

B. For existing systems:

- i. Attach a profit and loss statement and current balance sheet for existing businesses (end of last fiscal year is acceptable). Describe sources and terms for borrowed capital such as loans, bonds, or notes (profit and loss and balance sheet worksheets are attached, if needed). **See attached Financial Statement – FY Ending September 30, 2010.**
- ii. Attach a proposed rate schedule or tariff. **The City charges the same rates as**

LH WSC.

★NOTE: An existing system may be required to provide the information in 6.A.i. above during the technical review phase if necessary for staff to completely evaluate the application.

- C. Identify any funds you are required to accumulate and restrict by lenders or capital providers.
- D. In lieu of the information in #6.A. thru #6.C., you may provide information concerning loan approvals within the last three (3) years from lending institutions or agencies including the most recent financial audit of the applicant.

Note: Failure to provide adequate financial information may result in the delay or possible denial of your application.

7. NOTICE REQUIREMENTS

- A. All proposed notice forms must be completed and submitted with the application. However, do not mail or publish them until you receive written approval from the Commission to do so.
- B. The Commission cannot grant a CCN until proper notice of the application has been given. **Commission rules do not allow a waiver of these notice requirements for CCN applicants.**
- C. **It is the applicant=s responsibility to ensure that proper notice is given to all entities that are required to receive notice.**
- D. Recommended notice forms for publication, neighboring cities and systems, landowners with 25 acres or more, and customers are included with this application to use in preparing your proposed notices. (These notice forms are also available in Spanish upon request.)
- E. After reviewing and, if necessary, modifying the proposed notice, the Commission will send the notice to the applicant after the application is accepted for filing along with instructions for publication and/or mailing. Please review the notice carefully and note any additional neighboring utilities which may be included in the acceptance letter.
- F. Notice For Publication:
The applicant shall publish the notice in a newspaper having general circulation in the county or counties where a CCN is being requested, once each week for two consecutive weeks beginning with the week after the notice is received from the Commission. Proof of publication in the form of a publisher=s affidavit shall be submitted to the Commission within 30 days of the last publication date. The affidavit shall state with specificity each county in which the newspaper is of general circulation.

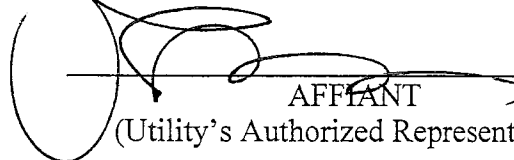
OATH

STATE OF TEXAS
COUNTY OF WILLIAMSON

I, Manuel De La Rosa, being duly sworn, file this application as City Manager (indicate relationship to Applicant, that is, owner, member of partnership, title as officer of corporation, or other authorized representative of Applicant); that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the maps and financial information filed with this application, and have complied with all the requirements contained in this application; and, that all such statements made and matters set forth therein are true and correct. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Texas Commission on Environmental Quality.

I further represent that the application form has not been changed, altered or amended from its original form available only from the Commission.

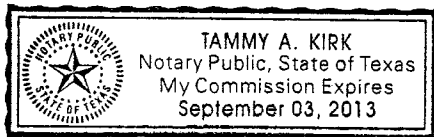
I further represent that the Applicant will provide continuous and adequate service to all customers and qualified applicants for service within its certificated service area.

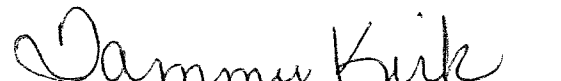

AFFIANT
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas, this
day 26 of October, 2011.

SEAL




NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS

Tammy Kirk
PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES 9/3/13

Notice for Publication

NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN) TO PROVIDE WATER/SEWER UTILITY SERVICE IN WILLIAMSON COUNTY, TEXAS

The City of Liberty Hill has filed an application for a CCN to obtain or amend CCN No. 10324 with the Texas Commission on Environmental Quality to provide water utility service in Williamson County.

The proposed utility service area is located approximately 1.5 miles northwest of downtown Liberty Hill, Texas, in Williamson County, and is generally bounded on the north by County Road 206; on the east by the Capital Metropolitan Transportation Authority railroad right-of-way; on the south by Brewer Branch and Little Creek; and on the west by the eastern boundary of the Durham Park Subdivision.

See enclosed map of the proposed service area.

The total area being requested includes approximately 5.542 acres and no current customers.

The proposed amendment affects customers and/or areas located in the following zip code(s): 78642.

A copy of the proposed service area map is available at (Utility Address and Phone Number):
[Insert City Hall Address], Liberty Hill, Texas 78642; Phone Number: 512-778-5449

A request for a public hearing must be in writing. You must state (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, application number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent, would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

Persons who wish to intervene or comment should write the:

Texas Commission on Environmental Quality
Water Supply Division
Utilities and Districts Section, MC-153
P. O. Box 13087
Austin, TX 78711-3087

within thirty (30) days from the date of this publication or notice. A public hearing will be held only if a legally sufficient hearing request is received or if the Commission on its own motion requests a hearing. Only those individuals who submit a written hearing request or a written request to be notified if a hearing is set will receive notice if a hearing is scheduled.

If a public hearing is requested, the Executive Director will not issue the CCN and will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, the SOAH will submit a recommendation to the Commission for final decision. If an evidentiary hearing is held, it will be a legal proceeding similar to a civil trial in state district court.

If you are a landowner with a tract of land at least 25 acres or more, that is partially or wholly located within the proposed area, you may request to be excluded from the proposed area (or Aopt out@) by providing written notice to the Commission within (30) days from the date that notice was provided by the applicant. All requests to opt out of the requested service area must include a scaled, general location map and a metes and bounds description of the tract of land.

Persons who meet the requirements to opt out, and wish to request this option should file the required documents with the:

Texas Commission on Environmental Quality
Water Supply Division
Utilities and Districts Section, MC-153
P. O. Box 13087
Austin, TX 78711-3087

A copy of the request to opt out of the proposed area must also be sent to the applicant. Staff may request additional information regarding your request.

Si desea informacion en Espanol, puede llamar al 1-512-239-0200.

Notice to Neighboring Systems, Landowners and Cities

NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN) TO PROVIDE WATER/SEWER UTILITY SERVICE IN WILLIAMSON COUNTY, TEXAS

To: _____ Date Notice Mailed _____, 20____
(Neighboring System, Landowner or City)

(Address)

City

State

Zip

The City of Liberty Hill has filed an application for a CCN to obtain or amend CCN No. 10324 with the Texas Commission on Environmental Quality to provide water utility service in Williamson County.

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Persons who wish to intervene or comment should write the:

Texas Commission on Environmental Quality
Water Supply Division
Utilities and Districts Section, MC-153
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Texas Commission on Environmental Quality
Water Supply Division
Utilities and Districts Section, MC-153
P. O. Box 13087
Austin, TX 78711-3087

A copy of the request to opt out of the proposed area must also be sent to the applicant. Staff may request additional information regarding your request.

Si desea informacion en Espanol, puede llamar al 1-512-239-0200.

ATTACHMENT 2.B.

The City has witnessed growth in the area to the west of the City. Liberty Hill Independent School District has begun construction on a new high school at the corner of State Highway 29 and CR 277. The school will need both water and sewer service. Its proximity to the City of Liberty Hill's CCN and infrastructure makes service to the property and the area ideal from an economic and conservation of resources perspective. Additionally, the City's extraterritorial jurisdiction covers a good portion of the area. From a planning perspective, service to the area must remain with the regional provider, the City of Liberty Hill.

ATTACHMENT 5.B.

Wendell McLeod, Class C, WG0002346 and CI0001317

Scott Manuel, Class A, WO0003008

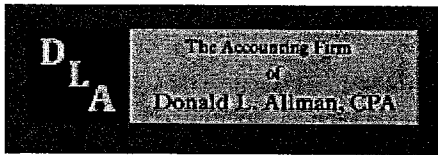
Will Pritchette, Class C, WG0011575

Chancy Hendershot, Class D, WO0027798



CITY OF LIBERTY HILL, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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Donald L. Allman, CPA
1104 South Mays St., Ste. 109
Round Rock, Texas 78664

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Liberty Hill, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Liberty Hill, Texas, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Liberty Hill, Texas's management. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Liberty Hill, Texas, as of September 30, 2010, 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 March 22, 2011, on our consideration of the City of Liberty Hill, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 11 and page 43, 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 basis 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 City of Liberty Hill, Texas's financial statements as a whole. The introductory section, combining and individual non-major fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards 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 as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Donald L Allman, CPA

Round Rock, Texas
March 22, 2011

As management of the City of Liberty Hill (the City), we are pleased to offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2010. We encourage readers to consider it in conjunction with the additional information presented in the accompanying basic financial statements and the notes to the financial statements.

Financial Statements

- The net assets of the City's general fund decreased by \$125,634 as a result of the current year's operations. Net assets at year end consisted of invested in capital assets, net of related debt of \$575,091 and unrestricted net assets of \$405,167 for a total of \$980,258.
- The City's business-type activities net assets increased by \$471,488 as a result of the current year's operations. Business-type net assets consisted of, restricted net assets for debt service and construction costs of \$1,865,496 and unrestricted net assets of \$366,793, for total net assets of \$2,232,289 at the end of the year.
- Total City revenues from all sources, was \$1,741,012 which represents a decrease of \$613,284 over the prior year. This is primarily due to decreases in grant revenue and sewer connections during the year.
- Total costs of all programs were \$1,395,158. This is an increase of \$479,267 over the prior year. The increase corresponds to the cost of sewer operations.
- As of September 30, 2010, the city of Liberty Hill's governmental funds reported an ending fund balance of \$393,678, an decrease of \$103,645 in comparison with the prior fiscal year.

Using this Annual Report

This annual report presents the following three components of the financial statements:

1. Government-wide financial statements provide information for the city as a whole.
2. Fund financial statements provide detailed information for the City's significant funds.
3. Notes to the financial statements provide additional information that is essential to understanding the government-wide and fund financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves. This information includes a management's discussion and analysis as well as a budgetary comparison schedule.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the assets and liabilities of the City. The difference between assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information on how the government's net assets changed during the most recent fiscal year. This statement is presented using the accrual basis of accounting, which means that all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Both the Statement of Net Assets and the Statement of Activities present information for the following:

- Governmental activities-This includes most of the City's basic services which are primarily supported by property taxes, sales taxes, franchise taxes, fine revenue, interest income, and fees.
- Business activities include sewer services.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of these costs through user fees and charges (business-type activities).

The government-wide financial statements begin on page 13. The following two tables provide a summary of activity for the year compared to the prior fiscal year.

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 542,542	\$ 560,754	\$ 652,214	\$ 645,165	\$ 1,194,756	\$ 1,205,919
Due to/from other funds	(73,924)	7,002	73,924	(7,002)	-	-
Capital and intangible assets	809,642	908,719	5,528,011	4,231,561	6,337,653	5,140,280
Restricted assets	-	-	3,807,015	4,955,832	3,807,015	4,955,832
Total assets	<u>1,278,260</u>	<u>1,476,475</u>	<u>10,061,164</u>	<u>9,825,556</u>	<u>11,339,424</u>	<u>11,302,031</u>
Other liabilities	<u>63,451</u>	<u>61,739</u>	<u>573,875</u>	<u>509,755</u>	<u>637,326</u>	<u>571,494</u>
Noncurrent Liabilities	<u>234,551</u>	<u>308,844</u>	<u>7,255,000</u>	<u>7,555,000</u>	<u>7,489,551</u>	<u>7,863,844</u>
Total liabilities	<u>298,002</u>	<u>370,583</u>	<u>7,828,875</u>	<u>8,064,755</u>	<u>8,126,877</u>	<u>8,435,338</u>
Net assets:						
Invested in capital assets						
net of related debt	575,091	599,875	-	-	575,091	599,875
Unrestricted	405,167	506,017	366,793	352,142	771,960	858,159
Restricted for:						
Debt service and						
construction costs	-	-	1,865,496	1,408,659	1,865,496	1,408,659
Total Net Assets	<u>\$ 980,258</u>	<u>\$ 1,105,892</u>	<u>\$ 2,232,289</u>	<u>\$ 1,760,801</u>	<u>\$ 3,212,547</u>	<u>\$ 2,866,693</u>

Table 2
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total Primary Government	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program Revenues:						
Charges for services	\$ 316,557	\$ 244,027	\$ 192,088	\$ 546,086	\$ 508,645	\$ 790,113
Operating grants and contributions	16,087	3,570	-	-	16,087	3,570
Capital grants and contributions	-	143,549	476,980	646,563	476,980	790,112
General revenues:						
Property taxes	117,800	104,131	217,957	244,099	335,757	348,230
Sales taxes	274,676	325,115	-	-	274,676	325,115
Franchise taxes	112,581	90,558	-	-	112,581	90,558
Investment income	766	2,817	3,394	4,096	4,160	6,913
Miscellaneous income	12,126	1,203	-	-	12,126	1,203
Sale of assets	-	(1,518)	-	-	-	(1,518)
Total revenues	<u>850,593</u>	<u>913,452</u>	<u>890,419</u>	<u>1,440,844</u>	<u>1,741,012</u>	<u>2,354,296</u>
Expenses:						
General government	514,025	331,606	-	-	514,025	331,606
Building inspection	11,950	24,793	-	-	11,950	24,793
Public safety	305,379	352,205	-	-	305,379	352,205
Public works	78,137	25,045	-	-	78,137	25,045
Municipal court	66,736	120,065	-	-	66,736	120,065
Sewer	-	-	418,931	62,177	418,931	62,177
Total expenses	<u>976,227</u>	<u>853,714</u>	<u>418,931</u>	<u>62,177</u>	<u>1,395,158</u>	<u>915,891</u>
Increase in net assets before transfers	(125,634)	59,738	471,488	1,093,495	345,854	1,153,233
Net assets - October 1	<u>1,105,892</u>	<u>1,046,154</u>	<u>1,760,801</u>	<u>667,306</u>	<u>2,866,693</u>	<u>1,713,460</u>
Net assets - September 30	<u>\$ 980,258</u>	<u>\$ 1,105,892</u>	<u>\$ 2,232,289</u>	<u>\$ 1,760,801</u>	<u>\$ 3,212,547</u>	<u>\$ 2,866,693</u>

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements provide detailed information about the City's significant funds – not the City as a whole. The City's funds fall into two categories – governmental funds and proprietary funds.

The *governmental funds statements* provide a detailed short-term view of the government operations and the basic services it provided, and are reported in the modified accrual basis of accounting which focuses on available spendable resources. *Unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. This allows the reader to evaluate the City's short-term financing requirements. Both the governmental fund *Balance Sheet* and the governmental fund *Statement of Revenues, Expenditures, and Changes in Fund Balance* provide a reconciliation to the government-wide financial statements.

The City adopts an annual budget for the General Fund. A budgetary comparison schedule has been provided to demonstrate compliance. The governmental fund financial statements begin on page 15, and the budgetary comparison schedule is on page 45.

The *proprietary funds statements* present the same functions as the business-type activities in the government-wide financial statements. The City uses the proprietary funds to account for its sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements only in more detail.

The proprietary funds financial statements begin on page 18.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 42 of this report.

General Fund Budgetary Highlights

The City's overall actual revenue was 4 percent more than budgeted for revenues, but the schedule does not include \$240,000 in carryover cash balances. The actual expenses were 15% less than budgeted expenses.

Capital Assets and Debt AdministrationCapital Assets and Intangible Assets

In accordance with GASB Statement No. 34, the City is not required to report infrastructure retrospectively. Therefore, infrastructure has been capitalized prospectively beginning October 1, 2001.

The City's investment in capital and intangible assets for its governmental activities as of September 30, 2010, amounts to \$809,642 (net of accumulated depreciation and amortization) and its business-type activities amounts to \$5,316,765. This investment in capital and intangible assets includes machinery and equipment, building, land, sewer system, and software.

Table 3
Capital and Intangible Assets at Year end
(net of depreciation and amortization)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Building and improvements	\$ 372,518	\$ 386,793	\$ -	\$ -	\$ 372,518	\$ 386,793
Land	209,987	209,987	-	-	209,987	209,987
Sewer system	-	-	5,316,765	4,007,827	5,316,765	4,007,827
Police equipment	225,069	309,072	-	-	225,069	309,072
Furniture and equipment	2,068	2,867	-	-	2,068	2,867
Software and website	-	-	-	-	-	-
Total	<u>\$ 809,642</u>	<u>\$ 908,719</u>	<u>\$ 5,316,765</u>	<u>\$ 4,007,827</u>	<u>\$ 6,126,407</u>	<u>\$ 4,916,546</u>

City of Liberty Hill, Texas*Management's Discussion and Analysis (Continued)**September 30, 2010*

This year's major additions at cost included:

Sewer System Work in Progress	\$1,427,343
Cameras for police cars	4,020
	<hr/>
Total at cost	<u>\$1,431,363</u>

Additional information on the City's capital and intangible assets can be found in Notes 6, 7 and 8 beginning on page 32 of this report.

Debt

At year-end, the City had the following debt.

Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Notes and Leases Payable	\$ 234,551	\$ 308,844	\$ -	\$ -	\$ 234,551	\$ 308,844
2006A Certificate of Obligation	-	-	1,200,000	1,250,000	1,200,000	1,250,000
2006B Certificate of Obligation	-	-	6,055,000	6,305,000	6,055,000	6,305,000
Total	<u>\$ 234,551</u>	<u>\$ 308,844</u>	<u>\$ 7,255,000</u>	<u>\$ 7,555,000</u>	<u>\$ 7,489,551</u>	<u>\$ 7,863,844</u>

During the year, the City assumed new leases for police vehicles and equipment.

The City incurred \$174,411 of interest expense in the current year. Interest expense was charged to the police, court, and sewer departments.

Additional information on the city's non-current liabilities can be found in Notes 9 and 10 beginning on page 34 of this report.

Economic Factors and Next Year's Budgets and Rates

The City of Liberty Hill has seen the continued growth of infrastructure in 2010. The sewer line on the north side of highway 29 was completed in October of 2009. The Phase 1 Downtown project began in late July 2009 and was completed in early 2010. The City received Community Development Block Grant funding for low to moderate hook ups for the first phase of the sewer. A vote of four to one by the council was made in October and three to two by the Liberty Hill Water Supply Corporation to begin negotiations of the merger. The City was awarded a 2009 CDBG Grant from Williamson County for \$253,000 in 2010 and a 2010 CDBG Grant of \$250,000 to be funded in 2011. The City began negotiations with the Liberty Hill Water Supply Corporation for a merger of the Water Supply Corporation and the City due to the implementation of the sewer, and these negotiations are still ongoing.

The Police Department has expanded and consists of six full time officers' with six cars and two drug dogs. The Municipal Court (through implementation of their technology fund) purchased electronic ticket writers for the police department. This has reduced the expense of paper tickets and time consuming hand entry. The electronic ticket writers also allow for correct information to be entered by the officer himself without the difficulty of deciphering handwritten information by a third party. The Municipal Court also hired a warrant collection firm in September 2009 and has had a very successful percentage of collections on outstanding warrants.

The Parks and Recreation Board began working on a Master Park Plan with an expectation of completion in 2010. The Board also applied for a Parks & Wildlife Grant which was to be utilized as matching funds for the grant the Board received in 2008. The Board did not qualify for the Park & Wildlife Grant but, they were asked to resubmit their application (due to the amount of points awarded to the application) for consideration in 2010. The Parks & Wildlife Grant was not awarded in 2010 either. A second and much needed well was drilled at the City park located on CR 200 with funding from the Economic Development Corporation. The football fields were completed and a concession stand was built.

The planning and Zoning commission began to work on a Downtown Revitalization Plan and a survey was conducted with the help of the Lower Colorado River Authority for community input. Negotiations with AT&T began for the lease of property for downtown parking. Negotiations also were started with the Texas Department of Transportation for the possession of Loop 332 to become the City of Liberty Hill's. These are all a part of the downtown revitalization plans. Negotiations are expected to become final in 2010.

The Economic Development Corporation renovated the City Annex Building and the Chamber of Commerce was given an office in the Annex. The Liberty Hill Information Center also continues to operate in the Annex.

The City continues to have a very successful clean up days and with the implementation of our code enforcement officer our City is beginning to be able to clean up areas of concern through the use of these ordinances when needed. A very unsafe house was demolished through the use of our code enforcement process making that area safer for those live around it.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives to the citizens of Liberty hill. If you have any questions about this report or need further information, contact the City of Liberty Hill, 1120 Loop 332, Liberty Hill, Texas 78642, or call 512-778-5449.

City of Liberty Hill, Texas**Statement of Net Assets***As of September 30, 2010*

	Primary Government			
	Governmental	Business-Type		Component
	Activities	Activities	Total	Unit
Assets				
Cash and cash equivalents	\$ 480,099	\$ 652,214	\$ 1,132,313	\$ 443,612
Taxes receivable	62,443	-	62,443	10,891
Due from other funds	-	73,924	73,924	-
Capital assets, net	809,642	5,316,765	6,126,407	-
Debt issuance costs, net	-	211,246	211,246	-
Restricted Assets				
Temporary investments	-	3,807,015	3,807,015	-
			-	
Total assets	1,352,184	10,061,164	11,413,348	454,503
Liabilities				
Accounts payable	49,301	118,162	167,463	7,344
Accrued liabilities	9,692	15,312	25,004	-
Prepaid revenue	4,458	440,401	444,859	-
Due to other funds	73,924			
Noncurrent liabilities				
Due within one year	79,574	310,000	389,574	-
Due in more than one year	154,977	6,945,000	7,099,977	-
Total liabilities	371,926	7,828,875	8,126,877	7,344
Net Assets				
Invested in capital assets				
net of related debt	575,091	-	575,091	-
Unrestricted net assets (deficit)	405,167	366,793	771,960	-
Restricted for debt service and				
construction costs	-	1,865,496	1,865,496	-
Restricted for economic development	-	-	-	447,159
Total Net Assets	\$ 980,258	\$ 2,232,289	\$ 3,212,547	\$ 447,159

The accompanying notes are an integral part of the financial statements.

City of Liberty Hill, Texas*Statement of Activities (continued)**As of September 30, 2010*

	Expenses	Charges for Services
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
General Government	\$ 514,025	\$ -
Building Inspection	11,950	40,138
Public Safety	305,379	19,177
Public Works	78,137	64,636
Municipal Court	66,736	192,606
Total Governmental Activities:	<u>976,227</u>	<u>316,557</u>
 BUSINESS-TYPE ACTIVITIES:		
Sewer	418,931	192,088
Total Business-Type Activities:	<u>418,931</u>	<u>192,088</u>
TOTAL PRIMARY GOVERNMENT:	<u>\$ 1,395,158</u>	<u>\$ 508,645</u>
 Component Unit:		
Liberty Hill Economic Development Corporation	\$ 73,682	\$ -
TOTAL COMPONENT UNITS:	<u>\$ 73,682</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

City of Liberty Hill, Texas

Statement of Activities (continued)

As of September 30, 2010

Program Revenues	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			Component Unit
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
\$ -	\$ (514,025)	\$ -	\$ (514,025)	\$ -
-	28,188	-	28,188	-
16,087	(270,115)	-	(270,115)	-
-	(13,501)	-	(13,501)	-
-	125,870	-	125,870	-
<u>\$ 16,087</u>	<u>\$ (643,583)</u>	<u>\$ -</u>	<u>\$ (643,583)</u>	<u>\$ -</u>
<u>476,980</u>	<u>-</u>	<u>250,137</u>	<u>250,137</u>	<u>-</u>
<u>493,067</u>	<u>(643,583)</u>	<u>250,137</u>	<u>(393,446)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (73,682)</u>
General revenues:				
Taxes:				
Property taxes	117,800	217,957	335,757	-
Sales taxes	274,676	-	274,676	129,271
Franchise taxes	112,581	-	112,581	-
Investment income	766	3,394	4,160	3,209
Miscellaneous	12,126	-	12,126	-
Sale of assets	-	-	-	-
Total general revenues	<u>517,949</u>	<u>221,351</u>	<u>739,300</u>	<u>132,480</u>
Change in net assets	<u>(125,634)</u>	<u>471,488</u>	<u>345,854</u>	<u>58,798</u>
Net Assets, Beginning of Year	<u>1,105,892</u>	<u>1,760,801</u>	<u>2,866,693</u>	<u>388,361</u>
Net Assets, End of Year	<u>\$ 980,258</u>	<u>\$ 2,232,289</u>	<u>\$ 3,212,547</u>	<u>\$ 447,159</u>

The accompanying notes are an integral part of the financial statements.

City of Liberty Hill, Texas**Balance Sheet – Governmental funds***As of September 30, 2010*

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Assets		
Cash and cash equivalents	\$ 480,099	\$ 480,099
Accounts receivable	50,954	50,954
Due from other funds	<u>-</u>	<u>-</u>
Total Assets	\$ 531,053	\$ 531,053
Liabilities		
Accounts Payable	\$ 49,301	\$ 49,301
Deferred Revenue	4,458	4,458
Due to other funds	73,924	73,924
Accrued Liabilities	<u>9,692</u>	<u>9,692</u>
Total Liabilities	<u>137,375</u>	<u>137,375</u>
Fund Balance		
Unreserved	<u>393,678</u>	<u>393,678</u>
Total Fund Balance	393,678	393,678
Total Liabilities and Fund Balance	<u>531,053</u>	

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 funds. (See Note 6) 809,642

Other long-term assets are not available to pay for current financial
resources and therefore are not represented in the governmental funds
balance sheet. 11,489

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the governmental funds
balance sheet. (See Note 9) (234,551)

Net Assets of Governmental Activities 980,258

The accompanying notes are an integral part of the financial statements.

City of Liberty Hill, Texas**Statement of Revenues – and
Changes in fund Balance – Governmental Funds***For the Year Ended September 30, 2010*

	<u>General Fund</u>	<u>Total Governmental Funds</u>
Revenues		
Property taxes	\$ 106,311	\$ 106,311
Sales taxes	274,676	274,676
Franchise taxes	112,581	112,581
Building permits	40,138	40,138
Municipal court	192,088	192,088
Police fees	19,177	19,177
Miscellaneous income	12,126	12,126
Total Revenues	<u>757,097</u>	<u>757,097</u>
Expenditures		
Legal and professional	74,795	74,795
Police expenses	78,479	78,479
City salaries and payroll taxes	456,510	456,510
Insurance	18,896	18,896
Office and administration	202,666	202,666
Street and park maintenance	53,702	53,702
Court expenses	11,478	11,478
Building inspection	11,950	11,950
Utilities	29,735	29,735
Capital expenditures	4,020	4,020
Total Expenditures	<u>942,231</u>	<u>942,231</u>
Excess Revenues Over (Under) Expenditures	<u>(185,134)</u>	<u>(185,134)</u>
Other Financing Sources (Uses):		
Investment income	766	766
Grant funds received	16,087	16,087
Street Maintenance taxes	64,636	64,636
Total Other Financing Sources (Uses)	<u>81,489</u>	<u>81,489</u>
Excess (Deficiencies) of Revenue and Other Sources Over (Under) Expenditures and Other (Uses)	(103,645)	(103,645)
Fund Balance, Beginning of Year	<u>497,323</u>	
Fund Balance, End of Year	<u>\$ 393,678</u>	

The accompanying notes are an integral part of the financial statements.

City of Liberty Hill, Texas

*Reconciliation of the Statement of Revenues, Expenditures, and
Changes in fund Balance – Governmental Funds to the Statement
of Activities*

For the Year Ended September 30, 2010

Excess (Deficiencies) of Revenue and Other Sources Over (Under) Expenditures and Other (Uses)	(103,645)
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Amounts reported for governmental activities
in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount is the net effect of these differences in the treatment of Capital outlays and related items. (See Note 6)	(99,077)
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Governmental funds report capital outlays for intangibles and expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives as amortization expense. This amount is the net effect of these differences in the treatment of capital outlays and related items (See Note 7)	-
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Revenues in the government-wide Statement of Activities that do not provide current financial resources are not reported as revenues in the funds	2,795
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items. (See Note 9)	<u>74,293</u>
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Change in Net Assets of Governmental Activities	<u>\$ (125,634)</u>
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The accompanying notes are an integral part of the financial statements.

City of Liberty Hill, Texas**Statement of Net Assets****Proprietary Funds***As of September 30, 2010*

	Business-Type Activities Enterprise Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 652,214
Due from other funds	73,924
Loan issuance costs, net	<u>211,246</u>
Total Current Assets	937,384
Capital Assets	
Fixed assets (net of accumulated depreciation when applicable)	5,316,765
Restricted Assets	
Assets restricted for debt service and construction costs	<u>3,807,015</u>
Total Assets	<u>\$ 10,061,164</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 118,162
Accrued liabilities	15,312
Prepaid revenue	440,401
Due to other funds	-
Current portion of long-term debt	<u>310,000</u>
Total Current Liabilities	883,875
Noncurrent Liabilities	
Bonds payable	<u>6,945,000</u>
Total Liabilities	<u>7,828,875</u>
Net Assets	
Invested in capital assets, net of related debt	-
Unrestricted net assets (deficit)	366,793
Restricted for debt service and construction costs	<u>1,865,496</u>
Total Net Assets	<u>2,232,289</u>
Total Liabilities and Net Assets	<u>\$ 10,061,164</u>

The accompanying notes are an integral part of the financial statements.

City of Liberty Hill, Texas**Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds***For the Year Ended September 30, 2010*

	Business-Type Activities Enterprise Fund
Revenues	
Wastewater service	\$ 63,267
Connection fees	126,262
Property taxes	217,957
Other income	2,559
Total Revenues	410,045
Expenses	
Advertising	1,311
Amortization	12,488
Depreciation	118,405
Interest expense	189,708
LCRA fees	71,464
Office expenses	5,201
Repairs and maintenance	15,513
Utilities	898
Wastewater expenses	3,943
Total Expenses	418,931
Net Operating Income (Loss)	(8,886)
Non-Operating Revenue and (Expenses)	
Grant revenues	476,980
Interest revenue	3,394
Grant expenses	-
Total Non-Operating Revenue and (Expenses)	480,374
Net Income (Loss)	471,488
Total Net Assets, Beginning of Year	1,760,801
Total Net Assets, End of Year	\$ 2,232,289

The accompanying notes are an integral part of the financial statements.

City of Liberty Hill, Texas*Statement of Cash Flows**Proprietary Funds**For the Year Ended September 30, 2010*

	Business-Type Activities Enterprise Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 192,088
Receipts from taxpayers	232,040
Payments to suppliers	<u>(304,844)</u>
Net cash provided (used) by operating activities	<u>119,284</u>
Cash Flows from Capital and Related Financing Activities	
Payment on debts	(300,000)
Increase (decrease) in accounts payable related to capital assets	-
Acquisition of capital assets	<u>(1,427,343)</u>
Grant revenues	476,980
Grant expenses	<u>-</u>
Net cash (used in capital and related financing activities)	<u>(1,250,363)</u>
Cash Flows from Investing Activities	
Interest on investments	3,394
(Increase) decrease in restricted temporary investments	<u>1,148,817</u>
Net cash (used in) provided by investing activities	<u>1,152,211</u>
Net (Decrease) Increase in Cash and Cash Equivalents	21,132
Cash and Cash Equivalents at Beginning of Year	<u>631,082</u>
Cash and Cash Equivalents at End of Year	<u>\$ 652,214</u>

The accompanying notes are an integral part of the financial statements

City of Liberty Hill, Texas**Statement of Cash Flows****Proprietary Funds (Continued)***For the Year Ended September 30, 2010*

	Business-Type Activities Enterprise Fund
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ (8,886)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	118,405
(Increase) decrease in taxes receivable	14,083
(Increase) decrease in loan issuance costs	12,488
(Increase) decrease in due from other funds	(73,924)
Increase (decrease) in due to other funds	(7,002)
Increase (decrease) in accounts payable	25,562
Increase (decrease) in accrued expenses	(542)
Increase (decrease) in prepaid revenue	39,100
Net cash provided by operating activities	<u>\$ 119,284</u>

The accompanying notes are an integral part of the financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The City of Liberty Hill, Texas (the City), a municipal corporation in Williamson County, Texas, was incorporated under the general laws of the State of Texas in January, 1999. The city operates under a Council-Mayor form of government and provides services such as public safety, highways, streets, sewer, culture, recreation, community improvements, judicial, planning and zoning, general administrative services, and other services as authorized by its code of ordinances and its citizens.

The City Council is elected at large, and consists of a mayor and five aldermen, and is the level of government which has governing responsibilities over all activities related to the City. The city is not included in any other governmental reporting entity. Aldermen are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. In evaluation how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in generally accepted accounting principles. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant indication of this ability is financial interdependency. Other indications of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

As required by the accounting principles generally accepted in the United States, these financial statements present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City has no component units that meet the requirements for blending. The discretely presented component unit, on the other hand, is reported in a separate column in the government-wide statements to emphasize it is legally separate from the primary government. The discretely presented component unit has a September 30 fiscal year-end.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Liberty Hill Economic Development Corporation (EDC) is included as a discretely presented component unit because of its operational and financial relationship with the City. The Corporation receives its funding from a one-half percent sales tax assessed by the City, and the City appoints the members of the governing board. The Corporation was created by the City to enhance the economic development of the Liberty Hill community.

Financial Reporting Model

In June 1999, GASB issued Statement No.34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*. This statement, known as the "Reporting Model" statement, affected the way the City prepared and presented financial information. State and local governments traditionally had used a financial reporting model substantially different from the one used to prepare private-sector financial reports.

GASB Statement No.34 established requirements and a reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Management's discussion and Analysis

GASB Statement No.34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Government-Wide Financial Statements

The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable) but also capital assets and long-term liabilities (such as buildings and infrastructure, including bridges and roads, and general obligation debt). Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Statement of Net Assets*

The Statement of Net Assets is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component units. Governments will report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and will report depreciation expense – cost of “using up” capital assets – in the Statement of Activities. The net assets of a government will be broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities

The government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the financial statements in this report, the funds are grouped into two broad fund categories as follows:

*Governmental Funds*General Fund

This Fund is used to account for financial resources used for general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. The General Fund is the principal fund of the City which accounts for all financial transactions not accounted for in other funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds

Enterprise Fund

This Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the City is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the City has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City's Enterprise Fund is used to account for the operations that will provide sewer services to the public on a continuing basis.

Budgetary Comparison Schedule

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the progress of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments are required to include the government's original budget with the current comparison of final budget and actual results.

The original budget is adopted by the City Council prior to the beginning of the fiscal year. Amendments are made during the year on approval by the City Council. The original and final amended budgets are used in this report. The City adopted the current year budget on a line item basis.

Basis of Presentation

The accounting and reporting policies of the City relating to the funds and account groups included in the accompanying financial statements conform to generally accepted accounting principles as applicable to cities. Generally accepted accounting principles for cities include those principles prescribed by the governmental Accounting Standards Board (GASB), the Financial Accounting Standards board (FASB) and appropriate pronouncements of the American Institute of Certified Public Accountants (AICPA).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Accounting

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The reporting model's focus is on either the City as a whole or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business type.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.), which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity. The City does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The governmental fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile funds based on financial statements with the governmental column of the government-wide presentation.

The focus of the reporting model is on the City as a whole and fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting refers to the method by which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements of net assets and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these activities are either included on the statement of net assets or the statement of net assets-proprietary funds. These statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

All revenue and expenditure recognition for governmental funds are accounted for using the modified accrual basis of accounting. Only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statement present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The city's revenues are recognized when they become measurable and available as current assets. Available means collectible within the current period or as soon enough thereafter to be used 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. Penalties and interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges, if applicable between the government's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude permanently restricted cash and cash equivalents. The carrying amounts for cash and cash equivalents equal fair value.

TexPool Investments

As of September 30, 2010, some temporary investments were made with TexPool.

The objective of the TexPool accounts is the preservation of capital and protection of principal, safety of funds and investments, maintenance of sufficient liquidity to meet participant's needs, diversification to avoid unreasonable or avoidable risks, and yield.

TexPool's portfolio has low market risk due to restrictions on weighted average maturity and maximum maturity of any one investment. The investment manager is required to maintain a stable \$1.00 net asset value, and must take immediate action if the net asset value of the portfolio falls below \$.995 or rises above \$1.005.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All investments are stated at amortized cost, which in most cases approximates the market value of the securities. All investments are marked to market daily.

Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements of the City. In accordance with GASB Statement no. 34, the City is not required to report infrastructure retroactively. Therefore, infrastructure has been capitalized prospectively beginning October 1, 2001. Depreciation is recorded on general fixed assets on a government-wide basis. All fixed assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and improvements	10-40 years
Sewer system	40 years
Police equipment	5 years
Furniture and equipment	5-7 years

Intangible Assets

Intangible assets consist of software used in the City's municipal court and development cost of the City's internet web site. These assets are being amortized on a straight-line basis over an estimated useful life of three to five years.

General Obligation Enterprise Bonds

The Enterprise Fund provides the annual debt service requirements on certain general obligation enterprise bonds (not secured by system revenues) issued to finance sewer system construction. Since the Enterprise Fund provides the annual debt service on these general obligation enterprise bonds, the bonds are considered to be obligations of the Enterprise Fund and have been reported on the balance sheet of the Enterprise Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The City accrues a liability for compensated absences which meet the following criteria:

The City accrues a liability for compensated absences which meet the following criteria:

- (a) The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- (b) The obligation relates to rights that vest or accumulate.
- (c) Payment of the compensation is probable.
- (d) The amount can be reasonably estimated.

In accordance with the above criteria, the City has accrued a liability for vacation pay which has been earned but not taken by employees. As of the balance sheet date, the City expected that all of the liability for accrued vacation would be liquidated with expendable resources. Therefore, the liability for accrued vacation is reflected as a current liability in the financial statements for the year ended September 30, 2010.

NOTE 2 – PROPERTY TAXES

The City's property tax is levied each October 1 on the assessed value listed as of the previous January 1 for all real and personal property located in the City. Taxes are due in January following the October 1 levy date. The lien date is January 1 and they become delinquent on February 1. The tax levy for October, 2008 (fiscal year ended September 30, 2010) was \$320,634.

The tax assessment of October 1, 2008 sets a tax levy at \$0.29160 per \$100 of assessed valuation at 100 percent of market value.

Delinquent property taxes estimated to be collectible within the next fiscal year are recognized as revenues. Other delinquent property taxes receivable at year end that are deemed to be ultimately collectible are recorded as deferred revenues in the governmental fund balance sheet.

NOTE 3 – EMPLOYEE BENEFITS

The City's policy is to account for the cost of employees' vacation time benefits as they are earned. At September 30, 2010 accrued vacation and compensatory time benefits related to employees of the General Fund totaling \$11,055 have been recorded on the General Fund.

NOTE 4 – DEPOSITS, SECURITIES AND INVESTMENTS

As of September 30, 2010, cash deposits were with depository banks in interest bearing accounts.

At September 30, 2010, the carrying amounts of the City's deposits and the Economic Development Corporation deposits were \$6,497,898 and the bank balances were \$6,705,830.

Of these amounts \$1,212,473 are invested in banks covered by the Federal Deposit Insurance Corporation (FDIC). As of September 30, 2010, \$962,473 is not insured by the FDIC. The City's depository bank for these funds had pledged securities with a face value of \$1,750,000 and a market value of \$1,799,511 as collateral for the City's deposits. These assets are valued at cost which approximates market value.

NOTE 5 – RESTRICTED TEMPORARY INVESTMENTS

Business Type Activities Assets Restricted

Temporary investments consist of cash and other highly liquid investments that are dedicated to the following:

Construction and Debt Service	\$ 3,519,282
	<u>\$ 3,519,282</u>

NOTE 6 – CHANGES IN GOVERNMENTAL CAPITAL ASSETS

Changes in general fixed assets during the year ended September 30, 2010 were as follows:

	Balance October 1, 2009	Increases	Decreases	Balance September 30, 2010
Capital Assets not Being Depreciated				
Land	\$ 209,987	\$ -	\$ -	\$ 209,987
Other Capital Assets				
Buildings and improvements	426,285	-	-	426,285
Furniture and equipment	9,424	-	-	9,424
Police equipment	436,091	4,020	-	440,111
Total Other Capital Assets	871,800	4,020	-	875,820
Less accumulated depreciation	(173,068)	(103,097)	-	(276,165)
Other Capital Assets, Net	698,732	(99,077)	-	599,655
Total Capital Assets, Net of Depreciation	\$ 908,719	\$ (99,077)	\$ -	\$ 809,642

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

Governmental Activities:	
General government	\$ 6,175
Public Safety	96,922
Total depreciation expense- Governmental Activities	\$ 103,097

NOTE 7 – CHANGES IN INTANGIBLE ASSETS

Changes in intangible assets during the year ended September 30, 2010, were as follows:

	Balance October 1, 2009	Increases	Decreases	Balance September 30, 2010
Software and web site	\$ 19,707	\$ -	\$ -	\$ 19,707
Less accumulated amortization	<u>(19,707)</u>	<u>-</u>	<u>-</u>	<u>(19,707)</u>
Total Intangible Assets, net of Amortization	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Governmental Activities:	
General government	\$ -
Municipal court	<u>-</u>
Total depreciation expense-	
Governmental Activities	<u>\$ -</u>

NOTE 8 – CHANGES IN BUSINESS-TYPE CAPITAL ASSETS

Changes in business-type capital assets during the year ended September 30, 2010, were as follows:

	Balance October 1, 2009	Increases	Decreases	Balance September 30, 2010
Capital Assets Not Being Depreciated				
Sewer system work in progress	<u>\$ 2,845,330</u>	<u>\$ -</u>	<u>\$ 2,845,330</u>	<u>\$ -</u>
Other Capital Assets				
Sewer system	\$ 1,177,212	\$ 4,272,673	\$ -	\$ 5,449,885
Less accumulated depreciation	<u>(14,715)</u>	<u>(118,405)</u>	<u>-</u>	<u>(133,120)</u>
Othe Capital Assets, Net	<u>\$ 1,162,497</u>	<u>\$ 4,154,268</u>	<u>\$ -</u>	<u>\$ 5,316,765</u>
Total Capital Assets, Net of Depreciation	<u>\$ 4,007,827</u>	<u>\$ 4,154,268</u>	<u>\$ 2,845,330</u>	<u>\$ 5,316,765</u>

NOTE 9 – CHANGES IN GOVERNMENTAL NON-CURRENT LIABILITIES

The following is a summary of non-current liability transactions during the year ended September 30, 2010:

	Balance October 1, 2009	Additions	Payments	Balance September 30, 2010
Capital leases payable	\$ 308,844	\$ -	\$ 74,293	\$ 234,551
Total	<u>\$ 308,844</u>	<u>\$ -</u>	<u>\$ 74,293</u>	<u>\$ 234,551</u>

Long-term debt in the governmental activities consists of the following at September 30, 2010:

<u>Payee and Terms</u>	<u>Interest Rate</u>	<u>Balance at September 30, 2010</u>
Lease purchase payable dated April 2, 2007, due in twenty quarterly payments of \$10,196, including interest, beginning January 15, 2008, for the purchase of police equipment.	4.9%	\$ 80,804
Lease purchase payable dated August 1, 2007, due in twenty quarterly payments of \$2,323, including interest, beginning January 15, 2008, for the purchase of police equipment.	5.6%	20,949
Lease purchase payable dated October 10, 2006 due in forty seven monthly payments of \$296, including interest, beginning October 10, 2006, for the purchase of court equipment.	7.9%	-
Lease purchase payable dated October 2, 2008, due in twenty quarterly payments of \$4,681, including interest, beginning January 2, 2009, for the purchase of two Dodge Chargers.	5.2%	55,044
Lease purchase payable dated May 12, 2009, due in fourteen quarterly payments of \$663, including interest, beginning July 15, 2009, for the purchase of police equipment.	5.9%	5,967

NOTE 9 – CHANGES IN GOVERNMENTAL NON-CURRENT LIABILITIES (Continued)

<u>Payee and Terms</u>	<u>Interest Rate</u>	<u>Balance at September 30, 2010</u>
Lease purchase payable dated September 1, 2009 due in twenty quarterly payments of \$4,768, including interest, beginning January 15, 2010, for the purchase of two vehicles.	5.8%	<u>71,787</u>
Total		234,551
Less current portion		(79,574)
Total Long-Term Debt		<u>\$ 154,977</u>

The annual requirements to amortize debt outstanding in the governmental activities as of September 30, 2010, are as follows:

<u>For the Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 79,574	\$ 10,956	\$ 90,530
2012	83,844	6,686	90,530
2013	48,287	2,695	50,982
2014	18,145	928	19,073
2015			-
2016-2020	<u>4,701</u>	<u>67</u>	<u>4,768</u>
Total	<u>\$ 234,551</u>	<u>\$ 21,332</u>	<u>\$ 255,883</u>

NOTE 10 – CHANGES IN BUSINESS-TYPE NON-CURRENT LIABILITIES

The following is a summary of long-term debt transactions in the business-type activities for year ended September 30, 2010:

	<u>Balance October 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance September 30, 2010</u>
2006A Certificate of Obligation	\$ 1,250,000	\$ -	\$ 50,000	\$ 1,200,000
2006B Certificate of Obligation	<u>6,305,000</u>	<u>-</u>	<u>250,000</u>	<u>6,055,000</u>
Total	<u>\$ 7,555,000</u>	<u>\$ -</u>	<u>\$ 300,000</u>	<u>\$ 7,255,000</u>

NOTE 10 – CHANGES IN BUSINESS-TYPE NON-CURRENT LIABILITIES (Continued)

Long-term debt in the business-type activities consists of the following at September 30, 2010:

	Balance at September 30, 2010
<u>Payee and Terms</u>	
City of Liberty Hill, Texas Wastewater Certificate of Obligation, Series 2006A was issued in the amount of \$1,345,00 with maturity dates from September 1, 2008 through September 1, 2027, plus interest at a rate of 2.43 percent per annum.	\$ 1,200,000
City of Liberty Hill, Texas Wastewater Certificate of Obligation, Series 2006B was issued in the amount of \$6,785,000 with maturity dates from September 1, 2008 through September 1, 2027, plus interest at a rate of 3.43 percent per annum.	<u>6,055,000</u>
Total	7,255,000
Less current portion	<u>(310,000)</u>
Total Long-Term Debt	<u>\$ 6,945,000</u>

The annual requirements to amortize all certificate of obligation outstanding as of September 30, 2010, are as follows:

Year Ended September 30	Principal	Interest	Total
2011	\$ 310,000	\$ 183,750	\$ 493,750
2012	325,000	177,050	502,050
2013	335,000	170,000	505,000
2014	350,000	162,583	512,583
2015 to 2019	1,955,000	684,008	2,639,008
2020 to 2024	2,350,000	419,280	2,769,280
2025 to 2027	1,630,000	92,278	1,722,278
Total	<u>7,255,000</u>	<u>1,888,949</u>	<u>9,143,949</u>

NOTE 10 – CHANGES IN BUSINESS-TYPE NON-CURRENT LIABILITIES (Continued)Capitalization of Interest

Interest costs incurred in enterprise funds during construction are capitalized, net of interest income from the proceeds of related tax-exempt bonds, as part of the cost of the related assets of the Sewer Fund.

NOTE 11 – PENSION PLANS**Plan Description**

The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employees retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 14153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

City of Liberty Hill
Schedule of Funding Progress
September 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded (1)/(2)	Untunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	UAAL as of Percentage of Payroll (4)/(5)
12/31/07	18,396	25,893	71.0%	7,497	223,091	3.36%
12/31/08	45,939	48,882	94.0%	2,943	280,013	1.05%
12/31/09	84,211	86,067	97.8%	1,856	393,787	0.47%

NOTE 11 – PENSION PLANS (Continued)

Plan provisions for the City were as follows:

	Plan Year 2009	Plan Year 2010
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, N/A	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 24-year amortization period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credit and Annuity Increases.

The City contributes to the TMRS plan at an actuarially determined rate.

Funding Policy

Both the employees and the City make contributions monthly. Cities are required to contribute at an actuarially determined rate; these rates are provided to the City on an annual basis, following the completion of the actuarial valuation. Note that there is a time delay in the valuation and when the rate becomes effective – for example, the January 1, 2008 contribution rate is based on the December 31, 2005 valuation results; if a change in plan provisions is elected by the City, this rate can change. The actuary determines contribution rates on a calendar year basis; the city discloses the annual pension costs (which equal the required contributions) based on the calculated rate(s) for the City's fiscal year.