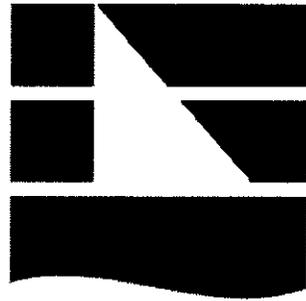


TOWN OF LITTLE ELM, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
September 30, 2006



LITTLE ELM

TOWN OF LITTLE ELM, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
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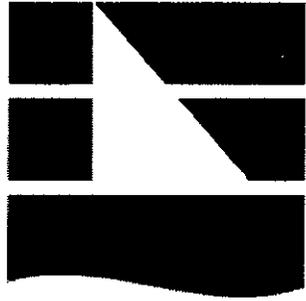
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TOWN OF LITTLE ELM, TEXAS
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INTRODUCTORY SECTION



LITTLE ELM



TOWN OF LITTLE ELM
100 West Eldorado Parkway
Little Elm, TX 75068

December 31, 2006

To the Honorable Mayor and Members of Town Council
Town of Little Elm, Texas

We are pleased to submit the Comprehensive Annual Financial Report of the Town of Little Elm, Texas, for the fiscal year ended September 30, 2006. The report is published to provide the Town Council, Town Staff, our residents, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the Town government. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the Town. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included in the report.

The current year's financial statements are prepared in conformity with the accounting reporting model, Pronouncement 34, issued by the Governmental Accounting Standards Board ("GASB 34"). GASB 34 requires that management provide a Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A is located immediately following the independent auditors' report.

OVERVIEW

Report Format

The Comprehensive Annual Financial Report is presented in three parts comprised of the introductory, financial, and statistical sections. A brief explanation of the three parts is as follows:

- Introductory Section - The introduction includes the transmittal letter, the Town's organizational chart, and a list of principal officials. This section also analyzes financial data and highlights significant Town activities, which occurred during the year.
- Financial Section - The financial section includes the MD&A, government-wide financial statements, the fund financial statements and notes, combining statements, and individual fund schedules, as well as the independent auditors' report on the financial statements and schedules.
- Statistical Section - The statistical section includes selected financial and demographic information, generally presented on a multi-year basis. This section presents a number of tables

of data depicting the financial history of the Town, and provides debt statistics, demographics and other information relative to the community.

GOVERNMENTAL STRUCTURE

The Town of Little Elm was incorporated on June 7, 1966 by a vote of 37 in favor and 34 against becoming a Town. The population at that time was around 363. Documents from that election indicate that the original town was 1.96 square miles or 1,222 acres. Today, the Town has approximately 10,059 Acres acres or 15.7 square miles within the corporate limits of the Town with the population estimated at 21,793. The Town adopted the Council/Manager form of government when it adopted its Home Rule Charter in May, 2001. The Town is governed by the Town Council which consists of the Mayor and six Council Members who serve for three year terms. The Mayor and Council Members in place one and six are elected at large while the remainder represent specific districts.

Little Elm is located on two peninsulas of Lewisville Lake. This lake is a 23,280 acre reservoir operated by the U.S. Army Corps of Engineers. The Town has more miles of shoreline on Lake Lewisville than any other community adjacent to the Lake. This geographic positioning provides exceptional water vistas and 51 miles of shoreline that combine to create a wide variety of recreational opportunities.

REPORTING ENTITY AND ITS SERVICES

The Town provides a full range of municipal services, including public safety (police and fire protection), municipal court, street maintenance, engineering, traffic and transportation, water distribution, sewage treatment, sanitation, health inspection, outdoor recreation, library services, public improvements, planning and zoning, and general administrative services. Elementary and secondary education services within the Town are provided by the Little Elm Independent School District ("LEISD") and the Frisco Independent School District ("FISD").

The Town works closely with the Little Elm Economic Development Corporation (EDC) to encourage expansion of local business and attract new business and industry.

FINANCIAL INFORMATION

Accounting System

The diverse nature of governmental operations and the necessity of complying with legal provisions require an accounting system unlike those used by commercial enterprises. Rather than establishing a single unified set of accounts for recording and summarizing all financial transactions, the accounts of the Town are organized on the basis of funds; each of which constitutes a separate accounting entity. The funds used by the Town are grouped into the following broad fund types:

1. Governmental Funds. These funds are used to account for the programs and activities of the governmental functions of the Town. The Town's governmental funds include the following:

General Fund – This fund serves as the main operating fund of the Town. It is used for recording all financial resources except those required to be accounted for in another fund. The General Fund accounts for all revenues and expenditures, which are not accounted for in other funds. It finances the traditional governmental functions;

Special Revenue Funds – These funds are used to account for the proceeds of the specific revenue sources that are legally restricted to expenditures for specific purposes;

Capital Project Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities;

Debt Service Fund – This fund is used to account for the accumulation of financial resources for payment of principal and interest on Town issued debt. This fund does not account for debt issued by the enterprise funds.

2. Proprietary or Enterprise Funds. The funds are used to account for ongoing organizations and activities that are similar to those found in the private sector. Additionally, these funds are operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services on a continuing basis be financed or recovered primarily through user charges. These funds primarily include the water and wastewater operations of the Town.

Internal Control

In developing and evaluating the Town's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability of assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from the control. The evaluation of costs and benefits requires estimates and judgments by management.

Budgetary Control

Budgetary control is accomplished by the adoption of an annual operating budget for most funds. Detail control is accomplished by maintaining appropriations and expended balances by line item account within each operating department within each budgeted fund. Financial reports are prepared on a monthly basis and shared with all department heads, the Town Manager, and the Town Council for review and oversight responsibility.

Cash Management

Non-operating cash during the year was invested in a Texas Local Government Investment Pool. Safety and liquidity are the first two goals of the investment policy followed by yield. The Town's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Therefore, all bank deposits were either insured by federal depository insurance or collateralized.

Independent Audit

The Town Charter requires an annual audit to be made of the books of account, financial records, and transactions of all administrative departments of the Town by independent certified public accountants selected by the Town Council. The report of our Auditors on the general-purpose financial statements

and combined and individual fund statements and schedules is included in the financial section of this report.

Risk Management

The Town participates in the Texas Municipal League Risk Pool. The pool provides Texas municipalities and other units of local government with a stable source of risk financing and loss prevention services at the lowest cost consistent with sound business practices. The Town participates in the pool's workers' compensation, liability, and property protection plans.

Certificate of Achievement for Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) conducts a financial review program to provide recognition to governmental entities that produce annual financial reports that meet their high standards of disclosure, adherence to Generally Accepted Accounting Principles, adherence to the requirements of the Government Accounting Standards Board, and applicable legal requirements. Attainment of this recognition is a valuable step in the professional management of a municipality's finances and is a key item looked for by the New York bond rating firms.

At the present time, this report does not meet the standards set by GFOA to warrant submission to the program. However, it is the stated goal of management to improve the report in the future in order to submit a Comprehensive Annual Financial Report to the GFOA for its review.

SIGNIFICANT LOCAL ECONOMIC EVENTS

Little Elm has made tremendous strides at constructing new transportation thoroughfares, water and sewer infrastructure, improving the quality of municipal services, and enhancing the community's image. For the seventh consecutive year, Little Elm has had the distinction of being one of the fastest growing communities within the North Central Texas Council of Governments region, having grown 446% since the 2000 census. During this period, the Town has enjoyed the dual benefits of both commercial and residential development that hold great promise for the foreseeable future.

Little Elm is situated along the Northeast banks of Lake Lewisville. FM720 is the major access through the Town and provides access to Denton, Frisco, and The Colony. Major job centers are located in the neighboring cities of Carrollton, Denton, Lewisville, Frisco, and Plano. Easy access to the North Dallas Tollway has been one of the major driving forces in the overall development of the area in general.

A Lowe's Home Improvement Center at the intersection of Eldorado Parkway and FM 423 was completed nearly two years ago as a part of a state sponsored Enterprise Zone. The development has proved to be a tremendous asset to the community. This site is now full, and contains several individual retail outlets, restaurants and the branch of a major national bank.

The Little Elm Lowe's Enterprise Zone is a true success story. Since the Lowe's opening in April of 2005 this business has met all its projected goals: \$15,500,000 development, \$30,000,000 in sales and 127 full time jobs and 23 part time jobs. Not only that, this was the first retail development in Little Elm and since the Lowe's opening it has stimulated another \$82,000,000 in additional retail development with approximately 662 jobs.

Other significant retail developments since Lowes, include a (1) direct development retail immediately adjacent to Lowes, (2) Village at Eldorado at SE corner of intersection of Eldorado and FM423, (3) Elm Ridge Crossing at FM 423 and King Road, and (4) One Elm Place at Eldorado Parkway and Hart Road.

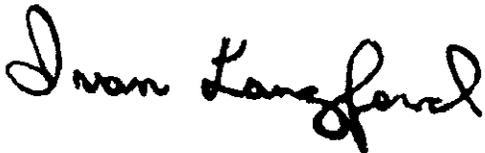
Currently in the design phase and scheduled to be built in next two years are the Little Elm Village at Eldorado Parkway and Hart Road, the Little Elm Towne Crossing on the southwest corner of intersection with Lowes, and the Greenway at Eldorado Parkway and Garza Lane. All of the new developments will help to contribute significantly to the economy of Little Elm well into the future.

ACKNOWLEDGEMENTS

The preparation of this report is a combined effort of the staff of the Finance Department with the professional assistance of our independent auditors, Freemon, Shapard & Story, Certified Public Accountants. Our appreciation is extended to these individuals and all other departments who assisted in the preparation of this report.

We would also like to thank the Mayor and the members of the Town Council for their leadership, encouragement and support in strengthening and improving the fiscal policies of the Town of Little Elm, Texas.

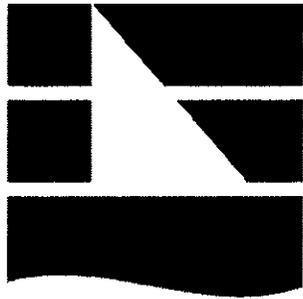
Respectfully submitted,



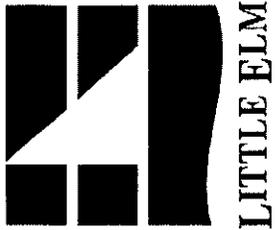
Ivan Langford
Town Manager



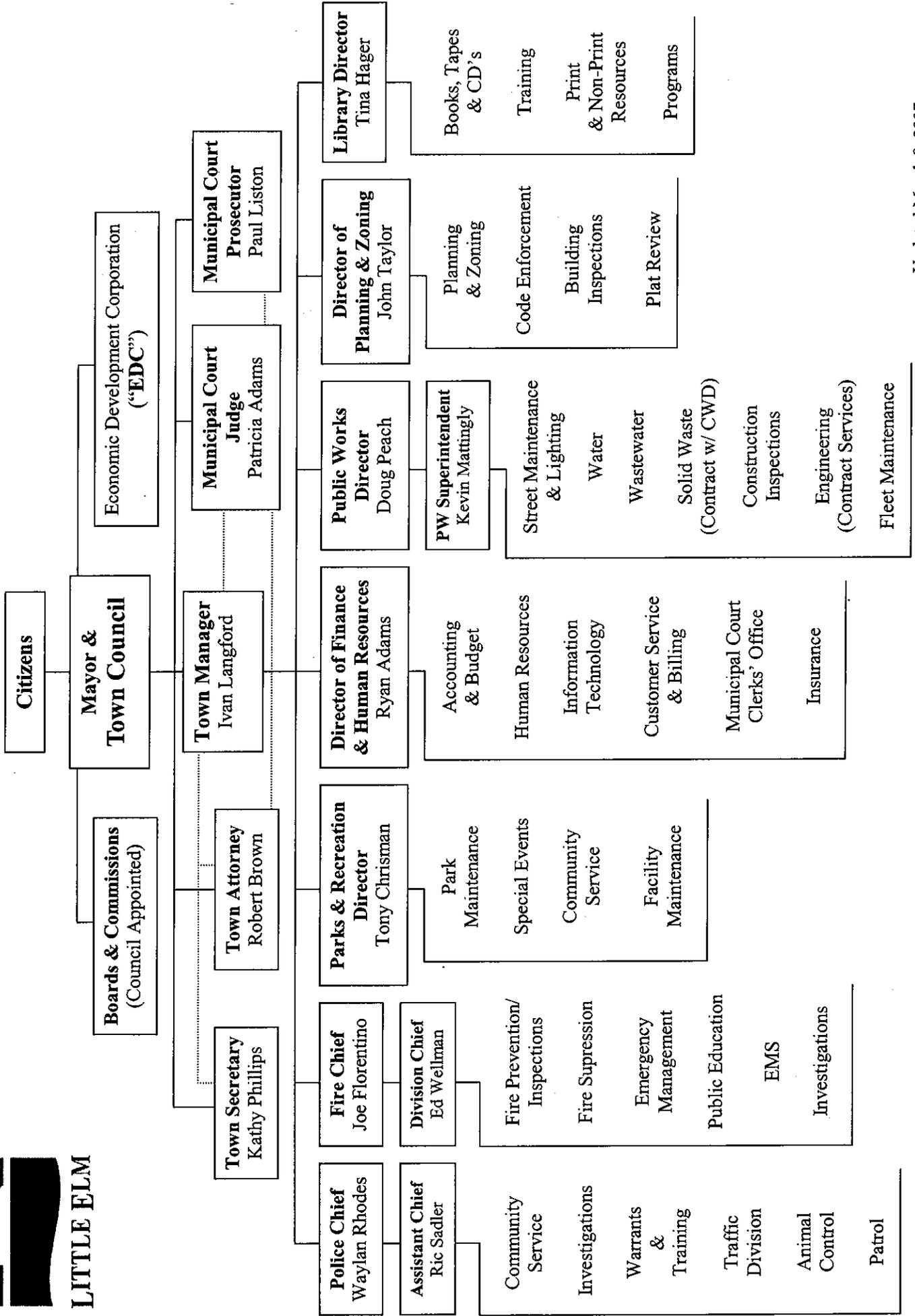
Ryan Adams
Director of Finance & Human Resources

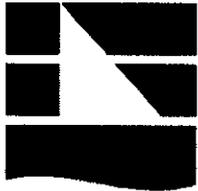


LITTLE ELM



**TOWN OF LITTLE ELM, TEXAS
ORGANIZATIONAL CHART**





LITTLE ELM

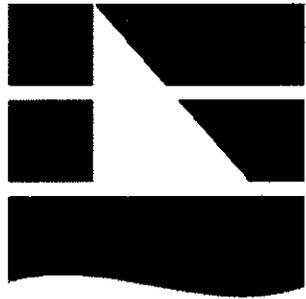
**TOWN OF LITTLE ELM, TEXAS
ELECTED OFFICIALS
September 30, 2006**

Mayor..... Frank Kastner
Council Member/Mayor Pro Tem..... Mark Hunsaker
Council Member David M. Hillock
Council Member Brandon Gerard
Council Member Brenda Mills
Council Member Dee Dee Lear
Council Member Jim Manning



TOWN OF LITTLE ELM, TEXAS
APPOINTED OFFICIALS
September 30, 2006

Ivan Langford Town Manager
Ryan Adams.....Finance/HR Director
Tina Hager Library Director
Doug Peach Public Works Director
Kathy Phillips Town Secretary
Waylan Rhodes Chief of Police
John Taylor Planning and Development Director
Joe Florentino Fire Chief
Robert Browne..... Town Attorney
Tony Chrisman Park Director



LITTLE ELM

FINANCIAL SECTION

FREEMON, SHAPARD & STORY
CERTIFIED PUBLIC ACCOUNTANTS

807 8th Street, 2nd Floor
Wichita Falls, Texas 76301-3381
(940) 322-4436 Fax (940) 761-3365

Independent Auditors' Report

To the Honorable Mayor and
Members of the Town Council
Town of Little Elm, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Little Elm, Texas (the Town) as of and for the year ended September 30, 2006 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Little Elm, Texas as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund and the proprietary fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the 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.

Honorable Mayor and
Members of the Town Council
Town of Little Elm, Texas

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Little Elm's basic financial statements. The accompanying introductory section, combining financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Freemon, Shapard and Story
Wichita Falls, Texas

December 1, 2006



LITTLE ELM

TOWN OF LITTLE ELM
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

As management of the Town of Little Elm, we offer readers of the Town of Little Elm's financial statements this narrative overview and analysis of the financial activities of the Town of Little Elm for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with the Town's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Little Elm exceeded its liabilities at the close of the most recent fiscal year by \$41,283,022. Of this amount, \$8,416,953 is unrestricted and may be used to meet the Town's ongoing obligations.
- During the year, the Town had expenses that were \$6,108,321 less than the \$24,398,697 generated in tax and other revenues for governmental programs and business-type activities.
- The General Fund ended the year with a \$5,836,689 fund balance.
- The resources available for appropriation were \$290,231 more than budgeted for the General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (Exhibit A-1 and B-1). These provide information about the activities of the Town as a whole and present a longer-term view of the Town's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements, Exhibits C-1 through C-4, report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the Town's individual funds. The statistical section contains additional informative data related to the Town's operations.

Reporting the Town as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the Town's overall financial condition and operations is found in Exhibit A-1 and B-1. Its primary purpose is to show whether the Town is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the Town's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the Town's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies

TOWN OF LITTLE ELM
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

Reporting the Town as a Whole - Continued

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The Town's revenues are divided into those provided by outside parties who share the costs of some programs, such as refuse disposal fees and grants provided by third parties (program revenues), and revenues provided by taxpayers or by sales and other taxes (general revenues). All the Town's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the Town's net assets and changes in them. The Town's net assets (the difference between assets and liabilities) provide one measure of the Town's financial health or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the Town, however, the reader should consider nonfinancial factors as well, such as changes in the Town's property tax base and the condition of the Town's facilities.

In the Statement of Net Assets and the Statement of Activities, there is the following kind of activity:

- **Governmental activities** - All of the Town's basic services are reported here, including administration and finance, public safety (fire and police), library services, parks and trails, street maintenance, planning, inspections, and permitting.
- **Business-type activities** - These amounts reflect the water and sewer department activities of the Town.
- **The Little Elm Economic Development Corporation (EDC) financial statements** are included in the financial statements of the government as a Special Revenue Fund type.

Reporting the Town's Most Significant Funds

The fund financial statements, Exhibits C-1 through C-4, provide detailed information about the most significant funds - not the Town as a whole. Laws and contracts require the Town to establish some funds, such as the Debt Service Fund. The Town's administration establishes many other funds to help it control and manage money for particular purposes (such as the several Impact Fee Funds and Capital Project Funds). The Town has two types of funds - governmental funds and proprietary funds.

- **Governmental funds** - Most of the Town's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the Town's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- **Proprietary funds** - Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer departments.

TOWN OF LITTLE ELM
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Little Elm, assets exceeded liabilities by \$41,283,022 at the close of the most recent fiscal year. A summary of the Town of Little Elm's net assets follows:

Town of Little Elm - Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 18,566,634	\$ 9,395,152	\$ 11,496,551	\$ 10,862,512	\$ 30,063,185	\$ 20,257,664
Capital assets	28,558,852	22,351,435	23,783,135	21,823,867	52,341,987	44,175,302
Total assets	47,125,486	31,746,587	35,279,686	32,686,379	82,405,172	64,432,966
Long-term liabilities	22,186,540	10,892,076	16,143,812	16,590,774	38,330,352	27,482,850
Other liabilities	1,453,178	835,437	1,338,620	939,978	2,791,798	1,775,415
Total liabilities	23,639,718	11,727,513	17,482,432	17,530,752	41,122,150	29,258,265
Net assets:						
Invested in capital assets, net of related debt	17,666,776	11,459,359	8,246,435	5,892,867	25,913,211	17,352,226
Restricted	2,531,729	2,531,729	4,421,129	3,832,517	6,952,858	6,364,246
Unrestricted	3,287,263	6,027,986	5,129,690	5,430,243	8,416,953	11,458,229
Total net assets	\$ 23,485,768	\$ 20,019,074	\$ 17,797,254	\$ 15,155,627	\$ 41,283,022	\$ 35,174,701

More detailed information concerning the Town of Little Elm's net assets is found on Exhibit A-1 of the government-wide financial statements.

By far the largest portion of the Town of Little Elm's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town of Little Elm uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Little Elm's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, the Town of Little Elm is able to report positive balances in all three categories of net assets, both for the government as whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental and Business-Type Activities

Net assets of the Town's governmental and business-type activities increased from \$35,174,701 to \$41,283,022. Undesignated net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was \$8,416,953 at September 30, 2006.

TOWN OF LITTLE ELM
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS – CONTINUED

Governmental and Business-Type Activities – Continued

Key elements of this increase are as follows:

Town of Little Elm's - Change in Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 4,268,370	\$ 3,409,514	\$ 6,276,814	\$ 5,019,874	\$ 10,545,184	\$ 8,429,388
Operating grants and contributions	242,603	429,716			242,603	429,716
Capital grants and contributions	376,380				376,380	
General revenues:						
Property taxes	3,903,073	2,906,896			3,903,073	2,906,896
Other taxes	2,486,301	1,943,284			2,486,301	1,943,284
Grants and contributions not restricted to specific programs						
Other	600				600	
	3,482,365	2,501,315	3,362,191	3,154,527	6,844,556	5,655,842
Total revenues	14,759,692	11,190,725	9,639,005	8,174,401	24,398,697	19,365,126
Expenses:						
General government	1,684,866	1,296,075			1,684,866	1,296,075
Public safety	3,681,661	2,894,089			3,681,661	2,894,089
Highways/streets	2,385,726	1,905,601			2,385,726	1,905,601
Economic development	442,312	363,251			442,312	363,251
Culture and recreation	703,720	478,737			703,720	478,737
Interest on long-term debt	757,243	459,004			757,243	459,004
Reimbursement to Developers	851,253	1,223,035	1,038,096	1,527,663	1,889,349	2,750,698
Amortization	8,876				8,876	
Depreciation	1,028,958	813,686			1,028,958	813,686
Water/Wastewater			5,707,665	4,893,053	5,707,665	4,893,053
Total Expenses	11,544,615	9,433,478	6,745,761	6,420,716	18,290,376	15,854,194
Increase in net assets before transfers	3,215,077	1,757,247	2,893,244	1,753,685	6,108,321	3,510,932
Transfers	251,617	(172,668)	(251,617)	172,668		
Increase in net assets	3,466,694	1,584,579	2,641,627	1,926,353	6,108,321	3,510,932
Net assets - 10/01/05	20,019,074	18,434,495	15,155,627	13,229,274	35,174,701	31,663,769
Net assets - 09/30/06	\$ 23,485,768	\$ 20,019,074	\$ 17,797,254	\$ 15,155,627	\$ 41,283,022	\$ 35,174,701

The Town's total governmental and business type activity revenues increased by \$5,033,571. The total cost of all governmental programs and services increased by \$2,436,182 over last year, principally due to increased salaries paid to employees, higher insurance costs, and depreciation.

TOWN OF LITTLE ELM
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

THE TOWN'S FUNDS

As the Town completed the year, its governmental funds, as presented in the balance sheet on Exhibit C-1, reported a combined fund balance of \$17,089,457 which is \$8,556,395 above last year's total of \$8,533,062.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2006, the Town of Little Elm's investment in capital assets for its governmental and business type activities amounts to \$52,341,987 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. This amount represents a net increase of \$9,759,971. A summary of the Town's capital assets follows:

Town of Little Elm - Capital Assets
(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 864,409	\$ 864,409	\$ 225,382	\$ 225,382	\$ 1,089,791	\$ 1,089,791
Infrastructure	16,097,959	14,862,652			16,097,959	14,862,652
Buildings	3,499,220	3,454,377	95,402	95,402	3,594,622	3,549,779
Improvements other than buildings	7,313,932	3,212,709	25,269,283	22,793,946	32,583,215	26,006,655
Machinery and equipment	3,198,153	2,085,175	463,605	448,615	3,661,758	2,533,790
Construction in progress	1,188,365	505,498	1,418,303	1,325,878	2,606,668	1,831,376
Total	\$ 32,162,038	\$ 24,984,820	\$ 27,471,975	\$ 24,889,223	\$ 59,634,013	\$ 49,874,043

Long-term Debt

At year-end, the Town had \$36,685,000 in bonds payable and notes and capital leases obligations of \$786,354.

Town of Little Elm - Outstanding Debt

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 9,340,000	\$ 6,655,000	\$	\$	\$ 9,340,000	\$ 6,655,000
Revenue bonds	10,758,300	2,874,000	15,536,700	15,931,000	26,295,000	18,805,000
Tax notes	1,050,000	560,000			1,050,000	560,000
Notes payable	517,553	255,000			517,553	255,000
Capitalized leases	268,801	343,346			268,801	343,346
Customer deposits			607,112	659,774	607,112	659,774
Compensated absences	251,886	204,730			251,886	204,730
	\$ 22,186,540	\$ 10,892,076	\$ 16,143,812	\$ 16,590,774	\$ 38,330,352	\$ 27,482,850

TOWN OF LITTLE ELM
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2006

Long-term Debt – Continued

The Town's total debt increased by \$10,847,502 during the current fiscal year. The key factor in this increase was a \$6,250,000, and a \$4,750,000 general obligation bond issuance. The Town also issued tax notes in the amount of \$685,000 for the purchase of vehicles and equipment. More detailed information about the Town's long-term liabilities is presented in Notes 6 and 7 to the financial statements.

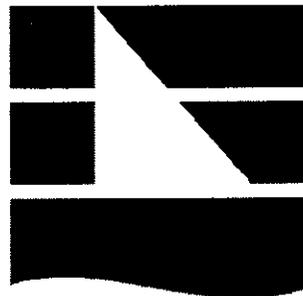
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town's elected and appointed officials have worked diligently to direct available resources to the highest priority service needs of a community that is one of the fastest growing of all communities in the Dallas/Fort Worth metropolitan area. The local economy has seen double digit population growth for the past several years with a commensurate growth in the property value base and commercial sales tax base. However, budgeted growth estimates for sales tax revenues have been very conservative so as to avoid the pitfalls of over-reliance on this single revenue source.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

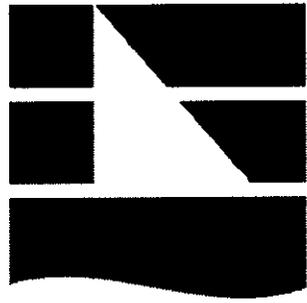
This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to show the Town's accountability for the public monies it receives. If you have questions about this report or need additional financial information, please contact the Finance Department or the Town Secretary at 100 West Eldorado Parkway, Little Elm, Texas or phone at (214) 975-0400.

Basic Financial Statements



LITTLE ELM

Government-Wide Statements



LITTLE ELM

TOWN OF LITTLE ELM
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

EXHIBIT A-1

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and Cash Equivalents	\$ 14,722,723	\$ 6,095,739	\$ 20,818,462
Receivables (net of allowance for uncollectibles)	780,621	768,667	1,549,288
Internal Balances	(538)	538	-
Inventories	21,015	78,331	99,346
Capitalized Debt Issuance Costs	151,499	132,147	283,646
Restricted Assets:			
Temporarily Restricted:			
Bond Covenant Reserves	-	891,971	891,971
Impact Fees	2,891,314	3,529,158	6,420,472
Capital Assets:			
Land	864,409	225,382	1,089,791
Infrastructure	16,097,959	-	16,097,959
Buildings	3,499,220	95,402	3,594,622
Improvements other than Buildings	7,313,932	25,269,283	32,583,215
Machinery and Equipment	3,198,153	463,605	3,661,758
Accumulated Depreciation	(3,603,186)	(3,688,840)	(7,292,026)
Construction in Progress	1,188,365	1,418,303	2,606,668
Total Assets	<u>47,125,486</u>	<u>35,279,686</u>	<u>82,405,172</u>
LIABILITIES			
Accounts Payable and other current liabilities	1,223,363	1,239,782	2,463,145
Intergovernmental Payable	-	8,111	8,111
Accrued Interest Payable	161,204	90,727	251,931
Unamortized Premium/Discount on Bonds	68,611	-	68,611
Noncurrent Liabilities			
Due Within One Year	548,083	503,150	1,051,233
Due in More Than One Year	21,638,457	15,640,662	37,279,119
Total Liabilities	<u>23,639,718</u>	<u>17,482,432</u>	<u>41,122,150</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	17,666,776	8,246,435	25,913,211
Restricted for:			
Debt Service	-	891,971	891,971
Impact Fees	2,531,729	3,529,158	6,060,887
Unrestricted Net Assets	3,287,263	5,129,690	8,416,953
Total Net Assets	<u>\$ 23,485,768</u>	<u>\$ 17,797,254</u>	<u>\$ 41,283,022</u>

The accompanying notes are an integral part of this statement.

TOWN OF LITTLE ELM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
General Government	\$ 1,684,866	\$ 2,756,184	\$ 370	\$ -
Public Safety	3,681,661	182,233	124,831	-
Public Works	2,385,726	1,314,960	-	376,380
Culture and Recreation	703,720	14,993	117,402	-
Economic Development	442,312	-	-	-
Interest on Debt	757,243	-	-	-
Amortization	8,876	-	-	-
Depreciation	1,028,958	-	-	-
Total Governmental Activities:	10,693,362	4,268,370	242,603	376,380
BUSINESS-TYPE ACTIVITIES:				
	5,707,665	6,276,814	-	-
Total Business-Type Activities:	5,707,665	6,276,814	-	-
TOTAL PRIMARY GOVERNMENT:	\$ 16,401,027	\$ 10,545,184	\$ 242,603	\$ 376,380

General Revenues:

Taxes:

- Property Taxes, Levied for General Purposes
- Property Taxes, Levied for Debt Service
- Sales Taxes
- Mixed Drink Tax
- Economic Development Sales Tax
- Street Sales Tax
- Franchise Taxes
- Penalty and Interest
- Grants and Contributions Not Restricted
- Miscellaneous Revenue
- Infrastructure Provided by Developers
- Reimbursement to Developers
- Impact Fees
- Investment Earnings
- Transfers In (Out)
- Total General Revenues and Transfers

Change in Net Assets

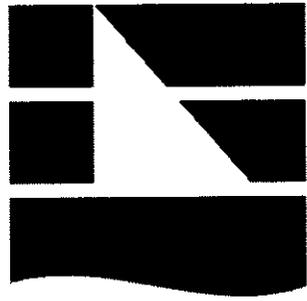
Net Assets--Beginning

Net Assets--Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ 1,071,688	\$ -	\$ 1,071,688
(3,374,597)	-	(3,374,597)
(694,386)	-	(694,386)
(571,325)	-	(571,325)
(442,312)	-	(442,312)
(757,243)	-	(757,243)
(8,876)	-	(8,876)
(1,028,958)	-	(1,028,958)
(5,806,009)	-	(5,806,009)
-	569,149	569,149
-	569,149	569,149
(5,806,009)	569,149	(5,236,860)
2,786,132	-	2,786,132
1,116,941	-	1,116,941
895,643	-	895,643
6,019	-	6,019
448,387	-	448,387
204,389	-	204,389
868,904	-	868,904
62,959	-	62,959
600	-	600
512,696	610,674	1,123,370
1,235,307	1,086,155	2,321,462
(851,253)	(1,038,096)	(1,889,349)
1,005,315	1,257,422	2,262,737
729,047	407,940	1,136,987
251,617	(251,617)	-
9,272,703	2,072,478	11,345,181
3,466,694	2,641,627	6,108,321
20,019,074	15,155,627	35,174,701
\$ 23,485,768	\$ 17,797,254	\$ 41,283,022



LITTLE ELM

Governmental Fund Financial Statements

TOWN OF LITTLE ELM
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	General Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 3,281,718	\$ 10,103,686	\$ 1,337,319	\$ 14,722,723
Taxes Receivable	90,115	-	36,416	126,531
Allowance for Uncollectible Taxes (credit)	(12,613)	-	(5,098)	(17,711)
Receivables (net of allowance for uncollectibles)	341,201	-	150	341,351
Intergovernmental Receivables	85,321	188,540	56,589	330,450
Due from Other Funds	1,296	-	9,062	10,358
Inventories	21,015	-	-	21,015
Restricted Assets:				
Impact Fees	2,891,314	-	-	2,891,314
Total Assets	\$ 6,699,367	\$ 10,292,226	\$ 1,434,438	\$ 18,426,031
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 776,296	\$ 172,024	\$ 263,093	\$ 1,211,413
Due to Other Funds	1,834	9,062	-	10,896
Deferred Revenues	72,598	-	29,717	102,315
Other Current Liabilities	11,950	-	-	11,950
Total Liabilities	862,678	181,086	292,810	1,336,574
Fund Balances:				
Reserved For:				
Impact Fees	2,531,729	-	-	2,531,729
Inventories	21,015	-	-	21,015
Unreserved and Undesignated:				
Reported in the General Fund	3,283,945	-	-	3,283,945
Reported in the Special Revenue Fund	-	-	1,131,265	1,131,265
Reported in the Capital Projects Fund	-	10,111,140	-	10,111,140
Reported in the Debt Service Fund	-	-	10,363	10,363
Total Fund Balances	5,836,689	10,111,140	1,141,628	17,089,457
Total Liabilities and Fund Balances	\$ 6,699,367	\$ 10,292,226	\$ 1,434,438	\$ 18,426,031

The accompanying notes are an integral part of this statement.

TOWN OF LITTLE ELM
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Total Fund Balances - Governmental Funds	\$	17,089,457
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$24,984,820 and the accumulated depreciation was \$2,633,385. In addition, 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. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		11,460,092
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2006 capital outlays and debt principal payments is to increase (decrease) net assets.		8,062,135
Net proceeds from the issuance of bonds are reported as other financing sources in the governmental fund financial statements while they are recorded as long-term bonds payable in the government-wide financial statements. The net effect of including the bonds payable is to decrease net assets.		(12,202,553)
The 2006 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,028,958)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		105,595
Net Assets of Governmental Activities	\$	23,485,768

The accompanying notes are an integral part of this statement.

TOWN OF LITTLE ELM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

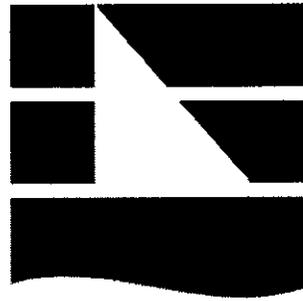
	General Fund	Capital Projects Fund	Other Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property Taxes	\$ 2,772,301	\$ -	\$ 1,116,941	\$ 3,889,242
General Sales and Use Taxes	901,662	-	652,776	1,554,438
Franchise Tax	868,904	-	-	868,904
Penalty and Interest on Taxes	51,369	-	11,590	62,959
Licenses and Permits	2,065,029	-	-	2,065,029
Intergovernmental Revenue and Grants	242,603	376,380	-	618,983
Charges for Services	1,504,403	-	-	1,504,403
Fines	698,938	-	-	698,938
Investment Earnings	332,086	298,046	98,915	729,047
Contributions & Donations from Private Sources	600	-	-	600
Other Revenue	512,653	-	43	512,696
Total Revenues	9,950,548	674,426	1,880,265	12,505,239
EXPENDITURES:				
Current:				
General Government	1,694,438	-	-	1,694,438
Public Safety	3,684,917	-	-	3,684,917
Public Works	2,359,076	-	-	2,359,076
Culture and Recreation	670,386	-	-	670,386
Conservation and Development:				
Economic Development	-	-	442,312	442,312
Debt Service:				
General Debt Service	-	-	955,245	955,245
Debt Interest	-	-	683,790	683,790
Capital Outlay:				
Capital Outlay	1,994,188	5,242,187	-	7,236,375
Total Expenditures	10,403,005	5,242,187	2,081,347	17,726,539
Excess (Deficiency) of Revenues Over (Under) Expenditures	(452,457)	(4,567,761)	(201,082)	(5,221,300)
OTHER FINANCING SOURCES (USES):				
Issuance of Bonds	-	11,685,000	517,553	12,202,553
Transfers In	512,125	110,000	174,793	796,918
Premium or Discount on Issuance of Bonds	-	31,272	-	31,272
Impact Fees	1,005,315	-	-	1,005,315
Transfers Out (Use)	(486,376)	(46,925)	(12,000)	(545,301)
Bond Issue Cost	-	(97,116)	-	(97,116)
Development Agreement Reimbursement	(851,253)	-	-	(851,253)
Infrastructure from Developers	1,235,307	-	-	1,235,307
Total Other Financing Sources (Uses)	1,415,118	11,682,231	680,346	13,777,695
Net Change in Fund Balances	962,661	7,114,470	479,264	8,556,395
Fund Balance - October 1 (Beginning)	4,874,028	2,996,670	662,364	8,533,062
Fund Balance - September 30 (Ending)	\$ 5,836,689	\$ 10,111,140	\$ 1,141,628	\$ 17,089,457

The accompanying notes are an integral part of this statement.

TOWN OF LITTLE ELM
 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, 2006

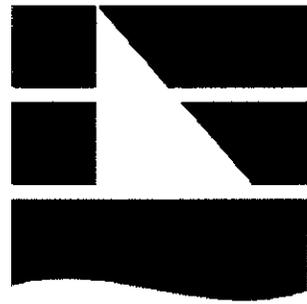
Total Net Change in Fund Balances - Governmental Funds	\$	8,556,395
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2006 capital outlays and debt principal payments is to increase (decrease) net assets.		8,062,135
Net proceeds from the issuance of bonds are reported as other financing sources in the governmental fund financial statements while they are recorded as long-term bonds payable in the government-wide financial statements. The net effect of including the bonds payable is to decrease net assets.		(12,202,553)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(1,028,958)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		79,675
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>3,466,694</u>

The accompanying notes are an integral part of this statement.



LITTLE ELM

Proprietary Fund Financial Statements



LITTLE ELM

TOWN OF LITTLE ELM
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006

	Business Type Activities
	Municipal Water and Sewer Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 6,095,739
Restricted Assets - Current:	
Bond Covenant Reserves	891,971
Impact Fees	3,529,158
Accounts Receivable-Net of Uncollectible Allowance	768,667
Due from Other Funds	1,834
Inventories	78,331
Capitalized Debt Issuance Costs	132,147
Total Current Assets	<u>11,497,847</u>
Noncurrent Assets:	
Capital Assets:	
Land Purchase and Improvements	225,382
Buildings	95,402
Improvements other than Buildings	25,269,283
Machinery and Equipment	463,605
Accumulated Depreciation - Capital Assets	(3,688,840)
Construction in Progress	1,418,303
Total Noncurrent Assets	<u>23,783,135</u>
Total Assets	<u>35,280,982</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	1,154,062
Compensated Absences Payable	85,720
Intergovernmental Payable	8,111
Due to Other Funds	1,296
Accrued Interest Payable	90,727
Bonds Payable - Current:	
Bonds Payable - Current	503,150
Total Current Liabilities	<u>1,843,066</u>
NonCurrent Liabilities:	
Bonds Payable - Non-Current:	
Revenue Bonds Payable	15,033,550
Meter Deposits Payable	607,112
Total Noncurrent Liabilities	<u>15,640,662</u>
Total Liabilities	<u>17,483,728</u>
NET ASSETS	
Invested in Capital Assets Net of Related Debt	8,246,435
Restricted for Debt Service	891,971
Restricted - Impact Fees	3,529,158
Unrestricted Net Assets	5,129,690
Total Net Assets	<u>\$ 17,797,254</u>

The accompanying notes are an integral part of this statement.

TOWN OF LITTLE ELM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Business Type Activities
	Municipal Water and Sewer Fund
OPERATING REVENUES:	
Charges for Water Services	\$ 3,408,892
Charges for Sewerage Service	2,419,375
Tap, Connections, and Other Fees	448,547
Other Revenue	610,674
Total Operating Revenues	<u>6,887,488</u>
OPERATING EXPENSES:	
Proprietary Fund Function - Water	
Personal Services - Salaries and Wages	531,420
Personal Services - Employee Benefits	181,729
Purchased Professional & Technical Services	139,192
Purchased Property Services	83,539
Other Operating Expenses	190,675
Supplies	2,168,831
Total Proprietary Fund Function - Water	<u>3,295,386</u>
Proprietary Fund Function - Sewerage	
Personal Services - Salaries and Wages	245,752
Personal Services - Employee Benefits	77,828
Purchased Professional & Technical Services	330,036
Purchased Property Services	13,542
Other Operating Expenses	29,553
Supplies	299,031
Total Proprietary Fund Function - Sewerage	<u>995,742</u>
Depreciation	623,484
Total Operating Expenses	<u>4,914,612</u>
Operating Income	<u>1,972,876</u>
NON-OPERATING REVENUES (EXPENSES):	
Developer Reimbursement	(1,038,096)
Impact Fees	1,257,422
Investment Earnings	407,940
Infrastructure from Developers	1,086,155
Interest Expense - Non-Operating	(793,053)
Total Non-operating Revenue (Expenses)	<u>920,368</u>
Income Before Transfers	2,893,244
Transfers In	1,382,822
Transfers Out	(1,634,439)
Change in Net Assets	<u>2,641,627</u>
Total Net Assets - October 1 (Beginning)	<u>15,155,627</u>
Total Net Assets - September 30 (Ending)	<u>\$ 17,797,254</u>

The accompanying notes are an integral part of this statement.

TOWN OF LITTLE ELM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

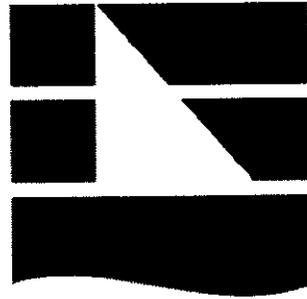
	Business Type Activities
	Municipal Water and Sewer Fund
<u>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</u>	
Operating Income:	\$ 1,972,876
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	623,484
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	11,440
Decrease (increase) in Inventories	(16,828)
Increase (decrease) in Accounts Payable	387,188
Increase (decrease) in Customer Deposits	(52,662)
Increase (decrease) in Compensated Absences	14,055
Net Cash Provided by Operating Activities	<u>\$ 2,939,553</u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ 6,095,739
Restricted - Cash and Cash Equivalents on Balance	<u>4,421,129</u>
Total Cash and Cash Equivalents	<u>\$ 10,516,868</u>

The accompanying notes are an integral part of this statement.

TOWN OF LITTLE ELM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

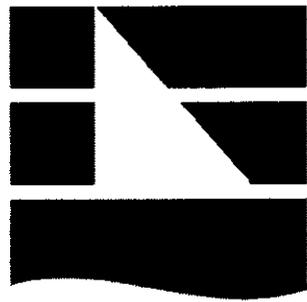
	Business Type Activities
	Municipal Water and Sewer Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 6,846,266
Cash Payments to Employees for Services	(763,117)
Cash Payments for Suppliers	(3,143,596)
Net Cash Provided by Operating Activities	<u>2,939,553</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfers	(251,617)
Impact Fees	1,257,422
Net Cash Provided by Non-Capital Financing Activities	<u>1,005,805</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(1,496,599)
Interest and Fiscal Charge on Debt	(795,516)
Principal Payments on Debt	(394,300)
Development Agreement Reimbursement	(1,038,096)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(3,724,511)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>407,940</u>
Net Increase in Cash and Cash Equivalents	628,787
Cash and Cash Equivalents at Beginning of the Year:	<u>9,888,081</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 10,516,868</u>

The accompanying notes are an integral part of this statement.



LITTLE ELM

Notes to Financial Statements



LITTLE ELM

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Little Elm (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below:

A. Reporting Entity

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by accounting principles generally accepted in the United States. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the Town's reporting entity.

Included within the reporting entity:

Little Elm Economic Development Corporation

The Little Elm Economic Development Corporation (EDC) financial statements are included in the financial statements of the governments Special Revenue Fund Type. The government exercises oversight responsibility for the corporation in the areas of finance, governance, management, and operations. The Town Council appoints the corporation's directors and may remove them for cause. The Little Elm Economic Development Corporation does not prepare separate financial statements.

B. Measurement Focus, Basis of Accounting and Presentation

Government-Wide and Fund Financial Statements

The statement of net assets and the statement of activities are government-wide financial statements. Governmental activities include programs supported primarily by property taxes. Business-type activities include operations that rely to a significant extent on fees and charges for support.

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Measurement Focus, Basis of Accounting and Presentation – Continued

The statement of activities demonstrates how other people or entities that participate in programs the Town operates have shared in the payment of direct costs. The “charges for services” column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the Town. If revenue is not program revenue, it is general revenue used to support all of the Town’s functions. Taxes are always general revenues.

Interfund activities between governmental funds and proprietary funds appear as due to/due from on the governmental fund balance sheet and proprietary fund statement of net assets and as other resources and other uses on the governmental fund and proprietary fund statements of revenues, expenditures and changes in fund balances. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide statements of net assets as internal balances and on the statements of activities as interfund transfers.

Fund Accounting

The accounts of the Town are organized and operated on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group are summarized by providing a separate set of self-balancing accounts, which include its assets, liabilities, fund equity, revenues, and expenses or expenditures. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the government funds not recorded directly in those funds. The following funds and account groups are used by the Town:

Governmental funds are used to account for the Town’s general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e. when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Town considers all revenues available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, interest and special assessments are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the Town are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Measurement Focus, Basis of Accounting and Presentation – Continued

Entitlements and shared revenues are recorded at the time of receipt or earlier if susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditure for specific purposes.

The *capital projects fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Town applies applicable Financial Accounting Standards Board pronouncements issued prior to December 1, 1989, in accounting and reporting for its proprietary operations. Proprietary funds include the following types:

Enterprise funds are used to account for the operations that are financed and operated in a manner similar to a private business or where the council has decided that the determination of revenues earned, cost incurred, and/or net income is necessary for management accountability.

Account Groups. The *general fixed assets account group* is used for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund, debt service fund, and water and sewer fund. All annual appropriations lapse at fiscal year end.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Budgets and budgetary Accounting – Continued

1. Prior to September 1, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes the proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through the passage of an ordinance.
4. The Town Manager is authorized to transfer budgeted amounts between departments within any fund. Any revisions that alter the total expenditures of any fund must be approved by the Town Council.
5. The budget approved for the Water and Sewer Fund follows similar approval procedures but departs from accounting principles generally accepted in the United States of America by not including depreciation, bond principal payments, and transfers in the approved budget. These amounts are reported at year end as part of the “actual” column.

For the period ended September 30, 2006 current expenditures exceed appropriations by \$516,283 in the general fund. The majority of the over-expenditures was due to \$1,538,196 of unbudgeted capital outlay and was funded in the general fund by available fund balance. The Town received \$1,235,306 worth of infrastructure assets from developers, which is included in the unbudgeted capital outlay.

E. Budget/GAAP Reconciliation

The following schedule reconciles the amounts on the Statement of Revenues, Expenses, and Changes in Net Assets – Budget and Actual to amounts on the Combined Statement of Revenues, Expenses, and Changes in Net Assets:

	Water and Sewer Fund
Retained earnings (budget)	\$ 15,443,684
Infrastructure from developers	1,086,155
Depreciation and amortization	(623,484)
Bond principal payment	394,300
Capital outlays	1,496,599
Retained earnings (GAAP)	\$ 17,797,254

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

F. Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the Town. Other short-term investments are included in investments. Because the Town at its option can withdraw funds within a twenty-four hour period, deposits with the Texas Local Government Investment Pool (TexPool) are considered to be cash equivalents.

G. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Public domain (“infrastructure”) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting system are not capitalized in the governmental fund financial statements, but are recorded in the government wide financial statements.

Depreciation of capital assets in the government wide financial statements and in the proprietary fund financial statements is computed using the straight-line method. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

H. Compensated Absences

It is the Town’s policy to permit employees to accumulate earned but unused vacation benefits. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expense is reported for these amounts. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability to those funds as the benefits accrue to employees.

In accordance with the provisions of Government Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Sick leave benefits cannot be taken as “terminal leave” prior to retirement.

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Long-term Obligations

Long-term debts have been included in the government wide and proprietary fund financial statements. Long-term debt is recognized as a liability of a governmental fund financial statements when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

J. Fund Equity

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

K. Short-term Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet. Short-term interfund loans are classified as “interfund receivables and payables.”

L. Restricted Assets

Certain resources set aside for the repayment of bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

NOTE 2. DEPOSITS AND INVESTMENTS

The Town of Little Elm has an adopted investment policy pursuant to chapter 2256 of the Texas Government Code, which authorized the Town’s investment in United States government obligations and its agencies, obligations of Texas and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers’ acceptances, government pools and money market funds. The Town selects its investments based on safety, liquidity, yield, and public trust.

The EDC invests in obligations of the United States Treasury or the State of Texas certain United States Agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds, and other investments specifically allowed by the Public Funds Investment Act of 1987 (Article 842a-2 Vernon’s Civil Statutes).

At September 30, 2006 the Town’s carrying amount of deposits in financial institutions was \$402,237 and the bank balance deposits was \$708,314. Of the bank balance \$100,000 was covered by federal depository insurance and \$608,314 was covered by collateral held by the pledging financial institution’s trust department or agent in the Town’s name.

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

The carrying amount of deposits for the EDC, presented as a blended component unit, was \$1,160,805 and the bank balance was \$1,160,805. Of the bank balance \$100,000 was covered by federal depository insurance and \$1,060,805 was covered by collateral held by the pledging financial institution's trust department or agent in the Town's name.

Investments are categorized into three categories of credit risk:

1. Insured or registered, or securities held by the Town or its agent in the Town's name.
2. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but in the Town's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Town's name.

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

A reconciliation of cash and cash equivalents as shown on the Combined Balance Sheet for the primary government follows:

Cash on hand	\$ 2,000
Deposits with financial institutions	402,237
Deposits with TexPool	<u>26,565,861</u>
Total	<u>\$ 26,970,098</u>
Cash and cash equivalents	\$ 19,657,656
Cash and Cash equivalents - restricted	<u>7,312,442</u>
Total	<u>\$ 26,970,098</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

A reconciliation of cash and investments as shown on the Combined Balance Sheet for the EDC follows:

Deposits with financial institutions	\$ 49,466
Deposits with TexPool	<u>1,111,339</u>
Total	<u>\$ 1,160,805</u>
Cash and cash equivalents	<u>\$ 1,160,805</u>
Total	<u>\$ 1,160,805</u>

NOTE 3. RECEIVABLES

Receivables at September 30, 2006 consist of the following:

	General Fund	Debt Service	Capital Projects	Special Revenue	and Sewer Fund	Total
Property taxes	\$ 90,115	\$ 36,416	\$	\$	\$	\$ 126,531
Utility bills					817,309	817,309
Other governments	10,000		188,540			198,540
Sales tax	75,321			56,739		132,060
Municipal court	<u>379,112</u>					<u>379,112</u>
	554,548	36,416	188,540	56,739	817,309	1,653,552
Less allowance for uncollectibles	<u>50,524</u>	<u>5,098</u>			<u>48,642</u>	<u>104,264</u>
	<u>\$ 494,024</u>	<u>\$ 31,318</u>	<u>\$ 188,540</u>	<u>\$ 56,739</u>	<u>\$ 768,667</u>	<u>\$ 1,549,288</u>

NOTE 4. PROPERTY TAXES

Taxes are levied on October 1 and are payable until February 1 without penalty. Property taxes attach as an enforceable lien on property as of February 1. No discounts are allowed for early payment. Penalty and interest are calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increases 1% per month. Under state law, property taxes on real property constitute a lien on the property and cannot be forgiven without specific approval of the State Legislature. Taxes applicable to personal property may be deemed uncollectible by the government.

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 5. FIXED ASSETS

The following is a summary of changes in the general fixed asset account group during the fiscal year:

	Balance 10/01/05	Additions	Retirements	Balance 09/30/06
Land	\$ 864,409	\$	\$	\$ 864,409
Infrastructure	14,862,652	1,235,307		16,097,959
Buildings and plant	3,454,377	44,843		3,499,220
Improvements other than buildings	3,212,709	4,101,223		7,313,932
Machinery and equipment	2,085,175	1,172,135	59,157	3,198,153
Construction in progress	505,498	682,867		1,188,365
Total	<u>24,984,820</u>	<u>7,236,375</u>	<u>59,157</u>	<u>32,162,038</u>
Less accumulated depreciation	<u>2,633,385</u>	<u>1,028,958</u>	<u>59,157</u>	<u>3,603,186</u>
Total	<u>\$ 22,351,435</u>	<u>\$ 6,207,417</u>	<u>\$</u>	<u>\$ 28,558,852</u>

The following is a summary of changes in proprietary fund-type fixed assets during the fiscal year.

	Balance 10/01/05	Additions	Retirements	Balance 09/30/06
Land	\$ 225,382	\$	\$	\$ 225,382
Buildings	95,402			95,402
Improvements other than buildings	22,793,945	2,475,338		25,269,283
Machinery and equipment	448,615	14,990		463,605
Construction in progress	1,325,878	1,430,067	1,337,642	1,418,303
Total	<u>24,889,222</u>	<u>3,920,395</u>	<u>1,337,642</u>	<u>27,471,975</u>
Less accumulated depreciation	<u>3,065,356</u>	<u>623,484</u>		<u>3,688,840</u>
Total	<u>\$ 21,823,866</u>	<u>\$ 3,296,911</u>	<u>\$ 1,337,642</u>	<u>\$ 23,783,135</u>

In proprietary funds, the following estimated useful lives are used to compute depreciation.

	Years
Water and sewer plant	40
Streets and Buildings	40
Fixtures	10
Equipment	5

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6. CHANGES IN LONG-TERM DEBT

The following is a summary of the changes in general long-term debt for the fiscal year ended September 30, 2006.

Description of Issue	Balance 10/1/05	Additions	Retirements	Balance 9/30/06
General Obligation Bonds, Series 1968	\$ 5,000		\$ 5,000	\$
Certificates of Obligation, Series 2005		4,750,000		4,750,000
General Obligation Bonds, Series 2006		6,250,000		6,250,000
Certificates of Obligation, Series 2001	3,365,000		125,000	3,240,000
Combination Tax and Revenue, Certificates of Obligation, Series 2000	529,000		20,700	508,300
Combination Tax and Revenue, Certificates of Obligation, Series 2002	2,345,000		85,000	2,260,000
General Obligation Refunding and Improvement Bonds, Series 2005	3,285,000		195,000	3,090,000
Tax Notes, Series 2005	560,000		70,000	490,000
Tax Notes, Series 2005A		685,000	125,000	560,000
Notes Payable	598,346	517,553	329,545	786,354
Compensated Absences	204,733	47,153		251,886
Total	10,892,079	12,249,706	955,245	22,186,540
Less amount due in one year	535,714			548,083
Amount due in more than one year	<u>\$ 10,356,365</u>			<u>\$ 21,638,457</u>

Annual debt service requirements to maturity for general obligation bonds, including interest, are as follows:

Tax Notes , Series 2005A
October 1, 2005
Original Amount \$685,000
Interest Rate 3.59% to 4.12%

Fiscal Year	Interest	Principal	Total	Coupon
2006-2007	\$ 18,714	\$ 130,000	\$ 148,714	3.79%
2007-2008	19,710	135,000	154,710	3.89%
2008-2009	14,620	145,000	159,620	4.01%
2009-2010	9,087	150,000	159,087	4.12%
	<u>\$ 62,131.00</u>	<u>\$ 560,000</u>	<u>\$ 622,131</u>	

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6. CHANGES IN LONG-TERM DEBT – CONTINUED

General Obligation Bonds, Series 2005
October 18, 2005
Original Amount \$4,750,000
Interest Rate 3.5% to 5.0%

Fiscal Year	Interest Due		Principal Due	Total	Coupon Rate
	February 1	August 1	August 1		
2006-2007	\$ 95,949	\$ 95,949	\$ 125,000	\$ 316,898	3.50%
2007-2008	93,761	93,761	130,000	317,522	3.50%
2008-2009	91,486	91,486	140,000	322,972	3.50%
2009-2010	89,036	89,036	145,000	323,072	3.50%
2010-2011	86,499	86,499	155,000	327,998	3.75%
2011-2012	83,592	83,592	165,000	332,184	3.75%
2012-2013	80,499	80,499	200,000	360,998	5.00%
2013-2014	75,499	75,499	215,000	365,998	5.00%
2014-2015	70,124	70,124	225,000	365,248	5.00%
2015-2016	64,499	64,499	240,000	368,998	4.00%
2016-2017	59,699	59,699	250,000	369,398	4.00%
2017-2018	54,699	54,699	260,000	369,398	4.00%
2018-2019	49,499	49,499	270,000	368,998	4.00%
2019-2020	44,099	44,099	280,000	368,198	3.80%
2020-2021	38,779	38,779	295,000	372,558	3.85%
2021-2022	33,100	33,100	305,000	371,200	4.00%
2022-2023	27,000	27,000	315,000	369,000	4.00%
2023-2024	20,700	20,700	330,000	371,400	4.00%
2024-2025	14,100	14,100	345,000	373,200	4.00%
2025-2026	7,200	7,200	360,000	374,400	4.00%
	<u>\$ 1,179,819</u>	<u>\$ 1,179,819</u>	<u>\$ 4,750,000</u>	<u>\$ 7,109,638</u>	

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6. CHANGES IN LONG-TERM DEBT – CONTINUED

General Obligation Bonds, Series 2006
August 15, 2006
Original Amount \$6,250,000
Interest Rate 4.0% to 4.5%

Fiscal Year	Interest Due		Principal Due	Total	Coupon Rate
	February 1	August 1	August 1		
2006-2007	\$ 109,738	\$ 131,685		\$ 241,423	
2007-2008	131,685	131,685	190,000	453,370	4.50%
2008-2009	127,410	127,410	200,000	454,820	4.50%
2009-2010	122,910	122,910	210,000	455,820	4.50%
2010-2011	118,185	118,185	220,000	456,370	4.50%
2011-2012	113,235	113,235	230,000	456,470	4.50%
2012-2013	108,060	108,060	240,000	456,120	4.50%
2013-2014	102,660	102,660	255,000	460,320	4.50%
2014-2015	96,922	96,922	265,000	458,844	4.50%
2015-2016	90,960	90,960	280,000	461,920	4.50%
2016-2017	84,660	84,660	295,000	464,320	4.00%
2017-2018	78,760	78,760	310,000	467,520	4.00%
2018-2019	72,560	72,560	325,000	470,120	4.00%
2019-2020	66,060	66,060	340,000	472,120	4.00%
2020-2021	59,260	59,260	355,000	473,520	4.00%
2021-2022	52,160	52,160	375,000	479,320	4.05%
2022-2023	44,566	44,566	390,000	479,132	4.10%
2023-2024	36,571	36,571	410,000	483,142	4.10%
2024-2025	28,166	28,166	430,000	486,332	4.125%
2025-2026	19,298	19,298	455,000	493,596	4.15%
2026-2027	9,856	9,856	475,000	494,712	4.15%
	<u>\$ 1,673,682</u>	<u>\$ 1,695,629</u>	<u>\$ 6,250,000</u>	<u>\$ 9,619,311</u>	

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6. CHANGES IN LONG-TERM DEBT -- CONTINUED

On March 15, 2004 the EDC borrowed \$300,000 for the purpose of the Town completing the necessary water and sanitary sewer system improvements to King Road for development of a retail center. This note was paid off with funds borrowed under a new loan agreement for \$517,553 dated September 22, 2006. The note is payable in monthly payments of \$5,737 at an interest rate of 5.85% per annum. The principal payment requirements are as follows:

Note Payable to Point Bank
September 22, 2006
Original Amount \$517,553
Interest Rate at 5.85% per annum
Monthly Payments of \$5,737 each

Fiscal Year	Total
2006-2007	\$ 35,024
2007-2008	41,270
2008-2009	43,863
2009-2010	46,536
2010-2011	49,373
2011-2012	52,335
2012-2013	55,572
2013-2014	58,959
2014-2015	62,553
2015-2016	66,358
2016-2017	5,710
	\$ 517,553

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6. CHANGES IN LONG-TERM DEBT -- CONTINUED

General Obligation Refunding and Improvement Bonds, Series 2005
January 1, 2005
Original Amount \$3,380,000
Interest Rate 2.25%

Fiscal Year	Interest Due		Principal Due	Total
	February 1	August 1	August 1	
2006-2007	\$ 67,461	\$ 67,461	\$ 170,000	\$ 304,921
2007-2008	64,911	64,911	125,000	254,821
2008-2009	63,036	63,036	125,000	251,071
2009-2010	61,161	61,161	90,000	212,321
2010-2011	59,698	59,698	90,000	209,396
2011-2012	58,123	58,123	95,000	211,246
2012-2013	56,401	56,401	100,000	212,803
2013-2014	54,401	54,401	105,000	213,803
2014-2015	52,301	52,301	105,000	209,603
2015-2016	50,306	50,306	110,000	210,613
2016-2017	48,161	48,161	115,000	211,323
2017-2018	45,861	45,861	120,000	211,723
2018-2019	43,461	43,461	125,000	211,923
2019-2020	40,711	40,711	130,000	211,423
2020-2021	37,851	37,851	135,000	210,703
2021-2022	34,881	34,881	140,000	209,763
2022-2023	31,381	31,381	150,000	212,763
2023-2024	27,631	27,631	155,000	210,263
2024-2025	23,756	23,756	165,000	212,513
2025-2026	19,425	19,425	170,000	208,850
2026-2027	14,963	14,963	180,000	209,925
2027-2028	10,238	10,238	190,000	210,475
2028-2029	5,250	5,250	200,000	210,500
	<u>\$ 971,370</u>	<u>\$ 971,370</u>	<u>\$ 3,090,000</u>	<u>\$ 5,032,740</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6. CHANGES IN LONG-TERM DEBT – CONTINUED

Combination Tax and Revenue, Certificate of Obligation

May 1, 2000

Original Amount \$2,600,000

77% (\$2,002,000) is proprietary fund debt and 23% (\$598,000) is general fund debt

Interest Rate 4.75% to 5.75%

Fiscal Year	Interest Due		Principal Due	Total	Coupon Rate
	February 1	August 1	August 1		
2006-2007	\$ 14,295	\$ 14,295	\$ 21,850	\$ 50,440	5.00%
2007-2008	13,557	13,557	23,000	50,114	5.00%
2008-2009	12,781	12,781	24,150	49,712	5.05%
2009-2010	11,996	11,996	25,300	49,292	5.10%
2010-2011	11,332	11,332	27,600	50,264	5.20%
2011-2012	10,608	10,608	28,750	49,966	5.25%
2012-2013	9,853	9,853	31,050	50,756	5.35%
2013-2014	9,030	9,030	32,200	50,260	5.40%
2014-2015	8,177	8,177	34,500	50,854	5.45%
2015-2016	7,245	7,245	36,800	51,290	5.50%
2016-2017	6,252	6,252	39,100	51,604	5.55%
2017-2018	5,176	5,176	41,400	51,752	5.70%
2018-2019	4,017	4,017	44,850	52,884	5.70%
2019-2020	2,761	2,761	47,150	52,672	5.75%
2020-2021	1,430	1,430	50,600	53,460	5.75%
	<u>\$ 128,510</u>	<u>\$ 128,510</u>	<u>\$ 508,300</u>	<u>\$ 765,320</u>	

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6. CHANGES IN LONG-TERM DEBT – CONTINUED

Combination Tax and Revenue, Certificate of Obligation
June 1, 2001
Original Amount \$3,700,000
Interest Rate 5.06%

Fiscal Year	Interest	Principal	Total
2006-2007	\$ 160,355	\$ 130,000	\$ 290,355
2007-2008	152,555	140,000	292,555
2008-2009	144,155	145,000	289,155
2009-2010	136,615	155,000	291,615
2010-2011	129,640	165,000	294,640
2011-2012	122,215	170,000	292,215
2012-2013	114,395	180,000	294,395
2013-2014	106,115	190,000	296,115
2014-2015	97,090	200,000	297,090
2015-2016	87,590	215,000	302,590
2016-2017	77,168	225,000	302,168
2017-2018	66,250	235,000	301,250
2018-2019	54,500	250,000	304,500
2019-2020	42,000	265,000	307,000
2020-2021	28,750	280,000	308,750
2021-2022	14,750	295,000	309,750
	<u>\$ 1,534,143</u>	<u>\$ 3,240,000</u>	<u>\$ 4,774,143</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6. CHANGES IN LONG-TERM DEBT – CONTINUED

Combination Tax and Revenue, Certificate of Obligation
September 1, 2002
Original Amount \$2,500,000
Interest Rate 4.4% to 4.8%

Fiscal Year	Interest	Principal	Total
2006-2007	\$ 100,678	\$ 90,000	\$ 190,678
2007-2008	96,718	90,000	186,718
2008-2009	92,758	95,000	187,758
2009-2010	88,578	100,000	188,578
2010-2011	84,328	105,000	189,328
2011-2012	79,865	110,000	189,865
2012-2013	75,190	120,000	195,190
2013-2014	70,390	125,000	195,390
2014-2015	65,265	130,000	195,265
2015-2016	59,805	135,000	194,805
2016-2017	54,000	145,000	199,000
2017-2018	47,620	150,000	197,620
2018-2019	40,870	155,000	195,870
2019-2020	33,740	165,000	198,740
2020-2021	25,985	175,000	200,985
2021-2022	17,760	180,000	197,760
2022-2023	9,120	190,000	199,120
	<u>\$ 1,042,670</u>	<u>\$ 2,260,000</u>	<u>\$ 3,302,670</u>

Note Payable to Southside Bank for Two Fire Trucks
August 28, 2002
Original Amount \$478,405
Interest Rate 5.741%
10 Annual Payments of \$63,393

Fiscal Year	Interest	Principal	Total
2006-2007	\$ 15,335	\$ 48,058	\$ 63,393
2007-2008	12,598	50,795	63,393
2008-2009	9,705	53,688	63,393
2009-2010	6,647	56,746	63,393
2010-2011	3,416	59,514	62,930
	<u>\$ 47,701</u>	<u>\$ 268,801</u>	<u>\$ 316,502</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 6. CHANGES IN LONG-TERM DEBT – CONTINUED

Tax Notes, Series 2005
September 5, 2005
Original Amount \$560,000
Interest Rate 4.05%

Fiscal Year	Interest	Principal	Total
2006-2007	\$ 19,845	\$ 75,000	\$ 94,845
2007-2008	16,808	75,000	91,808
2008-2009	13,770	80,000	93,770
2009-2010	10,530	85,000	95,530
2010-2011	7,088	85,000	92,088
2011-2012	3,645	90,000	93,645
	<u>\$ 71,685</u>	<u>\$ 490,000</u>	<u>\$ 561,685</u>

NOTE 7. CHANGES IN WATER AND SEWER FUND LONG TERM DEBT

The following is a summary of the changes in water and sewer fund long-term debt for the fiscal year ended September 30, 2006.

Description of Issue	Balance 10/1/05	Additions	Retirements	Balance 9/30/06
Revenue Bonds, Series 2004	\$ 3,800,000	\$	\$	\$ 3,800,000
Certificates of Obligations - 1999				
Combination Tax and Revenue, Certificate of Obligations - 2003	1,005,000		50,000	955,000
Certificates of Obligation - 2000	4,600,000		125,000	4,475,000
Water and Sewer Revenue Refunding and Improvement Bonds - 2002	1,771,000		69,300	1,701,700
Customer Deposits	4,755,000		150,000	4,605,000
	659,774		52,662	607,112
Total	16,590,774		446,962	16,143,812
Less amount due within one year	394,300			503,150
Amount due in more than one year	<u>\$ 16,196,474</u>			<u>\$ 15,640,662</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 7. CHANGES IN WATER AND SEWER FUND LONG TERM DEBT – CONTINUED

Annual debt service requirements to maturity for water and sewer fund long-term liabilities are as follows:

Waterworks and Sewer System Revenue Bonds, Series 2004
November 1, 2004
Original Amount \$3,800,000
Interest Rate 4.57%

Fiscal Year	Interest Due		Principal Due	Total
	March 1	September 1	September 1	
2006-2007	\$ 86,830	\$ 86,830	\$ 90,000	\$ 263,660
2007-2008	84,580	84,580	95,000	264,160
2008-2009	82,205	82,205	100,000	264,410
2009-2010	79,705	79,705	105,000	264,410
2010-2011	77,080	77,080	110,000	264,160
2011-2012	74,330	74,330	120,000	268,660
2012-2013	71,330	71,330	125,000	267,660
2013-2014	68,205	68,205	130,000	266,410
2014-2015	64,955	64,955	135,000	264,910
2015-2016	62,323	62,323	145,000	269,646
2016-2017	54,495	54,495	150,000	258,990
2017-2018	56,495	56,495	155,000	267,990
2018-2019	53,395	53,395	165,000	271,790
2019-2020	49,930	49,930	175,000	274,860
2020-2021	46,255	46,255	180,000	272,510
2021-2022	42,475	42,475	190,000	274,950
2022-2023	38,200	38,200	200,000	276,400
2023-2024	33,700	33,700	210,000	277,400
2024-2025	28,975	28,975	220,000	277,950
2025-2026	23,750	23,750	230,000	277,500
2026-2027	18,288	18,288	245,000	281,576
2027-2028	12,469	12,469	255,000	279,938
2028-2029	6,413	6,413	270,000	282,826
	<u>\$ 1,216,383</u>	<u>\$ 1,216,383</u>	<u>\$ 3,800,000</u>	<u>\$ 6,232,766</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 7. CHANGES IN WATER AND SEWER FUND LONG TERM DEBT – CONTINUED

Combination Tax and Revenue, Certificate of Obligation
May 1, 2000

Original Amount \$2,600,000

77% (\$2,002,000) is proprietary fund debt and 23% (\$598,000) is general fund debt

Interest Rate 4.75% to 5.75%

Fiscal Year	Interest Due		Principal Due	Total	Coupon Rate
	February 1	August 1	August 1		
2006-2007	\$ 47,856	\$ 47,856	\$ 73,150	\$ 168,862	5.00%
2007-2008	45,388	45,388	77,000	167,776	5.00%
2008-2009	42,789	42,789	80,850	166,428	5.05%
2009-2010	40,162	40,162	84,700	165,024	5.10%
2010-2011	37,938	37,938	92,400	168,276	5.20%
2011-2012	35,512	35,512	96,250	167,274	5.25%
2012-2013	32,986	32,986	103,950	169,922	5.35%
2013-2014	30,231	30,231	107,800	168,262	5.40%
2014-2015	27,374	27,374	115,500	170,248	5.45%
2015-2016	24,256	24,256	123,200	171,712	5.50%
2016-2017	20,929	20,929	130,900	172,758	5.55%
2017-2018	17,330	17,330	138,600	173,260	5.70%
2018-2019	13,449	13,449	150,150	177,048	5.70%
2019-2020	9,245	9,245	157,850	176,340	5.75%
2020-2021	4,785	4,785	169,400	178,970	5.75%
	<u>\$ 430,230</u>	<u>\$ 430,230</u>	<u>\$ 1,701,700</u>	<u>\$ 2,562,160</u>	

Combination Tax and Certificate of Obligation - 1999

April 1, 1999

Original Amount \$1,220,000

Interest Rate 4.5%

Fiscal Year	Interest Due		Principal Due	Total
	February 1	August 1	August 1	
2006-2007	\$ 23,536	\$ 23,536	\$ 50,000	\$ 97,072
2007-2008	22,099	22,099	55,000	99,198
2008-2009	139,470	139,470	850,000	1,128,940
	<u>\$ 185,105</u>	<u>\$ 185,105</u>	<u>\$ 955,000</u>	<u>\$ 1,325,210</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 7. CHANGES IN WATER AND SEWER FUND LONG TERM DEBT – CONTINUED

Water and Sewer Revenue Refunding and Improvement Bonds
April 4, 2002
Original Amount \$4,900,000
Interest Rate 4.5% to 5.5%

Fiscal Year	Interest	Principal	Total
2006-2007	\$ 229,840	\$ 160,000	\$ 389,840
2007-2008	221,040	170,000	391,040
2008-2009	211,690	175,000	386,690
2009-2010	202,065	185,000	387,065
2010-2011	191,890	195,000	386,890
2011-2012	181,165	205,000	386,165
2012-2013	169,890	220,000	389,890
2013-2014	160,210	230,000	390,210
2014-2015	149,860	240,000	389,860
2015-2016	138,820	255,000	393,820
2016-2017	126,835	265,000	391,835
2017-2018	114,248	280,000	394,248
2018-2019	100,808	295,000	395,808
2019-2020	86,500	310,000	396,500
2020-2021	71,000	330,000	401,000
2021-2022	54,500	345,000	399,500
2022-2023	37,250	365,000	402,250
2023-2024	19,000	380,000	399,000
	<u>\$ 2,466,611</u>	<u>\$ 4,605,000</u>	<u>\$ 7,071,611</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 7. CHANGES IN WATER AND SEWER FUND LONG TERM DEBT – CONTINUED

Revenue Bonds, Series 2003
March 11, 2003
Original Amount \$4,600,000
Interest Rate 4.75% to 5.75%

Fiscal Year	Interest Due		Principal Due	Total	Coupon Rate
	March 1	September 1	September 1		
2006-2007	\$ 113,000	\$ 113,000	\$ 130,000	\$ 356,000	4.75%
2007-2008	109,912	109,912	140,000	359,824	4.75%
2008-2009	106,587	106,587	150,000	363,174	4.75%
2009-2010	103,024	103,024	155,000	361,048	4.75%
2010-2011	99,343	99,343	165,000	363,686	4.75%
2011-2012	95,425	95,425	175,000	365,850	4.75%
2012-2013	91,268	91,268	180,000	362,536	4.75%
2013-2014	86,993	86,993	190,000	363,986	4.35%
2014-2015	82,861	82,861	200,000	365,722	4.40%
2015-2016	78,461	78,461	205,000	361,922	4.50%
2016-2017	73,848	73,848	220,000	367,696	4.60%
2017-2018	68,788	68,788	230,000	367,576	4.70%
2018-2019	63,383	63,383		126,766	
2019-2020	63,383	63,383	490,000	616,766	4.90%
2020-2021	51,378	51,378		102,756	
2021-2022	51,378	51,378		102,756	
2022-2023	51,378	51,378	820,000	922,756	5.50%
2023-2024	28,828	28,828		57,656	
2024-2025	28,828	28,828	1,025,000	1,082,656	5.63%
	<u>\$ 1,448,066</u>	<u>\$ 1,448,066</u>	<u>\$ 4,475,000</u>	<u>\$ 7,371,132</u>	

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 8. EMPLOYEE RETIREMENT SYSTEM

Plan Description

The Town provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multiple-employer public employee retirement system. Each of the 811 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2005 valuations are contained in the 2005 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the Town-financed monetary credits, with interest. At the date the plan began, the Town granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the Town can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and Town matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with five or more years of service or with 20 years of service regardless of age. A member is vested after five years. The plan provisions are adopted by the governing body of the Town, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is seven percent, and the Town matching percent is currently two to one, both as adopted by the governing body of the Town. Under the state law governing TMRS, the Town's contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the Town matching percent, which are the obligation of the Town as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the Town to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plans' 25-year-open period-amortization period. The unit credit actuarial cost method is used for determining the Town's contribution rate. Contributions are made monthly by both the employees and the Town. Since the Town needs to know its contribution rate in advance for budgetary purposes,

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 8. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Annual Pension Cost

For the year ended September 30, 2006, the annual pension cost of \$729,210 for TMRS was equal to the Town's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the unit credit actuarial cost method, the level percent of payroll amortization method and amortized on an open period basis over 25 years. The actuarial assumptions included (a) seven percent investment rate of return, (b) no projected salary increases, (c) no cost-of-living adjustments, (d) no post-retirement benefit increases, (e) level percentage of payroll, and (f) 25 year amortization period on an open basis. No inflation amount was used in computing (a) and (b). The actuarial value of TMRS assets was determined using market values.

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
09/30/01	\$ 95,262	100%	\$
09/30/02	271,200	100%	
09/30/03	346,736	100%	
09/30/04	439,538	100%	
09/30/05	594,063	100%	
09/30/06	729,210	100%	

Schedule of Funding Progress for TMRS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	U.A.A.L. as a Percentage of Covered Payroll (b) - (a) / (c)
12/31/01	\$ 545,447	\$ 798,900	\$ 253,453	68.3%	\$ 1,672,557	15.2%
12/31/02	850,544	117,723	317,179	72.8%	2,076,352	15.3%
12/31/03	1,244,023	1,819,560	575,537	68.4%	2,733,715	21.1%
12/31/04	1,627,348	2,077,202	449,854	78.3%	3,154,515	14.3%
12/31/05	2,009,333	2,424,382	415,049	82.9%	3,879,377	10.7%

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 9. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The government maintains one Enterprise Fund which provides Water and Sewer related services. Segment information for the year ended September 30, 2006 is as follows:

	<u>Water and Sewer Fund</u>
Operating revenues	\$ 6,887,488
Depreciation and amortization expense	623,484
Operating income (loss)	1,972,876
Operating transfers in (out)	(251,617)
Net income	2,641,627
Property, plant, and equipment additions	1,496,599
Total assets	35,280,982
Bonds and other long-term liabilities	16,143,812
Total equity	17,797,254

NOTE 10. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town is a participant in the Texas Municipal League Workers' Compensation Joint Insurance fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of 1,821 individual governmental units located within Texas. The Town pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There were no significant reductions in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage for the past three years.

NOTE 11. INTERFUND RECEIVABLES AND PAYABLES

All interfund receivables and payables are considered short term and, at September 30, 2006, consisted of the following:

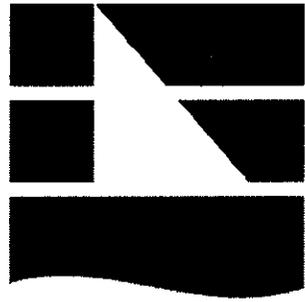
	General Fund	Capital Projects Fund	Debt Service Fund	Water and Sewer Fund	Total
Due from other funds	\$	\$	\$ 23,961	\$ 538	\$ 24,499
Due to other funds	538	23,961			24,499
	<u>\$ 538</u>	<u>\$ 23,961</u>	<u>\$ 23,961</u>	<u>\$ 538</u>	<u>\$</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO FINANCIAL STATEMENTS
September 30, 2006

NOTE 12. COMMITMENTS AND CONTINGENCIES

During 2003 the Town entered into a contract with the North Texas Municipal Water District (District) whereby the District would obtain bond financing for the construction of water lines and delivery facilities in order to deliver water to the Town of Little Elm. The bond debt is held in the name of the District, but the Town is obligated under the contract to pay amounts equal to the principal and interest due on the bonds in monthly payments until 2023. The amounts due are billed with the monthly water charges to the Town and are included as part of operating expense. The amount included in operating expense for the year ended September 30, 2006 was \$414,911. The minimum amounts due from the Town are as follows:

Fiscal Year	Total
2006-2007	\$ 414,911
2007-2008	415,746
2008-2009	415,916
2009-2010	415,479
2010-2011	414,510
Thereafter	<u>5,164,406</u>
	<u>\$ 7,240,968</u>



LITTLE ELM

REQUIRED SUPPLEMENTARY INFORMATION



TOWN OF LITTLE ELM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

EXHIBIT E-1

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 2,667,110	\$ 2,740,000	\$ 2,772,301	\$ 32,301
General Sales and Use Taxes	1,159,725	931,019	901,662	(29,357)
Franchise Tax	595,000	869,889	868,904	(985)
Penalty and Interest on Taxes	20,000	52,000	51,369	(631)
Licenses and Permits	1,586,750	1,958,741	2,065,029	106,288
Intergovernmental Revenue and Grants	451,441	282,109	242,603	(39,506)
Charges for Services	1,308,450	1,504,481	1,504,403	(78)
Fines	236,000	408,561	698,938	290,377
Investment Earnings	77,550	302,390	332,086	29,696
Contributions & Donations from Private Sources	471	471	600	129
Other Revenue	30,000	610,656	512,653	(98,003)
Total Revenues	8,132,497	9,660,317	9,950,548	290,231
EXPENDITURES:				
Current:				
General Government	1,617,306	2,543,682	1,694,438	849,244
Public Safety	3,758,382	3,045,389	3,684,917	(639,528)
Public Works	2,263,113	2,993,217	2,359,076	634,141
Culture and Recreation	724,922	558,212	670,386	(112,174)
Capital Outlay:				
Capital Outlay	4,800	455,992	1,994,188	(1,538,196)
Total Expenditures	8,368,523	9,596,492	10,403,005	(806,513)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(236,026)	63,825	(452,457)	(516,282)
OTHER FINANCING SOURCES (USES):				
Transfers In	239,000	458,993	512,125	53,132
Impact Fees	261,220	931,293	1,005,315	74,022
Transfers Out (Use)	(70,000)	(406,993)	(486,376)	(79,383)
Development Agreement Reimbursement	(250,000)	(685,000)	(851,253)	(166,253)
Infrastructure from Developers	-	-	1,235,307	1,235,307
Total Other Financing Sources (Uses)	180,220	298,293	1,415,118	1,116,825
Net Change in Fund Balances	(55,806)	362,118	962,661	600,543
Fund Balance - October 1 (Beginning)	4,874,028	4,874,028	4,874,028	-
Fund Balance - September 30 (Ending)	\$ 4,818,222	\$ 5,236,146	\$ 5,836,689	\$ 600,543



TOWN OF LITTLE ELM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL - MUNICIPAL WATER AND WASTE WATER FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts		Actual Amounts	Adjustments	Actual Amounts	Variance With
	Original	Final	on GAAP Basis	to Budget Basis	on Budget Basis	Final Budget Positive or (Negative)
OPERATING RECEIPTS:						
Charges for Water Services	\$ 2,650,000	\$ 3,450,000	\$ 3,408,892	\$ -	\$ 3,408,892	(41,108)
Charges for Sewerage Service	2,255,000	2,225,000	2,419,375	-	2,419,375	194,375
Tap, Connections, and Other Fees	338,000	344,500	448,547	-	448,547	104,047
Other Revenue	50,000	532,875	610,674	-	610,674	77,799
Total Operating Receipts	5,293,000	6,552,375	6,887,488	-	6,887,488	335,113
OPERATING DISBURSEMENTS:						
Personal Services - Salaries and Wages	849,679	777,899	777,172	-	777,172	727
Personal Services - Employee Benefits	222,240	261,582	259,557	-	259,557	2,025
Purchased Professional & Technical Services	493,850	313,493	469,228	-	469,228	(155,735)
Purchased Property Services	173,019	145,069	97,081	-	97,081	47,988
Other Operating Expenses	5,217,328	429,950	220,228	-	220,228	209,722
Supplies	2,064,275	2,302,559	2,467,862	-	2,467,862	(165,303)
Capital Outlay	-	6,396,096	-	1,496,599	1,496,599	4,899,497
Depreciation	-	-	623,484	(623,484)	-	-
Bond Principal	543,300	665,510	-	394,300	394,300	271,210
Total Operating Disbursements	9,563,691	11,292,158	4,914,612	1,267,415	6,182,027	5,110,131
Operating Income (Loss)	(4,270,691)	(4,739,783)	1,972,876	(1,267,415)	705,461	5,445,244
NON-OPERATING RECEIPTS (DISBURSEMENTS):						
Developer Reimbursement	-	(1,121,403)	(1,038,096)	-	(1,038,096)	83,307
Impact Fees	-	1,366,435	1,257,422	-	1,257,422	(109,013)
Investment Earnings	110,100	392,770	407,940	-	407,940	15,170
Infrastructure from Developers	-	-	1,086,155	(1,086,155)	-	-
Interest Expense - Non-Operating	832,467	(672,257)	(793,053)	-	(793,053)	(120,796)
Total Non-operating Receipts (Disbursements)	942,567	(34,455)	920,368	(1,086,155)	(165,787)	(131,332)
Income (Loss) Before Transfers	(3,328,124)	(4,774,238)	2,893,244	(2,353,570)	539,674	5,313,912
Transfers In	-	-	1,382,822	-	1,382,822	1,382,822
Transfers Out	150,000	(150,000)	(1,634,439)	-	(1,634,439)	(1,484,439)
Change in Net Assets	(3,178,124)	(4,924,238)	2,641,627	(2,353,570)	288,057	5,212,295
Net Assets - October 1 (Beginning)	15,155,627	15,155,627	15,155,627	-	15,155,627	-
Net Assets - September 30 (Ending)	\$ 11,977,503	\$ 10,231,389	\$ 17,797,254	\$ (2,353,570)	\$ 15,443,684	\$ 5,212,295

The accompanying notes are an integral part of this statement.

TOWN OF LITTLE ELM
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2006

	Street 1/4 Cent Tax Fund	Economic Development Corporation	Total Nonmajor Special Revenue Funds
ASSETS			
Cash and Cash Equivalents	\$ 185,577	\$ 1,151,742	\$ 1,337,319
Taxes Receivable	-	-	-
Allowance for Uncollectible Taxes (credit)	-	-	-
Receivables (net of allowance for uncollectibles)	-	150	150
Intergovernmental Receivables	18,863	37,726	56,589
Due from Other Funds	-	-	-
Total Assets	<u>\$ 204,440</u>	<u>\$ 1,189,618</u>	<u>\$ 1,394,058</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	\$ -	\$ 262,793	\$ 262,793
Deferred Revenues	-	-	-
Total Liabilities	<u>-</u>	<u>262,793</u>	<u>262,793</u>
Fund Balances:			
Unreserved and Undesignated:			
Reported in the Special Revenue Fund	204,440	926,825	1,131,265
Reported in the Debt Service Fund	-	-	-
Total Fund Balances	<u>204,440</u>	<u>926,825</u>	<u>1,131,265</u>
Total Liabilities and Fund Balances	<u>\$ 204,440</u>	<u>\$ 1,189,618</u>	<u>\$ 1,394,058</u>

The accompanying notes are an integral part of this statement.

Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 1,337,319
36,416	36,416
(5,098)	(5,098)
-	150
-	56,589
9,062	9,062
<u>\$ 40,380</u>	<u>\$ 1,434,438</u>
\$ 300	\$ 263,093
29,717	29,717
<u>30,017</u>	<u>292,810</u>
-	1,131,265
10,363	10,363
<u>10,363</u>	<u>1,141,628</u>
<u>\$ 40,380</u>	<u>\$ 1,434,438</u>

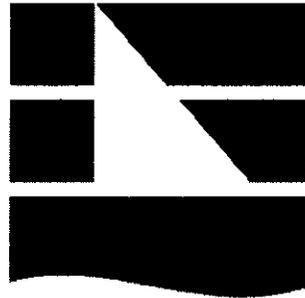
TOWN OF LITTLE ELM
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Street 1/4 Cent Tax Fund	Economic Development Corporation	Total Nonmajor Special Revenue Funds
REVENUES:			
Taxes:			
Property Taxes	\$ -	\$ -	\$ -
General Sales and Use Taxes	204,389	448,387	652,776
Penalty and Interest on Taxes	-	-	-
Investment Earnings	51	26,993	27,044
Other Revenue	-	43	43
Total Revenues	204,440	475,423	679,863
EXPENDITURES:			
Current:			
Conservation and Development:			
Economic Development	-	442,312	442,312
Debt Service:			
General Debt Service	-	255,000	255,000
Debt Interest	-	19,203	19,203
Total Expenditures	-	716,515	716,515
Excess (Deficiency) of Revenues Over Expenditures	204,440	(241,092)	(36,652)
OTHER FINANCING SOURCES (USES):			
Issuance of Bonds	-	517,553	517,553
Transfers In	-	-	-
Transfers Out (Use)	-	(12,000)	(12,000)
Total Other Financing Sources (Uses)	-	505,553	505,553
Net Change in Fund Balance	204,440	264,461	468,901
Fund Balance - October 1 (Beginning)	-	662,364	662,364
Fund Balance - September 30 (Ending)	\$ 204,440	\$ 926,825	\$ 1,131,265

The accompanying notes are an integral part of this statement.

Debt Service Fund	Total Nonmajor Governmental Funds
\$ 1,116,941	\$ 1,116,941
-	652,776
11,590	11,590
71,871	98,915
-	43
<u>1,200,402</u>	<u>1,880,265</u>
-	442,312
700,245	955,245
664,587	683,790
<u>1,364,832</u>	<u>2,081,347</u>
<u>(164,430)</u>	<u>(201,082)</u>
-	517,553
174,793	174,793
-	(12,000)
<u>174,793</u>	<u>680,346</u>
10,363	479,264
-	662,364
<u>\$ 10,363</u>	<u>\$ 1,141,628</u>

FEDERAL AWARDS SECTION



LITTLE ELM

FREEMON, SHAPARD & STORY
CERTIFIED PUBLIC ACCOUNTANTS

807 8th Street, 2nd Floor
Wichita Falls, Texas 76301-3381
(940) 322-4436 Fax (940) 761-3365

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

Independent Auditors' Report

Honorable Mayor and
Members of the Town Council
Town of Little Elm, Texas

We have audited the financial statements of Town of Little Elm, Texas as of and for the year ended September 30, 2006, and have issued our report thereon dated December 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Little Elm, Texas's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted two matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

1. Controls were not in place to monitor municipal court fines and warrants receivable. Therefore, there is no way to reconcile physical tickets to outstanding tickets per municipal court software.
2. During review of daily cash balances we discovered that Town was under secured two out of the twelve months during the year. This is an improvement over the prior year of eight months of unsecured balances. For proper safeguarding of assets, daily cash balances should be monitored by Town personnel to verify that funds are properly secured.

Compliance

As part of obtaining reasonable assurance about whether the Town of Little Elm, Texas's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Offices

Wichita Falls ♦ Austin ♦ Crested Butte ♦ Dallas ♦ Denton ♦ Gunnison ♦ Lampasas ♦ Little Elm ♦ Marble Falls ♦ Windthorst

Honorable Mayor and
Members of the Town Council

This report is intended for the information of the Town council, the audit committee, the administration, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.



Freemon, Shapard and Story
Wichita Falls, Texas

December 1, 2006

STATISTICAL SECTION



TOWN OF LITTLE ELM
Property Tax Rates and Assessed Value
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Debt Service</u>	<u>Total</u>	<u>Assessed Value</u>
1997	.39822	.13047	.52869	31,959,017
1998	.38347	.16473	.54820	43,380,597
1999	.38018	.17344	.55362	55,797,763
2000	.37607	.12906	.50513	72,426,536
2001	.31940	.11357	.43297	133,786,496
2002	.28422	.16031	.44453	239,212,916
2003	.28848	.14532	.43380	397,080,221
2004	.29250	.10730	.39980	605,879,760
2005	.28740	.07010	.35750	797,297,162
2006	.28252	.11650	.39902	1,171,542,026

(1) Assessed value is 100% of estimated value.

TOWN OF LITTLE ELM
General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Culture and Recreation</u>	<u>Debt Service</u>	<u>Total</u>
1997	\$ 137,116	\$ 313,845	\$ 589,373	\$ 21,436	\$ 108,885	\$ 1,170,655
1998	192,976	375,358	150,390	32,488	111,774	862,986
1999	433,645	515,849	367,955	55,629	92,793	1,465,871
2000	516,420	821,348	1,522,414	64,491	176,836	3,101,509
2001	804,699	1,164,755	1,489,992	101,113	71,653	3,632,212
2002	1,028,384	1,509,973	2,025,970	157,025	510,721	5,232,073
2003	1,043,606	2,069,348	3,347,571	241,350	575,823	7,277,698
2004	1,013,343	3,030,703	3,105,062	369,049	984,581	8,502,738
2005	1,406,331	3,043,230	3,613,189	1,119,284	902,408	10,084,442
2006	1,694,438	3,684,917	2,359,076	670,386	1,364,832	9,773,649

(1) Includes general and debt service funds.

TOWN OF LITTLE ELM
General Governmental Revenues by Sources (1)
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Taxes</u>	<u>License and Permits</u>	<u>Charges for Service</u>	<u>Fines and Forfeitures</u>	<u>Grant Revenue</u>	<u>Other Revenue</u>	<u>Total</u>
1997	\$ 330,374	\$ 56,579	\$ 34,137	\$ 75,904	\$	\$ 198,177	\$ 695,171
1998	436,529	91,921	48,295	79,635		261,026	917,406
1999	544,697	440,201	354,510	88,443	49,672	172,736	1,650,259
2000	667,578	1,011,261	245,317	98,578	279,930	213,337	2,516,001
2001	1,017,675	1,334,393	229,150	104,334	128,352	276,978	3,090,882
2002	1,554,655	1,484,869	273,838	168,687	140,649	348,968	3,971,666
2003	2,700,637	1,661,194	442,001	174,174	177,221	443,146	5,598,373
2004	3,887,219	1,579,673	1,360,142	265,761	133,826	338,890	7,565,511
2005	4,688,558	1,926,686	1,232,031	250,796	70,165	614,214	8,782,450
2006	5,722,767	2,065,029	1,504,403	698,938	242,603	917,210	11,150,950

(1) Includes general and debt service funds.

TOWN OF LITTLE ELM
General Governmental Tax Revenues by Sources (1)
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Property Tax (2)</u>	<u>Sales Tax</u>	<u>Mixed Drink Tax</u>	<u>Franchise Tax</u>	<u>Total</u>
1997	\$ 177,559	\$ 78,983	\$ 1,363	\$ 72,469	\$ 330,374
1998	255,463	97,451	478	83,137	436,529
1999	338,477	168,840	1,488	92,172	600,977
2000	384,633	163,873	3,379	115,693	667,578
2001	607,249	193,739	5,036	211,651	1,017,675
2002	1,088,300	251,598	5,564	209,193	1,554,655
2003	1,820,583	418,211	7,735	454,108	2,700,637
2004	2,493,573	884,951	6,456	502,239	3,887,219
2005	2,962,576	1,111,615	6,655	607,712	4,688,558
2006	3,952,200	895,643	6,019	868,904	5,722,766

(1) Includes general and debt service funds.

(2) Includes current and delinquent tax collections and penalties and interest.

TOWN OF LITTLE ELM
Property Tax Levies and Collections
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Ratio of Tax Collections to Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Ratio of Delinquent Taxes to Tax Levy</u>
1997	\$ 174,242	\$ 163,514	93.8%	\$ 14,045	\$ 177,559	101.9%	\$ 29,651	17.02%
1998	247,385	238,403	96.4%	17,060	255,463	103.3%	29,616	11.97%
1999	315,429	303,919	96.4%	34,558	338,477	107.3%	24,138	7.65%
2000	369,422	363,260	98.3%	21,373	384,633	104.1%	38,215	10.34%
2001	597,847	577,468	96.6%	29,781	607,249	101.6%	40,503	6.77%
2002	1,066,727	1,035,923	97.1%	36,339	1,072,262	100.5%	56,735	5.32%
2003	1,782,169	1,745,788	98.0%	53,089	1,798,877	100.9%	62,736	3.52%
2004	2,486,808	2,438,311	98.0%	33,469	2,471,780	99.4%	112,018	4.50%
2005	2,842,365	2,786,851	98.0%	128,540	2,915,391	102.6%	74,954	2.64%
2006	3,906,167	3,836,765	98.2%	54,980	3,891,745	99.6%	126,531	3.24%

TOWN OF LITTLE ELM
Ratio of Net General Obligation Bonded Debt to Assessed Value
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>General Obligation Bonded Debt</u>	<u>Less: Debt Service Fund</u>	<u>Net General Obligation Bonded Debt</u>	<u>Ratio of General Obligation Bonded Debt to Assessed Value</u>
1997	\$ 31,959,017	\$ 198,000	\$ 83,021	\$ 114,979	0.3598%
1998	43,380,597	182,000	42,286	139,714	0.3221%
1999	55,797,763	166,000	54,217	111,783	0.2003%
2000	72,426,536	743,000	55,794	687,206	0.9488%
2001	133,786,496	4,422,000	76,765	4,345,235	3.2479%
2002	239,212,916	6,884,900	48,202	6,836,698	2.8580%
2003	397,080,221	6,741,650	123,578	6,618,072	1.6667%
2004	605,879,760	6,513,400	100,743	6,412,657	1.0584%
2005	797,297,162	10,089,000	(40,073)	10,129,073	1.2704%
2006	1,171,542,026	20,098,300	25,262	20,073,038	1.7134%

TOWN OF LITTLE ELM
Ratio of Annual Debt Service Expenditures for
General Obligation Bonded Debt to Total General Governmental Expenditures
Last Ten Fiscal Years

Fiscal Year	Debt Service Expenditures			Total General Governmental Expenditures	Ratio of G.O. Bonded Debt to Total General Governmental Expenditures
	Principal	Interest	Total		
1997	\$ 16,000	\$ 11,263	\$ 27,263	\$ 1,174,464	2.321%
1998	16,000	10,388	26,388	870,037	3.033%
1999	16,000	9,513	25,513	1,465,871	1.740%
2000	21,000	8,500	29,500	3,101,509	0.951%
2001	21,000	50,653	71,653	3,632,212	1.973%
2002	37,100	260,125	297,225	5,232,073	5.681%
2003	143,250	328,531	471,781	7,277,698	6.483%
2004	202,250	328,173	530,423	5,349,941	9.915%
2005	364,400	397,885	762,285	6,151,301	12.392%
2006	430,700	776,731	1,207,431	8,408,817	14.359%

TOWN OF LITTLE ELM
Revenue Bond Coverage
Water and Sewer Enterprise Fund
Last Ten Fiscal Years

Fiscal Year	(1) Gross Revenues	(2) Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1997	\$ 447,427	\$ 273,139	\$ 174,288	\$ 35,000	\$ 42,488	\$ 77,488	225%
1998	539,286	349,350	189,936	56,000	71,301	127,301	149%
1999	831,173	500,897	330,276	81,000	59,658	140,658	235%
2000	1,154,853	801,914	352,939	91,000	137,766	228,766	154%
2001	1,551,020	1,127,938	423,082	116,000	193,552	309,552	137%
2002	2,573,355	1,542,144	1,031,211	286,358	229,421	515,779	200%
2003	3,222,153	2,297,093	925,060	224,419	457,654	682,073	136%
2004	4,328,036	2,991,245	1,336,791	248,090	758,752	1,006,842	133%
2005	5,563,430	3,488,294	2,075,136	606,940	812,416	1,419,356	146%
2006	7,043,811	4,291,128	2,752,683	394,300	794,148	1,188,448	232%

(1) Includes interest, other income, and transfers from other funds.

(2) Excludes depreciation.

TOWN OF LITTLE ELM
Texas Municipal Retirement System
Required Supplementary Information Analysis of Funding Progress
(in thousands of dollars)
Last Ten Fiscal Years

Fiscal Year	Net Assets Available for Benefits	Pension Benefit Obligation	Percentage Funded (a)/(b)	Unfunded Benefit Obligation (b) - (a)	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a % of covered Payroll (d)/(e)	Employer Contributions	Employer Contributions as a % of Annual Payroll (g)/(e)
1997	\$ 111,974	\$ 136,125	82.3%	\$ 24,151	\$ 359,908	6.7%	\$ 11,731	3.26%
1998	138,763	153,194	90.6%	14,431	416,952	3.5%	10,918	2.62%
1999	177,226	194,859	91.0%	17,633	552,247	3.2%	14,486	2.62%
2000	205,366	222,830	92.2%	17,464	691,365	2.5%	28,910	4.18%
2001	292,063	493,172	59.2%	201,109	1,294,565	15.5%	95,262	7.36%
2002	545,447	798,900	68.3%	253,453	1,672,557	15.2%	139,242	8.33%
2003	850,444	1,167,723	72.8%	317,179	2,076,352	15.3%	187,565	9.03%
2004	1,244,023	1,819,202	68.4%	575,537	2,733,715	21.1%	237,526	8.69%
2005	1,627,348	2,077,202	78.3%	449,854	3,154,515	14.3%	333,392	10.60%
2006	2,009,333	2,424,382	82.9%	415,049	3,879,377	10.7%	407,676	10.51%