & Flood Control	10.904		155,769
Total Passed Through the State Department of Agriculture			\$ 1,209,122
TOTAL DEPARTMENT OF AGRICULTURE			\$ 1,209,122
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,358,479

*Clustered Programs as required by Compliance Supplement March, 2007

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2007

1. The District uses the fund types specified in Texas Education Agency's Financial Accountability System Resource Guide. Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund, which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency 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.

3. The District participates in numerous state and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2007, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions has been recorded in the accompanying combined financial statements for such contingencies.