

# **Lake Cities Municipal Utility Authority**

Annual Financial Report

For the Fiscal Year Ended August 31, 2017

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Annual Filing Affidavit

THE STATE OF TEXAS }  
COUNTY OF Denton }

I, Cecil Carter of the  
(Name of Duty Authorized Authority Representative)

Lake Cities Municipal Utility Authority  
(Name of Authority)

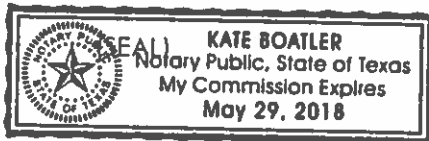
hereby swear, or affirm, that the Authority named above has reviewed and approved at a meeting of the Board of the Directors of the Authority on the 8 day of January, 2018 its annual audit report for the fiscal year or period ended August 31, 2017 and that copies of the annual audit report have been filed in the Authority office, located at 501 N. Shady Shores Dr, Lake Dallas, Texas 75065.  
(Address of Authority)

The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of the annual filing requirements of Texas Water Code Section 49.194.

Date: January 8, 2018 By: [Signature] (Signature of Authority Representative)

Cecil Carter, President, Board of Directors  
(Typed Name & Title of above Authority Representative)

Sworn to and subscribed to before me this 8 day of January, 2018.



Kate Boatler (Signature of Notary)

My Commission Expires On: May 29, 2018.  
Notary Public in the State of Texas.



## Independent Auditor's Report

Members of the Board of Directors  
Lake Cities Municipal Utility Authority  
City of Lake Dallas, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Lake Cities Municipal Utility Authority (the Authority), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lake Cities Municipal Utility Authority, as of August 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-10 and the schedule of funding progress for the retiree health plan, schedule of changes in net pension liability and related ratios, the schedule of employer pension contributions and notes to required supplementary information on pages 28-31 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. Also, the budgetary comparison schedule-enterprise fund on pages 32-33 is required supplemental information by the Texas Commission on Environment Quality as published in the Water District Financial Management guide. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

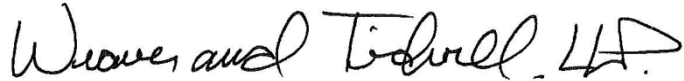
Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Lake Cities Municipal Utility Authority. The Texas Supplemental Information on pages 34-44 is required by the Texas Commission on Environmental Quality as published in the Water District Financial Management Guide. The Texas Supplemental Information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Texas Supplemental Information (excluding the portion marked unaudited) for which we express no opinion, 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.

Members of the Board of Directors  
Lake Cities Municipal Utility Authority

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2018, on our consideration of the Authority'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* in considering Lake Cities Municipal Utility Authority's internal control over financial reporting and compliance.



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 8, 2018

## **Management's Discussion and Analysis (Unaudited)**

As management of Lake Cities Municipal Utility Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended August 31, 2017.

### **Financial Highlights**

- The assets and deferred outflows of resources of the Authority exceed its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$25,250,831 (Net Position). Of this amount, \$3,422,169 (unrestricted net position) may be used to meet the government's ongoing obligations to customers and creditors in accordance with the Authority's fiscal policies.
- The Authority's total net position increased by \$1,914,469. This increase is primarily the result of the Authority's operating revenues outpacing operating expenses by \$2,028,820.
- The Authority's total debt decreased by \$735,000, primarily due to total principal payments during the current year of that amount.

### **Overview of the Financial Statements**

#### Basic financial statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three statements: 1) Statement of Net Position which provide all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities); 2) Statement of Revenues, Expenses and Changes in Net Position shows the business-type activities of the Authority and provides information regarding revenues and expenses, both operating and non-operating, that affect the net position; and 3) Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the period using the direct method of reporting cash flows from operating, investing, and capital and noncapital financing activities. The basic financial statements can be found on pages 11-13.

#### Notes to the financial statements

Integral to the financial statements are the notes to the basic financial statements. These notes provide additional information that is essential to a full understanding of the financial data provided in the basic financial statements. The Authority has prepared notes sufficient to provide the readers of these financial statements a clear picture of the Authority's financial position and insight into the results of its operations. These notes comply with the Texas Commission on Environmental Quality (TCEQ) standardized reporting requirements and are in conformity with accounting principles generally accepted in the United States of America (GAAP). The notes to the financial statements can be found on pages 14-27.

## Other information

In addition to the basic financial statements and the accompanying notes, this section presents certain required and other supplementary information, much of which is required by TCEQ and GAAP, which may be beneficial to the reader.

The supplementary information can be found on pages 28-44 of the report.

## Financial Analysis of the Authority as a Whole

Our analysis below focuses on the Authority's Net Position (Table 1) and Changes in Net Position (Table 2) during the fiscal year ended August 31, 2017.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Lake Cities Municipal Utility Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$25,250,831 as of August 31, 2017.

The largest portion of the Authority's net position (74%) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress and infrastructure), less any debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. An additional portion of the Authority's net position (12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$3,422,169, or 14%) may be used to meet the Authority's ongoing obligations to customers and creditors.

Lake Cities Municipal Authority's Net Position – Table 1

	<b>2017</b>	<b>2016</b>	<b>Change</b>
Current and other assets	\$ 11,301,123	\$ 12,316,598	\$ (1,015,475)
Capital assets	22,580,531	19,769,781	2,810,750
Deferred outflows of resources	110,878	110,384	494
Total assets and deferred outflows of resources	<u>33,992,532</u>	<u>32,196,763</u>	<u>1,795,769</u>
Current liabilities	2,085,945	1,575,458	510,487
Long-term liabilities	6,536,741	7,176,828	(640,087)
Deferred inflows of resources	119,015	108,115	10,900
Total liabilities and deferred inflows of resources	<u>8,741,701</u>	<u>8,860,401</u>	<u>(118,700)</u>
Net position:			
Net investment in capital assets	18,764,103	18,464,447	299,656
Restricted	3,064,559	1,973,815	1,090,744
Unrestricted	3,422,169	2,898,100	524,069
Total net position	<u>\$ 25,250,831</u>	<u>\$ 23,336,362</u>	<u>\$ 1,914,469</u>



Regarding restricted net position, \$2,539,105 represents Impact Fees restricted for capital improvements and \$525,454 represents the portion restricted for debt service. Unrestricted net position of \$3,422,169 may be used to meet the government's ongoing obligations to its customer and creditors.

As of August 31, 2017, the Authority is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

The current and other assets decreased by \$1,015,475.

During the current year, the Authority's debt (its revenue bonds and notes) decreased by \$735,000. Also included in long-term liabilities is the requirement to report an OPEB (Other Post-Employment Benefits) liability of \$1,095,653, which includes a \$135,872 increase.

The Authority's net position increased by \$1,914,469 during the current fiscal year. Net position invested in capital assets, net of related debt, increased by \$299,656. Unrestricted net position increased by \$524,069 or 18%.

The following table provides a summary of the Authority's operations for the fiscal year ended August 31, 2017, with comparative totals for the fiscal year ended August 31, 2016.

Lake Cities Municipal Utility Authority's Change in Net Position – Table 2

	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease)</b>
Total operating revenues	\$ 9,194,733	\$ 7,801,433	\$ 1,393,300
Operating expenses	7,165,913	7,398,725	(232,812)
Non operating expense (net)	178,087	215,037	36,950
Excess (deficiency) of revenues (under) expenses	1,850,733	187,671	1,663,062
Capital contributions	63,736	2,500,140	(2,436,404)
Change in net position	1,914,469	2,687,811	(773,342)
Net position at beginning of year	23,336,362	20,648,551	2,687,811
Net position at end of year	\$ 25,250,831	\$ 23,336,362	\$ 1,914,469

## **The Authority's Funds**

The Authority has one activity, the Enterprise Fund. Unrestricted net position of the proprietary fund, the Water and Sewer Fund, is \$3,422,169. This fund's net position increased in the fiscal year ended August 31, 2017 by \$1,914,469.

Proprietary Fund Budgetary Highlights – The Authority made no revision to the original appropriations approved by the Board of Directors. Also, the Authority made no changes to its overall budgeted revenue.

Actual operating revenues were (\$318,707) below the budgeted amounts, due in large part to the decrease in water usage by customers caused by wet weather.

Actual operating expenditures were (\$826,947) below the budgeted amounts, largely due to depreciation expense and salaries, benefits and payroll taxes.

Overall, the change in net position for the year was \$689,153 more favorable than the budget amount.

Additional information on the comparison of the Authority's actual operations to its budget can be found in the Budgetary Comparison Schedule – Enterprise Fund beginning on page 32.

## **CAPITAL ASSETS**

The Authority's capital assets for its business-type activities as of August 31, 2017 totaled to \$22,580,531 (net of accumulated depreciation). Capital assets includes land, building, equipment, improvements, infrastructure and construction in progress.

The Authority's capital assets increased \$2,810,750 during the current year.

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

1. Approximately \$77,000 of new land;
2. Approximately \$3,400,000 of new and replacement water and sewer infrastructure.

Capital assets at year-end net of accumulated depreciation

	<u>2017</u>	<u>2016</u>	<u>change</u>
Construction in progress	\$ 7,427,947	\$ 4,056,587	\$ 3,371,360
Land	514,312	437,199	77,113
Infrastructure/Equipment	13,472,248	14,008,644	(536,396)
Auto/ Trucks	174,449	222,163	(47,714)
Office Equipment/Software	71,162	75,546	(4,384)
Building	920,413	969,642	(49,229)
Totals	<u>\$ 22,580,531</u>	<u>\$ 19,769,781</u>	<u>\$ 2,810,750</u>

The following table summarizes the changes in capital assets.

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 19,769,781	\$ 16,535,236
Additions and transfers	3,735,063	4,217,223
Depreciation	(918,079)	(935,751)
Disposals and transfers	(6,234)	(46,927)
Balance at end of year	<u>\$ 22,580,531</u>	<u>\$ 19,769,781</u>

Additional information on the Authority's capital assets can be found in Note 4 on page 19 of this report.

**Debt Administration**

At the end of the current fiscal year, the Authority had total debt obligations of \$6,085,000. The pay-off date of the Authority's revenue bond is, August 1, 2033.

Outstanding Debt at Year-End  
Bonds, Capital Lease Obligations, and Note Payable

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenue Bonds/Notes Payable	\$ 6,085,000	\$ 6,820,000	\$ (735,000)
Totals	<u>\$ 6,085,000</u>	<u>\$ 6,820,000</u>	<u>\$ (735,000)</u>

The Authority's revenue-supported debt was rated by Standard & Poor's Rating Services, A Division of the McGraw-Hill Companies, Inc in 2013 at AA-. Application for contract ratings on the Bonds has not been made to any of the rating companies since that initial rating. Furthermore, the Authority did not apply for municipal bond insurance.

Additional information on the Authority's long-term debt can be found beginning with Note 5 on page 20 of this report.

### **Economic Factors and Next Year's Budget and Rates**

In the 2017-2018 Budget, water and sewer revenues are budgeted to increase by approximately 7% from the 2016-2017 budget year. A rate study conducted during the 2016 fiscal year revealed a structure change in water and wastewater rates (including depreciation) was needed to continue building acceptable Working Capital and fund capital improvement projects over the next five years. The Board of Directors passed a resolution affecting rates during the regular meeting held September 18, 2017 with an effective date of October 1, 2017.

The Authority has made a concerted effort to limit appropriations to only those items that are truly necessary. Budgeted expenses include a small increase in professional services and in operations. The supplies expense is a sustained number due to a meter change out program starting in FY 2015-2016. Increases in the demand charge for water and for wastewater treatment from the provider resulted in comparable increases in those items of the Authority's expenses budget.

The Water and Sewer Fund is budgeted to operate next year with expenditures equal to revenues.

### **Request for Information**

The financial report is designed to provide our residents, customers, investors and creditors with a general overview of the Authority's finances. If you have any questions about this report or need any additional information, contact the General Manager or Finance Director, 501 N Shady Shores Dr., Lake Dallas, Texas 75065 or call (940) 497-2999.

# **Basic Financial Statements**

**Lake Cities Municipal Utility Authority**  
Statement of Net Position  
August 31, 2017

**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 4,151,000
Accounts receivable, net of allowance	1,394,804
Supplies inventory	108,059
Other assets	66,000
Total current assets	<u>5,719,863</u>
<b>RESTRICTED ASSETS</b>	
Cash and cash equivalents	5,581,260
Total restricted assets	<u>5,581,260</u>
<b>CAPITAL ASSETS – net of accumulated depreciation</b>	
Construction in progress (non-depreciable)	7,427,947
Land (non-depreciable)	514,312
Infrastructure/equipment	13,472,248
Auto/ Trucks	174,449
Office equipment	71,162
Building	920,413
Total capital assets	<u>22,580,531</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to TCDRS pension	110,878
Total deferred outflows of resources	<u>110,878</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 33,992,532</u></u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION**

<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 912,915
Salaries and benefits payable	106,306
Accrued interest payable	12,330
Retainage payable	143,529
Security deposits	165,865
Current portion of long-term debt	745,000
Total current liabilities	<u>2,085,945</u>
<b>LONG-TERM LIABILITIES</b>	
Long-term debt, net of current portion	5,422,264
Net pension liability - TCDRS	18,824
OPEB liability	1,095,653
Total long-term liabilities	<u>6,536,741</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to TCDRS pension	119,015
Total deferred inflows of resources	<u>119,015</u>
Total liabilities and deferred inflows of resources	<u>8,741,701</u>
<b>NET POSITION</b>	
Net investment in capital assets	18,764,103
Restricted for debt service	525,454
Restricted for capital improvement	2,539,105
Unrestricted	3,422,169
Total net position	<u>25,250,831</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><u>\$ 33,992,532</u></u>

Notes to Financial Statements are an integral part of this statement.

# Lake Cities Municipal Utility Authority

## Statement of Revenues, Expenses and Changes in Net Position For the Year Ended August 31, 2017

### OPERATING REVENUES

Charges for water service	\$ 5,421,454
Charges for sewer service	3,204,121
Tap connection and inspection fees	388,903
Penalties and interest	180,255

Total operating revenues 9,194,733

### OPERATING EXPENSES

Purchased water service	2,169,971
Purchased sewer service	1,374,409
Salaries, benefits and payroll taxes	1,735,298
Contracted services	200,604
Professional fees	153,612
Utilities	77,862
Depreciation	918,079
Water and sewer system maintenance	166,981
Other	369,097

Total operating expenses 7,165,913

### OPERATING INCOME

2,028,820

### NON-OPERATING REVENUES (EXPENSES)

Investment earnings	32,571
Interest expense	(203,393)
Contributed capital	63,736
Loss on dispositions of capital assets	(7,265)

Total non-operating revenues (expenses) (114,351)

### INCREASE IN NET POSITION

1,914,469

### TOTAL NET POSITION – BEGINNING

23,336,362

### TOTAL NET POSITION – ENDING

\$ 25,250,831

# Lake Cities Municipal Utility Authority

## Statement of Cash Flows

For the Year Ended August 31, 2017

### CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 8,776,494
Cash paid to employees for services	(1,553,330)
Cash paid to suppliers	(3,338,876)
Cash paid for other expenses	(793,273)
Net cash provided by operating activities	<u>3,091,015</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>32,571</u>
Net cash provided by investing activities	<u>32,571</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(3,679,623)
Principal payments on long-term debt	(735,000)
Interest on long-term debt	(212,721)
Net cash used in capital and related financing activities	<u>(4,627,344)</u>

### NET DECREASE IN CASH AND CASH EQUIVALENTS

(1,503,758)

### CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

11,236,018

### CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 9,732,260

### CASH AND CASH EQUIVALENTS

\$ 4,151,000

### RESTRICTED CASH AND CASH EQUIVALENTS

5,581,260

### TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 9,732,260

### RECONCILIATION OF OPERATING INCOME TO NET CASH

#### PROVIDED BY OPERATING ACTIVITIES

### OPERATING INCOME

\$ 2,028,820

Adjustments to reconcile operating income to net cash provided by operating activities

Loss on disposal of capital assets	7,265
Depreciation	918,079
Change in accounts receivable	(408,049)
Change in pension liability and deferred inflows and outflows	(11,225)
Change in OPEB liability	135,872
Change in supplies inventory	(14,234)
Change in accounts payable, salaries payable, retainage payable, and deposits	434,487
Net cash provided by operating activities	<u>\$ 3,091,015</u>

### NONCASH ITEMS

Capital contributions 63,736

#### Total noncash items

\$ 63,736



# Lake Cities Municipal Utility Authority

## Notes to Financial Statements

### Note 1. Significant Accounting Policies

#### Reporting Entity

Lake Cities Municipal Utility Authority (LCMUA) was created under Article XVI, Section 59 of the Constitution of the State of Texas, by Acts 1963, 58<sup>th</sup> Legislature, Chapter 599, which provide that the Board of Directors shall be elected by the qualified voters of the Authority. It was organized to own and operate the Water and Sewer System and was empowered to levy taxes and charge for water and sewer services provided to citizens. The Authority was also validated and confirmed effective June 18, 1999 by House Bill No. 3804, Chapter 1137, 76<sup>th</sup> Legislature. This bill revised and restated the enabling statutes creating and establishing the Authority's power of eminent domain and its authority to levy an ad valorem tax and to issue bonds. Its enabling legislation was further amended by House Bill No. 2309, Section 1.26, 79<sup>th</sup> Legislature, which was signed into law on June 18, 2005, effective September 1, 2005. This law repealed Chapter 312, Acts of the 58<sup>th</sup> Legislature, Regular Session, 1963 and provided that each director is to be elected at large to one of five numbered places by the qualified voters residing within the boundaries of the Authority. Further amended by House Bill No. 4176 of the 84<sup>th</sup> Legislative Session, signed into law June 18, 2015 taking effect September 1, 2015. This law amended Section 1.3 regarding the territorial boundaries of LCMUA to include all municipal boundaries and extraterritorial jurisdictions of the City of Lake Dallas, the Town of Shady Shores, and the Town of Hickory Creek. Section 2.6 was amended to provide for a director seat for each of the representative municipalities and two at large directors.

#### Measurement Focus

The accompanying basic financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The Authority's operating revenues are derived from charges to users, primarily for the transportation and sale of water and wastewater. The Authority constructs facilities to provide services to others, which are financed in part by the issuance of its revenue bonds and notes.

#### Basis of Presentation

The Authority presents its financial statements in accordance with GASB Statement 34 guidance for governments engaged in business-type activities. Accordingly, the basic financial statements and Required Supplementary Information (RSI) of the Authority consist of MD&A, Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, Notes to Financial Statements, Schedule of Funding Progress for the Retiree Health Plan, Schedule of Changes in Net Pension Liability and Related Ratios and the Schedule of Employer Pension Contributions. Additionally, the Authority complies with the reporting requirements promulgated by the "Water District Financial Management Guide" published by the Texas Commission on Environmental Quality.

#### Revenues

Revenues are recognized as earned and generally result from providing water and sewer services to customers. Revenues resulting from other transactions are reported as non-operating revenues.

## **Lake Cities Municipal Utility Authority**

### Notes to Financial Statements

#### **Expenses**

Direct charges attributable to the operations of the Authority's water and sewer systems, including depreciation and amortization, are reported as operating expenses. Interest expense and other similar charges not directly related to the systems' operations are reported as non-operating expenses. Restricted resources, if any, are used first to fund related appropriations, before unrestricted resources are used.

#### **Cash Equivalents**

All highly liquid investments (including restricted assets) with original maturities of three months or less when purchased are considered to be cash equivalents.

#### **Deposits**

At August 31, 2017, the bank balance of the Authority's cash deposits totaled \$574,271, and the carrying value was \$(189,486). These amounts exclude the restricted cash amount held in escrow which totaled \$1,071,770 at August 31, 2017. The Authority has obtained a pledge of securities in the amount of \$300,000 from a financial institution in order to mitigate credit and custodial risks associated with deposits. However, this amount plus the bank depository insurance limits were insufficient to fully collateralize the Authority's deposits. The Authority has not experienced any loss as a result of this custodial risk.

#### **Accounts Receivable**

Accounts receivable consists primarily of receivables related to water and sewer services. Accounts receivable includes an accrual for unbilled revenue earned during the month of August 2017. The unbilled revenue balance as of August 31, 2017 was \$445,531.

#### **Allowances for Doubtful Accounts**

Trade accounts receivable are evaluated periodically for collectability based on customer history and current economic conditions. When considered necessary, an allowance is made for doubtful accounts.

#### **Inventories**

All inventories are valued at cost using the first-in/first-out (FIFO) methodology.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

#### **Capital Assets**

All purchased capital assets are stated at historical cost unless they are determined to be impaired based on GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. Donated assets are stated at their estimated fair values on the date donated.

## **Lake Cities Municipal Utility Authority**

### Notes to Financial Statements

Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized.

According to the Authority's capitalization policy, assets capitalized have an original cost of \$5,000 or more and two or more years of estimated useful life. Depreciation is calculated on each class of depreciable property using the straight-line method. Estimated useful lives range from 5 to 40 years for buildings and water and sewer equipment, 5 to 20 years for machinery and equipment, and 10 to 40 years for engineering fees and purchased computer software.

#### **Compensated Absences**

Employees are allowed to accumulate vacation within certain limitations. Payment for accrued vacation (within limits) upon termination is subject to the employee leaving in good standing. Payment for accrued sick leave (within limits) is paid upon retirement. At August 31, 2017, a liability of \$50,601 for unused vacation leave has been accrued and is included in current liabilities within salaries and benefits payable.

#### **Minimum Unrestricted Net Position**

The Authority's goal is to achieve and maintain unrestricted net position balance in the enterprise fund equal to 25% of annual expenses. In the event that the unrestricted net position balance is calculated to be less than the policy stipulates, the Authority shall plan to adjust budget resources in subsequent fiscal years to restore the balance.

#### **Subsequent Events**

The Authority has evaluated all events or transactions that occurred after August 31, 2017, through January 8, 2018, the date the financial statements were available to be issued. During this period there were no subsequent events requiring recognition or disclosure.

#### **Note 2. Cash and Investments**

Legal provisions generally permit the Authority to invest in direct and indirect obligations of the United States of America or its agencies, certain certificates of deposit, repurchase agreements, public funds investment pools and mutual funds. During the year ended August 31, 2017, the Authority did not own any types of securities other than those permitted by statute.

## Lake Cities Municipal Utility Authority

### Notes to Financial Statements

The following is a summary of cash and investments at August 31, 2017:

	Credit Quality Ratings	Fair Value	Weighted Average Maturity
<u>Unrestricted Cash and Investments</u>			
Deposits with a financial institution	Not Rated	\$ 2,351,577	n/a
Cash on hand	Not Rated	1,227	n/a
TexPool	AAAm	991,550	40 Days
LOGIC	AAAm	806,646	42 Days
		<u>\$ 4,151,000</u>	
<u>Restricted Cash and Investments</u>			
Cash Held in Escrow	Not Rated	1,071,770	n/a
Deposits with a financial institution	Not Rated	(2,541,063)	n/a
TexPool	AAAm	3,230,424	40 Days
LOGIC	AAAm	3,820,129	42 Days
		<u>\$ 5,581,260</u>	

The following is a summary of cash restrictions as of August 31, 2017:

<u>Restricted Cash and Investments</u>	
Restricted for customer deposits	\$ 165,865
Restricted for impact fees	2,539,105
Restricted for capital projects	2,350,836
Restricted for debt service	525,454
Total restricted cash and equivalents	<u>\$ 5,581,260</u>

In compliance with the Authority's investment policy, the Authority limits exposure to credit risk and interest rate risk by limiting the effective duration of securities to less than twelve months and limiting investments to high quality rated securities. The Authority limits exposure to custodial credit risk through a pledge of securities obtained from a financial institution.

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

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

## Lake Cities Municipal Utility Authority

### Notes to Financial Statements

The Authority also invests in LOGIC Investments. LOGIC is administered by FirstSouthwest and JPMorgan Chase. Together, these organizations bring to the LOGIC program the powerful partnership of two leaders in financial services with a proven track record in local government investment pool management and extensive industry resources. LOGIC is a local government investment cooperative created under the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Finally, LOGIC is an AAA rated local government investment pool created by Texas local government officials who understand the specific needs and challenges of investing public funds.

Investment pools are measured at amortized cost and are exempt for fair value reporting under GASB Statement No. 72.

#### Note 3. Accounts Receivable

Accounts receivable arising from business activities at August 31, 2017 are as follows:

Accounts receivable	\$	781,211
Accrued unbilled revenue		445,531
Developer engineering fees		92,950
Other receivables		132,254
Less: Allowance for uncollectibles		<u>(57,142)</u>
Total accounts receivable, net	\$	<u><u>1,394,804</u></u>

# Lake Cities Municipal Utility Authority

## Notes to Financial Statements

### Note 4. Capital Assets

A summary of changes in capital assets follows:

	Balance at September 1, 2016	Additions and Transfers	Disposals and Transfers	Balance at August 31, 2017
Capital assets, nondepreciable:				
Construction in progress	\$ 4,056,587	\$ 3,371,360	\$ -	\$ 7,427,947
Land	437,199	77,113	-	514,312
Total nondepreciable assets	<u>4,493,786</u>	<u>3,448,473</u>	<u>-</u>	<u>7,942,259</u>
Capital assets, depreciable:				
Infrastructure/Equipment	25,716,415	198,786	150,978	25,764,223
Auto/ Trucks	835,323	42,737	-	878,060
Office Equipment/Software	249,563	22,885	507	271,941
Building	1,588,641	22,182	-	1,610,823
Total depreciable assets	<u>28,389,942</u>	<u>286,590</u>	<u>151,485</u>	<u>28,525,047</u>
Less accumulated depreciation:				
Infrastructure/Equipment	11,707,771	728,949	144,745	12,291,975
Auto/ Trucks	613,160	90,451	-	703,611
Office Equipment/Software	174,017	27,268	506	200,779
Building	618,999	71,411	-	690,410
Total accumulated depreciation	<u>13,113,947</u>	<u>918,079</u>	<u>145,251</u>	<u>13,886,775</u>
Total depreciable assets, net	<u>15,275,995</u>	<u>(631,489)</u>	<u>6,234</u>	<u>14,638,272</u>
Capital assets, net	<u>\$ 19,769,781</u>	<u>\$ 2,816,984</u>	<u>\$ 6,234</u>	<u>\$ 22,580,531</u>

# Lake Cities Municipal Utility Authority

## Notes to Financial Statements

### Note 5. Long-Term Liabilities

Summary of long-term liabilities are summarized as follows:

	Balance at September 1, 2016	Additions/ Issued	Retired or Refunded	Balance at August 31, 2017	Amounts due Within One Year
Revenue Bonds	\$ 5,320,000	\$ -	\$ (240,000)	\$ 5,080,000	\$ 245,000
Revenue Notes	1,500,000	-	(495,000)	1,005,000	500,000
Premium	91,592	-	(9,328)	82,264	-
Total Bonds Payable	<u>6,911,592</u>	<u>-</u>	<u>(744,328)</u>	<u>6,167,264</u>	<u>745,000</u>
Net pension liability	40,455	-	(21,631)	18,824	
OPEB Liability	<u>959,781</u>	<u>135,872</u>	<u>-</u>	<u>1,095,653</u>	<u>-</u>
Total Long Term Liabilities	<u>\$ 7,911,828</u>	<u>\$ 135,872</u>	<u>\$ (765,959)</u>	<u>\$ 7,281,741</u>	<u>\$ 745,000</u>

The bonds and notes are secured by the water and sewer system and any revenues generated by the provision of water and sewer service through the use of this system.

Long-term debt includes the following issuances:

	Interest Rate (%)	Maturity Date	Outstanding	Due Within One Year
Revenue bonds:				
2013 Revenue bonds	3.00-4.25%	8/31/2033	\$ 5,080,000	\$ 245,000
2016 Revenue notes	1.10-1.55%	8/31/2019	1,005,000	500,000
Total long-term debt			<u>6,085,000</u>	<u>745,000</u>
Plus: deferred amounts:				
For issuance premiums and discounts			<u>82,264</u>	<u>-</u>
Net long-term debt			<u>\$ 6,167,264</u>	<u>\$ 745,000</u>

# Lake Cities Municipal Utility Authority

## Notes to Financial Statements

The annual requirements to retire revenue bonds and notes outstanding, including interest, are:

Year ended August 31,	Interest Amount	Principal Amount	Total Bond Service Requirements
2018	\$ 199,676	\$ 745,000	\$ 944,676
2019	186,084	760,000	946,084
2020	170,606	260,000	430,606
2021	162,806	270,000	432,806
2022	154,706	275,000	429,706
2023-2027	631,488	1,525,000	2,156,488
2028-2032	320,778	1,835,000	2,155,778
2033	17,638	415,000	432,638
Totals	<u>\$ 1,843,782</u>	<u>\$ 6,085,000</u>	<u>\$ 7,928,782</u>

### Note 6. Retirement Plans

The Authority provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 701 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Contributions.** The employer has elected the annually determined contribution rate (ADCR) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 9.16% for the 2016 plan year.



## Lake Cities Municipal Utility Authority

### Notes to Financial Statements

The contribution rate payable by the employee members for calendar years 2015 and 2016 is the rate of 7.00% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

#### Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2016
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 Years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.00%
Salary Increase	4.90%
Investment Rate of Return	8.00%

#### Discount Rate

The discount rate used to measure the total pension liability was 8.10%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8.10%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

# Lake Cities Municipal Utility Authority

## Notes to Financial Statements

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of December 31, 2016, are summarized below:

Asset Class	Benchmark	Target Allocation <sup>(1)</sup>	Geometric Real Rate of Return (Expected minus Inflation) <sup>(2)</sup>
US Equities	Dow Jones U.S. Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities - Developed	MSCI World Ex USA (net)	10.00%	4.70%
International Equities - Emerging	MSCI World Ex USA (net)	7.00%	5.70%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	S&P/LSTA Leveraged Loan Index	10.00%	8.15%
Distressed Debt	Cambridge Associates Distressed Securities Index (4)	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FTSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	20.00%	3.85%

(1) Target asset allocation adopted at the April 2017 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.0%, per Cliffwater's 2017 capital market assumptions.

(3) Includes vintage years 2006-present of Quarter Pooled Horizon IRRs.

(4) Includes vintage years 2005-present of Quarter Pooled Horizon IRRs.

(5) Includes vintage years 2007-present of Quarter Pooled Horizon IRRs.

### Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8.10%) in measuring the 2015 Net Pension Liability:

	1% Decrease	Current Discount Rate	1% Increase
Total pension liability	\$ 875,188	\$ 735,105	\$ 623,392
Fiduciary net position	716,281	716,281	716,281
Net pension liability / (asset)	<u>\$ 158,907</u>	<u>\$ 18,824</u>	<u>\$ (92,889)</u>

# Lake Cities Municipal Utility Authority

## Notes to Financial Statements

### Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, the Authority reported \$18,824 for the net pension liability and pension expense of \$91,629 related to the December 31, 2016, valuation. The breakdown of the components of pension expense follows:

	January 1, 2016 to December 31, 2016
Pension Expense / (Income)	
Service cost	\$ 183,804
Interest on total pension liability <sup>(1)</sup>	50,629
Effect of plan changes	-
Administrative expenses	418
Member contributions	(76,937)
Expected investment return net of investment expenses	(47,720)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(13,697)
Recognition of assumption changes or inputs	546
Recognition of investment gains or losses	12,160
Other <sup>(2)</sup>	(17,574)
Pension expense / (income)	<u>\$ 91,629</u>

(1) Reflects the change in the liability due to the time value of money.

TCDRS does not charge fees or interest.

(2) Relates to allocation of system-wide items.

The Authority reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 119,015	\$ -
Changes of assumptions	-	4,918
Net difference between projected and actual earnings	-	36,712
Contributions made subsequent to measurement date	-	69,248
	<u>\$ 119,015</u>	<u>\$ 110,878</u>

## Lake Cities Municipal Utility Authority

### Notes to Financial Statements

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
December 31	
2017	\$ 68,258
2018	(990)
2019	(2,620)
2020	(11,289)
2021	(13,150)
Thereafter	(48,346)
	<u>\$ (8,137)</u>

The Company also sponsors a 457(b) plan, the LCMUA Employees' Pension Plan (the Plan), whereby retirement benefits are provided to eligible full-time employees in lieu of Social Security. Under the Plan, LCMUA will match one-to-one the amount equal to .65% of the employee's salary. Employees are permitted to contribute between 1% of the employees' compensation up to the maximum of 12%.

#### Note 7. Other Postemployment Benefits

##### Plan Description

LCMUA participates in the TML Multistate Intergovernmental Employee Benefits Pool (TML-MEBP) Retiree Reimbursement Arrangement. Employees hired before April 1, 2016, with at least ten years of service and meeting the retirement eligibility requirements set forth in E.5.1 may opt to participate in the Retiree Reimbursement Arrangement, under which LCMUA will fund an account for reimbursement of eligible health care expenses for the retiree in the amounts provided for annually in LCMUA's fiscal year budget for retirees within the following classifications:

- Retirees with ten years of service, but less than 15 years of service;
- Retirees with fifteen years of service, but less than 20 years of service; and
- Retirees with twenty years of service or more.

The Summary Plan Description set forth by TML-MEBP controls the terms of the plan. The LCMUA retiree to receive benefits under the Retiree Reimbursement Arrangement must opt into the plan within 30 days of the employee's retirement date. LCMUA reserves the right to modify, revoke, suspend, terminate, or change the program, in whole or in part, at any time. The Plan does not have a separately issued GAAP-basis postemployment benefit plan report available for the current reporting period.

At August 31, 2017, the Plan had 23 total participants and met the requirements to use the alternative measurement method and elected to do so.

##### Funding Policy

The Authority's funding policy is established and may be amended by the Authority's Board of Directors. The Authority is not required to establish an irrevocable trust fund to accumulate assets for payment of future OPEB benefits and has elected not to do so as of August 31, 2017. Currently, payments of OPEB benefits are made on a pay-as-you-go basis in amounts necessary to provide current benefits to the recipients.

# Lake Cities Municipal Utility Authority

## Notes to Financial Statements

### Annual OPEB Cost and Net OPEB Obligation

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the alternative measurement method provisions of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years on an open basis. The Authority's annual OPEB cost and net OPEB obligation for August 31, 2017 and 2016 is shown below:

	2017	2016
Annual required contribution	\$ 148,706	\$ 105,362
Annual OPEB cost	148,706	105,362
Contributions made	(12,834)	(15,221)
Increase in net OPEB obligation	135,872	90,141
Net OPEB obligation - beginning of year	959,781	869,640
Net OPEB obligation - end of year	<u>\$ 1,095,653</u>	<u>\$ 959,781</u>
Percentage of Annual OPEB Cost Contributed	9%	14%

### Funded Status and Funding Progress

The funded status of other postemployment benefits as of August 31, 2016, the date of the latest actuarial valuation, was as follows:

Actuarial Accrued liability (AAL)	\$ 818,799
Value of plan assets	-
Unfunded actuarial accrued liability	<u>\$ 818,799</u>
Funded ratio (value of plan asset/AAL)	0.0%

### Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The unfunded actuarial accrued liability is being amortized assuming 30 level annual payments on an open basis.

Estimates include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

## Lake Cities Municipal Utility Authority

### Notes to Financial Statements

Below is a schedule of significant assumptions used to estimate the Authority's ARC:

Valuation Date	August 31, 2016
Amortization method	Level Dollar
Discount Rate	4.0%
Premium increases	3.90%-4.90%
Mortality Rates	Table RP2000 Combined Healthy Mortality Table
Ultimate Withdrawal Rates	GASB Expected Future Working Lifetimes of Employees, by Age—Default Values Table
Turnover Rates	GASB Probability of Remaining Employed until Assumed Retirement Age Table
Average salary increase	3.0%
Investment rate of return	4.0%

## **Required Supplementary Information**

## Lake Cities Municipal Utility Authority

Schedule of Funding Progress for the Retiree Health Plan  
For the Year Ended August 31, 2017

Fiscal Year Ended	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
8/31/2013	\$ 726,348	\$ -	\$ 726,348	- %	\$ 972,958	75%
8/31/2014	872,352	-	872,352	- %	1,017,245	86%
8/31/2015	950,006	-	950,006	- %	1,044,106	91%
8/31/2016	496,925	-	496,925	- %	1,155,590	43%
8/31/2017	818,799	-	818,799	- %	1,153,194	71%



## Lake Cities Municipal Utility Authority

### Schedule of Changes in Net Pension Liability and Related Ratios For the Years Ended August 31, 2017 and 2016

	2017	2016	2015
Total Pension Liability			
Service cost	\$ 183,804	\$ 144,987	\$ 155,483
Interest on total pension liability	50,629	43,843	31,848
Effect of plan changes	-	(26,350)	-
Effect of assumption changes or inputs	-	6,011	-
Effect of economic/demographic (gains) or losses	(24,596)	(103,836)	(16,767)
Benefit payments/refunds of contributions	(18,968)	(1,146)	(13,324)
Net change in total pension liability	190,869	63,509	157,240
Total pension liability, beginning	544,238	480,729	323,489
Total pension liability, ending (a)	<u>\$ 735,107</u>	<u>\$ 544,238</u>	<u>\$ 480,729</u>
Fiduciary Net Position			
Employer contributions	\$ 98,963	\$ 96,213	\$ 94,153
Member contributions	76,937	74,419	69,158
Investment income net of investment expenses	38,410	(8,513)	12,643
Benefit payments/refunds of contributions	(18,968)	(1,146)	(13,325)
Administrative expenses	(418)	(315)	(208)
Other	17,574	(54)	88
Net change in fiduciary net position	212,498	160,604	162,509
Fiduciary net position, beginning	503,782	343,179	180,670
Fiduciary net position, ending (b)	<u>\$ 716,280</u>	<u>\$ 503,783</u>	<u>\$ 343,179</u>
Net pension liability / (asset), ending <= (a) - (b)	<u>\$ 18,824</u>	<u>\$ 40,455</u>	<u>\$ 137,550</u>
Fiduciary net position as a % of total pension liability	97.44%	92.57%	71.39%
Pensionable covered payroll	\$ 1,099,105	\$ 1,063,129	\$ 987,970
Net pension liability as a % of covered payroll	1.71%	3.81%	13.92%

Note: Only three years of data are presented as prior years are not available.

**Lake Cities Municipal Utility Authority**  
 Schedule of Employer Pension Contributions  
 For the Year Ended August 31, 2017

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll <sup>(1)</sup>	Actual Contribution as a % of Covered Payroll
2005	Not Available	Not Available	Not Available	Not Available	Not Available
2006	Not Available	Not Available	Not Available	Not Available	Not Available
2007	Not Available	Not Available	Not Available	Not Available	Not Available
2008	Not Available	Not Available	Not Available	Not Available	Not Available
2009	Not Available	Not Available	Not Available	Not Available	Not Available
2010	Not Available	Not Available	Not Available	Not Available	Not Available
2011	Not Available	Not Available	Not Available	Not Available	Not Available
2012	Not Available	Not Available	Not Available	Not Available	Not Available
2013	\$ 93,808	\$ 109,807	\$ (16,000)	\$ 984,341	11.2%
2014	94,153	94,153	-	987,970	9.5%
2015	96,213	96,213	-	1,063,129	9.1%
2016	98,919	98,963	(44)	1,099,105	9.0%

(1) Payroll is calculated based on contributions as reported to TCDRS.

**Lake Cities Municipal Utility Authority**

Notes to the Required Supplementary Information  
For the Year Ended August 31, 2017

**Note 1. OPEB and Pension Liability**

**Change in benefit terms**

There were no changes of benefit terms that affected the measurement of the total OPEB or pension liability during the measurement period.

**Change in assumptions**

There were no changes in assumptions or other inputs that affected the measurement of the total OPEB or pension liability during the measurement period.

## **Required TCEQ Supplemental Information**

**Lake Cities Municipal Utility Authority**  
 Budgetary Comparison Schedule – Enterprise Fund  
 For the Year Ended August 31, 2017

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>OPERATING REVENUE</b>			
Charges for water service	\$ 5,519,240	\$ 5,421,454	\$ (97,786)
Charges for sewer service	3,285,000	3,204,121	(80,879)
Tap connection and inspection fees	579,800	388,903	(190,897)
Penalties and interest	129,400	180,255	50,855
	<hr/>	<hr/>	<hr/>
Total operating revenue	9,513,440	9,194,733	(318,707)
<b>OPERATING EXPENSES</b>			
Purchased water service	2,179,499	2,169,971	9,528
Purchased sewer service	1,421,555	1,374,409	47,146
Salaries, benefits and payroll taxes	2,188,060	1,735,298	452,762
Contracted services	304,633	200,604	104,029
Professional fees	108,600	153,612	(45,012)
Utilities	130,000	77,862	52,138
Depreciation	-	918,079	(918,079)
Water and sewer system maintenance	174,020	166,981	7,039
Other	1,486,493	369,097	1,117,396
	<hr/>	<hr/>	<hr/>
Total operating expenses	7,992,860	7,165,913	826,947
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment earnings	5,000	32,571	27,571
Interest expense	(300,264)	(203,393)	96,871
Contributed capital	-	63,736	63,736
Loss on dispositions	-	(7,265)	(7,265)
	<hr/>	<hr/>	<hr/>
Total non-operating revenues (expenses)	(295,264)	(114,351)	180,913
	<hr/>	<hr/>	<hr/>
<b>CHANGE IN NET POSITION – GAAP BASIS</b>	<u>\$ 1,225,316</u>	<u>\$ 1,914,469</u>	<u>\$ 689,153</u>
<b>NON-OPERATING COSTS – NON-GAAP</b>			
Capital expenditures	\$ 2,915,639	\$ 3,672,358	\$ (756,719)
Principal payments on long-term debt	802,276	735,000	67,276
	<hr/>	<hr/>	<hr/>
Total non-operating costs – non-GAAP	<u>\$ 3,717,915</u>	<u>\$ 4,407,358</u>	<u>\$ (689,443)</u>

**Lake Cities Municipal Utility Authority**

Notes to the Budgetary Comparison Schedule – Enterprise Fund  
For the Year Ended August 31, 2017

The Authority adopts an accrual basis budget for the enterprise fund annually. Included in the Authority's budget are certain expenditures such as capital expenditures and principal payments on long term debt. The budget is prepared by management and approved by the Board of Directors at the August meeting. The adopted budget is not a spending limitation under the law but rather a tool used in controlling and administering the management and operation of the Authority.

# **Texas Supplemental Information**

**Lake Cities Municipal Utility Authority**

TSI-1. Services and Rates

August 31, 2017

(Unaudited)

**1. Services Provided by the Authority during the Fiscal Year:**

X	Retail Water
X	Retail Wastewater

**2. Retail Service Providers**

**a. Retail Rates for a 5/8" meter (or equivalent):**

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Usage	Usage Levels
Water:	\$30.00	-	N	\$5.00	0 to 8,000
				\$6.50	8,001 to 20,000
				\$8.40	20,001 to 45,000
				\$10.90	45,001 and Above

*Individuals over the age of 65 receive 3,000 gallons in the monthly minimum.*

Wastewater:

Residential	\$30.00	-	N	\$5.60	0 and Above
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*Individuals over the age of 65 receive 2,000 gallons in the monthly minimum.*

Commercial	\$33.00	-	N	\$5.60	0 and Above
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Authority employs winter averaging for wastewater usage? Yes

Total charges per 10,000 gallons usage:	Water	\$83.00
	Wastewater	\$89.00



**Lake Cities Municipal Utility Authority**

TSI-1. Services and Rates – Continued

August 31, 2017

(Unaudited)

**2. Retail Service Providers**

**b. Water and Wastewater Retail Connections:**

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered	11	11	X 1.0	11
≤ 3/4"	5,360	4,733	X 1.0	4,733
1"	124	106	X 2.5	265
1 1/2"	25	25	X 5.0	125
2"	114	67	X 8.0	536
3"	19	4	X 15.0	60
4"	6	2	X 25.0	50
6"	5	4	X 50.0	200
8"	-	-	X 80.0	-
10"	-	-	X 115.0	-
Total water connections	5,664	4,952		5,980
Total wastewater connections	4,515	4,513	X 1.0	4,513

**3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):**

Gallons pumped into system:	542,545,000
Gallons billed to customers:	495,582,900
Water Accountability Ratio: (Gallons billed / Gallons pumped)	93.20%

**4. Standby Fees: Not Applicable**

**5. Location of District**

County in which the Authority is located:	Denton
Is the Authority located entirely in one county?	Yes
Is the Authority located within a city?	Partly
Cities in which the Authority is located:	Hickory Creek, Lake Dallas, Shady Shores
Is the Authority located within a city's extra territorial jurisdiction (EJT)?	Partly
EJTs in which the Authority is located:	Hickory Creek, Lake Dallas, Shady Shores
Are board members appointed by an office outside the Authority?	No

**Lake Cities Municipal Utility Authority**  
 TSI-2. Schedule of Enterprise Fund Expenses  
 For the Year Ended August 31, 2017

<b>PURCHASED WATER SERVICE</b>	\$ 2,169,971
<b>PURCHASED SEWER SERVICE</b>	1,374,409
<b>SALARIES, BENEFITS AND PAYROLL TAXES*</b>	1,735,298
<b>CONTRACTED SERVICES</b>	200,604
<b>PROFESSIONAL FEES</b>	
Auditing	31,505
Engineering	96,451
Consulting fees	11,197
Legal	14,459
<b>UTILITIES</b>	77,862
<b>WATER AND SEWER SYSTEM MAINTENANCE</b>	166,981
<b>OTHER</b>	
Other	124,911
Insurance/surety bonds	25,006
Fuel and lube	30,194
Telephone/2-way radios	25,851
Postage	25,418
Software maintenance/training	30,933
Printing	23,236
Uniforms	10,920
Other expense – subscriptions, dues, misc.	21,339
Safety supplies/training	2,646
Office equipment maintenance/rental	18,170
Office supplies	6,843
Travel expenses	3,949
Training/enrollment/license	8,612
Chemicals	10,393
Rents – equipment/space	676
<b>DEPRECIATION EXPENSE</b>	<u>918,079</u>
<b>TOTAL EXPENSES</b>	<u><u>\$ 7,165,913</u></u>

\* Number of persons employed by the Authority: 23 Full-Time 0 Part-Time  
 (Not including independent contractors or consultants)

**Lake Cities Municipal Utility Authority**  
 TSI-3. Schedule of Temporary Investments  
 August 31, 2017

<b>Funds</b>	<b>Account Number</b>	<b>Interest Rate at End of Year</b>	<b>Maturity Date</b>	<b>Balance at End of Year</b>	<b>Accrued Interest Receivable at End of Year</b>
<u>Business Type</u>					
Investment Pool	610200006	1.0085%	N/A	\$ 767,554	\$ -
Investment Pool	610200003	1.0085%	N/A	472,862	-
Investment Pool	610200002	1.0085%	N/A	1,136,528	-
Investment Pool	610200005	1.0085%	N/A	1,095,580	-
Investment Pool	610200009	1.0085%	N/A	223,996	-
Investment Pool	610200011	1.0085%	N/A	525,454	-
Investment Pool	1299179001	1.2739%	N/A	806,646	-
Investment Pool	1299179002	1.2739%	N/A	3,000,421	-
Investment Pool	1299179003	1.2739%	N/A	819,708	-
<b>Total</b>				<b>\$ 8,848,749</b>	<b>\$ -</b>

**Lake Cities Municipal Utility Authority**

TSI-4. Taxes Levied and Receivable

August 31, 2017

(Unaudited)

*(Does not apply to the Authority)*

**Lake Cities Municipal Utility Authority**

TSI-5. Long-Term Debt Service Requirements by Years  
August 31, 2017

Due During Fiscal Years Ending	Series 2013 Bonds		
	Principal Due August 1	Interest Due February 1 and August 1	Total Annual Requirements
2018	\$ 245,000	\$ 185,606	\$ 430,606
2019	255,000	178,256	433,256
2020	260,000	170,606	430,606
2021	270,000	162,806	432,806
2022	275,000	154,706	429,706
2023-2027	1,525,000	631,488	2,156,488
2028-2032	1,835,000	320,778	2,155,778
2033	415,000	17,638	432,638
Totals	<u>\$ 5,080,000</u>	<u>\$ 1,821,884</u>	<u>\$ 6,901,884</u>

	Series 2016 Notes		
2018	\$ 500,000	\$ 14,070	\$ 514,070
2019	505,000	7,828	512,828
Totals	<u>\$ 1,005,000</u>	<u>\$ 21,898</u>	<u>\$ 1,026,898</u>

	Total Bonds and Notes Payable		
2018	\$ 745,000	\$ 199,676	\$ 944,676
2019	760,000	186,084	946,084
2020	260,000	170,606	430,606
2021	270,000	162,806	432,806
2022	275,000	154,706	429,706
2023-2027	1,525,000	631,488	2,156,488
2028-2032	1,835,000	320,778	2,155,778
2033	415,000	17,638	432,638
Totals	<u>\$ 6,085,000</u>	<u>\$ 1,843,782</u>	<u>\$ 7,928,782</u>

**Lake Cities Municipal Utility Authority**

TSI-6. Changes in Long-Term Debt  
For the Year Ended August 31, 2017

	<u>Bond Issue Series 2013</u>	<u>Notes 2016</u>
Interest rate	3.00% - 4.25%	1.10%-1.55%
Dates interest payable	February 1; August 1	February 1; August 1
Maturity date	August 1, 2033	August 1, 2019
Beginning amount outstanding	\$ 5,320,000	\$ 1,500,000
Amounts sold during the fiscal year	-	-
Amounts retired during the fiscal year	240,000	495,000
Ending bonds/notes outstanding	<u>\$ 5,080,000</u>	<u>\$ 1,005,000</u>
Interest paid during the fiscal year	<u>\$ 193,406</u>	<u>\$ 19,315</u>

Paying Agent's Name and City:

BOKF, NA dba Bank of Texas, N.A.

Bond Authority:

	<u>Tax Bonds</u>	<u>Other Bonds/Notes</u>	<u>Refunding Bonds</u>
Amount authorized by voters	\$ -	\$ 7,500,000	\$ -
Amount issued	-	7,500,000	-
Remaining to be issued	-	-	-

Enterprise Fund cash and temporary investments balances  
as of August 31, 2017:

\$ 9,732,260

Average annual debt service payment (Principal and Interest)  
for remaining term of all debt:

\$ 495,549

## Lake Cities Municipal Utility Authority

TSI-7. Comparative Schedule of Revenues and Expenses  
Enterprise Fund—Five Years Ended  
For the Year Ended August 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUE</b>					
Charges for water service	\$ 5,421,454	\$ 4,642,515	\$ 4,285,730	\$ 3,805,927	\$ 3,957,275
Charges for sewer service	3,204,121	2,299,144	2,305,649	2,189,328	2,318,908
Tap connection and inspection fees	388,903	732,048	442,605	698,005	515,264
Penalties and interest	180,255	127,726	121,008	122,636	120,540
Total operating revenue	9,194,733	7,801,433	7,154,992	6,815,896	6,911,987
<b>OPERATING EXPENSES</b>					
Purchased water service	2,169,971	2,094,572	1,948,376	1,885,532	1,866,103
Purchased sewer service	1,374,409	1,425,377	1,376,418	1,167,432	1,055,366
Salaries, benefits and payroll taxes	1,735,298	1,688,957	1,643,299	1,567,678	1,487,924
Contracted services	200,604	230,073	213,840	184,714	164,447
Professional fees	153,612	143,331	75,226	83,624	131,456
Utilities	77,862	82,256	85,447	90,054	97,248
Depreciation	918,079	935,751	866,726	844,642	758,595
Water and sewer system maintenance	166,981	200,646	158,735	144,481	120,233
Other	369,097	597,762	337,627	454,757	378,468
Total operating expenses	7,165,913	7,398,725	6,705,694	6,422,914	6,059,840
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Investment earnings	32,571	9,020	2,310	30,109	3,092
Bond issuance costs	-	(40,000)	-	(30,644)	-
Interest expense	(203,393)	(190,375)	(196,731)	(222,311)	(4,228)
Gain (Loss) on dispositions	(7,265)	6,318	15,483	15,633	(89,695)
Total non-operating revenues (expenses)	(178,087)	(215,037)	(178,938)	(207,213)	(90,831)
<b>EXCESS (DEFICIENCY)</b>	1,850,733	187,671	270,360	185,769	761,316
<b>CAPITAL CONTRIBUTIONS</b>	63,736	2,500,140	-	220,900	-
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,914,469</u>	<u>\$ 2,687,811</u>	<u>\$ 270,360</u>	<u>\$ 406,669</u>	<u>\$ 761,316</u>

# Lake Cities Municipal Utility Authority

TSI-7. Comparative Schedule of Revenues and Expenses

Enterprise Fund—Five Years Ended (Continued)

For the Year Ended August 31, 2017

	Percentage of Total Revenue				
	2017	2016	2015	2014	2013
<b>OPERATING REVENUE</b>					
Charges for water service	59.0%	59.5%	59.9%	55.8%	57.3%
Charges for sewer service	34.8%	29.5%	32.2%	32.1%	33.5%
Tap connection and inspection fees	4.2%	9.4%	6.2%	10.2%	7.5%
Penalties and interest	2.0%	1.6%	1.7%	1.8%	1.7%
<b>Total operating revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>OPERATING EXPENSES</b>					
Purchased water service	23.6%	26.8%	27.2%	27.7%	27.0%
Purchased sewer service	14.9%	18.3%	19.2%	17.1%	15.3%
Salaries, benefits and payroll taxes	18.9%	21.6%	23.0%	23.0%	21.5%
Contracted services	2.2%	2.9%	3.0%	2.7%	2.4%
Professional fees	1.7%	1.8%	1.1%	1.2%	1.9%
Utilities	0.8%	1.1%	1.2%	1.3%	1.4%
Depreciation	10.0%	12.0%	12.1%	12.4%	11.0%
Water and sewer system maintenance	1.8%	2.6%	2.2%	2.1%	1.7%
Other	4.0%	7.7%	4.7%	6.7%	5.5%
<b>Total operating expenses</b>	<b>77.9%</b>	<b>94.8%</b>	<b>93.7%</b>	<b>94.2%</b>	<b>87.7%</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Investment earnings	0.4%	0.1%	0.0%	0.4%	0.0%
Bond issuance costs	0.0%	-0.5%	0.0%	-0.4%	0.0%
Interest expense	-2.2%	-2.4%	-2.7%	-3.3%	-0.1%
Gain (Loss) on dispositions	-0.1%	0.1%	0.2%	0.2%	-1.3%
<b>Total non-operating revenues (expenses)</b>	<b>-1.9%</b>	<b>-2.8%</b>	<b>-2.5%</b>	<b>-3.0%</b>	<b>-1.3%</b>
<b>EXCESS (DEFICIENCY)</b>	<b>20.1%</b>	<b>2.4%</b>	<b>3.8%</b>	<b>2.7%</b>	<b>11.0%</b>
<b>CAPITAL CONTRIBUTIONS</b>	<b>0.7%</b>	<b>32.0%</b>	<b>0.0%</b>	<b>3.2%</b>	<b>0.0%</b>
<b>CHANGE IN NET POSITION</b>	<b>20.8%</b>	<b>34.5%</b>	<b>3.8%</b>	<b>6.0%</b>	<b>11.0%</b>



**Lake Cities Municipal Utility Authority**

TSI-8. Board Members, Key Personnel, and Consultants

August 31, 2017

(Unaudited)

Complete Authority Mailing Address:

501 N. Shady Shores Road  
Lake Dallas, TX 75065

Authority Business Telephone Number:

(940) 497-2999

Submission Date of the most recent District  
Registration Form

(TWC Sections 36.054 and 49.054):

March 1, 2010

	<b>Term of Office (Elected or Appointed) or Date Hired</b>	<b>Fees of Office Paid 2017</b>	<b>Expense Reimbursements 2017</b>	<b>Title at Year End</b>
<b><u>Board Members:</u></b>				
Cecil Carter	(Elected) 5/16 - 5/20	N/A	N/A	President
Benny Sleight	(Elected) 5/16 - 5/20	N/A	N/A	Vice President
Jennifer Gordon	(Elected) 5/16 - 5/20	N/A	N/A	Secretary
Tom Rufer	(Appointed) 7/16 - 5/18	N/A	N/A	Director
Evan Huff	Appointed 08/16 - 05/18	N/A	N/A	Director