

CLEAR LAKE CITY WATER AUTHORITY

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2008

McCALL, GIBSON & COMPANY, PLLC
Certified Public Accountants

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CLEAR LAKE CITY WATER AUTHORITY

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2008

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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, 2008, 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, 2008, 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.

The Management's Discussion and Analysis on pages 3 through 8 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 44 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 & Company, PLLC

McCall, Gibson & Company, PLLC
Certified Public Accountants

January 29, 2009

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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, 2008. Please read it in conjunction with the Authority's financial statements, which begin on page 9.

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 9 through 14. 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 16 and 17 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.

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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. 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 15 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 18 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE 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 19 through 42 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.

CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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 \$47,093,590 as of September 30, 2008. This compares with assets exceeding liabilities by \$42,062,087 as of September 30, 2007.

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:

	Summary of Changes in the Statement of Net Assets		
	2008	2007	Change Positive (Negative)
Current and Other Assets	\$ 24,854,922	\$ 20,165,686	\$ 4,689,236
Capital Assets (Net of Accumulated Depreciation)	<u>96,445,029</u>	<u>93,839,939</u>	<u>2,605,090</u>
Total Assets	<u>\$ 121,299,951</u>	<u>\$ 114,005,625</u>	<u>\$ 7,294,326</u>
Long-Term Liabilities	\$ 65,005,000	\$ 61,461,577	\$ (3,543,423)
Other Liabilities	<u>9,201,361</u>	<u>10,481,961</u>	<u>1,280,600</u>
Total Liabilities	<u>\$ 74,206,361</u>	<u>\$ 71,943,538</u>	<u>\$ (2,262,823)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 35,944,769	\$ 31,320,964	\$ 4,623,805
Restricted	5,808,841	5,527,642	281,199
Unrestricted	<u>5,339,980</u>	<u>5,213,481</u>	<u>126,499</u>
Total Net Assets	<u>\$ 47,093,590</u>	<u>\$ 42,062,087</u>	<u>\$ 5,031,503</u>

CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the Authority's operations for the years ended September 30, 2008, and September 30, 2007. The Authority increased its net assets by \$5,031,503 accounting for a 12% growth in net assets. This compares with an increase of \$5,307,232 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		
	2008	2007	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 12,088,328	\$ 11,872,202	\$ 216,126
Charges for Services	7,653,546	7,004,395	649,151
Other Revenues	<u>841,089</u>	<u>1,237,018</u>	<u>(395,929)</u>
Total Revenues	\$ 20,582,963	\$ 20,113,615	\$ 469,348
Expenses for Services	<u>15,551,460</u>	<u>14,806,383</u>	<u>(745,077)</u>
Change in Net Assets	\$ 5,031,503	\$ 5,307,232	\$ (275,729)
Net Assets, Beginning of Year	<u>42,062,087</u>	<u>36,754,855</u>	<u>5,307,232</u>
Net Assets, End of Year	<u>\$ 47,093,590</u>	<u>\$ 42,062,087</u>	<u>\$ 5,031,503</u>

FINANCIAL ANALYSIS OF THE AUTHORITY'S GOVERNMENTAL FUNDS

The Authority's combined fund balances as of September 30, 2008, were \$20,119,454, an increase of \$3,962,653 from the prior year.

The General Fund fund balance increased by \$124,797.

The Debt Service Fund fund balance increased by \$2,427, primarily due to the structure of the Authority's outstanding debt.

The Capital Projects Fund fund balance increased by \$3,835,429, primarily due to proceeds from the Series 2008 bonds, a portion of which were still on hand at fiscal year end.

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$636,086 less than budgeted revenues and actual expenditures were \$41,611 more than budgeted expenditures. See the budget to actual comparison on page 44.

CAPITAL ASSETS

The Authority's investment in capital assets as of September 30, 2008, amounts to \$96,445,029 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment as well as the water, sanitary sewer and drainage systems.

Major capital asset events during the current fiscal year included the following:

- Authority's share of Southeast Water Purification Plant
- Water, sewer and drainage system rehabilitation

Capital Assets At Year-End, Net of Accumulated Depreciation

	2008	2007
Capital Assets Not Being Depreciated		
Land and Land Improvements	\$ 345,757	\$ 345,757
Sanitary Sewer Laterals and Trunk Lines (Subject to Modified Approach)	34,802,463	33,092,759
Construction in Progress	1,465,598	2,276,601
Capital Assets Net of Accumulated Depreciation		
Buildings	21,256	21,914
Water System	26,065,753	24,989,524
Sanitary Sewer System	8,981,725	8,090,341
Drainage System	24,477,361	24,745,714
Equipment	285,116	277,329
Total Net Capital Assets	\$ 96,445,029	\$ 93,839,939

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). The definition of the numerical condition scale is on page 34. 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 on pages 33 and 34 of this report.

**CLEAR LAKE CITY WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

LONG-TERM DEBT ACTIVITY

As of September 30, 2008, the Authority had total bond debt payable of \$70,000,000. The changes in the debt position of the Authority during the fiscal year ended September 30, 2008, are summarized as follows:

Bond Debt Payable, October 1, 2007	\$ 68,084,172
Add: Bonds Issued - Series 2008	8,730,000
Less: Bond Principal Paid	<u>6,814,172</u>
Bond Debt Payable, September 30, 2008	<u>\$ 70,000,000</u>

All of the Authority's outstanding bonds carry an underlying rating of "A" by Standard and Poor's. 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 Financial Security Assurance Inc. or Assured Guaranty. The Series 1997 and 2006 bonds carry an insured rating of "AA" by virtue of bond insurance issued by MBIA. The Series 2002 Refunding and 2005 bonds carry an insured rating of "AA" by virtue of bond insurance issued by Ambac. The Series 1998 Refunding bonds carry an insured rating of "A2" by virtue of bond insurance issued by MBIA. The Series 2000 bonds carry an insured rating of "Aa3" by virtue of bond insurance issued by Ambac. The Series 1998, 1999 and 2001 bonds are private placement issues with no insured ratings. The above ratings reflect all changes through September 30, 2008. Subsequent to the fiscal year end, certain bond ratings changed due to changes in ratings of the insurers.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

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

CLEAR LAKE CITY WATER AUTHORITY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2008

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash, Note 5	\$ 488,639	\$ 135,378
Investments, Note 5	5,648,228	4,370,493
Receivables:		
Property Taxes	36,257	172,891
Penalty and Interest on Delinquent Taxes		84,150
Service Accounts (Net of Allowance for Doubtful Accounts of \$-0-)	529,928	
Other	67,887	
Due from Other Funds, Note 2	295,179	
Inventory, Note 2	87,640	
Unamortized Bond Issuance Costs		
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	<u>\$ 7,153,758</u>	<u>\$ 4,762,912</u>

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>
\$ 36	\$ 624,053	\$	\$ 624,053
11,568,934	21,587,655		21,587,655
	209,148		209,148
	84,150		84,150
	529,928		529,928
33,056	100,943		100,943
	295,179	(295,179)	
	87,640		87,640
		1,631,405	1,631,405
		345,757	345,757
		1,465,598	1,465,598
		34,802,463	34,802,463
		<u>59,831,211</u>	<u>59,831,211</u>
<u>\$ 11,602,026</u>	<u>\$ 23,518,696</u>	<u>\$ 97,781,255</u>	<u>\$ 121,299,951</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, 2008

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 1,185,804	\$ 40,127
Accrued Interest Payable		
Due to Other Funds, Note 2		257,794
Security Deposits	627,974	
Deferred Tax Revenue	36,257	172,891
Deferred Penalty and Interest on Delinquent Taxes		84,150
Unamortized Bond Premium		
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	\$ 1,850,035	\$ 554,962

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>
\$ 956,860	\$ 2,182,791	\$	\$ 2,182,791
		236,776	236,776
37,385	295,179	(295,179)	627,974
	627,974		
	209,148	(209,148)	
	84,150	(84,150)	
		1,081,293	1,081,293
		4,995,000	4,995,000
		77,527	77,527
		<u>65,005,000</u>	<u>65,005,000</u>
<u>\$ 994,245</u>	<u>\$ 3,399,242</u>	<u>\$ 70,807,119</u>	<u>\$ 74,206,361</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, 2008

	General Fund	Debt Service Fund
FUND BALANCES/NET ASSETS		
FUND BALANCES:		
Reserved for Authorized Construction:		
Bond Proceeds	\$	\$
Net Investment Revenues		
Reserved For Future Debt Service		4,207,950
Reserved for Inventory, Note 2	87,640	
Reserved for Sick Leave Obligations, Note 9	608,508	
Reserved for Unbudgeted Major Repairs of Facilities	250,000	
Reserved for Emergencies	820,000	
Unreserved -- Undesignated	3,537,575	
TOTAL FUND BALANCES	\$ 5,303,723	\$ 4,207,950
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,153,758	\$ 4,762,912
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.

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
\$ 9,027,155	\$ 9,027,155	\$ (9,027,155)	\$
1,580,626	1,580,626	(1,580,626)	
	4,207,950	(4,207,950)	
	87,640	(87,640)	
	608,508	(608,508)	
	250,000	(250,000)	
	820,000	(820,000)	
	<u>3,537,575</u>	<u>(3,537,575)</u>	
<u>\$ 10,607,781</u>	<u>\$ 20,119,454</u>	<u>\$ (20,119,454)</u>	<u>\$ -0-</u>
<u>\$ 11,602,026</u>	<u>\$ 23,518,696</u>		
		\$ 36,022,296	\$ 36,022,296
		1,580,626	1,580,626
		4,150,688	4,150,688
		<u>5,339,980</u>	<u>5,339,980</u>
		<u>\$ 47,093,590</u>	<u>\$ 47,093,590</u>

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

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CLEAR LAKE CITY WATER AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

Total Fund Balances – Governmental Funds	\$ 20,119,454
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.	1,465,598
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	59,831,211
Sanitary sewer system laterals and trunks used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	34,802,463
Unamortized bond issuance costs are not financial resources and therefore are not reported as assets in governmental funds.	1,631,405
Unamortized bond premiums are not current liabilities and therefore are not reported as liabilities in governmental funds.	(1,081,293)
Deferred tax revenues for the 2007 and prior tax levies became part of recognized revenue in the governmental activities of the Authority.	209,148
Deferred penalty and interest revenues for the 2007 and prior tax levies became part of recognized revenue in the governmental activities of the Authority.	84,150
Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.	(236,776)
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 Premium Interest Bonds	\$ (77,527)
Bonds Payable Within One Year	(4,995,000)
Bonds Payable After One Year	<u>(65,005,000)</u>
	<u>(70,077,527)</u>
Total Net Assets – Governmental Activities	<u>\$ 47,093,590</u>

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

CLEAR LAKE CITY WATER AUTHORITY
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 2,129,498	\$ 9,951,412
Water Service	4,829,038	
Wastewater Service	2,575,718	
Penalty and Interest	89,539	105,196
Tap Connection and Inspection Fees	48,930	
Investment Revenues	165,907	217,150
Miscellaneous Revenues	163,454	11,224
TOTAL REVENUES	\$ 10,002,084	\$ 10,284,982
EXPENDITURES/EXPENSES		
Service Operations:		
Bulk Water Purchases	\$ 2,200,671	\$ 157,465
Payroll	3,083,780	
Utilities	1,211,197	
Repairs and Maintenance	588,574	10,249
Professional Fees	1,120,130	250,818
Contracted Services	6,780	24,755
Depreciation, Note 6		
Other	1,585,613	44,953
Capital Outlay	80,542	5,800
Debt Service:		
Bond Principal		6,814,172
Bond Interest		2,974,343
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	\$ 9,877,287	\$ 10,282,555
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ 124,797	\$ 2,427
OTHER FINANCING SOURCES (USES)		
Proceeds from Bond Sale, Note 15	\$	\$
Bond Discount		
TOTAL OTHER FINANCING SOURCES (USES)	\$ -0-	\$ -0-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ 124,797	\$ 2,427
CHANGE IN NET ASSETS		
FUND BALANCES/NET ASSETS – OCTOBER 1, 2007	5,178,926	4,205,523
FUND BALANCES/NET ASSETS – SEPTEMBER 30, 2008	\$ 5,303,723	\$ 4,207,950

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 12,080,910	\$ 7,418	\$ 12,088,328
	4,829,038		4,829,038
	2,575,718		2,575,718
	194,735	5,125	199,860
	48,930		48,930
273,129	656,186		656,186
<u>10,225</u>	<u>184,903</u>		<u>184,903</u>
\$ 283,354	\$ 20,570,420	\$ 12,543	\$ 20,582,963
\$	\$ 2,200,671	\$	\$ 2,200,671
	3,241,245		3,241,245
	1,211,197		1,211,197
	598,823		598,823
	1,370,948		1,370,948
	31,535		31,535
	1,630,566	2,370,696	2,370,696
4,890,445	4,976,787	(4,976,787)	1,630,566
	6,814,172	(6,814,172)	
	2,974,343	(78,564)	2,895,779
<u>141,597</u>	<u>141,597</u>	<u>(141,597)</u>	
\$ 5,032,042	\$ 25,191,884	\$ (9,640,424)	\$ 15,551,460
\$ (4,748,688)	\$ (4,621,464)	\$ 9,652,967	\$ 5,031,503
\$ 8,730,000	\$ 8,730,000	\$ (8,730,000)	\$
<u>(145,883)</u>	<u>(145,883)</u>	<u>145,883</u>	
\$ 8,584,117	\$ 8,584,117	\$ (8,584,117)	\$ -0-
\$ 3,835,429	\$ 3,962,653	\$ (3,962,653)	\$
		5,031,503	5,031,503
<u>6,772,352</u>	<u>16,156,801</u>	<u>25,905,286</u>	<u>42,062,087</u>
\$ 10,607,781	\$ 20,119,454	\$ 26,974,136	\$ 47,093,590

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, 2008

Change in Fund Balances - Governmental Funds	\$ 3,962,653
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.	(8,730,000)
Governmental funds report costs of issuance as an expenditure and the bond discount as an other financing use. However, in the Statement of Net Assets, these costs are amortized over the life of the bonds.	287,480
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.	6,814,172
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.	4,976,787
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.	78,564
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.	(2,370,696)
Governmental funds report tax revenues when collected. However, in the Statement of Activities, tax revenue is recorded when the taxes are levied.	7,418
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>5,125</u>
Change in Net Assets - Governmental Activities	<u>\$ 5,031,503</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, 2008

NOTE 1. CREATION OF DISTRICT

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, 2008

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 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, 2008

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 sixty (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, 2008

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, 2008, the Authority had interfund liabilities of \$295,179 consisting of \$257,794 due to the General Fund from the Debt Service Fund for operating expenses and \$37,385 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:

	Years
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, 2008

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, 2008, was \$87,640.

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:

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Reserved:

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

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.

NOTE 3. BONDS PAYABLE

	Series 1997	Harris County Water Control and Improvement District No. 75 Series 1998-B	Refunding Series 1998
Amounts Outstanding - September 30, 2008	\$ 4,100,000	\$ 1,685,000	\$ 8,720,000
Interest Rates	4.50% - 5.00%	4.25% - 5.50%	4.50% - 5.00%
Maturity Dates -- Serially Beginning/Ending	September 1, 2009/2015 and 2017/2022	March 1, 2009/2016	March 1, 2009/2018
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	September 1, 2007*	March 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 2003-A Refunding Bonds issue, portions of the bonds maturing in 2015 through 2017 were refunded. From proceeds of the 2006 Refunding Bond issue, \$270,000 in bonds scheduled for maturity in 2016 were refunded. See Note 13.

** 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 Refunding Series 1998 Bonds maturing in 2018 are term bonds and are subject to mandatory redemption on each March 1, beginning in 2016.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 3. BONDS PAYABLE (Continued)

	Series 1998	Series 1999	Series 2000
Amounts Outstanding – September 30, 2008	\$ 1,135,000	\$ 4,420,000	\$ 3,275,000
Interest Rates	5.24% - 5.54%	3.35% - 4.10%	3.85% - 4.60%
Maturity Dates – Serially Beginning/Ending	September 1, 2009/2012	March 1, 2009/2014	March 1, 2009/2021
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	December 1, 2008*	March 1, 2009*	March 1, 2011*
	Series 2001	Refunding Series 2002	Refunding Series 2003-A
Amounts Outstanding – September 30, 2008	\$ 4,170,000	\$ 5,160,000	\$ 4,555,000
Interest Rates	4.76% - 5.61%	3.75% - 4.50%	3.00% - 4.00%
Maturity Dates – Serially Beginning/Ending	March 1, 2009/2018	March 1, 2009/2017	March 1, 2009/2014 and 2018
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2013**	March 1, 2010*	March 1, 2011*

* Or any interest payment date thereafter, callable at par plus unpaid accrued interest in whole or in part at the option of the Authority. For the Series 1999 Bonds, the bonds are callable in whole or in part, in inverse order of maturity, for a price equal to the principal amount of the bonds, to be redeemed plus accrued interest to the date fixed for redemption. For the Series 1998 bonds, \$2,240,000 of the bond maturing in 2013 through 2018 were refunded. See Note 13. Refunding Series 2002 bonds maturing in 2017 are term bonds and are subject to mandatory redemption on each March 1, beginning in 2016.

** Or any interest or principal 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 and any interest accrued from the most recent payment date to the redemption date, at the option of the Authority. For the 2001 bond issue, \$1,745,000 of the bonds maturing in 2019 through 2021 has been refunded. See Note 13.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 3. BONDS PAYABLE (Continued)

	Refunding Series 2003-B	Series 2005	Series 2006
Amounts Outstanding - September 30, 2008	\$ 4,955,000	\$ 9,600,000	\$ 5,250,000
Interest Rates	3.00% - 3.70%	3.50% - 3.80%	3.75% - 4.00%
Maturity Dates – Serially Beginning/Ending	March 1, 2009/2015	March 1, 2009/2018	March 1, 2009/2022
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2011*	March 1, 2013*	March 1, 2014*

	Refunding Series 2006		
	Current Interest Bonds	Premium Compound Interest Bonds	Series 2008
Amounts Outstanding - September 30, 2008	\$ 4,215,000	\$ 30,000	\$ 8,730,000
Interest Rates	4.00%	3.90% - 4.07%	3.00% - 3.70%
Maturity Dates – Serially Beginning/Ending	March 1, 2011/2013 and 2015/2021	March 1, 2009/2010 and 2014	March 1, 2009/2022
Interest Payment Dates	March 1/ September 1		March 1/ September 1
Callable Dates	March 1, 2014**	Non-Callable***	March 1, 2016*

* Or any date thereafter, callable at par, plus accrued interest in whole or in part, 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 \$30,000 and the maturity value is \$495,000. Interest on these bonds will be paid at maturity. At September 30, 2008, the accreted value of these bonds is approximately \$107,527. Accrued interest of \$77,527 has been recorded in the Statement of Net Assets.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 3. BONDS PAYABLE (Continued)

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2008:

Bond Debt Payable – October 1, 2007		\$ 68,084,172
Add: Bonds Sold – Series 2008		8,730,000
Less: Bond Principal Paid		
Series 1997	\$ 205,000	
Refunding Series 1998-A	160,000	
Refunding Series 1998-B	160,000	
Refunding Series 1998	274,172	
Series 1998	245,000	
Series 1999	320,000	
Series 2000	195,000	
Series 2001	315,000	
Series 2002	2,670,000	
Refunding Series 2003-A	1,375,000	
Refunding Series 2003-B	640,000	
Series 2006	250,000	
Refunding Series 2006	<u>5,000</u>	<u>6,814,172</u>
Bond Debt Payable - September 30, 2008		<u>\$ 70,000,000</u>
Bond Debt Payable -		
Due Within One Year		\$ 4,995,000
Due After One Year		<u>65,005,000</u>
Bond Debt Payable - September 30, 2008		<u>\$ 70,000,000</u>
Original Bonds Voted		<u>\$ 161,420,000</u>
Bonds Approved		<u>\$ 152,890,000</u>
Original Bonds Issued		<u>\$ 152,890,000</u>
Remaining Voted Bonds to be Issued		<u>\$ 8,530,000</u>
Refunding Bonds Voted		<u>\$ 29,360,000</u>
Voted Refunding Bonds Issued		<u>\$ 27,105,000</u>

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 3. BONDS PAYABLE (Continued)

As of September 30, 2008, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 4,995,000	\$ 2,810,295	\$ 7,805,295
2010	5,200,000	2,624,880	7,824,880
2011	5,475,000	2,366,777	7,841,777
2012	5,715,000	2,145,106	7,860,106
2013	5,645,000	1,904,316	7,549,316
2014-2018	32,695,000	5,937,271	38,632,271
2019-2022	<u>10,275,000</u>	<u>765,817</u>	<u>11,040,817</u>
	<u>\$ 70,000,000</u>	<u>\$ 18,554,462</u>	<u>\$ 88,554,462</u>

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, 2008, the Authority levied an ad valorem debt service tax and maintenance tax as follows:

	<u>2007 Appraised Valuation</u>	<u>Debt Service Tax Rate Per \$100 Of Valuation</u>	<u>Debt Service Tax Levy</u>
Clear Lake City Water Authority	\$ 4,169,002,237	\$0.23	\$ 9,588,706
Harris County Water Control and Improvement District No. 75	\$ 53,779,186	\$0.50	268,896
Harris County Municipal Utility District No. 181	\$ 45,446,460	\$0.25	<u>113,617</u>
Total Debt Service Tax Levy			<u>\$ 9,971,219</u>

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 3. BONDS PAYABLE (Continued)

	<u>Maintenance Tax Rate Per \$100 of Valuation</u>	<u>Maintenance Tax Levy</u>
Clear Lake City Water Authority	\$0.05	\$ 2,084,502
Harris County Water Control and Improvement District No. 75	\$0.05	26,890
Harris County Municipal Utility District No. 181	\$0.05	<u>22,722</u>
Total Maintenance Tax Levy		<u>\$ 2,134,114</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 both consolidated Districts, (Harris County Water Control and Improvement District No. 75 and Harris County Municipal Utility District No. 181), 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 districts was voted on 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.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

- A. The bond orders state that any profits realized from or interest accruing on investments shall belong to the fund from which the monies for such investments were taken; provided, however, that at the discretion of the Board of Directors, the profits realized from and interest accruing on investments made from any fund may be transferred to the Debt Service Fund.

- 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 \$37,265,282, 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.

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

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 \$624,053 and the bank balance was \$1,063,552. Of the bank balance, \$300,000 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, 2008, as listed below:

GENERAL FUND	\$	488,639
DEBT SERVICE FUND		135,378
CAPITAL PROJECTS FUND		<u>36</u>
TOTAL DEPOSITS	\$	<u>624,053</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.

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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, 2008, 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	\$ 5,648,228	\$ 5,648,228	\$	\$	\$
<u>DEBT SERVICE FUND -</u> TexPool	4,370,493	4,370,493			
<u>CAPITAL PROJECTS</u> <u>FUND -</u> TexPool	<u>11,568,934</u>	<u>11,568,934</u>			
Total Investments	<u>\$21,587,655</u>	<u>\$21,587,655</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2008, the Authority's investment in TexPool was rated AAAM by Standard and Poor's.

Interest Rate Risk. 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.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

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, 2008:

	<u>October 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2008</u>
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 345,757	\$	\$	\$ 345,757
Sanitary Sewer Laterals and Trunks	33,092,759	1,709,704		34,802,463
Construction in Progress	<u>2,276,601</u>	<u>(811,003)</u>		<u>1,465,598</u>
Total Capital Assets Not Being Depreciated	\$ 35,715,117	\$ 898,701	\$ -0-	\$ 36,613,818
Capital Assets at Historical Costs Subject to Depreciation				
Buildings	\$ 26,239	\$	\$	\$ 26,239
Water System	42,738,801	2,214,736		44,953,537
Sanitary Sewer System	14,512,097	1,222,017		15,734,114
Drainage System	43,403,935	553,991		43,957,926
Equipment	<u>845,683</u>	<u>86,341</u>	<u>63,492</u>	<u>868,532</u>
Total Capital Assets at Historical Costs Subject to Depreciation	\$ 101,526,755	\$ 4,077,085	\$ 63,492	\$ 105,540,348
Less Accumulated Depreciation				
Buildings	\$ 4,325	\$ 658	\$	\$ 4,983
Water System	17,749,277	1,138,507		18,887,784
Sanitary Sewer System	6,421,756	330,633		6,752,389
Drainage System	18,658,221	822,344		19,480,565
Equipment	<u>568,354</u>	<u>78,554</u>	<u>63,492</u>	<u>583,416</u>
Total Accumulated Depreciation	\$ 43,401,933	\$ 2,370,696	\$ 63,492	\$ 45,709,137

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 6. CAPITAL ASSETS (Continued)

	<u>October 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>September 30, 2008</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 58,124,822	\$ 1,706,389	\$ -0-	\$ 59,831,211
Total Capital Assets, Net of Accumulated Depreciation	\$ 93,839,939	\$ 2,605,090	\$ -0-	\$ 96,445,029

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, 2008:

Condition	<u>Sewer Laterals and Trunks in Linear Feet</u>
1.00-1.99 New Condition	308,276
2.00-2.99 Minor Deficiencies	724,768
3.00-3.99 Serious Deficiency	6,652
4.00-4.99 Very Serious Deficiency	-0-
5.00 Severe Deficiency	-0-
TOTAL	<u>1,039,696</u>

Comparison of Estimated to Actual Maintenance/Preservation Costs

	Estimated	Actual
2008	\$ 2,128,667	\$ 2,362,165
2007	\$ 2,667,818	\$ 2,244,100
2006	\$ 4,929,183	\$ 5,105,590
2005	\$ 732,386	\$ 715,677
2004	\$ 872,199	\$ 888,908

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 assessment as of September 30, 2008, September 30, 2007, and September 30, 2006, was 2.33, 2.37 and 2.43, respectively.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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, completion of one year of service and attainment of the age of 20. 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 \$147,002 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 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 four bond elections since the contracts were entered. In three of those elections (March 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 bond election, the Authority submitted no proposition to approve bonds to finance the purchase of the developers' facilities, but instead bond funding for Water Authority rehabilitation projects. That bond proposition passed.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 8. PENDING LITIGATION (Continued)

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 has indicated that it will seek discretionary review from the Texas Supreme Court, which petition the Authority will oppose.

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. The developers have recently filed a petition for review seeking discretionary review from the Texas Supreme Court, which petition the Authority will oppose.

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. The developers have recently filed a petition for discretionary review with the Texas Supreme Court, which petition the Authority will oppose.

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

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 8. PENDING LITIGATION (Continued)

a lien holder 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, 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 million amount claimed by CLCC. On December 12, 2008, the court signed its final judgment. The court ordered that if the Authority did not go forth with acquisition of the property the Authority would be ordered to pay CLCC \$1,430,000 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 has filed a motion for new trial, and in the event that is denied, the Authority will likely appeal the judgment.

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, \$608,508 of the General Fund fund balance has been reserved for this future obligation.

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 forty (40) years.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 10. EXCLUSION CONTRACT AND SERVICE AGREEMENT (continued)

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>
2009	\$ 3,124
2010	3,143
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>\$ 28,889</u>

The Service Agreement has a term of forty (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 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.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 10. EXCLUSION CONTRACT AND SERVICE AGREEMENT (Continued)

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 (5) 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 the La Porte Area Water Authority and also acquired 0.5 mgpd capacity in the Plant from Harris County Municipal Utility Authority No. 55. With these acquisitions, the Authority owns a total

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 11. COST SHARING WATER PROJECT CONTRACT (Continued)

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 Authority incurred an expenditure of \$2,181,820 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 \$141,151 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 ISSUE

On April 27, 2006, the District 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 all future debt service payments on the Series 1997, Series 1998, and Series 2001 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.

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 13. ADVANCE REFUNDING BOND ISSUE (Continued)

The District refunded the following bonds to restructure its outstanding debt. The effect of the refunding was to decrease its total debt service requirement over fifteen (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.

REFUNDED BONDS

Issue	Interest Rates	Maturities	Callable Date	Outstanding at September 30, 2008
1997	5.00%	2016	09/01/07	\$ -0-
1998	5.59%-5.74%	2013-2018	12/01/08	2,240,000
2001	5.66%-5.71%	2019-2021	03/01/12	<u>1,745,000</u>
			TOTAL	<u>\$ 3,985,000</u>

NOTE 14. ESCROW REQUIREMENTS

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 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. The remaining escrowed funds of \$305,067 are included in the investments of the Capital Projects Fund.

The Authority was required by the Commission to escrow \$4,184,730 of the \$5,500,000 Series 2006 bond proceeds for various projects including wastewater collection system inspections and rehabilitation, storm sewer system inspections and rehabilitation, lift station nos. 9 and 11 modifications, water plant no. 4 phase 1 improvements and elevated storage tank nos. 2 and 5 interior and exterior re-coating. In prior fiscal years, the Commission approved the release from escrow of \$1,150,864 for various projects. On October 23, 2007, the Commission approved the release of \$935,000 from escrow for the wastewater treatment plant lift station rehabilitation

CLEAR LAKE CITY WATER AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE 14. ESCROW REQUIREMENTS (Continued)

phase 28. On February 7, 2008, the Commission approved the release of \$1,243,716 from escrow for the wastewater collection system and rehabilitation for lift station no. 8, phase 30 rehabilitation, phase 33 TV surveys, phase 34 smoke testing and storm sewer inspection and rehabilitation for phase 7 emergency rehabilitation. On March 18, 2008, the Commission approved the release of \$80,000 from escrow for the wastewater treatment plant power factor correction. The remaining escrowed funds of \$775,150 are included in the investments of the Capital Projects Fund.

NOTE 15. BOND SALE

On April 24, 2008, the Authority closed on the sale of its \$8,730,000 Series 2008 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds. The proceeds are to be used for the following: exterior recoating of elevated storage tank no. 3; interior and exterior recoating of elevated storage tank no. 4; rehabilitation of lift station no. 10; SCADA improvements for lift station nos. 1, 2, 3, 5, 6, 11 and 21; rehabilitation of wastewater collection system phases 29, 31 and 32; televising of wastewater collection system phase 35; inspection and rehabilitation of drainage system phase 10; engineering costs for the above projects; and bond issuance costs.

CLEAR LAKE CITY WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2008

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, 2008

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 2,046,000	\$ 2,129,498	\$ 83,498
Water Service	4,930,500	4,829,038	(101,462)
Wastewater Service	2,842,700	2,575,718	(266,982)
Penalty and Interest	93,000	89,539	(3,461)
Tap Connection and Inspection Fees	335,350	48,930	(286,420)
Investment Revenues	250,000	165,907	(84,093)
Miscellaneous Revenues	<u>140,620</u>	<u>163,454</u>	<u>22,834</u>
TOTAL REVENUES	<u>\$ 10,638,170</u>	<u>\$ 10,002,084</u>	<u>\$ (636,086)</u>
EXPENDITURES			
Service Operations:			
Bulk Water Purchases	\$ 2,320,000	\$ 2,200,671	\$ 119,329
Payroll	3,313,131	3,083,780	229,351
Utilities	1,178,555	1,211,197	(32,642)
Repairs and Maintenance	580,795	588,574	(7,779)
Professional Fees	553,500	1,120,130	(566,630)
Contracted Services	7,980	6,780	1,200
Capital Outlay	163,640	80,542	83,098
Other	<u>1,718,075</u>	<u>1,585,613</u>	<u>132,462</u>
TOTAL EXPENDITURES	<u>\$ 9,835,676</u>	<u>\$ 9,877,287</u>	<u>\$ (41,611)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 802,494	\$ 124,797	\$ (677,697)
FUND BALANCE - OCTOBER 1, 2007	<u>5,178,926</u>	<u>5,178,926</u>	<u> </u>
FUND BALANCE - SEPTEMBER 30, 2008	<u>\$ 5,981,420</u>	<u>\$ 5,303,723</u>	<u>\$ (677,697)</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
SEPTEMBER 30, 2008

CLEAR LAKE CITY WATER AUTHORITY
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

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, 2008**

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	
≤¼"	<u>10,837</u>	<u>10,779</u>	x 1.0	<u>10,779</u>
1"	<u>6,227</u>	<u>6,214</u>	x 2.5	<u>15,535</u>
1½"	<u>264</u>	<u>255</u>	x 5.0	<u>1,275</u>
2"	<u>422</u>	<u>413</u>	x 8.0	<u>3,304</u>
3"	<u>42</u>	<u>42</u>	x 15.0	<u>630</u>
4"	<u>29</u>	<u>28</u>	x 25.0	<u>700</u>
6"	<u>3</u>	<u>3</u>	x 50.0	<u>150</u>
8"	<u>5</u>	<u>5</u>	x 80.0	<u>400</u>
10"	<u>1</u>	<u>1</u>	x 115.0	<u>115</u>
Total Water Connections	<u>17,830</u>	<u>17,740</u>		<u>32,888</u>
Total Wastewater Connections	<u>17,332</u>	<u>17,264</u>	x 1.0	<u>17,264</u>

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

Gallons pumped into system:	3,318,913,000	Water Accountability Ratio: (Gallons billed and sold/Gallons pumped)
Gallons billed to customers:	2,651,607,000	<u>81.9%</u>
Gallons purchased:	3,889,074,000	From: <u>City of Houston, Texas</u>
Gallons sold:	65,583,000	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, 2008

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, 2008

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, 2008

PERSONNEL EXPENDITURES (Including Benefits)	<u>\$ 3,083,780</u>
PROFESSIONAL FEES:	
Auditing	\$ 28,750
Engineering	208,251
Legal	<u>883,129</u>
TOTAL PROFESSIONAL FEES	<u>\$ 1,120,130</u>
PURCHASED SERVICES FOR RESALE:	
Bulk Water Purchases	<u>\$ 2,200,671</u>
CONTRACTED SERVICES:	
Janitorial Services	<u>\$ 6,780</u>
UTILITIES:	
Electricity	\$ 1,156,948
Gas	8,056
Internet	2,031
Telephone	<u>44,162</u>
TOTAL UTILITIES	<u>\$ 1,211,197</u>
REPAIRS AND MAINTENANCE	<u>\$ 588,574</u>
ADMINISTRATIVE EXPENDITURES:	
Appraisal	\$ 3,672
Director Fees	15,525
Dues	3,897
Election Costs	11,855
Insurance	136,015
Office Supplies and Postage	81,512
Billing Costs	29,846
Water and Sewer Rebate	606,046
Regulatory Assessment	31,745
Travel And Per Diem	13,239
Water Reuse	34,778
Other	<u>10,228</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 978,358</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2008

CAPITAL OUTLAY:			
Purchase of Fixed Assets		\$	80,542
Expenditures not Capitalized			<u> </u>
TOTAL CAPITAL OUTLAY		\$	<u>80,542</u>
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		\$	5,602
Chemicals			136,698
Laboratory Fees			47,651
Inspection and Permit Fees			48,777
Water Shed Study			9,135
Water Conservation			27,078
Vehicle Supplies and Maintenance			114,292
Sludge Hauling			172,062
Equipment Rental			21,820
Uniforms			15,225
Other			<u>8,915</u>
TOTAL OTHER EXPENDITURES		\$	<u>607,255</u>
TOTAL EXPENDITURES		\$	<u>9,877,287</u>
Number of persons employed by the Authority	<u>50</u>	Full-Time	<u>0</u> Part-Time

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
INVESTMENTS
SEPTEMBER 30, 2008

<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	\$ 4,977,692	\$
TexPool	3	Varies	Daily	<u>670,536</u>	<u> </u>
TOTAL GENERAL FUND				<u>\$ 5,648,228</u>	<u>\$ -0-</u>
<u>DEBT SERVICE FUND</u>					
Local Government					
Investment Pool:					
TexPool	4	Varies	Daily	\$ 4,231,147	\$
TexPool	9	Varies	Daily	131,361	<u> </u>
TexPool	11	Varies	Daily	7,985	<u> </u>
TexPool	13	Varied	Daily	<u> </u>	<u> </u>
TOTAL DEBT SERVICE FUND				<u>\$ 4,370,493</u>	<u>\$ -0-</u>
<u>CAPITAL PROJECTS FUND</u>					
Local Government					
Investment Pool:					
TexPool	14	Varies	Daily	\$ 10,682	\$
TexPool	19	Varies	Daily	41,244	<u> </u>
TexPool	21	Varies	Daily	30	<u> </u>
TexPool	25	Varies	Daily	876,703	<u> </u>
TexPool	26	Varies	Daily	21	<u> </u>
TexPool	27	Varies	Daily	1,086,381	<u> </u>
TexPool	28	Varies	Daily	1,264,276	<u> </u>
TexPool	31	Varies	Daily	<u>8,289,597</u>	<u> </u>
TOTAL CAPITAL PROJECTS FUND				<u>\$ 11,568,934</u>	<u>\$ -0-</u>
TOTAL ALL FUNDS				<u>\$ 21,587,655</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, 2008

	<u>Maintenance Tax</u>		<u>Debt Service Tax</u>
TAXES RECEIVABLE --			
OCTOBER 1, 2007	\$ 34,555		\$ 169,160
Adjustments to Beginning Balance	<u>(6,766)</u>	\$ 27,789	<u>(33,497)</u> \$ 135,663
Original 2007 Tax Levy	\$2,023,552		\$9,459,922
Adjustments to 2007 Tax Levy	<u>110,562</u>	<u>2,134,114</u>	<u>511,297</u> <u>9,971,219</u>
TOTAL TO BE ACCOUNTED FOR		\$ 2,161,903	\$10,106,882
TAX COLLECTIONS:			
Prior Years	\$ 6,075		\$ 30,941
Current Year	<u>2,119,571</u>	<u>2,125,646</u>	<u>9,903,050</u> <u>9,933,991</u>
TAXES RECEIVABLE --			
SEPTEMBER 30, 2008		<u>\$ 36,257</u>	<u>\$ 172,891</u>
TAXES RECEIVABLE BY YEAR:			
2007		\$ 14,543	\$ 68,169
2006		8,496	37,934
2005		6,134	29,966
2004		1,860	8,934
2003		1,291	6,197
2002		1,277	6,622
2001		1,322	7,404
2000		543	3,230
1999		576	3,262
1998		130	729
1997		3	15
1996		43	238
1995		<u>39</u>	<u>191</u>
TOTAL TAXES RECEIVABLE BY YEAR		<u>\$ 36,257</u>	<u>\$ 172,891</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Clear Lake City Water Authority:

PROPERTY VALUATIONS	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 1,007,857,513	\$ 1,015,460,520	\$ 981,524,240	\$ 895,283,730
Improvements	3,719,411,760	3,606,784,766	3,420,934,584	3,134,607,890
Personal Property	728,040,736	732,338,451	577,044,260	524,752,180
Exemptions	<u>(1,286,307,772)</u>	<u>(1,293,034,308)</u>	<u>(1,178,903,505)</u>	<u>(882,347,572)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 4,169,002,237</u>	<u>\$ 4,061,549,429</u>	<u>\$ 3,800,599,579</u>	<u>\$ 3,672,296,228</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.23	\$ 0.23	\$ 0.24	\$ 0.24
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>\$ 0.29</u>	<u>\$ 0.29</u>
ADJUSTED TAX LEVY*	<u>\$ 11,673,208</u>	<u>\$ 11,372,338</u>	<u>\$ 11,021,739</u>	<u>\$ 10,649,659</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>99.34%</u>	<u>99.60%</u>	<u>99.68%</u>	<u>99.90%</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, 2008

Harris County Water Control and
Improvement District No. 75:

PROPERTY VALUATIONS	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 15,151,085	\$ 15,119,203	\$ 14,956,482	\$ 14,832,630
Improvements	39,390,100	37,938,066	32,425,715	31,853,570
Personal Property	377,238	369,930	363,180	541,020
Exemptions	<u>(1,139,237)</u>	<u>(2,269,243)</u>	<u>(262,340)</u>	<u>(72,570)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 53,779,186</u>	<u>\$ 51,157,956</u>	<u>\$ 47,483,037</u>	<u>\$ 47,154,650</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.50	\$ 0.53	\$ 0.56	\$ 0.57
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>\$ 0.58</u>	<u>\$ 0.61</u>	<u>\$ 0.62</u>
ADJUSTED TAX LEVY*	<u>\$ 295,786</u>	<u>\$ 296,716</u>	<u>\$ 289,647</u>	<u>\$ 292,359</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>99.09%</u>	<u>99.54%</u>	<u>99.55%</u>	<u>100.00%</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, 2008

Harris County Municipal Utility District No. 181:

PROPERTY VALUATIONS	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$ 12,599,788	\$ 12,439,090	\$ 12,358,580	\$ 9,890,700
Improvements	36,982,672	35,863,688	34,490,211	30,389,320
Personal Property	898,872	926,582	739,670	858,370
Exemptions	<u>(5,034,872)</u>	<u>(4,186,698)</u>	<u>(4,893,300)</u>	<u>(340,940)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 45,446,460</u>	<u>\$ 45,042,662</u>	<u>\$ 42,695,161</u>	<u>\$ 40,797,450</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.25	\$ 0.36	\$ 0.40	\$ 0.40
Maintenance	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>	<u>0.05</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.30</u>	<u>\$ 0.41</u>	<u>\$ 0.45</u>	<u>\$ 0.45</u>
ADJUSTED TAX LEVY*	<u>\$ 136,339</u>	<u>\$ 184,675</u>	<u>\$ 192,128</u>	<u>\$ 183,589</u>
PERCENT OF TAXES COLLECTED TO TAXES LEVIED	<u>98.24%</u>	<u>99.99%</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.

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

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

Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2009	\$ 215,000	\$ 191,860	\$ 406,860
2010	230,000	181,540	411,540
2011	240,000	170,385	410,385
2012	255,000	158,625	413,625
2013	270,000	146,130	416,130
2014	285,000	132,900	417,900
2015	285,000	118,650	403,650
2016		104,400	104,400
2017	280,000	104,400	384,400
2018	360,000	91,800	451,800
2019	385,000	75,600	460,600
2020	405,000	58,275	463,275
2021	430,000	40,050	470,050
2022	<u>460,000</u>	<u>20,700</u>	<u>480,700</u>
TOTAL	<u>\$ 4,100,000</u>	<u>\$ 1,595,315</u>	<u>\$ 5,695,315</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

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
2009	\$ 170,000	\$ 86,255	\$ 256,255
2010	175,000	77,284	252,284
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>\$ 1,685,000</u>	<u>\$ 397,083</u>	<u>\$ 2,082,083</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

REFUNDING SERIES - \$10,655,000 - 1998

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2009	\$ 440,000	\$ 412,917	\$ 852,917
2010	465,000	392,323	857,323
2011	490,000	370,296	860,296
2012	1,050,000	334,028	1,384,028
2013	1,115,000	282,330	1,397,330
2014	1,180,000	226,660	1,406,660
2015	1,250,000	167,125	1,417,125
2016	1,335,000	103,125	1,438,125
2017	675,000	52,875	727,875
2018	720,000	18,000	738,000
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 8,720,000</u>	<u>\$ 2,359,679</u>	<u>\$ 11,079,679</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

SERIES - \$5,410,000 - 1998

Due During Fiscal Years Ending September 30	Principal Due September 1	Interest Due March 1/ September 1	Total
2009	\$ 260,000	\$ 61,259	\$ 321,259
2010	275,000	47,635	322,635
2011	290,000	32,950	322,950
2012	310,000	17,174	327,174
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 1,135,000</u>	<u>\$ 159,018</u>	<u>\$ 1,294,018</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

SERIES - \$6,900,000 - 1999

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2009	\$ 330,000	\$ 163,327	\$ 493,327
2010	345,000	151,849	496,849
2011	355,000	139,597	494,597
2012	370,000	126,542	496,542
2013	385,000	112,571	497,571
2014	400,000	97,752	497,752
2015	415,000	82,060	497,060
2016	430,000	65,368	495,368
2017	445,000	47,756	492,756
2018	465,000	29,212	494,212
2019	480,000	9,840	489,840
2020			
2021			
2022			
TOTAL	<u>\$ 4,420,000</u>	<u>\$ 1,025,874</u>	<u>\$ 5,445,874</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

SERIES - \$4,485,000 - 2000

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2009	\$ 200,000	\$ 136,452	\$ 336,452
2010	205,000	128,656	333,656
2011	215,000	120,464	335,464
2012	225,000	111,661	336,661
2013	230,000	102,333	332,333
2014	240,000	92,460	332,460
2015	250,000	81,985	331,985
2016	260,000	70,955	330,955
2017	270,000	59,360	329,360
2018	280,000	47,190	327,190
2019	290,000	34,435	324,435
2020	300,000	21,085	321,085
2021	310,000	7,130	317,130
2022			
TOTAL	<u>\$ 3,275,000</u>	<u>\$ 1,014,166</u>	<u>\$ 4,289,166</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

SERIES - \$7,885,000 - 2001

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2009	\$ 330,000	\$ 211,761	\$ 541,761
2010	345,000	195,523	540,523
2011	365,000	178,087	543,087
2012	380,000	159,421	539,421
2013	400,000	139,387	539,387
2014	420,000	117,816	537,816
2015	445,000	94,629	539,629
2016	470,000	69,643	539,643
2017	495,000	42,933	537,933
2018	520,000	14,586	534,586
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 4,170,000</u>	<u>\$ 1,223,786</u>	<u>\$ 5,393,786</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

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

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2009	\$ 475,000	\$ 203,332	\$ 678,332
2010	495,000	184,525	679,525
2011	520,000	164,875	684,875
2012	540,000	144,729	684,729
2013	565,000	123,034	688,034
2014	595,000	99,241	694,241
2015	625,000	73,307	698,307
2016	655,000	45,460	700,460
2017	690,000	15,525	705,525
2018			
2019			
2020			
2021			
2022			
TOTAL	<u>\$ 5,160,000</u>	<u>\$ 1,054,028</u>	<u>\$ 6,214,028</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

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
2009	\$ 1,120,000	\$ 135,020	\$ 1,255,020
2010	520,000	110,420	630,420
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>\$ 4,555,000</u>	<u>\$ 610,425</u>	<u>\$ 5,165,425</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

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
2009	\$ 455,000	\$ 154,365	\$ 609,365
2010	1,120,000	130,740	1,250,740
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>\$ 4,955,000</u>	<u>\$ 520,080</u>	<u>\$ 5,475,080</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

SERIES - \$9,600,000 - 2005

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2009	\$ 290,000	\$ 353,195	\$ 643,195
2010	275,000	343,308	618,308
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>\$ 9,600,000</u>	<u>\$ 2,598,518</u>	<u>\$ 12,198,518</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

S E R I E S - \$5,500,000 - 2 0 0 6

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2009	\$ 265,000	\$ 197,950	\$ 462,950
2010	280,000	187,050	467,050
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>\$ 5,250,000</u>	<u>\$ 1,563,337</u>	<u>\$ 6,813,337</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

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

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2009	\$ 5,000	\$ 218,600	\$ 223,600
2010	5,000	223,600	228,600
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>\$ 4,245,000</u>	<u>\$ 2,080,700</u>	<u>\$ 6,325,700</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

S E R I E S - \$ 8,730,0000 - 2 0 0 8

Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2009	\$ 440,000	\$ 284,002	\$ 724,002
2010	465,000	270,427	735,427
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>\$ 8,730,000</u>	<u>\$ 2,352,453</u>	<u>\$ 11,082,453</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2008

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2009	\$ 4,995,000	\$ 2,810,295	\$ 7,805,295
2010	5,200,000	2,624,880	7,824,880
2011	5,475,000	2,366,777	7,841,777
2012	5,715,000	2,145,106	7,860,106
2013	5,645,000	1,904,316	7,549,316
2014	5,860,000	2,026,222	7,886,222
2015	6,505,000	1,404,560	7,909,560
2016	6,560,000	1,118,170	7,678,170
2017	7,155,000	835,641	7,990,641
2018	6,615,000	552,678	7,167,678
2019	3,305,000	350,855	3,655,855
2020	2,515,000	235,613	2,750,613
2021	2,640,000	133,455	2,773,455
2022	<u>1,815,000</u>	<u>45,894</u>	<u>1,860,894</u>
TOTAL	<u>\$ 70,000,000</u>	<u>\$ 18,554,462</u>	<u>\$ 88,554,462</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Description	Original Bonds Issued	Bonds Outstanding October 1, 2007
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 1997	\$ 5,705,000	\$ 4,305,000
Clear Lake City Water Authority Consolidated Area (Harris County Municipal Utility District No. 181) Unlimited Tax Refunding Bonds, Series 1998-A	1,305,000	160,000
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	1,845,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 1998	10,655,000	8,994,172
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1998	5,410,000	1,380,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1999	6,900,000	4,740,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2000	4,485,000	3,470,000

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, 2008</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 205,000	\$ 201,495	\$ 4,100,000	The Bank of New York Trust Company, N.A. Dallas, TX
	160,000	4,040	-0-	The Bank of New York Trust Company, N.A. Dallas, TX
	160,000	94,672	1,685,000	The Bank of New York Trust Company, N.A. Dallas, TX
	274,172	568,646	8,720,000	The Bank of New York Trust Company, N.A. Dallas, TX
	245,000	73,975	1,135,000	The Bank of New York Trust Company, N.A. Dallas, TX
	320,000	174,055	4,420,000	The Bank of New York Trust Company, N.A. Dallas, TX
	195,000	144,008	3,275,000	The Bank of New York 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, 2008

Description	Original Bonds Issued	Bonds Outstanding October 1, 2007
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2001	\$ 7,885,000	\$ 4,485,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2002	11,405,000	7,830,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2003-A	9,155,000	5,930,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2003-B	7,125,000	5,595,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2005	9,600,000	9,600,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds – Series 2006	5,500,000	5,500,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds – Series 2006	4,255,000	4,250,000
Clear Lake City Water Authority Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds – Series 2008	<u>8,730,000</u>	<u> </u>
TOTAL	<u>\$ 100,275,000</u>	<u>\$ 68,084,172</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, 2008</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 315,000	\$ 226,954	\$ 4,170,000	The Bank of New York Trust Company, N.A. Dallas, TX
	2,670,000	255,625	5,160,000	The Bank of New York Trust Company, N.A. Dallas, TX
	1,375,000	172,445	4,555,000	The Bank of New York Trust Company, N.A. Dallas, TX
	640,000	170,790	4,955,000	The Bank of New York Trust Company, N.A. Dallas, TX
		358,270	9,600,000	The Bank of New York Trust Company, N.A. Dallas, TX
	250,000	208,250	5,250,000	The Bank of New York Trust Company, N.A. Dallas, TX
	5,000	218,600	4,245,000	The Bank of New York Trust Company, N.A. Dallas, TX
<u>8,730,000</u>	<u> </u>	<u>102,518</u>	<u>8,730,000</u>	The Bank of New York Trust Company, N.A. Dallas, TX
<u>\$ 8,730,000</u>	<u>\$ 6,814,172</u>	<u>\$ 2,974,343</u>	<u>\$ 70,000,000</u>	

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, 2008

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	<u>6,065,000</u>
TOTAL BOND ISSUES RETIRED		\$ 130,540,000
Total Original Bonds Issued Outstanding as of the fiscal year end September 30, 2008		<u>100,275,000</u>
Totals Bonds Issued		<u>\$ 230,815,000</u>
Total Tax Bonds Issued		\$ 152,890,000
Total Refunding Bonds Issued		27,105,000
Total Dollar for Dollar Refunding Bonds Issued		<u>50,820,000</u>
TOTAL BONDS ISSUED		<u>\$ 230,815,000</u>

See accompanying independent auditor's report.

CLEAR LAKE CITY WATER AUTHORITY
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	<u>Clear Lake City Water Authority</u>	<u>Tax Bonds</u>	
		<u>HC MUD No. 181</u>	<u>HCWCID No. 75</u>
Bond Authority:			
Amount Authorized by Voters	\$ 153,415,000	\$ 5,000,000	\$ 3,005,000
Amount Issued	<u>148,145,000</u>	<u>1,740,000</u>	<u>3,005,000</u>
Remaining to be Issued	<u>\$ 5,270,000</u>	<u>\$ 3,260,000</u>	<u>\$ -0-</u>
Debt Service Fund Cash and investment balances as of September 30, 2008:			<u>\$ 4,505,871</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:			<u>\$ 6,325,319</u>

See accompanying independent auditor's report.

Total	Refunding Bonds		Total
	Clear Lake City Water Authority	HC MUD No. 181	
\$ 161,420,000	\$ 24,360,000	\$ 5,000,000	\$ 29,360,000
<u>152,890,000</u>	<u>24,360,000</u>	<u>2,745,000</u>	<u>27,105,000 (1)</u>
<u>\$ 8,530,000</u>	<u>\$ -0-</u>	<u>\$ 2,255,000</u>	<u>\$ 2,255,000</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	<u>4,255,000</u>
TOTAL	<u>\$ 50,820,000</u>

See accompanying independent auditor's report.

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

	Amounts		
	2008	2007	2006
REVENUES			
Property Taxes	\$ 2,129,498	\$ 2,077,589	\$ 1,925,823
Water Service	4,829,038	4,186,792	4,349,768
Wastewater Service	2,575,718	2,478,277	2,296,725
Penalty and Interest	89,539	88,090	83,743
Tap Connection and Inspection Fees	48,930	131,507	75,806
Investment Revenues	165,907	233,543	174,275
Miscellaneous Revenues	<u>163,454</u>	<u>178,477</u>	<u>154,419</u>
TOTAL REVENUES	<u>\$ 10,002,084</u>	<u>\$ 9,374,275</u>	<u>\$ 9,060,559</u>
EXPENDITURES			
Payroll	\$ 3,083,780	\$ 2,954,910	\$ 3,212,222
Bulk Water Purchases	2,200,671	1,748,483	2,672,142
Professional Fees	1,120,130	830,169	459,133
Utilities	1,211,197	1,046,628	949,839
Repairs and Maintenance	588,574	478,144	477,848
Other	1,592,393	1,586,354	1,494,109
Capital Outlay	<u>80,542</u>	<u>115,467</u>	<u>508,528</u>
TOTAL OF EXPENDITURES	<u>\$ 9,877,287</u>	<u>\$ 8,760,155</u>	<u>\$ 9,773,821</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 124,797</u>	<u>\$ 614,120</u>	<u>\$ (713,262)</u>
OTHER FINANCING SOURCES (USES)			
Transfer In	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 38,188</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ 124,797</u>	<u>\$ 614,120</u>	<u>\$ (675,074)</u>
BEGINNING FUND BALANCE	<u>5,178,926</u>	<u>4,564,806</u>	<u>5,239,880</u>
ENDING FUND BALANCE	<u>\$ 5,303,723</u>	<u>\$ 5,178,926</u>	<u>\$ 4,564,806</u>

See accompanying independent auditor's report.

		Percent of Total Revenues				
<u>2005</u>	<u>2004</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 1,894,451	\$ 1,822,612	21.3%	22.2%	21.3%	20.8%	22.1%
4,393,492	3,940,688	48.3	44.7	48.0	48.1	47.8
2,313,416	2,188,150	25.8	26.4	25.3	25.4	26.5
66,461	61,503	0.9	0.9	0.9	0.7	0.7
193,190	47,162	0.5	1.4	0.8	2.1	0.6
114,039	47,400	1.7	2.5	1.9	1.3	0.6
147,419	137,638	1.5	1.9	1.8	1.6	1.7
<u>\$ 9,122,468</u>	<u>\$ 8,245,153</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
\$ 2,977,316	\$ 3,009,690	30.8%	31.5%	35.5%	32.6%	36.5%
2,616,604	2,376,897	22.0	18.7	29.5	28.7	28.8
406,635	254,606	11.2	8.9	5.1	4.5	3.1
798,966	825,090	12.1	11.2	10.5	8.8	10.0
456,243	438,015	5.9	5.1	5.3	5.0	5.3
1,430,739	1,420,446	15.9	16.9	16.5	15.7	17.2
<u>252,874</u>	<u>254,332</u>	<u>0.8</u>	<u>1.2</u>	<u>5.6</u>	<u>2.8</u>	<u>3.1</u>
<u>\$ 8,939,377</u>	<u>\$ 8,579,076</u>	<u>98.7%</u>	<u>93.5%</u>	<u>108.0%</u>	<u>98.1%</u>	<u>104.0%</u>
\$ 183,091	\$ (333,923)	1.3%	6.5%	(8.0)%	1.9%	(4.0)%
\$ -0-	\$ -0-					
\$ 183,091	\$ (333,923)					
<u>5,056,789</u>	<u>5,390,712</u>					
<u>\$ 5,239,880</u>	<u>\$ 5,056,789</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>2008</u>	<u>2007</u>	<u>2006</u>
REVENUES			
Property Taxes	\$ 9,951,412	\$ 9,773,339	\$ 9,460,239
Penalty and Interest	105,196	105,204	87,421
Investment Revenues	217,150	358,605	330,851
Miscellaneous Revenues	<u>11,224</u>	<u>4,914</u>	<u>4,903</u>
TOTAL REVENUES	<u>\$ 10,284,982</u>	<u>\$ 10,242,062</u>	<u>\$ 9,883,414</u>
EXPENDITURES			
Payroll	\$ 157,465	\$ 216,669	\$ 185,156
Debt Service Principal	6,814,172	6,105,000	4,985,828
Debt Service Interest and Fees	3,249,916	3,581,500	4,434,113
Miscellaneous Expenditures	61,002	54,368	152,297
Refunding Payments to Escrow Agent	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENDITURES	<u>\$ 10,282,555</u>	<u>\$ 9,957,537</u>	<u>\$ 9,757,394</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 2,427</u>	<u>\$ 284,525</u>	<u>\$ 126,020</u>
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	\$	\$	\$ 213,250
Long-Term Debt Issued-Refunding			4,255,000
Premium on Bonds Issued			467,672
Payment to Refunded Bond Escrow Agent			(4,530,577)
Bond Discount			<u>(94,241)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 311,104</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>\$ 2,427</u>	<u>\$ 284,525</u>	<u>\$ 437,124</u>
BEGINNING FUND BALANCE	<u>4,205,523</u>	<u>3,920,998</u>	<u>3,483,874</u>
ENDING FUND BALANCE	<u>\$ 4,207,950</u>	<u>\$ 4,205,523</u>	<u>\$ 3,920,998</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>17,740</u>	<u>17,829</u>	<u>17,776</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>17,264</u>	<u>17,307</u>	<u>17,266</u>

See accompanying independent auditor's report.

		Percent of Total Revenues					
<u>2005</u>	<u>2004</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	
\$ 9,317,664	\$ 8,988,913	96.8%	95.5%	95.7%	97.4%	98.3%	
98,622	95,848	1.0	1.0	0.9	1.0	1.0	
142,265	57,898	2.1	3.5	3.4	1.5	0.6	
4,891	4,883	0.1	—	—	0.1	0.1	
<u>\$ 9,563,442</u>	<u>\$ 9,147,542</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	
\$ 176,419	\$ 156,732	1.5%	2.1%	1.9%	1.8%	1.7%	
5,370,000	5,815,000	66.2	59.6	50.4	56.2	63.6	
3,588,652	3,036,139	31.6	35.0	44.9	37.5	33.2	
197,043	257,331	0.6	0.5	1.5	2.1	2.8	
—	18,000	—	—	—	—	0.2	
<u>\$ 9,332,114</u>	<u>\$ 9,283,202</u>	<u>99.9%</u>	<u>97.2%</u>	<u>98.7%</u>	<u>97.6%</u>	<u>101.5%</u>	
\$ 231,328	\$ (135,660)	0.1%	2.8%	1.3%	2.4%	(1.5)%	
\$ 358,270	\$						
	16,280,000						
	876,761						
	(16,602,765)						
	(546,144)						
<u>\$ 358,270</u>	<u>\$ 7,852</u>						
\$ 589,598	\$ (127,808)						
2,894,276	3,022,084						
<u>\$ 3,483,874</u>	<u>\$ 2,894,276</u>						
17,634	17,648						
<u>17,265</u>	<u>17,214</u>						

See accompanying independent auditor's report.

**CLEAR LAKE CITY WATER AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2008**

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, 2008	Expense Reimbursements for the year ended September 30, 2008	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	05/2006 05/2010 (Elected)	\$ 5,900	\$ -0-	Director
John Ferguson	05/2006 05/2010 (Elected)	\$ 4,500	\$ -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): July 9, 2008.

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, 2008**

Key Administrative Personnel:	<u>Date Hired</u>	<u>Fees/ Compensation for the fiscal year ending September 30, 2008.</u>	<u>Title</u>
	08/29/83	\$ 95,899	General Manager/ Investment Officer
	11/18/77	\$ 86,514	Capital Projects Bookkeeper
	10/19/98	\$ 64,848	Tax Assessor/ Collector
	04/16/07	\$ 50,624	Accounts Manager

See accompanying independent auditor's report.

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**CLEAR LAKE CITY WATER AUTHORITY
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2008**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2008</u>	<u>Title</u>
Schweinle & Parish, P.C. 440 Louisiana, Suite 1400 Houston, TX 77002-1691	07/17/86	\$ 236,960	Attorney
McCall, Gibson & Company, PLLC Certified Public Accountants 13831 Northwest Fwy., Suite 610 Houston, TX 77040-5216	07/31/96	\$ 38,500	Auditor
Coats, Rose, Yale, Ryman & Lee, P.C. 3 E. Greenway Plaza, Suite 2000 Houston, TX 77046	10/22/99	\$ 25,709	Bond Counsel
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, TX 77008	06/28/01	\$ 33,424	Delinquent Tax Attorney
Lockwood, Andrews & Newnam, Inc. 2925 Briarpark Drive Houston, TX 77042	12/18/97	\$ 1,111,035	Engineer
RBC Capital Markets 1001 Fannin, Suite 1200 Houston, TX 77002-6796	11/04/89	\$ 24,228	Financial Advisor

See accompanying independent auditor's report.