

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY**

**ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2010**

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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, 2010 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 AUDITORS' 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, 2010, as listed in the table of contents. These financial statements are the responsibility of the Lake Cities Municipal Utility 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, 2010 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 23, 2010, 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 10) is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 25 and the Texas Supplemental Information on pages 26 to 36 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 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.

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 this supplementary information. However, we did not audit such information and we do not express an opinion on it.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
December 23, 2010

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2010**

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, 2010.

**FINANCIAL HIGHLIGHTS**

- The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$18,262,358 (Net Assets). Of this amount, \$955,767 (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 decreased by \$778,255. This was due to a 21% increase in sewer demand charges and a 5% increase in water demand charges remitted to the Authority's major supplier. During the same period revenues only increased 2%. Expenses outpaced revenues resulting in a \$787,326 operating loss.
- The Authority's total debt decreased by \$99,704 or -11.1%. Total principal payments during the current year amounted to \$219,193; however, the Authority entered into a \$125,000 lease agreement related to the acquisition of computer software.

**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 11-13.

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 14-24.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2010**

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 25-36 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, 2010.

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 \$18,262,358 as of August 31, 2010.

The largest portion of the Authority's net assets (94%) 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 asset (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$955,767 or 5%) may be used to meet the Authority's ongoing obligations to customers and creditors.

Lake Cities Municipal Authority's Net Assets – Table 1

	<u>2010</u>	<u>2009 As Restated</u>	<u>Change</u>
Current and other assets	\$ 1,957,008	\$ 2,848,278	\$ (891,270)
Capital Assets	<u>17,801,345</u>	<u>17,578,223</u>	<u>223,122</u>
Total Assets	19,758,353	20,426,501	(668,148)
Long-term Liabilities	702,991	795,000	(92,009)
Other Liabilities	<u>793,004</u>	<u>590,888</u>	<u>202,116</u>
Total Liabilities	1,495,995	1,385,888	110,107
Net Assets:			
Invested in capital assets, Net of related debt	17,088,813	17,332,273	(243,460)
Restricted	217,778	120,660	97,118
Unrestricted	<u>955,767</u>	<u>1,587,680</u>	<u>(631,913)</u>
Total Net Assets	<u>\$ 18,262,358</u>	<u>\$ 19,040,613</u>	<u>\$ (778,255)</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2010**

The fiscal year 2009 Current Asset and Long-term liabilities balances have been restated to reflect a \$650,000 promissory note with a financial institution, secured by the Authority's revenue and certain real property, entered into on May 15, 2009, which was not originally recorded properly in fiscal year 2009. A prior period adjustment was made to record the proceeds that were received on this promissory note as of fiscal year 2009, accordingly. The adjustment consisted of an increase of \$650,000 to unrestricted cash and a corresponding note payable.

Restricted net assets, \$120,627 are to be used for bonded debt service, and \$97,151 represents Impact Fees restricted for capital improvements. Unrestricted net assets, \$955,767, may be used to meet the government's ongoing obligations to its customer and creditors.

As of August 31, 2010, 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 decreased by \$891,270, largely due to a decrease in cash on deposit and total investments of \$895,715. The funds were expended on the construction of the service center, and meeting current operating requirements.

The other liabilities increased by \$202,116, primarily as a result of an increase in the Authority's accounts payable and an increase 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 \$99,704 even with the receipt of a new capital lease related to the acquisition of new accounting software. Also included in long-term liabilities is a first year requirement to report an OPEB (Other Post Employment Benefits) liability of \$146,745.

The Authority's net assets decreased by \$778,255 during the current fiscal year. Net assets invested in capital assets, net of related debt, decreased by \$243,460 due to some assets becoming fully depreciated and the increase of debt for the purchase of other key assets. Unrestricted net assets decreased by \$631,913 or 40%.

The overall decreased in net assets of \$778,255 reflects a year of less than ideal operations with the financial position of the Authority not improving during this fiscal year. The following table provides a summary of the Authority's operations for the fiscal year ended August 31, 2010, with comparative totals for the fiscal year ended August 31, 2009.



**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2010**

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

	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Total operating revenues	\$ 4,741,038	\$ 4,654,256	\$ 86,782
Operating expenses	5,528,364	5,020,709	507,655
Non operating expense	<u>66,983</u>	<u>57,642</u>	<u>(9,341)</u>
Deficiency of expenses over revenue	(854,309)	(424,095)	(430,214)
Capital Contributions	<u>76,054</u>	<u>844,181</u>	<u>(768,127)</u>
Change in net assets	(778,255)	420,086	(1,198,341)
Net Assets at beginning of year	<u>19,040,613</u>	<u>18,620,527</u>	<u>420,086</u>
Net assets at end of year	<u>\$ 18,262,358</u>	<u>\$ 19,040,613</u>	<u>\$ (778,255)</u>

**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 \$955,767. This fund net assets decreased in the fiscal year ended August 31, 2010 of \$778,255.

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 \$895,825 below the budgeted amounts, due in large part to the decrease in water usage by customers, and the slowdown in economic development.

Actual operating expenditures were \$630,315 over budgeted amounts, largely due to increases in salaries, benefits and payroll taxes, and an increase in the amount paid for sewer treatment.

With the capital assets contributed by developers considered, the overall change in net assets for the year was approximately \$1,480,354 less favorable than the budget amount, due to the operating revenues being less than expected and the operating expenses being more than expected.

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 25.

**CAPITAL ASSETS**

The Authority's investment in capital assets for its business-type activities as of August 31, 2010 amounts to \$17,801,345 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2010**

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 increased 1% during the current year. Major capital asset events during the current fiscal year included the following:

1. Approximately \$76,000 of water and sewer infrastructure contributed by developers;
2. The new service center was completed and put into service costing approximately \$562,703 in the current year;
3. Purchase of new financial software for \$150,000.

**Capital Assets at Year-End Net of Accumulated Depreciation**

	<u>2010</u>	<u>2009</u>	<u>Variance</u>
Construction in Progress	\$ 5,300	\$ 99,127	\$ (93,827)
Land	394,160	394,160	-
Infrastructure	15,858,409	16,306,607	(448,198)
Other Capital Assets	<u>1,543,476</u>	<u>778,329</u>	<u>765,147</u>
Totals	<u>\$ 17,801,345</u>	<u>\$ 17,578,223</u>	<u>\$ 223,122</u>

The following table summarizes the changes in capital assets.

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 17,578,223	\$ 17,276,338
Additions	985,784	1,163,942
Depreciation	(762,662)	(807,644)
Disposals	<u>-</u>	<u>(54,413)</u>
Balance at end of year	<u>\$ 17,801,345</u>	<u>\$ 17,578,223</u>

Additional information on the Authority's capital assets can be found in Note 4 on page 19 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 \$800,000. Of this amount, \$145,000 represents bonds secured by water and sewer revenues. The capital lease obligations totaling \$125,000 relates to financing accounting software and related equipment. The note payable of \$530,000 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.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2010**

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

	<b>2010</b>	<b>2009</b>	
	<u>2010</u>	<u>As Restated</u>	<u>Change</u>
Revenue Bonds Payable	\$ 145,000	\$ 210,000	\$ (65,000)
Capital Lease Obligations	125,000	28,568	96,432
Note Payable	<u>530,000</u>	<u>657,382</u>	<u>(127,382)</u>
Totals	<u>\$ 800,000</u>	<u>\$ 895,950</u>	<u>\$ (95,950)</u>

The fiscal year 2009 Note Payable balances have been restated to reflect a \$650,000 Promissory Note with a financial institution, secured by the Authority's revenue and certain real property, see explanation on page 6 above.

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 20 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

In the 2010-2011 Budget, water and sewer revenues are budgeted to decrease by approximately 3% from the 2009-10 budget year, however a rate study conducted during the 2010 fiscal year revealed a 30% increase in water rates (including depreciation) and a 19% increase in sewer rates (including depreciation) was needed to build a acceptable Working Capital and will have a positive effect on revenue. The Board of Directors passed a resolution on November 15, 2010 putting the new rates in effect as of December 1, 2010.

The Authority has made a concerted effort to limit appropriations to only those items that are truly necessary. Budgeted expenditures include a slight increase in salaries expense, and a slight increase in utilities. 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.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2010**

**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, 2010**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 844,060
Accounts receivable, net of allowance	660,005
Supplies inventory	104,974
<b>Total current assets</b>	<b>1,609,039</b>

**RESTRICTED ASSETS**

Cash and cash equivalents	225,871
Investments	120,627
<b>Total restricted assets</b>	<b>346,498</b>

**CAPITAL ASSETS – net of accumulated depreciation**

Construction in progress (non-depreciable)	5,300
Land (non-depreciable)	394,160
Infrastructure	15,858,409
Other capital assets	1,543,476
<b>Total capital assets</b>	<b>17,801,345</b>

**OTHER ASSETS**

Deferred bond issuance costs	1,471
	<b>1,471</b>

**TOTAL ASSETS**

**\$ 19,758,353**

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 371,637
Salaries and benefits payable	33,839
Accrued interest payable	18,808
Security deposits	128,720
Current portion of long-term debt	240,000
<b>Total current liabilities</b>	<b>793,004</b>

**LONG-TERM LIABILITIES**

Long-term debt, net of current portion	556,246
OPEB Liability	146,745
<b>Total long-term liabilities</b>	<b>702,991</b>

**Total liabilities**

**1,495,995**

**NET ASSETS**

Capital assets, net of related debt	17,088,813
Restricted for debt service	120,627
Restricted for capital improvement	97,151
Unrestricted net assets	955,767
<b>Total net assets</b>	<b>18,262,358</b>

**TOTAL LIABILITIES AND NET ASSETS**

**\$ 19,758,353**

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, 2010**

<b>OPERATING REVENUE</b>	
Charges for water services	\$ 2,589,905
Charges for sewer service	1,927,779
Tap connection and inspection fees	122,232
Penalties and interest	<u>101,122</u>
<b>Total operating revenue</b>	<u>4,741,038</u>
<b>OPERATING EXPENSES</b>	
Purchased water service	1,611,737
Purchased sewer service	921,167
Water service	1,250
Salaries, benefits and payroll taxes	1,281,153
Contracted services	122,975
Professional fees	112,876
Utilities	152,220
Depreciation	762,662
Water and sewer system maintenance	164,577
Other	<u>397,747</u>
<b>Total operating expenses</b>	<u>5,528,364</u>
<b>OPERATING LOSS</b>	<u>(787,326)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment earnings	1,732
Interest expense	(69,195)
Gain on dispositions	<u>480</u>
<b>Total non-operating revenues (expenses)</b>	(66,983)
<b>DEFICIENCY OF EXPENSES OVER REVENUES</b>	<u>(854,309)</u>
<b>CAPITAL ASSETS CONTRIBUTED BY DEVELOPERS</b>	<u>76,054</u>
<b>CHANGE IN NET ASSETS</b>	(778,255)
<b>TOTAL NET ASSETS – BEGINNING</b>	<u>19,040,613</u>
<b>TOTAL NET ASSETS – ENDING</b>	<u><u>\$ 18,262,358</u></u>

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, 2010**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 4,736,078
Cash paid to employees for services	(1,205,675)
Cash paid to suppliers	(2,731,683)
Cash paid for other expenses	(633,598)
<b>Net cash provided by operating activities</b>	<u>165,122</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>1,732</u>
<b>Net cash provided by investing activities</b>	<u>1,732</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Purchases of investments	(75,977)
Proceeds from sales of investments	<u>76,010</u>
<b>Net cash provided by non-capital financing activities</b>	<u>33</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(134,745)
Principal payments on long-term debt	(222,947)
Interest on long-term debt	(54,877)
<b>Net cash used by capital and related financing activities</b>	<u>(412,569)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(245,682)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,315,613</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 1,069,931</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
<b>OPERATING LOSS</b>	(787,326)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	762,662
Change in accounts receivable	(1,600)
Change in OPEB liability	146,745
Change in supplies inventory	(4,107)
Change in accounts payable, salaries payable and deposits	48,748
<b>Net cash provided by operating activities</b>	<u><u>\$ 165,122</u></u>
<b>NONCASH TRANSACTIONS:</b>	
Assets acquired through capital lease	\$ 125,000
Construction escrow financing of capital assets	\$ 650,000
Capital assets contributed by developers	<u><u>\$ 76,054</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, 58<sup>th</sup> 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, 76<sup>th</sup> 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, 79<sup>th</sup> Legislature, which was signed into law on June 18, 2005, effective September 1, 2005. This law repealed Chapter 312, Acts of the 58<sup>th</sup> 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.

**Revenues**

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

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

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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, 2010, the bank balance of the Authority's cash deposits totaled \$123,097 which is below the maximum amount covered by federal depository insurance. The carrying amount of the bank balance was \$104,645. 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 2010. The unbilled revenue balance as of August 31, 2010 was \$126,532.

**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**

Inventories are valued at the lower of historical cost or market determined using the most recent price paid for purchases by item number.

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

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Contributed Capital**

Contributed capital is valued at its estimated fair market value at the date contributed.

**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, 10 to 40 years for engineering fees and purchased computer software.

**Fair Value of Financial Instruments**

Financial instruments consist of cash and cash equivalents, accounts receivable, other assets, accounts payable and long term debt. The carrying amounts of these items approximate their fair values.

**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, 2010, a liability of \$14,752 for unused vacation leave has been accrued.

**Budgets**

The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. The adopted budget is not a spending limitation under the law but rather an operating plan.

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

**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, 2010, 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, 2010:

	<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	\$ 104,645	n/a
Cash on hand	Not Rated	350	n/a
Short Term Investment Trust	AAAm	87,468	42 Days
TexPool	AAAm	479,906	28 Days
Treasury Bill - U.S. Treasuries	A-1+	<u>74,540</u>	58 Days
		<u>746,909</u>	
<u>Restricted Cash and Investments</u>			
TexPool	AAAm	225,871	28 Days
Treasury Bill - U.S. Treasuries	A-1+	<u>120,627</u>	58 Days
		<u>\$ 346,498</u>	

The following is a summary of cash restrictions as of August 31, 2010:

<u>Restricted Cash and Investments</u>	
Restricted for customer deposits	\$ 128,720
Restricted for capital improvement	97,151
Restricted for debt service	<u>120,627</u>
Total restricted cash and equivalents	<u>\$ 346,498</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.

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

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

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, 2010 are as follows:

Accounts receivable	\$ 654,076
Accrued unbilled revenue	126,532
Other receivables	17,696
Less: Allowance for bad debts	<u>(138,299)</u>
Total accounts receivable, net	<u><u>\$ 660,005</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, 2009	Additions and Transfers	Disposals and Transfers	Balance at August 31, 2010
Capital assets, nondepreciable:				
Construction in progress	\$ 99,127	\$ -	\$ 93,827	\$ 5,300
Land	394,160	-	-	394,160
Total nondepreciable assets	<u>493,287</u>	<u>-</u>	<u>93,827</u>	<u>399,460</u>
Capital assets, depreciable:				
Infrastructure	24,070,122	203,153	-	24,273,275
Other capital assets	1,370,494	876,458	-	2,246,952
Total depreciable assets	<u>25,440,616</u>	<u>1,079,611</u>	<u>-</u>	<u>26,520,227</u>
Less accumulated depreciation:				
Infrastructure	7,763,515	651,351	-	8,414,866
Other capital assets	592,165	111,311	-	703,476
Total accumulated depreciation	<u>8,355,680</u>	<u>762,662</u>	<u>-</u>	<u>9,118,342</u>
Total depreciable assets, net	<u>17,084,936</u>	<u>316,949</u>	<u>-</u>	<u>17,401,885</u>
Capital assets, net	<u><u>\$ 17,578,223</u></u>	<u><u>\$ 316,949</u></u>	<u><u>\$ 93,827</u></u>	<u><u>\$ 17,801,345</u></u>

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

**NOTE 5. LONG-TERM DEBT**

Summary of long-term debt are summarized as follows:

	Balance at September 1, 2009	Issued	Retired or Refunded	Balance at August 31, 2010	Amounts due Within One Year
Series 1996 Revenue Bonds	\$ 210,000	\$ -	\$ (65,000)	\$ 145,000	\$ 70,000
Note Payable	650,000	-	(120,000)	530,000	120,000
Capital Lease Obligation	-	150,000	(25,000)	125,000	50,000
Total Debt Payble	<u>860,000</u>	<u>150,000</u>	<u>(210,000)</u>	<u>800,000</u>	<u>240,000</u>
OPEB Libaility	-	146,745	-	146,745	-
Total Long Term Liabilities	<u>\$ 860,000</u>	<u>\$ 296,745</u>	<u>\$ (210,000)</u>	<u>\$ 946,745</u>	<u>\$ 240,000</u>

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 Rate	Interest Amount	Principal Amount	Total Bond Service Requirements
2011		\$ 6,857	\$ 70,000	\$ 76,857
2012		2,344	75,000	77,344
Totals		<u>\$ 9,201</u>	<u>\$ 145,000</u>	<u>\$ 154,201</u>

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

**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 their 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
2011	\$ 30,279	\$ 120,000	\$ 150,279
2012	22,923	130,000	152,923
2013	15,087	135,000	150,087
2014	6,675	145,000	151,675
Totals	<u>\$ 74,964</u>	<u>\$ 530,000</u>	<u>\$ 604,964</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, 2010 the Authority recorded \$3,750 in related depreciation expense. Future minimum lease obligations are as follows:

Year ended August 31,	Future Minimum Lease Payments
2011	\$ 53,754
2012	53,754
2013	26,877
Totals	134,385
Less Interest	(9,385)
Currently Due	<u>\$ 125,000</u>

**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.



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

**NOTE 8. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED**

**Plan Description – Continued**

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, 2010 the plan only had 20 total participants, and met the requirements to use the alternative measurement method, and elected to do so.

The current year is the first year of application of the provisions of GASB No. 45, and they have been applied prospectively.

**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 2010. Currently, payments of OPEB benefits are made on a pay-as-you-go basis in amounts necessary to provide current benefits to the recipients. For fiscal year 2010, the Authority contributed \$8,652 for retiree health and dental premiums.

**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, 2010 is shown below:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	155,397	6%	146,745

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

**NOTE 8. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED**

**Funded Status and Funding Progress**

The funded status of other postemployment benefits as of August 31, 2010, the date of the latest actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 978,589
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$ 978,589
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	26 %

**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.

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

**NOTE 8. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED**

**Actuarial Methods and Assumptions – Continued**

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

Valuation Date	August 31, 2010
Amortization method	Level Dollar
Discount Rate	4%
Spouse election coverage	60%
Medical infalton	3.7% - 7.1%
Mortality Rates	Table RP2000 Combined Healthy Mortality Table GASB Expected Future Working Lifetimes of Employees, by Age—Default Values Table
Ultimate Withdrawal Rates	GASB Probability of Remaining Employed until Assumed Retirement Age Table
Turnover Rates	
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 whereby eligible participants are permitted to make contributions between 1% of the employees' compensation up to the maximum allowed by the Internal Revenue Service. Employer matches are discretionary, vest ratably over a five-year period, and are currently equal to 50% of the employee's contribution up to 7.65% of the employees' compensation. Discretionary contributions in the amount of \$63,434 were made during the fiscal year ended August 31, 2010.

**NOTE 10. PRIOR PERIOD ADJUSTMENT**

The fiscal year 2009 Current Asset and Long-term liabilities balances have been restated to reflect a \$650,000 Promissory Note with a financial institution, secured by the Authority's revenue and certain real property, entered into on May 15, 2009, which was not originally recorded properly in fiscal year 2009. A prior period adjustment was made to record the proceeds that were received on this Promissory Note during fiscal year 2009. The adjustment consisted of a debit of \$650,000 to unrestricted cash and a corresponding credit to Note Payable account. The beginning balance of the Statement of Cash Flows for the fiscal year ended 2010 has been adjusted accordingly.

**NOTE 11. SUBSEQUENT EVENTS**

The Authority has evaluated all events or transaction that occurred after August 31, 2010 up through December 23, 2010, the date the financial statements were issued. During this period there were no subsequent events requiring disclosure.

**OTHER SUPPLEMENTAL  
INFORMATION**

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND  
FOR THE YEAR ENDED AUGUST 31, 2010**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>OPERATING REVENUE</b>			
Charges for water services	\$ 3,175,000	\$ 2,589,905	\$ (585,095)
Charges for sewer service	2,210,063	1,927,779	(282,284)
Tap connection and inspection fees	162,300	122,232	(40,068)
Penalties and interest	89,500	101,122	11,622
<b>Total operating revenue</b>	<b>5,636,863</b>	<b>4,741,038</b>	<b>(895,825)</b>
<b>OPERATING EXPENSES</b>			
Purchased water service	1,646,250	1,611,737	34,513
Purchased sewer service	814,561	921,167	(106,606)
Water service	1,550	1,250	300
Salaries, benefits and payroll taxes	1,061,778	1,281,153	(219,375)
Contracted services	82,000	122,975	(40,975)
Professional fees	75,100	112,876	(37,776)
Utilities	160,000	152,220	7,780
Depreciation	700,000	762,662	(62,662)
Water and sewer system maintenance	110,100	164,577	(54,477)
Service Center Costs	-	89,550	(89,550)
Other	246,710	308,197	(61,487)
<b>Total operating expenses</b>	<b>4,898,049</b>	<b>5,528,364</b>	<b>(630,315)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment earnings	13,000	1,732	(11,268)
Interest expense	(49,715)	(69,195)	(19,480)
Loss on dispositions	-	480	480
<b>Total non-operating revenues (expenses)</b>	<b>(36,715)</b>	<b>(66,983)</b>	<b>(30,268)</b>
<b>EXCESS (DEFICIENCY)</b>	<b>702,099</b>	<b>(854,309)</b>	<b>(1,556,408)</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>-</b>	<b>76,054</b>	<b>76,054</b>
<b>CHANGE IN NET ASSETS – GAAP BASIS</b>	<b>\$ 702,099</b>	<b>\$ (778,255)</b>	<b>\$ (1,480,354)</b>
<b>NON-OPERATING COSTS – NON-GAAP</b>			
Capital expenditures	323,121	909,250	586,129
Principal payments on long-term debt	219,193	219,193	-
<b>Total non-operating costs – non-GAAP</b>	<b>\$ 542,314</b>	<b>\$ 1,128,443</b>	<b>\$ 586,129</b>

**TEXAS SUPPLEMENTAL  
INFORMATION**

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-1. SERVICES AND RATES  
AUGUST 31, 2010  
(Unaudited)**

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

  X   Retail Water  
  X   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:	\$18.13	1,000	N	\$3.02	1,001 to 8,000
				\$3.33	8,001 to 13,000
				\$3.83	13,001 to 30,000
				\$4.89	30,000 to 40,000
				\$6.13	40,000 to 50,000
				\$7.37	50,001 and up

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

**Wastewater:**

Residential	\$16.13	1,000	N	\$3.33	1,000 to 15,000
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*Individuals over the age of 65 years receive 2,000 gallons in the monthly minimum.*

Commercial	\$17.45	1,000	N	\$3.33	Above 1,000
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Authority employs winter averaging for wastewater usage? No

Total charges per 10,000 gallons usage:	Water	\$45.93
	Wastewater	\$46.10

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-1. SERVICES AND RATES – CONTINUED  
AUGUST 31, 2010  
(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"	4596	4262	X 1.0	4262
1"	78	78	X 2.5	195
1 1/2"	9	9	X 5.0	45
2"	68	68	X 8.0	544
3"	3	3	X 15.0	45
4"	1	1	X 25.0	25
6"	2	2	X 50.0	100
8"	-	-	X 80.0	-
10"	-	-	X 115.0	-
Total water connections	4782	4448		5241
Total wastewater connections	4081	4081	X 1.0	4081

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

Gallons pumped into system:	521,716,000
Gallons billed to customers:	482,643,000
Water Accountability Ratio: (Gallons billed / Gallons pumped)	92.51%

**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, 2010  
(Unaudited)**

<b>PURCHASED WATER SERVICE</b>	\$ 1,611,737
<b>PURCHASED SEWER SERVICE</b>	921,167
<b>WATER SERVICE</b>	1,250
<b>SALARIES, BENEFITS AND PAYROLL TAXES (INCLUDING BENEFITS)*</b>	1,281,153
<b>CONTRACTED SERVICES</b>	122,975
<b>PROFESSIONAL FEES</b>	
Auditing	25,000
Legal	2,974
Engineering	21,860
Consulting fees	63,042
Other	
<b>UTILITIES</b>	152,220
<b>WATER AND SEWER SYSTEM MAINTENANCE</b>	164,577
<b>OTHER</b>	
Software maintenance/training	52,310
Insurance/surety bonds	30,864
Fuel and lube	28,920
Postage	27,981
Telephone/2-way radios	24,818
Printing	23,142
Other expense – subscriptions, dues, misc.	20,903
Other	20,818
Uniforms	16,870
Office equipment maintenance/rental	14,687
Chemicals	10,698
Travel expenses	9,450
Safety supplies/training	9,430
Office supplies	8,506
Training/enrollment/license	4,492
Meter expense	-
Rents – equipment/space	4,308
<b>SERVICE CENTER CONSTRUCTION COSTS</b>	89,550
<b>DEPRECIATION EXPENSE</b>	762,662
<b>TOTAL EXPENDITURES</b>	<u>\$ 5,528,364</u>

\* Number of persons employed by the Authority: 20 Full-Time 0 Part-Time  
(Not including independent contractors or consultants)

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY**  
**TSI-3. SCHEDULE OF TEMPORARY INVESTMENTS**  
**AUGUST 31, 2010**  
**(Unaudited)**

<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	0.231%	N/A	\$ 23,206	\$ -
Investment Pool	610200003	0.231%	N/A	539,842	-
Investment Pool	610200002	0.231%	N/A	13,452	-
Investment Pool	610200005	0.231%	N/A	83,699	-
Investment Pool	610200009	0.231%	N/A	142,729	-
<u>Financial Institution</u>					
T-Bills, Reserve Fund	421122	-	10/28/2010	74,540	-
T-Bills, Interest and Sinking Fund	421121	-	10/28/2010	120,627	-
Short Term Investment Trust	5122331	-	N/A	87,468	-
<b>Total</b>				<u>\$ 1,085,563</u>	<u>\$ -</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-4. TAXES LEVIED AND RECEIVABLE  
AUGUST 31, 2010  
(Unaudited)**

*(Does not apply to the Authority)*

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY**  
**TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS**  
**AUGUST 31, 2010**  
**(Unaudited)**

Due During Fiscal Years Ending	Series 1996 Bonds		
	Principal Due November 1	Interest Due May 1 and November 1	Total Annual Requirements
2011	\$ 70,000	\$ 6,857	\$ 76,857
2012	75,000	2,344	77,344
Totals	<u>\$ 145,000</u>	<u>\$ 9,201</u>	<u>\$ 154,201</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-6. CHANGES IN LONG-TERM BONDED DEBT  
AUGUST 31, 2010  
(Unaudited)**

	<b>Bond Issue Series 1996</b>
Interest rate	4.45% - 6.25%
Dates interest payable	May 1; Nov 1
Maturity date	November 1, 2011
Beginning bonds outstanding	\$ 210,000
Bonds sold during the fiscal year	-
Bonds retired during the fiscal year	65,000
Ending bonds outstanding	\$ 145,000
Interest paid during the fiscal year	\$ 11,009

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

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ -	\$ 145,000	\$ -
Amount issued	-	145,000	-
Remaining to be issued	-	-	-

Enterprise Fund cash and temporary investments balances  
as of August 31, 2010: 1,190,558

Average annual bonded debt service payment (Principal and Interest)  
for remaining term of all debt: 77,101

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY**  
**TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES**  
**ENTERPRISE FUND—FIVE YEARS ENDED**  
**AUGUST 31, 2010**  
**(Unaudited)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUE</b>					
Charges for water services	\$ 2,589,905	\$ 2,589,606	\$ 2,376,111	\$ 2,044,545	\$ 2,698,938
Charges for sewer service	1,927,779	1,838,840	1,607,166	1,464,208	1,649,084
Tap connection and inspection fees	122,232	138,351	280,927	352,023	500,643
Penalties and interest	101,122	87,459	81,560	72,976	89,368
<b>Total operating revenue</b>	<b>4,741,038</b>	<b>4,654,256</b>	<b>4,345,764</b>	<b>3,933,752</b>	<b>4,938,033</b>
<b>OPERATING EXPENSES</b>					
Purchased water service	1,611,737	1,572,120	1,458,638	1,358,937	1,378,678
Purchased sewer service	921,167	737,389	648,152	603,469	498,200
Water service	1,250	2,749	86,908	63,507	-
Salaries, benefits and payroll taxes	1,281,153	1,220,372	1,131,730	995,932	879,156
Contracted services	122,975	98,727	78,602	102,673	55,486
Professional fees	112,876	71,694	48,995	44,084	48,828
Utilities	152,220	135,289	121,908	150,519	174,118
Depreciation	762,662	807,644	648,151	602,918	588,426
Water and sewer system maintenance	164,577	119,446	190,767	75,172	92,121
Other	397,747	255,279	246,371	188,237	183,738
<b>Total operating expenses</b>	<b>5,528,364</b>	<b>5,020,709</b>	<b>4,660,222</b>	<b>4,185,448</b>	<b>3,898,751</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Revenue from grants	-	-	28,774	-	-
Investment earnings	1,732	14,873	68,050	104,554	66,005
Interest expense	(69,195)	(19,581)	(30,611)	(46,090)	(52,285)
Gain (Loss) on dispositions	480	(52,934)	(9,151)	(90,564)	(11,783)
<b>Total non-operating revenues (expenses)</b>	<b>(66,983)</b>	<b>(57,642)</b>	<b>57,062</b>	<b>(32,100)</b>	<b>1,937</b>
<b>EXCESS (DEFICIENCY)</b>	<b>(854,309)</b>	<b>(424,095)</b>	<b>(257,396)</b>	<b>(283,796)</b>	<b>1,041,219</b>
<b>CAPITAL ASSETS CONTRIBUTED BY DEVELOPERS</b>	<b>76,054</b>	<b>844,181</b>	<b>1,187,745</b>	<b>604,485</b>	<b>1,087,815</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ (778,255)</b>	<b>\$ 420,086</b>	<b>\$ 930,349</b>	<b>\$ 320,689</b>	<b>\$ 2,129,034</b>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY**  
**TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES**  
**ENTERPRISE FUND—FIVE YEARS ENDED (Continued)**  
**AUGUST 31, 2010**  
**(Unaudited)**

	<b>Percentage of Total Revenue</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>OPERATING REVENUE</b>					
Charges for water services	54.6%	55.6%	54.7%	52.0%	54.7%
Charges for sewer service	40.7%	39.5%	37.0%	37.2%	33.4%
Tap connection and inspection fees	2.6%	3.0%	6.5%	8.9%	10.1%
Penalties and interest	2.1%	1.9%	1.9%	1.9%	1.8%
<b>Total operating revenue</b>	100.0%	100.0%	100.0%	100.0%	100.0%
<b>OPERATING EXPENSES</b>					
Purchased water service	34.0%	33.8%	33.6%	34.5%	27.9%
Purchased sewer service	19.4%	15.8%	14.9%	15.3%	10.1%
Water service	0.0%	0.1%	2.0%	1.6%	0.0%
Salaries, benefits and payroll taxes	27.0%	26.2%	26.0%	25.3%	17.8%
Contracted services	2.6%	2.1%	1.8%	2.6%	1.1%
Professional fees	2.4%	1.5%	1.1%	1.1%	1.0%
Utilities	3.2%	2.9%	2.8%	3.8%	3.5%
Depreciation	16.1%	17.4%	14.9%	15.3%	11.9%
Water and sewer system maintenance	3.5%	2.6%	4.4%	1.9%	1.9%
Other	8.4%	5.5%	5.7%	4.8%	3.7%
<b>Total operating expenses</b>	116.6%	107.9%	107.2%	106.4%	79.0%
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Revenue from grants	0.0%	0.0%	0.7%	0.0%	0.0%
Investment earnings	0.0%	0.3%	1.6%	2.7%	1.3%
Interest expense	-1.5%	-0.4%	-0.7%	-1.2%	-1.1%
(Gain) Loss on dispositions	0.0%	-1.1%	-0.2%	-2.3%	-0.2%
<b>Total non-operating revenues (expenses)</b>	-1.4%	-1.2%	1.3%	-0.8%	0.0%
<b>EXCESS (DEFICIENCY)</b>	-18.0%	-9.1%	-5.9%	-7.2%	21.1%
<b>CAPITAL ASSETS CONTRIBUTED BY DEVELOPERS</b>	1.6%	18.1%	27.3%	15.4%	22.0%
<b>CHANGE IN NET ASSETS</b>	-16.4%	9.0%	21.4%	8.2%	43.1%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS  
AUGUST 31, 2010  
(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

	<b>Term of Office (Elected or Appointed) or Date Hired</b>	<b>Fees of Office Paid 2010</b>	<b>Expense Reimbursements 2010</b>	<b>Title at Year End</b>
<b><u>Board Members:</u></b>				
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