

**LAKE DALLAS
INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED AUGUST 31, 2006**

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ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2006

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CERTIFICATE OF BOARD

Lake Dallas Independent School District
Name of School District

Denton
County

061-912
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

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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
Lake Dallas Independent School District
Lake Dallas, TX 76201

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 Lake Dallas 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 Lake Dallas 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 7 through 13 and 27, 66 and 67 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 Lake Dallas 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 10, 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 10, 2006

**LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2006
(UNAUDITED)**

As management of Lake Dallas 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 5, and the District's Basic Financial Statements that begin on page 17.

FINANCIAL HIGHLIGHTS

- The liabilities of Lake Dallas Independent School District exceeded its assets at the close of the most recent fiscal period by \$(5,605,405) (net assets). Of this amount, \$5,101,228 (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 \$7,271,163.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$24,309,737. 12.9% of this total amount (\$3,145,624) 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 \$3,135,056 or 13.13% 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 17 through 19). 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 20) 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 32) 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 17. 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 the child care program.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 20 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—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most 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 proprietary 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 and computer operations.

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 31. 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 presents both current and prior year data and discusses 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 and business-type activities.

Net assets of the District's governmental activities decreased from \$1,694,996 to \$(5,595,227). 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 \$5,111,406 at August 31, 2006. This decrease in governmental net assets was the result of the District's governmental expenditures exceeding revenues by \$7,290,223.

In 2006, net assets of our business-type activities increased by \$19,060, about 65%. This increase is relatively insignificant to the overall operations of the District, but it represents significant services to the community through the Child Care program.

Table I
NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and other assets	42,785,703	28,886,245	-	(9,814)	42,785,703	28,876,431
Capital assets	62,902,887	68,900,520	-	-	62,902,887	68,900,520
Total assets	<u>105,688,590</u>	<u>97,786,765</u>	-	(9,814)	<u>105,688,590</u>	<u>97,776,951</u>
Long-term liabilities	100,419,475	100,637,832	-	-	100,419,475	100,637,832
Other liabilities	3,574,119	2,744,160	29,238	364	3,603,357	2,744,524
Total liabilities	<u>103,993,594</u>	<u>103,381,992</u>	<u>29,238</u>	<u>364</u>	<u>104,022,832</u>	<u>103,382,356</u>
Net Assets:						
Invested in capital assets net of related debt	(37,516,588)	(31,737,312)	-	-	(37,516,588)	(31,737,312)
Restricted	34,005,645	21,030,679	-	-	34,005,645	21,030,679
Unrestricted	5,205,939	5,111,406	(29,238)	(10,178)	5,176,701	5,101,228
Total net assets	<u>1,694,996</u>	<u>(5,595,227)</u>	<u>(29,238)</u>	<u>(10,178)</u>	<u>1,665,758</u>	<u>(5,605,405)</u>

Table II
CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program Revenues:						
Charges for services	158,098	200,571	221,013	272,019	379,111	472,590
Operating grants and contributions	4,030,420	4,932,434	-	-	4,030,420	4,932,434
General Revenues:						
Maintenance and operations taxes	15,255,610	15,839,273	-	-	15,255,610	15,839,273
Debt service taxes	2,995,471	3,788,211	-	-	2,995,471	3,788,211
State aid	5,130,235	5,872,277	-	-	5,130,235	5,872,277
Investment earnings	969,972	1,481,431	-	-	969,972	1,481,431
Miscellaneous	117,693	14,590	-	-	117,693	14,590
Federal Revenue	214,857	338,716	-	-	214,857	338,716
Total Revenue	28,872,356	32,467,503	221,013	272,019	29,093,369	32,739,522
Expenses:						
Instruction, curriculum and media services	15,563,541	16,970,389	-	-	15,563,541	16,970,389
Instructional and school leadership	1,718,317	1,796,260	-	-	1,718,317	1,796,260
Student support services	2,264,026	2,528,577	-	-	2,264,026	2,528,577
Child nutrition	1,089,572	1,299,852	-	-	1,089,572	1,299,852
Cocurricular activities	706,941	873,958	-	-	706,941	873,958
General administration	773,417	788,743	-	-	773,417	788,743
Plant maintenance, security & data processing	3,005,967	3,995,611	-	-	3,005,967	3,955,611
Community services	23,457	22,542	232,968	252,959	256,425	275,501
Debt services	4,546,717	5,074,909	-	-	4,546,717	5,074,909
Facilities acquisition, construction	-	2,707,345	-	-	-	2,707,345
Intergovernmental charges	1,807	13,795	-	-	1,807	13,795
Total Expenses	29,693,762	36,071,981	232,968	252,959	29,926,730	36,324,940
Decrease in net assets	(821,406)	(3,604,478)	(11,955)	19,060	(833,361)	(3,585,418)
Net assets at beginning of year	2,516,402	1,694,996	(17,283)	(29,238)	2,499,119	1,665,758
Adjustments to beginning capital assets	-	(3,685,745)	-	-	-	(3,685,745)
Net assets at end of year	1,694,996	(5,595,227)	(29,238)	(10,178)	1,665,758	(5,605,405)

The District took actions this year to compensate for some increases in costs and decreases in state revenue.

- During the 2005-06 school year, the District maintained an average daily attendance (ADA) of 3,714, which was a 4.3% increase from the previous year.
- Total General Fund revenue increased by over \$1,600,000 or 7.3%
- The District set the Maintenance and Operations property tax rate at \$1.50 for fiscal year 05-06. This was the sixth year that the District has adopted the tax rate at the \$1.50 state mandated tax cap. The debt service rate was set at \$.36.
- State revenue increased by almost \$890,000 from the 04-05 school year.
- The Federal Government funded the Section 8002 Federal Impact Aid program for the 2005-06 school year. The District received over \$320,000 from the Federal Government for impact aid.
- The District saw over a 45% increase in local investment revenue from the previous year. This was due to the rising interest rates during the 2005-2006 school year.

The cost of all governmental activities for the current fiscal year was \$36,071,981. However, as shown in the Statement of Activities on pages 18 and 19, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$19,627,484 because some of the costs were paid by those who directly benefited from the programs (\$200,571) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,932,434) or by State equalization funding (\$5,872,277).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on pages 20 and 21) reported a combined fund balance of \$24,309,737, which is \$13,093,661 lower than last year's total of \$37,403,398. Included in this year's total change in fund balance is a decrease of \$120,601 in the District's General Fund. The primary reasons for the General Fund's decrease mirror the governmental activities analysis highlighted on page 9.

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 \$3,268,552 reported on page 20 differs from the General Fund's budgetary fund balance of \$2,622,150 reported in the budgetary comparison schedule on page 27. This is principally due to cost savings and added revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2006, the District had \$68,900,520 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 \$5,997,633, or 9.5 percent, above last year.

This fiscal period's major additions consisted of additions to the High School of \$2,029,053 and construction of a new elementary school at a cost of \$9,371,487, paid for with proceeds of general obligation bonds.

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

Debt Administration

At year-end, the District had \$100,637,832 in bonds and capital leases outstanding (including accreted interest on bonds) versus \$100,419,475 last year—an increase of .2 percent. The new debt incurred during the year was accreted interest of \$1,581,549.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Lake Dallas ISD currently has one campus with Recognized accreditation and five campuses with Academically Acceptable accreditation from the Texas Education Agency. Our progress towards graduating productive citizens is made possible because of a high quality staff and research-based programs. The benefits to our community of having high quality graduates include a superior workforce, as well as a population capable of contributing to the tax base instead of relying on social services. The District's future ability to fund these programs that have been so successful hinges on the amount of revenue that can be generated.
- During 1997-98 school year, the state funded 54% of the general fund expenditures. The state will fund less than 37% of the general fund expenditures during the 2006-07 school year. The local taxpayers contribute more each year to make up for this state funding decrease. The general fund tax rate was \$1.19 in 1998. It has been increased to the state maximum of \$1.37.
- District officials considered many factors when setting the fiscal year 2006-07 budget and tax rates. One of those factors is the economy. Since 61% of the District's operating budgeted revenue is derived from local property, the local economy plays an extremely important role in the preparation of our annual budget. The tax role for the 2006-07 budget increased over 8% over the previous year. This growth rate is far less than the 20% growth rate the District was experiencing several years earlier. Although we are continuing to experience new commercial construction within the district, it is expected that our residential construction will slowly decline due to the fact that the majority of the residentially zoned property within the district has been developed.
- The voters authorized the District to sell \$65,000,000 in a bond election during September of 2002. The bond package includes monies to fund a renovation and addition to Lake Dallas Middle School, a new addition to Lake Dallas High School, one new elementary school and several other renovation projects.
- The District opened Shady Shores Elementary that was completed during the summer of 2006. During 2005 the District sold bonds that will help fund the expansion of Lake Dallas High School.
- The District will receive funding from the Existing Debt Allotment (EDA) and Instructional Facilities Allotment (IFA) to help pay debt payments. The Board adopted a debt service tax rate of 42 cents per hundred-dollar valuation for the 2006-07. The debt tax rate is 6 cents higher than the previous year.

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 Lake Dallas Independent School District, 315 E. Hundley Drive, Lake Dallas, Texas 75065, (940) 497-4039.

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BASIC FINANCIAL STATEMENTS

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LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2006

Data Control Codes	1	2	3
	Governmental Activities	Primary Government Business Type Activities	Total
ASSETS			
1110 Cash and Cash Equivalents	\$ 26,004,393	\$ 186	\$ 26,004,579
1220 Property Taxes Receivable (Delinquent)	726,974	-	726,974
1230 Allowance for Uncollectible Taxes	(72,698)	-	(72,698)
1240 Due from Other Governments	967,109	-	967,109
1260 Internal Balances	9,228	(10,000)	(772)
1290 Other Receivables, net	1,545	-	1,545
1300 Inventories	95,436	-	95,436
1410 Deferred Expenses	133,496	-	133,496
1420 Capitalized Bond and Other Debt Issuance Costs	984,428	-	984,428
1430 Discount on Issuance of Debt	36,334	-	36,334
Capital Assets:			
1510 Land	3,123,930	-	3,123,930
1520 Buildings, Net	65,739,021	-	65,739,021
1530 Furniture and Equipment, Net	37,569	-	37,569
1000 Total Assets	<u>97,786,765</u>	<u>(9,814)</u>	<u>97,776,951</u>
LIABILITIES			
2110 Accounts Payable	1,340,342	237	1,340,579
2160 Accrued Wages Payable	1,281,591	-	1,281,591
2200 Accrued Expenses	122,227	127	122,354
Noncurrent Liabilities			
2501 Due Within One Year	1,981,762	-	1,981,762
2502 Due in More Than One Year	98,656,070	-	98,656,070
2000 Total Liabilities	<u>103,381,992</u>	<u>364</u>	<u>103,382,356</u>
NET ASSETS			
3200 Invested in Capital Assets, Net of Related Debt	(31,737,312)	-	(31,737,312)
3840 Restricted for Food Service	246,485	-	246,485
3850 Restricted for Debt Service	845,110	-	845,110
3860 Restricted for Construction	19,939,084	-	19,939,084
3900 Unrestricted Net Assets	5,111,406	(10,178)	5,101,228
3000 Total Net Assets	<u>\$ (5,595,227)</u>	<u>\$ (10,178)</u>	<u>\$ (5,605,405)</u>

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

LAKE DALLAS 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
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 16,096,074	\$ 53,846	\$ 2,159,550
12 Instructional Resources and Media Services	583,209	-	30,918
13 Curriculum and Instructional Staff Development	291,106	-	12,821
21 Instructional Leadership	309,237	-	22,905
23 School Leadership	1,487,023	-	66,667
31 Guidance, Counseling and Evaluation Services	1,023,468	-	60,680
33 Health Services	277,386	-	17,334
34 Student (Pupil) Transportation	1,227,723	-	202,613
35 Food Services	1,299,852	-	1,220,538
36 Cocurricular/Extracurricular Activities	873,958	133,260	31,689
41 General Administration	788,743	-	28,676
51 Plant Maintenance and Operations	3,390,448	13,465	102,367
52 Security and Monitoring Services	61,496	-	-
53 Data Processing Services	543,667	-	22,819
61 Community Services	22,542	-	1,545
72 Debt Service - Interest on Long Term Debt	5,069,159	-	951,312
73 Debt Service - Bond Issuance Cost and Fees	5,750	-	-
81 Facilities Acquisition and Construction	2,707,345	-	-
93 Payments to Fiscal Agent/Member Districts of SSA	1,155	-	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	12,640	-	-
[TG] Total Governmental Activities:	<u>36,071,981</u>	<u>200,571</u>	<u>4,932,434</u>
BUSINESS-TYPE ACTIVITIES:			
01 Childcare	252,959	272,019	-
[TB] Total Business-Type Activities:	<u>252,959</u>	<u>272,019</u>	<u>-</u>
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 36,324,940</u>	<u>\$ 472,590</u>	<u>\$ 4,932,434</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		
PA	Prior Period Adjustment		
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
\$ (13,882,678)	\$ -	\$ (13,882,678)
(552,291)	-	(552,291)
(278,285)	-	(278,285)
(286,332)	-	(286,332)
(1,420,356)	-	(1,420,356)
(962,788)	-	(962,788)
(260,052)	-	(260,052)
(1,025,110)	-	(1,025,110)
(79,314)	-	(79,314)
(709,009)	-	(709,009)
(760,067)	-	(760,067)
(3,274,616)	-	(3,274,616)
(61,496)	-	(61,496)
(520,848)	-	(520,848)
(20,997)	-	(20,997)
(4,117,847)	-	(4,117,847)
(5,750)	-	(5,750)
(2,707,345)	-	(2,707,345)
(1,155)	-	(1,155)
(12,640)	-	(12,640)
<u>(30,938,976)</u>	<u>-</u>	<u>(30,938,976)</u>
-	19,060	19,060
-	19,060	19,060
<u>(30,938,976)</u>	<u>19,060</u>	<u>(30,919,916)</u>
15,839,273	-	15,839,273
3,788,211	-	3,788,211
5,872,277	-	5,872,277
1,481,431	-	1,481,431
14,590	-	14,590
338,716	-	338,716
<u>27,334,498</u>	<u>-</u>	<u>27,334,498</u>
(3,604,478)	19,060	(3,585,418)
1,694,996	(29,238)	1,665,758
(3,685,745)	-	(3,685,745)
<u>\$ (5,595,227)</u>	<u>\$ (10,178)</u>	<u>\$ (5,605,405)</u>

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2006

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 3,881,804	\$ 692,851	\$ 21,026,941
1220 Property Taxes - Delinquent	603,697	123,277	-
1230 Allowance for Uncollectible Taxes (Credit)	(60,370)	(12,328)	-
1240 Due from Other Governments	754,515	125,015	-
1260 Due from Other Funds	101,747	-	22,616
1290 Other Receivables	1,109	5	-
1410 Deferred Expenditures	133,496	-	-
1000 Total Assets	<u>\$ 5,415,998</u>	<u>\$ 928,820</u>	<u>\$ 21,049,557</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 133,826	\$ -	\$ 1,058,757
2160 Accrued Wages Payable	1,281,591	-	-
2170 Due to Other Funds	201,500	1,000	51,716
2200 Accrued Expenditures	107,034	-	-
2300 Deferred Revenues	423,495	82,710	-
2000 Total Liabilities	<u>\$ 2,147,446</u>	<u>\$ 83,710</u>	<u>\$ 1,110,473</u>
Fund Balances:			
Reserved For:			
3420 Retirement of Long Term Debt	\$ -	\$ 845,110	\$ -
3430 Prepaid Items	133,496	-	-
3450 Food Service	-	-	-
Unreserved Designated For:			
3510 Construction	-	-	19,939,084
Unreserved and Undesignated:			
3600 Reported in the General Fund	3,135,056	-	-
3610 Reported in Special Revenue Funds	-	-	-
3000 Total Fund Balances	<u>\$ 3,268,552</u>	<u>\$ 845,110</u>	<u>\$ 19,939,084</u>
4000 Total Liabilities and Fund Balances	<u>\$ 5,415,998</u>	<u>\$ 928,820</u>	<u>\$ 21,049,557</u>

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

Other Funds	Total Governmental Funds
\$ 143,751	\$ 25,745,347
-	726,974
-	(72,698)
87,579	967,109
202,800	327,163
-	1,114
-	133,496
<u>\$ 434,130</u>	<u>\$ 27,828,505</u>
\$ 94,102	\$ 1,286,685
-	1,281,591
67,932	322,148
15,105	122,139
-	506,205
<u>\$ 177,139</u>	<u>\$ 3,518,768</u>
\$ -	\$ 845,110
-	133,496
246,423	246,423
-	19,939,084
-	3,135,056
10,568	10,568
<u>\$ 256,991</u>	<u>\$ 24,309,737</u>
<u>\$ 434,130</u>	<u>\$ 27,828,505</u>

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

Total Fund Balances - Governmental Funds	\$	24,309,737
1 The assets and liabilities of the Internal Service Funds are included in governmental activities, but are not reported in the fund financial statements.		305,381
2 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.		85,337,364
3 Accumulated depreciation has not been included in the fund financial statements.		(16,436,844)
4 Bonds payable and leases payable have not been included in the fund financial statements.		(90,470,353)
5 Accreted interest on capital appreciation bonds has not been included in the fund financial statements.		(10,167,479)
6 Bond issuance cost is not capitalized in the fund financial statements.		984,428
7 Bond discounts and premiums are not recognized in the fund financial statements.		36,334
8 Property tax revenue reported as deferred revenue in the fund financial statements was recognized as revenue in the government-wide financial statements.		506,205
19 Net Assets of Governmental Activities	\$	(5,595,227)

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

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LAKE DALLAS 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
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 16,324,247	\$ 3,879,431	\$ 1,120,544
5800 State Program Revenues	7,096,367	951,312	-
5900 Federal Program Revenues	338,716	-	-
5020 Total Revenues	<u>23,759,330</u>	<u>4,830,743</u>	<u>1,120,544</u>
EXPENDITURES:			
Current:			
0011 Instruction	13,688,932	-	-
0012 Instructional Resources and Media Services	524,416	-	-
0013 Curriculum and Instructional Staff Development	272,572	-	-
0021 Instructional Leadership	277,281	-	-
0023 School Leadership	1,340,183	-	-
0031 Guidance, Counseling and Evaluation Services	973,290	-	-
0033 Health Services	255,967	-	-
0034 Student (Pupil) Transportation	1,005,688	-	-
0035 Food Services	-	-	-
0036 Cocurricular/Extracurricular Activities	842,427	-	-
0041 General Administration	749,991	-	-
0051 Plant Maintenance and Operations	3,257,481	-	-
0052 Security and Monitoring Services	61,496	-	-
0053 Data Processing Services	516,324	-	-
0061 Community Services	20,543	-	-
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	23,192	1,307,772	-
0072 Debt Service - Interest on Long Term Debt	1,657	3,482,884	-
0073 Debt Service - Bond Issuance Cost and Fees	-	5,750	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	54,696	-	14,169,847
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	1,155	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	12,640	-	-
6030 Total Expenditures	<u>23,879,931</u>	<u>4,796,406</u>	<u>14,169,847</u>
1200 Net Change in Fund Balances	(120,601)	34,337	(13,049,303)
0100 Fund Balance - September 1 (Beginning)	<u>3,389,153</u>	<u>810,773</u>	<u>32,988,387</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 3,268,552</u>	<u>\$ 845,110</u>	<u>\$ 19,939,084</u>

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

Other Funds	Total Governmental Funds
\$ 800,470	\$ 22,124,692
443,245	8,490,924
<u>1,517,560</u>	<u>1,856,276</u>
2,761,275	32,471,892
1,406,132	15,095,064
8,875	533,291
4,702	277,274
10,970	288,251
8,040	1,348,223
14,931	988,221
2,500	258,467
13,477	1,019,165
1,220,538	1,220,538
1,000	843,427
3,458	753,449
22,121	3,279,602
-	61,496
2,375	518,699
250	20,793
-	1,330,964
-	3,484,541
-	5,750
-	14,224,543
-	1,155
-	<u>12,640</u>
<u>2,719,369</u>	<u>45,565,553</u>
41,906	(13,093,661)
<u>215,085</u>	<u>37,403,398</u>
<u>\$ 256,991</u>	<u>\$ 24,309,737</u>

LAKE DALLAS 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

Total Net Change in Fund Balances - Governmental Funds	\$	(13,093,661)
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.		7,831,453
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.		(1,833,820)
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.		1,330,964
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.		(1,549,321)
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.		(35,297)
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.		(4,389)
The net income of the Internal Service Funds is reported with governmental activities but not in the fund financial statements.		63,848
 Change in Net Assets of Governmental Activities	 \$	 (7,290,223)

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

LAKE DALLAS 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		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 16,132,908	\$ 16,386,404	\$ 16,324,247	\$ (62,157)
5800 State Program Revenues	7,006,944	7,006,944	7,096,367	89,423
5900 Federal Program Revenues	130,500	338,715	338,716	1
5020 Total Revenues	23,270,352	23,732,063	23,759,330	27,267
EXPENDITURES:				
Current:				
0011 Instruction	14,007,198	13,933,050	13,688,932	244,118
0012 Instructional Resources and Media Services	535,601	537,843	524,416	13,427
0013 Curriculum and Instructional Staff Development	286,024	347,273	272,572	74,701
0021 Instructional Leadership	295,103	295,103	277,281	17,822
0023 School Leadership	1,440,739	1,387,922	1,340,183	47,739
0031 Guidance, Counseling and Evaluation Services	982,297	980,414	973,290	7,124
0033 Health Services	262,649	262,649	255,967	6,682
0034 Student (Pupil) Transportation	1,070,262	1,062,289	1,005,688	56,601
0036 Cocurricular/Extracurricular Activities	776,850	858,535	842,427	16,108
0041 General Administration	810,838	810,838	749,991	60,847
0051 Plant Maintenance and Operations	3,058,387	3,329,599	3,257,481	72,118
0052 Security and Monitoring Services	73,800	74,700	61,496	13,204
0053 Data Processing Services	496,874	533,285	516,324	16,961
0061 Community Services	23,109	23,109	20,543	2,566
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	23,193	23,193	23,192	1
0072 Debt Service - Interest on Long Term Debt	1,723	1,723	1,657	66
Capital Outlay:				
0081 Facilities Acquisition and Construction	56,952	56,952	54,696	2,256
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	3,000	3,000	1,155	1,845
0095 Payments to Juvenile Justice Alternative Ed. Prg.	10,000	14,000	12,640	1,360
6030 Total Expenditures	24,214,599	24,535,477	23,879,931	655,546
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(944,247)	(803,414)	(120,601)	682,813
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	36,411	-	(36,411)
7080 Total Other Financing Sources (Uses)	-	36,411	-	(36,411)
1200 Net Change in Fund Balances	(944,247)	(767,003)	(120,601)	646,402
0100 Fund Balance - September 1 (Beginning)	3,389,153	3,389,153	3,389,153	-
3000 Fund Balance - August 31 (Ending)	\$ 2,444,906	\$ 2,622,150	\$ 3,268,552	\$ 646,402

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

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2005

EXHIBIT D-1

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Total Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 186	\$ 259,046
Due from Other Funds	-	4,213
Other Receivables	-	431
Inventories	-	95,436
Total Current Assets	186	359,126
Noncurrent Assets:		
Capital Assets:		
Depreciation on Furniture and Equipment	-	(17,711)
District Defined Capital Assets	-	17,711
Total Noncurrent Assets	-	-
Total Assets	186	359,126
LIABILITIES		
Current Liabilities:		
Accounts Payable	237	53,657
Due to Other Funds	10,000	-
Accrued Expenses	127	88
Total Liabilities	10,364	53,745
NET ASSETS		
Unrestricted Net Assets	(10,178)	305,381
Total Net Assets	\$ (10,178)	\$ 305,381

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

LAKE DALLAS 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	Total Internal Service Funds
OPERATING REVENUES:		
Local and Intermediate Sources	\$ 259,715	\$ 299,418
State Program Revenues	12,304	3,538
Total Operating Revenues	<u>272,019</u>	<u>302,956</u>
OPERATING EXPENSES:		
Payroll Costs	227,324	58,112
Professional and Contracted Services	14,820	58,933
Supplies and Materials	8,858	46,468
Other Operating Costs	1,957	-
Capital Outlay	-	75,595
Total Operating Expenses	<u>252,959</u>	<u>239,108</u>
Operating Income	19,060	63,848
Total Net Assets - September 1 (Beginning)	<u>(29,238)</u>	<u>241,533</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ (10,178)</u></u>	<u><u>\$ 305,381</u></u>

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

LAKE DALLAS 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	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>		
Cash Received from State	\$ 12,304	\$ 3,538
Cash Received from District	-	303,496
Cash Received from Employees	269,715	-
Cash Payments for Payroll Costs	(227,347)	(58,118)
Cash Payments for Purchased Services	(14,820)	(20,982)
Cash Payments for Supplies and Materials	(37,709)	(41,256)
Cash Payments for Other Expenses	(1,957)	(75,595)
Net Cash Provided by Operating Activities	<u>186</u>	<u>111,083</u>
Net Increase in Cash and Cash Equivalents	186	111,083
Cash and Cash Equivalents at Beginning of the Year:	-	147,963
Cash and Cash Equivalents at the End of the Year:	<u>\$ 186</u>	<u>\$ 259,046</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating Income:	\$ 19,060	\$ 63,848
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Due from Other Funds	-	3,972
Decrease (increase) in Other Receivables	-	106
Decrease (increase) in Inventories	-	(8,880)
Increase (decrease) in Accounts Payable	(28,851)	52,043
Increase (decrease) in Due to Other Funds	10,000	-
Increase (decrease) in Accrued Expenses	(23)	(6)
Net Cash Provided by Operating Activities	<u>\$ 186</u>	<u>\$ 111,083</u>

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

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2006

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 344,996
Due from Other Funds	1,500
Other Receivables	15
Total Assets	<u>\$ 346,511</u>
LIABILITIES	
Accounts Payable	\$ 37,040
Due to Other Funds	728
Due to Other Governments	8,277
Due to Student Groups	300,466
Total Liabilities	<u>\$ 346,511</u>

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Dallas 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 Basic 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, the Lake Dallas 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, within the governmental and business-type activities columns, 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.

LAKE DALLAS 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. Separate statements are presented for governmental and proprietary activities. 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 and computer operations.

LAKE DALLAS 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.

The enterprise fund and internal service funds are proprietary fund types. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", all proprietary funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments or earlier pronouncements), or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB guidance). The District has chosen not to apply future FASB standards.

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.

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
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FOR THE YEAR ENDED AUGUST 31, 2006

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 pool 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.

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 and the Capital Projects Fund 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.

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

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 printing supplies and computer 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. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as “internal balances” and “internal advances”.

I. CAPITAL ASSETS

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. 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	50 Years
Furniture and Equipment	7-10 Years

J. COMPENSATED ABSENCES

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying general purpose financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying general purpose financial statements.

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.

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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1. Reserve for funded indebtedness represents that portion of fund balance legally restricted to debt service.
2. Reserve for inventories represents that portion of fund balance already expended on supplies held for consumption in a future period.
3. Reserve for prepaid costs represents that portion of fund balance already disbursed on insurance premiums, lease contracts and other items which are expenditures of a future period.

B. Designations – Used to indicate tentative plans for financial resource utilization:

1. Designated for future construction represents management’s intent to utilize resources for construction.

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.

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 depreciations, 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 legislations 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, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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.

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

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), "Basic 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 Basic 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 year 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.

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 checking accounts and interest-bearing savings accounts was \$8,501,490 and the bank balance was \$9,012,304. 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.

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

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 \$8,501,490. 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 are not exposed to custodial credit risk at August 31, 2006, however, there were five months during the year that deposits exceeded pledged securities so the District was exposed to custodial credit risk at these times.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At August 31, 2006, the District held all of its investments in five public funds investment pools (TexPool, Lone Star, LOGIC, MBIA and TxTerm). 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 five 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 each of the five investment pools is less than 120 days.
- 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.

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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- 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 are excluded from the 5 percent disclosure requirement.

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

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

The District's investments at August 31, 2006, are shown below:

Name	Carrying Amount	Market Value	Maturity Date
TexPool	\$ 4,444,815	\$ 4,444,815	N/A
TxTerm	12,564,993	12,564,993	N/A
Lone Star	578,515	578,515	N/A
LOGIC	247,210	247,210	N/A
MBIA	<u>1</u>	<u>1</u>	N/A
Total	<u>\$ 17,835,534</u>	<u>\$ 17,835,534</u>	

NOTE 3. CAPITAL ASSETS

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

	Balance <u>September 1</u>	Additions/ <u>Completions</u>	Retirement/ <u>Adjustments</u>	Balance <u>August 31</u>
Governmental Activities:				
Land	\$ 3,123,930	\$ -	\$ -	\$ 3,123,930
Buildings	71,659,278	11,400,540	3,568,357	79,491,461
Furniture and Equipment	<u>2,722,703</u>	<u>116,658</u>	<u>117,388</u>	<u>2,721,973</u>
Totals at Historical Cost	<u>77,505,911</u>	<u>11,517,198</u>	<u>3,685,745</u>	<u>85,337,364</u>
Less accumulated depreciation for:				
Buildings	(12,162,611)	(1,589,829)	-	(13,752,440)
Furniture and Equipment	<u>(2,440,413)</u>	<u>(243,991)</u>	-	<u>(2,684,404)</u>
Total accumulated depreciation	<u>(14,603,024)</u>	<u>(1,833,820)</u>	-	<u>(16,436,844)</u>
Governmental activities capital assets, net	<u>\$ 62,902,887</u>	<u>\$ 9,683,378</u>	<u>\$ 3,685,745</u>	<u>\$ 68,900,520</u>

The retirement/adjustments column above includes a decrease in beginning net governmental activities capital assets of \$3,685,745 to reflect corrections to the historical cost of certain prior year capital assets.

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Depreciation expense was charged as direct expense to programs of the District as follows:

Governmental activities:	
Instruction	\$ 1,064,858
Instructional Resources & Media Services	49,918
Curriculum & Instructional Staff Development	13,832
Instructional Leadership	20,986
School Leadership	138,800
Guidance, Counseling & Evaluation Services	35,247
Health Services	18,919
Student (Pupil) Transportation	208,558
Food Services	79,314
Cocurricular/Extracurricular Activities	30,531
General Administration	35,294
Plant Maintenance and Operations	110,846
Data Processing Services	24,968
Community Services	<u>1,749</u>
Total depreciation expense-Governmental activities	<u>\$ 1,833,820</u>

NOTE 4. LONG-TERM DEBT

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds and capital leases. All long-term debt represents transactions in the District's governmental activities. No long-term debt exists in the District's business-type 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>
Bonded Indebtedness:						
1995 Bldg/Refunding	4.70-6.25%	\$ 3,875,000	\$ -	\$ 635,000	\$ 3,240,000	\$ 635,000
1998 Bldg/Refunding	3.60-4.75%	8,615,000	-	605,000	8,010,000	850,000
1999 Bldg/Refunding	4.40-6.06%	8,461,710	-	-	8,461,710	-
2001 Bldg/Refunding	4.00-5.70%	13,069,871	-	-	13,069,871	-
2002 Bldg/Refunding	2.40-5.89%	14,924,782	-	67,772	14,857,010	-
2004 Bldg/Refunding	2.50-4.16%	29,853,090	-	-	29,853,090	328,090
2005 Bldg/Refunding	3.00-4.62%	<u>12,965,000</u>	<u>-</u>	<u>-</u>	<u>12,965,000</u>	<u>155,000</u>
Total Bonded Indebtedness		<u>91,764,453</u>	<u>-</u>	<u>1,307,772</u>	<u>90,456,681</u>	<u>1,968,090</u>
Accreted Interest	4.05-5.15%	8,618,158	1,581,549	32,228	10,167,479	-
Capital Leases		<u>36,864</u>	<u>-</u>	<u>23,192</u>	<u>13,672</u>	<u>13,672</u>
Total Other Obligations		<u>8,655,022</u>	<u>1,581,549</u>	<u>55,420</u>	<u>10,181,151</u>	<u>13,672</u>
Total Obligations of District		<u>\$100,419,475</u>	<u>\$1,581,549</u>	<u>\$ 1,363,192</u>	<u>\$100,637,832</u>	<u>\$1,981,762</u>

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

The 1999, 2001, 2002, 2004 and 2005 bond series include outstanding capital appreciation bonds in the principal amount of \$19,326,770. The bonds mature variously 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 \$10,167,479 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>General Obligation</u>		Total <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2007	\$ 2,163,090	\$ 3,479,506	\$ 5,642,596
2008	2,429,194	3,577,628	6,006,822
2009	2,671,614	3,562,643	6,234,257
2010	2,797,990	3,550,159	6,348,149
2011	3,011,480	3,527,131	6,538,611
2012-2016	12,145,327	20,757,772	32,903,099
2017-2021	11,578,996	22,313,376	33,892,372
2022-2026	11,615,072	22,841,496	34,456,568
2027-2031	17,814,637	16,636,258	34,450,895
2032-2036	17,664,281	16,795,494	34,459,775
2037	<u>6,565,000</u>	<u>326,450</u>	<u>6,891,450</u>
	<u>\$ 90,456,681</u>	<u>\$117,367,913</u>	<u>\$207,824,594</u>

NOTE 5. DEFEASED DEBT

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, \$6,185,000 of bonds outstanding are considered defeased.

NOTE 6. CAPITAL LEASES

The following is a summary of leased property under capital leases at August 31, 2006:

School Buses & Equipment	<u>\$66,739</u>
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LAKE DALLAS 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>
School Bus	5.21%	\$ 10,106	\$ -	\$ 10,106	\$ -	\$ -
School Bus	4.47%	<u>26,758</u>	<u>-</u>	<u>13,086</u>	<u>13,672</u>	<u>13,672</u>
Total		<u>\$ 36,864</u>	<u>\$ -</u>	<u>\$ 23,192</u>	<u>\$ 13,672</u>	<u>\$ 13,672</u>

The following is a schedule of future minimum lease payments to maturity:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
August 31, 2007	<u>\$ 13,672</u>	<u>\$ 611</u>	<u>\$ 14,283</u>

Such lease payments will be made out of local general fund revenues. The interest rate on this capital lease is 4.47.

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 \$1,003,428,703. Taxes are delinquent if not paid by August 31. 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 \$1.50 and \$0.36 per \$100 valuation, respectively, for a total of \$1.86 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2006 were 98% 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 \$543,327 and \$110,949 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.

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

NOTE 8. PENSION PLAN OBLIGATIONS

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

Funding Policy - Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the District's covered payroll. 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 \$995,624, \$1,037,398 and \$1,166,348, 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 \$93,701, \$155,503 and \$109,874, 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 \$933,398, \$972,561 and \$1,090,234, 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.

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

NOTE 9. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at August 31, 2006, were as follows:

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund:		
Special Revenue Funds	\$ 45,317	\$ 200,000
Debt Service Fund	1,000	-
Capital Projects Fund	45,430	-
Enterprise Fund	10,000	-
Agency Funds	-	1,500
Special Revenue Funds:		
General Fund	200,000	45,317
Capital Projects Fund	2,800	22,616
Debt Service Fund:		
General Fund	-	1,000
Capital Projects Fund:		
General Fund	-	45,430
Special Revenue Funds	22,616	2,800
Internal Service Fund	-	3,485
Enterprise Fund:		
General Fund	-	10,000
Internal Service Fund:		
Capital Projects Fund	3,485	-
Agency Fund	728	-
Fiduciary Fund:		
General Fund	1,500	-
Internal Service Fund	<u> -</u>	<u> 728</u>
	<u>\$332,876</u>	<u>\$332,876</u>

NOTE 10. HEALTH CARE

During the year ended August 31, 2006, employees of Lake Dallas 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). The Plan was authorized by Sections 21.022, Texas Education Code and was documented by contractual agreement.

The contract between Lake Dallas 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 Blue Cross Blue Shield Insurance Company are available with the Texas State Board of Insurance, Austin, Texas and are public records.

NOTE 11. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2006, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

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

Fund	State Entitlements	Federal Grants	Local Governments	Total
General Fund	\$ 754,515	\$ -	\$ -	\$ 754,515
Debt Service	125,015	-	-	125,015
Special Revenue	<u>45,037</u>	<u>42,542</u>	<u>-</u>	<u>87,579</u>
	<u>\$ 924,567</u>	<u>\$ 42,542</u>	<u>\$ -</u>	<u>\$ 967,109</u>

NOTE 12. CONTINGENT LIABILITIES

The Tax Reform Act of 1986 imposed regulations on tax-exempt bond issues. Governmental bonds issued after August 31, 1986 are subject to the rebate provisions of the Tax Reform Act of 1986. The rebate applies to earnings from bond issue proceeds investments which exceed bond issue stated interest rates. The exact amount of liability, if any, will not be known until as long as five years from the bond issuance date. At August 31, 2006 there was no estimated rebate liability.

NOTE 13. LITIGATION AND CONTINGENCIES

The District is a party to various legal actions none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such 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 14. 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	\$15,648,098	\$ -	\$ 3,747,143	\$ -	\$19,395,242
Food Sales	-	771,579	-	-	771,579
Investment Income	273,924	140	91,220	1,112,044	1,477,328
Penalties, interest and other tax related income	194,593	-	41,067	-	235,660
Co-curricular student activities	133,260	-	-	-	133,260
Other	<u>74,372</u>	<u>28,751</u>	<u>1</u>	<u>8,500</u>	<u>111,624</u>
Total	<u>\$16,324,247</u>	<u>\$ 800,470</u>	<u>\$ 3,879,431</u>	<u>\$1,120,544</u>	<u>\$22,124,693</u>

NOTE 15. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net Tax Revenue	<u>\$423,495</u>	<u>\$ -</u>	<u>\$82,710</u>	<u>\$506,205</u>

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

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:			
Impact Aid	84.041	\$321,945	\$321,945
Federal Flood Control	10.904	<u>16,771</u>	<u>16,771</u>
Total for General Fund		<u>\$338,716</u>	<u>\$338,716</u>

NOTE 17. DEFICIT NET ASSETS BALANCES

At August 31, 2006, the Day Care Enterprise Fund had a deficit net assets balance of \$10,478. The District anticipates eliminating this deficit in the future by raising tuition rates to cover operating expenses, and increasing enrollment.

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COMBINING SCHEDULES

LAKE DALLAS 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	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
ASSETS				
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -
1240	Due from Other Governments	-	20,169	924
1260	Due from Other Funds	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ 20,169</u>	<u>\$ 924</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	Accounts Payable	\$ -	\$ 13,863	\$ -
2170	Due to Other Funds	-	6,306	924
2200	Accrued Expenditures	-	-	-
2000	Total Liabilities	<u>-</u>	<u>20,169</u>	<u>924</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>\$ 20,169</u>	<u>\$ 924</u>

226 IDEA - Part B High Cost	240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 Title V, Pt.A Innovative Programs	288 Summer LEP	289 Emergency Impact Aid
\$ -	\$ 118,681	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	28,400	-	7,942	-	-	-	13,507
-	200,000	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 347,081</u>	<u>\$ -</u>	<u>\$ 7,942</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,507</u>
\$ -	\$ 62,937	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	22,616	-	7,942	-	-	-	13,507
-	15,105	-	-	-	-	-	-
-	100,658	-	7,942	-	-	-	13,507
-	246,423	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	246,423	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 347,081</u>	<u>\$ -</u>	<u>\$ 7,942</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,507</u>

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2006

Data Control Codes	327 SSA Substance Abuse Prev. Females	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment	
ASSETS					
1110	Cash and Cash Equivalents	\$ 1,577	\$ 4,597	\$ -	\$ 11,259
1240	Due from Other Governments	-	-	16,637	-
1260	Due from Other Funds	-	-	-	2,800
1000	Total Assets	<u>\$ 1,577</u>	<u>\$ 4,597</u>	<u>\$ 16,637</u>	<u>\$ 14,059</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ 14,059
2170	Due to Other Funds	-	-	16,637	-
2200	Accrued Expenditures	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>16,637</u>	<u>14,059</u>
Fund Balances:					
Reserved For:					
3450	Food Service	-	-	-	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	<u>1,577</u>	<u>4,597</u>	<u>-</u>	<u>-</u>
3000	Total Fund Balances	<u>1,577</u>	<u>4,597</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,577</u>	<u>\$ 4,597</u>	<u>\$ 16,637</u>	<u>\$ 14,059</u>

418 Employee Health Insurance	420 Foundation Grants	421 Master Reading Teacher	429 Incentive Program	Total Nonmajor Governmental Funds
\$ -	\$ 3,909	\$ 3,728	\$ -	\$ 143,751
-	-	-	-	87,579
-	-	-	-	202,800
<u>\$ -</u>	<u>\$ 3,909</u>	<u>\$ 3,728</u>	<u>\$ -</u>	<u>\$ 434,130</u>
\$ -	\$ -	\$ 3,243	\$ -	\$ 94,102
-	-	-	-	67,932
-	-	-	-	15,105
<u>-</u>	<u>-</u>	<u>3,243</u>	<u>-</u>	<u>177,139</u>
-	-	-	-	246,423
-	3,909	485	-	10,568
<u>-</u>	<u>3,909</u>	<u>485</u>	<u>-</u>	<u>256,991</u>
<u>\$ -</u>	<u>\$ 3,909</u>	<u>\$ 3,728</u>	<u>\$ -</u>	<u>\$ 434,130</u>

LAKE DALLAS 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	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
REVENUES:				
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800	State Program Revenues	-	127	-
5900	Federal Program Revenues	10,492	211,875	11,522
5020	Total Revenues	<u>10,492</u>	<u>211,875</u>	<u>11,522</u>
EXPENDITURES:				
Current:				
0011	Instruction	10,492	211,875	11,522
0012	Instructional Resources and Media Services	-	-	-
0013	Curriculum and Instructional Staff Development	-	3,952	-
0021	Instructional Leadership	-	9,970	-
0023	School Leadership	-	-	-
0031	Guidance, Counseling and Evaluation Services	-	7,432	-
0033	Health Services	-	-	-
0034	Student (Pupil) Transportation	-	-	-
0035	Food Services	-	-	-
0036	Cocurricular/Extracurricular Activities	-	-	-
0041	General Administration	-	-	-
0051	Plant Maintenance and Operations	-	-	-
0053	Data Processing Services	-	-	-
0061	Community Services	-	-	-
6030	Total Expenditures	<u>10,492</u>	<u>211,875</u>	<u>11,522</u>
1200	Net Change in Fund Balance	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

226 IDEA - Part B High Cost	240 National Breakfast and Lunch Program	244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 Title V, Pt.A Innovative Programs	288 Summer LEP	289 Emergency Impact Aid
\$ -	\$ 789,568	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	9,307	-	-	-	-	-	-
18,440	447,270	24,601	71,921	20,267	7,566	1,307	22,069
18,440	1,246,145	24,601	71,921	20,267	7,566	1,307	22,069
18,440	-	24,601	71,921	20,267	7,566	1,307	22,069
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,206,207	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
18,440	1,206,207	24,601	71,921	20,267	7,566	1,307	22,069
-	39,938	-	-	-	-	-	-
-	206,485	-	-	-	-	-	-
\$ -	\$ 246,423	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

LAKE DALLAS 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	327 SSA Substance Abuse Prev. Females	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment	
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	7,237	65,973	101,722
5900	Federal Program Revenues	-	-	-	-
5020	Total Revenues	<u>-</u>	<u>7,237</u>	<u>65,973</u>	<u>101,722</u>
EXPENDITURES:					
Current:					
0011	Instruction	1,118	2,640	65,973	101,722
0012	Instructional Resources and Media Services	-	-	-	-
0013	Curriculum and Instructional Staff Development	-	-	-	-
0021	Instructional Leadership	-	-	-	-
0023	School Leadership	-	-	-	-
0031	Guidance, Counseling and Evaluation Services	-	-	-	-
0033	Health Services	-	-	-	-
0034	Student (Pupil) Transportation	-	-	-	-
0035	Food Services	-	-	-	-
0036	Cocurricular/Extracurricular Activities	-	-	-	-
0041	General Administration	-	-	-	-
0051	Plant Maintenance and Operations	-	-	-	-
0053	Data Processing Services	-	-	-	-
0061	Community Services	-	-	-	-
6030	Total Expenditures	<u>1,118</u>	<u>2,640</u>	<u>65,973</u>	<u>101,722</u>
1200	Net Change in Fund Balance	(1,118)	4,597	-	-
0100	Fund Balance - September 1 (Beginning)	<u>2,695</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 1,577</u>	<u>\$ 4,597</u>	<u>\$ -</u>	<u>\$ -</u>

418 Employee Health Insurance	420 Foundation Grants	421 Master Reading Teacher	429 Incentive Program	Total Nonmajor Governmental Funds
\$ -	\$ 9,152	\$ 1,750	\$ -	\$ 800,470
258,854	-	-	25	443,245
-	-	-	-	1,517,560
<u>258,854</u>	<u>9,152</u>	<u>1,750</u>	<u>25</u>	<u>2,761,275</u>
176,179	8,147	1,265	25	1,406,132
5,874	-	3,001	-	8,875
750	-	-	-	4,702
1,000	-	-	-	10,970
8,040	-	-	-	8,040
7,499	-	-	-	14,931
2,500	-	-	-	2,500
13,477	-	-	-	13,477
14,331	-	-	-	1,220,538
1,000	-	-	-	1,000
3,458	-	-	-	3,458
22,121	-	-	-	22,121
2,375	-	-	-	2,375
250	-	-	-	250
<u>258,854</u>	<u>8,147</u>	<u>4,266</u>	<u>25</u>	<u>2,719,369</u>
-	1,005	(2,516)	-	41,906
-	2,904	3,001	-	215,085
<u>\$ -</u>	<u>\$ 3,909</u>	<u>\$ 485</u>	<u>\$ -</u>	<u>\$ 256,991</u>

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 AUGUST 31, 2006

	752	754	Total
	Print Shop	Computer Operations	Internal Service Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 141,203	\$ 117,843	\$ 259,046
Due from Other Funds	98	4,115	4,213
Other Receivables	431	-	431
Inventories	5,320	90,116	95,436
Total Current Assets	<u>147,052</u>	<u>212,074</u>	<u>359,126</u>
Noncurrent Assets:			
Capital Assets:			
Depreciation on Furniture and Equipment	(17,711)	-	(17,711)
District Defined Capital Assets	17,711	-	17,711
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>147,052</u>	<u>212,074</u>	<u>359,126</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	37,951	15,706	53,657
Accrued Expenses	88	-	88
Total Liabilities	<u>38,039</u>	<u>15,706</u>	<u>53,745</u>
NET ASSETS			
Unrestricted Net Assets	<u>109,013</u>	<u>196,368</u>	<u>305,381</u>
Total Net Assets	<u>\$ 109,013</u>	<u>\$ 196,368</u>	<u>\$ 305,381</u>

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2006

	752	754	Total
	Print Shop	Computer Operations	Internal Service Funds
OPERATING REVENUES:			
Local and Intermediate Sources	\$ 172,511	\$ 126,907	\$ 299,418
State Program Revenues	3,538	-	3,538
Total Operating Revenues	<u>176,049</u>	<u>126,907</u>	<u>302,956</u>
OPERATING EXPENSES:			
Payroll Costs	58,112	-	58,112
Professional and Contracted Services	58,933	-	58,933
Supplies and Materials	25,896	20,572	46,468
Capital Outlay	-	75,595	75,595
Total Operating Expenses	<u>142,941</u>	<u>96,167</u>	<u>239,108</u>
Operating Income	33,108	30,740	63,848
Total Net Assets - September 1 (Beginning)	<u>75,905</u>	<u>165,628</u>	<u>241,533</u>
Total Net Assets - August 31 (Ending)	<u>\$ 109,013</u>	<u>\$ 196,368</u>	<u>\$ 305,381</u>

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2006

	752	754	
	Print Shop	Computer Operations	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from State	\$ 3,538	\$ -	\$ 3,538
Cash Received from District	172,872	130,624	303,496
Cash Payments for Payroll Costs	(58,118)	-	(58,118)
Cash Payments for Purchased Services	(20,982)	-	(20,982)
Cash Payments for Supplies and Materials	(26,369)	(14,887)	(41,256)
Cash Payments for Other Expenses	-	(75,595)	(75,595)
Net Cash Provided by Operating Activities	<u>70,941</u>	<u>40,142</u>	<u>111,083</u>
Net Increase in Cash and Cash Equivalents	70,941	40,142	111,083
Cash and Cash Equivalents at Beginning of the Year:	<u>70,262</u>	<u>77,701</u>	<u>147,963</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 141,203</u>	<u>\$ 117,843</u>	<u>\$ 259,046</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating Income:	\$ 33,108	\$ 30,740	\$ 63,848
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Due from Other Funds	255	3,717	3,972
Decrease (increase) in Other Receivables	106	-	106
Decrease (increase) in Inventories	(473)	(8,407)	(8,880)
Increase (decrease) in Accounts Payable	37,951	14,092	52,043
Increase (decrease) in Accrued Expenses	(6)	-	(6)
Net Cash Provided by Operating Activities	<u>\$ 70,941</u>	<u>\$ 40,142</u>	<u>\$ 111,083</u>

REQUIRED T.E.A. SCHEDULES

LAKE DALLAS 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	\$ 372,930,815
1998	1.190000	0.330000	406,665,880
1999	1.270000	0.300000	451,179,068
2000	1.287000	0.175000	556,869,938
2001	1.470000	0.190000	653,758,040
2002	1.500000	0.190000	804,243,217
2003	1.500000	0.190000	887,673,893
2004	1.500000	0.240000	950,046,055
2005	1.500000	0.295000	966,191,284
2006 (School year under audit)	1.500000	0.360000	1,003,428,703
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
\$ 49,545	\$ -	\$ 5,404	\$ 1,504	\$ (3,500)	\$ 39,137
19,518	-	3,541	982	(128)	14,867
15,830	-	3,751	886	-	11,193
16,819	-	5,006	681	-	11,132
28,780	-	10,874	1,405	-	16,501
122,251	-	4,027	510	(620)	117,094
42,220	-	5,433	688	(1,251)	34,848
58,243	-	13,241	2,119	(5,322)	37,561
329,153	-	200,457	39,423	(15,553)	73,720
-	18,663,774	15,363,806	3,687,313	758,266	370,921
<u>\$ 682,359</u>	<u>\$ 18,663,774</u>	<u>\$ 15,615,540</u>	<u>\$ 3,735,511</u>	<u>\$ 731,892</u>	<u>\$ 726,974</u>

LAKE DALLAS 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	\$ -	\$ -	\$ 145,060	\$ 375,110	\$ -	\$ 11,971	\$ 532,141
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	8,000	-	-	-	8,000
6212	Audit Services	-	-	-	13,850	-	-	13,850
6213	Tax Appraisal and Collection	-	170,709	-	-	-	-	170,709
621X	Other Professional Services	-	-	-	322	-	-	322
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	-	-
6240	Contr. Maint. and Repair	-	-	-	-	-	475	475
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	4,374	-	-	4,374
6290	Miscellaneous Contr.	-	-	-	10,905	-	-	10,905
6320	Textbooks and Reading	90	-	-	2,196	-	-	2,286
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	472	8,532	-	-	9,004
6410	Travel, Subsistence, Stipends	1,338	-	595	8,138	-	-	10,071
6420	Ins. and Bonding Costs	-	-	-	16,290	-	-	16,290
6430	Election Costs	28	-	-	-	-	-	28
6490	Miscellaneous Operating	4,152	-	4,541	31,640	-	-	40,333
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	1,580	-	-	1,580
6000	TOTAL	<u>\$ 5,608</u>	<u>\$ 170,709</u>	<u>\$ 158,668</u>	<u>\$ 472,937</u>	<u>\$ -</u>	<u>\$ 12,446</u>	<u>\$ 820,368</u>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 26,599,299

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 372,876
Total Debt & Lease(6500)	(11)	24,849
Plant Maintenance (Function 51, 6100-6400)	(12)	3,276,758
Food (Function 35, 6341 and 6499)	(13)	450,880
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		<u>472,937</u>

SubTotal:

4,598,301

Net Allowed Direct Cost

\$ 22,000,998

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 79,491,461
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)	\$ 2,721,973
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: \$70,377 in Function 53 expenditures are included in this report on administrative costs.

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE 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)	\$	3,268,552
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$	133,496
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).		2,385,016
6	Estimate of delayed payments from state sources (58xx) including August payment delays		677,882
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.		-
8	Estimate of delayed payments from federal sources (59xx)		150,000
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)		-
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>3,346,394</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	\$	<u><u>(77,842)</u></u>

N/A

LAKE DALLAS 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	\$ 720,296	\$ 794,975	\$ 789,568	\$ (5,407)
5800 State Program Revenues	10,000	10,000	9,307	(693)
5900 Federal Program Revenues	375,771	445,687	447,270	1,583
5020 Total Revenues	<u>1,106,067</u>	<u>1,250,662</u>	<u>1,246,145</u>	<u>(4,517)</u>
EXPENDITURES:				
0035 Food Services	<u>1,081,520</u>	<u>1,226,115</u>	<u>1,206,207</u>	<u>19,908</u>
6030 Total Expenditures	<u>1,081,520</u>	<u>1,226,115</u>	<u>1,206,207</u>	<u>19,908</u>
1200 Net Change in Fund Balances	24,547	24,547	39,938	15,391
0100 Fund Balance - September 1 (Beginning)	<u>206,485</u>	<u>206,485</u>	<u>206,485</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 231,032</u>	<u>\$ 231,032</u>	<u>\$ 246,423</u>	<u>\$ 15,391</u>

LAKE DALLAS 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		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,790,388	\$ 3,812,298	\$ 3,879,431	\$ 67,133
5800 State Program Revenues	1,021,441	1,021,441	951,312	(70,129)
5020 Total Revenues	4,811,829	4,833,739	4,830,743	(2,996)
EXPENDITURES:				
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	1,307,772	1,307,772	1,307,772	-
0072 Debt Service - Interest on Long Term Debt	3,482,884	3,482,884	3,482,884	-
0073 Debt Service - Bond Issuance Cost and Fees	3,000	8,000	5,750	2,250
6030 Total Expenditures	4,793,656	4,798,656	4,796,406	2,250
1200 Net Change in Fund Balances	18,173	35,083	34,337	(746)
0100 Fund Balance - September 1 (Beginning)	810,773	810,773	810,773	-
3000 Fund Balance - August 31 (Ending)	\$ 828,946	\$ 845,856	\$ 845,110	\$ (746)

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FEDERAL AWARDS SECTION

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Trustees
Lake Dallas Independent School District
Lake Dallas, Texas

Members of the Board of Trustees:

We have audited the financial statements of Lake Dallas 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
Lake Dallas Independent School District
Lake Dallas, Texas

Members of the Board of Trustees:

Compliance

We have audited the compliance of Lake Dallas 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 finding and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

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

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

LAKE DALLAS 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::
 84.027 IDEA Part 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 several days 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	110% of the daily cash balance exceeded the pledged securities and FDIC Insurance coverage on several occasions.
Instance/Universe	This happened in September, November, December, January and February.
Recommendation	The bank has improved it's coverage and monitoring of daily balances and this has not happened since February 2006.

LAKE DALLAS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2006

CORRECTIVE ACTION PLAN

Contact Person – Mr. Wesley Eversole, Assistant Superintendent of Operations and Finance

FINDING 2006-1 The District’s cash deposits were not entirely covered by FDIC insurance or pledged collateral securities on several occasions 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

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

FINDING/NONCOMPLIANCE

None

LAKE DALLAS 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
U.S. DEPARTMENT OF EDUCATION			
<u>Direct Programs</u>			
Impact Aid - P.L. 81.874 (Note A)	84.041		\$ 321,945
Total Direct Programs			\$ 321,945
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	06-610101061912	\$ 211,875
IDEA - Part B, Formula	84.027	07-660001061912	20,168
IDEA - Part B, Formula	84.027	06-660001061912	650,062
Total CFDA Number 84.027			670,230
IDEA - Part B, High Cost	84.027A	06-610101061912	18,440
Vocational Education - Basic Grant	84.048	06-420006061912	24,601
IDEA - Part B, Preschool	84.173	06-661001061912	11,522
ESEA Title IV - Safe and Drug-Free Schools	84.186A	06-691001061912	10,492
Title V, Part A - Innovative Program	84.298	06-685001061912	7,566
Title III, Part A - English Lang. Acquisition	84.365A	06-671001061912	20,267
ESEA Title II, Part A, Teacher & Principal Training	84.367A	06-694501061912	71,921
Title VI Part A - Summer School LEP	84.369A	69550502	1,307
Temporary Emergency Impact Aid	84.938C	06-520301061912	22,069
Total Passed Through State Department of Education			\$ 1,070,290
TOTAL DEPARTMENT OF EDUCATION			\$ 1,392,235
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast & Lunch Program*	10.555		\$ 385,732
Commodities	10.550		61,538
Watershed Protection & Flood Control	10.904		16,771
Total Passed Through the State Department of Agriculture			\$ 464,041
TOTAL DEPARTMENT OF AGRICULTURE			\$ 464,041
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,856,276

*Clustered Programs as required by Compliance Supplement March, 2005

LAKE DALLAS 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.