

CLEAR LAKE CITY WATER AUTHORITY

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2010

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants



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ANNUAL FINANCIAL REPORT

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Board of Directors
Clear Lake City Water Authority
Harris County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Clear Lake City Water Authority (the "Authority"), as of and for the year ended September 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted as promulgated within the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
Clear Lake City Water Authority

The Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

February 10, 2011

CLEAR LAKE CITY WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Our discussion and analysis of Clear Lake City Water Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2010. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Assets and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Authority's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide portion of these statements provides both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of the government-wide statements is the Statement of Net Assets. This information is found in the Statement of Net Assets column on pages 8 through 11. The Statement of Net Assets is the Authority-wide statement of its financial position presenting information that includes all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 13 and 14 reports how the Authority's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes.

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

FUND FINANCIAL STATEMENTS (Continued)

The Capital Projects Fund accounts for financial resources segregated for acquisition or construction of facilities and related costs.

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the Authority's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of the Authority and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets on page 12 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 15 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The accompanying notes to the basic financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 40 in this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$58,059,717 as of September 30, 2010. This compares with assets exceeding liabilities by \$53,268,418 as of September 30, 2009.

A portion of the Authority's net assets reflects its investments in capital assets (e.g. water, wastewater and drainage facilities), less any debt used to acquire those assets that is still outstanding. The Authority uses these assets to provide water and wastewater services.

The following is a comparative analysis of government-wide changes in net assets:

CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Assets		
	2010	2009	Change Positive (Negative)
Current and Other Assets	\$ 22,851,091	\$ 22,472,421	\$ 378,670
Capital Assets (Net of Accumulated Depreciation)	<u>101,090,180</u>	<u>100,071,461</u>	<u>1,018,719</u>
Total Assets	<u>\$ 123,941,271</u>	<u>\$ 122,543,882</u>	<u>\$ 1,397,389</u>
Long-Term Liabilities	\$ 55,385,000	\$ 59,820,000	\$ 4,435,000
Other Liabilities	<u>10,496,554</u>	<u>9,455,464</u>	<u>(1,041,090)</u>
Total Liabilities	<u>\$ 65,881,554</u>	<u>\$ 69,275,464</u>	<u>\$ 3,393,910</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 44,364,067	\$ 38,294,421	\$ 6,069,646
Restricted	7,024,067	8,259,351	(1,235,284)
Unrestricted	<u>6,671,583</u>	<u>6,714,646</u>	<u>(43,063)</u>
Total Net Assets	<u>\$ 58,059,717</u>	<u>\$ 53,268,418</u>	<u>\$ 4,791,299</u>

The following table provides a summary of the Authority's operations for the years ended September 30, 2010, and September 30, 2009. The Authority's net assets increased by \$4,791,299 accounting for a 9% growth in net assets. This compares with an increase of \$6,174,828 in the prior year. Comparative data is presented below from summary information in the Statement of Activities:

	Summary of Changes in the Statement of Activities		
	2010	2009	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 12,817,708	\$ 13,471,085	\$ (653,377)
Charges for Services	7,843,503	8,318,016	(474,513)
Other Revenues	<u>239,915</u>	<u>426,091</u>	<u>(186,176)</u>
Total Revenues	<u>\$ 20,901,126</u>	<u>\$ 22,215,192</u>	<u>\$ (1,314,066)</u>
Expenses for Services	<u>16,109,827</u>	<u>16,040,364</u>	<u>(69,463)</u>
Change in Net Assets	\$ 4,791,299	\$ 6,174,828	\$ (1,383,529)
Net Assets, Beginning of Year	<u>53,268,418</u>	<u>47,093,590</u>	<u>6,174,828</u>
Net Assets, End of Year	<u>\$ 58,059,717</u>	<u>\$ 53,268,418</u>	<u>\$ 4,791,299</u>

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

FINANCIAL ANALYSIS OF THE AUTHORITY'S GOVERNMENTAL FUNDS

The Authority's combined fund balances as of September 30, 2010, were \$18,512,635, an increase of \$792,402 from the prior year.

The General Fund fund balance decreased by \$35,110.

The Debt Service Fund fund balance decreased by \$1,198,297, primarily due to the structure of the Authority's outstanding debt, an advance defeasance of Series 1999 and 2001 bonds, and the issuance of Series 2010 refunding bonds.

The Capital Projects Fund fund balance increased by \$2,025,809, primarily due to the sale of Series 2009 bonds, a portion of which was still on hand at fiscal year end.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$411,618 less than budgeted revenues and actual expenditures were \$374,519 less than budgeted expenditures. See the budget to actual comparison on page 42.

CAPITAL ASSETS

The Authority's investment in capital assets as of September 30, 2010, amounts to \$101,090,180 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment as well as the water, sanitary sewer and drainage systems. Significant capital asset activity during the current fiscal year included the installation of the screen grinder at the STP, exterior recoating of elevated storage tank no. 3, water well no. 7 ground storage tank replacement, SCADA system, water, sewer and drainage system rehabilitation, as well as the purchase of various vehicles, machinery, equipment, and software.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2010	2009
Capital Assets Not Being Depreciated:		
Land and Land Improvements	\$ 345,757	\$ 345,757
Sanitary Sewer Laterals and Trunks	39,094,660	38,177,763
Construction in Progress	1,957,782	973,862
Capital Assets Net of Accumulated Depreciation:		
Buildings	500,585	515,693
Water System	25,427,518	25,890,171
Sanitary Sewer System	8,867,300	9,094,267
Drainage System	24,542,389	24,772,861
Equipment	354,189	301,087
Total Net Capital Assets	\$ 101,090,180	\$ 100,071,461

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

CAPITAL ASSETS (Continued)

The Authority manages its system of sanitary sewer laterals and trunks using a condition assessment methodology and accounts for these items using the modified approach. The system consists of sewer laterals and trunk lines. The system is rated on a numerical condition scale ranging from 1 (brand-new condition with 40 years of expected life) to 5 (a severe deficiency which needs immediate correction and the expected life is 0 years). It is the Authority's policy to keep 75 percent of the system at a level 3 or better. The most recent conditional assessment shows that the condition of the Authority's sanitary sewer lines is in accordance with the Authority's policy. Additional information on the Authority's capital assets can be found in Note 6 of this report.

LONG-TERM DEBT ACTIVITY

As of September 30, 2010, the Authority had total bond debt payable of \$61,440,000. The changes in the debt position of the Authority during the fiscal year ended September 30, 2010, are summarized as follows:

Bond Debt Payable, October 1, 2009	\$ 65,005,000
Add: Bonds Issued – Series 2009	5,270,000
Add: Bonds Issued - Series 2010 Refunding	8,815,000
Less: Bond Principal Paid	5,185,000
Less: Advanced Defeasance of Bonds	3,695,000
Less: Bonds Refunded	<u>8,770,000</u>
Bond Debt Payable, September 30, 2010	<u>\$ 61,440,000</u>

Standard & Poor's has assigned an underlying rating of "AA-" to the Authority. The Series 2003-A Refunding, 2003-B Refunding, 2006 Refunding and 2008 bonds carry an insured rating of "AAA" by virtue of bond insurance issued by Assured Guaranty. The Authority's remaining bonds either do not have an insured rating or have an insured rating below the Authority's underlying rating, therefore, the ratings for those bond issues defaults to the Authority's underlying rating of "AA-". The above ratings reflect all changes through September 30, 2010. Subsequent to fiscal year end, the rating for Assured Guaranty changed to "AA+".

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Clear Lake City Water Authority, 900 Bay Area Blvd., Houston, TX 77058-2691.

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CLEAR LAKE CITY WATER AUTHORITY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2010

	General Fund	Debt Service Fund
ASSETS		
Cash, Note 5	\$ 410,562	\$ 241,827
Investments, Note 5	5,201,887	6,050,811
Receivables:		
Property Taxes	35,785	174,245
Penalty and Interest on Delinquent Taxes		110,600
Service Accounts (Net of Allowance for Doubtful Accounts of \$-0-)	757,062	
Other	14,675	
Due from Other Funds, Note 2	439,292	
Inventory, Note 2	106,601	
Prepaid Costs	75,764	
Unamortized Bond Issuance Costs		
Unamortized Bond Discounts		
Land, Note 6		
Construction in Progress, Note 6		
Sanitary Sewer Laterals and Trunks, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
TOTAL ASSETS	\$ 7,041,628	\$ 6,577,483

The accompanying notes to basic financial
statements are an integral part of this report.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 2,374	\$ 654,763	\$	\$ 654,763
7,722,460	18,975,158		18,975,158
	210,030		210,030
	110,600		110,600
	757,062		757,062
44,947	59,622		59,622
	439,292	(439,292)	
	106,601		106,601
	75,764		75,764
		1,127,321	1,127,321
		774,170	774,170
		345,757	345,757
		1,957,782	1,957,782
		39,094,660	39,094,660
		<u>59,691,981</u>	<u>59,691,981</u>
<u>\$ 7,769,781</u>	<u>\$ 21,388,892</u>	<u>\$ 102,552,379</u>	<u>\$ 123,941,271</u>

The accompanying notes to basic financial statements are an integral part of this report.

CLEAR LAKE CITY WATER AUTHORITY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2010

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 866,047	\$ 45,312
Due to Other Funds, Note 2		262,617
Security Deposits	631,319	
Deferred Tax Revenue	35,785	174,245
Deferred Penalty and Interest on Delinquent Taxes		110,600
Unamortized Bond Premium		
Accrued Interest Payable		
Long-Term Liabilities:		
Due Within One Year, Note 3		
Accrued Interest Payable on Premium Compound Interest Bonds, Note 3		
Due After One Year, Note 3		
TOTAL LIABILITIES	\$ 1,533,151	\$ 592,774
FUND BALANCES/NET ASSETS		
FUND BALANCES:		
Reserved for Authorized Construction:		
Bond Proceeds	\$	\$
Net Investment Revenues		
Reserved For Future Debt Service		5,984,709
Reserved for Prepaid Costs	75,764	
Reserved for Inventory, Note 2	106,601	
Reserved for Sick Leave Obligations, Note 9	626,541	
Reserved for Unbudgeted Major Repairs of Facilities	250,000	
Reserved for Emergencies	820,000	
Unreserved – Undesignated	3,629,571	
TOTAL FUND BALANCES	\$ 5,508,477	\$ 5,984,709
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,041,628	\$ 6,577,483
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		
Restricted for:		
Capital Projects		
Debt Service		
Unrestricted		
TOTAL NET ASSETS		

The accompanying notes to basic financial
statements are an integral part of this report.

Capital Projects Fund	Total	Adjustments	Statement of Net Assets
\$ 573,657	\$ 1,485,016	\$	\$ 1,485,016
176,675	439,292	(439,292)	
	631,319		631,319
	210,030	(210,030)	
	110,600	(110,600)	
		1,384,815	1,384,815
		183,194	183,194
		6,055,000	6,055,000
		757,210	757,210
		<u>55,385,000</u>	<u>55,385,000</u>
<u>\$ 750,332</u>	<u>\$ 2,876,257</u>	<u>\$ 63,005,297</u>	<u>\$ 65,881,554</u>
\$ 5,324,532	\$ 5,324,532	\$ (5,324,532)	\$
1,694,917	1,694,917	(1,694,917)	
	5,984,709	(5,984,709)	
	75,764	(75,764)	
	106,601	(106,601)	
	626,541	(626,541)	
	250,000	(250,000)	
	820,000	(820,000)	
	<u>3,629,571</u>	<u>(3,629,571)</u>	
<u>\$ 7,019,449</u>	<u>\$ 18,512,635</u>	<u>\$(18,512,635)</u>	<u>\$ -0-</u>
<u>\$ 7,769,781</u>	<u>\$ 21,388,892</u>		
		\$ 44,364,067	\$ 44,364,067
		1,694,917	1,694,917
		5,329,150	5,329,150
		<u>6,671,583</u>	<u>6,671,583</u>
		<u>\$ 58,059,717</u>	<u>\$ 58,059,717</u>

The accompanying notes to basic financial statements are an integral part of this report.

**CLEAR LAKE CITY WATER AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010**

Total Fund Balances – Governmental Funds	\$ 18,512,635
Amounts reported for governmental activities in the Statements of Net Assets are different because:	
Land used in governmental activities is not a financial resource and, therefore, is not reported as an asset in governmental funds.	345,757
Construction in progress used in governmental activities is not a financial resource and, therefore, is not reported as an asset in governmental funds.	1,957,782
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	59,691,981
Sanitary sewer system laterals and trunks used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	39,094,660
Unamortized bond issuance costs and bond discounts are not financial resources and, therefore, are not reported as assets in governmental funds.	1,901,491
Unamortized bond premiums are not current liabilities and, therefore, are not reported as liabilities in governmental funds.	(1,384,815)
Deferred tax revenues for the 2009 and prior tax levies became part of recognized revenue in the governmental activities of the Authority.	210,030
Deferred penalty and interest revenues for the 2009 and prior tax levies became part of recognized revenue in the governmental activities of the Authority.	110,600
Accrued interest is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(183,194)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Accrued Interest on Compound Interest Bonds	\$ (757,210)
Bonds Payable Within One Year	(6,055,000)
Bonds Payable After One Year	<u>(55,385,000)</u>
	<u>(62,197,210)</u>
Total Net Assets -- Governmental Activities	<u>\$ 58,059,717</u>

The accompanying notes to basic financial statements are an integral part of this report.

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CLEAR LAKE CITY WATER AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 2,294,895	\$ 10,698,308
Water Service	4,802,760	
Wastewater Service	2,585,387	
Penalty and Interest	99,016	138,909
Tap Connection and Inspection Fees	207,831	
Investment Revenues	10,276	15,153
Miscellaneous Revenues	<u>166,142</u>	<u>9,302</u>
TOTAL REVENUES	<u>\$ 10,166,307</u>	<u>\$ 10,861,672</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Bulk Water Purchases	\$ 2,219,656	\$ 226,475
Payroll	3,359,592	
Utilities	1,434,313	
Repairs and Maintenance	488,673	8,971
Professional Fees	801,138	266,888
Contracted Services		35,602
Depreciation, Note 6		
Other	1,763,504	59,828
Capital Outlay	134,541	7,145
Debt Service:		
Bond Principal		8,880,000
Bond Interest		2,588,398
Payment to Refunded Bond Escrow Agent		8,000
Bond Issuance Costs		<u>73,607</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 10,201,417</u>	<u>\$ 12,154,914</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>\$ (35,110)</u>	<u>\$ (1,293,242)</u>
OTHER FINANCING SOURCES (USES)		
Proceeds from Bond Sale, Notes 13 and 15	\$	\$ 8,815,000
Bond Premiums		381,085
Payment to Refunded Bond Escrow Agent, Note 13		(8,929,247)
Bond Discount		<u>(171,893)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ 94,945</u>
NET CHANGE IN FUND BALANCES	<u>\$ (35,110)</u>	<u>\$ (1,198,297)</u>
CHANGE IN NET ASSETS		
FUND BALANCES/NET ASSETS – OCTOBER 1, 2009	<u>5,543,587</u>	<u>7,183,006</u>
FUND BALANCES/NET ASSETS – SEPTEMBER 30, 2010	<u>\$ 5,508,477</u>	<u>\$ 5,984,709</u>

The accompanying notes to basic financial
statements are an integral part of this report.

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 12,993,203	\$ (175,495)	\$ 12,817,708
	4,802,760		4,802,760
	2,585,387		2,585,387
	237,925	9,600	247,525
	207,831		207,831
17,972	43,401		43,401
<u>21,070</u>	<u>196,514</u>		<u>196,514</u>
\$ 39,042	\$ 21,067,021	\$ (165,895)	\$ 20,901,126
\$	\$ 2,219,656	\$	\$ 2,219,656
	3,586,067		3,586,067
	1,434,313		1,434,313
	497,644		497,644
	1,068,026		1,068,026
	35,602		35,602
		2,305,308	2,305,308
	1,823,332		1,823,332
3,182,341	3,324,027	(3,324,027)	
	8,880,000	(8,880,000)	
	2,588,398	551,481	3,139,879
	8,000	(8,000)	
<u>114,304</u>	<u>187,911</u>	<u>(187,911)</u>	
\$ 3,296,645	\$ 25,652,976	\$ (9,543,149)	\$ 16,109,827
\$ (3,257,603)	\$ (4,585,955)	\$ 9,377,254	\$ 4,791,299
\$ 5,270,000	\$ 14,085,000	\$ (14,085,000)	\$
13,412	394,497	(394,497)	
	(8,929,247)	8,929,247	
	<u>(171,893)</u>	<u>171,893</u>	
\$ 5,283,412	\$ 5,378,357	\$ (5,378,357)	\$ -0-
\$ 2,025,809	\$ 792,402	\$ (792,402)	\$
		4,791,299	4,791,299
<u>4,993,640</u>	<u>17,720,233</u>	<u>35,548,185</u>	<u>53,268,418</u>
\$ 7,019,449	\$ 18,512,635	\$ 39,547,082	\$ 58,059,717

The accompanying notes to basic financial statements are an integral part of this report.

**CLEAR LAKE CITY WATER AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Net Change in Fund Balances - Governmental Funds	\$ 792,402
Amounts reported for governmental activities in the Statements of Activities are different because:	
Governmental funds report bond proceeds as other financing sources. In the Statement of Net Assets, proceeds from a bond sale are recorded as a liability.	(14,085,000)
In governmental activities, bond premiums, bond discounts, and the costs of issuing bonds are amortized over the repayment period of the bonds.	(26,693)
Payments to the refunding bond escrow agent are recorded as an other financing use in the governmental funds and reduce the corresponding long-term liability in the Statement of Net Assets.	8,929,247
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Assets, bond principal payments are reported as decreases in long-term liabilities.	8,880,000
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Assets, capital assets are increased by new purchases and the Statement of Activities is not affected.	3,324,027
Governmental funds report interest expenditures on bonds as expenditures in the year paid. However, in the Statement of Net Assets, interest is accrued on bonds through the fiscal year end.	(551,481)
Governmental funds do not account for depreciation. However, in the Statement of Net Assets, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(2,305,308)
Governmental funds report tax revenues when collected. However, in the Statement of Activities, tax revenue is recorded in the accounting period in which the taxes were levied.	(175,495)
Governmental funds report penalty and interest revenues on delinquent taxes when collected. However, in the Statement of Activities, revenue is recorded when the penalties are assessed.	<u>9,600</u>
Change in Net Assets - Governmental Activities	<u>\$ 4,791,299</u>

The accompanying notes to basic financial statements are an integral part of this report.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 1. CREATION OF AUTHORITY

The Clear Lake City Water Authority (the "Authority") was created May 6, 1963, by Statute 8280-280, 58th Legislature of the State of Texas.

Pursuant to the provisions of Chapters 49 and 51 of the Texas Water Code, among other powers, the Authority is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service and storm sewer drainage. Although the Authority is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the Authority and to provide irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the Authority, to date it has chosen not to exercise any of these powers. The Authority comprises approximately 16,000 acres in Harris County, Texas, located in the area of NASA's Johnson Space Center and owns approximately two acres in Houston County, Texas. The Authority is under the oversight of the Texas Commission on Environmental Quality (the "Commission").

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. In addition, the accounting records of the Authority are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The Governmental Accounting Standards Board has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit's board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The Authority was created as an independent municipality. The Authority does not meet the criteria for inclusion as a component unit of any entity nor does any other entity meet the component unit criteria for inclusion in the Authority's basic financial statements.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34-Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

GASB Statement No. 34 established standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: Invested in Capital Assets, Net of Related Debt; Restricted; and Unrestricted. These classifications are defined as follows:

- Invested in Capital Assets, Net of Related Debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Assets – This component of net assets consists of external constraints placed on the use of net assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of “Restricted” or “Invested in Capital Assets, Net of Related Debt.”

When both restricted and unrestricted resources are available for use, generally it is the Authority’s policy to use restricted resources first.

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the Authority as a whole. The Authority’s Statement of Net Assets and Statement of Activities are combined with the governmental fund financial statements. The Authority is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Assets is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Assets.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated to obtain net total revenues and expenses of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the Authority's fund financial statements are combined with the government-wide statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The Authority has three major governmental funds.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources accumulated for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources segregated for acquisition or construction of facilities and related costs.

Basis of Accounting

The Authority uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The Authority considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the Authority and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the Authority does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as another financing source or use. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of September 30, 2010, the Authority had interfund liabilities of \$439,292 consisting of \$262,617 due to the General Fund from the Debt Service Fund for operating expenses and \$176,675 due to the General Fund from the Capital Projects Fund for engineering fees.

Capital Assets

The accounting treatment of capital assets depends on whether the assets are reported in the government-wide or fund financial statements. Capital assets are not reported as assets in governmental funds but are reported as assets in the government-wide statement of net assets. The Authority manages its system of sanitary sewer laterals and trunks using a condition assessment methodology and accounts for this system using the modified approach. The remaining capital assets are recorded at historical cost and depreciated over their estimated useful lives unless they are inexhaustible, such as land. Depreciation is not recorded on items classified as construction in progress. Depreciation expense is reported in the government-wide Statement of Activities. In implementing GASB Statement No. 34, the Authority estimated historical cost of infrastructure assets beginning with the creation of the Authority. The Authority uses a capitalization threshold of \$5,000. Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lines:

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is recorded at the average cost basis. Average cost is calculated on the average cost of each specific item during the fiscal year. The Authority's inventory balance as of September 30, 2010, was \$106,601.

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

For employees of the Authority, a pension plan has been established and is managed by an independent plan administrator (see Note 7). The Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only. Directors do not participate in the pension plan.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net assets.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances are included on the Balance Sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Unreserved:

Designated - To indicate fund equity for which the Authority has made tentative plans.

Undesignated - To indicate fund equity which is available for use in future periods.

Accounting 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 reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, management has evaluated and disclosed all material subsequent events through February 10, 2011, which is the date these statements were available to be issued.

NOTE 3. BONDS PAYABLE

	<u>Series 1997</u>	<u>Harris County Water Control and Improvement District No. 75 Series 1998-B</u>
Amounts Outstanding - September 30, 2010	\$ 700,000	\$ 1,340,000
Interest Rates	4.50% - 4.90%	5.30% - 5.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2011 and 2022	March 1, 2011/2016
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	September 1, 2007*	March 1, 2007*

* Or any interest date thereafter, at a price of par plus accrued interest to the date fixed for redemption. From proceeds of the Series 2003-A Refunding, Series 2006 Refunding and Series 2009 Refunding Bonds certain Series 1997 bonds were refunded.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3. BONDS PAYABLE (Continued)

	Series 1999	Series 2000	Series 2001
Amounts Outstanding – September 30, 2010	\$ 355,000	\$ 215,000	\$ 745,000
Interest Rates	3.55%	3.95%	4.96% - 5.06%
Maturity Dates – Serially Beginning/Ending	March 1, 2011	March 1, 2011	March 1, 2011/2012
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2009*	March 1, 2010*	March 1, 2012*
	Refunding Series 2002	Refunding Series 2003-A	Refunding Series 2003-B
Amounts Outstanding – September 30, 2010	\$ 520,000	\$ 2,915,000	\$ 3,380,000
Interest Rates	3.75%	3.125% - 4.00%	3.15% - 3.70%
Maturity Dates – Serially Beginning/Ending	March 1, 2011	March 1, 2011/2014 and 2018	March 1, 2011/2015
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2010**	March 1, 2011**	March 1, 2011**

* Or any interest or principal payment date thereafter, as a whole or from time to time in part, in inverse order of maturity in integral multiples of \$5,000 upon payment of a redemption price equal to the principal amount thereof together with interest, from the most recent interest payment date to the redemption date.

** Or any date thereafter, as a whole or from time to time in part, in integral multiples of \$5,000 upon payment of a redemption price equal to the principal amount and any interest accrued from the most recent interest payment date to the redemption date, at the option of the Authority.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3. BONDS PAYABLE (Continued)

	Series 2005	Series 2006	Series 2008
Amounts Outstanding - September 30, 2010	\$ 9,035,000	\$ 4,705,000	\$ 7,825,000
Interest Rates	3.75% - 3.80%	3.75% - 4.00%	3.00% - 3.70%
Maturity Dates – Serially Beginning/Ending	March 1, 2011/2018	March 1, 2011/2022	March 1, 2011/2022
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2013*	March 1, 2014*	March 1, 2016*

	Refunding Series 2006		Series 2009
	Current Interest Bonds	Premium Compound Interest Bonds	
Amounts Outstanding – September 30, 2010	\$ 4,215,000	\$ 20,000	\$ 5,270,000
Interest Rates	4.00%	4.07%	3.00%-3.50%
Maturity Dates – Serially Beginning/Ending	March 1, 2011/2013 and 2015/2021	March 1, 2014	March 1, 2011/2022
Interest Payment Dates	March 1/ September 1		March 1/ September 1
Callable Dates	March 1, 2014**	Non-Callable***	March 1, 2017*

* Or any date thereafter, as a whole or from time to time in part, callable in integral multiples of \$5,000, upon payment of a redemption price equal to the principal amount and any interest accrued from the most recent interest payment date to the redemption date at the option of the Authority. Series 2006 bonds maturing March 1, 2018, 2020 and 2022 are term bonds and are subject to mandatory redemption on March 1, 2017, 2019 and 2021, respectively.

** Callable in whole or in part, at a price equal to the principal amount of the Current Interest Bonds or a portion thereof called for redemption, plus accrued interest to the date of redemption.

*** The Premium Compound Interest Bonds are non-callable. The par value of these bonds is \$20,000 and the maturity value is \$380,000. Interest on these bonds will be paid at maturity. At September 30, 2010, the accreted value of these bonds is approximately \$330,019. Accrued interest of \$310,019 has been recorded in the Statement of Net Assets.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3. BONDS PAYABLE (Continued)

	Refunding Series 2009		
	Current Interest Bonds	Premium Compound Interest Bonds	Refunding Series 2010
Amounts Outstanding – September 30, 2010	\$ 11,380,000	\$ 5,000	\$ 8,815,000
Interest Rates	2.50%-4.00%	2.60%	2.00%-4.25%
Maturity Dates – Serially Beginning/Ending	March 1, 2011/2021 and September 1, 2021	March 1, 2012	March 1, 2011/2021
Interest Payment Dates	March 1/ September 1		March 1/ September 1
Callable Dates	March 1, 2019*	Non-Callable**	March 1, 2018*

* Subject to redemption as a whole, or from time to time in part, in integral multiples of \$5,000, upon payment of a redemption price equal to the principal amount thereof together with interest, if any, accrued thereon, from the most recent interest payment date to the redemption date.

** The Series 2009 Premium Compound Interest Bonds are non-callable. The par value of these bonds is \$5,000 and the maturity value is \$470,000. Interest on these bonds will be paid at maturity. At September 30, 2010, the accreted value of these bonds is approximately \$452,191. Accrued interest of \$447,191 has been recorded as a liability in the Statement of Net Assets.

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2010:

Bond Debt Payable – October 1, 2009		\$ 65,005,000
Add: Bonds Sold:		
Series 2009	\$ 5,270,000	
Series 2010 Refunding	<u>8,815,000</u>	14,085,000
Less: Bonds Refunded/Defeased:		
Series 1999	\$ 3,390,000	
Series 2000	2,655,000	
Series 2001	2,750,000	
Series 2002	<u>3,670,000</u>	12,465,000
Less: Bond Principal Paid:		
Series 1997	\$ 230,000	
Refunding Series 1998-B	175,000	

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3. BONDS PAYABLE (Continued)

Refunding Series 1998	465,000	
Series 1999	345,000	
Series 2000	205,000	
Series 2001	345,000	
Refunding Series 2002	495,000	
Refunding Series 2003-A	520,000	
Refunding Series 2003-B	1,120,000	
Series 2005	275,000	
Series 2006	280,000	
Refunding Series 2006	5,000	
Series 2008	465,000	
Refunding Series 2009	<u>260,000</u>	<u>5,185,000</u>
Bond Debt Payable - September 30, 2010		<u>\$ 61,440,000</u>
Bond Debt Payable -		
Due Within One Year		\$ 6,055,000
Due After One Year		<u>55,385,000</u>
Bond Debt Payable - September 30, 2010		<u>\$ 61,440,000</u>
Original Bonds Voted		<u>\$ 219,395,400</u>
Bonds Approved		<u>\$ 158,160,000</u>
Original Bonds Issued		<u>\$ 158,160,000</u>
Remaining Voted Bonds to be Issued		<u>\$ 61,235,400</u>
Refunding Bonds Voted		<u>\$ 116,323,100</u>
Voted Refunding Bonds Issued		<u>\$ 27,150,000</u>

As of September 30, 2010, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 6,055,000	\$ 2,093,655	\$ 8,148,655
2012	5,490,000	2,359,609	7,849,609
2013	6,000,000	1,718,259	7,718,259
2014	5,865,000	1,888,706	7,753,706
2015	6,475,000	1,314,761	7,789,761
2016-2020	25,700,000	3,109,475	28,809,475
2021-2022	<u>5,855,000</u>	<u>220,306</u>	<u>6,075,306</u>
	<u>\$ 61,440,000</u>	<u>\$ 12,704,771</u>	<u>\$ 74,144,771</u>

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3. BONDS PAYABLE (Continued)

The bonds of the Authority are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the Authority, without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the Authority's waterworks and sanitary sewer system. The 1998-B bonds of Harris County Water Control and Improvement District No. 75 are payable from proceeds of an ad valorem tax levied upon all property subject to taxation within the respective district's geographic area.

During the year ended September 30, 2010, the Authority levied an ad valorem debt service tax and maintenance tax as follows:

	<u>2009 Appraised Valuation</u>	Debt Service Tax Rate Per \$100 Of <u>Valuation</u>	<u>Debt Service Tax Levy</u>
Clear Lake City Water Authority	\$ 4,524,875,856	\$0.23	\$ 10,407,218
Harris County Water Control and Improvement District No. 75	\$ 52,906,043	\$0.50	<u>264,533</u>
Total Debt Service Tax Levy			<u>\$ 10,671,751</u>
		Maintenance Tax Rate Per \$100 of <u>Valuation</u>	<u>Maintenance Tax Levy</u>
Clear Lake City Water Authority		\$0.05	\$ 2,262,434
Harris County Water Control and Improvement District No. 75		\$0.05	<u>26,451</u>
Total Maintenance Tax Levy			<u>\$ 2,288,885</u>

The Bond Orders require that the Authority levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

On August 14, 1982, the voters of the Authority approved the levy and collection of a maintenance tax not to exceed \$0.05 per \$100 of assessed valuation of taxable property within the Authority. For Harris County Water Control and Improvement District No. 75, at the date consolidation was voted, a maintenance tax not to exceed \$0.05 per \$100 of assessed valuation of taxable property within the respective geographical area of the original district was voted on

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 3. BONDS PAYABLE (Continued)

and approved. A maintenance tax is to be used by the General Fund to pay expenditures of operating and maintaining the Authority's waterworks and sanitary sewer system.

The Authority's tax calendar is as follows:

Levy Date	-	October 1, as soon thereafter as practicable.
Lien Date	-	January 1.
Due Date	-	Upon receipt but not later than January 31.
Delinquent Date	-	February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

- A. The Authority is required to provide to the state information depository continuing disclosure of annual financial information and operating data with respect to the Authority. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the Authority.
- B. The bond orders state that so long as any of the bonds or coupons remain outstanding, the Authority covenants that it will at all times keep insured such parts of the system as are customarily insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risks, accidents or casualties against which and to the extent insurance is customarily carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in construction work shall be fully responsible therefore, the Authority shall not be required to carry such insurance. The Authority has property coverage of \$37,207,637, boiler and machinery coverage of \$25,000,000, general liability coverage with a maximum limit of \$1,000,000, errors and omissions coverage with a maximum limit of \$5,000,000 and automobile liability coverage with a maximum limit of \$2,000,000.
- C. The Authority has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds be rebated to the federal government, within the meaning of Section 148(f) of the Internal Revenue Code. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue. During the current fiscal year, the Authority made an arbitrage rebate payment of \$12,533.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the Authority of securities eligible under the laws of Texas to secure the funds of the Authority, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the Authority's deposits was \$654,763 and the bank balance was \$762,963. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was collateralized with securities held in a third party depository in the Authority's name.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Assets at September 30, 2010, as listed below:

GENERAL FUND	\$ 410,562
DEBT SERVICE FUND	241,827
CAPITAL PROJECTS FUND	<u>2,374</u>
TOTAL DEPOSITS	<u>\$ 654,763</u>

Investments

Under Texas law, the Authority is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all Authority funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the Authority's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The Authority's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest Authority funds without express written authority from the Board of Directors.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the Authority and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The Authority invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors manages the daily operations of the pool under a contract with the Comptroller. The fair value of the Authority's position in the pool is the same as the value of pool shares.

As of September 30, 2010, the Authority had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND -</u> TexPool	\$ 5,201,887	\$ 5,201,887	\$	\$	\$
<u>DEBT SERVICE FUND -</u> TexPool	6,050,811	6,050,811			
<u>CAPITAL PROJECTS</u> <u>FUND -</u> TexPool	<u>7,722,460</u>	<u>7,722,460</u>			
Total Investments	<u>\$18,975,158</u>	<u>\$18,975,158</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2010, the Authority's investment in TexPool was rated AAAM by Standard and Poor's.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority considers the investments in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the Authority, unless there has been a significant change in value.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2010:

	October 1, 2009	Increases	Decreases	September 30, 2010
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 345,757	\$	\$	\$ 345,757
Sanitary Sewer Laterals and Trunks	38,177,763	916,897		39,094,660
Construction in Progress	<u>973,862</u>	<u>983,920</u>		<u>1,957,782</u>
Total Capital Assets Not Being Depreciated	<u>\$ 39,497,382</u>	<u>\$ 1,900,817</u>	<u>\$ -0-</u>	<u>\$ 41,398,199</u>
Capital Assets at Historical Costs Subject to Depreciation				
Buildings	\$ 523,166	\$	\$	\$ 523,166
Water System	45,742,822	565,159		46,307,981
Sanitary Sewer System	16,181,227	118,215		16,299,442
Drainage System	45,056,909	598,151		45,655,060
Equipment	<u>962,751</u>	<u>141,685</u>	<u>17,010</u>	<u>1,087,426</u>
Total Capital Assets at Historical Costs Subject to Depreciation	<u>\$108,466,875</u>	<u>\$ 1,423,210</u>	<u>\$ 17,010</u>	<u>\$109,873,075</u>

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 6. CAPITAL ASSETS (Continued)

	<u>October 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2010</u>
Less Accumulated Depreciation				
Buildings	\$ 7,473	\$ 15,108	\$	\$ 22,581
Water System	19,852,651	1,027,812		20,880,463
Sanitary Sewer System	7,086,960	345,182		7,432,142
Drainage System	20,284,048	828,623		21,112,671
Equipment	<u>661,664</u>	<u>88,583</u>	<u>17,010</u>	<u>733,237</u>
Total Accumulated Depreciation	<u>\$ 47,892,796</u>	<u>\$ 2,305,308</u>	<u>\$ 17,010</u>	<u>\$ 50,181,094</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 60,574,079</u>	<u>\$ (882,098)</u>	<u>\$ -0-</u>	<u>\$ 59,691,981</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$100,071,461</u>	<u>\$1,018,719</u>	<u>\$ -0-</u>	<u>\$101,090,180</u>

The sanitary sewer laterals and trunk lines are accounted for using the modified approach. The following is a summary of the condition levels of the individual subdivision sanitary sewer laterals and trunks as of September 30, 2010:

	Condition	<u>Sewer Laterals and Trunks in Linear Feet</u>
1.00-1.99	New Condition	320,945
2.00-2.99	Minor Deficiencies	705,265
3.00-3.99	Serious Deficiency	17,367
4.00-4.99	Very Serious Deficiency	11,551
5.00	Severe Deficiency	<u>4,153</u>
TOTAL		<u>1,059,281</u>

Comparison of Estimated to Actual Maintenance/Preservation Costs

	Estimated	Actual
2010	\$ 2,095,851	\$ 1,938,345
2009	\$ 5,246,648	\$ 4,923,644
2008	\$ 2,128,667	\$ 2,362,165
2007	\$ 2,667,818	\$ 2,244,100
2006	\$ 4,929,183	\$ 5,105,590

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 6. CAPITAL ASSETS (Continued)

The condition of the Authority's sanitary sewer lateral and trunk system is determined using a condition assessment methodology. The Authority uses a numerical condition scale ranging from 1.00 (new) to 5.00 (severe deficiency with no useful life remaining). It is the Authority's policy to keep 75% of the system in level 3.00 or better condition. The condition assessments as of September 30, 2010, September 30, 2009, and September 30, 2008, were 2.01, 2.16 and 2.33, respectively.

NOTE 7. PENSION PLAN

On October 1, 1991, the Authority established a defined contribution plan (the "Plan") for its eligible full-time employees. The Plan is a qualified pension plan under Section 401(a) of the Internal Revenue Code and is administered by International City Management Association ("ICMA"). Eligibility requirements include full-time employment status and completion of one year of service. The Plan requires the Authority to contribute, on behalf of each employee, 7.0% of the employee's earnings, as defined in the Plan agreement. During the current fiscal year, the Authority recorded \$153,699 as its contribution to the Plan.

NOTE 8. PENDING LITIGATION

The Water Authority is currently the defendant in four separate lawsuits that grow out of its September 2004 bond election; these are: (1) No. 2006-63998; *Friendswood Development Company, Ltd. vs. Clear Lake Water Authority*; In the 281st Judicial District Court of Harris County, Texas; (2) No. 2005-17524; *Kirby Lake Development, Ltd., Miter Development Company, LLC, and Taylor Lake, Ltd. vs. Clear Lake Water Authority*; In the 113th Judicial District Court of Harris County, Texas; (3) No. 866299; *Kirby Lake Development, Ltd., Miter Development Company, LLC, and Taylor Lake, Ltd. vs. Clear Lake Water Authority*; In the County Civil Court at Law No. 1, Harris County, Texas; and (4) Cause No. 2007-10488; *MCR Corporation v. Clear Lake City Water Authority*; In the 333rd Judicial District Court of Harris County, Texas.

Although the contracts in each of these four cases differ somewhat, the underlying facts are essentially the same: During the 1990s, various developers, including the plaintiffs in each of these cases, entered into written contracts in which the Authority conditionally agreed to purchase water, sewer, and drainage facilities installed by the developers on their properties. The Authority's obligation to purchase the facilities, however, is expressly subject to voter approval of bond funds to pay the purchase price. The contracts provide for a perpetual lease for the Authority so that it may use the facilities in the event voters do not approve bonds to fund the

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 8. PENDING LITIGATION (Continued)

purchase. The parties in each of these contracts have expressly stipulated that “[t]he Authority shall have no obligation . . . to obtain approval from the voters.”

The Authority has held five bond elections since the contracts were entered. In three of those elections (May 1998, October 1998, and November 2006), the Authority submitted bond propositions to finance the purchase of the developers’ facilities, and each such proposition was resoundingly defeated. In the September 11, 2004 and November 3, 2009 bond elections, the Authority submitted no proposition to approve bonds to finance the purchase of the developers’ facilities, and the propositions submitted to the voters were approved.

In the *Friendswood* (No. 2006-63998), *Kirby Lake* (No. 2005-17524), and *MCR* (No. 2007-10488) cases, the plaintiff developers have sued for breach of contract, alleging that the Authority’s refusal to include their claims as part of the bond-approval proposition to the voters in September 2004 breached the contract. In the second *Kirby Lake* case (No. 866299), the plaintiff developers alleged that the Authority’s use of their facilities without paying for them is a compensable taking under the Texas Constitution, Art. I, Section 17.

In the *Friendswood* case, on February 12, 2007, the trial judge granted a final summary judgment for the developer in that case, Friendswood Development Company, in the amount of \$1,120,235.99, plus prejudgment interest on the principal amount running at 6% per annum from September 11, 2004, and post judgment interest on both the principal and prejudgment interest, compounded annually at 8.25%, running from the date of judgment. On December 9, 2008, the Houston 14th Court of Appeals reversed and rendered judgment for the Authority that the plaintiff take nothing. The developer sought discretionary review from the Texas Supreme Court, which was granted. Oral arguments were heard on January 19, 2010.

In the *Kirby Lake* contract case, on September 5, 2006, the trial judge granted a final summary judgment for the developers in that case, Kirby Lake Development, Ltd. (\$713,141.00), Taylor Lake Ltd. (\$514,783.00), and Miter Development Co. (\$80,032.00), plus prejudgment interest on the principal amounts running at 6% per annum from September 11, 2004, and post judgment interest on both the principal and prejudgment interest, compounded annually at 8.25%, running from the date of judgment. On August 7, 2008, the Houston 14th Court of Appeals reversed and rendered judgment for the Authority that the plaintiffs take nothing. This case was consolidated with the *Friendswood* case for argument before the Texas Supreme Court.

In the *Kirby Lake* takings case, the trial judge, in September 2006, dismissed the developers’ claims on the face of the pleadings. The Houston 14th court of appeals affirmed that ruling. This case was consolidated with the *Friendswood* case for argument before the Texas Supreme Court. The Texas Supreme Court, on August 27, 2010, reversed in part and remanded for further proceedings in the Court below. Several crucial issues were left unaddressed by the Texas

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 8. PENDING LITIGATION (Continued)

Supreme Court in its partial reversal. Post-reversal briefing has been completed and oral argument on the remanded case is currently set for February 15, 2011.

In the *MCR* case, the developer, MCR Development Company, seeks contract damages in the amount of approximately \$715,000, plus interest. In November 2008, the trial court denied the Authority's plea to the jurisdiction, and an interlocutory appeal from that ruling is now pending. The Authority will vigorously defend against that suit.

Clear Lake City Water Authority v. Clear Lake Country Club, L.P. and Plainfield Offshore Holdings XI, Inc., No. 890,796, in the County Court at Law No. 1 of Harris County, Texas, is a condemnation suit. The Defendant Clear Lake Country Club ("CLCC") owns a 178-acre tract (hereinafter, the Property), and the Defendant Plainfield Offshore Holdings, Inc. ("Plainfield") is a lienholder on the Property. The Authority has sought to acquire the Property for flood control purposes. The case was tried to a jury in October and November 2008. On November 14, 2008, the jury returned its verdict. One portion of the verdict found that the Authority did not act properly when the Authority resolved to condemn the Property in 2005. The other portion of the verdict found the current fair market value of the Property to be \$5.1 million, substantially below the \$15.81 amount claimed by CLCC. On December 12, 2008, the court signed its final judgment. The Court ordered that if the Authority did not go forward with acquisition of the Property, the Authority would be ordered to pay CLCC \$1,430,000.00, plus post-judgment interest at the rate of 5% per annum, compounded annually, such sum purporting to represent CLCC's reasonable attorney's fees, appraiser's fees, and other expenses. The Authority appealed the judgment, briefing by both parties was completed, and oral argument was held before the First Court of Appeals on December 14, 2010. The Court of Appeals has not issued its ruling post oral argument.

At this time, counsel for the Authority is unable to project or assess what the ultimate final judgment in any of these causes might be.

NOTE 9. SICK LEAVE

The Authority has a sick leave policy whereby sick leave accrues at the rate of one day per month for each employee. Retiring employees and those terminated without cause may be paid for their unused sick leave upon termination of employment. The Authority has designated an investment account to cover the potential cost of this benefit to its employees; therefore, no liability has been recorded in the financial statements. Sick leave is recorded as an expenditure only when paid. As of the balance sheet date, \$626,541 of the General Fund fund balance has been reserved for this future obligation.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 10. EXCLUSION CONTRACT AND SERVICE AGREEMENT

On May 12, 1999, the Authority executed two contracts, an Exclusion Contract and a Service Agreement, both with Harris County Water Control & Improvement District No. 156 ("District No. 156"). On October 16, 2000, the First Amendment to the Service Agreement was executed. On March 10, 1999, the Texas Commission on Environmental Quality ("the Commission") entered an order creating District No. 156. On May 1, 1999, District No. 156 held elections confirming creation of District No. 156 and authorizing the Exclusion Contract. The Exclusion Contract provides for the exclusion of 142.368 acres of land from the Authority and for the payment of a pro rata share of the Authority's debt service on the excluded land. The term of the Exclusion Contract is 40 years.

On or before March 1 each year, District No. 156 is to pay the Authority from its tax proceeds based upon the following schedule unless altered by later refundings as provided for in the Exclusion Contract. The agreement calls for District No. 156 to account for monies derived from taxes and investment earnings in an account titled the Exclusion Contract Fund. The Authority assigned to District No. 156 all rights and duties with respect to the Bay Oaks Sales and Lease of Facilities Agreement and the Pine Brook Sales and Lease of Facilities Agreement that provide for development of utilities within District No. 156. The Authority further agreed to provide water and sanitary sewer utility service to District No. 156 at a cost not to exceed one and a half times the cost charged to customers in the Authority.

<u>Year</u>	<u>Allocable Debt</u>
2011	\$ 3,159
2012	3,184
2013	3,212
2014	2,838
2015	2,649
2016	2,320
2017	1,867
2018	1,880
2019	608
2020	296
2021	301
2022	<u>308</u>
TOTAL	<u>\$ 22,622</u>

The Service Agreement has a term of 40 years. District No. 156 will provide for the construction of facilities that will connect to the Authority's facilities and the facilities will be fully integrated into the utility system of the Authority. Service personnel of the Authority will provide services to District No. 156 customers on the same basis as Authority customers. The Authority will bill

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 10. EXCLUSION CONTRACT AND SERVICE AGREEMENT (Continued)

and collect tap and other fees in accordance with District No. 156's rate order and the Authority will charge District No. 156 for those services at the cost of providing the services. The Authority will provide service to District No. 156 customers on the same basis as Authority customers under the terms of the Authority's rate order. For the higher amount of \$500 or \$10 per connection billed, the Authority's service personnel will provide services to the customers of District No. 156 as spelled out in the contract. In addition, District No. 156 will pay for water and sanitary sewer service on a per-connection basis of 150% of the fees charged by the Authority based upon its rate order.

NOTE 11. COST SHARING WATER PROJECT CONTRACT

On February 24, 1987, the Authority executed a Cost Sharing Water Project Contract with the City of Houston, Texas, and the City of Nassau Bay, Texas. The agreement provided for the equitable sharing of capacity in Houston's Southeast Water Purification Plant (the "Plant"). The Agreement was amended September 2, 1988, to allow purchase of additional capacity to serve the Johnson Space Center. On February 16, 1998, the agreement was further amended with the Second Amendment to Cost Sharing Water Project Contract ("Second Amendment Agreement").

This agreement provided for the Authority to purchase additional capacity in the Plant from the City of Galveston and the termination of the Second Amendment Agreement should the parties to the agreement fail to secure additional capacity in the Plant from the City of Galveston. The Authority's and City of Nassau Bay's capacity in the Plant were then as follows:

Demand Allocation Factor - 8.7 million gallons per day (mgpd) of a total capacity of 80 mgpd. (available to the Authority and Johnson Space Center only)
Pumping Allocation Factor - 15 mgpd of a total capacity of 225 mgpd.

On April 28, 1998 the Authority executed a Water Capacity Purchase and Sale Agreement with the Gulf Coast Water Authority and the City of Galveston, Texas. In accordance with the terms of the agreement the City of Galveston's 16 mgpd of demand allocation per day capacity in the Plant was allocated to various parties, including the Authority, with the Authority's share being five mgpd. With this allocation the Authority's total capacity was 13.7 mgpd of demand allocation or 17.125% of the total capacity. The City of Galveston's pumping allocation was 18.4 mgpd. The Authority obtained 5.75 mgpd of this capacity, giving the Authority 20.75 mgpd of the pumping allocation of the Plant or 9.25% of the total pumping capacity.

The City of Houston subsequently expanded the Plant. The overall expansion was 40 mgpd with the total demand allocation being 120 mgpd. The Authority's allocation of this expanded capacity is 6.45 mgpd. In addition, the Authority acquired 1.0 mgpd capacity in the Plant from

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 11. COST SHARING WATER PROJECT CONTRACT (Continued)

the La Porte Area Water Authority and also acquired 0.5 mgpd capacity in the Plant from Harris County Municipal Utility District No. 55. With these acquisitions, the Authority owns a total demand capacity of 22.05 mgpd in the Plant, which includes demand capacity of 1.60 mgpd for the Johnson Space Center, along with additional allocations for pumping and distribution. In the current fiscal year, the District incurred an expenditure of \$2,157,859 for water supplied from the Plant.

NOTE 12. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide property, mobile equipment, general liability, boiler and machinery, errors and omissions, public employee dishonesty, automobile, and workers compensation coverage. The Authority, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise, they are submitted and paid by TML. During the current fiscal year the Authority contributed \$134,797 to the fund for this insurance coverage. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 13. ADVANCE REFUNDING BOND ISSUES

On April 27, 2006, the Authority issued \$4,255,000 of Series 2006 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, with interest rates of 3.75% to 4.07%, to advance refund \$270,000 of Series 1997 bonds, \$2,240,000 of Series 1998 bonds and \$1,745,000 of Series 2001 bonds. The net proceeds of \$4,530,577 (after payment of bond insurance, an underwriter's discount and other issuance costs and the receipt of a bond premium of \$467,672) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the retirement of the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets. The effect of the refunding was to decrease its total debt service requirement over 15 years by \$223,094 and at the same time obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$202,445.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 13. ADVANCE REFUNDING BOND ISSUES (Continued)

REFUNDED BONDS

Issue	Interest Rates	Maturities	Callable Date	Outstanding at September 30, 2010
1997	5.00%	2016	09/01/07	\$ -0-
1998	5.59%-5.74%	2013-2018	12/01/08	-0-
2001	5.66%-5.71%	2019-2021	03/01/12	<u>1,745,000</u>
			TOTAL	<u>\$ 1,745,000</u>

On July 8, 2010, the Authority issued \$8,815,000 of Series 2010 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, with interest rates of 2.00% to 4.25%, to advance refund \$2,445,000 of Series 1999 Bonds, \$2,655,000 of Series 2000 Bonds and \$3,670,000 of Series 2002 Refunding Bonds. The net proceeds of \$8,929,247 was deposited into an escrow account to provide for the retirement of the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets. The effect of the refunding was to decrease its total debt service requirement over 11 years by \$404,548 and at the same time obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$342,297.

REFUNDED BONDS

Issue	Interest Rates	Maturities	Callable Date	Outstanding at September 30, 2010
1999	3.65%-4.05%	2012-2017	03/01/09	\$ -0-
2000	4.05%-4.60%	2012-2021	03/01/10	-0-
2002R	3.85%-4.50%	2012-2017	03/01/10	<u>-0-</u>
			TOTAL	<u>\$ -0-</u>

NOTE 14. ESCROW REQUIREMENT

The Authority was required by the Commission to escrow \$7,702,966 of the \$9,600,000 Series 2005 bond proceeds for various projects including the construction and engineering costs to upgrade the SCADA system, re-coating multiple water tanks, water and wastewater extensions along Space Center Boulevard, rehabilitate the sanitary sewer collection system and fund the Authority's share of the City of Houston's Southeast Water Purification Plant (Plant) upgrades. In prior fiscal years, the Commission approved the release from escrow of \$5,295,230 for various projects. On December 4, 2007, the Commission approved the release of \$225,663 from

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 14. ESCROW REQUIREMENT (Continued)

escrow for wastewater collection system inspection and rehabilitation costs. On March 6, 2008, the Commission approved the release of \$1,423,320 from escrow to fund a portion of the Authority's share of the Plant upgrades. On May 19, 2008, the Commission approved the release of \$453,686 from escrow to fund additional costs related to Plant upgrades as well as storm sewer rehabilitation phase 6 costs. On September 30, 2008, the Commission approved a change of project scope and the release of \$160,000 from escrow for the La Avenida water line replacement project. As of September 30, 2010, \$145,067 of Series 2005 bond proceeds are required to be escrowed.

NOTE 15. BOND SALE

On October 8, 2009, the Authority issued \$5,270,000 of Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2009. The proceeds are to be used to fund engineering and construction costs on the following Authority items: interior and exterior recoating of ground storage tank nos. 1 and 2 at water plant no. 2; replacement of the ground storage tank at water well no. 7; water distribution system rehabilitation; televising of the wastewater collection system, phases 40 and 43; wastewater collection system rehabilitation, phases 41, 42 and 44; and inspection and rehabilitation of drainage system, phases 17 and 18. The proceeds were also used to pay for bond issuance costs.

NOTE 16. BOND ELECTION

On November 3, 2009, at a bond election held within the Authority, the voters of the Authority authorized the issuance of bonds in the maximum amount of \$57,975,400 for the purposes of repairing, rehabilitating and making capital improvements to the Authority's existing water, wastewater, drainage and storm sewer systems. The voters also authorized the issuance of refunding bonds in an amount not to exceed one and one-half times the amount of future bonds issued.

NOTE 17. BOND DEFEASANCE

During the current fiscal year, the Authority defeased \$945,000 of Series 1999 Bonds and \$2,750,000 of Series 2001 Bonds. The Authority purchased \$4,011,311 of United States Treasury Securities – State and Local Government Series ("SLGS") to provide for the future principal and interest payments on the defeased bonds. As a result, the liability for the defeased bonds has been removed from the Statement of Net Assets.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2010

NOTE 17. BOND DEFEASANCE (Continued)

DEFEASED BONDS

<u>Issue</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Callable Date</u>	<u>Outstanding at September 30, 2010</u>
1999	4.10%	2018, 2019	03/01/09	\$ -0-
2001	5.21%-5.61%	2013-2018	03/01/12	<u>2,750,000</u>
			TOTAL	<u>\$ 2,750,000</u>

CLEAR LAKE CITY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2010

CLEAR LAKE CITY WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 2,241,000	\$ 2,294,895	\$ 53,895
Water Service	5,211,700	4,802,760	(408,940)
Wastewater Service	2,664,700	2,585,387	(79,313)
Penalty and Interest	80,000	99,016	19,016
Tap Connection and Inspection Fees	186,110	207,831	21,721
Investment Revenues	33,000	10,276	(22,724)
Miscellaneous Revenues	<u>161,415</u>	<u>166,142</u>	<u>4,727</u>
TOTAL REVENUES	\$ 10,577,925	\$ 10,166,307	\$ (411,618)
EXPENDITURES			
Service Operations:			
Bulk Water Purchases	\$ 2,283,000	\$ 2,219,656	\$ 63,344
Payroll	3,484,817	3,359,592	125,225
Utilities	1,391,050	1,434,313	(43,263)
Repairs and Maintenance	485,565	488,673	(3,108)
Professional Fees	855,500	801,138	54,362
Capital Outlay	153,775	134,541	19,234
Other	<u>1,922,229</u>	<u>1,763,504</u>	<u>158,725</u>
TOTAL EXPENDITURES	\$ 10,575,936	\$ 10,201,417	\$ 374,519
NET CHANGE IN FUND BALANCE	\$ 1,989	\$ (35,110)	\$ (37,099)
FUND BALANCE - OCTOBER 1, 2009	<u>5,543,587</u>	<u>5,543,587</u>	<u> </u>
FUND BALANCE - SEPTEMBER 30, 2010	<u>\$ 5,545,576</u>	<u>\$ 5,508,477</u>	<u>\$ (37,099)</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
SEPTEMBER 30, 2010

**CLEAR LAKE CITY WATER AUTHORITY
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

<u> X </u>	Retail Water	<u> X </u>	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	<u> X </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> X </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order approved December 13, 2007.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons</u>
WATER:	\$ 4.50	5,000	N	\$ 1.70
WASTEWATER:	\$ 4.50	5,000	N	\$ 1.08**
SURCHARGE:	N/A			

Authority employs winter averaging for wastewater usage? X
Yes No

All customers who use over 5,000 gallons of water monthly will be charged at the regular rates for total water and sewer use.

Total monthly charges per 10,000 gallons usage: Water: \$17.00 Wastewater: \$8.52* Surcharge \$-0-

* Includes a \$1.50 charge for each sewer connection to the Authority's sewer system.

** In the absence of metered sewage flow, a residence will be charged for sewer based on a flow factor applied to the metered water usage as outlined in the Authority's rate order.

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	10,836	10,730	x 1.0	10,730
1"	6,240	6,217	x 2.5	15,543
1½"	270	262	x 5.0	1,310
2"	424	414	x 8.0	3,312
3"	40	40	x 15.0	600
4"	29	28	x 25.0	700
6"	3	3	x 50.0	150
8"	5	5	x 80.0	400
10"	1	1	x 115.0	115
Total Water Connections	<u>17,848</u>	<u>17,700</u>		<u>32,860</u>
Total Wastewater Connections	<u>17,388</u>	<u>17,260</u>	x 1.0	<u>17,260</u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND:

Gallons pumped into system:	3,069,909,000	Water Accountability Ratio: 83.3% (Gallons billed and sold/Gallons pumped)
Gallons billed to customers:	2,490,668,000	
Gallons purchased:	3,647,580,000	From: <u>City of Houston, Texas</u>
Gallons sold:	69,129,000	To: <u>Harris County Water Control and Improvement District No. 156</u>

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the Authority have Debt Service standby fees? Yes No

Does the Authority have Operation and Maintenance standby fees? Yes No

5. LOCATION OF DISTRICT:

Is the Authority located entirely within one county?

Yes No

County or Counties in which Authority is located:

Harris County, Texas
Houston County, Texas (2 acres)

Is the Authority located within a city?

Entirely Partly Not at all

City or Cities in which Authority is located:

City of Pasadena, Texas; City of Houston, Texas; City of Webster, Texas; City of Taylor Lake Village, Texas and City of La Porte, Texas.

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

5. LOCATION OF DISTRICT: (Continued)

Is the Authority located within a city's extra territorial jurisdiction (ETJ)?

Entirely _____ Partly X Not at all _____

ETJ's in which Authority is located:

City of Webster, Texas and City of Pasadena, Texas.

Are Board Members appointed by an office outside the Authority?

Yes _____ No X

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

PERSONNEL EXPENDITURES (Including Benefits)	\$ 3,359,592
PROFESSIONAL FEES:	
Auditing	\$ 28,500
Engineering	341,340
Legal	<u>431,298</u>
TOTAL PROFESSIONAL FEES	\$ 801,138
PURCHASED SERVICES FOR RESALE:	
Bulk Water Purchases	\$ 2,219,656
CONTRACTED SERVICES:	\$ -0-
UTILITIES:	
Electricity	\$ 1,372,149
Gas	7,731
Internet	3,998
Telephone/Radio	<u>50,435</u>
TOTAL UTILITIES	\$ 1,434,313
REPAIRS AND MAINTENANCE	\$ 488,673
ADMINISTRATIVE EXPENDITURES:	
Bank Charges	\$ 14,961
Director Fees	18,900
Dues	3,836
Election Costs	9,086
Insurance	129,173
Office Supplies and Postage	94,786
Billing Costs	28,730
Water and Sewer Rebate	618,440
Regulatory Assessment	31,647
Travel And Per Diem	24,852
Other	<u>3,943</u>
TOTAL ADMINISTRATIVE EXPENDITURES	\$ 978,354
CAPITAL OUTLAY:	
Purchase of Capital Assets	\$ 134,541

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

TAP CONNECTION EXPENDITURES	\$ <u>-0-</u>
SOLID WASTE DISPOSAL	\$ <u>-0-</u>
FIRE FIGHTING	\$ <u>-0-</u>
PARKS AND RECREATION	\$ <u>-0-</u>
SECURITY	\$ <u>-0-</u>
OTHER EXPENDITURES:	
Bad Debts	\$ 7,361
Chemicals	147,282
Laboratory Fees	50,022
Inspection and Permit Fees	95,985
Parts and Supplies	195,455
Drainage Study	2,500
Water Conservation	24,777
Vehicle Supplies and Maintenance	95,446
Equipment Rental	16,307
Sludge Hauling	133,297
Uniforms	<u>16,718</u>
TOTAL OTHER EXPENDITURES	\$ <u>785,150</u>
TOTAL EXPENDITURES	\$ <u>10,201,417</u>
Number of persons employed by the Authority	<u>54</u> Full-Time <u>0</u> Part-Time

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
INVESTMENTS
SEPTEMBER 30, 2010**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at end of Year</u>	<u>Accrued Interest Receivable at Year End</u>
<u>GENERAL FUND</u>					
Local Government					
Investment Pool:					
TexPool	1	Varies	Daily	\$ 4,524,551	\$
TexPool	3	Varies	Daily	<u>677,336</u>	<u> </u>
TOTAL GENERAL FUND				<u>\$ 5,201,887</u>	<u>\$ -0-</u>
<u>DEBT SERVICE FUND</u>					
Local Government					
Investment Pool:					
TexPool	4	Varies	Daily	\$ 5,911,366	\$
TexPool	9	Varies	Daily	<u>139,445</u>	<u> </u>
TOTAL DEBT SERVICE FUND				<u>\$ 6,050,811</u>	<u>\$ -0-</u>
<u>CAPITAL PROJECTS FUND</u>					
Local Government					
Investment Pool:					
TexPool	14	Varies	Daily	\$ 56,259	\$
TexPool	25	Varies	Daily	724,039	
TexPool	26	Varies	Daily	12	
TexPool	28	Varies	Daily	875,967	
TexPool	31	Varies	Daily	1,184,817	
TexPool	32	Varies	Daily	<u>4,881,366</u>	<u> </u>
TOTAL CAPITAL PROJECTS FUND				<u>\$ 7,722,460</u>	<u>\$ -0-</u>
TOTAL ALL FUNDS				<u>\$ 18,975,158</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Maintenance Tax		Debt Service Tax	
TAXES RECEIVABLE –				
OCTOBER 1, 2009	\$ 67,143		\$ 318,382	
Adjustments to Beginning Balance	<u>(25,348)</u>	\$ 41,795	<u>(117,580)</u>	\$ 200,802
Original 2009 Tax Levy	\$2,025,409		\$ 9,457,277	
Adjustments to 2009 Tax Levy	<u>263,476</u>	<u>2,288,885</u>	<u>1,214,474</u>	<u>10,671,751</u>
TOTAL TO BE ACCOUNTED FOR		\$ 2,330,680		\$10,872,553
TAX COLLECTIONS:				
Prior Years	\$ 17,413		\$ 81,817	
Current Year	<u>2,277,482</u>	<u>2,294,895</u>	<u>10,616,491</u>	<u>10,698,308</u>
TAXES RECEIVABLE –				
SEPTEMBER 30, 2010		<u>\$ 35,785</u>		<u>\$ 174,245</u>
TAXES RECEIVABLE BY YEAR:				
2009		\$ 11,403		\$ 55,260
2008		8,281		40,042
2007		3,595		17,441
2006		3,329		14,171
2005		2,573		12,865
2004		1,597		7,669
2003		1,154		5,540
2002		1,232		6,390
2001		1,291		7,228
2000		542		3,219
1999		575		3,254
1998		129		722
1997		3		15
1996		42		238
1995		<u>39</u>		<u>191</u>
TOTAL TAXES RECEIVABLE BY YEAR		<u>\$ 35,785</u>		<u>\$ 174,245</u>

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Clear Lake City Water Authority:

PROPERTY VALUATIONS	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 1,181,084,222	\$ 1,132,733,689	\$ 1,007,857,513	\$ 1,015,460,520
Improvements	4,080,142,136	4,225,723,369	3,719,411,760	3,606,784,766
Personal Property	701,274,555	798,822,694	728,040,736	732,338,451
Exemptions	<u>(1,437,625,057)</u>	<u>(1,462,386,297)</u>	<u>(1,286,307,772)</u>	<u>(1,293,034,308)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 4,524,875,856</u>	<u>\$ 4,694,893,455</u>	<u>\$ 4,169,002,237</u>	<u>\$ 4,061,549,429</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.23	\$ 0.23	\$ 0.23	\$ 0.23
Maintenance	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.28</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>
ADJUSTED TAX LEVY*	<u>\$ 12,669,654</u>	<u>\$ 13,145,702</u>	<u>\$ 11,673,208</u>	<u>\$ 11,372,338</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>99.53%</u>	<u>99.67%</u>	<u>99.84%</u>	<u>99.86%</u>

* Based upon adjusted tax at time of audit for the period in which the tax was levied.

Maintenance Tax – Maximum Tax Rate of \$0.05 per \$100 of assessed valuation approved by voters on August 14, 1982.

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2010

**Harris County Water Control and
Improvement District No. 75:**

PROPERTY VALUATIONS	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 23,314,407	\$ 23,573,633	\$ 15,151,085	\$ 15,119,203
Improvements	29,985,814	33,830,688	39,390,100	37,938,066
Personal Property	478,185	348,114	377,238	369,930
Exemptions	<u>(872,363)</u>	<u>(2,348,855)</u>	<u>(1,139,237)</u>	<u>(2,269,243)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 52,906,043</u>	<u>\$ 55,403,580</u>	<u>\$ 53,779,186</u>	<u>\$ 51,157,956</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.53
Maintenance	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.55</u>	<u>\$ 0.55</u>	<u>\$ 0.55</u>	<u>\$ 0.58</u>
ADJUSTED TAX LEVY*	<u>\$ 290,982</u>	<u>\$ 304,720</u>	<u>\$ 295,786</u>	<u>\$ 296,716</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>97.81%</u>	<u>98.49%</u>	<u>99.23%</u>	<u>99.54%</u>

* Based upon adjusted tax at time of audit for the period in which the tax was levied.

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

Harris County Municipal Utility District No. 181:

**PROPERTY
VALUATIONS**

	<u>2009**</u>	<u>2008**</u>	<u>2007</u>	<u>2006</u>
Land	\$	\$	\$ 12,599,788	\$ 12,439,090
Improvements			36,982,672	35,863,688
Personal Property			898,872	926,582
Exemptions			<u>(5,034,872)</u>	<u>(4,186,698)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ 45,446,460</u>	<u>\$ 45,042,662</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$	\$	0.25	0.36
Maintenance			<u>0.05</u>	<u>0.05</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ 0.30</u>	<u>\$ 0.41</u>
ADJUSTED TAX LEVY*	<u>\$ N/A</u>	<u>\$ N/A</u>	<u>\$ 136,339</u>	<u>\$ 184,675</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>N/A</u> %	<u>N/A</u> %	<u>99.99%</u>	<u>99.99%</u>

* Based upon adjusted tax at time of audit for the period in which the tax was levied.

** The long-term debt for District No. 181 has been retired and its billing incorporated into the Authority's; thus no current nor prior year tax was levied.

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

SERIES - \$5,705,000 - 1 9 9 7

<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1/ September 1</u>	<u>Total</u>
2011	\$ 240,000	\$ 32,460	\$ 272,460
2012		20,700	20,700
2013		20,700	20,700
2014		20,700	20,700
2015		20,700	20,700
2016		20,700	20,700
2017		20,700	20,700
2018		20,700	20,700
2019		20,700	20,700
2020		20,700	20,700
2021		20,700	20,700
2022	<u>460,000</u>	<u>20,700</u>	<u>480,700</u>
TOTAL	<u>\$ 700,000</u>	<u>\$ 260,160</u>	<u>\$ 960,160</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

HARRIS COUNTY WATER
CONTROL AND IMPROVEMENT
DISTRICT NO. 75
SERIES - \$2,160,000 - 1998 - B

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 190,000	\$ 67,655	\$ 257,655
2012	200,000	57,270	257,270
2013	215,000	46,115	261,115
2014	230,000	34,042	264,042
2015	240,000	21,175	261,175
2016	265,000	7,287	272,287
2017			
2018			
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 1,340,000</u>	<u>\$ 233,544</u>	<u>\$ 1,573,544</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

SERIES - \$6,900,000 - 1 9 9 9

<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due March 1</u>	<u>Interest Due March 1/ September 1</u>	<u>Total</u>
2011	\$ 355,000	\$ 6,301	\$ 361,301
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 355,000</u>	<u>\$ 6,301</u>	<u>\$ 361,301</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

SERIES - \$4,485,000 - 2000

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 215,000	\$ 4,246	\$ 219,246
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 215,000</u>	<u>\$ 4,246</u>	<u>\$ 219,246</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

SERIES - \$7,885,000 - 2001

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 365,000	\$ 28,280	\$ 393,280
2012	380,000	9,614	389,614
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 745,000</u>	<u>\$ 37,894</u>	<u>\$ 782,894</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

REFUNDING SERIES - \$11,405,000 - 2002

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 520,000	\$ 9,750	\$ 529,750
2012			
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 520,000</u>	<u>\$ 9,750</u>	<u>\$ 529,750</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

REFUNDING SERIES - \$9,155,000 - 2003 - A

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 540,000	\$ 94,183	\$ 634,183
2012	570,000	76,197	646,197
2013	605,000	56,365	661,365
2014	480,000	37,440	517,440
2015		28,800	28,800
2016		28,800	28,800
2017		28,800	28,800
2018	720,000	14,400	734,400
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 2,915,000</u>	<u>\$ 364,985</u>	<u>\$ 3,279,985</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

REFUNDING SERIES - \$7,125,000 - 2003 - B

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 1,170,000	\$ 95,512	\$ 1,265,512
2012	695,000	65,444	760,444
2013	730,000	41,210	771,210
2014	285,000	23,559	308,559
2015	500,000	9,250	509,250
2016			
2017			
2018			
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 3,380,000</u>	<u>\$ 234,975</u>	<u>\$ 3,614,975</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

SERIES - \$9,600,000 - 2005

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 260,000	\$ 333,621	\$ 593,621
2012	235,000	324,339	559,339
2013	205,000	316,089	521,089
2014	820,000	297,383	1,117,383
2015	1,160,000	261,059	1,421,059
2016	1,755,000	206,693	1,961,693
2017	2,575,000	124,862	2,699,862
2018	2,025,000	37,969	2,062,969
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 9,035,000</u>	<u>\$ 1,902,015</u>	<u>\$ 10,937,015</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

SERIES - \$5,500,000 - 2006

<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due March 1</u>	<u>Interest Due March 1/ September 1</u>	<u>Total</u>
2011	\$ 295,000	\$ 175,550	\$ 470,550
2012	310,000	163,450	473,450
2013	325,000	150,750	475,750
2014	340,000	137,450	477,450
2015	360,000	123,450	483,450
2016	375,000	108,750	483,750
2017	395,000	93,844	488,844
2018	415,000	78,655	493,655
2019	435,000	62,719	497,719
2020	460,000	45,937	505,937
2021	485,000	28,220	513,220
2022	<u>510,000</u>	<u>9,562</u>	<u>519,562</u>
TOTAL	<u>\$ 4,705,000</u>	<u>\$ 1,178,337</u>	<u>\$ 5,883,337</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

REFUNDING SERIES - \$4,255,000 - 2006

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 55,000	\$ 167,500	\$ 222,500
2012	60,000	165,200	225,200
2013	60,000	162,800	222,800
2014	20,000	521,600	541,600
2015	380,000	154,000	534,000
2016	390,000	138,600	528,600
2017	670,000	117,400	787,400
2018	420,000	95,600	515,600
2019	985,000	67,500	1,052,500
2020	585,000	36,100	621,100
2021	610,000	12,200	622,200
2022			
TOTAL	<u>\$ 4,235,000</u>	<u>\$ 1,638,500</u>	<u>\$ 5,873,500</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

SERIES - \$8,730,000 - 2008

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 490,000	\$ 256,102	\$ 746,102
2012	515,000	241,026	756,026
2013	540,000	225,202	765,202
2014	565,000	207,919	772,919
2015	595,000	189,070	784,070
2016	625,000	169,089	794,089
2017	660,000	147,886	807,886
2018	690,000	125,266	815,266
2019	730,000	100,761	830,761
2020	765,000	74,216	839,216
2021	805,000	45,855	850,855
2022	<u>845,000</u>	<u>15,632</u>	<u>860,632</u>
TOTAL	<u>\$ 7,825,000</u>	<u>\$ 1,798,024</u>	<u>\$ 9,623,024</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

REFUNDING SERIES - \$11,645,000 - 2009

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 895,000	\$ 372,288	\$ 1,267,288
2012	1,005,000	809,388	1,814,388
2013	1,755,000	312,449	2,067,449
2014	1,495,000	269,956	1,764,956
2015	1,550,000	218,400	1,768,400
2016	1,620,000	155,000	1,775,000
2017	665,000	109,300	774,300
2018	975,000	76,500	1,051,500
2019	325,000	50,500	375,500
2020	345,000	37,100	382,100
2021	755,000	22,900	777,900
2022			
TOTAL	<u>\$ 11,385,000</u>	<u>\$ 2,433,781</u>	<u>\$ 13,818,781</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

SERIES - \$5,270,000 - 2009

<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due March 1</u>	<u>Interest Due March 1/ September 1</u>	<u>Total</u>
2011	\$ 330,000	\$ 161,182	\$ 491,182
2012	345,000	151,057	496,057
2013	365,000	140,405	505,405
2014	385,000	129,156	514,156
2015	400,000	117,381	517,381
2016	420,000	105,081	525,081
2017	445,000	92,106	537,106
2018	465,000	78,457	543,457
2019	490,000	63,519	553,519
2020	515,000	46,866	561,866
2021	540,000	29,062	569,062
2022	<u>570,000</u>	<u>9,975</u>	<u>579,975</u>
TOTAL	<u>\$ 5,270,000</u>	<u>\$ 1,124,247</u>	<u>\$ 6,394,247</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

REFUNDING SERIES - \$8,815,000 - 2010

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2011	\$ 135,000	\$ 289,025	\$ 424,025
2012	1,175,000	275,924	1,450,924
2013	1,200,000	246,174	1,446,174
2014	1,245,000	209,501	1,454,501
2015	1,290,000	171,476	1,461,476
2016	1,325,000	125,625	1,450,625
2017	1,385,000	71,425	1,456,425
2018	255,000	38,626	293,626
2019	260,000	27,999	287,999
2020	270,000	16,737	286,737
2021	275,000	5,500	280,500
2022			
TOTAL	<u>\$ 8,815,000</u>	<u>\$ 1,478,012</u>	<u>\$ 10,293,012</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2010

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2011	\$ 6,055,000	\$ 2,093,655	\$ 8,148,655
2012	5,490,000	2,359,609	7,849,609
2013	6,000,000	1,718,259	7,718,259
2014	5,865,000	1,888,706	7,753,706
2015	6,475,000	1,314,761	7,789,761
2016	6,775,000	1,065,625	7,840,625
2017	6,795,000	806,323	7,601,323
2018	5,965,000	566,173	6,531,173
2019	3,225,000	393,698	3,618,698
2020	2,940,000	277,656	3,217,656
2021	3,470,000	164,437	3,634,437
2022	<u>2,385,000</u>	<u>55,869</u>	<u>2,440,869</u>
TOTAL	<u>\$ 61,440,000</u>	<u>\$ 12,704,771</u>	<u>\$ 74,144,771</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Description	Original Bonds Issued	Bonds Outstanding October 1, 2009
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1997	\$ 5,705,000	\$ 930,000
Clear Lake City Water Authority Consolidated Area (Harris County Water Control and Improvement District No. 75) Unlimited Tax Refunding Bonds, Series 1998-B	2,160,000	1,515,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 1998	10,655,000	465,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1999	6,900,000	4,090,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2000	4,485,000	3,075,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2001	7,885,000	3,840,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2002	11,405,000	4,685,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2003-A	9,155,000	3,435,000

For interest rates, interest payment dates and maturity dates, see Note 3.

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding September 30, 2010	Paying Agent
	Principal	Interest		
\$	\$ 230,000	\$ 43,615	\$ 700,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	175,000	77,284	1,340,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	465,000	10,695	-0-	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	3,735,000	85,200	355,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	2,860,000	70,547	215,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	3,095,000	342,654	745,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	4,165,000	106,963	520,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	520,000	110,420	2,915,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

Description	Original Bonds Issued	Bonds Outstanding October 1, 2009
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2003-B	\$ 7,125,000	\$ 4,500,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2005	9,600,000	9,310,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 2006	5,500,000	4,985,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds – Series 2006	4,255,000	4,240,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 2008	8,730,000	8,290,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds – Series 2009	11,645,000	11,645,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 2009	5,270,000	
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds – Series 2010	<u>8,815,000</u>	
TOTAL	<u>\$ 119,290,000</u>	<u>\$ 65,005,000</u>

For interest rates, interest payment dates and maturity dates, see Note 3.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding September 30, 2010</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 1,120,000	\$ 130,740	\$ 3,380,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	275,000	343,308	9,035,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	280,000	187,050	4,705,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	5,000	223,600	4,235,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	465,000	270,427	7,825,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	260,000	394,088	11,385,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
5,270,000		149,057	5,270,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>8,815,000</u>		<u>42,750</u>	<u>8,815,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 14,085,000</u>	<u>\$ 17,650,000</u>	<u>\$ 2,588,398</u>	<u>\$ 61,440,000</u>	

* Includes bonds refunded and defeased of \$12,465,000. See Notes 13 and 17.

See accompanying independent auditor's report.

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CLEAR LAKE CITY WATER AUTHORITY
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

RECONCILIATION OF BONDS ISSUED:

In addition to the bond issues listed on the previous pages, the Authority has retired the following bond issues.

Entity	Bond Issue	Amount
Harris County Municipal Utility District No. 181	Series 1983	\$ 1,300,000
Harris County Municipal Utility District No. 181	Series 1986	440,000
Harris County Water Control & Improvement District No. 75	Series 1992	3,005,000
Clear Lake City Water Authority	Series 1963	5,400,000
Clear Lake City Water Authority	Series 1967	3,025,000
Clear Lake City Water Authority	Series 1968	1,965,000
Clear Lake City Water Authority	Series 1969	1,450,000
Clear Lake City Water Authority	Series 1971	2,850,000
Clear Lake City Water Authority	Series 1975	1,000,000
Clear Lake City Water Authority	Series 1976	1,780,000
Clear Lake City Water Authority	Series 1977	1,080,000
Clear Lake City Water Authority	Series 1978	1,900,000
Clear Lake City Water Authority	Series 1980	1,450,000
Clear Lake City Water Authority	Series 1986	5,910,000
Clear Lake City Water Authority	Series 1987	9,535,000
Clear Lake City Water Authority	Series 1988	4,700,000
Clear Lake City Water Authority	Refunding Series 1990	1,440,000
Clear Lake City Water Authority	Series 1977-A	2,100,000
Clear Lake City Water Authority	Series 1989	3,350,000
Clear Lake City Water Authority	Series 1987-A	7,000,000
Clear Lake City Water Authority	Series 1990	6,400,000
Clear Lake City Water Authority	Series 1991	8,090,000
Clear Lake City Water Authority	Refunding Series 1992	5,520,000
Clear Lake City Water Authority	Series 1993	8,345,000
Clear Lake City Water Authority	Series 1993-A	7,000,000
Clear Lake City Water Authority	Series 1993-B	9,600,000
Clear Lake City Water Authority	Series 1994	18,840,000
Clear Lake City Water Authority	Series 1999	6,065,000
Clear Lake City Water Authority	Series 1998-A	1,305,000
Clear Lake City Water Authority	Series 1998	<u>5,410,000</u>
TOTAL BOND ISSUES RETIRED		\$ 137,255,000
Total Original Bonds Issued Outstanding as of the fiscal year end September 30, 2010		<u>119,290,000</u>
Totals Bonds Issued		<u>\$ 256,545,000</u>
Total Tax Bonds Issued		\$ 158,160,000
Total Refunding Bonds Issued		27,150,000
Total Dollar for Dollar Refunding Bonds Issued		<u>71,235,000</u>
TOTAL BONDS ISSUED		<u>\$ 256,545,000</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Tax Bonds		
	Clear Lake City Water Authority	HC MUD No. 181	HCWCID No. 75
Bond Authority:			
Amount Authorized by Voters	\$ 211,390,400	\$ 5,000,000	\$ 3,005,000
Amount Issued	<u>153,415,000</u>	<u>1,740,000</u>	<u>3,005,000</u>
Remaining to be Issued	<u>\$ 57,975,400</u>	<u>\$ 3,260,000</u>	<u>\$ -0-</u>
Debt Service Fund cash and investment balances as of September 30, 2010:			<u>\$ 6,292,638</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:			<u>\$ 6,178,731</u>

See accompanying independent auditor's report.

Total	Refunding Bonds		Total
	Clear Lake City Water Authority	HC MUD No. 181	
\$ 219,395,400	\$ 111,323,100	\$ 5,000,000	\$116,323,100
<u>158,160,000</u>	<u>24,405,000</u>	<u>2,745,000</u>	<u>27,150,000 (1)</u>
<u>\$ 61,235,400</u>	<u>\$ 86,918,100</u>	<u>\$ 2,255,000</u>	<u>\$ 89,173,100</u>

- (1) Total refunding bonds issued excludes the following bond issues which were refunded dollar for dollar to obtain a lower interest rate.

Clear Lake City Water Authority Bonds Series 1987	\$ 6,065,000
Clear Lake City Water Authority Bonds Series 1991	3,330,000
Clear Lake City Water Authority Bonds Series 1993	7,325,000
District No. 75 Bonds Refunded by Series 1998-B	2,160,000
Clear Lake City Water Authority Refunding Bond Series 2002	11,405,000
Clear Lake City Water Authority Refunding Bond Series 2003-A and 2003-B	16,280,000
Clear Lake City Water Authority Refunding Bond Series 2006	4,255,000
Clear Lake City Water Authority Refunding Bond Series 2009	11,645,000
Clear Lake City Water Authority Refunding Bond Series 2010	<u>8,770,000</u>
TOTAL	<u>\$ 71,235,000</u>

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS**

	<u>Amounts</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
REVENUES			
Property Taxes	\$ 2,294,895	\$ 2,347,941	\$ 2,129,498
Water Service	4,802,760	5,370,624	4,829,038
Wastewater Service	2,585,387	2,723,388	2,575,718
Penalty and Interest	99,016	74,342	89,539
Tap Connection and Inspection Fees	207,831	24,345	48,930
Investment Revenues	10,276	23,969	165,907
Miscellaneous Revenues	<u>166,142</u>	<u>251,332</u>	<u>163,454</u>
TOTAL REVENUES	<u>\$ 10,166,307</u>	<u>\$ 10,815,941</u>	<u>\$ 10,002,084</u>
EXPENDITURES			
Payroll	\$ 3,359,592	\$ 3,151,612	\$ 3,083,780
Bulk Water Purchases	2,219,656	2,341,119	2,200,671
Professional Fees	801,138	1,290,186	1,120,130
Utilities	1,434,313	1,253,342	1,211,197
Repairs and Maintenance	488,673	636,122	588,574
Other	1,763,504	1,775,716	1,592,393
Capital Outlay	<u>134,541</u>	<u>127,980</u>	<u>80,542</u>
TOTAL EXPENDITURES	<u>\$ 10,201,417</u>	<u>\$ 10,576,077</u>	<u>\$ 9,877,287</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (35,110)</u>	<u>\$ 239,864</u>	<u>\$ 124,797</u>
OTHER FINANCING SOURCES (USES)			
Transfer In	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (35,110)</u>	<u>\$ 239,864</u>	<u>\$ 124,797</u>
BEGINNING FUND BALANCE	<u>5,543,587</u>	<u>5,303,723</u>	<u>5,178,926</u>
ENDING FUND BALANCE	<u>\$ 5,508,477</u>	<u>\$ 5,543,587</u>	<u>\$ 5,303,723</u>

See accompanying independent auditor's report.

		Percent of Total Revenues					
2007	2006	2010	2009	2008	2007	2006	
\$ 2,077,589	\$ 1,925,823	22.7%	21.7%	21.3%	22.2%	21.3%	
4,186,792	4,349,768	47.2	49.7	48.3	44.7	48.0	
2,478,277	2,296,725	25.4	25.2	25.8	26.4	25.3	
88,090	83,743	1.0	0.7	0.9	0.9	0.9	
131,507	75,806	2.0	0.2	0.5	1.4	0.8	
233,543	174,275	0.1	0.2	1.7	2.5	1.9	
<u>178,477</u>	<u>154,419</u>	<u>1.6</u>	<u>2.3</u>	<u>1.5</u>	<u>1.9</u>	<u>1.8</u>	
<u>\$ 9,374,275</u>	<u>\$ 9,060,559</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	
\$ 2,954,910	\$ 3,212,222	33.0%	29.1%	30.8%	31.5%	35.5%	
1,748,483	2,672,142	21.8	21.6	22.0	18.7	29.5	
830,169	459,133	7.9	11.9	11.2	8.9	5.1	
1,046,628	949,839	14.1	11.6	12.1	11.2	10.5	
478,144	477,848	4.8	5.9	5.9	5.1	5.3	
1,586,354	1,494,109	17.4	16.4	15.9	16.9	16.5	
<u>115,467</u>	<u>508,528</u>	<u>1.3</u>	<u>1.2</u>	<u>0.8</u>	<u>1.2</u>	<u>5.6</u>	
<u>\$ 8,760,155</u>	<u>\$ 9,773,821</u>	<u>100.3%</u>	<u>97.7%</u>	<u>98.7%</u>	<u>93.5%</u>	<u>108.0%</u>	
\$ 614,120	\$ (713,262)	(0.3)%	2.3%	1.3%	6.5%	(8.0)%	
\$ -0-	\$ 38,188						
\$ 614,120	\$ (675,074)						
<u>4,564,806</u>	<u>5,239,880</u>						
<u>\$ 5,178,926</u>	<u>\$ 4,564,806</u>						

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	<u>Amounts</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
REVENUES			
Property Taxes	\$ 10,698,308	\$ 10,946,767	\$ 9,951,412
Penalty and Interest	138,909	108,467	105,196
Investment Revenues	15,153	58,195	217,150
Miscellaneous Revenues	<u>9,302</u>	<u>17,346</u>	<u>11,224</u>
TOTAL REVENUES	<u>\$ 10,861,672</u>	<u>\$ 11,130,775</u>	<u>\$ 10,284,982</u>
EXPENDITURES			
Payroll	\$ 226,475	\$ 186,329	\$ 157,465
Debt Service Principal	8,880,000	4,995,000	6,814,172
Debt Service Interest and Fees	2,890,888	2,903,295	3,249,916
Miscellaneous Expenditures	<u>157,551</u>	<u>145,680</u>	<u>61,002</u>
TOTAL EXPENDITURES	<u>\$ 12,154,914</u>	<u>\$ 8,230,304</u>	<u>\$ 10,282,555</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (1,293,242)</u>	<u>\$ 2,900,471</u>	<u>\$ 2,427</u>
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	\$	\$	\$
Long-Term Debt Issued-Refunding	8,815,000	11,645,000	
Premium on Bonds Issued	381,085	547,778	
Payment to Refunded Bond Escrow Agent	(8,929,247)	(11,876,602)	
Bond Discount	<u>(171,893)</u>	<u>(241,591)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 94,945</u>	<u>\$ 74,585</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCE	<u>\$ (1,198,297)</u>	<u>\$ 2,975,056</u>	<u>\$ 2,427</u>
BEGINNING FUND BALANCE	<u>7,183,006</u>	<u>4,207,950</u>	<u>4,205,523</u>
ENDING FUND BALANCE	<u>\$ 5,984,709</u>	<u>\$ 7,183,006</u>	<u>\$ 4,207,950</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>17,700</u>	<u>17,732</u>	<u>17,740</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>17,260</u>	<u>17,277</u>	<u>17,264</u>

See accompanying independent auditor's report.

		Percent of Total Revenues						
2007	2006	2010	2009	2008	2007	2006		
\$ 9,773,339	\$ 9,460,239	98.5%	98.3%	96.8%	95.5%	95.7%		
105,204	87,421	1.3	1.0	1.0	1.0	0.9		
358,605	330,851	0.1	0.5	2.1	3.5	3.4		
4,914	4,903	0.1	0.2	0.1				
<u>\$ 10,242,062</u>	<u>\$ 9,883,414</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>		
\$ 216,669	\$ 185,156	2.1%	1.7%	1.5%	2.1%	1.9%		
6,105,000	4,985,828	81.8	44.9	66.2	59.6	50.4		
3,581,500	4,434,113	26.6	26.1	31.6	35.0	44.9		
54,368	152,297	1.5	1.3	0.6	0.5	1.5		
<u>\$ 9,957,537</u>	<u>\$ 9,757,394</u>	<u>112.0%</u>	<u>74.0%</u>	<u>99.9%</u>	<u>97.2%</u>	<u>98.7%</u>		
\$ 284,525	\$ 126,020	(12.0)%	26.0%	0.1%	2.8%	1.3%		
\$	\$ 213,250							
	4,255,000							
	467,672							
	(4,530,577)							
	(94,241)							
<u>\$ -0-</u>	<u>\$ 311,104</u>							
\$ 284,525	\$ 437,124							
3,920,998	3,483,874							
<u>\$ 4,205,523</u>	<u>\$ 3,920,998</u>							
<u>17,829</u>	<u>17,776</u>							
<u>17,307</u>	<u>17,266</u>							

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2010**

Authority Mailing Address - Clear Lake City Water Authority
900 Bay Area Blvd.
Houston, TX 77058-2691

Authority Telephone Number - (281) 488-1164

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2010	Expense Reimbursements for the year ended September 30, 2010	Title
Gayle I. Yoder	05/2008 05/2012 (Elected)	\$ 4,800	\$ -0-	President/ Investment Officer
John B. Branch	05/2008 05/2012 (Elected)	\$ 2,400	\$ -0-	Vice President
Robert T. Savely	05/2008 05/2012 (Elected)	\$ 4,800	\$ -0-	Secretary
Vince Johnson	05/2010 05/2014 (Elected)	\$ 7,200	\$ -0-	Director
John Ferguson	05/2010 05/2014 (Elected)	\$ 6,000	\$ -0-	Director

Note: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the Authority, with the Authority's developers or with any of the Authority's consultants.

Submission Date of most recent District Registration Form (TWC Sections 36.054 and 49.054): December 17, 2010.

Limit on Fees of Office that a Director may receive during a fiscal year is the maximum allowed by law as set by Board Resolution (TWC Section 49.060) on September 27, 2001. Fees of Office are the amounts actually paid to a Director during the Authority's current fiscal year.

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2010**

Key Administrative Personnel:	<u>Date Hired</u>	<u>Fees/ Compensation for the fiscal year ending September 30, 2010</u>	<u>Title</u>
[REDACTED]	08/29/83	\$ 105,665	General Manager/ Treasurer
[REDACTED]	01/16/86	\$ 76,233	Director of Utilities
[REDACTED]	11/18/77	\$ 85,676	Capital Projects Bookkeeper
[REDACTED]	10/19/98	\$ 73,570	Tax Assessor/ Collector
[REDACTED]	04/16/07	\$ 55,502	Accounts Manager
Consultants:			
Schweinle & Parish, P.C. 440 Louisiana, Suite 1400 Houston, TX 77002-1691	07/17/86	\$ 170,005	Attorney
McCall Gibson Swedlund Barfoot PLLC 13100 Wortham Center Drive, Suite 235 Houston, TX 77065-5610	07/31/96	\$ 38,500	Auditor
Sanford Kuhl Hagan Kugle Parker Kahn LLP 1980 Post Oak Blvd., Suite 1380 Houston, TX 77056	02/11/10	\$ 44,149	Bond Counsel
Coats, Rose, Yale, Ryman & Lee, P.C. 3 East Greenway Plaza, Suite 2000 Houston, TX 77046	10/22/99 to 02/11/10	\$ 46,710	Prior Bond Counsel
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, TX 77008	06/28/01	\$ 38,522	Delinquent Tax Attorney
Lockwood, Andrews & Newnam, Inc. 2925 Briarpark Drive Houston, TX 77042	12/18/97	\$ 1,496,522	Engineer
RBC Capital Markets 1001 Fannin, Suite 1200 Houston, TX 77002-6796	11/04/89	\$ 22,714	Financial Advisor

See accompanying independent auditor's report.