

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Little Elm
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

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standards in government accounting
and financial reporting.

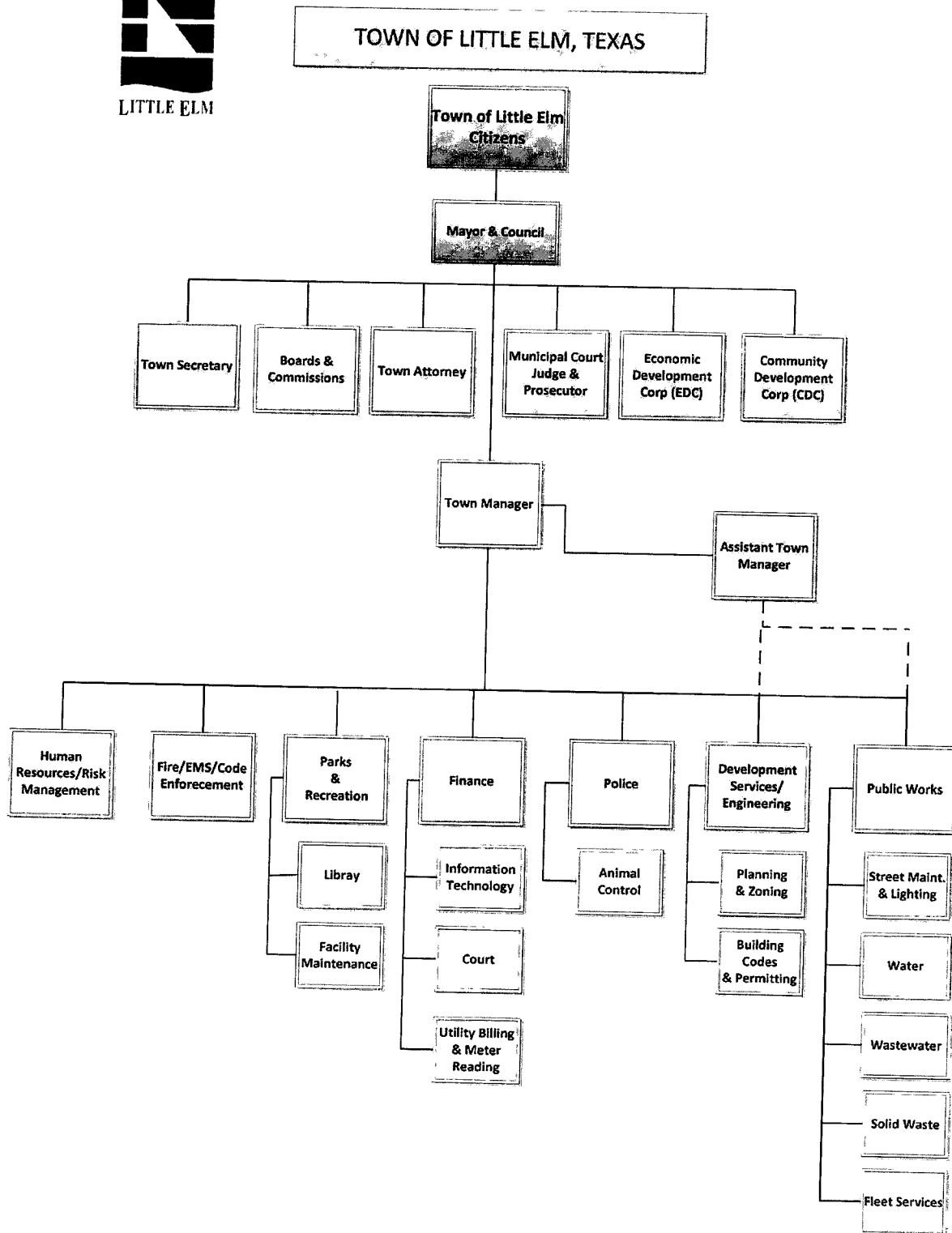


Christopher P. Moynell

President

Jeffrey R. Emen

Executive Director



TOWN OF LITTLE ELM, TEXAS

Town Officials

Council Members

David Hillock
Stephanie Shoemaker
Richard C. Stevens
Curtis Cornelious
Chip Norman
Katie Gipson
Bill Roebken

Mayor
Mayor Pro Tem
At Large Place 1
Place 3
Place 4
Place 5
At Large Place 6



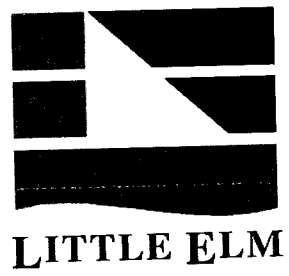
From left to right Bill Roebken, Katie Gipson, Chip Norman, Mayor David Hillock, Curtis Cornelious, Stephanie Shoemaker and Richard C. Stevens

Executive Staff

Matt Mueller
Doug Peach
Alan Dickerson
Waylan Rhodes
Kathy Phillips
Deidre Hale
Joe Florentino
Kevin Mattingly
Tony Chrisman
Jason Laumer
Jennette Killingsworth

Town Manager
Assistant Town Manager
Director of Finance
Chief of Police
Town Secretary
Human Resources Director
Fire Chief
Director of Public Works
Director of Parks and Library Services
Director of Development Services/Town Engineer
EDC Executive Director

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor,
Town Council, and Town Manager
Town of Little Elm, TX

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Little Elm (the Town) as of and for the year ended September 30, 2012, 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 administration. Our responsibility is to express opinions 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 basic 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, 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 February 25, 2013, 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 52 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Little Elm's financial statements as a whole. The introductory section, combining and individual fund financial statements and schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Weaver and Tidwell LLP

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 25, 2013



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2012
(unaudited)

The following discussion and analysis of the Town of Little Elm (TOLE) financial performance provides an overview of the Town's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Entity-Wide

- The Town's total net assets on a government-wide basis totaled \$95,269,951 at September 30, 2012, a 10% increase over September 30, 2011. Of this balance, 80% or \$76,384,500 is invested in capital assets while \$12,035,037 is unrestricted and may be used to meet the Town's ongoing obligations.
- On a government-wide basis, the Town had expenses net of program revenue of \$6,160,410. General revenues and transfers totaled \$15,588,723, resulting in an increase in net assets of \$9,428,313. This increase is attributable to an increase in water and sewer services, capital grants, street impact fees, and other user fees.
- Town received \$7,454,646 in capital grants and contributions in FY 2012 from an interlocal agreement with Denton County for thoroughfare and bridge improvements and developer contributions.

Governmental Activities

- On a government-wide basis for governmental activities, the Town had expenses net of program revenue of \$10,271,123. General revenue and transfers totaled \$17,181,338 resulting in an increase in net assets of \$6,910,215.
- As of September 30, 2012, the Town's governmental activities reported combined ending net asset balances of \$65,627,158. The largest element of this balance, \$52,815,876, is the value of the Town's investment in capital assets, such as streets, parks and facilities, net of related debt.

Business-Type Activities

- The net assets of the Town's business-type activities had a current year increase of \$2,518,098. The current year increase is primarily due to impact fees, charges for services and sales. The Town had capital contributions from developers for commercial and residential developments which include impact fees.

General Fund

- At the end of this fiscal year fund balance for the general fund was \$7,102,177 or approximately 48% of the total general fund expenditures. Of this amount \$693,600 is assigned to various capital projects and equipment replacement.
- General fund expenditures were under revenues by \$803,860 before transfers. After transfers, the General fund at the end of this fiscal year realized a net change in fund balance of \$1,264,234.
- General fund expenditures increased by \$1,571,533 or 12% over fiscal year 2011.



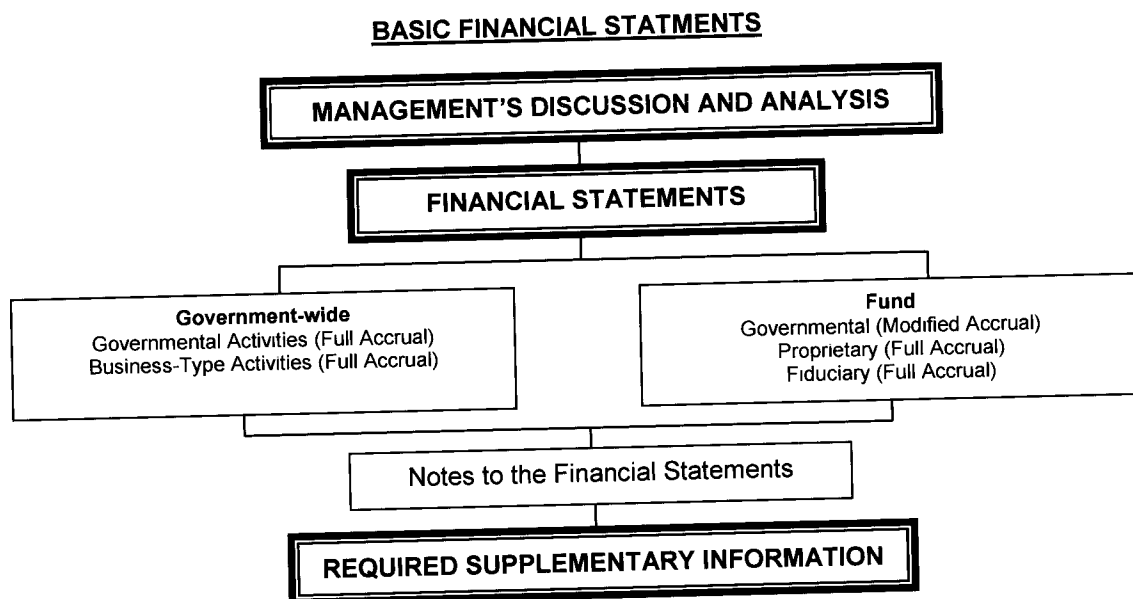
MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2012
(unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report consists of three sections: introductory, financial and statistical. As illustrated in the following chart, the financial section of this report has three components: management's discussion and analysis (this section), the basic financial statements, and required supplementary information.

Components of the Financial Section



GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business whereby using the full accrual basis of accounting. Following the Management's Discussion and Analysis, there are two statements: Statement of Net Assets and Statement of Activities. The Statement of Net Assets includes all of the government's assets and liabilities. Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting. The Statement of Activities accounts for all of the current year's revenues and expenses, regardless of when cash is received or paid.

The two government-wide statements report the Town's net assets and how they have changed. The difference between the Town's assets and liabilities is equal to the Town's net assets. The change in net assets is one way to measure the financial health of the Town. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. To assess the overall health of the Town, other non-financial factors should also be taken into consideration, such as changes in the Town's property tax base and the condition of the Town's infrastructure.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2012
(unaudited)

These two government-wide financial statements also distinguish between functions of the Town that are principally supported by taxes and from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). In the Statement of Net Assets and the Statement of Activities, the Town is divided into three kinds of activities:

- **Governmental activities** – Most of the Town's basic services are reported here, including the police, fire, library, community development, parks and recreation, municipal court, and general administration. Property and sales taxes, charges for services and franchise fees finance most of these activities.
- **Business-type activities** – The Town's water, sewer, and utility business services are reported here. These are functions intended to recover all or a significant portion of their costs through user fees and charges.
- **Component units** – In addition to the primary government, the Town includes three discretely presented component units. The Town's sales tax corporations are the Little Elm Economic Development Corporation (LEEDC) and Little Elm Community Development Corporation (LE CDC). The Town added a third component unit in 2008. This unit is called the Little Elm Redevelopment Authority (LERA). Although legally separate, these component units operate under the criteria of board appointment and removal by the Town Council. Approval and oversight of capital projects as well as budget appropriations and approval is under the authorization of Town Council.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's most significant funds and will be more familiar to traditional users of governmental financial statements. The focus is now on major funds rather than fund types. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town has two types of funds:

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on resources available for future spending at fiscal year-end. The governmental funds are the General Fund, Capital Project Funds, Special Revenue Funds, and Debt Service Funds which focus on:

- (1) How cash and other financial assets can readily be converted to cash flow (in and out), and
- (2) Year end balances readily available for appropriation or spending.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2012
(unaudited)

The governmental fund statements provide a detailed short-term view of the Town's general government operations and help to determine whether there are greater or fewer financial resources that can be spent in the near future to finance the Town's programs and services. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided with the governmental fund financial statements that explain the reconciliation between the fund financial statements and the government-wide statements.

The Town maintains three major governmental funds – the General Fund, the Capital Project Fund and the Debt Service Fund. In addition, the Town presents in the Governmental Funds financial statements Nonmajor governmental funds – the Special Revenue Funds.

Enterprise Fund/Proprietary Fund - The Town maintains only two proprietary funds – the Water and Sewer Fund and Solid Waste Fund. These funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town charges customers for the services it provides. Services for which the Town collects fees and rates intended to fully recover the cost of providing the service are reported in proprietary funds. These funds, similar to government-wide statements, provide both long-term and short-term financial information.

The Town's proprietary funds are substantially the same as its business-type activities; however, the fund financial statements provide additional information, such as cash flows. The Town utilizes proprietary funds to account for its water and sewer services and solid waste services.

OTHER FINANCIAL RELATED INFORMATION

Notes to the Financial Statements – The notes to the Town's Financial Statements are intended to provide the reader a narrative of significant accounting, budgetary, and financial policies. The notes also provide further detail analysis of the Town's assets and liabilities.

Required Supplemental Information – This section of the report provides the reader additional schedules for reporting the Town's General Fund Budgetary information.



MANAGEMENT'S DISCUSSION & ANALYSIS
For the year ended September 30, 2012
(unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of the Town's Financial Position

As of September 30, 2012, the Town's assets exceeded liabilities by \$95,269,951. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed Statement of Net Assets:

	Governmental Activities		Net Assets Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 16,253,617	\$ 25,045,332	\$ 14,353,758	\$ 14,006,733	\$ 30,607,375	\$ 39,052,065
Capital assets	89,241,178	75,902,676	52,064,299	44,855,099	141,305,477	120,757,775
Total assets	105,494,795	100,948,008	66,418,057	58,861,832	171,912,852	159,809,840
Long-term liabilities	34,599,499	36,127,122	33,005,102	28,783,496	67,604,601	64,910,618
Other liabilities	5,268,138	6,103,943	3,770,162	2,953,641	9,038,300	9,057,584
Total liabilities	39,867,637	42,231,065	36,775,264	31,737,137	76,642,901	73,968,202
Net assets						
Invested in capital assets, net of related debt	52,815,876	50,204,248	23,568,624	18,965,595	76,384,500	69,169,843
Restricted	4,171,809	2,752,458	2,678,605	3,420,742	6,850,414	6,173,200
Unrestricted	8,639,473	5,760,237	3,395,564	4,738,358	12,035,037	10,498,595
Total net assets	\$ 65,627,158	\$ 58,716,943	\$ 29,642,793	\$ 27,124,695	\$ 95,269,951	\$ 85,841,638

As stated earlier in the opening highlights of this discussion, the largest portion of the Town's net assets (80% or \$76,384,500) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment, improvements, construction in progress, and infrastructure), less any related debt used to acquire capital assets still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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.

An additional portion of the Town's net assets represents resources that are subject to external restrictions on how they may be used. The government-wide statement of net assets reports the following restricted net assets:

	Governmental Activities		Business-type Activities		Component Units	
	2012	2011	2012	2011	2012	2011
Restricted by enabling legislation	\$ 3,573,355	\$ 343,939	\$ 2,010,348	\$ 2,530,484	\$ 2,689,528	\$ 2,418,939
Net assets otherwise restricted for						
Debt Service	379,705	2,024,790	668,257	890,258	90,705	-
Grant requirements	136,519	340,136	-	-	-	-
Donations	37,572	34,300	-	-	-	-
Forfeitures	44,658	9,293	-	-	-	-
	<u>\$ 4,171,809</u>	<u>\$ 2,752,458</u>	<u>\$ 2,678,605</u>	<u>\$ 3,420,742</u>	<u>\$ 2,780,233</u>	<u>\$ 2,418,939</u>



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2012

(unaudited)

For fiscal year end 2012, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year. As seen in the net assets table, the total change in net assets over fiscal year 2011 was \$9,428,313 or 11%.

- Included in unrestricted net assets (\$12,035,037) are assets that are earmarked for particular purposes, such as park improvements, thoroughfare improvements, water and sewer system maintenance, and operational expenses.
- Net assets increased primarily as a result of additions of new infrastructure. Major projects completed and or in progress during the year included.
 - Public Safety Facility (42,000 square feet) in service
 - Recreation Center in service
 - Senior Center in service
 - Animal Control Center in construction
 - Town Hall Renovation - 2nd floor in service
 - Library Renovation and expansion in construction
 - Lobo Lane Reconstruction in service
 - Witt-Woodlake Connector in service
 - Witt Road Bridge in service
 - Witt Road Streetscape (Medians and Fences) in construction
 - Eldorado Parkway Streetscape and Gateway Monuments in service
 - Smotherman Road in service
 - Little Elm Parkway in service
 - FM 423 - 6 lane divided (Texas Department of Transportation) in service
 - Lakeshore Drive and Mainstreet in service
 - Wastewater Treatment Plant Expansion (2011) in service
 - FM 423 Water and Wastewater Mains Relocation in construction
 - 2 MG Elevated Storage Tank in design
 - Beard Park Expansion in design
 - Little Elm Park Improvements (Swim Beach and Boat Docks) in design
 - Courtesy Dump Site (environmental) in service

Analysis of the Town's operations

Governmental activities - Governmental activities increased the Town's net assets by \$6,910,215. Significant reasons for this increase are as follows: The Town had a \$13,338,502 increase in capital asset acquisitions, while long-term liabilities decreased by \$1,512,248. See the "capital assets and debt administration" section of the MD&A for more information. The Town continues to see positive gains in net assets.

Business-type activities - Business-type activities increased the Town's net assets by \$2,518,098. The Town's business-type capital assets increased by \$7,209,200 while long-term liabilities decreased by \$35,916.



MANAGEMENT'S DISCUSSION & ANALYSIS
For the year ended September 30, 2012
(unaudited)

The following table provides a summary of the Town's operations for the year ended September 30, 2012:

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$ 4,853,017	\$ 2,991,838	\$ 11,847,254	\$ 11,388,925	\$ 16,700,271	\$ 14,380,763
Operating grants and contributions	296,234	220,617	-	-	296,234	220,617
Capital grants and contributions	5,072,076	4,767,318	2,382,570	473,422	7,454,646	5,240,740
General revenues						
Property taxes	10,662,787	10,195,279	-	-	10,662,787	10,195,279
Sales taxes	2,369,358	2,125,984	-	-	2,369,358	2,125,984
Franchise taxes	1,670,233	1,312,681	82,977	56,342	1,753,210	1,369,023
Interest	199,751	271,988	139,604	150,655	339,355	422,643
Other	464,013	1,329,395	-	758,399	464,013	2,087,794
Total revenues	25,587,469	23,215,100	14,452,405	12,827,743	40,039,874	36,042,843
Expenses						
General government	2,576,483	2,464,445	-	-	2,576,483	2,464,445
Community service	1,238,188	1,364,740	-	-	1,238,188	1,364,740
Public safety	8,002,813	7,190,910	-	-	8,002,813	7,190,910
Public works	5,344,115	4,435,870	-	-	5,344,115	4,435,870
Culture and recreation	1,674,950	1,483,761	-	-	1,674,950	1,483,761
Interest expense	1,655,901	1,715,179	-	-	1,655,901	1,715,179
Water and sewer services	-	-	8,576,299	6,950,429	8,576,299	6,950,429
Solid waste services	-	-	1,542,812	1,465,030	1,542,812	1,465,030
Total expenses	20,492,450	18,654,905	10,119,111	8,415,459	30,611,561	27,070,364
Increase in net assets before transfers	5,095,019	4,560,195	4,333,294	4,412,284	9,428,313	8,972,479
Transfers	1,815,196	1,238,953	(1,815,196)	(1,238,953)	-	-
Change in net assets	6,910,215	5,799,148	2,518,098	3,173,331	9,428,313	8,972,479
Net assets, beginning of year	58,716,943	52,917,795	27,124,695	23,951,364	85,841,638	76,869,159
Net assets, end of year	\$ 65,627,158	\$ 58,716,943	\$ 29,642,793	\$ 27,124,695	\$ 95,269,951	\$ 85,841,638

The primary government's expenses exceeded program revenues by \$6,160,410. Program revenues of \$24,451,151 are specific to the functions(s) of the primary government such as fees and charges for services, grants, and capital contributions. The expenses of the primary government were \$30,611,561 with water and sewer operations' comprising 28% or \$8,576,299. Public safety activities comprised 26% or \$8,002,813 which includes fire, police and animal control. The Town's general revenue sources from property tax, sales taxes, franchise taxes, interest, and miscellaneous revenues provides 38% of total revenue sources to support the primary government's activities.

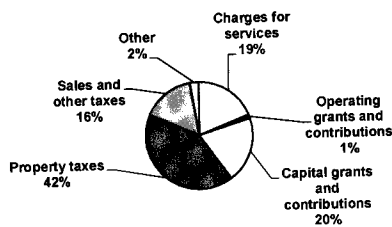


MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2012
(unaudited)

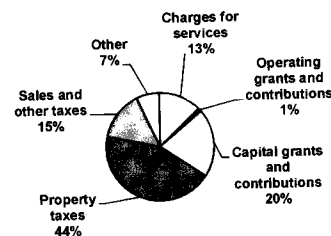
The Town's total governmental and business type activity revenues (less transfers) increased by \$2,372,369 or 10% over prior year. The Town received capital contributions for thoroughfare improvements and developer contributions in an amount of \$7,454,646. The total cost of all governmental programs and services have increased by \$3,541,197 or 13% over prior year. The following graphs are presented to reflect the ratio of revenues that support the primary government's activities for 2012 and 2011:

Revenues by Source - Government Activities
9/30/2012



2012 Total: \$25,587,469

Revenues by Source - Government Activities
9/30/2011

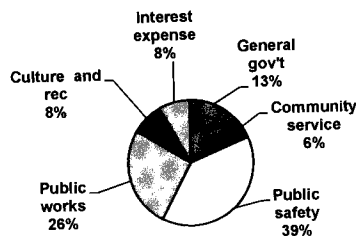


2011 Total: \$23,215,100

Total revenues (program and general) of governmental activities were \$25,587,469 before transfers for fiscal year 2012. A significant portion (42%) of the Town's revenues came from property taxes with 16% attributable to sales and other taxes. Sales and other taxes remained consistent with the prior year reflecting growth of \$600,926. This increase is from new business.

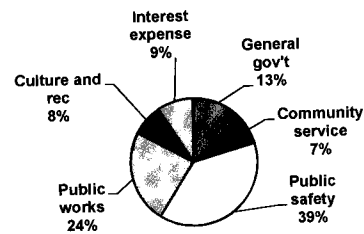
The total cost of all governmental programs was \$20,492,450 for fiscal year 2012. Of these costs, \$8,002,813 or 39% was for public safety activities. The following graphs present the ratio of each major expense by government activity:

Governmental Activity Expenses
9/30/2012



Total Expenses: \$20,492,450

Governmental Activity Expenses
9/30/2011



Total Expenses: \$18,654,905

The primary government's expenses total \$30,611,561 for which 55% or \$16,700,271 is supported by charges for services. The other 45% of the primary government's expense is supported by property taxes and other general revenues of \$13,911,290 before transfers.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2012
(unaudited)

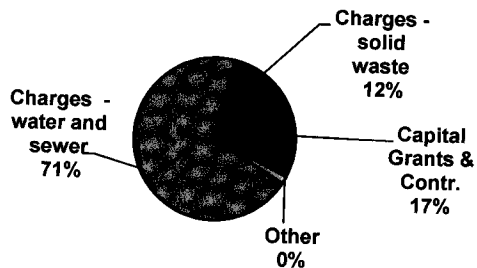
Expenses and Program Revenues - Business-type activities highlights –

- Business-type activities net assets increased by \$2,518,098 (after transfers) for the year which primarily means that the rates and charges of the system covered operational and debt related costs.
- Total business-type expenses for the year were \$10,119,111.
- Business-type revenues increased by 13% or \$1,624,662 primarily for charges for services and impact fees.
- Business-type expenses increased by 17% or \$1,703,652.

The following graphs are presented to reflect the self-supporting charges for services to the customers of the Town's utility and solid waste services:

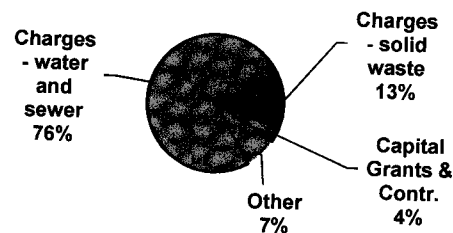
2012 Business-type Activities

Total Revenues: \$14,452,405



2011 Business-type Activities

Total Revenues: \$12,827,743



FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds – As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$12,723,027, a decrease of \$8,030,316 compared with the prior year due to the draw down of capital project funds. The breakdown of the total fund balances at fiscal year end is as follows:

- 56% or \$7,102,177 for General fund operating and maintenance purposes
- 29% or \$3,680,314 for General capital project commitments
- 15% or \$1,940,536 for Debt service commitments, special revenues, and street maintenance

Proprietary Funds – The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of the proprietary funds have already been addressed in the discussion of the Town's business-type activities. The Proprietary Fund had net cash from operating activities at September 30, 2012 of \$5,970,336.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2012
(unaudited)

General Fund Budgetary Highlights

The Town adopts its budget by ordinance at the fund level. The General Fund had a positive variance of expenditures at fiscal year-end of \$328,129. There was a positive variance of General Fund revenues to the budget by \$1,922,917. Of this amount, 59% was for construction related permits.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets -The Town's investment in capital assets for its governmental and business type activities amounts to \$141,305,477 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges. This amount represents a net increase of \$20,547,702. Note 5 in the Financial Statement Section provide additional detail regarding the Town's capital assets. A summary of the Town's capital assets is as follows:

	Capital Assets (net of depreciation)					
	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,479,696	\$ 2,479,696	\$ 1,296,592	\$ 1,089,743	\$ 3,776,288	\$ 3,569,439
Construction in progress	8,293,314	19,077,689	1,623,017	11,315,745	9,916,331	30,393,434
Buildings	23,185,529	5,397,479	49,705	54,266	23,235,234	5,451,745
Infrastructure	48,068,836	42,642,688	48,259,776	11,968,752	96,328,612	54,611,440
Other improvements	3,157,985	3,292,397	-	19,618,035	3,157,985	22,910,432
Machinery and equipment	4,055,818	3,012,727	835,209	808,558	4,891,027	3,821,285
	<u>\$ 89,241,178</u>	<u>\$ 75,902,676</u>	<u>\$ 52,064,299</u>	<u>\$ 44,855,099</u>	<u>\$ 141,305,477</u>	<u>\$ 120,757,775</u>

Long-term Debt - At year end, the Town had \$71,307,050 of long-term debt and other liabilities. Of this amount, \$64,567,050 is backed by the full faith and credit of the Town and \$6,740,000 represents bonds secured solely by specific revenue sources from the Proprietary Fund. Currently the Town has no unissued general obligation debt

Moody's Investors Service (Moody's) assigned an "Aa3" rating. The Town is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. For more detailed information, please see Note 8 in the financial statements.



MANAGEMENT'S DISCUSSION & ANALYSIS
For the year ended September 30, 2012
(unaudited)

The following is a summary of the Town's outstanding debt and other long-term obligations at fiscal year-end September 30, 2012:

	Outstanding Debt					
	Outstanding Debt and Long-Term Liabilities					
	Governmental activities		Business-type activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Gross bonded debt:						
General obligation	\$ 33,348,254	\$ 30,679,400	\$ 4,866,746	\$ 1,950,600	\$ 38,215,000	\$ 32,630,000
Certificates of obligation	2,260,000	6,630,000	22,340,000	16,500,000	24,600,000	23,130,000
Revenue bonds	-	-	6,740,000	10,755,000	6,740,000	10,755,000
Total bonded debt	35,608,254	37,309,400	33,946,746	29,205,600	69,555,000	66,515,000
Other long-term debt:						
Capital leases	321,018	-	-	-	321,018	-
Tax notes	-	90,000	-	-	-	90,000
Deferred loss on refunding	(146,471)	-	(175,685)	(37,757)	(322,156)	(37,757)
Unamortized premiums	559,012	405,567	409,287	257,228	968,299	662,795
Compensated absences	540,396	589,490	119,493	145,192	659,889	734,682
Capital appreciation	-	-	125,000	270,000	125,000	270,000
Total other long-term debt	1,273,955	1,085,057	478,095	634,663	1,752,050	1,719,720
Total	\$ 36,882,209	\$ 38,394,457	\$ 34,424,841	\$ 29,840,263	\$ 71,307,050	\$ 68,234,720

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Town continues to experience steady construction in both residential and commercial development. The number of single family home permits issued by the Town during 2012 was a healthy 598. These include residences planned or built within the Town as well as within its extra-territorial jurisdiction. The Town has projected 350 new housing starts for residential and 50 new starts for commercial/retail business. Commercial retailers and businesses continue to be attracted to Little Elm because of location, growth in roof-tops, and thoroughfare improvements, current and near term.

The Town continues to see the most commercial development at the corner of FM 423 and FM 720 in Little Elm. The economic lift along the growing FM 423 commercial corridor has breathed new life into the area. Specifically, the construction of the Kroger shopping center; the addition of Del Taco; retail tenant finish outs; Quick Trip; Brakes Plus; Aldi; and Racetrac have all altered the retail and traffic patterns in the vicinity. The entire corridor development is expected to generate approximately \$65 million dollars in annual sales and create more than 650 new permanent jobs for Little Elm.

Residential increases due to the construction of new luxury apartments, the Mansions and the Estates promise to have an impact on retail sales and the accompanying increase in property tax revenues. The project will ultimately contain 3 phases offering a different product to the consumer including townhomes, covered garages, resort-style living and other quality of life amenities. With the new luxury apartment development there was a concurrent dedication and construction of a 38 acre public park know as McCord Park. The amenities of the park will bring concrete trail connectivity to a master planned town-wide trail system. The addition of McCord Park on the east side of Town stands to benefit the immediate area's residents well into the future.



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended September 30, 2012
(unaudited)

The fiscal year 2012-2013 budget was developed and adopted based on continuing to meet the needs for the new facilities for Public Safety and Parks and Recreation. The expansion of services for the new facilities continues to increase funding levels for personnel and programming. The new animal shelter is scheduled to be completed in March 2013. Temporarily they are located in the old central fire station. Once the old fire station is vacated, renovation to the facility will occur for the Food Bank. The total budget increase for all operating funds was \$3 million or 10%. The source of funding for the above increase is from property taxes and sales tax related to the Town's expanding economy.

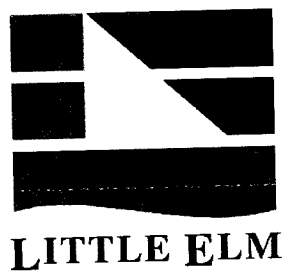
The fiscal year 2012-2013 budget saw no tax increases; no water or sewer rate increases; and the creation of an Equipment Replacement Fund with budgeted funding of \$194,000. The tax rate for fiscal year 2012-2013 is \$.664971.

The citizens of Little Elm are provided with a wide array of recreation, cultural, commercial and infrastructure services that will affect the quality of life in the Town and set the stage for changes that will have a lasting impact both on the short-term and long-term future.

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 any questions about this report or need additional financial information, please contact Alan Dickerson, Director of Finance at 100 West Eldorado Parkway, Little Elm, Texas or phone at (214) 975-0415.

BASIC FINANCIAL STATEMENTS



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TOWN OF LITTLE ELM, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 13,401,454	\$ 4,732,876	\$ 18,134,330	\$ 2,706,628
Cash restricted for revenue bond reserve	-	6,661,160	6,661,160	-
Net receivables	2,313,825	2,242,769	4,556,594	263,718
Prepays	17,615	-	17,615	-
Inventories	39,239	98,300	137,539	-
Land available for sale	-	-	-	7,322,952
Total current assets	<u>15,772,133</u>	<u>13,735,105</u>	<u>29,507,238</u>	<u>10,293,298</u>
Noncurrent assets:				
Land	2,479,696	1,296,592	3,776,288	-
Depreciable assets, net	78,468,168	49,144,690	127,612,858	-
Construction in progress	8,293,314	1,623,017	9,916,331	-
Total capital assets	<u>89,241,178</u>	<u>52,064,299</u>	<u>141,305,477</u>	<u>-</u>
Debt issuance costs	481,484	618,653	1,100,137	116,398
Total noncurrent assets	<u>89,722,662</u>	<u>52,682,952</u>	<u>142,405,614</u>	<u>116,398</u>
Total assets	<u><u>\$ 105,494,795</u></u>	<u><u>\$ 66,418,057</u></u>	<u><u>\$ 171,912,852</u></u>	<u><u>\$ 10,409,696</u></u>
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	\$ 1,974,584	\$ 1,038,305	\$ 3,012,889	\$ 19,113
Accrued interest payable	237,711	236,132	473,843	10,844
Retainage payable	623,885	183,229	807,114	-
Customer deposits	149,248	892,757	1,042,005	-
Current portion of long-term debt	2,282,710	1,419,739	3,702,449	290,730
Total current liabilities	<u>5,268,138</u>	<u>3,770,162</u>	<u>9,038,300</u>	<u>320,687</u>
Bonds and other long-term debt	34,599,499	33,005,102	67,604,601	7,222,585
Total liabilities	<u>39,867,637</u>	<u>36,775,264</u>	<u>76,642,901</u>	<u>7,543,272</u>
NET ASSETS				
Invested in capital assets, net of related debt	52,815,876	23,568,624	76,384,500	-
Restricted				
Enabling legislation	3,573,355	2,010,348	5,583,703	2,689,528
Debt service	379,705	668,257	1,047,962	90,705
Other	218,749	-	218,749	-
Unrestricted	8,639,473	3,395,564	12,035,037	86,191
Total net assets	<u>65,627,158</u>	<u>29,642,793</u>	<u>95,269,951</u>	<u>2,866,424</u>
Total liabilities and net assets	<u><u>\$ 105,494,795</u></u>	<u><u>\$ 66,418,057</u></u>	<u><u>\$ 171,912,852</u></u>	<u><u>\$ 10,409,696</u></u>

The accompanying notes to the basic financial statements
are an integral part of this statement

TOWN OF LITTLE ELM, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Functions/Programs				
Governmental activities:				
General government	\$ 2,576,483	\$ 203,194	\$ -	\$ -
Community service	1,238,188	3,067,120	-	-
Public safety	8,002,813	1,316,490	263,881	-
Public works	5,344,115	36,968	5,500	5,072,076
Culture and recreation	1,674,950	229,245	26,853	-
Interest expense	1,655,901	-	-	-
Total governmental activities	20,492,450	4,853,017	296,234	5,072,076
Business-type activities:				
Water and sewer services	8,576,299	10,088,464	-	2,382,570
Solid waste services	1,542,812	1,758,790	-	-
Total business-type activities	10,119,111	11,847,254	-	2,382,570
Total primary government	\$ 30,611,561	\$ 16,700,271	\$ 296,234	\$ 7,454,646
Component Units:				
Economic Development Corporation	\$ 865,940	\$ -	\$ -	\$ -
Community Development Corporation	328,198	-	-	-
Little Elm Redevelopment Corporation	4,761	-	-	-
Total component units	\$ 1,198,899	\$ -	\$ -	\$ -

General revenues:
Property taxes, penalty, and interest
Sales taxes
Franchise taxes
Interest
Miscellaneous
Transfers
Total general revenues and transfers
Change in net assets

Net assets at beginning of year

Net assets, end of year

The accompanying notes to the basic financial statements
are an integral part of this statement

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,373,289)	\$ -	\$ (2,373,289)	\$ -
1,828,932	-	1,828,932	-
(6,422,442)	-	(6,422,442)	-
(229,571)	-	(229,571)	-
(1,418,852)	-	(1,418,852)	-
(1,655,901)	-	(1,655,901)	-
(10,271,123)	-	(10,271,123)	-
-	3,894,735	3,894,735	-
-	215,978	215,978	-
-	4,110,713	4,110,713	-
<u>\$ (10,271,123)</u>	<u>\$ 4,110,713</u>	<u>\$ (6,160,410)</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (865,940)
-	-	-	(328,198)
-	-	-	(4,761)
<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ (1,198,899)</u>
\$ 10,662,787	\$ -	\$ 10,662,787	\$ -
2,369,358	-	2,369,358	1,447,888
1,670,233	82,977	1,753,210	-
199,751	139,604	339,355	31,580
464,013	-	464,013	99,537
1,815,196	(1,815,196)	-	-
<u>17,181,338</u>	<u>(1,592,615)</u>	<u>15,588,723</u>	<u>1,579,005</u>
6,910,215	2,518,098	9,428,313	380,106
<u>58,716,943</u>	<u>27,124,695</u>	<u>85,841,638</u>	<u>2,486,318</u>
<u>\$ 65,627,158</u>	<u>\$ 29,642,793</u>	<u>\$ 95,269,951</u>	<u>\$ 2,866,424</u>

**TOWN OF LITTLE ELM, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

	General Fund	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 6,852,581	\$ 549,898	\$ 4,706,817	\$ 1,292,158	\$ 13,401,454
Receivables, net of allowance for doubtful accounts					
Taxes	524,128	67,577	-	87,906	679,611
Other	838,237	-	662,849	133,128	1,634,214
Prepays	17,465	-	-	150	17,615
Inventories	39,239	-	-	-	39,239
Total assets	\$ 8,271,650	\$ 617,475	\$ 5,369,666	\$ 1,513,342	\$ 15,772,133
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	\$ 890,127	\$ 59	\$ 961,944	\$ 122,454	\$ 1,974,584
Accrued interest payable	-	4,815	-	-	4,815
Retainage payable	-	-	623,885	-	623,885
Deposits	45,725	-	103,523	-	149,248
Deferred revenue	233,621	57,707	-	5,246	296,574
Total liabilities	1,169,473	62,581	1,689,352	127,700	3,049,106
Fund balances:					
Nonspendable	56,704	-	-	150	56,854
Restricted	-	554,894	2,503,072	1,288,882	4,346,848
Committed	-	-	1,177,242	96,610	1,273,852
Assigned	914,755	-	-	-	914,755
Unassigned	6,130,718	-	-	-	6,130,718
Total fund balances	7,102,177	554,894	3,680,314	1,385,642	12,723,027
Total liabilities and fund balances	\$ 8,271,650	\$ 617,475	\$ 5,369,666	\$ 1,513,342	\$ 15,772,133

The accompanying notes to the basic financial statements
are an integral part of this statement

**TOWN OF LITTLE ELM, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Total governmental fund balances	\$ 12,723,027
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds financial statements.	89,241,178
Accrued interest on governmental activities debt is not reported in the governmental funds financial statements until paid.	(232,896)
Revenues earned but not available within sixty days of fiscal year-end are not recognized as revenue in the governmental funds financial statements.	296,574
Bond issuance costs on governmental activity debt are included in expenditures in the funds when paid.	481,484
Premiums on bond issuance for governmental activities debt are included in other financing sources in the governmental funds financial statements.	(559,012)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds financial statements.	(540,396)
Bonds and notes payable and capital leases payable are not due and payable in the current period and therefore are not reported in the governmental funds financial statements.	(35,782,801)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 65,627,158

The accompanying notes to the basic financial statements
are an integral part of this statement

TOWN OF LITTLE ELM, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

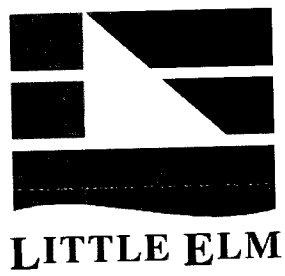
	General Fund	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:					
Taxes					\$ 10,459,636
Property taxes, penalty, and interest	\$ 7,348,738	\$ 3,110,898	\$ -	\$ -	2,369,358
General sales and use taxes	1,886,729	-	-	482,629	1,670,233
Other taxes and franchise fees	1,670,233	-	-	-	2,386,244
Licenses and permits	2,386,244	-	-	-	2,996,983
Intergovernmental	272,201	186,215	2,366,474	172,093	1,227,622
Charges for services	866,109	-	-	361,513	1,555,857
Impact fees	-	-	1,555,857	-	628,399
Fines	316,305	-	-	312,094	5,500
Contributions	5,500	-	-	-	199,751
Interest	94,608	20,822	72,622	11,699	1,312,349
Other revenues	680,621	-	584,331	47,397	24,811,932
Total revenues	<u>15,527,288</u>	<u>3,317,935</u>	<u>4,579,284</u>	<u>1,387,425</u>	
Expenditures:					
Current					2,501,809
General government	2,491,658	-	-	10,151	1,261,237
Community services	1,261,237	-	-	-	7,577,815
Public safety	7,326,156	-	-	251,659	1,766,131
Public works	1,574,172	-	-	191,959	1,533,497
Culture and recreation	1,528,208	-	-	5,289	1,671,146
Debt service	-	1,671,146	-	-	1,609,606
Principal retirement	-	1,609,606	-	-	17,189,209
Interest and fiscal agent fees	541,997	-	16,644,873	2,339	35,110,450
Capital outlay	14,723,428	3,280,752	16,644,873	461,397	
Total expenditures	<u>14,723,428</u>	<u>3,280,752</u>	<u>16,644,873</u>	<u>461,397</u>	
Excess (deficiency) of revenues over (under) expenditures	<u>803,860</u>	<u>37,183</u>	<u>(12,065,589)</u>	<u>926,028</u>	<u>(10,298,518)</u>
Other financing sources (uses)					
Transfers in	1,548,887	-	1,975,000	-	3,523,887
Issuance of refunding bonds	-	3,885,000	-	-	3,885,000
Capital lease proceeds	386,487	-	-	-	386,487
Premium on bond issuance	-	180,716	-	-	180,716
Payment to refunded bonds escrow agent	-	(3,999,197)	-	-	(3,999,197)
Transfers out	(1,475,000)	-	-	(233,691)	(1,708,691)
Total other financing sources (uses)	<u>460,374</u>	<u>66,519</u>	<u>1,975,000</u>	<u>(233,691)</u>	<u>2,268,202</u>
Net change in fund balances	<u>1,264,234</u>	<u>103,702</u>	<u>(10,090,589)</u>	<u>692,337</u>	<u>(8,030,316)</u>
Fund balance at beginning of year	<u>5,837,943</u>	<u>451,192</u>	<u>13,770,903</u>	<u>693,305</u>	<u>20,753,343</u>
Fund balance, end of year	<u>\$ 7,102,177</u>	<u>\$ 554,894</u>	<u>\$ 3,680,314</u>	<u>\$ 1,385,642</u>	<u>\$ 12,723,027</u>

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

**TOWN OF LITTLE ELM, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - total governmental funds	\$ (8,030,316)
Amounts reported for governmental funds in the statement of activities are different because:	
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	100,711
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is capitalized.	17,100,339
Depreciation is not recognized as an expenditure in governmental funds since it does not require the use of current financial resources. The effect of recording depreciation expense is to decrease net assets.	(4,221,753)
Donation of property from developers is not reported in the governmental funds. However, in the statement of activities, the fair market value of those assets is recognized as revenue	478,963
The repayment of the principal of long term debt consumes the current financial resources of governmental funds, but has no effect on net assets. The amortization of bond issuance costs, bond premiums, and deferred gain/loss on refunding of long term debt is reported in the statement of activities but does not require the use of current financial resources. Therefore the effect of the amortization of these various items are not reported in the statement of revenues, expenses, and changes in fund balance.	
This amount represents the net effect of the following items	
o Bond proceeds (3,885,000)	
o Debt issuance costs 57,755	
o Bond premiums (180,716)	
o Repayments 1,671,146	
o Payment to refunded bonds escrow agent 3,999,197	
o Deferred loss on refunding 149,931	
o Amortization of premium on bonds, 27,271, less the amortization of debt issue costs (88,283) and deferred loss on refunding (3,460)	1,747,841
Governmental funds reflect capital lease proceeds as other financing sources and payments as expenditures. However, in the government-wide financial statements, the proceeds, (\$386,487), and payments, \$65,469, are reflected as changes in liabilities	(321,018)
Changes in compensated absences are not reported in the fund financial statements. The net effect of the current year decrease is to increase net assets.	49,094
Loss on disposal of capital assets results in a decrease in net assets, but the net effect is not reported in the governmental funds	(19,047)
Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	25,401
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 6,910,215

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



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**TOWN OF LITTLE ELM , TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012**

	Water and Sewer	Solid Waste	Total
ASSETS			
Current assets.			
Cash and cash equivalents	\$ 4,363,332	\$ 369,544	\$ 4,732,876
Cash restricted for revenue bond reserve	6,661,160	-	6,661,160
Receivables (net of allowance for uncollectibles)	2,060,905	181,864	2,242,769
Inventories	98,300	-	98,300
Total current assets	13,183,697	551,408	13,735,105
Noncurrent assets			
Debt issuance costs	618,653	-	618,653
Land	1,296,592	-	1,296,592
Depreciable assets, net	49,097,095	47,595	49,144,690
Construction in progress	1,623,017	-	1,623,017
Total property and equipment	52,016,704	47,595	52,064,299
Total noncurrent assets	52,635,357	47,595	52,682,952
Total assets	\$ 65,819,054	\$ 599,003	\$ 66,418,057
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and other accrued expenses	\$ 906,444	\$ 131,861	\$ 1,038,305
Accrued interest payable	236,132	-	236,132
Retainage payable	183,229	-	183,229
Customer deposits	892,757	-	892,757
Current portion of long-term debt	1,419,739	-	1,419,739
Total current liabilities	3,638,301	131,861	3,770,162
Long-term debt, net of current portion	33,005,102	-	33,005,102
Total liabilities	36,643,403	131,861	36,775,264
Net assets.			
Invested in capital assets, net of related debt	23,521,029 00	47,595	23,568,624
Restricted for			
Debt service	668,257	-	668,257
Impact fees	2,010,348	-	2,010,348
Unrestricted	2,976,017	419,547	3,395,564
Total net assets	29,175,651	467,142	29,642,793
Total liabilities and net assets	\$ 65,819,054	\$ 599,003	\$ 66,418,057

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

TOWN OF LITTLE ELM, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS – PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Water and Sewer	Solid Waste	Total
Operating revenues:			
Water sales	\$ 5,263,386	\$ -	\$ 5,263,386
Charges for sewer services	4,092,278	-	4,092,278
Tap, connections, and other fees	700,338	-	700,338
Charges for solid waste	-	1,758,513	1,758,513
Taxes	-	82,977	82,977
Other revenue	32,462	277	32,739
Total operating revenues	10,088,464	1,841,767	11,930,231
Operating expenses:			
Personnel services	1,652,444	12,793	1,665,237
Contractual services	401,785	1,498,922	1,900,707
Repairs and maintenance	176,898	28,085	204,983
Supplies	2,607,045	-	2,607,045
Depreciation and amortization	1,456,399	1,712	1,458,111
Other operating expenses	657,207	1,300	658,507
Total operating expenses	6,951,778	1,542,812	8,494,590
Operating income	3,136,686	298,955	3,435,641
Non-operating revenues (expenses):			
Developer reimbursement	(493,574)	-	(493,574)
Impact fees	1,095,996	-	1,095,996
Interest income	134,629	4,975	139,604
Interest expense	(1,130,947)	-	(1,130,947)
Total non-operating revenue (expenses)	(393,896)	4,975	(388,921)
Income before transfers and capital contributions	2,742,790	303,930	3,046,720
Contributions	1,286,574	-	1,286,574
Transfers out	(1,617,592)	(197,604)	(1,815,196)
Change in net assets	2,411,772	106,326	2,518,098
Net assets at beginning of year	26,763,879	360,816	27,124,695
Net assets, end of year	\$ 29,175,651	\$ 467,142	\$ 29,642,793

The accompanying notes to the basic financial statements
are an integral part of this statement

**TOWN OF LITTLE ELM, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Water and Sewer	Solid Waste	Total
Cash flow from operating activities:			
Receipts from customers and users	\$ 10,726,356	\$ 1,840,818	\$ 12,567,174
Payments to suppliers	(3,503,592)	(1,408,631)	(4,912,223)
Payments to employees	(1,671,822)	(12,793)	(1,684,615)
Net cash provided by operating activities	5,550,942	419,394	5,970,336
Cash flow from noncapital financing activities:			
Transfers out	(1,617,592)	(197,604)	(1,815,196)
Net cash used by noncapital financing activities	(1,617,592)	(197,604)	(1,815,196)
Cash flow from capital financing activities:			
Proceeds from long-term debt	9,129,049	-	9,129,049
Acquisition of capital assets	(7,301,163)	(49,307)	(7,350,470)
Impact fees	1,095,996	-	1,095,996
Bond issuance costs	(117,202)	-	(117,202)
Principal paid on capital debt	(4,503,854)	-	(4,503,854)
Developer reimbursement	(493,574)	-	(493,574)
Interest paid on capital debt	(1,104,981)	-	(1,104,981)
Net cash used by capital financing activities	(3,295,729)	(49,307)	(3,345,036)
Cash flow from investing activities:			
Interest and dividends on investments	134,629	4,975	139,604
Net cash provided by investing activities	134,629	4,975	139,604
Net increase in cash and cash equivalents	772,250	177,458	949,708
Cash and cash equivalents, beginning of year	10,252,242	192,086	10,444,328
Cash and cash equivalents, end of the year	<u>\$ 11,024,492</u>	<u>\$ 369,544</u>	<u>\$ 11,394,036</u>
Reconciliation to Statement of Net Assets			
Cash and cash equivalents	\$ 4,363,332	\$ 369,544	\$ 4,732,876
Cash restricted to revenue bond reserve	6,661,160	-	6,661,160
	<u>\$ 11,024,492</u>	<u>\$ 369,544</u>	<u>\$ 11,394,036</u>
Noncash transactions:			
Capital contributions	<u>\$ 1,286,574</u>	<u>\$ -</u>	<u>\$ 1,286,574</u>

The accompanying notes to the basic financial statements
are an integral part of this statement

**TOWN OF LITTLE ELM, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

(CONTINUED)

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 3,136,686	\$ 298,955	\$ 3,435,641
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	1,456,399	1,712	1,458,111
Effects of changes in assets and liabilities:			
Decrease (increase) in receivables	679,154	(949)	678,205
Decrease (increase) in inventories	(41,262)	-	(41,262)
Increase (decrease) in payables	291,089	119,676	410,765
Increase (decrease) in deposits	54,575	-	54,575
Increase (decrease) in compensated absences	(25,699)	-	(25,699)
Net cash provided by operating activities	<u>\$ 5,550,942</u>	<u>\$ 419,394</u>	<u>\$ 5,970,336</u>

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

TOWN OF LITTLE ELM, TEXAS
STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
SEPTEMBER 30, 2012

	Economic Development Corporation	Community Development Corporation	Little Elm Redevelopment Authority	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,492,731	\$ 1,178,499	\$ 35,398	\$ 2,706,628
Receivables (net of allowance for uncollectibles)	175,812	87,906	-	263,718
Due from other governments	48,680	-	-	48,680
Debt issuance costs	116,398	-	-	116,398
Restricted assets.				
Land held for sale	7,322,952	-	-	7,322,952
Total Assets	9,156,573	1,266,405	35,398	10,458,376
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	18,411	175	527	19,113
Accrued interest payable	10,844	-	-	10,844
Due to other governments	-	-	48,680	48,680
Current portion of long-term debt	290,730	-	-	290,730
Non-current liabilities.				
Bonds and other long-term debt	7,222,585	-	-	7,222,585
Total Liabilities	7,542,570	175	49,207	7,591,952
NET ASSETS (DEFICIT)				
Restricted	1,514,003	1,266,230	-	2,780,233
Unrestricted	100,000	-	(13,809)	86,191
Total Net Assets (Deficit)	\$ 1,614,003	\$ 1,266,230	\$ (13,809)	\$ 2,866,424

The accompanying notes to the basic financial statements
are an integral part of this statement

**TOWN OF LITTLE ELM, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Governmental Activities:				
Economic Development Corporation	865,940.00	\$ -	\$ -	\$ -
Community Development Corporation	328,198	-	-	-
Little Elm Redevelopment Authority	4,761	-	-	-
Total component units	<u>\$ 1,198,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Sales taxes				
Investment income				
Intergovernmental				
Miscellaneous				
Total general revenues				
Change in net assets				
Net assets - beginning of year				
Net assets - end of year				

The accompanying notes to the basic financial statements
are an integral part of this statement

Component Units			
Economic Development Corporation	Community Development Corporation	Little Elm Redevelopment Authority	Total
\$ (865,940)	\$ -	\$ -	\$ (865,940)
-	(328,198)	-	(328,198)
-	-	(4,761)	(4,761)
<u>\$ (865,940)</u>	<u>\$ (328,198)</u>	<u>\$ (4,761)</u>	<u>\$ (1,198,899)</u>
\$ 965,259	\$ 482,629	\$ -	\$ 1,447,888
17,439	13,585	556	31,580
-	-	22,417	22,417
77,120	-	-	77,120
<u>1,059,818</u>	<u>496,214</u>	<u>22,973</u>	<u>1,579,005</u>
193,878	168,016	18,212	380,106
1,420,125	1,098,214	(32,021)	2,486,318
<u>\$ 1,614,003</u>	<u>\$ 1,266,230</u>	<u>\$ (13,809)</u>	<u>\$ 2,866,424</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Little Elm, Texas (the "Town") is a municipal corporation governed by an elected mayor and six-member Town Council and provides the following services by its charter: public safety, public works, health, culture, recreation, community development, water and sewer utilities, and solid waste utilities.

The accounting and reporting policies of the Town conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to state and local governments. The Governmental Accounting Standards Board ("GASB") is the accepted standards setting body for establishing governmental accounting and financial reporting principles. Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that are used. The more significant accounting policies of the Town are described below.

A. Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34, which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities, business-type activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the Town's statement of net assets includes both noncurrent assets and noncurrent liabilities of the Town. In addition, the government-wide statement of activities reflects depreciation expenses on the Town's capital assets, including infrastructure.

In addition to the government-wide financial statements, the Town has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Required Supplementary Information (RSI)

The Town also presents Management's Discussion and Analysis, which includes an analytical overview of the Town's financial activities. In addition, a budgetary comparison schedule is presented that compares the original adopted and final amended General Fund budget with actual results.

B. Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the Town is considered to be financially accountable. As required by GAAP, these financial statements present the Town and its component units, entities for which the Town is considered to be financially accountable. The discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the Town.

**TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Financial Reporting Entity – Continued

Little Elm Economic Development Corporation

The Little Elm Economic Development Corporation (EDC) is a duly established municipal corporation created under the provisions of Section 4A of the Development Corporation Act of 1976 as revised, with approval of the governing body of the Town of Little Elm. The EDC, a separate non-profit corporation, was formed in 1993 for the public purposes of the promotion and development of new and expanded business enterprises to provide and encourage employment in the furtherance of the public welfare and is operated primarily within the geographic boundaries of the Town. The affairs of the EDC shall be managed by a Board of Directors consisting of five members who shall be appointed by the Town council: one director from the Town council and four directors at-large. The EDC is supported by a half-cent sales tax voted by referendum in 1993. An Executive Director is appointed by the EDC Board to carry out the Board's administrative and policy initiatives. The EDC is considered part of the Town's reporting entity and presented in the accompanying basic financial statements as a discretely presented component unit.

Little Elm Community Development Corporation

The Little Elm Community Development Corporation (CDC) is a separate entity formed in February 2007 to improve and expand park and recreation facilities from revenue generated through the Type 4B sales tax. The CDC operates under the authority of Section 2(11)-(A)-(E) and Section 4B of Article 5190.6 of Revised Civil Statutes, as amended. The CDC is considered part of the Town's reporting entity and presented in the accompanying basic financial statements as a discretely presented component unit. The CDC is a discretely presented component unit under the criteria of board appointment and removal by the Town Council, approval and oversight of capital projects as well as budget authorization and approval.

Little Elm Redevelopment Authority

Little Elm Reinvestment Authority (LERA) was created in February 2009 for the purpose of aiding, assisting, and acting on behalf of the Town in the performance of its governmental functions to promote the common good and general welfare of the area including the Reinvestment Zone Numbers One and Two and neighboring areas in the Town; to promote, develop, encourage, and maintain housing, educational facilities, employment, commerce, and economic development in the Town. The LERA is a discretely presented component unit under the criteria of board appointment and removal by the Town Council, budget authorization and approval, and approval and execution of all economic development agreements within the reinvestment zones.

The discretely presented component units' financial statements are included with the financial statements of the Town; therefore, no separate audited financial statements are available. Complete financial statements for the individual component units may be obtained from the Town's Finance Director at 100 West Eldorado Pkwy., Little Elm, Texas or by phone at (214) 975-0400.

C. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. Additionally, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

**TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Government-Wide and Fund Financial Statements – Continued

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, or c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated resources are also reported as general revenues rather than as program revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, the debt service fund, and the capital projects fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures /expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements. The non-major funds are detailed in the combining section of the financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The government-wide and proprietary fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board and all pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989. The Town has elected not to follow subsequent private-sector guidance.

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The governmental fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board.

Property taxes, sales taxes, franchise fees, certain other fees and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Fund Accounting

The following major funds are used by the Town:

1. Governmental Funds:

Governmental Funds are those through which most governmental functions of the Town are financed. The acquisition, use and balances of the Town's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is on determination of changes in financial position, rather than on net income determination. The following is a description of the major Governmental Funds of the Town:

- a. The **General Fund** is the Town's primary operating fund. This fund is used to account for all financial resources of the general government, except those required to be accounted for in other funds.
- b. The **Debt Service Fund** is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general obligation long-term debt paid from taxes levied by the Town.
- c. The **Capital Projects Fund** is used to account for the acquisition or construction of capital facilities and improvements except those being financed by proprietary funds.

In addition, the Town reports the following non-major governmental funds.

- a. **Grants Fund** accounts for grants distributed to the Town by the Texas State Comptroller of Public Accounts, the Department of Homeland Security, and other organizations such as the Texas Library Archives, and the Law Enforcement Officer Safety Education Program.
- b. **Donations Fund** accounts for donations made by civic organizations, businesses, and citizens for specific uses which include the library, animal control center, police, and fire departments. Donations are generally donated for the purchase of equipment.
- c. **Forfeitures Fund** accounts for fines and forfeiture of property resulting from criminal cases within the boundaries of the Town that have been adjudicated by the State of Texas in District Court.
- d. **Street Maintenance Fund** accounts for the Town's 1/4 cent sales tax, which was approved by the citizens of Little Elm in May of 2009 and is restricted for the purpose of street maintenance.

**TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

Fund Accounting – continued

- e. **Park Development Fund** accounts for fees from developers to construct, purchase playground equipment, purchase land, and repair and restore community parks in the Town. The fees are often paid at the time that a subdivision is accepted by the Town unless park land is dedicated in lieu of fees.
- f. **Red Light Camera Fund** accounts for proceeds and expenses related to red-light cameras.
- g. **SECO Grant Fund** accounts for the proceeds of State Energy Conservation Office (SECO) grants.
- h. **Stormwater Drainage Fund** accounts for fees charged for stormwater drainage services.

Governmental funds with legally adopted annual budgets include the General Fund and the Debt Service Fund.

2. Proprietary Funds:

Proprietary Funds are accounted for using an economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net assets.

The proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses including depreciation on capital assets) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The following is a description of the major proprietary funds of the Town:

The Water and Sewer Fund is used to account for the operations of providing water and sewer services to residential and commercial customers.

The Solid Waste Fund is used to account for the collection of trash and recyclables from residential users.

E. Cash and Cash Equivalents

Cash of all funds, excluding the Town's payroll clearing account, medical card account, and certain escrow accounts, is pooled into a common interest-earning bank account in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash has equity therein, and interest earned on these monies is allocated based upon relative equity at each month end.

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. 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.

The Town may invest in certificates of deposit, authorized investment pools and funds, U.S. Government Securities, commercial paper, and repurchase agreements. Investments purchased with pooled cash, as well as separate investments, are recorded at fair value. The fair value is based on the market price. The fair value of the local government investment pools are the same as the fair value of the pool shares.

**TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

F. Inventories, Prepaid Items and Deferred Charges

Inventory is valued at cost (first-in, first-out). The cost of governmental fund type inventory is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by non-spendable fund balance, which indicates that they do not constitute "available, spendable resources" even though they are a component of fund balance. Inventories in the Proprietary Funds consist of meters and various supplies.

Prepaid balances are for payments made by the Town for which benefits extend beyond September 30, 2012, and the non-spendable fund balance has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

Deferred charges reported at the government-wide level and in proprietary funds are comprised of the balance of unamortized debt issuance costs. Issuance costs are amortized over the life of the related debt using a straight-line method.

G. Accounts Receivable

Accounts receivable consist primarily of amounts due from citizens for various services provided by the Town as well as property taxes and sales taxes receivable. Management evaluates the adequacy of the allowance for doubtful accounts based on a review of the aging of accounts and other specific information known by management.

H. Restricted Assets

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

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

TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Capital Assets – Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities acquired with tax-exempt debt is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 40
Infrastructure	10 - 25
Water and sewer system	40
Improvements other than buildings	7 - 40
Machinery and equipment	3 - 20

J. Interfund Transactions

During the course of normal operations, the Town has transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. There is no interest charged between funds for these advances.

K. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

K. Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

L. Fund Equity

The Town has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the Town classifies governmental fund balances as follows:

Nonspendable: includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted: includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed: includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision making authority, which is the Town Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is an ordinance adopted by the Town Council. The ordinance must either adopt or rescind the commitment, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned: includes amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used by the Town for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The Town Council has authorized the Town Manager or his or her designee as the official authorized person to assign fund balance to a specific purpose as approved by the fund balance policy.

Unassigned fund balance – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Order of Expenditure of Funds – When multiple categories of fund balance are available for expenditure, the Town will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Economic stabilization: It is the goal of the Town to achieve and maintain 25% of the budgeted expenditures in the General Fund for unanticipated expenditures, unforeseen revenue fluctuations, or other adverse circumstances. The Town Council has passed an ordinance setting aside these funds; therefore, fund balance reflects these amounts as committed funds. The fund balance level may be reduced to the equivalent of 15% of budgeted expenditures in unusual financial circumstances. If such

TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

L. Fund Equity - Continued

a situation should occur, the Town will implement necessary corrective action with a three-year plan to restore the committed fund balance to the equivalent of 25% of budgeted expenditures.

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent debt proceeds.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

M. Subsequent Events

The Town has evaluated all events or transactions that occurred after September 30, 2012 up through February 25, 2013, the date the financial statements were issued. During this period, there were no subsequent events requiring disclosure.

NOTE 2. CASH AND INVESTMENTS

The Town has adopted an investment policy pursuant to Chapter 2256 of the Texas Government Code, which authorizes the Town's investments 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 can invest in obligations of the United States Treasury, 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 year end, the carrying amount of the Town's deposits was \$ 27,498,318 and the bank balance was \$ 29,033,561. The bank balance was completely covered by federal deposit insurance and collateral held by the pledging financial institution in the Town's name.

Cash and investments as of September 30, 2012 consist of and are classified in the accompanying financial statements as follows:

Statement of net assets:

Primary Government	
Cash and cash equivalents	\$ 18,134,330
Restricted cash and cash equivalents	<u>6,661,160</u>
Total Primary Government	24,795,490
Component Unit	
Cash and cash equivalents	<u>2,706,628</u>
Total Cash and investments	<u>\$ 27,502,118</u>
Cash on hand	\$ 2,800
Deposits with financial institution	27,498,318
Investments	<u>1,000</u>
Total cash and investments	<u>\$ 27,502,118</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 2. CASH AND INVESTMENTS – CONTINUED

The table below identifies the investment types that are authorized for the Town by the Public Funds Investment Act. (Government Code Chapter 2256) The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury obligations	2 years	None	None
U.S. Agency obligations	2 years	None	None
Certificates of deposit	2 years	None	None
Direct repurchase agreements	2 years	None	None
No-load money market mutual funds	2 years	None	None
Direct obligations of State of Texas	2 years	None	None
Investment pools	2 years	None	None

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

In accordance with its investment policy, the Town manages its exposure to declines in fair value by limiting the weighted average maturity of its non-bond proceed investments to no more than nine months.

As of September 30, 2012, the Town had the following investments

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
TexPool	<u>\$ 1,000</u>	41 days

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the Town's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
TexPool	<u>\$ 1,000</u>	N/A	AAA-m

Concentration of credit risk

The Town's investment policy is to avoid a concentration of assets in a specific maturity, a specific issue, or a specific class of investments.

**TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012**

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

The Town requires all deposits to be covered by Federal Depository Insurance Corporation (FDIC) insurance and/or collateralized by qualified securities pledged by the Town's depository in the Town's name and held by the depository's agent.

As of September 30, 2012 the Town deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

The Town is a voluntary participant in TexPool. The State Comptroller of Public Accounts exercises responsibility over TexPool. 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. TexPool operates in a manner consistent with the SEC's Rule 2A7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than the market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

NOTE 3. PROPERTY TAXES

Taxes are levied on October 1 and are payable until January 31 without penalty. Property taxes attach as an enforceable lien on property as of January 1. The total assessed value upon which the fiscal 2012 levy was based was approximately \$1,660,000,000. Such assessed value was computed based on 100% appraised values.

Article XI, Section 5 of the Texas Constitution allows a tax rate up to \$2.50 per \$100 valuation. Further, Section 8.03B of the Town's Home-Rule Charter provides that the "Town Council shall have the power, and is hereby authorized to levy, assess, and collect annual taxes not to exceed the maximum limit set by the Constitution and laws of the State of Texas, as they now exist or as they may be amended, on each one hundred dollars (\$100.00) assessed valuation". The combined tax rate to finance general governmental service and debt service for the years ended September 30, 2012 was \$0.664971 per \$100 of assessed valuation. Current tax collections for the year ended September 30, 2012 were approximately 99% of the tax levy.

TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 4. RECEIVABLES

Receivables as of year-end for the government's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts as of September 30, 2012 are as follows:

	Governmental Funds				Total
	General	Debt Service	Capital Projects	Nonmajor Funds	
Ad valorem taxes	\$ 217,170	\$ 85,086	\$ -	\$ -	\$ 302,256
Sales taxes	351,624	-	-	87,906	439,530
Court	715,133	-	-	220,228	935,361
Ambulance	299,401	-	-	-	299,401
Storm drainage	-	-	-	-	-
Franchise fees	608,572	-	-	86,170	694,742
Other	13,463	-	-	-	13,463
Gross receivables	2,205,363	85,086	662,849	6,012	3,353,614
Less: allowances	(842,998)	(17,509)	-	(179,282)	(1,039,789)
Net total receivables	\$ 1,362,365	\$ 67,577	\$ 662,849	\$ 221,034	\$ 2,313,825

	Proprietary Funds		
	Water and Sewer	Solid Waste	Total
Customer accounts	\$ 1,618,908	\$ 199,651	\$ 1,818,559
Other	603,959	-	603,959
Gross receivables	2,222,867	199,651	2,422,518
Less: allowances	(161,962)	(17,787)	(179,749)
Net total receivables	\$ 2,060,905	\$ 181,864	\$ 2,242,769

	Component Units			
	EDC	CDC	LERA	Total
Sales taxes	\$ 175,812	\$ 87,906	\$ -	\$ 263,718
Total receivables	\$ 175,812	\$ 87,906	\$ -	\$ 263,718

TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land	\$ 2,479,696	\$ -	\$ -	\$ -	\$ 2,479,696
Construction in progress	19,077,689	16,290,226	-	(27,074,601)	8,293,314
Total capital assets, not being depreciated	21,557,385	16,290,226	-	(27,074,601)	10,773,010
Capital assets being depreciated					
Infrastructure	64,584,169	592,391	-	7,977,912	73,154,472
Buildings	6,418,960	-	-	18,138,277	24,557,237
Improvements other than buildings	4,157,905	-	-	-	4,157,905
Machinery and Equipment	6,915,918	696,685	(249,388)	958,412	8,321,627
Total capital assets being depreciated	82,076,952	1,289,076	(249,388)	27,074,601	110,191,241
Less accumulated depreciation for					
Infrastructure	21,941,481	3,144,155	-	-	25,085,636
Buildings	1,021,481	350,227	-	-	1,371,708
Improvements other than buildings	865,508	134,412	-	-	999,920
Machinery and Equipment	3,903,191	592,959	(230,341)	-	4,265,809
Total accumulated depreciation	27,731,661	4,221,753	(230,341)	-	31,723,073
Total capital assets	54,345,291	(2,932,677)	(19,047)	27,074,601	78,468,168
being depreciated, net					
Governmental activities capital assets, net	\$ 75,902,676	\$ 13,357,549	\$ (19,047)	\$ -	\$ 89,241,178
Business-type activities					
Capital assets not being depreciated					
Land	\$ 1,089,743	\$ 206,849	-	\$ -	\$ 1,296,592
Construction in progress	11,315,745	5,681,303	-	(15,374,031)	1,623,017
Total capital assets, not being depreciated	12,405,488	5,888,152	-	(15,374,031)	2,919,609
Capital assets being depreciated					
Buildings	173,679	-	-	-	173,679
Water system improvements	14,950,283	1,840,340	-	10,845,946	27,636,569
Sewer system improvements	23,715,134	725,599	-	4,528,085	28,968,818
Machinery and equipment	1,603,426	182,953	-	-	1,786,379
Total capital assets being depreciated	40,442,522	2,748,892	-	15,374,031	58,565,445
Less accumulated depreciation for					
Buildings	119,413	4,561	-	-	123,974
Water system improvements	2,981,531	613,752	-	-	3,595,283
Sewer system improvements	4,097,099	653,229	-	-	4,750,328
Machinery and equipment	794,868	156,302	-	-	951,170
Total accumulated depreciation	7,992,911	1,427,844	-	-	9,420,755
Total capital assets being depreciated, net	32,449,611	1,321,048	-	15,374,031	49,144,690
Business-type activities capital assets, net	\$ 44,855,099	\$ 7,209,200	\$ -	\$ -	\$ 52,064,299

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 149,962
Public safety	465,110
Public works	3,448,310
Culture and recreation	158,371
	<u>\$ 4,221,753</u>
Business-type activities:	
Water and Sewer	<u>\$ 1,427,844</u>

TOWN OF LITTLE ELM, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 6. TRANSFERS

Transfers are used to provide funds for debt service, contributions for capital construction, cost allocations and other operational costs as determined by the Town's annual budget. Transfers between funds during the year were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,548,887	\$ 1,475,000
Capital Projects Fund	1,975,000	-
Nonmajor Governmental Funds	-	233,691
Water and Sewer Fund	-	1,617,592
Solid Waste Fund	-	197,604
	<u>\$ 3,523,887</u>	<u>\$ 3,523,887</u>

NOTE 7. DEFERRED REVENUE

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Property taxes	\$ 145,444	\$ 57,707	\$ -	\$ -	\$ 203,151
Court fines	75,793	-	-	-	75,793
Other	12,384	-	-	5,246	17,630
Total	<u>\$ 233,621</u>	<u>\$ 57,707</u>	<u>\$ -</u>	<u>\$ 5,246</u>	<u>\$ 296,574</u>

NOTE 8. LONG-TERM DEBT

The Town of Little Elm issues general obligation bonds, certificates of obligation and revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The Town also issues revenue bonds where the Town pledges income derived from the acquired or constructed assets, or sales tax to pay the debt service.

Long-term debt of the Town is comprised of the following individual issues as of September 30, 2012: