

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED AUGUST 31, 2005

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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, 2005, at a meeting of the Board of Trustees of such school district on the ____ day of January, 2006.

Signature of Board Secretary

Signature of Board President

UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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, 2005, 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, 2005, 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, 60 and 61 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 an opinion 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 purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

In addition, the combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are like presented for additional analysis and are not a part of the basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules (except for Exhibit J-3 The Fund Balance and Cash Flow Calculation Worksheet, which is marked **UNAUDITED** and on which we express no opinion) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005, on our consideration of the District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering 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

November 18, 2005

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2005
(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, 2005. 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 \$1,463,789 (net assets). Of this amount, \$10,437,719 (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 decreased by \$627,999.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$26,442,638. 30% of this total amount (\$8,026,609) 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 \$7,914,668 or 34.3% 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 decreased from \$(751,531) to \$(1,401,530). 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 \$10,499,978 at August 31, 2005. This decrease in governmental net assets was the result of the District's expenses exceeding revenues by \$649,999.

Table I
NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current and other assets	42,181,657	32,139,769	(82,787)	(59,682)	42,098,870	32,080,087
Capital assets	92,924,578	105,125,643	-	-	92,924,578	105,125,643
Total assets	135,106,235	137,265,412	(82,787)	(59,682)	135,023,448	137,205,730
Long-term liabilities	134,062,299	135,806,375	-	-	134,062,299	135,806,375
Other liabilities	1,795,467	2,860,567	1,472	2,577	1,796,939	2,863,144
Total liabilities	135,857,766	138,666,942	1,472	2,577	135,859,238	138,669,519
Net Assets:						
Invested in capital assets net of related debt	(9,433,538)	(13,205,663)	-	-	(9,433,538)	(13,205,663)
Restricted	1,388,125	1,304,155	-	-	1,388,125	1,304,155
Unrestricted	7,293,882	10,499,978	(84,259)	(62,259)	7,209,623	10,437,719
Total net assets	(751,531)	(1,401,530)	(84,259)	(62,259)	(835,790)	(1,463,789)

Table II
CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Revenues:						
Program Revenues:						
Charges for services	212,530	122,150	344,291	399,157	556,821	521,307
Operating grants and contributions	5,853,294	7,619,277	-	-	5,853,294	7,619,277
General Revenues:						
Maintenance and operations taxes	10,800,118	13,561,656	-	-	10,800,118	13,561,656
Debt service taxes	3,043,818	3,240,764	-	-	3,043,818	3,240,764
State aid	10,537,512	10,850,565	-	-	10,537,512	10,850,565
Investment earnings	396,734	835,890	-	-	396,734	835,890
Miscellaneous	67,019	46,997	-	-	67,019	46,997
Other federal revenue	-	744,419	-	-	-	744,419
Total Revenue	30,911,025	37,021,718	344,291	399,157	31,255,316	37,420,875
Expenses:						
Instruction, curriculum and media services	14,577,190	17,076,965	-	-	14,577,190	17,076,965
Instructional and school leadership	2,025,058	2,300,088	-	-	2,025,058	2,300,088
Student support services	2,565,443	3,174,989	-	-	2,565,443	3,174,989
Child nutrition	1,540,142	1,719,817	-	-	1,540,142	1,719,817
Cocurricular activities	727,961	900,351	-	-	727,961	900,351
General administration	987,172	1,104,631	-	-	987,172	1,104,631
Plant maintenance, security & data processing	2,861,493	3,582,400	-	-	2,861,493	3,582,400
Community services	11,483	10,019	-	-	11,483	10,019
Childcare services	-	-	368,662	377,157	368,662	377,157
Debt services	6,319,731	7,021,340	-	-	6,319,731	7,021,340
Facilities acquisition, construction	510,805	766,601	-	-	510,805	766,601
Intergovernmental charges	30,856	14,516	-	-	30,856	14,516
Total Expenses	32,157,334	37,671,717	368,662	377,157	32,525,996	38,048,874
Increase (decrease) in net assets	(1,246,309)	(649,999)	(24,371)	22,000	(1,270,680)	(627,999)
Net assets at beginning of year	494,778	(751,531)	(59,888)	(84,259)	434,890	(835,790)
Net assets at end of year	(751,531)	(1,401,530)	(84,259)	(62,259)	(835,790)	(1,463,789)

The District notes the following highlights for the 2004-2005 school year in response to changes in personnel and continued growth in student enrollment.

- The District opened Lakeview Elementary School in August of 2005 and re-opened the former middle school facility as Colin Powell Intermediate School.
- The District began construction of a new Athletic facility.
- 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 2005 school year increased to 4,120 students. This was an increase of 16% from the end of 2004.
- The District maintained the employer's health insurance contribution of \$150 per month.
- The District maintains an Energy Management Plan including special monitoring equipment.
- The Board approved an increase to the property tax rate to \$1.82 (1.47 for M&O and .35 for I&S).
- The District maintains an employee induction program for new teachers that provides incentives for staff development.
- The District hired TASB to conduct an employee compensation study in an effort to examine pay equity among employees to determine if pay practices were internally fair and externally competitive.

The cost of all governmental activities for the current fiscal year was \$37,671,717. 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 \$18,335,306 because some of the costs were paid by those who directly benefited from the programs (\$122,150) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7,619,277) or by State equalization funding (\$10,850,565), or by other federal funding (\$744,419).

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 \$26,442,638, which is \$10,965,441 lower than last year's total of \$37,408,079. Included in this year's total change in fund balance is an increase of \$3,659,825 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 2004). 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 \$7,924,824 reported on page 16 differs from the General Fund's budgetary fund balance of \$4,245,999 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, 2005, the District had \$105,125,643 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 \$12,201,065 or 13 percent, above last year.

This year's major addition was the completion of a new elementary school, paid for with prior year bond proceeds.

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At year-end, the District had \$135,806,375 in bonds, loans and leases outstanding (including accreted interest on bonds) versus \$134,062,299 last year—an increase of 1 percent. The District had no new bond issues during the year. 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 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District took actions for 2005-06 to compensate for some increases in costs and continued increases in enrollment:

- The Board adopted a \$37.5 million dollar budget covering General Operating, Child Nutrition, Debt Service, Technology, Child Care, and Print Shop.
- Property values have risen to \$1.08 billion from \$902 million or 20%.
- The adopted tax rate is \$1.84 (1.49 for M&O and .35 for I&S).
- The District anticipates increases in 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, 2005

Data Control Codes	1	2	3
	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
1110 Cash and Cash Equivalents	\$ 12,144,063	\$ (60,960)	\$ 12,083,103
1120 Current Investments	11,043,396	-	11,043,396
1220 Property Taxes Receivable (Delinquent)	887,920	-	887,920
1230 Allowance for Uncollectible Taxes	(57,715)	-	(57,715)
1240 Due from Other Governments	6,066,700	-	6,066,700
1260 Internal Balances	(1,271)	1,271	-
1290 Other Receivables (net)	39,987	-	39,987
1410 Deferred Expenses	10,330	7	10,337
1420 Capitalized Bond & Other Debt Issuance Costs	1,066,072	-	1,066,072
1430 Discount on Issuance of Debt	940,287	-	940,287
Capital Assets:			
1510 Land	10,487,540	-	10,487,540
1520 Buildings, net	90,940,781	-	90,940,781
1530 Furniture and Equipment, net	253,660	-	253,660
1580 Construction in Progress	3,443,662	-	3,443,662
1000 Total Assets	<u>137,265,412</u>	<u>(59,682)</u>	<u>137,205,730</u>
LIABILITIES			
2110 Accounts Payable	1,759,473	-	1,759,473
2160 Accrued Wages Payable	1,083,840	2,520	1,086,360
2200 Accrued Expenses	8,478	57	8,535
2300 Deferred Revenues	8,776	-	8,776
Noncurrent Liabilities			
2501 Due Within One Year	1,227,135	-	1,227,135
2502 Due in More Than One Year	134,579,240	-	134,579,240
2000 Total Liabilities	<u>138,666,942</u>	<u>2,577</u>	<u>138,669,519</u>
NET ASSETS			
3200 Invested in Capital Assets, Net of Related Debt	(13,205,663)	-	(13,205,663)
3850 Restricted for Debt Service	907,191	-	907,191
3870 Restricted for Campus Activities	73,351	-	73,351
3890 Restricted for Food Service	323,613	-	323,613
3900 Unrestricted Net Assets	10,499,978	(62,259)	10,437,719
3000 Total Net Assets	<u>\$ (1,401,530)</u>	<u>\$ (62,259)</u>	<u>\$ (1,463,789)</u>

The accompanying notes are an integral part of this statement.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2005

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 16,338,448	\$ 45,482	\$ 2,212,823
12 Instructional Resources & Media Services	497,058	-	18,775
13 Curriculum and Staff Development	241,459	-	47,861
21 Instructional Leadership	499,131	-	75,559
23 School Leadership	1,800,957	-	110,235
31 Guidance, Counseling & Evaluation Services	983,755	-	322,856
32 Social Work Services	1,126,858	-	1,126,858
33 Health Services	289,922	-	16,460
34 Student (Pupil) Transportation	774,454	-	235,458
35 Food Services	1,719,817	-	1,536,295
36 Cocurricular/Extracurricular Activities	900,351	58,698	222,722
41 General Administration	1,104,631	-	49,229
51 Plant Maintenance and Operations	3,128,096	17,970	92,225
52 Security and Monitoring Services	174,281	-	6,445
53 Data Processing Services	280,023	-	12,776
61 Community Services	10,019	-	9,373
72 Debt Service - Interest on Long Term Debt	7,012,935	-	1,523,327
73 Debt Service - Bond Issuance Cost & Fees	8,405	-	-
81 Facilities Acquisition and Construction	766,601	-	-
93 Payments to Fiscal Agent/Member Districts of SSA	1,718	-	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	12,798	-	-
[TG] Total Governmental Activities:	<u>37,671,717</u>	<u>122,150</u>	<u>7,619,277</u>
BUSINESS-TYPE ACTIVITIES:			
01 Child Care	<u>377,157</u>	<u>399,157</u>	<u>-</u>
[TB] Total Business-Type Activities:	<u>377,157</u>	<u>399,157</u>	<u>-</u>
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 38,048,874</u>	<u>\$ 521,307</u>	<u>\$ 7,619,277</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 accompanying notes 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
\$ (14,080,143)	\$ -	\$ (14,080,143)
(478,283)	-	(478,283)
(193,598)	-	(193,598)
(423,572)	-	(423,572)
(1,690,722)	-	(1,690,722)
(660,899)	-	(660,899)
-	-	-
(273,462)	-	(273,462)
(538,996)	-	(538,996)
(183,522)	-	(183,522)
(618,931)	-	(618,931)
(1,055,402)	-	(1,055,402)
(3,017,901)	-	(3,017,901)
(167,836)	-	(167,836)
(267,247)	-	(267,247)
(646)	-	(646)
(5,489,608)	-	(5,489,608)
(8,405)	-	(8,405)
(766,601)	-	(766,601)
(1,718)	-	(1,718)
(12,798)	-	(12,798)
<u>(29,930,290)</u>	<u>-</u>	<u>(29,930,290)</u>
-	22,000	22,000
-	22,000	22,000
<u>(29,930,290)</u>	<u>22,000</u>	<u>(29,908,290)</u>
13,561,656	-	13,561,656
3,240,764	-	3,240,764
10,850,565	-	10,850,565
835,890	-	835,890
46,997	-	46,997
744,419	-	744,419
<u>29,280,291</u>	<u>-</u>	<u>29,280,291</u>
(649,999)	22,000	(627,999)
(751,531)	(84,259)	(835,790)
<u>\$ (1,401,530)</u>	<u>\$ (62,259)</u>	<u>\$ (1,463,789)</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2005

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 3,229,549	\$ 907,191	\$ 7,721,302
1120 Investments - Current	-	-	11,043,396
1220 Property Taxes - Delinquent	702,524	185,396	-
1230 Allowance for Uncollectible Taxes (credit)	(45,664)	(12,051)	-
1240 Due from Other Governments	5,811,783	-	-
1260 Due from Other Funds	-	-	-
1290 Other Receivables	1,980	-	-
1410 Deferred Expenditures	10,156	-	-
1000 Total Assets	<u>\$ 9,710,328</u>	<u>\$ 1,080,536</u>	<u>\$ 18,764,698</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 129,652	\$ -	\$ 1,589,629
2160 Accrued Wages Payable	992,541	-	-
2170 Due to Other Funds	1,313	-	-
2200 Accrued Expenditures	5,138	-	-
2300 Deferred Revenues	656,860	173,345	-
2000 Total Liabilities	<u>\$ 1,785,504</u>	<u>\$ 173,345</u>	<u>\$ 1,589,629</u>
Fund Balances:			
Reserved For:			
3420 Retirement of Long-Term Debt	\$ -	\$ 907,191	\$ -
3430 Prepaid Items	10,156	-	-
3450 Food Service	-	-	-
Unreserved Designated For:			
3510 Construction	-	-	17,175,069
Unreserved and Undesignated:			
3600 Reported in the General Fund	7,914,668	-	-
3610 Reported in Special Revenue Funds	-	-	-
3000 Total Fund Balances	<u>\$ 7,924,824</u>	<u>\$ 907,191</u>	<u>\$ 17,175,069</u>
4000 Total Liabilities and Fund Balances	<u>\$ 9,710,328</u>	<u>\$ 1,080,536</u>	<u>\$ 18,764,698</u>

The accompanying notes are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 285,943	\$ 12,143,985
-	11,043,396
-	887,920
-	(57,715)
254,917	6,066,700
42	42
38,007	39,987
155	10,311
<u>\$ 579,064</u>	<u>\$ 30,134,626</u>
\$ 40,192	\$ 1,759,473
91,202	1,083,743
-	1,313
3,340	8,478
8,776	838,981
<u>\$ 143,510</u>	<u>\$ 3,691,988</u>
\$ -	\$ 907,191
-	10,156
323,613	323,613
-	17,175,069
-	7,914,668
111,941	111,941
<u>\$ 435,554</u>	<u>\$ 26,442,638</u>
<u>\$ 579,064</u>	<u>\$ 30,134,626</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, 2005

Total Fund Balances - Governmental Funds	\$	26,442,638
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase(decrease) net assets.		-
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$103,317,640 and the accumulated depreciation was \$10,393,062. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		(41,137,721)
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2005 capital outlays and debt principal payments is to increase (decrease) net assets.		15,130,576
4 The 2005 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(2,319,955)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		482,932
19 Net Assets of Governmental Activities	<u>\$</u>	<u>(1,401,530)</u>

The accompanying notes 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, 2005

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 13,931,794	\$ 3,343,036	\$ 600,411
5800 State Program Revenues	12,064,820	1,523,327	-
5900 Federal Program Revenues	744,419	-	-
5020 Total Revenues	<u>26,741,033</u>	<u>4,866,363</u>	<u>600,411</u>
EXPENDITURES:			
Current:			
0011 Instruction	13,214,827	-	-
0012 Instructional Resources & Media Services	388,817	-	-
0013 Curriculum & Instructional Staff Development	193,543	-	-
0021 Instructional Leadership	442,199	-	-
0023 School Leadership	1,705,317	-	-
0031 Guidance, Counseling & Evaluation Services	673,911	-	-
0032 Social Work Services	-	-	-
0033 Health Services	274,926	-	-
0034 Student (Pupil) Transportation	771,304	-	-
0035 Food Services	-	-	-
0036 Cocurricular/Extracurricular Activities	706,030	-	-
0041 General Administration	1,078,330	-	-
0051 Plant Maintenance and Operations	3,072,738	-	-
0052 Security and Monitoring Services	168,712	-	-
0053 Data Processing Services	273,274	-	-
0061 Community Services	646	-	-
Debt Service:			
0071 Debt Service - Principal on long-term debt	51,413	558,143	-
0072 Debt Service - Interest on long-term debt	50,705	4,534,835	-
0073 Debt Service - Bond Issuance Cost and Fees	-	8,405	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	15,129,525
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	1,718	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	12,798	-	-
6030 Total Expenditures	<u>23,081,208</u>	<u>5,101,383</u>	<u>15,129,525</u>
1200 Net Change in Fund Balances	3,659,825	(235,020)	(14,529,114)
0100 Fund Balance - September 1 (Beginning)	<u>4,264,999</u>	<u>1,142,211</u>	<u>31,704,183</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 7,924,824</u>	<u>\$ 907,191</u>	<u>\$ 17,175,069</u>

The accompanying notes are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 1,498,720	\$ 19,373,961
1,397,563	14,985,710
<u>1,985,412</u>	<u>2,729,831</u>
<u>4,881,695</u>	<u>37,089,502</u>
1,402,764	14,617,591
3,000	391,817
40,922	234,465
56,932	499,131
27,225	1,732,542
291,124	965,035
1,126,858	1,126,858
3,333	278,259
-	771,304
1,536,295	1,536,295
200,935	906,965
12,605	1,090,935
23,621	3,096,359
5,569	174,281
2,271	275,545
9,373	10,019
-	609,556
-	4,585,540
-	8,405
-	15,129,525
-	1,718
-	<u>12,798</u>
<u>4,742,827</u>	<u>48,054,943</u>
138,868	(10,965,441)
<u>296,686</u>	<u>37,408,079</u>
<u>\$ 435,554</u>	<u>\$ 26,442,638</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, 2005

Total Net Change in Fund Balances - Governmental Funds	\$	(10,965,441)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.		-
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2005 capital outlays and debt principal payments is to increase (decrease) net assets.		15,130,576
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.		(2,319,955)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(2,495,179)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>(649,999)</u>

The accompanying notes are an integral part of this statement.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2005

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	\$ 13,465,100	\$ 13,478,440	\$ 13,931,794	\$ 453,354
5800	State Program Revenues	10,824,942	10,824,942	12,064,820	1,239,878
5900	Federal Program Revenues	75,000	325,000	744,419	419,419
5020	Total Revenues	24,365,042	24,628,382	26,741,033	2,112,651
EXPENDITURES:					
Current:					
0011	Instruction	14,044,978	13,995,298	13,214,827	780,471
0012	Instructional Resources & Media Services	408,252	409,250	388,817	20,433
0013	Curriculum & Instructional Staff Development	246,438	251,356	193,543	57,813
0021	Instructional Leadership	444,683	469,333	442,199	27,134
0023	School Leadership	1,882,821	1,898,746	1,705,317	193,429
0031	Guidance, Counseling & Evaluation Services	741,006	742,642	673,911	68,731
0033	Health Services	271,427	290,247	274,926	15,321
0034	Student (Pupil) Transportation	840,050	903,050	771,304	131,746
0036	Cocurricular/Extracurricular Activities	720,065	766,876	706,030	60,846
0041	General Administration	1,148,184	1,177,550	1,078,330	99,220
0051	Plant Maintenance and Operations	2,996,817	3,108,699	3,072,738	35,961
0052	Security and Monitoring Services	196,123	190,613	168,712	21,901
0053	Data Processing Services	292,498	292,498	273,274	19,224
0061	Community Services	1,200	724	646	78
0071	Debt Service - Principal on long-term debt	52,000	52,000	51,413	587
0072	Debt Service - Interest on long-term debt	51,000	51,000	50,705	295
0081	Facilities Acquisition and Construction	500	500	-	500
0093	Payments to Fiscal Agent/Member Districts of SSA	3,000	3,000	1,718	1,282
0095	Payments to Juvenile Justice Alternative Ed. Prg.	24,000	44,000	12,798	31,202
6030	Total Expenditures	24,365,042	24,647,382	23,081,208	1,566,174
1200	Net Change in Fund Balances	-	(19,000)	3,659,825	3,678,825
0100	Fund Balance - September 1 (Beginning)	4,264,999	4,264,999	4,264,999	-
3000	Fund Balance - August 31 (Ending)	\$ 4,264,999	\$ 4,245,999	\$ 7,924,824	\$ 3,678,825

The accompanying notes are an integral part of this statement.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2005

EXHIBIT D-1

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ (60,960)	\$ 78
Due from Other Funds	1,271	-
Deferred Expenses	<u>7</u>	<u>19</u>
Total Assets	<u>(59,682)</u>	<u>97</u>
LIABILITIES		
Current Liabilities:		
Accrued Wages Payable	2,520	97
Accrued Expenses	<u>57</u>	<u>-</u>
Total Liabilities	<u>2,577</u>	<u>97</u>
NET ASSETS		
Unrestricted Net Assets	<u>(62,259)</u>	<u>-</u>
Total Net Assets	<u>\$ (62,259)</u>	<u>\$ -</u>

The accompanying notes 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, 2005

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES:		
Local and Intermediate Sources	\$ 381,123	\$ 46,820
State Program Revenues	<u>18,034</u>	<u>1,309</u>
Total Operating Revenues	<u>399,157</u>	<u>48,129</u>
OPERATING EXPENSES:		
Payroll Costs	343,845	11,125
Professional and Contracted Services	3,367	31,355
Supplies and Materials	27,298	5,588
Other Operating Costs	<u>2,647</u>	<u>61</u>
Total Operating Expenses	<u>377,157</u>	<u>48,129</u>
Operating Income	22,000	-
Total Net Assets - September 1 (Beginning)	<u>(84,259)</u>	<u>-</u>
Total Net Assets - August 31 (Ending)	<u>\$ (62,259)</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2005

EXHIBIT D-3

	Business-Type Activities	Governmental Activities -
	Total	
	Enterprise Funds	Internal Service Fund
Cash Flows from Operating Activities:		
Cash Received from District	\$ -	\$ 48,129
Cash Received from User Charges	423,742	-
Cash Payments for Payroll Costs	(342,747)	(11,028)
Cash Payments for Professional Services	(3,367)	(31,355)
Cash Payments for Supplies and Materials	(27,298)	(5,607)
Cash Payments for Other Costs	<u>(2,647)</u>	<u>(61)</u>
Net Cash Provided by Operating Activities	<u>47,683</u>	<u>78</u>
Net Increase in Cash and Cash Equivalents	47,683	78
Cash and Cash Equivalents at Beginning of the Year:	<u>(108,643)</u>	<u>-</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ (60,960)</u>	<u>\$ 78</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss):	\$ 22,000	\$ -
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Other Receivables	2,329	-
Decrease (increase) in Due From Other Funds	22,256	-
Decrease (increase) in Deferred Expenditures	(7)	(19)
Increase (decrease) in Accrued Expenses	<u>1,105</u>	<u>97</u>
Net Cash Provided by Operating Activities	<u>\$ 47,683</u>	<u>\$ 78</u>

The accompanying notes are an integral part of this statement.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2005

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 41,444
Total Assets	<u>\$ 41,444</u>
LIABILITIES	
Due to Student Groups	\$ 41,444
Total Liabilities	<u>\$ 41,444</u>

The accompanying notes are an integral part of this statement.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

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, 2005

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, 2005

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, 2005

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, 2005 that were subsequently provided for in the 2005-06 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, 2005

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 inventories represents that portion of the fund balance already expended on supplies held for consumption in a future period.
 - 2. Reserve for funded indebtedness represents that portion of fund balance legally restricted to debt service.
 - 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.
- C. Undesignated – Used to denote that portion of fund balance which is available for appropriation.

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.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

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.

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.

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 2005, 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.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2005

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. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The details of this \$15,130,576 adjustment are as follows:

Current year capital outlay	\$14,521,020
Bond principal payments	558,143
Capital lease principal payments	<u>51,413</u>
Net adjustment	<u>\$15,130,576</u>

Another element of that reconciliation states that: “Various other reclassifications and elimination’s are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest”. The details of this \$482,932 adjustment are as follows:

Deferred tax revenue recognized as revenue	\$ 830,205
Capitalization of net bond issuance costs/discounts	2,006,359
Change in accreted interest on bonds	<u>(2,353,632)</u>
Net adjustment	<u>\$ 482,932</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities: One element of that reconciliation explains that “various other reclassifications and elimination’s are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting.

These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year’s tax levy, eliminating interfund transactions reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest.” The details of this \$(2,495,179) adjustment are as follows:

Amortization of Bond Issuance Costs	\$ (73,763)
Current year deferred tax revenue recognized as revenue	(67,784)
Change in accreted interest on bonds	<u>(2,353,632)</u>
Net adjustment	<u>\$(2,495,179)</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

NOTE 3. 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, 2005, the carrying amount of the District's deposits in checking accounts and interest-bearing savings accounts was \$175,647 and the bank balance was \$757,794. The District's cash deposits at August 31, 2005 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.

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, 2005, the District's cash balances totaled \$175,647. 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. At August 31, 2005, however there were some times early in the year that deposits exceeded pledged securities so the District was exposed to custodial credit risk at these times.
- 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, 2005, the District held investments in bank certificates of deposit and in three public funds investment pools (TexPool, 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.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2005

- 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, 2005, 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.

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, 2005, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool	\$ 889,432	\$ 889,432
Lonestar	2,486,447	2,486,447
MBIA	7,973,021	7,973,021
Certificates of Deposit	<u>600,000</u>	<u>600,000</u>
Total	<u>\$11,948,900</u>	<u>\$11,948,900</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

The District's investments at August 31, 2005, are shown below:

Name	Carrying Amount	Market Value
U.S. Government Securities	<u>\$11,043,396</u>	<u>\$11,043,396</u>

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2005, was as follows:

	Balance <u>September 1</u>	Additions/ <u>Completions</u>	Retirement/ <u>Adjustments</u>	Balance <u>August 31</u>
Governmental Activities:				
Land	\$ 10,487,540	\$ -	\$ -	\$ 10,487,540
Construction in Progress	811,278	3,443,662	811,278	3,443,662
Buildings	91,643,744	11,730,540	-	103,374,284
Furniture and Equipment	<u>375,078</u>	<u>158,096</u>	-	<u>533,174</u>
Totals at historic cost	<u>103,317,640</u>	<u>15,332,298</u>	<u>811,278</u>	<u>117,838,660</u>
Less accumulated depreciation for:				
Buildings	(10,167,390)	(2,266,113)	-	(12,433,503)
Furniture and Equipment	<u>(225,672)</u>	<u>(53,842)</u>	-	<u>(279,514)</u>
Total accumulated depreciation	<u>(10,393,062)</u>	<u>(2,319,955)</u>	-	<u>(12,713,017)</u>
Governmental activities capital assets, net	<u>\$ 92,924,578</u>	<u>\$13,012,343</u>	<u>\$ 811,278</u>	<u>\$105,125,643</u>

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

Governmental activities:	
Instruction	\$1,750,475
Instructional Resources & Media Services	105,241
Curriculum & Instructional Staff Development	6,994
School Leadership	68,415
Guidance, Counseling & Evaluation Services	18,720
Health Services	11,663
Student (Pupil) Transportation	3,150
Food Services	183,522
Cocurricular/Extracurricular Activities	15,496
General Administration	13,696
Plant Maintenance and Operations	138,105
Data Processing Services	<u>4,478</u>
Total depreciation expense-Governmental activities	<u>\$2,319,955</u>

NOTE 5. 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, 2005.

A summary of changes in capital leases payable for the year ended August 31, 2005 is as follows:

Description	Interest Rate	Amount Outstanding 9-1-04	Issued Current Year	Retired Current Year	Amount Outstanding 8-31-05	Due Within One Year
Equipment	5.36%	<u>\$935,420</u>	<u>\$ -</u>	<u>\$ 51,413</u>	<u>\$884,007</u>	<u>\$54,200</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

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

Year Ended <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2006	\$ 54,200	\$ 47,918	\$ 102,118
2007	57,138	44,980	102,118
2008	60,235	41,883	102,118
2009	63,500	38,618	102,118
2010	66,942	35,176	102,118
2011-2015	393,238	117,351	510,589
2016-2017	<u>188,754</u>	<u>15,482</u>	<u>204,236</u>
	<u>\$ 884,007</u>	<u>\$341,408</u>	<u>\$1,225,415</u>

NOTE 6. LONG-TERM DEBT

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, one capital lease and one loan. 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.

The following is a summary of the changes in the District's Long-term Debt for the year ended August 31, 2005:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Outstanding 9/1/04</u>	<u>Additions</u>	<u>Refunded/ Retired</u>	<u>Amounts Outstanding 8/31/05</u>	<u>Due Within One Year</u>
Bonded Indebtedness:						
1995 Refunding	7.00%	\$ 1,629,941	\$ -	\$ 22,941	\$ 1,607,000	\$ 22,000
1995A School Bldg.	5.90%	7,205,000	-	195,000	7,010,000	205,000
1999 School Bldg. & Ref.	6.22%	8,601,285	-	4,000	8,597,285	152,353
2000 School Bldg. & Ref.	6.13%	4,200,000	-	-	4,200,000	10,000
2001 School Bldg. & Ref.	5.625%	14,714,054	-	109,150	14,604,904	142,500
2002 School Bldg. & Ref.	6.29%	25,280,103	-	-	25,280,103	511,082
2002A School Bldg. & Ref.	5.98%	32,619,145	-	-	32,619,145	-
2003 School Bldg. & Ref.	5.93%	12,668,089	-	227,052	12,441,037	-
2004 School Bldg. & Ref.	4.00%	<u>14,374,181</u>	<u>-</u>	<u>-</u>	<u>14,374,181</u>	<u>130,000</u>
Total Bonded Indebtedness		<u>121,291,798</u>	<u>-</u>	<u>558,143</u>	<u>120,733,655</u>	<u>1,172,935</u>
Capital Lease	5.36%	935,420	-	51,413	884,007	54,200
Accreted Interest	5.17%	<u>11,835,081</u>	<u>2,517,804</u>	<u>164,172</u>	<u>14,188,713</u>	<u>-</u>
Total Other Obligations		<u>12,770,501</u>	<u>2,517,804</u>	<u>215,585</u>	<u>15,072,720</u>	<u>54,200</u>
Total Obligations of District		<u>\$134,062,299</u>	<u>\$ 2,517,804</u>	<u>\$ 773,728</u>	<u>\$135,806,375</u>	<u>\$1,227,135</u>

The 1999, 2001, 2002, 2002A, 2003 and 2004 bond series include outstanding capital appreciation bonds in the principal amount of \$35,565,699. The bonds mature variously beginning in 2006 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 \$14,188,713 is accounted for as Accrued Interest Payable-Capital Appreciation Bonds.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2005

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, 2005.

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

Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
August 31,			<u>Requirements</u>
2006	\$ 1,172,935	\$ 4,987,879	\$ 6,160,814
2007	1,482,678	5,549,680	7,032,358
2008	1,293,277	6,877,774	8,171,051
2009	1,934,025	7,161,713	9,095,738
2010	2,755,523	5,964,856	8,720,379
2011-2015	15,225,929	33,858,996	49,084,925
2016-2020	15,939,039	32,495,085	48,434,124
2021-2025	13,606,933	35,097,867	48,704,800
2026-2030	16,120,457	32,695,100	48,815,557
2031-2035	33,057,859	16,184,528	49,242,387
2036-2037	<u>18,145,000</u>	<u>1,388,412</u>	<u>19,533,412</u>
	<u>\$120,733,655</u>	<u>\$182,261,890</u>	<u>\$302,995,545</u>

NOTE 7. DEBT ISSUANCE AND 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, 2005, \$9,116,221 of bonds outstanding are considered defeased.

NOTE 8. 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 2004-05 fiscal year was based was \$892,112,527. 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, 2005, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.47 and \$0.35 per \$100 valuation, respectively, for a total of \$1.82 per \$ 100 valuation.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

Current tax collections for the year ended August 31, 2005 were 97.21% 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, 2005, property taxes receivable, net of estimated uncollectible taxes, totaled \$656,860 and \$173,345 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 9. 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. 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, 2003, 2004, and 2005 were \$872,790, \$1,014,450 and \$1,104,858, 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, 2003, 2004, and 2005 were \$109,029, \$121,939 and \$170,309, respectively, equal to the required contributions for each year. The amounts contributed by the State, for the years ended August 31, 2003, 2004, and 2005 were \$749,441, \$846,748 and \$1,035,804, 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.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2005

NOTE 10. HEALTH CARE

During the year ended August 31, 2005, employees of Little Elm Independent School District were covered by a health insurance plan (the Plan). The District paid premiums of \$150 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, 2005, and the terms of coverage and premium costs are included in the contractual provisions. Latest financial statements of Cigna Insurance Company are available with the Texas State Board of Insurance, Austin, Texas and are public records.

NOTE 11. 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, 2005, 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	\$5,811,783	\$ -	\$5,811,783
Special Revenue	<u>114,396</u>	<u>140,521</u>	<u>254,917</u>
Total	<u>\$5,926,179</u>	<u>\$140,521</u>	<u>\$6,066,700</u>

NOTE 12. 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, 2005 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.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

NOTE 13. 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	\$13,403,874	\$ --	\$3,213,096	\$ --	\$16,614,489
Food Sales	--	807,841	--	--	807,841
Investment Income	157,828	--	77,650	600,411	835,889
Penalties, interest and other tax related income	197,240	--	52,290	--	252,011
Co-curricular student activities	58,698	234,572	--	--	293,270
Other	114,154	456,307	--	--	570,461
Total	<u>\$13,931,794</u>	<u>\$1,498,720</u>	<u>\$3,343,036</u>	<u>\$ 600,411</u>	<u>\$19,373,961</u>

NOTE 14. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net Tax Revenue	\$656,860	--	\$173,345	\$830,205
Grants	--	8,776	--	8,776
	<u>\$656,860</u>	<u>\$ 8,776</u>	<u>\$173,345</u>	<u>\$838,981</u>

NOTE 15. 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, 2005, the District contributed \$1,718 to the entity as its share of the costs of the joint venture.

NOTE 16. INTERFUND PAYABLES AND RECEIVABLES

Interfund balances at August 31, 2005 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Fund	\$ --	\$ 42
Enterprise Fund	--	1,271
Special Revenue Fund:		
General Fund	42	--
Enterprise Fund:		
General Fund	<u>1,271</u>	<u>--</u>
Total	<u>\$ 1,313</u>	<u>\$ 1,313</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2005

NOTE 17. DEFICIT NET ASSETS BALANCE

At August 31, 2005, the Day Care Enterprise Fund had a deficit fund balance of \$62,259. The District anticipates eliminating this deficit in the future by raising tuition rates to cover operating expenses, and increasing enrollment.

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COMBINING SCHEDULES

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2005

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	224 IDEA - Part B Formula	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ (1,671)	\$ (18,754)	\$ (11,092)
1240	Due from Other Governments	-	20,413	18,754	48,580
1260	Due from Other Funds	-	-	-	-
1290	Other Receivables	-	-	-	-
1410	Deferred Expenditures	-	-	-	-
1000	Total Assets	\$ -	\$ 18,742	\$ -	\$ 37,488
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	-	17,830	-	35,252
2200	Accrued Expenditures	-	912	-	2,236
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	-	18,742	-	37,488
Fund Balances:					
Reserved For:					
3450	Food Service	-	-	-	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	-	-	-	-
3000	Total Fund Balances	-	-	-	-
4000	Total Liabilities and Fund Balances	\$ -	\$ 18,742	\$ -	\$ 37,488

EXHIBIT H-1 (Cont'd)

225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	263 Title III, A English Lang. Acquisition	269 Title V, Pt.A Innovative Programs	289 Tx Placement Spanish Language
\$ (13,331)	\$ 336,132	\$ (1,564)	\$ (2,218)	\$ -	\$ -	\$ -	\$ 8,776
13,331	32,874	2,189	3,260	-	1,120	-	-
-	-	-	-	-	-	-	-
-	70	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 369,076</u>	<u>\$ 625</u>	<u>\$ 1,042</u>	<u>\$ -</u>	<u>\$ 1,120</u>	<u>\$ -</u>	<u>\$ 8,776</u>
\$ -	\$ 30,167	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	15,236	623	1,005	-	1,029	-	-
-	60	2	37	-	91	-	-
-	-	-	-	-	-	-	8,776
<u>-</u>	<u>45,463</u>	<u>625</u>	<u>1,042</u>	<u>-</u>	<u>1,120</u>	<u>-</u>	<u>8,776</u>
-	323,613	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>323,613</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 369,076</u>	<u>\$ 625</u>	<u>\$ 1,042</u>	<u>\$ -</u>	<u>\$ 1,120</u>	<u>\$ -</u>	<u>\$ 8,776</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2005

Data Control Codes	397 Advanced Placement Incentives	404 Student Success Initiative	409 Basic Skills Program High School	411 Technology Allotment	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ (27,159)	\$ (10,168)	\$ -
1240	Due from Other Governments	-	39,627	10,168	-
1260	Due from Other Funds	-	-	-	-
1290	Other Receivables	-	-	-	-
1410	Deferred Expenditures	-	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ 12,468</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	-	545	-	-
2200	Accrued Expenditures	-	2	-	-
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>547</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved For:					
3450	Food Service	-	-	-	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	-	11,921	-	-
3000	Total Fund Balances	<u>-</u>	<u>11,921</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 12,468</u>	<u>\$ -</u>	<u>\$ -</u>

415 Kindergarten and Pre-K Grants	418 Employee Health Insurance	429 Incentive Program	455 Communities In Schools	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ 19,527	\$ (1,184)	\$ 50	\$ (66,479)	\$ 75,078	\$ 285,943
-	1,142	-	63,459	-	254,917
-	42	-	-	-	42
-	-	-	37,664	273	38,007
155	-	-	-	-	155
<u>\$ 19,682</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 34,644</u>	<u>\$ 75,351</u>	<u>\$ 579,064</u>
\$ -	\$ -	\$ -	\$ 10,025	\$ -	\$ 40,192
19,682	-	-	-	-	91,202
-	-	-	-	-	3,340
-	-	-	-	-	8,776
<u>19,682</u>	<u>-</u>	<u>-</u>	<u>10,025</u>	<u>-</u>	<u>143,510</u>
-	-	-	-	-	323,613
-	-	50	24,619	75,351	111,941
-	-	50	24,619	75,351	435,554
<u>\$ 19,682</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 34,644</u>	<u>\$ 75,351</u>	<u>\$ 579,064</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, 2005

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	224 IDEA - Part B Formula
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	<u>11,431</u>	<u>284,177</u>	<u>67,447</u>	<u>624,195</u>
5020 Total Revenues	<u>11,431</u>	<u>284,177</u>	<u>67,447</u>	<u>624,195</u>
EXPENDITURES:				
Current:				
0011 Instruction	6,091	233,023	11,598	366,192
0012 Instructional Resources & Media Services	-	-	-	-
0013 Curriculum & Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	-	-	1,506	-
0023 School Leadership	-	336	-	-
0031 Guidance, Counseling & Evaluation Services	-	-	-	253,979
0032 Social Work Services	-	45,465	52,519	-
0033 Health Services	-	-	-	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	111	5,353	1,824	-
0051 Plant Maintenance and Operations	-	-	-	4,024
0052 Security and Monitoring Services	5,229	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	-	-	-
6030 Total Expenditures	<u>11,431</u>	<u>284,177</u>	<u>67,447</u>	<u>624,195</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	263 Title III, A English Lang. Acquisition	269 Title V, Pt.A Innovative Programs	289 Tx Placement Spanish Language
\$ -	\$ 807,841	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	34,021	-	-	-	-	-	-
<u>27,101</u>	<u>819,154</u>	<u>22,877</u>	<u>73,091</u>	<u>5,726</u>	<u>40,277</u>	<u>8,687</u>	<u>1,249</u>
<u>27,101</u>	<u>1,661,016</u>	<u>22,877</u>	<u>73,091</u>	<u>5,726</u>	<u>40,277</u>	<u>8,687</u>	<u>1,249</u>
20,206	-	-	5,506	-	29,518	7,458	656
-	-	-	-	-	-	-	-
-	-	-	15,464	4,980	-	-	-
-	-	-	52,121	500	-	1,229	-
-	-	-	-	-	-	-	503
6,895	-	22,877	-	-	-	-	90
-	-	-	-	-	10,001	-	-
-	-	-	-	-	-	-	-
-	1,520,312	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	246	758	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>27,101</u>	<u>1,520,312</u>	<u>22,877</u>	<u>73,091</u>	<u>5,726</u>	<u>40,277</u>	<u>8,687</u>	<u>1,249</u>
-	140,704	-	-	-	-	-	-
-	182,909	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 323,613</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2005

Data Control Codes	397 Advanced Placement Incentives	404 Student Success Initiative	409 Basic Skills Program High School	411 Technology Allotment
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	2,030	94,193	78,457	99,588
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>2,030</u>	<u>94,193</u>	<u>78,457</u>	<u>99,588</u>
EXPENDITURES:				
Current:				
0011 Instruction	4,115	79,584	78,457	103,342
0012 Instructional Resources & Media Services	-	-	-	-
0013 Curriculum & Instructional Staff Development	-	6,750	-	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling & Evaluation Services	-	-	-	-
0032 Social Work Services	-	-	-	-
0033 Health Services	-	-	-	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Plant Maintenance and Operations	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	-	-	-
6030 Total Expenditures	<u>4,115</u>	<u>86,334</u>	<u>78,457</u>	<u>103,342</u>
1200 Net Change in Fund Balance	(2,085)	7,859	-	(3,754)
0100 Fund Balance - September 1 (Beginning)	<u>2,085</u>	<u>4,062</u>	<u>-</u>	<u>3,754</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 11,921</u>	<u>\$ -</u>	<u>\$ -</u>

415 Kindergarten and Pre-K Grants	418 Employee Health Insurance	429 Incentive Program	455 Communities In Schools	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 456,308	\$ 234,571	\$ 1,498,720
303,359	250,642	25	535,248	-	1,397,563
-	-	-	-	-	1,985,412
<u>303,359</u>	<u>250,642</u>	<u>25</u>	<u>991,556</u>	<u>234,571</u>	<u>4,881,695</u>
287,013	158,938	-	-	11,067	1,402,764
-	3,000	-	-	-	3,000
-	1,162	-	-	12,566	40,922
-	1,576	-	-	-	56,932
16,346	10,040	-	-	-	27,225
-	7,283	-	-	-	291,124
-	11,090	-	1,007,783	-	1,126,858
-	3,333	-	-	-	3,333
-	15,983	-	-	-	1,536,295
-	2,343	-	-	198,592	200,935
-	4,313	-	-	-	12,605
-	19,597	-	-	-	23,621
-	340	-	-	-	5,569
-	2,271	-	-	-	2,271
-	9,373	-	-	-	9,373
<u>303,359</u>	<u>250,642</u>	<u>-</u>	<u>1,007,783</u>	<u>222,225</u>	<u>4,742,827</u>
-	-	25	(16,227)	12,346	138,868
-	-	25	40,846	63,005	296,686
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 24,619</u>	<u>\$ 75,351</u>	<u>\$ 435,554</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, 2005

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1996 and prior years	Various	Various	\$ 147,743,246
1997	1.044000	0.455000	159,949,786
1998	1.053200	0.546700	176,162,801
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 (School year under audit)	1.470000	0.350000	892,112,527
1000 TOTALS			

(10) Beginning Balance 9/1/2004	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2005
\$ 36,802	\$ -	\$ 5,034	\$ 1,595	\$ (55)	\$ 30,228
4,932	-	676	294	-	3,962
8,739	-	2,347	1,219	-	5,173
40,751	-	24,939	7,381	(4,092)	12,523
65,446	-	43,693	7,138	(19,704)	34,319
79,041	-	53,450	15,678	(26,736)	36,649
98,810	-	52,815	13,343	(23,787)	56,439
182,274	-	85,332	29,205	(14,901)	82,638
443,621	-	219,279	61,931	(4,575)	166,986
-	16,236,448	12,916,309	3,075,312	(214,176)	459,003
<u>\$ 960,416</u>	<u>\$ 16,236,448</u>	<u>\$ 13,403,874</u>	<u>\$ 3,213,096</u>	<u>\$ (308,026)</u>	<u>\$ 887,920</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2006-2007
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2005

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 179,531	\$ 487,427	\$ -	\$ 40,987	\$ 707,945
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	13,986	-	-	-	13,986
6212	Audit Services	-	-	-	16,000	-	-	16,000
6213	Tax Appraisal and Collection	-	143,684	-	-	-	-	143,684
621X	Other Professional Services	273	-	106	32,076	-	-	32,455
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	-	-
6240	Contr. Maint. and Repair	-	-	-	425	-	-	425
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	22,217	-	-	22,217
6290	Miscellaneous Contr.	-	-	2,739	30,067	-	-	32,806
6320	Textbooks and Reading	-	-	260	350	-	-	610
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	166	-	298	35,875	-	-	36,339
6410	Travel, Subsistence, Stipends	6,436	-	7,153	12,541	-	-	26,130
6420	Ins. and Bonding Costs	-	-	45	-	-	-	45
6430	Election Costs	1,836	-	-	-	-	-	1,836
6490	Miscellaneous Operating	5,465	-	8,730	42,081	181	-	56,457
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 14,176	\$ 143,684	\$ 212,848	\$ 679,059	\$ 181	\$ 40,987	\$ 1,090,935

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 27,821,622

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 45,627
Total Debt & Lease(6500)	(11)	102,118
Plant Maintenance (Function 51, 6100-6400)	(12)	3,057,461
Food (Function 35, 6341 and 6499)	(13)	640,321
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		679,059

SubTotal:

4,524,586

Net Allowed Direct Cost

\$ 23,297,036

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 103,374,284
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)	\$ 533,174
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
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2005

UNAUDITED

1	Total General Fund Balance as of 8/31/05 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 7,924,824
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 10,156	
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	-	
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 (9/1/05-5/31/06).	2,800,000	
6	Estimate of delayed payments from state sources (58xx) including August payment delays	1,134,000	
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.	4,200,000	
8	Estimate of delayed payments from federal sources (59xx)	45,000	
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)		8,189,156
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		\$ (264,332)

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2005

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	\$ 824,938	\$ 826,188	\$ 807,841	\$ (18,347)
5800	State Program Revenues	48,120	48,120	34,021	(14,099)
5900	Federal Program Revenues	812,139	812,139	819,154	7,015
5020	Total Revenues	1,685,197	1,686,447	1,661,016	(25,431)
EXPENDITURES:					
0035	Food Services	1,685,197	1,686,447	1,520,312	166,135
6030	Total Expenditures	1,685,197	1,686,447	1,520,312	166,135
1200	Net Change in Fund Balances	-	-	140,704	140,704
0100	Fund Balance - September 1 (Beginning)	182,909	182,909	182,909	-
3000	Fund Balance - August 31 (Ending)	\$ 182,909	\$ 182,909	\$ 323,613	\$ 140,704

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2005

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	\$ 3,464,381	\$ 3,464,511	\$ 3,343,036	\$ (121,475)
5800	State Program Revenues	1,688,371	1,688,371	1,523,327	(165,044)
5020	Total Revenues	5,152,752	5,152,882	4,866,363	(286,519)
EXPENDITURES:					
0071	Debt Service - Principal on long-term debt	558,298	558,298	558,143	155
0072	Debt Service - Interest on long-term debt	4,854,454	4,584,454	4,534,835	49,619
0073	Debt Service - Bond Issuance Cost and Fees	10,000	10,130	8,405	1,725
6030	Total Expenditures	5,422,752	5,152,882	5,101,383	51,499
1200	Net Change in Fund Balances	(270,000)	-	(235,020)	(235,020)
0100	Fund Balance - September 1 (Beginning)	1,142,211	1,142,211	1,142,211	-
3000	Fund Balance - August 31 (Ending)	\$ 872,211	\$ 1,142,211	\$ 907,191	\$ (235,020)

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FEDERAL AWARDS SECTION

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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

Members of the Board of Trustees:

We have audited the financial statements of Little Elm Independent School District (the "District") as of and for the year ended August 31, 2005, and have issued our report thereon dated November 18, 2005. 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.

Compliance

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 grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Texas Education Agency, and appropriate federal agencies and is not intended to be used 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

November 18, 2005

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

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

Members of the Board of Trustees:

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, 2005. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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, 2005.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be a material weakness.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be used 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

November 18, 2005

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2005

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: 10.555 National School Breakfast & Lunch Program
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

The District's cash deposits were not entirely covered by FDIC insurance or pledged collateral security on three days during the year.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2005

CORRECTIVE ACTION PLAN

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

FINDING The District's cash deposits were not entirely covered by FDIC insurance or pledged collateral securities on three days during the year.

CORRECTIVE ACTION

The District will continue to predict and monitor cash flow positions while working with our local bank to keep funds fully collateralized. This problem has not occurred since November 2004.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2005

FINDING/NONCOMPLIANCE

The District's cash deposits were not entirely covered by FDIC insurance or pledged collateral security on eight days during the year.

The District exceeded appropriations in two functional categories in the General Fund.

STATUS OF PRIOR YEAR'S FINDING/NONCOMPLIANCE

The District has improved from having eight days in the prior year. We have continued to predict and monitor cash flow, and moved funds to other investments as needed, while maintaining a higher level of collateralization. Bank balances have not exceeded pledged securities since November 2004. It was at that time that our auditor made us aware of the problem

The District did not exceed appropriations in any functional category in 2004-2005.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2005

(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		\$ 693,457
Total Direct Programs			\$ 693,457
<u>Passed Through State Department of Education</u>			
ESEA Title I Part A - Improving Basic Programs	84.010A	05-610101061914	\$ 12,027
ESEA Title I Part A - Improving Basic Programs	84.010A	06-610101061914	272,150
Total CFDA Number 84.010A			284,177
ESEA Title I Part C - Migratory Children	84.011	05-615001061914	67,447
IDEA - Part B, Formula	84.027	06-660001061914	33,801
IDEA - Part B, Formula	84.027	05-560001061914	590,394
Total CFDA Number 84.027			624,195
Vocational Education - Basic Grant	84.048	06-420006061914	1,868
Vocational Education - Basic Grant	84.048	05-420006061914	21,009
Total CFDA Number 84.048			22,877
IDEA - Part B, Preschool	84.173	05-661001061914	27,101
ESEA Title IV - Safe and Drug-Free Schools	84.186A	05-691001061914	11,431
Title V, Part A - Innovative Programs	84.298	05-685001061914	8,687
Title II, Part D -Enhancing Ed. Through Technology	84.318	05-630001061914	5,726
Tx Placement Spanish Lang. M/S Program	84.330C	05-1030271213	1,249
Title III, Part A - English Lang. Acquisition	84.365A	06-671001061914	1,119
Title III, Part A - English Lang. Acquisition	84.365A	05-671001061914	39,158
Total CFDA Number 84.365A			40,277
ESEA Title II,Part A, Teacher & Principal Training	84.367A	06-694501061914	2,229
ESEA Title II,Part A, Teacher & Principal Training	84.367A	06-694501061914	70,862
Total CFDA Number 84.367A			73,091
Total Passed Through State Department of Education			\$ 1,166,258
TOTAL DEPARTMENT OF EDUCATION			\$ 1,859,715
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast & Lunch Program*	10.555		\$ 819,154
Watershed Protection & Flood Control	10.904		38,139
Total Passed Through the State Department of Agriculture			\$ 857,293
TOTAL DEPARTMENT OF AGRICULTURE			\$ 857,293
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,717,008

*Clustered Programs as required by Compliance Supplement March, 2004

LITTLE ELM INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2005

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, 2005, 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.

SCHOOLS FIRST QUESTIONNAIRE

Little Elm Independent School District

Fiscal Year 2005

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No