

LAKE CITIES MUNICIPAL UTILITY AUTHORITY

ANNUAL FINANCIAL REPORT

AUGUST 31, 2011

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ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }
COUNTY OF Denton }

I, Loyed Ezzell of the (Name of
(Duly Authorized Authority Representative)

Lake Cities Municipal Utility Authority
(Name of Authority)

hereby swear, or affirm, that the Authority named above has reviewed and approved at a meeting of the Board of the Directors of the Authority on the _____ day of _____, _____, its annual audit report for the fiscal year or period ended August 31, 2011 and that copies of the annual audit report have been filed in the Authority office, located at

(Address of Authority)

The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: _____, _____ By: _____
(Signature of Authority Representative)

Loyed Ezzell, President, Board of Directors
(Typed Name & Title of above Authority Representative)

Sworn to and subscribed to before me this _____ day of _____, _____,

(SEAL)

(Signature of Notary)

My Commission Expires On: _____, _____.
Notary Public in the State of Texas.



INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Lake Cities Municipal Utility Authority
City of Lake Dallas

We have audited the accompanying basic financial statements of Lake Cities Municipal Utility Authority (the Authority), as of and for the year ended August 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the respective financial statements 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 the 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 Lake Cities Municipal Utility Authority, as of August 31, 2011, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis (on pages 4 through 9) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

Lake Cities Municipal Utility Authority

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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 basic financial statements of Lake Cities Municipal Utility Authority. The budgetary comparison schedule-enterprise fund on page 24 and the Texas Supplemental Information on pages 26 to 36 as required by the Texas Commission on Environment Quality as published in the Water District Financial Management guide are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedule and Texas Supplemental Information excluding the portion marked unaudited, for 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, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
December 29, 2011

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2011**

As management of Lake Cities Municipal Utility Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended August 31, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$18,978,490 (Net Assets). Of this amount, \$1,807,848 (unrestricted net assets) may be used to meet the government's ongoing obligations to customers and creditors in accordance with the Authority's fund designation and fiscal policies.
- The Authority's total net assets increased by \$716,132. This was due to a 19% increase in sewer demand charges and a 47% increase in water demand charges remitted to the Authority's major supplier. During the same period revenues for these charges increased 35%. Additionally, revenues outpaced expenses resulting in \$793,570 of operating income.
- The Authority's total debt decreased by \$240,000, or 30.0%. Total principal payments during the current year amounted to \$240,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic financial statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three statements: 1) The Statement of Net Assets which provide all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities); 2) Statement of Revenues, Expenditures and Changes in Net Assets shows the business-type activities of the Authority and provides information regarding income and expenses, both operating and non-operating, that affect the net assets; and 3) The Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the period using the direct method of reporting cash flows from operating, investing, and capital and noncapital financing activities. The basic financial statements can be found on pages 10-12.

Notes to the financial statements

Integral to the financial statements are the notes to the basic financial statements. These notes provide additional information that is essential to a full understanding of the financial data provided in the basic financial statements. The Authority has prepared notes sufficient to provide the readers of these financial statements a clear picture of the Authority's financial position and insight into the results of its operations. These notes comply with the Texas Commission on Environmental Quality (TCEQ) standardized reporting requirements and are in conformity with accounting principles generally accepted in the United States of America (GAAP). The notes to the financial statements can be found on pages 13-23.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2011**

Other required information

In addition to the basic financial statements and the accompanying notes, this section presents certain supplementary information, much of which is required by TCEQ, which may be beneficial to the reader.

The required supplementary information can be found on pages 24-36 of the report.

FINANCIAL ANALYSIS OF THE WATER DISTRICT AS A WHOLE

Our analysis below focuses on the Authority's Net Assets (Table 1) and Changes in Net Assets (Table 2) during the fiscal year ended August 31, 2011.

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the Lake Cities Municipal Authority, assets exceeded liabilities by \$18,978,490 as of August 31, 2011.

The largest portion of the Authority's net assets (89%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. An additional portion of the Authority's net assets (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$1,807,848, or 10%) may be used to meet the Authority's ongoing obligations to customers and creditors.

Lake Cities Municipal Authority's Net Assets – Table 1

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Current and other assets	\$ 2,972,995	\$ 1,957,008	\$ 1,015,987
Capital assets	<u>17,329,265</u>	<u>17,801,345</u>	<u>(472,080)</u>
Total assets	20,302,260	19,758,353	543,907
Current liabilities	776,431	793,004	(16,573)
Long-term liabilities	<u>547,339</u>	<u>702,991</u>	<u>(155,652)</u>
Total liabilities	1,323,770	1,495,995	(172,225)
Net assets:			
Invested in capital assets,			
Net of related debt	16,903,730	17,088,813	(185,083)
Restricted	266,912	217,778	49,134
Unrestricted	<u>1,807,848</u>	<u>955,767</u>	<u>852,081</u>
Total net assets	<u>\$ 18,978,490</u>	<u>\$ 18,262,358</u>	<u>\$ 716,132</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2011**

Restricted net assets, \$124,003 are to be used for bonded debt service, and \$142,909 represents Impact Fees restricted for capital improvements. Unrestricted net assets, \$1,807,848, may be used to meet the government's ongoing obligations to its customer and creditors.

As of August 31, 2011, the Authority is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

The current and other assets increased by \$1,015,987, largely due to a increase in cash on deposit and total investments of \$895,715. The funds were acquired through increased customer usage as a result of the drought conditions affecting the area.

The other liabilities decreased by \$155,652, primarily as a result of an decrease in the Authority's accounts payable and a decrease in the current portion of long-term debt. During the current year, the Authority's debt (its revenue bonds, capital lease obligations and note payable) decreased by \$240,000. Also included in long-term liabilities is the requirement to report an OPEB (Other Post Employment Benefits) liability of \$242,339.

The Authority's net assets increased by \$716,132 during the current fiscal year. Net assets invested in capital assets, net of related debt, decreased by \$185,083 due to some asset retirements. Unrestricted net assets increased by \$852,081 or 89%, due to increased customer usage.

The overall increase in net assets of \$716,132 reflects a year of ideal operations, due to dry conditions increasing customer demand and total sales and rate increase in November 2010, with the financial position of the Authority improving during this fiscal year. The following table provides a summary of the Authority's operations for the fiscal year ended August 31, 2011, with comparative totals for the fiscal year ended August 31, 2010.

Lake Cities Municipal Utility Authority's Change in Net Assets – Table 2

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Total operating revenues	\$ 6,322,318	\$ 4,741,038	\$ 1,581,280
Operating expenses	5,528,748	5,528,364	384
Non operating expense	<u>77,438</u>	<u>66,983</u>	<u>(10,455)</u>
Excess (deficiency) of revenues (under) expenses	716,132	(854,309)	1,570,441
Capital contributions	<u>-</u>	<u>76,054</u>	<u>(76,054)</u>
Change in net assets	716,132	(778,255)	1,494,387
Net Assets at beginning of year	<u>18,262,358</u>	<u>19,040,613</u>	<u>(778,255)</u>
Net assets at end of year	<u>\$ 18,978,490</u>	<u>\$ 18,262,358</u>	<u>\$ 716,132</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2011**

THE AUTHORITY'S FUNDS

The Authority has one activity, the Enterprise Fund. Unrestricted net assets of the proprietary fund, the Water and Sewer Fund, are \$1,807,848. This fund's net assets increased in the fiscal year ended August 31, 2011 by \$716,132.

Proprietary Fund Budgetary Highlights – The Authority made no revision to the original appropriations approved by the Board of Directors. Also, the Authority made no changes to its overall budgeted revenue.

Actual operating revenues were \$803,736 above the budgeted amounts, due in large part to the increase in water usage by customers caused by extreme temperatures during the summer months.

Actual operating expenditures were \$696,368 above the budgeted amounts, largely due to depreciation expense.

The change in net assets for the year was approximately \$225,846 more favorable than the budget amount, due to the operating revenues being greater than expected and the operating expenses not increasing as drastically.

Additional information on the comparison of the Authority's actual operations to its budget can be found in the Budgetary Comparison Schedule – Enterprise Fund on page 24.

CAPITAL ASSETS

The Authority's investment in capital assets for its business-type activities as of August 31, 2011 amounts to \$17,329,265 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress.

The Authority does not use the modified approach to report their infrastructure assets, so no discussion of that method is required.

The Authority investment in capital assets decreased approximately 3% during the current year. Major capital asset events during the current fiscal year included the following:

1. Approximately \$127,000 of new and replacement water infrastructure;
2. Approximately \$80,000 of new and replacement sewer infrastructure;
3. Purchase of new SCADA software for \$15,000.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2011**

Capital Assets at Year-End net of accumulated depreciation

	<u>2011</u>	<u>2010</u>	<u>Variance</u>
Construction in progress	\$ 5,300	\$ 5,300	\$ -
Land	394,160	394,160	-
Infrastructure	15,492,654	15,858,409	(365,755)
Other capital assets	<u>1,437,151</u>	<u>1,543,476</u>	<u>(106,325)</u>
Totals	<u>\$ 17,329,265</u>	<u>\$ 17,801,345</u>	<u>\$ (472,080)</u>

The following table summarizes the changes in capital assets.

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 17,801,345	\$ 17,578,223
Additions	353,558	985,784
Depreciation	(785,011)	(762,662)
Disposals	<u>(40,627)</u>	<u>-</u>
Balance at end of year	<u>\$ 17,329,265</u>	<u>\$ 17,801,345</u>

Additional information on the Authority's capital assets can be found in Note 4 on page 18 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the Authority had total bonded debt, capital lease obligations, and note payable of \$560,000. Of this amount, \$75,000 represents bonds secured by water and sewer revenues. The capital lease obligations totaling \$75,000 relates to financing accounting software and related equipment. The note payable of \$410,000 pertains to the construction of a new service center building. The pay-off dates of the Authority's long-term debt are as follows: capital lease financing the accounting software, March 1, 2013; note payable, May 1, 2014; and revenue bonds payable, November 1, 2011.

Outstanding Debt at Year-End
Bonds, Capital Lease Obligations, and Note Payable

	<u>2011</u>	<u>2010</u>	<u>Change</u>
Revenue Bonds Payable	\$ 75,000	\$ 145,000	\$ (70,000)
Capital Lease Obligations	75,000	125,000	(50,000)
Note Payable	<u>410,000</u>	<u>530,000</u>	<u>(120,000)</u>
Totals	<u>\$ 560,000</u>	<u>\$ 800,000</u>	<u>\$ (240,000)</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2011**

During the fiscal year, the Authority issued no new bonds.

The Authority's revenue-supported debt has never been rated by Moody's Investor Services, Inc., Standard & Poor's Rating Services, A Division of the McGraw-Hill Companies, Inc., or Fitch Investors Service, Inc. Application for contract ratings on the Bonds has not been made to any of the aforementioned rating companies. Furthermore, the Authority did not apply for municipal bond insurance.

Additional information on the Authority's long-term debt can be found in Note 5 on page 18 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the 2011-2012 Budget, water and sewer revenues are budgeted to increase by approximately 10% from the 2010-2011 budget year. A rate study conducted during the 2011 fiscal year revealed a structure change in water rates (including depreciation) and a 3.5% increase in sewer rates (including depreciation) was needed to continue building acceptable Working Capital and fund larger capital improvement projects over the next ten years. The Board of Directors has not passed a resolution affecting any rates.

The Authority has made a concerted effort to limit appropriations to only those items that are truly necessary. Budgeted expenditures include a small increase in salaries expense, and an increase in repairs and maintenance. Significant increases in the demand charge for water and for wastewater treatment from the provider resulted in comparable increases in those items of the Authority's expenditures budget.

The Water and Sewer Fund is budgeted to operate next year with expenditures equal to revenues.

REQUEST FOR INFORMATION

The financial report is designed to provide our residents, customers, investors and creditors with a general overview of the Authority's finances. If you have any questions about this report or need any additional information, contact the General Manager or Office Manager, P O Box 2017, Lake Dallas, Texas 75065 or call (940) 497-2999.

BASIC FINANCIAL STATEMENTS

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
STATEMENT OF NET ASSETS
AUGUST 31, 2011**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,271,721
Accounts receivable, net of allowance	1,109,775
Supplies inventory	188,651
Total current assets	2,570,147

RESTRICTED ASSETS

Cash and cash equivalents	277,374
Investments	124,003
Total restricted assets	401,377

CAPITAL ASSETS – net of accumulated depreciation

Construction in progress (non-depreciable)	5,300
Land (non-depreciable)	394,160
Infrastructure	15,492,654
Other capital assets	1,437,151
Total capital assets	17,329,265

OTHER ASSETS

Deferred bond issuance costs	1,471
	1,471

TOTAL ASSETS

\$ 20,302,260

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 338,911
Salaries and benefits payable	27,919
Accrued interest payable	20,136
Security deposits	134,465
Current portion of long-term debt	255,000
Total current liabilities	776,431

LONG-TERM LIABILITIES

Long-term debt, net of current portion	305,000
OPEB Liability	242,339
Total long-term liabilities	547,339

Total liabilities

1,323,770

NET ASSETS

Capital assets, net of related debt	16,903,730
Restricted for debt service	124,003
Restricted for capital improvement	142,909
Unrestricted net assets	1,807,848
Total net assets	18,978,490

TOTAL LIABILITIES AND NET ASSETS

\$ 20,302,260

The Notes to Financial Statements are an integral part of this statement.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED AUGUST 31, 2011**

OPERATING REVENUE	
Charges for water service	\$ 3,796,820
Charges for sewer service	2,288,500
Tap connection and inspection fees	139,202
Penalties and interest	97,796
	<hr/>
Total operating revenue	6,322,318
	<hr/>
OPERATING EXPENSES	
Purchased water service	1,810,765
Purchased sewer service	896,961
Salaries, benefits and payroll taxes	1,255,190
Contracted services	115,602
Professional fees	61,587
Utilities	120,385
Depreciation	785,011
Water and sewer system maintenance	143,210
Other	340,037
	<hr/>
Total operating expenses	5,528,748
	<hr/>
OPERATING INCOME	793,570
	<hr/>
NON-OPERATING REVENUES (EXPENSES)	
Investment earnings	1,215
Interest expense	(41,025)
Loss on dispositions of capital assets	(37,628)
	<hr/>
Total non-operating revenues (expenses)	(77,438)
	<hr/>
INCREASE IN NET ASSETS	716,132
	<hr/>
TOTAL NET ASSETS – BEGINNING	18,262,358
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TOTAL NET ASSETS – ENDING	\$ 18,978,490
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The Notes to Financial Statements are an integral part of this statement.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2011**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 5,878,293
Cash paid to employees for services	(1,165,516)
Cash paid to suppliers	(3,087,724)
Cash paid for other expenses	(517,226)
Net cash provided by operating activities	<u>1,107,827</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>1,213</u>
Net cash provided by financing activities	<u>1,213</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Purchases of investments	(80,234)
Proceeds from sales of investments	<u>76,858</u>
Net cash used in non-capital financing activities	<u>(3,376)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(353,559)
Proceeds disposal of capital assets	3,000
Principal payments on long-term debt	(240,000)
Interest on long-term debt	(35,941)
Net cash used in capital and related financing activities	<u>(626,500)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	479,164
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,069,931</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,549,095</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
OPERATING INCOME	793,570
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	785,011
Change in accounts receivable	(449,770)
Change in OPEB liability	95,594
Change in supplies inventory	(83,677)
Change in accounts payable, salaries payable and deposits	(32,901)
Net cash provided by operating activities	<u><u>\$ 1,107,827</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:	
Cash and cash equivalents	1,271,721
Restricted cash and cash equivalents	<u>277,374</u>
Total cash and cash equivalents	<u><u>\$ 1,549,095</u></u>

The Notes to Financial Statements are an integral part of this statement.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Lake Cities Municipal Utility Authority was created under Article XVI, Section 59 of the Constitution of the State of Texas, by Acts 1963, 58th Legislature, Chapter 599, which provide that the Board of Directors shall be elected by the qualified voters of the Authority. It was organized to own and operate the Water and Sewer System and was empowered to levy taxes and charge for water and sewer services provided to citizens. The Authority was also validated and confirmed effective June 18, 1999 by House Bill No. 3804, Chapter 1137, 76th Legislature. This bill revised and restated the enabling statutes creating and establishing the Authority's power of eminent domain and its authority to levy an ad valorem tax and to issue bonds. Its enabling legislation was further amended by House Bill No. 2309, Section 1.26, 79th Legislature, which was signed into law on June 18, 2005, effective September 1, 2005. This law repealed Chapter 312, Acts of the 58th Legislature, Regular Session, 1963 and provided that each director is to be elected at large to one of five numbered places by the qualified voters residing within the boundaries of the Authority.

Measurement Focus

The accompanying basic financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The Authority's operating revenues are derived from charges to users, primarily for the transportation and sale of water and wastewater. The Authority constructs facilities to provide services to others, which are financed in part by the issuance of its revenue bonds.

Basis of Presentation

The Authority presents its financial statements in accordance with GASB Statement 34 guidance for governments engaged in business-type activities. Accordingly, the basic financial statements and Required Supplementary Information (RSI) of the Authority consist of MD&A, Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows, and Notes to the Financial Statements. Additionally, the Authority complies with the reporting requirements promulgated by the "Water Authority's Financial Management Guide" published by the Texas Commission on Environmental Quality.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenues

Revenues are recognized as earned and generally result from providing water and sewer services to customers. Revenues resulting from other transactions are reported as non-operating revenues.

Expenses

Direct charges attributable to the operations of the Authority's water and sewer systems, including depreciation and amortization, are reported as operating expenses. Interest expense and other similar charges not directly related to the systems' operations are reported as non-operating expenses. Restricted resources, if any, are used first to fund related appropriations, before unrestricted resources are used.

Cash Equivalents

All highly liquid investments (including restricted assets) with original maturities of three months or less when purchased are considered to be cash equivalents.

Deposits

At August 31, 2011, the bank balance of the Authority's cash deposits totaled \$134,465 which is below the maximum amount covered by federal depository insurance. The carrying amount of the bank balance was \$23,174. At various times during the year, the bank balance exceeded the federal depository insurance limit of \$250,000. The Authority has obtained a pledge of securities in the amount of \$300,000 from a financial institution in order to mitigate credit and custodial risks associated with deposits and comply with the provisions of Texas statutes.

Investments

All investments have maturities of one year or less when purchased, meeting the short-term maturity requirement and, thus, are reported at amortized cost on the Statement of Net Assets.

Accounts Receivable

Accounts Receivable consists primarily of receivables related to water and sewer services. Accounts Receivable includes an accrual for unbilled revenue earned during the month of August 2011. The unbilled revenue balance as of August 31, 2011 was \$183,132.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Allowances for Doubtful Accounts

Trade accounts receivable are evaluated periodically for collectability based on customer history and current economic conditions. When considered necessary, an allowance is made for doubtful accounts.

Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) methodology.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Capital Assets

All purchased capital assets are stated at historical cost unless they are determined to be impaired based on GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. Donated assets are stated at their estimated fair values on the date donated.

Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized.

According to the Authority's capitalization policy, assets capitalized have an original cost of \$5,000 or more and two or more years of estimated useful life. Depreciation is calculated on each class of depreciable property using the straight-line method. Estimated useful lives range from 5 to 40 years for buildings and water and sewer equipment, 5 to 20 years for machinery and equipment, and 10 to 40 years for engineering fees and purchased computer software.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

Employees are allowed to accumulate vacation within certain limitations. Payment for accrued vacation (within limits) upon termination is subject to the employee leaving in good standing. Payment for accrued sick leave (within limits) is paid upon retirement. At August 31, 2011, a liability of \$17,337 for unused vacation leave has been accrued.

Minimum Unrestricted Net Assets

The Authority's goal is to achieve and maintain unrestricted net asset balance in the enterprise fund equal to 25% of annual expenses. In the event that the unrestricted net asset balance is calculated to be less than the policy stipulates, the Authority shall plan to adjust budget resources in subsequent fiscal years to restore the balance.

NOTE 2. CASH AND INVESTMENTS

Legal provisions generally permit the Authority to invest in direct and indirect obligations of the United States of America or its agencies, certain certificates of deposit, repurchase agreements, public funds investment pools and mutual funds. During the year ended August 31, 2011, the Authority did not own any types of securities other than those permitted by statute.

The following is a summary of cash and investments at August 31, 2011:

	<u>Credit Quality Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
<u>Unrestricted Cash and Investments</u>			
Deposits with a financial institution	Not Rated	\$ 23,174	n/a
Cash on hand	Not Rated	500	n/a
TexPool	AAAm	1,173,463	46 Days
Treasury Bill - U.S. Treasuries	A-1+	74,584	57 Days
		<u>\$ 1,271,721</u>	
<u>Restricted Cash and Investments</u>			
TexPool	AAAm	\$ 277,374	46 Days
Treasury Bill - U.S. Treasuries	A-1+	124,003	57 Days
		<u>\$ 401,377</u>	

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

The following is a summary of cash restrictions as of August 31, 2011:

<u>Restricted Cash and Investments</u>	
Restricted for customer deposits	\$ 134,465
Restricted for capital improvement	142,909
Restricted for debt service	<u>124,003</u>
Total restricted cash and equivalents	<u><u>\$ 401,377</u></u>

Restricted Cash and Investments are maintained in an Interest and Sinking Fund, consisting of U.S. Treasury Bills. The balance of the Fund is sufficient to pay upcoming bond principal and interest payments as required by the terms of the Authority's Bond Order.

In compliance with the Authority's investment policy, the Authority limits exposure to credit risk and interest rate risk by limiting the effective duration of securities to less than twelve months and limiting investments to high quality rated securities. The Authority limits exposure to custodial risk through a pledge of securities obtained from a financial institution.

The Authority invested in TexPool. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard and Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard and Poor's, as well as the office of the Comptroller for public review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable arising from business activities at August 31, 2011 are as follows:

Accounts receivable	\$ 977,500
Accrued unbilled revenue	183,132
Other receivables	8,978
Less: Allowance for uncollectables	<u>(59,835)</u>
Total accounts receivable, net	<u><u>\$ 1,109,775</u></u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance at September 1, 2010	Additions and Transfers	Disposals and Transfers	Balance at August 31, 2011
Capital assets, nondepreciable:				
Construction in progress	\$ 5,300	\$ -	\$ -	\$ 5,300
Land	394,160	-	-	394,160
Total nondepreciable assets	<u>399,460</u>	<u>-</u>	<u>-</u>	<u>399,460</u>
Capital assets, depreciable:				
Infrastructure	24,273,275	331,473	90,460	24,514,288
Other capital assets	2,246,952	22,085	57,481	2,211,556
Total depreciable assets	<u>26,520,227</u>	<u>353,558</u>	<u>147,941</u>	<u>26,725,844</u>
Less accumulated depreciation:				
Infrastructure	8,414,866	658,042	51,274	9,021,634
Other capital assets	703,476	126,969	56,040	774,405
Total accumulated depreciation	<u>9,118,342</u>	<u>785,011</u>	<u>107,314</u>	<u>9,796,039</u>
Total depreciable assets, net	<u>17,401,885</u>	<u>(431,453)</u>	<u>40,627</u>	<u>16,929,805</u>
Capital assets, net	<u>\$ 17,801,345</u>	<u>\$ (431,453)</u>	<u>\$ 40,627</u>	<u>\$ 17,329,265</u>

NOTE 5. LONG-TERM DEBT

Summary of long-term debt are summarized as follows:

	Balance at September 1, 2010	Issued	Retired or Refunded	Balance at August 31, 2011	Amounts due Within One Year
Series 1996 Revenue Bonds	\$ 145,000	\$ -	\$ (70,000)	\$ 75,000	\$ 75,000
Note Payable	530,000	-	(120,000)	410,000	130,000
Capital Lease Obligation	125,000	-	(50,000)	75,000	50,000
Total Debt Payble	<u>800,000</u>	<u>-</u>	<u>(240,000)</u>	<u>560,000</u>	<u>255,000</u>
OPEB Liability	146,745	95,594	-	242,339	-
Total Long Term Liabilities	<u>\$ 946,745</u>	<u>\$ 95,594</u>	<u>\$ (240,000)</u>	<u>\$ 802,339</u>	<u>\$ 255,000</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5. LONG-TERM DEBT – CONTINUED

Series 1996 Revenue Bonds were issued in the amount of \$755,000, with each series being due annually each November 1. These bonds have been callable since November 2003, at par value plus accrued interest to the date fixed for the redemption. These bonds are secured by the water and sewer system and any revenues generated by the provision of water and sewer service through the use of this system.

Annual requirements to retire revenue bonds outstanding, including interest, are:

Year ended August 31,	Interest Amount	Principal Amount	Total Bond Service Requirements
2012	\$ 2,344	\$ 75,000	\$ 77,344
Totals	<u>\$ 2,344</u>	<u>\$ 75,000</u>	<u>\$ 77,344</u>

NOTE 6. CONSTRUCTION NOTE PAYABLE

In May of 2009, the Authority entered into a construction escrow agreement with a financial institution, in the amount of \$650,000 with interest at approximately 6% per annum to provide financing for the new service building to be located adjacent to existing offices. The loan is secured by the net revenues of the Authority and a lien on the real property.

Annual requirements to retire construction note payable, including interest, are as follows:

Year ended August 31,	Interest Amount	Principal Amount	Total Bond Service Requirements
2012	\$ 22,923	\$ 130,000	\$ 152,923
2013	15,087	135,000	150,087
2014	6,675	145,000	151,675
Totals	<u>\$ 44,685</u>	<u>\$ 410,000</u>	<u>\$ 454,685</u>

NOTE 7. CAPITAL LEASE

In July 2010, the Authority entered into a lease agreement with discount purchase option for the acquisition of accounting software and related equipment. The cost of the software was \$150,000, and during the year ended August 31, 2011. Total accumulated amortization was \$18,750 at August 31, 2011.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7. CAPITAL LEASE – CONTINUED

Future minimum lease obligations are as follows:

Year ended August 31,	Future Minimum Lease Payments
2012	\$ 53,754
2013	26,877
Totals	80,631
Less Interest	(5,631)
Currently Due	\$ 75,000

NOTE 8. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The Authority provides other postemployment benefits (OPEB) in the form of health and dental insurance benefits for certain retirees and their spouses age 62 or over, upon retirement from the Authority. Upon the retirees' eligibility for Medicare benefits, supplement coverage is offered. The Plan is a single-employer defined benefit variety. The Plan does not have a separately issued GAAP-basis postemployment benefit plan report available for the current reporting period.

These benefits are funded based on years of service, as follows:

- 10 years of service Authority pays 50% of Medical and Dental insurance premiums.
- 15 years of service Authority pays 75% of Medical and Dental insurance premiums.
- 20 years of service Authority pays 100% of Medical and Dental insurance premiums.
- Employee spouse Authority pays 75% of Medical and Dental insurance premiums.

At August 31, 2011, the plan only had 22 total participants and met the requirements to use the alternative measurement method and elected to do so.

Funding Policy

The Authority's funding policy is established and may be amended by the Authority's Board of Directors. The Authority is not required to establish an irrevocable trust fund to accumulate assets for payment of future OPEB benefits and has elected not to do so for 2011. Currently, payments of OPEB benefits are made on a pay-as-you-go basis in amounts necessary to provide current benefits to the recipients.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED

Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the alternative measurement method provisions of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years on an open basis. The Authority's annual OPEB cost and net OPEB obligation for August 31, 2011 and 2010 is shown below:

	2011	2010
Annual required contribution	\$ 108,230	\$ 155,397
Annual OPEB cost	108,230	155,397
Contributions made	(12,636)	(8,652)
Increase in net OPEB obligation	95,594	146,745
Net OPEB obligation - beginning of year	146,745	-
Net OPEB obligation - end of year	\$ 242,339	\$ 146,745
 Percentage of Annual OPEB Cost Contributed	12%	6%

Funded Status and Funding Progress

The funded status of other postemployment benefits as of August 31, 2011, the date of the latest actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 518,229
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$ 518,229
 Funded ratio (actuarial value of plan asset/AAL)	0.0%

The Unfunded Actuarial Accrued Liability (UAAL) as a percent of covered payroll is as follows:

Fiscal Year Ended	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
8/31/2010	\$ 978,589	-	\$ 978,589	-	\$ 809,693	121%
8/31/2011	518,229	-	518,229	-	861,506	60%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The unfunded actuarial accrued liability is being amortized assuming 30 level annual payments on an open basis.

Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Below is a schedule of significant assumptions used to estimate the Authority’s annual required contribution:

Valuation Date	August 31, 2011
Amortization method	Level Dollar
Discount Rate	4%
Spouse election coverage	60%
Medical inflation	3.7% - 7.1%
Mortality Rates	Table RP2000 Combined Healthy Mortality Table
Ultimate Withdrawal Rates	GASB Expected Future Working Lifetimes of Employees, by Age—Default Values Table
Turnover Rates	GASB Probability of Remaining Employed until Assumed Retirement Age Table
Initial Health Insurance	
Premium inflation rate	4.0%
Ultimate Health Insurance	
Premium inflation rate	5.7%

NOTE 9. EMPLOYEE BENEFIT PLAN

The Company sponsors a 457(b) plan, the LMCUA Employees’ Pension Plan (the Plan), whereby retirement benefits are provided to eligible full-time employees . This is in lieu of Social Security. Under the Plan, LCMUA will match one-to-one the amount equal to 7.65% of the employee’s salary. Employees are permitted to contribute between 1% of the employees’ compensation up to the maximum of 12%.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 10. SUBSEQUENT EVENTS

The Authority has evaluated all events or transaction that occurred after August 31, 2011 up through December 29, 2011, the date the financial statements were available to be issued. During this period there were no subsequent events requiring disclosure.

**REQUIRED TCEQ SUPPLEMENTAL
INFORMATION**

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND
FOR THE YEAR ENDED AUGUST 31, 2011**

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OPERATING REVENUE			
Charges for water service	\$ 3,153,288	\$ 3,796,820	\$ 643,532
Charges for sewer service	2,122,894	2,288,500	165,606
Tap connection and inspection fees	132,500	139,202	6,702
Penalties and interest	109,900	97,796	(12,104)
Total operating revenue	5,518,582	6,322,318	803,736
OPERATING EXPENSES			
Purchased water service	1,883,124	1,810,185	72,939
Purchased sewer service	1,007,449	896,961	110,488
Water service	-	580	(580)
Salaries, benefits and payroll taxes	1,126,254	1,255,190	(128,936)
Contracted services	69,276	115,602	(46,326)
Professional fees	109,791	61,587	48,204
Utilities	166,000	120,385	45,615
Depreciation	-	785,011	(785,011)
Water and sewer system maintenance	135,610	143,210	(7,600)
Service center costs	-	23,802	(23,802)
Other	334,876	316,235	18,641
Total operating expenses	4,832,380	5,528,748	(696,368)
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	-	1,215	1,215
Interest expense	(195,916)	(41,025)	154,891
Loss on dispositions	-	(37,628)	(37,628)
Total non-operating revenues (expenses)	(195,916)	(77,438)	118,478
CHANGE IN NET ASSETS – GAAP BASIS	\$ 490,286	\$ 716,132	\$ 225,846
NON-OPERATING COSTS – NON-GAAP			
Capital expenditures	\$ 292,290	\$ 353,558	\$ 61,268
Principal payments on long-term debt	393,912	240,000	(153,912)
Total non-operating costs – non-GAAP	\$ 686,202	\$ 593,558	\$ (92,644)

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO THE BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND
FOR THE YEAR ENDED AUGUST 31, 2011**

The Authority adopts a GAAP accrual basis budget for the enterprise fund annually. Include in the Authority's budget are certain non-GAAP expenditures which are capital expenditures and principal payments on long term debt. The budget is prepared by management and approved by the Board of Directors at the August meeting. The adopted budget is not a spending limitation under the law but rather a tool used in controlling and administering the management and operation of the Authority.

**TEXAS SUPPLEMENTAL
INFORMATION**

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-1. SERVICES AND RATES
AUGUST 31, 2011
(Unaudited)**

1. Services Provided by the Authority during the Fiscal Year:

<u> X </u>	Retail Water
<u> X </u>	Retail Wastewater

2. Retail Service Providers

a. Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Usage</u>	<u>Usage Levels</u>
Water:	\$23.57	1,000	N	\$3.93	1,001 to 8,000
				\$4.33	8,001 to 13,000
				\$4.98	13,001 to 30,000
				\$6.36	30,000 to 40,000
				\$7.97	40,000 to 50,000
				\$9.58	50,001 and up

Individuals over the age of 65 receive 3,000 gallons in the monthly minimum.

Wastewater:

Residential	\$19.19	1,000	N	\$3.96	1,000 to 15,000
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Individuals over the age of 65 receive 2,000 gallons in the monthly minimum.

Commercial	\$20.77	1,000	N	\$3.96	Above 1,000
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Authority employs winter averaging for wastewater usage? No

Total charges per 10,000 gallons usage:	Water	\$59.74
	Wastewater	\$54.83

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-1. SERVICES AND RATES – CONTINUED
AUGUST 31, 2011
(Unaudited)

2. Retail Service Providers

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	25	25	X 1.0	25
≤ 3/4"	4677	4434	X 1.0	4434
1"	104	104	X 2.5	260
1 1/2"	20	20	X 5.0	100
2"	83	83	X 8.0	664
3"	5	5	X 15.0	75
4"	1	1	X 25.0	25
6"	1	1	X 50.0	50
8"	-	-	X 80.0	-
10"	-	-	X 115.0	-
Total water connections	4916	4673		5633
Total wastewater connections	4105	4105	X 1.0	4105

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):

Gallons pumped into system:	606,986,000
Gallons billed to customers:	544,463,000
Water Accountability Ratio: (Gallons billed / Gallons pumped)	89.70%

4. Standby Fees: Not Applicable

5. Location of District

County in which the Authority is located:	Denton
Is the Authority located entirely in one county?	Yes
Is the Authority located within a city?	Partly
Cities in which the Authority is located:	Hickory Creek, Lake Dallas, Shady Shores
Is the Authority located within a city's extra territorial jurisdiction (EJT)?	Partly
EJTs in which the Authority is located:	Hickory Creek, Lake Dallas, Shady Shores
Are board members appointed by an office outside the Authority?	No

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-2. SCHEDULE OF ENTERPRISE FUND EXPENSES
AUGUST 31, 2011**

PURCHASED WATER SERVICE	\$ 1,810,765
PURCHASED SEWER SERVICE	896,961
SALARIES, BENEFITS AND PAYROLL TAXES*	1,255,190
CONTRACTED SERVICES	115,602
PROFESSIONAL FEES	
Auditing	25,700
Engineering	14,776
Consulting fees	13,607
Legal	7,504
UTILITIES	120,385
WATER AND SEWER SYSTEM MAINTENANCE	143,210
OTHER	
Other	87,086
Insurance/surety bonds	39,188
Fuel and lube	32,161
Telephone/2-way radios	27,806
Postage	26,071
Software maintenance/training	24,321
Printing	21,237
Uniforms	17,340
Other expense – subscriptions, dues, misc.	12,095
Safety supplies/training	10,588
Office equipment maintenance/rental	10,194
Office supplies	8,338
Travel expenses	7,533
Training/enrollment/license	6,143
Chemicals	4,452
Rents – equipment/space	3,057
Hardware/Software - office	2,427
DEPRECIATION EXPENSE	785,011
TOTAL EXPENDITURES	<u>\$ 5,528,748</u>

* Number of persons employed by the Authority: 19 Full-Time 0 Part-Time
(Not including independent contractors or consultants)

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-3. SCHEDULE OF TEMPORARY INVESTMENTS
AUGUST 31, 2011**

<u>Funds</u>	<u>Account Number</u>	<u>Interest Rate at End of Year</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>Governmental</u>					
Investment Pool	610200006	0.075%	N/A	\$ 523,267	\$ -
Investment Pool	610200003	0.075%	N/A	688,060	-
Investment Pool	610200002	0.075%	N/A	45,388	-
Investment Pool	610200005	0.075%	N/A	97,521	-
Investment Pool	610200009	0.075%	N/A	96,601	-
<u>Financial Institution</u>					
T-Bills, Reserve Fund	421122	-	10/27/2011	74,584	-
T-Bills, Interest and Sinking Fund	421121	-	10/27/2011	<u>124,003</u>	<u>-</u>
Total				<u><u>\$ 1,649,424</u></u>	<u><u>\$ -</u></u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-4. TAXES LEVIED AND RECEIVABLE
AUGUST 31, 2011
(Unaudited)**

(Does not apply to the Authority)

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
AUGUST 31, 2011**

Due During Fiscal Years Ending	Series 1996 Bonds		
	Principal Due November 1	Interest Due May 1 and November 1	Total Annual Requirements
2012	\$ 75,000	\$ 2,344	\$ 77,344
Totals	\$ 75,000	\$ 2,344	\$ 77,344

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-6. CHANGES IN LONG-TERM BONDED DEBT
AUGUST 31, 2011**

	Bond Issue Series 1996
Interest rate	4.45% - 6.25%
Dates interest payable	May 1; Nov 1
Maturity date	November 1, 2011
Beginning bonds outstanding	\$ 145,000
Bonds sold during the fiscal year	-
Bonds retired during the fiscal year	70,000
Ending bonds outstanding	\$ 75,000
Interest paid during the fiscal year	\$ 6,751

Paying Agent's Name and City: The Bank of New York; Dallas, TX

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ -	\$ 75,000	\$ -
Amount issued	-	75,000	-
Remaining to be issued	-	-	-

Enterprise Fund cash and temporary investments balances
as of August 31, 2011: 1,673,098

Average annual bonded debt service payment (Principal and Interest)
for remaining term of all debt: 77,344

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
ENTERPRISE FUND—FIVE YEARS ENDED
AUGUST 31, 2011

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
OPERATING REVENUE					
Charges for water service	\$ 3,796,820	\$ 2,589,905	\$ 2,589,606	\$ 2,376,111	\$ 2,044,545
Charges for sewer service	2,288,500	1,927,779	1,838,840	1,607,166	1,464,208
Tap connection and inspection fees	139,202	122,232	138,351	280,927	352,023
Penalties and interest	97,796	101,122	87,459	81,560	72,976
Total operating revenue	<u>6,322,318</u>	<u>4,741,038</u>	<u>4,654,256</u>	<u>4,345,764</u>	<u>3,933,752</u>
OPERATING EXPENSES					
Purchased water service	1,810,185	1,611,737	1,572,120	1,458,638	1,358,937
Purchased sewer service	896,961	921,167	737,389	648,152	603,469
Water service	580	1,250	2,749	86,908	63,507
Salaries, benefits and payroll taxes	1,255,190	1,281,153	1,220,372	1,131,730	995,932
Contracted services	115,602	122,975	98,727	78,602	102,673
Professional fees	61,587	112,876	71,694	48,995	44,084
Utilities	120,385	152,220	135,289	121,908	150,519
Depreciation	785,011	762,662	807,644	648,151	602,918
Water and sewer system maintenance	143,210	164,577	119,446	190,767	75,172
Other	340,037	397,747	255,279	246,371	188,237
Total operating expenses	<u>5,528,748</u>	<u>5,528,364</u>	<u>5,020,709</u>	<u>4,660,222</u>	<u>4,185,448</u>
NON-OPERATING REVENUES (EXPENSES)					
Revenue from grants	-	-	-	28,774	-
Investment earnings	1,215	1,732	14,873	68,050	104,554
Interest expense	(41,025)	(69,195)	(19,581)	(30,611)	(46,090)
Gain (Loss) on dispositions	(37,628)	480	(52,934)	(9,151)	(90,564)
Total non-operating revenues (expenses)	<u>(77,438)</u>	<u>(66,983)</u>	<u>(57,642)</u>	<u>57,062</u>	<u>(32,100)</u>
EXCESS (DEFICIENCY)	<u>716,132</u>	<u>(854,309)</u>	<u>(424,095)</u>	<u>(257,396)</u>	<u>(283,796)</u>
CAPITAL ASSETS CONTRIBUTED BY DEVELOPERS	<u>-</u>	<u>76,054</u>	<u>844,181</u>	<u>1,187,745</u>	<u>604,485</u>
CHANGE IN NET ASSETS	<u>\$ 716,132</u>	<u>\$ (778,255)</u>	<u>\$ 420,086</u>	<u>\$ 930,349</u>	<u>\$ 320,689</u>

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
ENTERPRISE FUND—FIVE YEARS ENDED (Continued)
AUGUST 31, 2011

	Percentage of Total Revenue				
	2011	2010	2009	2008	2007
OPERATING REVENUE					
Charges for water service	60.1%	54.6%	55.6%	54.7%	52.0%
Charges for sewer service	36.2%	40.7%	39.5%	37.0%	37.2%
Tap connection and inspection fees	2.2%	2.6%	3.0%	6.5%	8.9%
Penalties and interest	1.5%	2.1%	1.9%	1.9%	1.9%
Total operating revenue	100.0%	100.0%	100.0%	100.0%	100.0%
OPERATING EXPENSES					
Purchased water service	28.6%	34.0%	33.8%	33.6%	34.5%
Purchased sewer service	14.2%	19.4%	15.8%	14.9%	15.3%
Water service	0.0%	0.0%	0.1%	2.0%	1.6%
Salaries, benefits and payroll taxes	19.9%	27.0%	26.2%	26.0%	25.3%
Contracted services	1.8%	2.6%	2.1%	1.8%	2.6%
Professional fees	1.0%	2.4%	1.5%	1.1%	1.1%
Utilities	1.9%	3.2%	2.9%	2.8%	3.8%
Depreciation	12.4%	16.1%	17.4%	14.9%	15.3%
Water and sewer system maintenance	2.3%	3.5%	2.6%	4.4%	1.9%
Other	5.4%	8.4%	5.5%	5.7%	4.8%
Total operating expenses	87.4%	116.6%	107.9%	107.2%	106.4%
NON-OPERATING REVENUES (EXPENSES)					
Revenue from grants	0.0%	0.0%	0.0%	0.7%	0.0%
Investment earnings	0.0%	0.0%	0.3%	1.6%	2.7%
Interest expense	-0.6%	-1.5%	-0.4%	-0.7%	-1.2%
Gain (Loss) on dispositions	-0.6%	0.0%	-1.1%	-0.2%	-2.3%
Total non-operating revenues (expenses)	-1.2%	-1.4%	-1.2%	1.3%	-0.8%
EXCESS (DEFICIENCY)	11.3%	-18.0%	-9.1%	-5.9%	-7.2%
CAPITAL ASSETS CONTRIBUTED BY DEVELOPERS	0.0%	1.6%	18.1%	27.3%	15.4%
CHANGE IN NET ASSETS	11.3%	-16.4%	9.0%	21.4%	8.2%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
AUGUST 31, 2011
(Unaudited)**

Complete Authority Mailing Address: P.O. Box 2017
501 N. Shady Shores Road
Lake Dallas, TX 75065

Authority Business Telephone Number: (940) 497-2999

Submission Date of the most recent
District Registration Form
(TWC Sections 36.054 and 49.054): March 1, 2010

	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 2011	Expense Reimbursements 2011	Title at Year End
<u>Board Members:</u>				
Loyed Ezzell	(Elected) 05/08 - 05/12	N/A	N/A	President
Norma Barker	(Appointed) 11/09 - 05/12	N/A	N/A	Vice President
Patrick Connors	(Elected) 5/10 - 5/14	N/A	N/A	Secretary
Cecil Carter	(Elected) 05/08 - 05/12	N/A	N/A	Director
Sammie Shield	(Appointed) Interim	N/A	N/A	Director