

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT FOR THE**  
**YEAR ENDED AUGUST 31, 2006**

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2006

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
CERTIFICATE OF BOARD	2	
Independent Auditors' Report	3	
Management's Discussion and Analysis	5	
<u>Basic Financial Statements</u>		
Government Wide Statements:		
Statement of Net Assets	13	A-1
Statement of Activities	14	B-1
Governmental Fund Financial Statements:		
Balance Sheet	16	C-1
Reconciliation for C-1	19	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balance	20	C-3
Reconciliation for C-3	22	C-4
Budgetary Comparison Schedule-General Fund	23	C-5
Proprietary Fund Financial Statements:		
Statement of Net Assets	24	D-1
Statement of Revenues, Expenses, and Changes in Fund Net Assets	25	D-2
Statement of Cash Flows	26	D-3
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	27	E-1
Notes to the Financial Statements	28	
<u>Combining Schedules</u>		
Nonmajor Governmental Funds:		
Combining Balance Sheet	44	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	50	H-2
<u>Required TEA Schedules</u>		
Schedule of Delinquent Taxes	56	J-1
Schedule of Expenditures for Computation of Indirect Cost	58	J-2
Fund Balance and Cash Flow Calculation Worksheet	59	J-3
Budgetary Comparison Schedule – Child Nutrition Fund	60	J-4
Budgetary Comparison Schedule – Debt Service Fund	61	J-5
<u>Federal Awards Section</u>		
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing         Standards</u>	64	
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	65	
Schedule of Findings and Questioned Costs	67	
Schedule of Status of Prior Findings	69	
Corrective Action Plan	70	
Schedule of Expenditures of Federal Awards	71	K-1
Notes to Schedule of Expenditures of Federal Awards	72	

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, 2006, at a meeting of the Board of Trustees of such school district on the \_\_\_\_ day of January, 2007.

\_\_\_\_\_  
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, 2006, 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, 2006, 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 17, 2006, 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 17, 2006

**LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2006  
(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, 2006. 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 \$1,605,353 (net assets). Of this amount, \$12,641,621 (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 \$141,564.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$31,441,889. 36% of this total amount (\$11,502,022) 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 \$11,256,017 or 40.3% 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 \$(1,401,530) to \$(1,564,128). 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 \$12,682,846 at August 31, 2006. This decrease in governmental net assets was the result of the District's expenses exceeding revenues by \$162,598.

**Table I**  
**NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and other assets	32,139,769	35,497,706	(59,682)	(40,368)	32,080,087	35,457,338
Capital assets	105,125,643	115,859,880	-	-	105,125,643	115,859,880
Total assets	137,265,412	151,357,586	(59,682)	(40,368)	137,205,730	151,317,218
Long-term liabilities	135,806,375	150,141,331	-	-	135,806,375	150,141,331
Other liabilities	2,860,567	2,780,383	2,577	857	2,863,144	2,781,240
Total liabilities	138,666,942	152,921,714	2,577	857	138,669,519	152,922,571
Net Assets:						
Invested in capital assets net of related debt	(13,205,663)	(16,534,572)	-	-	(13,205,663)	(16,534,572)
Restricted	1,304,155	2,287,598	-	-	1,304,155	2,287,598
Unrestricted	10,499,978	12,682,846	(62,259)	(41,225)	10,437,719	12,641,621
Total net assets	(1,401,530)	(1,564,128)	(62,259)	(41,225)	(1,463,789)	(1,605,353)



**Table II**  
**CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	122,150	168,246	399,157	452,263	521,307	620,509
Operating grants and contributions	7,619,277	10,380,972	-	-	7,619,277	10,380,972
<b>General Revenues:</b>						
Maintenance and operations taxes	13,561,656	16,641,698	-	-	13,561,656	16,641,698
Debt service taxes	3,240,764	3,914,440	-	-	3,240,764	3,914,440
State aid	10,850,565	11,714,480	-	-	10,850,565	11,714,480
Investment earnings	835,890	1,322,110	-	-	835,890	1,322,110
Miscellaneous	46,997	82,468	-	-	46,997	82,468
Other federal revenue	744,419	737,804	-	-	744,419	737,804
<b>Total Revenue</b>	<b>37,021,718</b>	<b>44,962,218</b>	<b>399,157</b>	<b>452,263</b>	<b>37,420,875</b>	<b>45,414,481</b>
<b>Expenses:</b>						
Instruction, curriculum and media services	17,076,965	20,748,282	-	-	17,076,965	20,748,282
Instructional and school leadership	2,300,088	2,736,835	-	-	2,300,088	2,736,835
Student support services	3,174,989	3,747,117	-	-	3,174,989	3,747,117
Child nutrition	1,719,817	2,119,484	-	-	1,719,817	2,119,484
Cocurricular activities	900,351	967,982	-	-	900,351	967,982
General administration	1,104,631	1,234,681	-	-	1,104,631	1,234,681
Plant maintenance, security & data processing	3,582,400	4,633,148	-	-	3,582,400	4,633,148
Community services	10,019	200,769	-	-	10,019	200,769
Childcare services	-	-	377,157	431,229	377,157	431,229
Debt services	7,021,340	8,210,472	-	-	7,021,340	8,210,472
Facilities acquisition, construction	766,601	472,931	-	-	766,601	472,931
Intergovernmental charges	14,516	53,115	-	-	14,516	53,115
<b>Total Expenses</b>	<b>37,671,717</b>	<b>45,124,816</b>	<b>377,157</b>	<b>431,229</b>	<b>38,048,874</b>	<b>45,556,045</b>
Increase (decrease) in net assets	(649,999)	(162,598)	22,000	21,034	(627,999)	(141,564)
Net assets at beginning of year	(751,531)	(1,401,530)	(84,259)	(62,259)	(835,790)	(1,463,789)
Net assets at end of year	(1,401,530)	(1,564,128)	(62,259)	(41,225)	(1,463,789)	(1,605,353)

The District notes the following highlights for the 2005-2006 school year in response to changes in personnel and continued growth in student enrollment.

- The District sold additional bonds in August 2006 and began the planning stages of its next new elementary school in the Oak Point community.
- The District completed construction of its new Athletic Facility in July 2006.
- 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 2006 school year grew to 4,649 students. This was an increase of 12% from the end of 2005.
- The District maintained the employer's health insurance contribution of \$225 per month.
- The District maintained an Energy Management Plan including special monitoring equipment.
- The Board of Trustees approved an increase to the property tax rate to \$1.84 (1.49 for M&O and .35 for I&S).
- The District maintained an employee induction program for new teachers that provides training and incentives for staff development.
- The District implemented a new salary structure based upon a TASB compensation study in an effort to make pay practices internally fair and externally competitive.

The cost of all governmental activities for the current fiscal year was \$45,124,816. 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 \$20,556,138 because some of the costs were paid by those who directly benefited from the programs (\$168,246) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10,380,972) or by State equalization funding (\$11,714,480), or by other federal funding (\$737,804).

## **THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$31,441,889, which is \$4,999,251 higher than last year's total of \$26,442,638. Included in this year's total change in fund balance is an increase of \$3,331,193 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 2005). 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 \$11,256,017 reported on page 16 differs from the General Fund's budgetary fund balance of \$7,924,824 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, 2006, the District had \$115,859,880 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 \$10,734,237 or 10 percent, above last year.

This year's major addition was the completion of an athletic stadium, 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 \$150,141,331 in bonds, loans and leases outstanding (including accreted interest on bonds) versus \$135,806,375 last year—an increase of 11 percent. The District had one new bond issue of \$34,091,639 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 2006-2007 to compensate for some increases in costs and continued increases in enrollment:

- The Board adopted a \$44.3 million dollar budget including General Operating, Child Nutrition, Debt Service, Technology, Child Care, and Print Shop.
- Property values have risen to \$1.28 billion from \$1.08 billion or +18.5%.
- The Board adopted tax rate is \$1.74 (1.361 for M&O and .379 for I&S).
- The District implemented a 4% increase to the teachers' pay scale and the mid-point salary pay grades.
- The District anticipates continued increases in salaries, utilities, insurance, and transportation.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Little Elm Independent School District, 500 Lobo Lane, Little Elm, Texas 75068, (972) 292-1847.

BASIC FINANCIAL STATEMENTS

This page left blank intentionally.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
AUGUST 31, 2006

Data Control Codes	1	2 Primary Government	3
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 16,606,182	\$ (40,493)	\$ 16,565,689
1220 Property Taxes Receivable (Delinquent)	922,196	-	922,196
1230 Allowance for Uncollectible Taxes	(59,942)	-	(59,942)
1240 Due from Other Governments	3,401,748	-	3,401,748
1290 Other Receivables, net	14,214,342	125	14,214,467
1420 Capitalized Bond and Other Debt Issuance Costs	1,440,925	-	1,440,925
1430 Discount and Premium on Issuance of Debt	(1,027,745)	-	(1,027,745)
Capital Assets:			
1510 Land	10,487,540	-	10,487,540
1520 Buildings, Net	104,975,161	-	104,975,161
1530 Furniture and Equipment, Net	397,179	-	397,179
1000 Total Assets	<u>151,357,586</u>	<u>(40,368)</u>	<u>151,317,218</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	1,117,091	857	1,117,948
2150 Payroll Deductions & Withholdings	106	-	106
2160 Accrued Wages Payable	1,600,134	-	1,600,134
2200 Accrued Expenses	39,036	-	39,036
2300 Deferred Revenues	24,016	-	24,016
Noncurrent Liabilities			
2501 Due Within One Year	1,499,002	-	1,499,002
2502 Due in More Than One Year	148,642,329	-	148,642,329
2000 Total Liabilities	<u>152,921,714</u>	<u>857</u>	<u>152,922,571</u>
<b>NET ASSETS</b>			
3200 Invested in Capital Assets, Net of Related Debt	(16,534,572)	-	(16,534,572)
3840 Restricted for Food Service	368,344	-	368,344
3850 Restricted for Debt Service	1,824,644	-	1,824,644
3870 Restricted for Campus Activities	94,610	-	94,610
3900 Unrestricted Net Assets	12,682,846	(41,225)	12,641,621
3000 Total Net Assets	<u>\$ (1,564,128)</u>	<u>\$ (41,225)</u>	<u>\$ (1,605,353)</u>

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2006

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 19,794,615	\$ 89,640	\$ 2,600,222
12 Instructional Resources and Media Services	648,079	-	24,483
13 Curriculum and Instructional Staff Development	305,588	-	102,275
21 Instructional Leadership	597,053	-	36,349
23 School Leadership	2,139,782	-	117,567
31 Guidance, Counseling and Evaluation Services	1,143,790	-	326,831
32 Social Work Services	1,404,534	-	1,462,777
33 Health Services	299,723	-	16,304
34 Student (Pupil) Transportation	899,070	-	282,156
35 Food Services	2,119,484	-	1,998,556
36 Cocurricular/Extracurricular Activities	967,982	51,014	179,261
41 General Administration	1,234,681	-	75,194
51 Plant Maintenance and Operations	3,852,576	27,592	102,442
52 Security and Monitoring Services	184,115	-	3,752
53 Data Processing Services	596,457	-	16,355
61 Community Services	200,769	-	200,769
72 Debt Service - Interest on Long Term Debt	8,191,067	-	-
73 Debt Service - Bond Issuance Cost and Fees	19,405	-	-
81 Facilities Acquisition and Construction	472,931	-	2,835,679
93 Payments to Fiscal Agent/Member Districts of SSA	22,542	-	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	30,573	-	-
[TG] Total Governmental Activities:	<u>45,124,816</u>	<u>168,246</u>	<u>10,380,972</u>
BUSINESS-TYPE ACTIVITIES:			
01 Childcare	431,229	452,263	-
[TB] Total Business-Type Activities:	<u>431,229</u>	<u>452,263</u>	<u>-</u>
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 45,556,045</u>	<u>\$ 620,509</u>	<u>\$ 10,380,972</u>

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

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

Net (Expense) Revenue and Changes in Net Assets		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (17,104,753)	\$ -	\$ (17,104,753)
(623,596)	-	(623,596)
(203,313)	-	(203,313)
(560,704)	-	(560,704)
(2,022,215)	-	(2,022,215)
(816,959)	-	(816,959)
58,243	-	58,243
(283,419)	-	(283,419)
(616,914)	-	(616,914)
(120,928)	-	(120,928)
(737,707)	-	(737,707)
(1,159,487)	-	(1,159,487)
(3,722,542)	-	(3,722,542)
(180,363)	-	(180,363)
(580,102)	-	(580,102)
-	-	-
(8,191,067)	-	(8,191,067)
(19,405)	-	(19,405)
2,362,748	-	2,362,748
(22,542)	-	(22,542)
(30,573)	-	(30,573)
<u>(34,575,598)</u>	<u>-</u>	<u>(34,575,598)</u>
-	21,034	21,034
-	21,034	21,034
<u>(34,575,598)</u>	<u>21,034</u>	<u>(34,554,564)</u>
16,641,698	-	16,641,698
3,914,440	-	3,914,440
11,714,480	-	11,714,480
1,322,110	-	1,322,110
82,468	-	82,468
737,804	-	737,804
<u>34,413,000</u>	<u>-</u>	<u>34,413,000</u>
(162,598)	21,034	(141,564)
(1,401,530)	(62,259)	(1,463,789)
<u>\$ (1,564,128)</u>	<u>\$ (41,225)</u>	<u>\$ (1,605,353)</u>



LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2006

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 10,167,888	\$ 1,661,485	\$ 4,707,128
1220 Property Taxes - Delinquent	735,467	186,729	-
1230 Allowance for Uncollectible Taxes (Credit)	(47,805)	(12,137)	-
1240 Due from Other Governments	2,712,349	-	-
1290 Other Receivables	3,267	163,159	14,002,260
1000 Total Assets	<u>\$ 13,571,166</u>	<u>\$ 1,999,236</u>	<u>\$ 18,709,388</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
2110 Accounts Payable	\$ 116,833	\$ -	\$ 962,509
2150 Payroll Deductions and Withholdings Payable	106	-	-
2160 Accrued Wages Payable	1,466,893	-	-
2200 Accrued Expenditures	28,415	-	-
2300 Deferred Revenues	702,902	174,592	-
2000 Total Liabilities	<u>\$ 2,315,149</u>	<u>\$ 174,592</u>	<u>\$ 962,509</u>
Fund Balances:			
Reserved For:			
3420 Retirement of Long Term Debt	\$ -	\$ 1,824,644	\$ -
3450 Food Service	-	-	-
Unreserved Designated For:			
3510 Construction	-	-	17,746,879
Unreserved and Undesignated:			
3600 Reported in the General Fund	11,256,017	-	-
3610 Reported in Special Revenue Funds	-	-	-
3000 Total Fund Balances	<u>\$ 11,256,017</u>	<u>\$ 1,824,644</u>	<u>\$ 17,746,879</u>
4000 Total Liabilities and Fund Balances	<u>\$ 13,571,166</u>	<u>\$ 1,999,236</u>	<u>\$ 18,709,388</u>

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

Other Funds	Total Governmental Funds
\$ 69,681	\$ 16,606,182
-	922,196
-	(59,942)
689,399	3,401,748
45,656	14,214,342
<u>\$ 804,736</u>	<u>\$ 35,084,526</u>
\$ 37,749	\$ 1,117,091
-	106
133,241	1,600,134
10,621	39,036
8,776	886,270
<u>\$ 190,387</u>	<u>\$ 3,642,637</u>
\$ -	\$ 1,824,644
368,344	368,344
-	17,746,879
-	11,256,017
246,005	246,005
<u>\$ 614,349</u>	<u>\$ 31,441,889</u>
<u>\$ 804,736</u>	<u>\$ 35,084,526</u>

This page left blank intentionally.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET ASSETS  
 AUGUST 31, 2006

<b>Total Fund Balances - Governmental Funds</b>	\$	31,441,889
<b>1</b> Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.		131,207,351
<b>2</b> Accumulated depreciation has not been included in the fund financial statements.		(15,347,471)
<b>3</b> Bonds payable and leases payable have not been included in the fund financial statements.		(134,095,527)
<b>4</b> Accreted interest on capital appreciation bonds has not been included in the fund financial statements.		(17,270,220)
<b>5</b> Deferred loss on bond refunding has not been included in the fund financial statements.		1,224,416
<b>6</b> Bond issuance cost is not capitalized in the fund financial statements.		1,440,925
<b>7</b> Bond discounts and premiums are not recognized in the fund financial statements.		(1,027,745)
<b>8</b> Property tax revenue reported as deferred revenue in the fund financial statements was recognized as revenue in the government-wide financial statements.		862,254
<b>19 Net Assets of Governmental Activities</b>	\$	(1,564,128)

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2006

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 17,379,706	\$ 4,098,834	\$ 424,583
5800 State Program Revenues	13,086,372	2,835,679	-
5900 Federal Program Revenues	737,804	-	-
5020 Total Revenues	<u>31,203,882</u>	<u>6,934,513</u>	<u>424,583</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	16,091,296	-	-
0012 Instructional Resources and Media Services	523,467	-	-
0013 Curriculum and Instructional Staff Development	202,373	-	-
0021 Instructional Leadership	582,009	-	-
0023 School Leadership	2,027,065	-	-
0031 Guidance, Counseling and Evaluation Services	830,875	-	-
0032 Social Work Services	-	-	-
0033 Health Services	282,050	-	-
0034 Student (Pupil) Transportation	854,391	-	-
0035 Food Services	-	-	-
0036 Cocurricular/Extracurricular Activities	938,793	-	-
0041 General Administration	1,176,709	-	-
0051 Plant Maintenance and Operations	3,708,833	-	-
0052 Security and Monitoring Services	181,334	-	-
0053 Data Processing Services	348,892	-	240,504
0061 Community Services	-	-	-
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	54,200	1,172,935	-
0072 Debt Service - Interest on Long Term Debt	47,918	4,987,879	-
0073 Debt Service - Bond Issuance Cost and Fees	-	19,405	414,275
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	13,612,269
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	22,542	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	30,573	-	-
6030 Total Expenditures	<u>27,903,320</u>	<u>6,180,219</u>	<u>14,267,048</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,300,562</u>	<u>754,294</u>	<u>(13,842,465)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7911 Capital Related Debt Issued (Regular Bonds)	-	19,677,364	14,414,275
7912 Sale of Real and Personal Property	30,631	-	-
7916 Premium or Discount on Issuance of Bonds	-	1,933,691	-
7917 Prepaid Interest	-	163,159	-
8949 Other (Uses)	-	(21,611,055)	-
7080 Total Other Financing Sources (Uses)	<u>30,631</u>	<u>163,159</u>	<u>14,414,275</u>
1200 Net Change in Fund Balances	3,331,193	917,453	571,810
0100 Fund Balance - September 1 (Beginning)	<u>7,924,824</u>	<u>907,191</u>	<u>17,175,069</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 11,256,017</u>	<u>\$ 1,824,644</u>	<u>\$ 17,746,879</u>

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

Other Funds	Total Governmental Funds
\$ 1,688,821	\$ 23,591,944
1,707,333	17,629,384
<u>2,777,247</u>	<u>3,515,051</u>
6,173,401	44,736,379
1,763,865	17,855,161
3,833	527,300
96,221	298,594
15,044	597,053
33,284	2,060,349
292,782	1,123,657
1,404,534	1,404,534
3,750	285,800
-	854,391
1,955,171	1,955,171
150,605	1,089,398
44,276	1,220,985
25,108	3,733,941
2,781	184,115
2,583	591,979
200,769	200,769
-	1,227,135
-	5,035,797
-	433,680
-	13,612,269
-	22,542
-	<u>30,573</u>
<u>5,994,606</u>	<u>54,345,193</u>
<u>178,795</u>	<u>(9,608,814)</u>
-	34,091,639
-	30,631
-	1,933,691
-	163,159
-	<u>(21,611,055)</u>
-	<u>14,608,065</u>
178,795	4,999,251
<u>435,554</u>	<u>26,442,638</u>
<u>\$ 614,349</u>	<u>\$ 31,441,889</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, 2006

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	4,999,251
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of reclassifying the 2006 capital outlays is to increase net assets.		13,368,691
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets in the government-wide financial statements.		(2,634,454)
Current year long-term debt principal payments on loans payable and bonds payable and payments of accreted interest on capital appreciation bonds are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.		1,227,135
Current year interest accretion on capital appreciation bonds is not reflected in the fund financial statements, but is shown as an increase in long term liabilities in the government-wide financial statements.		(3,081,507)
Capital related debt issued (bonds) and bond proceeds used to defease existing debt are resources and uses in the fund financial statements, but shown as increases in long term liabilities in the government-wide financial statements.		(12,480,584)
Bond issuance costs and premiums associated with bonds issued are shown as current expenditures or other resources in the fund financial statements, but capitalized and amortized in the government-wide financial statements.		(1,519,416)
Bond issuance costs and bond premiums are not amortized in the fund financial statements, but are shown net of amortization in the government-wide financial statements.		(73,763)
Revenues from property taxes are deferred in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible amounts, in the government-wide financial statements.		32,049
 <b>Change in Net Assets of Governmental Activities</b>	 \$	 <u><u>(162,598)</u></u>

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2006

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 16,237,800	\$ 16,890,475	\$ 17,379,706	\$ 489,231
5800 State Program Revenues	12,430,519	12,130,519	13,086,372	955,853
5900 Federal Program Revenues	210,000	510,000	737,804	227,804
5020 Total Revenues	28,878,319	29,530,994	31,203,882	1,672,888
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	16,845,010	16,718,318	16,091,296	627,022
0012 Instructional Resources and Media Services	535,165	563,083	523,467	39,616
0013 Curriculum and Instructional Staff Development	204,519	243,324	202,373	40,951
0021 Instructional Leadership	575,788	618,990	582,009	36,981
0023 School Leadership	2,049,793	2,092,628	2,027,065	65,563
0031 Guidance, Counseling and Evaluation Services	883,770	886,053	830,875	55,178
0033 Health Services	321,617	324,582	282,050	42,532
0034 Student (Pupil) Transportation	976,550	1,052,810	854,391	198,419
0036 Cocurricular/Extracurricular Activities	785,174	1,000,661	938,793	61,868
0041 General Administration	1,376,889	1,379,489	1,176,709	202,780
0051 Plant Maintenance and Operations	3,635,963	3,890,830	3,708,833	181,997
0052 Security and Monitoring Services	201,196	213,154	181,334	31,820
0053 Data Processing Services	352,885	372,372	348,892	23,480
0061 Community Services	500	-	-	-
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	55,000	55,000	54,200	800
0072 Debt Service - Interest on Long Term Debt	48,000	48,000	47,918	82
Capital Outlay:				
0081 Facilities Acquisition and Construction	500	500	-	500
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	3,000	33,000	22,542	10,458
0095 Payments to Juvenile Justice Alternative Ed. Prg.	27,000	41,000	30,573	10,427
6030 Total Expenditures	28,878,319	29,533,794	27,903,320	1,630,474
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(2,800)	3,300,562	3,303,362
<b>OTHER FINANCING SOURCES (USES):</b>				
7912 Sale of Real and Personal Property	-	-	30,631	30,631
7949 Other Resources	-	2,800	-	(2,800)
7080 Total Other Financing Sources (Uses)	-	2,800	30,631	27,831
1200 Net Change in Fund Balances	-	-	3,331,193	3,331,193
0100 Fund Balance - September 1 (Beginning)	7,924,824	7,924,824	7,924,824	-
3000 Fund Balance - August 31 (Ending)	\$ 7,924,824	\$ 7,924,824	\$ 11,256,017	\$ 3,331,193

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



LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
AUGUST 31, 2006

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ (40,493)	\$ -
Other Receivables	<u>125</u>	<u>-</u>
Total Assets	<u>(40,368)</u>	<u>-</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	<u>857</u>	<u>-</u>
Total Liabilities	<u>857</u>	<u>-</u>
<b>NET ASSETS</b>		
Unrestricted Net Assets	<u>(41,225)</u>	<u>-</u>
Total Net Assets	<u><u>\$ (41,225)</u></u>	<u><u>\$ -</u></u>

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2006

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES:		
Local and Intermediate Sources	\$ 434,687	\$ 53,694
State Program Revenues	17,576	779
Total Operating Revenues	452,263	54,473
OPERATING EXPENSES:		
Payroll Costs	362,098	18,316
Professional and Contracted Services	7,023	28,615
Supplies and Materials	58,416	7,542
Other Operating Costs	3,692	-
Total Operating Expenses	431,229	54,473
Operating Income	21,034	-
Total Net Assets - September 1 (Beginning)	(62,259)	-
Total Net Assets - August 31 (Ending)	\$ (41,225)	\$ -

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT D-3

	Business-Type Activities	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>		
Cash Received from User Charges	\$ 435,833	\$ -
Cash Received from District	-	53,694
Cash Payments for Payroll Costs	(347,042)	(17,537)
Cash Payments for Professional Services	(7,023)	(28,615)
Cash Payments for Supplies and Materials	(57,609)	(7,542)
Cash Payments for Other Costs	(3,692)	-
Net Cash Provided by Operating Activities	20,467	-
Net Increase in Cash and Cash Equivalents	20,467	-
Cash and Cash Equivalents at Beginning of the Year:	(60,960)	-
Cash and Cash Equivalents at the End of the Year:	\$ (40,493)	\$ -
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u>		
Operating Income (Loss):	\$ 21,034	\$ -
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Other Receivables	(125)	-
Decrease (increase) in Due From Other Funds	1,271	-
Decrease (increase) in Deferred Expenditures	7	-
Increase (decrease) in Accounts Payable	857	-
Increase (decrease) in Accrued Expenses	(2,577)	-
Net Cash Provided by Operating Activities	\$ 20,467	\$ -

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2006

---

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 49,395
Other Receivables	46
Total Assets	<u>\$ 49,441</u>
LIABILITIES	
Due to Student Groups	\$ 49,441
Total Liabilities	<u>\$ 49,441</u>

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2006

**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, 2006

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, 2006

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, 2006

**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, 2006 that were subsequently provided for in the 2006-07 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, 2006

**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, 2006

**M. NET ASSETS**

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

**N. LONG-TERM OBLIGATIONS**

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**O. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES**

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

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

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

**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 2006, 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, 2006

**Q. ESTIMATES**

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

**NOTE 2. DEPOSITS AND INVESTMENTS**

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

1. Cash Deposits:

At August 31, 2006, the carrying amount of the District's deposits in checking accounts and interest-bearing savings accounts was \$340,696 and the bank balance was \$1,002,613. The District's cash deposits at August 31, 2006 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, 2006, the District's cash balances totaled \$340,696. 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, 2006, however there was one time early in the year that deposits exceeded pledged securities so the District was exposed to custodial credit risk at that time.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2006

- 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, 2006, 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.
- 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, 2006, 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.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2006

The District's investments pools and certificates of deposit at August 31, 2006, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool	\$ 1,623,300	\$ 1,623,300
Lonestar	8,935,084	8,935,084
MBIA	4,707,128	4,707,128
Certificates of Deposit	<u>999,000</u>	<u>999,000</u>
Total	<u>\$16,264,512</u>	<u>\$16,264,512</u>

**NOTE 3. CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2006, was as follows:

	<u>Balance September 1</u>	<u>Additions/ Completions</u>	<u>Retirement/ Adjustments</u>	<u>Balance August 31</u>
Governmental Activities:				
Land	\$ 10,487,540	\$ -	\$ -	\$ 10,487,540
Construction in Progress	3,443,662	-	3,443,662	-
Buildings	103,374,284	16,583,000	-	119,957,284
Furniture and Equipment	<u>533,174</u>	<u>229,353</u>	-	<u>762,527</u>
Totals at historic cost	<u>117,838,660</u>	<u>16,812,353</u>	<u>3,443,662</u>	<u>131,207,351</u>
Less accumulated depreciation for:				
Buildings	(12433,503)	(2,548,620)	-	(14,982,123)
Furniture and Equipment	<u>(279,514)</u>	<u>(85,834)</u>	-	<u>(365,348)</u>
Total accumulated depreciation	<u>(12,713,017)</u>	<u>(2,634,454)</u>	-	<u>(15,347,471)</u>
Governmental activities capital assets, net	<u>\$105,125,643</u>	<u>\$14,177,899</u>	<u>\$ 3,443,662</u>	<u>\$115,859,880</u>

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

Governmental activities:	
Instruction	\$1,960,126
Instructional Resources & Media Services	120,779
Curriculum & Instructional Staff Development	6,994
School Leadership	79,433
Guidance, Counseling & Evaluation Services	20,133
Health Services	13,923
Student (Pupil) Transportation	44,679
Food Services	185,422
Cocurricular/Extracurricular Activities	41,015
General Administration	13,696
Plant Maintenance and Operations	143,776
Data Processing Services	<u>4,478</u>
Total depreciation expense-Governmental activities	<u>\$2,634,454</u>

**NOTE 4. CAPITAL LEASES**

The District is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$1,034,305 at August 31, 2006.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2006

A summary of changes in capital leases payable for the year ended August 31, 2006 is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Amount Outstanding 9-1-05</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding 8-31-06</u>	<u>Due Within One Year</u>
Equipment	5.36%	<u>\$884,007</u>	<u>\$ -</u>	<u>\$ 54,200</u>	<u>\$829,807</u>	<u>\$57,138</u>

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

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
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	70,571	31,547	102,118
2012-2016	414,554	96,035	510,589
2017	<u>96,867</u>	<u>5,251</u>	<u>102,118</u>
	<u>\$ 829,807</u>	<u>\$293,490</u>	<u>\$1,123,297</u>

**NOTE 5. 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, 2006:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Outstanding 9/1/05</u>	<u>Additions</u>	<u>Refunded/ Retired</u>	<u>Amounts Outstanding 8/31/06</u>	<u>Due Within One Year</u>
<b>Bonded Indebtedness:</b>						
1995 Refunding	7.00%	\$ 1,607,000	\$ -	\$ 22,000	\$ 1,585,000	\$ 95,000
1995A School Bldg.	5.90%	7,010,000	-	6,875,000	135,000	15,000
1999 School Bldg. & Ref.	6.22%	8,597,285	-	5,012,352	3,584,933	162,500
2000 School Bldg. & Ref.	6.13%	4,200,000	-	4,000,000	200,000	12,900
2001 School Bldg. & Ref.	5.625%	14,604,904	-	4,957,500	9,647,404	144,375
2002 School Bldg. & Ref.	6.29%	25,280,103	-	562,722	24,717,381	740,333
2002A School Bldg. & Ref.	5.98%	32,619,145	-	-	32,619,145	72,570
2003 School Bldg. & Ref.	5.93%	12,441,037	-	-	12,441,037	-
2004 School Bldg. & Ref.	4.00%	14,374,181	-	130,000	14,244,181	240,000
2006 School Bldg. & Ref.	5.00%	-	<u>34,091,639</u>	-	<u>34,091,639</u>	-
Total Bonded Indebtedness		<u>120,733,655</u>	<u>34,091,639</u>	<u>21,559,574</u>	<u>133,265,720</u>	<u>1,482,678</u>
Capital Lease	5.36%	884,007	-	54,200	829,807	57,138
Accreted Interest	5.17%	14,188,713	3,635,572	554,065	17,270,220	-
Deferred Loss on Bond Ref.		-	<u>(1,224,416)</u>	-	<u>(1,224,416)</u>	<u>(40,814)</u>
Total Other Obligations		<u>15,072,720</u>	<u>2,411,156</u>	<u>608,265</u>	<u>16,875,611</u>	<u>16,324</u>
Total Obligations of District		<u>\$135,806,375</u>	<u>\$36,502,795</u>	<u>\$22,167,839</u>	<u>\$150,141,331</u>	<u>\$1,499,002</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED AUGUST 31, 2006

The 1999, 2001, 2002, 2002A, 2003, 2004 and 2006 bond series include outstanding capital appreciation bonds in the principal amount of \$34,966,403. The bonds mature variously beginning in 2007 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 \$17,270,220 is accounted for as Accrued Interest Payable-Capital Appreciation Bonds.

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

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2006.

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

Year Ended August 31,	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2007	\$ 1,482,678	\$ 6,001,730	\$ 7,484,408
2008	1,293,277	7,329,824	8,623,101
2009	1,882,386	7,140,403	9,022,789
2010	3,230,523	6,416,906	9,647,429
2011	3,356,542	6,888,781	10,245,323
2012-2016	15,839,101	37,928,596	53,767,697
2017-2021	18,862,337	34,059,189	52,921,526
2022-2026	15,428,282	37,492,418	52,920,700
2027-2031	21,547,223	31,378,173	52,925,396
2032-2036	40,268,371	12,651,317	52,919,688
2037	<u>10,075,000</u>	<u>509,313</u>	<u>10,584,313</u>
	<u>\$133,265,720</u>	<u>\$187,796,650</u>	<u>\$321,062,370</u>

**NOTE 6. DEBT ISSUANCE AND DEFEASED BONDS OUTSTANDING**

On August 21, 2006 the District issued \$33,885,000 (par value) in unlimited tax building and refunding bonds (current interest bonds) and \$206,639 in premium capital appreciation bonds to advance refund \$20,386,639 of unlimited tax school building bonds and provide funds for construction projects. The bonds were issued at a premium of \$1,933,691, and, after paying issuance costs of \$411,520, the net proceeds were \$35,611,055. \$21,611,055 of the net proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds until the bonds mature. The advanced refunding met the requirements of an in-substance debt defeasance and the unlimited tax school building bonds were removed from the District's General Long-Term Debt. The advance refunding resulted in a present value economic gain (difference between present value of debt service payments on the old and new debt) of \$1,815,572.

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, 2006, \$29,419,434 of bonds outstanding are considered defeased.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2006

**NOTE 7. PROPERTY TAXES**

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2005-06 fiscal year was based was \$1,075,733,422. 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, 2006, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.49 and \$0.35 per \$100 valuation, respectively, for a total of \$1.84 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2006 were 97.49% 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, 2006, property taxes receivable, net of estimated uncollectible taxes, totaled \$687,662 and \$174,592 for the General and Debt Service Funds, respectively.

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

**NOTE 8. PENSION PLAN OBLIGATIONS**

Plan Description - The District contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 233-8778.



LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED AUGUST 31, 2006

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, 2004, 2005, and 2006 were \$1,014,450, \$1,104,858 and \$1,388,831, 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, 2004, 2005, and 2006 were \$121,939, \$170,309 and \$169,118, respectively, equal to the required contributions for each year. The amounts contributed by the State, for the years ended August 31, 2004, 2005, and 2006 were \$846,748, \$1,035,804 and \$1,154,575, respectively, and are reflected in the financial statements in the General Fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24.

**NOTE 9. HEALTH CARE**

During the year ended August 31, 2006, employees of Little Elm Independent School District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee to the Plan (and employees, at their option, authorized payroll withholdings to pay contributions for dependents). All premiums were paid to a licensed insurer. The District also offers, for employees covered by their spouses' plans, an in-hospital indemnity option. The cost of this to the District varies with the age of the employee. The Plan was authorized by Sections 21.022, Texas Education Code and was documented by contractual agreement.

The contract between Little Elm Independent School District and the licensed insurer is renewable September 1, 2006, 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 10. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2006, 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.

Fund	State Grant	Federal Grants	Total
General Fund	\$2,712,349	\$ -	\$2,712,349
Special Revenue	<u>420,769</u>	<u>268,630</u>	<u>689,399</u>
Total	<u>\$3,133,118</u>	<u>\$268,630</u>	<u>\$3,401,748</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2006

**NOTE 11. LITIGATION AND CONTINGENCIES**

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2006 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**NOTE 12. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$16,347,245	\$ -	\$3,848,342	\$ -	\$20,195,587
Food Sales	-	922,307	-	-	922,307
Investment Income	536,271	12,457	185,641	424,583	1,158,952
Penalties, interest and other tax related income	262,998	-	64,851	-	327,849
Co-curricular student activities	51,014	179,993	-	-	231,007
Other	182,178	574,064	-	-	756,242
Total	<u>\$17,379,706</u>	<u>\$1,688,821</u>	<u>\$4,098,834</u>	<u>\$ 424,583</u>	<u>\$23,591,944</u>

**NOTE 13. DEFERRED REVENUE**

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net Tax Revenue	\$687,662	-	\$174,592	\$862,254
Grants	-	8,776	-	8,776
Athletic Receipts	15,240	-	-	15,240
	<u>\$702,902</u>	<u>\$ 8,776</u>	<u>\$174,592</u>	<u>\$886,270</u>

**NOTE 14. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS**

The District participates in shared services arrangements for Dropout Prevention Services with another entity. The District accounts for revenues or expenditures in this program and discloses them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the entity, nor does the District have a net equity interest in the entity. The entity is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Little Elm ISD. During the year ended August 31, 2006, the District contributed \$22,542 to the entity as its share of the costs of the joint venture.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED AUGUST 31, 2006

**NOTE 15. DEFICIT NET ASSETS BALANCE**

At August 31, 2006, the Day Care Enterprise Fund had a deficit fund balance of \$41,225. The District anticipates eliminating this deficit in the future by raising tuition rates to cover operating expenses, and increasing enrollment.

**NOTE 16. GENERAL FUND FEDERAL SOURCE REVENUES**

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>	<u>Total Grant or Entitlement</u>
General Fund:			
Medicaid Reimbursement	N/A	\$ 23,819	\$ 23,819
Impact Aid	84.041	656,503	656,503
Federal Flood Control	10.904	<u>57,482</u>	<u>57,482</u>
Total for General Fund		<u>\$737,804</u>	<u>\$737,804</u>

**NOTE 17. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION**

The Texas Education Agency requires the budgets for the Governmental fund types to be filed with the Texas Education Agency. The budget should not be exceeded in any functional category under TEA requirements. Expenditures exceeded appropriations in one functional category in the Child Nutrition Fund for the year ended August 31, 2006.

## COMBINING SCHEDULES

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2006

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
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ -	\$ (4,020)	\$ -
1240 Due from Other Governments	-	14,973	396
1290 Other Receivables	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ 10,953</u>	<u>\$ 396</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
2110 Accounts Payable	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	-	10,058	364
2200 Accrued Expenditures	-	895	32
2300 Deferred Revenues	-	-	-
2000 Total Liabilities	<u>-</u>	<u>10,953</u>	<u>396</u>
Fund Balances:			
Reserved For:			
3450 Food Service	-	-	-
Unreserved and Undesignated:			
3610 Reported in Special Revenue Funds	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 10,953</u>	<u>\$ 396</u>

213 ESEA Title I Part B Even Start	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	256 ESEA, I, F Comprehensive School Reform	263 Title III, A English Lang. Acquisition
\$ (77,266)	\$ (17,977)	\$ (12,656)	\$ 396,992	\$ -	\$ -	\$ -	\$ -
82,991	46,681	12,656	60,766	-	-	-	1,583
-	-	-	5,333	-	-	-	-
<u>\$ 5,725</u>	<u>\$ 28,704</u>	<u>\$ -</u>	<u>\$ 463,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,583</u>
\$ -	\$ -	\$ -	\$ 36,920	\$ -	\$ -	\$ -	\$ -
4,660	26,328	-	52,443	-	-	-	1,454
1,065	2,376	-	5,384	-	-	-	129
-	-	-	-	-	-	-	-
<u>5,725</u>	<u>28,704</u>	<u>-</u>	<u>94,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,583</u>
-	-	-	368,344	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	368,344	-	-	-	-
<u>\$ 5,725</u>	<u>\$ 28,704</u>	<u>\$ -</u>	<u>\$ 463,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,583</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2006

Data Control Codes	269 Title V, Pt.A Innovative Programs	288 Emergency Impact Aid	289 Tx Placement Spanish Language	397 Advanced Placement Incentives
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ -	\$ (48,584)	\$ 8,776	\$ -
1240 Due from Other Governments	-	48,584	-	-
1290 Other Receivables	-	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,776</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	-	-	-	-
2200 Accrued Expenditures	-	-	-	-
2300 Deferred Revenues	-	-	8,776	-
2000 Total Liabilities	<u>-</u>	<u>-</u>	<u>8,776</u>	<u>-</u>
Fund Balances:				
Reserved For:				
3450 Food Service	-	-	-	-
Unreserved and Undesignated:				
3610 Reported in Special Revenue Funds	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,776</u>	<u>\$ -</u>

404 Student Success Initiative	409 Basic Skills Program High School	411 Technology Allotment	415 Kindergarten and Pre-K Grants	418 Employee Health Insurance	428 LEP SSI Pre-K Pilot Program	429 LEP Student Success Init. Cycle 3	455 Communities in School
\$ (81,959)	\$ (6,000)	\$ 538	\$ (33,056)	\$ -	\$ (73,345)	\$ (76,174)	\$ 63
93,880	6,000	-	58,704	-	78,555	84,040	99,590
-	-	-	-	-	-	-	40,062
<u>\$ 11,921</u>	<u>\$ -</u>	<u>\$ 538</u>	<u>\$ 25,648</u>	<u>\$ -</u>	<u>\$ 5,210</u>	<u>\$ 7,866</u>	<u>\$ 139,715</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 829
-	-	-	25,159	-	5,108	7,667	-
-	-	-	489	-	102	149	-
-	-	-	-	-	-	-	-
-	-	-	25,648	-	5,210	7,816	829
-	-	-	-	-	-	-	-
11,921	-	538	-	-	-	50	138,886
11,921	-	538	-	-	-	50	138,886
<u>\$ 11,921</u>	<u>\$ -</u>	<u>\$ 538</u>	<u>\$ 25,648</u>	<u>\$ -</u>	<u>\$ 5,210</u>	<u>\$ 7,866</u>	<u>\$ 139,715</u>



LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2006

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Governmental Funds
<b>ASSETS</b>		
1110 Cash and Cash Equivalents	\$ 94,349	\$ 69,681
1240 Due from Other Governments	-	689,399
1290 Other Receivables	261	45,656
1000 Total Assets	<u>\$ 94,610</u>	<u>\$ 804,736</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
2110 Accounts Payable	\$ -	\$ 37,749
2160 Accrued Wages Payable	-	133,241
2200 Accrued Expenditures	-	10,621
2300 Deferred Revenues	-	8,776
2000 Total Liabilities	<u>-</u>	<u>190,387</u>
Fund Balances:		
Reserved For:		
3450 Food Service	-	368,344
Unreserved and Undesignated:		
3610 Reported in Special Revenue Funds	94,610	246,005
3000 Total Fund Balances	<u>94,610</u>	<u>614,349</u>
4000 Total Liabilities and Fund Balances	<u>\$ 94,610</u>	<u>\$ 804,736</u>

This page left blank intentionally.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2006

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
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-
5900 Federal Program Revenues	10,322	315,791	58,534
5020 Total Revenues	<u>10,322</u>	<u>315,791</u>	<u>58,534</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
0011 Instruction	525	240,751	9,250
0012 Instructional Resources and Media Services	-	-	-
0013 Curriculum and Instructional Staff Development	-	20,000	-
0021 Instructional Leadership	-	-	7,940
0023 School Leadership	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-
0032 Social Work Services	-	49,738	39,698
0033 Health Services	-	-	-
0035 Food Services	-	-	-
0036 Cocurricular/Extracurricular Activities	7,338	-	-
0041 General Administration	207	5,302	1,646
0051 Plant Maintenance and Operations	-	-	-
0052 Security and Monitoring Services	2,252	-	-
0053 Data Processing Services	-	-	-
0061 Community Services	-	-	-
6030 Total Expenditures	<u>10,322</u>	<u>315,791</u>	<u>58,534</u>
1200 Net Change in Fund Balance	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

213 ESEA Title I Part B Even Start	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	256 ESEA, I, F Comprehensive School Reform	263 Title III, A English Lang. Acquisition
\$ -	\$ -	\$ -	\$ 934,764	\$ -	\$ -	\$ -	\$ -
-	-	-	56,581	-	-	-	-
192,343	617,662	24,792	990,681	15,596	43,687	5,530	65,074
<u>192,343</u>	<u>617,662</u>	<u>24,792</u>	<u>1,982,026</u>	<u>15,596</u>	<u>43,687</u>	<u>5,530</u>	<u>65,074</u>
-	351,969	20,945	-	-	7,618	5,530	44,239
-	-	-	-	-	-	-	-
-	-	-	-	-	30,908	-	-
-	-	-	-	-	2,790	-	2,151
-	-	-	-	-	-	-	-
-	265,693	3,847	-	15,154	-	-	-
-	-	-	-	-	-	-	17,784
-	-	-	-	-	-	-	-
-	-	-	1,937,295	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	442	2,371	-	900
657	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
191,686	-	-	-	-	-	-	-
<u>192,343</u>	<u>617,662</u>	<u>24,792</u>	<u>1,937,295</u>	<u>15,596</u>	<u>43,687</u>	<u>5,530</u>	<u>65,074</u>
-	-	-	44,731	-	-	-	-
-	-	-	323,613	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 368,344</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, 2006

Data Control Codes	269 Title V, Pt.A Innovative Programs	288 Emergency Impact Aid	289 Tx Placement Spanish Language	397 Advanced Placement Incentives
<b>REVENUES:</b>				
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	2,462
5900	Federal Program Revenues	8,262	187,716	-
5020	Total Revenues	<u>8,262</u>	<u>187,716</u>	<u>2,462</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011	Instruction	8,262	187,716	2,462
0012	Instructional Resources and Media Services	-	-	-
0013	Curriculum and Instructional Staff Development	-	-	-
0021	Instructional Leadership	-	-	-
0023	School Leadership	-	-	-
0031	Guidance, Counseling and 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>8,262</u>	<u>187,716</u>	<u>2,462</u>
1200	Net Change in Fund Balance	-	-	-
0100	Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

404 Student Success Initiative	409 Basic Skills Program High School	411 Technology Allotment	415 Kindergarten and Pre-K Grants	418 Employee Health Insurance	428 LEP SSI Pre-K Pilot Program	429 LEP Student Success Init. Cycle 3	455 Communities in School
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 574,064
168,684	-	140,344	289,514	300,045	79,114	88,787	581,802
-	-	-	-	-	-	-	241,257
<u>168,684</u>	<u>-</u>	<u>140,344</u>	<u>289,514</u>	<u>300,045</u>	<u>79,114</u>	<u>88,787</u>	<u>1,397,123</u>
138,500	-	139,806	269,868	188,551	69,701	70,031	-
-	-	-	-	3,833	-	-	-
5,184	-	-	-	917	7,816	18,572	-
-	-	-	-	1,979	-	184	-
-	-	-	19,646	12,041	1,597	-	-
-	-	-	-	8,088	-	-	-
-	-	-	-	14,458	-	-	1,282,856
-	-	-	-	3,750	-	-	-
-	-	-	-	17,876	-	-	-
-	-	-	-	3,498	-	-	-
25,000	-	-	-	8,408	-	-	-
-	-	-	-	24,451	-	-	-
-	-	-	-	529	-	-	-
-	-	-	-	2,583	-	-	-
-	-	-	-	9,083	-	-	-
<u>168,684</u>	<u>-</u>	<u>139,806</u>	<u>289,514</u>	<u>300,045</u>	<u>79,114</u>	<u>88,787</u>	<u>1,282,856</u>
-	-	538	-	-	-	-	114,267
11,921	-	-	-	-	-	50	24,619
<u>\$ 11,921</u>	<u>\$ -</u>	<u>\$ 538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 138,886</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, 2006

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ 179,993	\$ 1,688,821
5800 State Program Revenues	-	1,707,333
5900 Federal Program Revenues	-	2,777,247
5020 Total Revenues	<u>179,993</u>	<u>6,173,401</u>
EXPENDITURES:		
Current:		
0011 Instruction	8,141	1,763,865
0012 Instructional Resources and Media Services	-	3,833
0013 Curriculum and Instructional Staff Development	12,824	96,221
0021 Instructional Leadership	-	15,044
0023 School Leadership	-	33,284
0031 Guidance, Counseling and Evaluation Services	-	292,782
0032 Social Work Services	-	1,404,534
0033 Health Services	-	3,750
0035 Food Services	-	1,955,171
0036 Cocurricular/Extracurricular Activities	139,769	150,605
0041 General Administration	-	44,276
0051 Plant Maintenance and Operations	-	25,108
0052 Security and Monitoring Services	-	2,781
0053 Data Processing Services	-	2,583
0061 Community Services	-	200,769
6030 Total Expenditures	<u>160,734</u>	<u>5,994,606</u>
1200 Net Change in Fund Balance	19,259	178,795
0100 Fund Balance - September 1 (Beginning)	<u>75,351</u>	<u>435,554</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 94,610</u>	<u>\$ 614,349</u>

REQUIRED T.E.A. SCHEDULES



LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2006

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1997 and prior years	Various	Various	\$ 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	1.470000	0.350000	892,112,527
2006 (School year under audit)	1.490000	0.350000	1,075,733,422
1000 TOTALS			

(10) Beginning Balance 9/1/2005	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2006
\$ 34,190	\$ -	\$ 2,675	\$ 842	\$ (1,252)	\$ 29,421
5,173	-	562	292	(70)	4,249
12,523	-	1,573	465	876	11,361
34,319	-	18,239	2,980	1,294	14,394
36,649	-	18,954	5,559	14,260	26,396
56,439	-	25,483	6,438	14,488	39,006
82,638	-	31,733	10,861	8,182	48,226
166,986	-	70,760	19,985	16,627	92,868
459,003	-	261,139	62,176	4,770	140,458
-	19,793,495	15,916,365	3,738,744	377,431	515,817
<u>\$ 887,920</u>	<u>\$ 19,793,495</u>	<u>\$ 16,347,483</u>	<u>\$ 3,848,342</u>	<u>\$ 436,606</u>	<u>\$ 922,196</u>

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2007-2008  
 GENERAL AND SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2006

**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	\$ -	\$ -	\$ 193,405	\$ 558,422	\$ -	\$ 39,327	\$ 791,154
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	15,112	-	-	-	15,112
6212	Audit Services	-	-	-	15,000	-	-	15,000
6213	Tax Appraisal and Collection	-	177,154	-	-	-	-	177,154
621X	Other Professional Services	298	-	-	21,154	-	-	21,452
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	-	-
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	23,310	-	-	23,310
6290	Miscellaneous Contr.	1,600	-	2,953	43,321	-	1	47,875
6320	Textbooks and Reading	-	-	20	350	-	-	370
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	5,981	-	918	51,003	-	-	57,902
6410	Travel, Subsistence, Stipends	3,237	-	3,753	9,293	-	-	16,283
6420	Ins. and Bonding Costs	-	-	45	-	-	-	45
6430	Election Costs	2,395	-	-	-	-	-	2,395
6490	Miscellaneous Operating	3,789	-	19,977	29,167	-	-	52,933
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	<b>TOTAL</b>	<b>\$ 17,300</b>	<b>\$ 177,154</b>	<b>\$ 236,183</b>	<b>\$ 751,020</b>	<b>\$ -</b>	<b>\$ 39,328</b>	<b>\$ 1,220,985</b>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 33,897,926

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 103,519
Total Debt & Lease(6500)	(11) 102,118
Plant Maintenance (Function 51, 6100-6400)	(12) 3,708,800
Food (Function 35, 6341 and 6499)	(13) 821,773
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	751,020

SubTotal: 5,487,230

Net Allowed Direct Cost \$ 28,410,696

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 119,957,284
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) \$ 762,527
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

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

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 FUNDBALANCE AND CASH FLOW CALCULATION WORKSHEET  
 GENERAL FUND AS OF AUGUST 31, 2006

**UNAUDITED**

1	Total General Fund Balance as of 8/31/06 (Exhibit C-1 object 3000 for the General Fund Only)	\$	11,256,017
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$	-
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 (9/1/06-5/31/07).	3,600,000	
6	Estimate of delayed payments from state sources (58xx) including August payment delays	1,475,000	
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.	50,000	
8	Estimate of delayed payments from federal sources (59xx)		-
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-	
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>5,125,000</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	\$	<u><u>6,131,017</u></u>

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

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

The District's strong fund balance was a key component in our improved underlying bond rating to 'A-' by Fitch Ratings, which resulted in millions of taxpayer dollars saved in the most recent bond sale and refinancing issues. The District's rating outlook was also revised from 'Stable' to 'Positive'

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2006

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	\$ 870,264	\$ 870,264	\$ 934,764	\$ 64,500
5800 State Program Revenues	58,312	58,312	56,581	(1,731)
5900 Federal Program Revenues	924,600	999,600	990,681	(8,919)
5020 Total Revenues	1,853,176	1,928,176	1,982,026	53,850
EXPENDITURES:				
0035 Food Services	1,853,176	1,928,176	1,937,295	(9,119)
6030 Total Expenditures	1,853,176	1,928,176	1,937,295	(9,119)
1200 Net Change in Fund Balances	-	-	44,731	44,731
0100 Fund Balance - September 1 (Beginning)	323,613	323,613	323,613	-
3000 Fund Balance - August 31 (Ending)	\$ 323,613	\$ 323,613	\$ 368,344	\$ 44,731

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - DEBT SERVICE FUND  
 FOR THE YEAR ENDED AUGUST 31, 2006

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 4,090,000	\$ 4,100,000	\$ 4,098,834	\$ (1,166)
5800 State Program Revenues	2,081,000	2,081,000	2,835,679	754,679
5020 Total Revenues	6,171,000	6,181,000	6,934,513	753,513
<b>EXPENDITURES:</b>				
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	1,172,936	1,172,936	1,172,935	1
0072 Debt Service - Interest on Long Term Debt	4,988,064	4,988,064	4,987,879	185
0073 Debt Service - Bond Issuance Cost and Fees	10,000	20,000	19,405	595
6030 Total Expenditures	6,171,000	6,181,000	6,180,219	781
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	754,294	754,294
<b>OTHER FINANCING SOURCES (USES):</b>				
7911 Capital Related Debt Issued (Regular Bonds)	-	-	19,677,364	19,677,364
7916 Premium or Discount on Issuance of Bonds	-	-	1,933,691	1,933,691
7917 Prepaid Interest	-	-	163,159	163,159
8949 Other (Uses)	-	-	(21,611,055)	(21,611,055)
7080 Total Other Financing Sources (Uses)	-	-	163,159	163,159
1200 Net Change in Fund Balances	-	-	917,453	917,453
0100 Fund Balance - September 1 (Beginning)	907,191	907,191	907,191	-
3000 Fund Balance - August 31 (Ending)	\$ 907,191	\$ 907,191	\$ 1,824,644	\$ 917,453

This page left blank intentionally.

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, 2006, and have issued our report thereon dated November 17, 2006. 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 17, 2006

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, 2006. 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, 2006.

**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 17, 2006

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED AUGUST 31, 2006

I. Summary of Auditor's Results

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

II. Findings Related to the Financial Statements

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

III. Other Findings

Finding 2006-1	The District's cash deposits were not entirely covered by FDIC Insurance or pledged collateral securities on one day during the year.
Criteria	The District's bank is required to keep pledged securities and FDIC Insurance to cover 110% of any daily cash balance in the bank.
Condition Found	On September 27, 2005 110% of the daily cash balance exceeded the pledged securities and FDIC Insurance coverage by \$672,071.
Instance/Universe	This happened only once on September 27, 2005.
Recommendation	The bank has improved it's coverage and monitoring of daily balances and this has not happened since September 2005.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED AUGUST 31, 2006

III. Other Findings - Continued

Finding 2006-2	The District exceeded appropriations in one functional category in the Child Nutrition Fund.
Criteria	The District is required to monitor and amend the budget and control expenditures to make sure appropriations are not exceeded in any one functional category.
Condition Found	The District exceeded appropriations in one functional category in the Child Nutrition Fund.
Instance/Universe	Only one category in the Child Nutrition Fund exceeded appropriations by \$9,119 during the year.
Recommendation	The District should review expenditures and amend the budget as needed to make sure expenditures don't exceed appropriations.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2006

CORRECTIVE ACTION PLAN

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

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

CORRECTIVE ACTION

The District will continue to predict and monitor cash flow positions while working with our local bank depository to keep funds fully collateralized.

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

CORRECTIVE ACTION

The District's \$75,000 estimate in the Final Budget Amendment added to the Child Nutrition Fund fell short by \$9,119. This was caused by products received in August, invoiced and paid for in September, but reclassified to August. It should be noted that \$44,731 was added to the Fund's reserve due to excess revenue. The District will continue to estimate August expenses paid in September and work to not exceed Board approved appropriations.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF STATUS OF PRIOR FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2006

FINDING/NONCOMPLIANCE

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

STATUS OF PRIOR YEAR'S FINDING/NONCOMPLIANCE

The District has improved to having just one day of funds not being fully collateralized, but will continue to predict and monitor cash flow positions while working with our local bank depository to keep fund fully collateralized.

LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2006

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Direct Programs</u>			
Impact Aid - P.L. 81.874 (Note A)	84.041		\$ 656,503
Mentoring Program Grant	84.184B		241,257
Total Direct Programs			\$ 897,760
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	07-610101061914	\$ 14,973
ESEA, Title I, Part A - Improving Basic Programs	84.010A	06-610101061914	300,818
Total CFDA Number 84.010A			315,791
ESEA, Title I, Part C - Migratory Children	84.011	07-615001061914	396
ESEA, Title I, Part C - Migratory Children	84.011	06-615001061914	58,138
Total CFDA Number 84.011			58,534
IDEA - Part B, Formula	84.027	07-660001061914	46,681
IDEA - Part B, Formula	84.027	06-660004061914	570,981
Total CFDA Number 84.027			617,662
Vocational Education - Basic Grant	84.048	06-420006061914	15,596
IDEA - Part B, Preschool	84.173	06-661001061914	24,792
ESEA Title IV - Safe and Drug-Free Schools	84.186A	06-691001061914	10,322
ESEA, Title I, Part B - Even Start Family Literacy	84.213C	06-6120017110258	192,343
Title V, Part A - Innovative Programs	84.298	06-685001061914	8,262
Title I, Part F, Comprehensive	84.332A	04-616001061914103	5,530
Title III, Part A - English Language Acquisition	84.365A	07-671001061914	1,583
Title III, Part A - English Language Acquisition	84.365A	06-671001061914	63,491
Total CFDA Number 84.365A			65,074
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	06-694501061914	43,687
Temporary Emergency Impact Aid	84.938C	06-520301061914	187,716
Total Passed Through State Department of Education			\$ 1,545,309
<b>TOTAL DEPARTMENT OF EDUCATION</b>			\$ 2,443,069
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast & Lunch Program*	10.555		\$ 922,804
Commodities	10.550		67,877
Watershed Protection & Flood Control	10.904		57,482
Total Passed Through the State Department of Agriculture			\$ 1,048,163
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			\$ 1,048,163
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 3,491,232

\*Clustered Programs as required by Compliance Supplement March, 2005



LITTLE ELM INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2006

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, 2006, 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.