

Town of
Lakewood Village
T E X A S

**Comprehensive Annual Financial Report
Fiscal Year 2007**



Prepared by:
Dr. Mark E. Vargus, Councilman
Linda Asbell, Town Secretary

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To Our Friends and Citizens of Lakewood Village:

In 2007, The Town of Lakewood Village celebrated our 30th year of incorporation. In celebration of this milestone, we wanted to present a view of the Town's past, present, and future. In the following pages, you will find a discussion of Lakewood Village's history, an accounting of its present, and a vision for our future. The report that resulted from this research revealed a financially healthy Town uniquely positioned and prepared to face the exciting growth prospects presented by the expansion of Eldorado Parkway and the construction of the Lewisville Lake Toll Bridge.

This "State of the Town" report is on a scale never before presented by Lakewood Village and reflects the realization that the Town, almost overnight, is moving from the end of a quiet country road to the middle of a well-traveled parkway. Our challenge is to maintain the quiet country atmosphere that we have enjoyed for the past thirty years while taking advantage of the growth opportunities that will enable us to ensure the next thirty years are prosperous.

We hope you will find this information useful, and should you have any questions please feel free to contact Town Hall or any member of the Council.

As always, see you around the Village,

A handwritten signature in black ink, appearing to read "Mike Schnittker". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

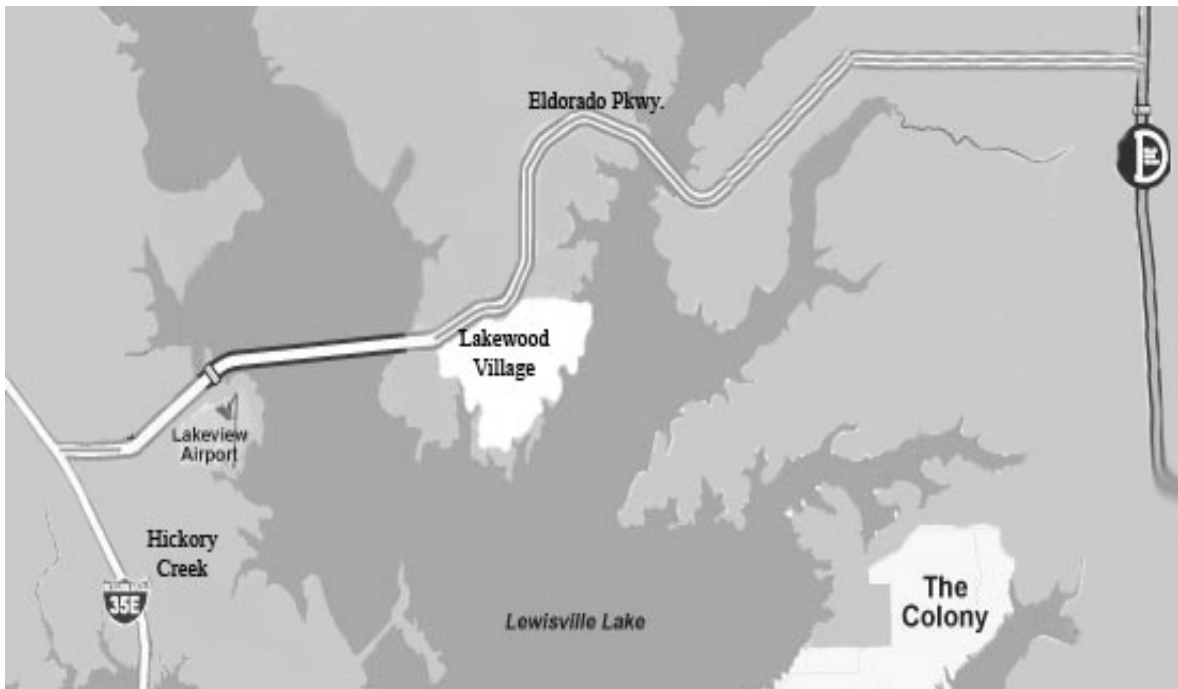
Mike Schnittker,
Acting Mayor,
Councilman Place 1



I. Introduction

Location:

Lakewood Village was incorporated as a Type B - General Law Municipality on April 26, 1977 and is currently zoned exclusively residential. Lakewood Village is centrally located between I-35 and the Dallas North Tollway on the Lewisville Lake/FM 720 corridor, at the foot of the new Lewisville Lake toll bridge (expected completion date – April 2009).



Services Provided:

Our citizens enjoy one of the lowest tax rates in North Texas (only \$0.25 per \$100 assessed property value), which is less than one-half of the tax rates of surrounding communities. Further, our tax rate has not increased in over 20 years. Although our tax rate is low, our citizens receive the highest quality service including municipal water and sewer (no aerobic systems) as well as the benefits of full-time professional Fire and EMS services.

Our quality of life is further enriched by the Village People Committee; a citizen's volunteer enterprise that organizes and hosts numerous civic events. These events include: welcome gifts for new residents; a Town Garage-Sale day; Pet Appreciation Day-offering low cost vaccines and grooming services; and various children's activities such as an Easter-Egg hunt, a Halloween hayride, and "Cookies with Santa".

Town Government

The Town uses the Mayor/Council form of government with five Aldermen (historically referred to as Councilmen) and a Mayor elected at-large to serve staggered two-year terms. Elections for council seats one, three, and five occur in odd numbered years, with seats two, four, and the Mayoral election in even numbered years.

Town Council

Mike Schnittker - Mayor Pro-Tem

Council Place No. 1, Term Expires: May 2009

Mayor Pro-Tem Schnittker was elected as a Councilman in May 2007 and appointed Mayor Pro-Tem in July 2007. He earned degrees in both Finance and Management Information Systems from Texas A&M University. Mayor Pro-Tem Schnittker is a former Naval Aviator who is currently a Captain for Southwest Airlines. He and his wife Shelley have three daughters and have been residents of Lakewood Village since 2005

Gary Newsome – Councilman, Place 2

Term Expires: May 2008

Councilman Newsome has served on the Town Council since 2005. He is currently employed by Coldwell Banker Residential Brokerage. Prior to the real estate business, he was employed as a teacher and coach in the Dallas Independent School District where he retired after 39 years. He was twice named teacher-of-the-year and is a Past President of the Physical Education Association. He and wife Janie have been residents of Lakewood Village since 2000.

Dr. Mark E. Vargus – Councilman, Place 3

Term Expires: May 2009

Councilman Vargus earned his PhD in Accounting from the Wharton School of the University of Pennsylvania, where he also holds a MA in Economics and a MBA in Finance. He received his undergraduate degree in Electrical Engineering from Johns Hopkins University. Prior to his academic career, Dr. Vargus was employed by the Lockheed-Martin Corporation as a Senior Engineer in the advanced radar systems group. Dr. Vargus has received appointments to the University of Michigan, University of Southern California, and currently the University of Texas at Dallas. He is a six-time teaching award recipient in addition to winning several national awards for his scholarly research, including the 2007 Notable Contribution to Management Accounting Research Award. Councilman Vargus purchased his Lakewood Village homesite in 2003 and has been a resident since 2005

Ken Guthrie – Councilman, Place 4

Term Expires: May 2008

Councilman Guthrie and his wife, Laurie, have owned their home in Lakewood Village since 1999. He has been employed at a large Plano-based computer services firm for 33 years, and specializes in the support of a global Help Desk application. Additionally, he manages \$100M of computer assets, and a department budget of \$25M annually, including financial reporting, budgeting, and capital planning. Councilman Guthrie earned a Bachelor of Science degree in Computer Science at The American University, and a Master of Science degree in Computer Science from the School of Electrical Engineering at The George Washington University.

Harold Wood – Councilman, Place 5

Term Expires: May 2009

Councilman Wood has owned property in Lakewood Village since 2005. He built on his property and made Lakewood Village his home in 2006. Councilman Wood has been married to his wife, Rosemary, for 36 years. They have a daughter, three sons, and eight grandchildren. He served in the United States Navy as a Radarman and performed search and rescue in Vietnam. Following Councilman Wood's service in the military, his career has been focused in heavy construction, logging, mining and agricultural equipment. He served as the Parts and Service Manager for the USA Central Region for Kubota Tractor Corp. and retired in 1998.

Mayor - Vacant

Term Expires: May 2008

Municipal Officers

Linda Asbell, Town Secretary

Linda Asbell began her career in local government in 1990 working at the City of Lewisville in Finance Administration. Linda was appointed City Secretary of the Town of Hickory Creek in 1996. She was appointed Lakewood Village Town Secretary in June 2007. Linda is a member of the International Institute of Municipal Clerks, the Texas Municipal Clerks Association, and the Lone Star Municipal Clerks Chapter. Linda and her husband, Franklin, live in Lewisville with their daughter, Summer.

W. Andrew Messer, Town Attorney

Mr. Messer is the principal attorney in the law firm of Messer, Campbell, & Brady LLP, specializing in municipal law. He received his Doctor of Jurisprudence from Baylor University. He has been a member of the Texas Bar Association since 1986.

Janette Baldwin, Municipal Judge

Judge Baldwin has practiced law for more than 25 years. She has earned a BS degree in Finance from the University of Texas at Dallas and a Doctor of Jurisprudence from Baylor University. Judge Baldwin is admitted to practice law in the State of Texas and in the United States District Court Northern District of Texas. She has been quoted and featured in national legal magazines and has been an instructor in advanced law courses. She has been a member of the Texas Bar Association since 1989.

Municipal Service Providers

Freese and Nichols Incorporated, Town Engineer and Municipal Planning

The company was hired in 2007 as the Town engineering and planning firm to provide expertise on the highest and best use of the town's undeveloped property. The planning group is responsible for analyzing growth and the impact on Town facilities to ensure that the burden is apportioned appropriately to future development projects.

AquaMat of Texas

AquaMat was hired in 1991 to operate the utility services for the Town of Lakewood Village. In addition to providing oversight for operations, AquaMat makes recommendations for streamlining procedures and upgrading equipment. Gary Barnes, President of AquaMat, earned his BS from Texas A&M University and lives in Plano with his wife and son.



II. Significant Issues

Overview:

Looking to the future, the Town Government is proactively investigating and collecting information on various issues the Town expects to encounter in the future. Citizen awareness and community involvement are essential as we confront and address these issues in the not-too-distant future.

These issues include:

- *Extra Territorial Jurisdiction (ETJ) surrounding Lakewood Village;*
- *Future Development of the Town's remaining 175 acres;*
- *Infrastructure Improvements and Expansion;*
- *Eldorado Construction and Traffic Planning;*
- *Evaluating and Implementing Recommendations from our recent Internal Audit and Comprehensive Risk Assessment;*
- *Negotiating and Implementing New and Existing Interlocal Agreements*

Extraterritorial Jurisdiction (ETJ):

The ETJ of a municipality is an area lying outside of the town's boundary where the town has the exclusive right of annexation at a future date. The population of a municipality governs the size of its ETJ. Under Chapter 42 of *The Local Government Code*, the Lakewood Village ETJ generally extends one-half mile outside the corporate limits of the Town. The general legislative intent of creating ETJ's was to permit municipalities room for future growth while allowing them to avoid engaging in costly annexation competitions. Since municipalities retain exclusive annexation rights within their ETJ, they can annex the area when suitable municipal services can be most efficiently supplied. Little Elm and Oak Point, our two adjacent communities, have no legal ability to annex any portion of Lakewood Village's ETJ.

While Lakewood Village has exclusive rights to annexation within our ETJ, under Texas law, the current size of our population prevents us from annexing any property without the consent of the affected property owners.

The Lakewood Village ETJ can be thought of as four distinct sections:

- *Southern portion of Sunrise Bay*
- *Little Elm ISD property*
- *North Garza & Eldorado Parkway*
- *Rocky Point*

A critically important aspect of future planning by the Town is determining the extent of future development within the various parts of our ETJ and assessing the impact on the Town if annexation were to occur. Each of these areas will potentially affect the Town's current master planning and development activities and significantly influence our infrastructure capabilities. Each of these sections has unique features and potential consequences for the Town's critical infrastructure; namely our municipal water and wastewater services.

Southern Portion of Sunrise Bay

Within the Sunrise Bay development, the Lakewood Village ETJ encompasses Spinnaker Run Point, Autumn Mist Cove, Nautical Cove, and the extreme southern portion of Shoreline Drive. This area is currently within the Little Elm Water Certificate of Convenience and Necessity Service Area (CCN), meaning the Town of Little Elm provides the water service to that area. Exclusive water servicing rights are not required to be aligned with municipal boundaries. Little Elm provides fire and EMS services to the area through an agreement with Denton County. This section is not in the Lakewood Village wastewater CCN, thus, if annexed, the Town need not provide wastewater services. Since Lakewood Village would not be required to provide water or wastewater services in the event of annexation, the future impact on critical Town infrastructure would be minimal.

The area includes 56 properties (32 homes and 24 vacant lots) with a 2007 appraised value of \$18,302,786. At the current valuation, if these properties were annexed into Lakewood Village, the Town would receive an additional \$44,000 in property tax revenue per year.

Little Elm ISD Property

The LEISD property comprises approximately 14 acres of land northeast of the Town entrance. The school district has indicated that the property is not likely to be used as a school building site. Future plans for the property are uncertain. If the ultimate disposition of the property is residential development, then the property can be developed without Lakewood Village water or wastewater services. Alternatively, if the area were to be commercially developed, obtaining wastewater services from Lakewood Village through a voluntary annexation agreement would maximize the value of the property. The impact on the Town's wastewater capacity would be a function of the density and type of commercial activity undertaken.

North Eldorado Parkway & Garza Lane

This portion of the ETJ is the area extending approximately one-half mile north of the current Garza Lane and includes portions of Silver Leaf Estates and Rustic Oaks. This area generally consists of relatively narrow residential tracts of five or more acres. Some of the lots have portions located in the ETJ of both Lakewood Village and Oak Point. The commercial viability of the undeveloped parcels in this area is dependant on the specific deed restrictions for each individual property. Similar to the LEISD property, if developed commercially, maximizing the property value would likely require wastewater services obtained from Lakewood Village through a voluntary annexation.

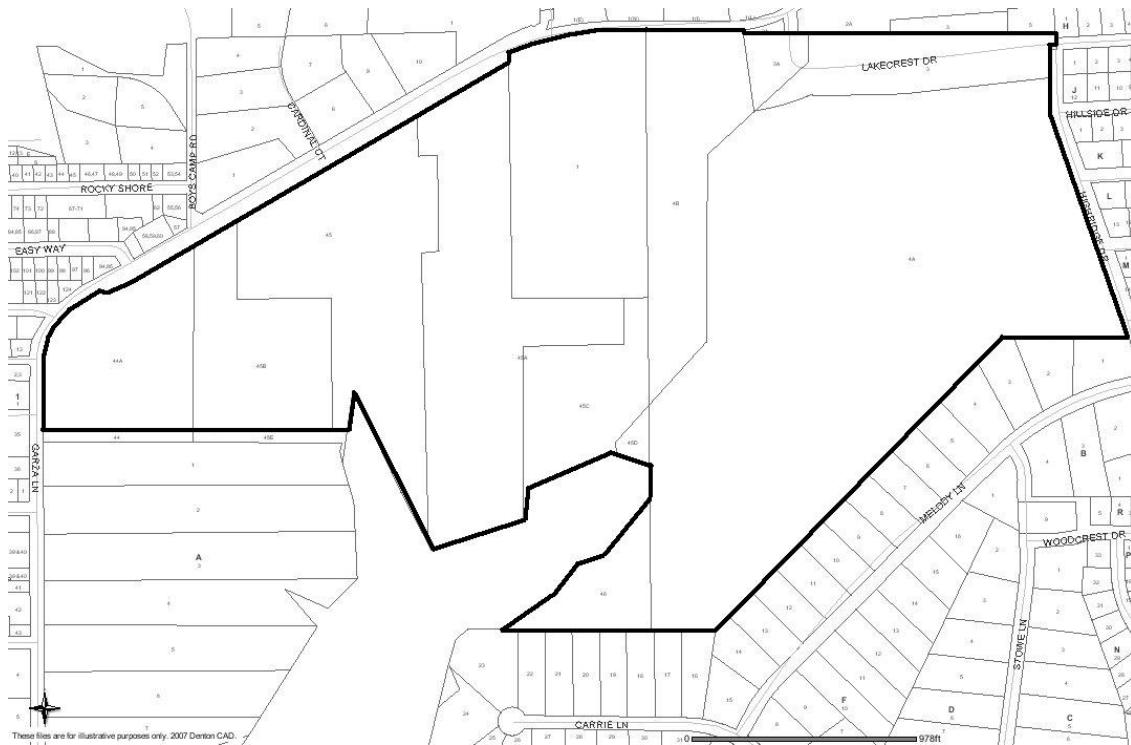
Rocky Point

In general, the Rocky Point region of the ETJ includes the areas to the west of Garza Lane, and includes Braewood Bay and Lakeside Estates (the area de-annexed from Lakewood Village on April 13, 1994). All of these areas currently lay outside the Lakewood Village water and wastewater CCN's, and thus Lakewood Village is prohibited from supplying the area with municipal services. Instead, various for-profit corporations currently provide exclusive water service to these areas. The properties in Braewood Bay and Lakeside Estates utilize on-site aerobic systems and thus Lakewood Village's wastewater services are unnecessary. Within Rocky Point, the extremely fragmented lots and neighborhoods as well as the ad-hoc nature of the limited infrastructure make it uneconomical and logistically infeasible for the Town to provide wastewater services in the foreseeable future.

Future Development

The Town has approximately 175 acres of undeveloped land bordered by Eldorado Parkway to the north and Lewisville Lake to the south. Of this area, Landplan Development Corporation owns approximately eighty acres, with the remaining five tracts (approximately 95 acres) held by individual landowners. In 2007, the Town initiated the process of formulating a comprehensive planning and zoning master plan to ensure the highest and best use for these properties. Key components of the plan may include the implementation of impact fees for related infrastructure expansions, and the creation of a master thoroughfare plan that will allow for maximum mobility within the Town without traveling on Eldorado Parkway.

The Town continues to have periodic discussions with Landplan regarding various aspects of their planned residential development. The Town does not anticipate any platting submissions until after the planning and zoning process is complete.



Undeveloped Land within Lakewood Village

Infrastructure Improvements:

The Town government is continuing to evaluate the current and future requirements for our critical infrastructure (wastewater, water, and roads). In general, while the Town is well positioned for our current size, various capital improvement projects will need to be undertaken to support future growth.

Wastewater

At peak summer demand, the Town is operating at approximately 50 to 60 percent of the rated capacity of our wastewater treatment facility (utilization is 30 to 40 percent during winter). Future development within the Town as well as the effects of possible annexations in our ETJ necessitate that we begin the lengthy planning and approval process for the expansion of the plant. In response, the Town has begun initial discussions with TCEQ regulatory authorities on the required permitting process. Before we can formally apply for a permit, the precise technical specifications for the expansion will need to be formulated by the Town Engineer following the outcome of the planning and zoning process.

Water

The Town currently has three wells that provide our municipal water supplies. Under normal operating conditions, the three wells provide respectively 120, 95, and 37 gallons per minute, for a total pumping capacity of 252 gallons per minute. Under TCEQ regulations, the Town is currently required to have a pumping capacity of only 124 gpm (0.6 gallons per connection multiplied by 206 water connections). Thus, the Town has more than double the current requirement, or enough pumping volume for 420 homes.

The Town has aboveground storage capacity of 76,000 gallons (two 38,000 gallon tanks). Under TCEQ regulations, the Town is obligated to have storage of 200 gallons per water connection, which, based on 206 connections is 41,200 gallons. Thus, we currently have almost double the required storage, or enough for 380 homes.

Several capital expenditures for water equipment are anticipated in the near future. The pressure tank (horizontal tank at the front of the water plant) needs to be replaced with a larger tank. The appropriate size of the new tank will be determined by the Town Engineer following the completion of the planning process. Also, TCEQ regulations require that, at 250 connections, the municipality obtain backup generators to maintain power in the case of an outage. Instead, an approved, more cost-effective alternative solution is to tie into an adjacent municipal water system. The Town is currently working on a proposal for an Interlocal Agreement with the Town of Little Elm for an emergency water interconnection. The agreement would allow Lakewood Village to connect to Little Elm's well located on Garza Road and would permit mutual aid in the case of a water disruption.

Roads

The Fiscal Year 2008 budget appropriates funds for paving four streets (Meadowlake, Hillcrest, Shoreline, and Green Meadow). Based on consultations with the Town Engineer, the paving of subsequent streets will be prioritized based on their condition. The current plan is to complete the repaving of the entire town within three years.

One component of the current planning task is the creation of a master thoroughfare plan for the 175 undeveloped acres in the northwest part of the Town. Any new roads proposed under the plan will be paid for by assessments to the specific landowners.

Eldorado Construction and Traffic Planning

Lakewood Village currently has one entry/exit from Eldorado Parkway. The entry/exit currently under construction will provide one traffic lane for entry into the Town and two traffic lanes for exiting the Town. It is likely the future development of the Town will necessitate additional entry/exit points in the distant future to maximize mobility and alleviate bottlenecks. We expect the current planning project, which includes the creation of a master thoroughfare plan to provide more specific information on this issue.

A traffic light is not currently planned for the Town entrance, but the anticipated traffic count along Eldorado Parkway could necessitate one in the near future. Since the intersection does not involve a state highway, the Town and Denton County have jurisdiction over the approval process. However, under state law, in order to install a signal, the intersection must meet at least one of eight “warrants” as specified in the *Texas Manual on Uniform Traffic Control Devices*.

Warrant 1, Eight-Hour Vehicular Volume	Warrant 5, School Crossing
Warrant 2, Four-Hour Vehicular Volume	Warrant 6, Coordinated Signal System
Warrant 3, Peak Hour	Warrant 7, Crash Experience
Warrant 4, Pedestrian Volume	Warrant 8, Roadway Network

We can use estimated traffic volumes on Eldorado to meet the volume criteria. However, there must also be sufficient volume on the minor road (Lakecrest). For example, under the Four-Hour warrant, the average volume must meet or exceed 60 vehicles per hour. The Town Engineer will assess whether we meet the criteria. The cost to install a light is approximately \$100,000 - \$150,000 and various estimates of annual costs of electricity and maintenance are approximately \$3,000 – \$10,000.

Internal Audit & Risk Assessment:

The Auditing Department of the University of Texas at Dallas recently concluded a three-month project to perform an Internal Audit and Comprehensive Risk Assessment. The goal of the project was to:

- *Identify the internal and external risks facing the Town*
- *Assess the likelihood and severity of these risks, and*
- *Propose ways of minimizing or eliminating those risks*

In general, the potential risks that were identified pertained to health and safety related issues and improving financial controls.

Health and Safety

Among the risks illuminated, the most significant was the current level of police enforcement. Lakewood Village relies on the Denton County Sheriff for police protection. Due to the combination of Lakewood Village’s geographic location and the Denton County Sheriff’s staffing levels, the timeliness of police service is significantly less than what our surrounding communities experience. The Lake Lewisville Bridge completion and the accompanying high traffic volumes will likely increase the importance of this issue in the near term.

Another physical deficiency the audit detected is the lack of a disaster recovery plan. In response, the Town has taken several preventative steps. The Town now performs weekly computer backups of critical accounting and water billing data and stores these backups offsite. This minimizes the likelihood of a disruption of services in the unlikely event that Town Hall was to be damaged. In June 2007, the Town temporarily experienced a critical water shortage when all of the wells were disabled following a storm. In response, the Town has installed a remote sensing system and auto-dialer to alert Town personnel in the event of a problem. As documented earlier, the Town is also preparing a proposal with Little Elm for an emergency water interconnect which would provide short-term relief during a disaster.

Financial Controls

The audit identified several issues relating to financial controls that are common to all small Towns. While Lakewood Village is unlikely ever to have a separate treasurer, comptroller, town manager, and accounting department like much larger cities, the Town has made several significant improvements to our financial controls. Among the changes that were implemented during the past year are:

- The Town Council passed Ordinance 07-09 requiring posting of an itemized list of the prior month's expenditures and bank balances to provide maximum transparency and financial accountability to our citizens. These reports must be made available three days prior to the regular-scheduled council meetings. This provides citizens with the opportunity to examine the Town's use of funds and gives citizens the ability to ask pertinent questions during the upcoming council meeting.
- The Town created and implemented a system of two duplicate sets of financial records. The Town Secretary operates the official accounting software while the Town Council independently maintains a second financial record, which has restricted access. The two sets of books are reconciled monthly with the bank statements and with each other. This redundancy minimizes the possibility of accounting errors and provides independent verification of all transactions.
- The audit identified a potential billing problem associated with new utility accounts. In response, we have implemented a new policy whereby the Town Secretary enters new accounts into the water billing system while ongoing billing transactions are the responsibility of AquaMat of Texas.

In addition to these new policies, the Town continues to adhere to previously enacted controls such as multiple signatories for checks, dollar limitations on the size of checks, and prohibitions against the Town Secretary from signing her own paycheck.

Interlocal Agreements (ILA)

Interlocal agreements are essential for small towns such as ours. While police cars and fire trucks bearing the Lakewood Village name would enhance community pride, it is cost prohibitive. Due to large up-front investments in equipment and significant personnel and operating costs, Lakewood Village is financially unable to provide these services. In order to offer the greatest public safety for our citizens we must utilize the services of our surrounding communities.

We currently have an agreement with the Town of Little Elm for Fire and Emergency Medical Services. We have begun the process of negotiating a new, long-term Fire/EMS agreement with Little Elm. The Denton County Sheriff's Office provides police protection, but given the long response times and our geographic isolation, safety considerations dictate that the Town explore other alternatives, including contracting with Little Elm.

Other potential agreements with the Town of Little Elm include the production of new street signs and the interconnection of our adjacent water systems to provide mutual aid.

In addition to Little Elm, the Town has several interlocal agreements with Denton County regarding road paving; platting approval in our ETJ; and tax collection.



III. Financial Audits

The Town Government performed three different audits during the last fiscal year; an internal audit and comprehensive risk assessment, a financial audit, and a financial operations audit. The internal audit and risk assessment has been outlined previously (see page 13). The financial audit concentrated on the Town bookkeeping and records function. The financial operations audit consisted of a systematic examination of the Town's financial contracts and expenditures with the goal of eliminating unnecessary services, reducing costs, or improving efficiency.

Financial Transactions

After examining the accounting records, approximately 200 bookkeeping corrections were made to the accounting system to fix a variety of problems. Many of the errors were likely caused by the various former Town Secretaries' unfamiliarity and inexperience in accounting processes and lack of training on financial reporting software. Numerous errors were duplicate entries and misclassifications that had no effect on the Town's actual cash disbursements, but distorted the budget reports. However, critically serious errors were discovered when it was determined that more than \$50,000 in expenditures were not recorded in the accounting system, and thus did not appear in the budget reports. Because this money was spent but not shown in the accounts, if this error would have gone undiscovered, the Town would have potentially run out of money before the fiscal year ended.

Overall, the number of cash related billing errors represented a very small percentage of the total number of transactions processed by the Town. Specifically, our audit found:

- Duplicate payments to DHC for chemicals (*\$129.47 refunded*)
- Overpayment to Allied Waste for sludge removal (*\$645.20 refunded*)
- Unclaimed credit from Office Depot (*\$512.00 collected*)
- AT&T incorrectly charging sales tax. The error was corrected and under state law the Town can receive a refund for the taxes paid in the previous 48 months

Financial Operations

The Town conducted a financial efficiency audit, where we examined our financial operations, activities, and various contracts that the Town was a party to. We identified numerous opportunities where the Town could realize cost savings. As a result, the following changes to the Town's operations were implemented:

<i>Cost Reductions and Efficiency Gains</i>	<i>Annual Savings</i>
Corrected CoServ billing error. Lakewood Village Town Hall changed from <i>commercial building</i> rate to the lower <i>public building</i> rate. (16% rate reduction)	\$ 900
Analyzed AT&T phone bill and removed unused services. Obtained the lower "government rate". Reduced billing by an average of \$47/month.	\$ 564
Terminated contract with govoffice.com to host the Town web page. Moved to alternative web service provider. Implemented new web page lakewoodvillagetx.us	\$ 495
Implemented electronic payment of Federal Employment Taxes monthly. Previously the Town incurred fines and penalties for late payments and underpayments of \$749.	\$ 749
Comprehensive analysis of Town insurance policy led to dropping certain coverage and increasing/decreasing coverage limits to more accurately match asset replacement costs.	\$ 332
Implemented new accounting policies and terminated contract with accounting firm to compile monthly financial statements.	\$ 6400
Reduced propane tank size from 500 gallons (2-year supply) to 280 gallons (1 year) to reduce payments. This frees up \$550 that would have been sitting in the propane tank.	\$ 550
Upgraded and expanded alarm system at Town Hall. Reduced monthly payment from \$39/month to \$31/month.	\$ 100
Implemented electronic bill paying to replace most paper checks and postage.	\$ 300
Use AQUAMAT for water billing rather than hiring a second full-time town employee. Reduced staffing costs from \$58,305 to \$42,000	\$ 16,305
Reduced attorney fees. Negotiated and completed agreements on prior pending legal issues. Use TML free legal services when possible. Fees reduced from average of \$3,790 per month to \$1,962 per month.	\$ 21,936
Approximate Cost Savings	\$48,631



IV. Discussion and Analysis of Town Finances

Fiscal 2007 was notable for the significant turnover in Town staff and government. In the last year, the Town employed three different town secretaries and, following the election, four council positions changed hands. Despite the distractions common to any transition, the Town ends fiscal 2007 in very good financial condition. Noteworthy financial achievements in 2007 include the following:

Strong increases in General Fund Revenues – Fueled by double-digit increases in property values, (Lakewood Village now ranks 5th highest in Denton County), general fund revenues rose by 13.1 percent in 2007. Revenues are forecast to rise by 12.5 percent in the 2008 budget.

Significant Capital Expenditures – The Town continues to appropriate significant sums to capital improvement projects to improve the Town's infrastructure. These projects include road improvements and investments in municipal facilities. Capital expenditures as a percentage of total Town revenues (general fund and utility fund) were 18 percent in 2006, and 15 percent in 2007. Investment in 2008 is budgeted to increase to 28 percent due to a large-scale road improvement project.

Improved Liquidity – Due to strong cost containment in the latter portion of the year the Town's cash holdings increased by \$ 37,564 during the year. The Town ended the fiscal year with financial assets of \$75,867. These cash balances are more than adequate to fund operations for the first three months of Fiscal 2008 (October-December) until property taxes are collected.

Significant Cost Containment – Facing a forecast \$60,000 shortfall in utility receipts due to weather related issues, the Town embarked on a significant cost reduction strategy. This resulted in a reduction in general fund expenses of approximately \$85,000 compared to 2006. The Town performed a financial operations audit (see page 17) and, as part of an ongoing cost containment strategy, continues to evaluate potential cost savings and efficiency gains.

To gain insights and further evaluate our current financial position we examine several benchmark financial ratios for solvency and liquidity. These ratios measure the ability of the Town to pay current and future bills, and represent one method a creditor would employ to assess the financial riskiness of the Town.

Current Ratio – This is computed as the ratio of current assets (liquid assets such as cash and cash-like assets) to current liabilities (the amount of bills due in the next 12 months). Higher ratios mean better ability to pay upcoming bills and thus a lower risk of missing a payment. A ratio less than one is an indicator of poor financial health. Lakewood Village’s ratio of 2.74 is good and is roughly comparable to our larger neighboring municipalities. A reasonable goal in the future is to increase this ratio above three.

Current Assets ÷ Current Liabilities

Lakewood Village (2007)	Oak Point (2006)	Little Elm (2006)
2.74	3.37	5.82

Debt Ratio – Whereas the current ratio looks at bills that are coming due in the near future, the debt ratio measures the amount of long-term debt that the Town has incurred relative to the value of the Town’s assets. Lakewood Village has very little debt relative to our neighboring communities. Our long-term debt represents only 5.7 percent of our assets, while our neighbors debt load is approximately eight times higher. This means the Town should have the ability to obtain very favorable financing for any major infrastructure improvements.

Long-Term Debt as a Percent of Total Assets

Lakewood Village (2007)	Oak Point (2006)	Little Elm (2006)
5.7%	44.2%	45.1%

Based on this financial analysis, the Town has good credit quality and, if necessary, should be able to acquire funding at competitive rates. The Town does not have the ability to rely on tax rate increases to solve unforeseen budget shortages. This constraint is not critical, because the Town appropriates relatively large amounts of funds for discretionary capital improvements, and thus has considerable flexibility in responding to budget shortfalls. That is, the Town has the ability to scale-back capital projects rather than cut services in response to budget pressures.

There are several financial areas where the Town could improve. The Town needs to increase its financial safety margin to be able to respond quickly to a financial emergency. An economical and efficient solution is securing a stand-by line of credit to be used if a major economic event were to occur. This would allow for timely repairs or quickly rebuilding without waiting for insurance payments or experiencing the delays associated with applying for loans or mortgage financing. Also, the Town could benefit by implementing a cash management program that would efficiently and systematically move funds from our low-interest checking accounts to a higher yielding money-market account, thereby generating improved investment returns.

Looking to the future, the anticipated property developments will bring a significant increase in building permit receipts and more than offset the declining housing starts as The Shores section of Town nears build-out. This will also result in a large increase in our property tax base and gains in economies-of-scale as we provide municipal services to a greater number of customers without increases in staffing or overhead. Although there will also be additional infrastructure costs associated with our growth, appropriate impact fees and assessments should mitigate these effects.

In summary, the Town is well positioned financially with more than sufficient liquidity and borrowing capacity to realize fully the benefits and opportunities of the Lewisville Lake/FM 720 Corridor project.

A handwritten signature in cursive script, appearing to read "Mark E. Vargus".

Dr. Mark E. Vargus
Councilman Place 3
Lakewood Village Investment Officer



V. Financial Statements

In this section, a comprehensive set of financial statements is provided. The balance sheet lists the assets and liabilities of the Town. The accompanying explanatory notes are an important source of information regarding specific financial details. For example, the notes include supplemental information on our loan such as the interest rate, payment, and amortization schedule over the remaining term of the note.

We include budget information and actual expenditures for 2007. To allow for comparisons, we also include the expenditures for 2006 and the current 2008 budget.

The statements include the following:

- 2007 Fiscal Year-End Balance Sheet
- Explanatory Notes to the Financial Statements
- Budgets and Expenditures for 2006, 2007, and 2008

Town of Lakewood Village Balance Sheet Fiscal Year Ended September 30, 2007

ASSETS

Cash and Short Term Investments	\$75,867
Accounts Receivable (see note 2)	\$20,762
Restitution Receivable (see note 3)	\$3,960
TOTAL CURRENT ASSETS	\$100,589

Taxes Receivable (see note 4)	\$4,285
Lien Receivables (see note 5)	\$3,827
Parts Inventory	\$2,500
Land (see note 6)	\$405,376
Town Hall Building	\$63,739
Accumulated Depreciation	(\$16,343)
Infrastructure (see note 10)	
Water System	\$553,631
Wastewater System	\$385,714
Roads	\$125,000
Furniture and Office Equipment (net)	\$2,000
Restitution Receivable (see note 3)	\$59,924
Civil Judgment (see note 3)	\$49,945

TOTAL ASSETS	\$1,740,187
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LIABILITIES

Accounts Payable (see note 7)	\$5,287
Payroll Taxes & IRS Penalties Payable (see note 8)	\$1,297
Interest Payable (see note 9)	\$6,893
Current Portion of Note Payable (see note 9)	\$23,203
TOTAL CURRENT LIABILITIES	\$36,680

Water Deposits	\$40,400
Note Payable (see note 9)	\$100,272

TOTAL CURRENT LIABILITIES	\$177,352
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NET ASSETS

Invested in Capital Assets, net of related debt	\$1,341,765
Unrestricted Net Assets	\$221,070

TOTAL NET ASSETS	\$1,562,835
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Notes to the Financial Statements

Note 1. Cash Management and Short-term Investments

The Town’s financial depository is Independent Bank, where we maintain two interest-bearing demand deposit checking accounts (the “General Fund” and the “Utility Fund”) and a savings account (the “Reserve Fund”). All of the funds are fully covered by FDIC insurance.

The interest rate paid on these deposits is variable. The approximate annual rates the Town received on its funds were 0.40 percent for the general and utility funds and 3.95 percent for the reserve fund. The Town earned \$ 1,259 in interest revenue in Fiscal Year 2007.

The Town began the 2007 fiscal year with a cash balance of \$ 38,303. In Fiscal Year 2007, the Town had a positive cash flow of \$37, 564. As of September 30, 2007, the individual balances in each account were as follows:

<u>FUND</u>	<u>Beginning Balance</u> <u>October 1, 2006</u>	<u>Ending Balance</u> <u>September 30, 2007</u>
General	\$2,283	\$4,319
Utility	\$14,409	\$17,580
Reserve	\$21,611	\$53,968
TOTAL	\$38,303	\$75,867

Net Change in Cash (cash flow) = \$ 37, 564

Note 2. Accounts Receivable

The Town's accounts receivable are all related to utility payments (water, sewer, garbage) for the current period. The breakdown of the receivables on September 30, 2007 is as follows:

Analysis of Accounts Receivable by Age and Service					
	Current Period	30 Days Overdue	60 days Overdue	90 Days Overdue	TOTAL
Water	\$ 9,275	\$ 1,466	\$ 656	\$ 767	\$ 12,164
Sewer	\$ 3,944	\$ 852	\$ 364	\$ 492	\$ 5,652
Garbage	\$ 1,926	\$ 476	\$ 187	\$ 258	\$ 2,847
TOTAL	\$ 15,145	\$ 2,794	\$ 1,207	\$ 1,517	\$ 20,663
<i>Number of Accounts</i>	---	46	22	12	---

All of the accounts that are more than 60 days overdue are participating in payment plans, thus we have not created an allowance for doubtful accounts. Additionally, the Town maintains security deposits, which minimize the amount of receivables that could become uncollectable.

Note 3. Restitution Receivable

Under a June 16, 2005 court order, as a condition of probation, Dawnelle Szendziak was ordered to pay \$81,745.24 as restitution for criminal misappropriation of Town funds. Installment payments of \$660 monthly (\$7,920 annually) are to be paid commencing on July 10, 2005 and continuing until the debt is fully paid. The payments received and the remaining obligations are as follows:

<u>Fiscal Year</u>	<u>Payments Received</u>	<u>Balance Due</u>
	---	\$81,745.24
2005	\$7,846.04	\$73,899.20
2006	\$5,915.00	\$67,984.20
2007	\$4,100.00	63,844.20
TOTAL	\$17,861.04	

During Fiscal Year 2007, the Town received \$4,100 or approximately one-half of the legally required payments. Attempts by the Town to fully enforce the agreement have been unsuccessful. Based on the most recent payment history, the Town is recording a current accrual of only \$3,960 as an estimate of the revenues to be received this fiscal year. The remainder of the balance due of \$59,924.20 is classified as a long-term receivable.

Civil Judgment

On January 12, 2007, final judgment was entered in the civil suit *Town of Lakewood Village v. Dawnelle Wisener Szendziak* for \$125,416.22 plus attorney’s fees of \$2,160.00 for a total of \$ 127,576.22. Court-ordered restitution payments reduce the civil damages owed to the Town. The judgment accrues interest at 5 percent per year; the accrued interest to date is \$4,114.

Original Judgment	\$127,576.22
Less Payments Received	(\$17,861.04)
Plus Accrued Interest	\$4,114.00
TOTAL DUE	\$113,829.18

Of the total amount due, \$63,884.20 is court ordered restitution and required payment as a condition of parole. The remainder of the civil judgment, \$49,944.98 is collectable as a civil judgment only. Since the receivables are recoverable under different procedures, we record them separately on the balance sheet as two assets, Restitution Receivable and Civil Judgment.

Note 4. Taxes Receivable

The Town collects ad-valorem (property) taxes at the rate of \$0.25 per \$100 of assessed value. Currently the Town is owed back-taxes as follows:

<u>Property Location</u>	<u>Tax Years</u>	<u>Taxes Due</u>
Highridge Drive	2006	\$58.51
Peninsula Drive	2004-2006	\$208.10
Melody Lane	2006	\$267.87
Woodcrest Drive	2004-2006	\$466.50
Peninsula Drive	2003-2006	\$844.83
Carrie Lane	2004-2006	\$2,439.15
TOTAL DUE		\$4,284.96

Note 5. Liens Receivable

The Town has filed liens for various amounts owed to the Town. The liens accrue interest at ten percent annually and are second in priority only to tax liens and liens for street improvements. While collection is highly probable, the timing of the receipt of funds is uncertain, as it usually occurs as a condition of changes in property ownership. Adopting a conservative approach, these receivables are classified as non-current assets. The known liens and amount due (including accrued interest) as of September 30, 2007 are as follows:

<u>Property Location</u>	<u>Lien Amount</u>
401 N. Peninsula	\$3,262
Woodcrest Drive, Lot 1	\$330
817 Carrie Lane	\$235
<u>TOTAL DUE</u>	<u>\$3,827</u>

Note 6. Land

The Town has ownership of several properties within the corporate limits, all of which are tax-exempt. We report the most current appraised values, as we are unaware of available records of the Town's cost basis. The real property owned by Lakewood Village, location, size, and current appraised value is as follows:

<u>Location</u>	<u>Acres</u>	<u>Value</u>
Wastewater Plant		
408E Parkwood SE Corner	0.275	\$29,720
408 Parkwood	0.457	\$84,626
409 Parkwood	0.485	\$89,752
Additional Land		
405 Parkwood	0.435	\$35,036
404 Parkwood	0.339	\$31,834
Water Facilities		
104 Highridge	0.275	\$29,738
305 Hillside	0.248	\$28,822
Town Hall		
100 Highridge	0.275	\$29,735
Miscellaneous		
304 Lakecrest (park)	0.248	\$28,819
327 Parkwood (west ½)	0.130	\$17,294
<u>TOTAL VALUE</u>		<u>\$405,376</u>

Note 7. Accounts Payable

Following GASB requirements, this governmental report is presented using the full accrual basis. Accounts Payable consist of current liabilities arising from: (1) partial monthly salaries earned but not paid as of September 30, 2007, (2) contract and professional services used but not billed as of the fiscal year end, and (3) unbilled utility usage.

Note 8. Payroll Taxes & IRS Penalties Payable

The Town received four notices of tax deficiencies, errors, and penalties for failing to pay taxes in a timely manner for tax years 2006 and 2007. To eliminate this problem, the Town has enrolled in the Treasury Department's Electronic Federal Tax Payment System (EFTPS) and has implemented a policy whereby payroll taxes are paid monthly to the Internal Revenue Service.

Note 9. Long Term Debt – Note Payable

In June 2002, the Town secured a loan of \$ 225,000 for the purposes of constructing a well and related infrastructure. As a condition of the loan, the Town is required to charge utility rates sufficient to cover operations and maintenance in addition to the loan payment. The loan agreement does not encumber any Town assets nor is any Town property mortgaged.

The term of the note is ten years (120 quarterly payments) beginning September 1, 2002 and ending on June 1, 2012. The note bears an interest rate of 6 percent. The quarterly payment is \$7,524 or \$30,096 annually. As of September 30, 2007, the unpaid principle amount of the loan was \$ 123,475. Of this amount, the Town is required to make interest payments of \$6,893 in the next fiscal year (*interest payable*), and principle payments of \$23,203 (*current portion of note payable*). The remaining principle of \$100,272 (*note payable*) will be paid in future years and thus is classified as a long-term liability.

The full amortization and schedule of required payments of the loan is as follows.

Quarter	Date	Loan Balance	Payment	Interest	Principle
22	Dec-07	\$123,475	\$7,524	\$1,852	\$5,672
23	Mar-08	\$117,803	\$7,524	\$1,767	\$5,757
24	Jun-08	\$112,046	\$7,524	\$1,681	\$5,843
25	Sep-08	\$106,203	\$7,524	\$1,593	\$5,931
26	Dec-08	\$100,272	\$7,524	\$1,504	\$6,020
27	Mar-09	\$94,253	\$7,524	\$1,414	\$6,110
28	Jun-09	\$88,143	\$7,524	\$1,322	\$6,202
29	Sep-09	\$81,941	\$7,524	\$1,229	\$6,295
30	Dec-09	\$75,646	\$7,524	\$1,135	\$6,389
31	Mar-10	\$69,257	\$7,524	\$1,039	\$6,485
32	Jun-10	\$62,772	\$7,524	\$942	\$6,582
33	Sep-10	\$56,190	\$7,524	\$843	\$6,681
34	Dec-10	\$49,509	\$7,524	\$743	\$6,781
35	Mar-11	\$42,727	\$7,524	\$641	\$6,883
36	Jun-11	\$35,844	\$7,524	\$538	\$6,986
37	Sep-11	\$28,858	\$7,524	\$433	\$7,091
38	Dec-11	\$21,767	\$7,524	\$327	\$7,197
39	Mar-12	\$14,570	\$7,524	\$219	\$7,305
40	Jun-12	\$7,264	\$7,373	\$109	\$7,264

Note 10. Infrastructure

The Town has not recently prepared audited financial statements, nor has the Town prepared internal financial statements that conform to generally accepted accounting principles. In June 1999, the Government Accounting Standards Board adopted Statement 34, which required all U.S. municipalities to adopt new reporting standards for all financial reports as of June 2003.

There is no evidence that Lakewood Village has ever implemented GASB 34, which requires extensive disclosures relating to municipal infrastructure. This Financial Statement does conform to GASB 34. An important requirement under GASB 34 is that the municipality must estimate the historical cost basis of its infrastructure assets. We record assets at their historical cost where such data is available. Where historical cost data is unavailable, we use various estimation procedures including the GASB approved valuation method, which utilizes the inflation-adjusted current replacement cost.

Water System

The water system includes the costs associated with purchase and construction of the Town's three wells, aboveground storage tanks, pressure tank, support buildings, and electro-mechanical controls. Also included are the estimated costs of water lines and mains, fire hydrants, and other fixtures and components.

Wastewater System

The wastewater system includes the 100,000 gallons-per-day package plant, drying bed, support buildings, and control systems. Also included are the estimated costs of sewer lines and lift stations.

Other Notes and Significant Disclosures

Depreciation

As permitted under GASB 34, instead of recording periodic depreciation charges for infrastructure assets, the Town has chosen to adopt the modified approach due to mandatory asset management policies. Specifically, minimum water and wastewater standards are maintained and enforced by the Texas Commission on Environmental Quality (TCEQ) and the Town incurs annual maintenance expenditures accordingly. Road quality will be assessed by the Town Engineer and maintenance undertaken as warranted to maintain established standards. Depreciation charges will continue to be accrued on non-infrastructure assets such as buildings and furniture.

Contingent Liabilities

Unemployment Insurance

In August 2007, the Town was notified that two previous Town Secretary employees had separated from their subsequent employers, and requested and been initially awarded unemployment compensation. Under applicable laws, as a prior employer, the Town is responsible for a portion of unemployment claims that are paid by the State. The maximum liability, i.e., the aggregate payments the Town would be required to make is \$7,845.83. However, the amount of actual payments, if any, depends on the status of any appeals as well as the length of time the claimants remain unemployed. Since there exists considerable uncertainty on both the amount and likelihood of payments, a contingent liability was not accrued.

Insurance Claims

In June 2007, the Town experienced a mechanical failure of the #2 water well pump and motor assembly. The Town filed an insurance claim with TML for approximately \$13,000, which was the cost of the replacement equipment. The cause of the failure is currently under investigation, and TML has not indicated whether any of the loss is recoverable under our property insurance. Since there is considerable uncertainty about any recovery, the financial statements do not assume the Town will receive any insurance payments.

Contingent Claim

On May 21, 1999 the Town was awarded summary judgment in the amount of \$264,000 against a Town resident for the operation of an auto repair business out of his residence. There is significant uncertainty regarding both the timing and amount of any collection. It is expected that little, if any, of the judgment is likely to be collected and therefore the Town has not recorded the judgment as an asset.

Comparative Statements Revenues and Expenditures versus Budget

General Fund Revenues and Expenses versus Budget 2006-2007-2008

REVENUES	2006 Actual	2007 Actual	2007 Initial Budget	2007 Revised Budget	2008 Budget
Property Taxes	\$ 124,557	\$ 136,628	\$ 142,478	\$ 142,478	\$ 179,694
Franchise Fees	20,067	23,917	22,073	22,073	23,000
Building Permits	60,856	69,879	77,000	77,000	77,000
Contractor Registration	2,300	4,592	2,000	2,000	2,000
Pool Permits	1,000	1,250	500	500	500
Re-Inspect Fees	7,625	5,395	5,500	5,500	5,500
Fence Permits	550	800	500	500	300
Sprinkler Permits	550	850	450	450	250
Flatwork Permits	625	500	625	625	300
C/O Inspections	470	1,235	120	120	60
Town Hall Rental	360	0	0	0	0
Interest	1,798	1179	1,150	1,150	5,000
Pet Registration	460	130	0	0	0
Residential Lease License	200	100	500	500	500
Residential Mowing Fees	4,635	0	0	0	0
Miscellaneous	170	3,361	0	0	0
Municipal Court Fines	3,983	9,026	0	0	0
Municipal Court Fees	805	2,469	0	0	0
TOTAL	\$ 231,010	\$ 261,311	\$ 252,896	\$ 252,896	\$ 294,104

**General Fund Revenues and Expenses Versus Budget
2006-2007-2008**

EXPENSES	2006 Actual	2007 Actual	2007 Initial Budget	2007 Revised Budget	2008 Budget
Attorney Fees	27,223	\$ 40,259	15,000	50,000	36,000
Fire and EMS	0	12,120	12,120	12,120	12,120
Town Engineer	---	---	---	5,000	20,000
Police Support	---	---	---	1,300	8,400
Employee Benefits	---	---	---	---	5,000
Building Inspections	29,561	21,525	25,100	20,100	25,000
Town Mowing	6,335	8,670	14,000	8,000	7,500
Computer Maintenance	3,017	2,143	1,500	2,500	1,500
Electricity	2,904	7,653	7,000	10,000	7,464
Election	1,648	1,919	2,300	2,000	2,300
Insurance	7,212	2,400	1,890	2,400	0
DCAD	1,100	989	1,100	1,100	1,100
Membership Dues	790	821	800	1,000	1,000
Postage	---	732	2,500	2,500	1,500
Office Supplies	10,979	3,546	5,300	5,000	2,400
Propane	760	1,036	900	1,200	900
Street Improvements	79,123	7,638	10,000	7,500	100,000
Telecommunications	3,655	3,690	4,224	4,224	2,520
Town Maintenance	13,169	11,007	8,000	10,000	6,000
Advertising/Publications	917	861	1,500	800	1,000
Continuing Education	3,575	1,243	5,000	1,100	2,500
Payroll	40,289	31,083	33,800	30,000	33,677
Payroll Tax	3,198	6,118	9,100	6,500	8,307
Contract Labor	6,645	1,391	0	1,400	0
Travel & Meetings	823	320	3,500	350	3,500
Tax Collector	248	575	250	600	250
Accounting Fees	5,769	2,925	3,200	5,000	5,000
IRS PENALTIES	767	711	0	711	0
Municipal Court	4,898	6,623	15,000	6,500	2,000
Petty Cash	0	0	250	250	0
Mileage	0	0	250	250	0
Playground	0	0	270	270	250
Contingency Fund	1,794	3,168	16,852	4,000	8,000
Bank Fees	121	57	0	100	100
Village People	1,077	0	0	0	0
Animal Control	0	(200)	0	0	200
Residential Mowing	7,337	(370)	500	500	500
TOTAL	\$ 264,934	\$ 180,653	\$201,206	\$ 200,900	\$ 305,988

**Utility Fund Revenues and Expenses Versus Budget
2006-2007-2008**

REVENUES	2006 Actual	2007 Actual	2007 Initial Budget	2007 Revised Budget	2008 Budget
Water/ Sewer/ Garbage	\$ 233,842	\$ 211,487	\$ 246,000	\$ 220,000	\$ 244,800
Szendziak Restitution	5,915	3,510	7,920	7,920	7,920
Water/ Sewer Tap Fees	18,000	3,600	25,200	3,600	25,200
Water Deposits	7,000	4,800	2,800	2,800	2,800
Interest	98	80	100	100	100
Miscellaneous	0	1,540	0	0	0
TOTAL	\$ 264,855	\$ 225,017	\$ 282,020	\$ 234,420	\$280,820
EXPENSES					
Capital Improvements	\$ 8,733	\$ 64,682	\$ 120,000	\$ 65,000	\$ 70,000
Contract Salaries	30,000	38,202	40,500	40,500	40,500
Time Warrants (Loan)	30,095	30,095	30,095	30,095	30,095
Solid Waste	33,602	41,648	37,260	37,260	36,120
Electricity	50,501	32,878	38,379	38,379	37,380
Water Repairs	9,876	16,409	23,700	23,700	23,000
Sewer Repairs	67,871	29,495	23,000	25,000	23,000
Payroll	0	15,684	17,472	15,684	12,186
Payroll Expense	0	4,029	4,680	4,100	2,928
Insurance	1,150	4,661	5,360	5,360	7,403
Office Supplies	102	817	1,700	1,700	500
Postage	0	636	1,060	1,060	400
Computer Maintenance	0	1,056	1,500	1,500	1,000
Chemicals	2,234	1,435	2,000	2,000	2,000
Laboratory	10,449	1,277	884	1,500	1,500
Utility Permits	5,950	---	---	---	---
Water Equipment	1,406	5,488	2,800	6,000	2,800
Sewer Equipment	0	271	0	0	0
Water Deposit Refunds	3,168	2,384	2,500	2,500	2,400
Bank Service Charge	5	15	25	25	10
Contingency	0	400	9,593	5,000	5,000
Water Disconnects	440	(185)	0	0	0
TOTAL	\$ 255,582	\$ 291,377	\$ 362,508	\$ 306,363	\$298,222