

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY**

**ANNUAL FINANCIAL REPORT**

**AUGUST 31, 2014**

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ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }  
COUNTY OF Denton }

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

Lake Cities Municipal Utility Authority  
(Name of Authority)

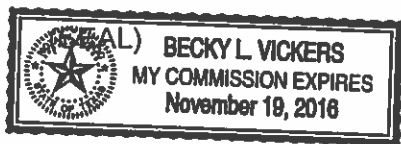
hereby swear, or affirm, that the Authority named above has reviewed and approved at a meeting of the Board of the Directors of the Authority on the 12 day of JANUARY, 2015, its annual audit report for the fiscal year or period ended August 31, 2014 and that copies of the annual audit report have been filed in the Authority office, located at 501 N Shady Shores Dr, Lake Dallas, Texas  
(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: 1/12/2015 By: Cecil Carter  
(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 12 day of Jan.



Becky L. Vickers  
(Signature of Notary)

My Commission Expires On: Nov. 19, 2016  
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

### **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, 2014, 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**

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 *Governmental 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, 2014, and the respective changes in financial position and, where applicable, 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*

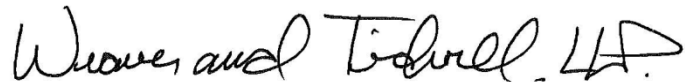
Accounting principles generally accepted in the United States of America require that the management's discussion on pages 5 – 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting 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 24 and 25 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 26 to 36 is required by the Texas Commission on Environment 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2015, 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 City Municipal Utility Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Weaver and Tidwell, L.L.P.".

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 9, 2015

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2014**

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, 2014.

**FINANCIAL HIGHLIGHTS**

- The assets of the Authority exceed its liabilities at the close of the most recent fiscal year by \$20,458,091 (Net Position). Of this amount, \$3,640,777 (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 \$131,269, or 0.65%. This increase is primarily the result of the Authority's receipt of \$220,900 in donated capital contributions. Additionally, revenues outpaced expenses resulting in \$392,982 of operating income.
- The Authority's total debt decreased by (\$370,000), primarily due to the first principal payment on the 2013 revenue bonds and the final payment on the note payable. Total principal payments during the current year amounted to \$370,000.

**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) The Statement of Net Position which provide all of the Authority's assets and liabilities 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) The 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 14-23.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2014**

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, which may be beneficial to the reader.

The supplementary information can be found on pages 26-37 of the report.

**FINANCIAL ANALYSIS OF THE WATER DISTRICT 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, 2014.

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 exceeded liabilities by \$20,458,091 as of August 31, 2014.

The largest portion of the Authority's net position (78%) 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 (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$3,640,777, or 18%) may be used to meet the Authority's ongoing obligations to customers and creditors.

Lake Cities Municipal Authority's Net Position – Table 1

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Current and other assets	\$ 10,790,727	\$ 11,005,816	\$ (215,089)
Capital assets	<u>16,500,489</u>	<u>16,531,828</u>	<u>(31,339)</u>
Total assets	27,291,216	27,537,644	(246,428)
Current liabilities	495,082	912,989	(417,907)
Long-term liabilities	<u>6,338,043</u>	<u>6,297,833</u>	<u>40,210</u>
Total liabilities	6,833,125	7,210,822	(377,697)
Net position:			
Net investment in capital assets	15,962,612	16,386,828	(424,216)
Restricted	854,702	1,189,611	(334,909)
Unrestricted	<u>3,640,777</u>	<u>2,750,383</u>	<u>890,394</u>
Total net position	<u>\$ 20,458,091</u>	<u>\$ 20,326,822</u>	<u>\$ 131,269</u>



**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2014**

Regarding restricted net position, \$422,999 represents Impact Fees restricted for capital improvements and \$431,703 represents the portion restricted for debt service. Unrestricted net position of \$3,640,777 may be used to meet the government's ongoing obligations to its customer and creditors.

As of August 31, 2014, 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 \$215,089, due to an increase in cash of \$5,963,604 and a decrease in accounts receivable of \$6,126,003 and a decrease in inventory of \$52,690.

During the current year, the Authority's debt (its revenue bonds and note payable) decreased by (\$370,000). Also included in long-term liabilities is the requirement to report an OPEB (Other Post-Employment Benefits) liability of \$676,595, which includes a \$153,762 increase.

The Authority's net position increased by \$131,269 during the current fiscal year. Net position invested in capital assets, net of related debt, decreased by \$424,216 due to some asset retirements. Unrestricted net position increased by \$890,394 or 32%, due to increased customer usage.

The overall increase in net position of \$131,269 reflects a year of ideal operations, due to dry conditions increasing customer demand. The following table provides a summary of the Authority's operations for the fiscal year ended August 31, 2014, with comparative totals for the fiscal year ended August 31, 2013.

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

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
Total operating revenues	\$ 6,815,896	\$ 6,911,987	\$ (96,091)
Operating expenses	6,422,914	6,059,840	363,074
Non operating expense (net)	<u>482,613</u>	<u>90,831</u>	<u>(391,782)</u>
Excess (deficiency) of revenues (under) expenses	(89,631)	761,316	(850,947)
Capital contributions	<u>220,900</u>	<u>-</u>	<u>220,900</u>
Change in net position	131,269	761,316	(630,047)
Net position at beginning of year	<u>20,326,822</u>	<u>19,565,506</u>	<u>761,316</u>
Net position at end of year	<u>\$ 20,458,091</u>	<u>\$ 20,326,822</u>	<u>\$ 131,269</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2014**

**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 \$3,640,777. This fund's net position increased in the fiscal year ended by \$131,269.

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 \$156,896 above the budgeted amounts, due in large part to the increase in water usage by customers caused by extreme temperatures during the summer months.

Actual operating expenditures were (\$690,014) below the budgeted amounts, largely due to depreciation expense and other operating expenses.

The change in net position for the year was (\$295,231) less favorable than the budget amount, due to the operating expenses increasing more than expected.

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 24.

**CAPITAL ASSETS**

The Authority's capital assets for its business-type activities as of August 31, 2014 totaled to \$16,500,489 (net of accumulated depreciation). Capital assets includes land, building, equipment, improvements, infrastructure and construction in progress.

The Authority's capital assets decreased approximately 0.19% during the current year.

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

1. Approximately \$119,000 of new and replacement vehicles;
2. Approximately \$148,000 of new and replacement water and sewer infrastructure.
3. Approximately \$490,000 of capital asset retirements including vehicles, infrastructure, and equipment.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2014**

Capital Assets at year-end net of accumulated depreciation

	<u>2014</u>	<u>2013</u>	<u>Variance</u>
Construction in progress	\$ 537,748	\$ 57,185	\$ 480,563
Land	394,160	394,160	-
Infrastructure	14,175,576	14,641,403	(465,827)
Auto/ Trucks	275,082	243,644	31,438
Office Equipment	117,740	137,264	(19,524)
Building	<u>1,000,183</u>	<u>1,058,172</u>	<u>(57,989)</u>
Totals	<u>\$ 16,500,489</u>	<u>\$ 16,531,828</u>	<u>\$ (31,339)</u>

The following table summarizes the changes in capital assets.

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 16,531,828	\$ 17,044,137
Additions and transfers	857,140	392,715
Depreciation	(844,642)	(703,587)
Disposals and transfers	<u>(43,837)</u>	<u>(201,437)</u>
Balance at end of year	<u>\$ 16,500,489</u>	<u>\$ 16,531,828</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 \$5,775,000. 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>2014</u>	<u>2013</u>	<u>Change</u>
Revenue Bonds Payable	\$ 5,775,000	\$ 6,000,000	\$ (225,000)
Note Payable	<u>-</u>	<u>145,000</u>	<u>(145,000)</u>
Totals	<u>\$ 5,775,000</u>	<u>\$ 6,145,000</u>	<u>\$ (370,000)</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
FISCAL YEAR ENDED AUGUST 31, 2014**

The Authority's revenue-supported debt has never been rated by Moody's Investor Services, Inc., Standard & Poor's Rating Services, A Division of the McGraw-Hill Companies, Inc., or Fitch Investors Service, Inc. Application for contract ratings on the Bonds has not been made to any of the aforementioned rating companies. 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 2014-2015 Budget, water and sewer revenues are budgeted to increase by approximately 12% from the 2013-2014 budget year. A rate study conducted during the 2012 fiscal year revealed a structure change in water rates (including depreciation) and a 3.5% increase in sewer rates (including depreciation) was needed to continue building acceptable Working Capital and fund larger capital improvement projects over the next ten years. The Board of Directors has not passed a resolution affecting any rates.

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 salaries expense, and an increase in repairs and maintenance. Significant 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, 2014**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 3,024,964
Accounts receivable, net of allowance	1,278,277
Supplies inventory	100,723
<b>Total current assets</b>	<b>4,403,964</b>

**RESTRICTED ASSETS**

Cash and cash equivalents	6,386,763
<b>Total restricted assets</b>	<b>6,386,763</b>

**CAPITAL ASSETS – net of accumulated depreciation**

Construction in progress (non-depreciable)	537,748
Land (non-depreciable)	394,160
Infrastructure	14,175,576
Auto/ Trucks	275,082
Office Equipment	117,740
Building	1,000,183
<b>Total capital assets</b>	<b>16,500,489</b>

**TOTAL ASSETS**

**\$ 27,291,216**

**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES**

Accounts payable	\$ 14,998
Salaries and benefits payable	59,264
Accrued interest payable	12,330
Security deposits	183,490
Current portion of long-term debt	225,000
<b>Total current liabilities</b>	<b>495,082</b>

**LONG-TERM LIABILITIES**

Long-term debt, net of current portion	5,661,448
OPEB liability	676,595
<b>Total long-term liabilities</b>	<b>6,338,043</b>
<b>Total liabilities</b>	<b>6,833,125</b>

**NET POSITION**

Net investment in capital assets	15,962,612
Restricted for debt service	431,703
Restricted for capital improvement	422,999
Unrestricted net assets	3,640,777
<b>Total net position</b>	<b>20,458,091</b>

**TOTAL LIABILITIES AND NET POSITION**

**\$ 27,291,216**

Noted 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, 2014**

<b>OPERATING REVENUES</b>	
Charges for water service	\$ 3,805,927
Charges for sewer service	2,189,328
Tap connection and inspection fees	698,005
Penalties and interest	122,636
	<hr/>
<b>Total operating revenues</b>	<b>6,815,896</b>
	<hr/>
<b>OPERATING EXPENSES</b>	
Purchased water service	1,885,532
Purchased sewer service	1,167,432
Salaries, benefits and payroll taxes	1,567,678
Contracted services	184,714
Professional fees	83,624
Utilities	90,054
Depreciation	844,642
Water and sewer system maintenance	144,481
Other	454,757
	<hr/>
<b>Total operating expenses</b>	<b>6,422,914</b>
	<hr/>
<b>OPERATING INCOME</b>	<b>392,982</b>
	<hr/>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment earnings	30,109
Bond issuance costs	(306,044)
Interest expense	(222,311)
Contributed capital	220,900
Loss on dispositions of capital assets	15,633
	<hr/>
<b>Total non-operating revenues (expenses)</b>	<b>(261,713)</b>
	<hr/>
<b>INCREASE IN NET POSITION</b>	<b>131,269</b>
	<hr/>
<b>TOTAL NET POSITION – BEGINNING</b>	<b>20,326,822</b>
	<hr/>
<b>TOTAL NET POSITION – ENDING</b>	<b>\$ 20,458,091</b>
	<hr/> <hr/>

Noted to Financial Statements are  
an integral part of the statements.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2014**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from customers	\$ 8,657,740
Cash paid to employees for services	(1,419,885)
Cash paid to suppliers	(3,540,416)
Cash paid for other expenses	(707,462)
	<hr/>
<b>Net cash provided by operating activities</b>	<b>2,989,977</b>
	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	30,109
	<hr/>
<b>Net cash provided by financing activities</b>	<b>30,109</b>
	<hr/>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition and construction of capital assets	(592,403)
Debt proceeds received from escrow agent	4,312,329
Principal payments on long-term debt	(370,000)
Interest on long-term debt	(222,332)
Premium on issuance of bonds	121,968
Bond issuance costs	(306,044)
	<hr/>
<b>Net cash provided in capital and related financing activities</b>	<b>2,943,518</b>
	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,963,604</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,448,123</b>
	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 9,411,727</b>
	<hr/>
<b>CASH AND CASH EQUIVALENTS</b>	<b>\$ 3,024,964</b>
<b>RESTRICTED CASH AND CASH EQUIVALENTS</b>	<b>6,386,763</b>
	<hr/>
<b>TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 9,411,727</b>
	<hr/>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
<b>OPERATING INCOME</b>	<b>\$ 392,982</b>
Adjustments to reconcile operating income to net cash provided by operating activities	
Loss on disposal of capital assets	15,633
Depreciation	844,642
Change in accounts receivable	1,813,674
Change in OPEB liability	153,762
Change in supplies inventory	52,690
Change in accounts payable, salaries payable and deposits	(283,406)
	<hr/>
<b>Net cash provided by operating activities</b>	<b>\$ 2,989,977</b>
	<hr/>

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



**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Lake Cities Municipal Utility Authority 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.

**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.

**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, and Notes to the Financial Statements. Additionally, the Authority complies with the reporting requirements promulgated by the "Water Authority's Financial Management Guide" published by the Texas Commission on Environmental Quality.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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.

**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, 2014, the bank balance of the Authority's cash deposits totaled \$1,696,963, and the carrying amount of the bank balance was \$1,333,113. These amounts exclude the restricted cash amount held in escrow which totaled \$4,312,329 at August 31, 2014. 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.

**Investments**

All investments have maturities of one year or less when purchased, meeting the short-term maturity requirement and, thus, are reported at amortized cost on the Statement of Net Position.

**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 2014. The unbilled revenue balance as of August 31, 2014 was \$217,222.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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.

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, 2014, a liability of \$29,294 for unused vacation leave has been accrued and is included in current liabilities within salaries and benefits payable.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**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, 2014 up through January 9, 2015, 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, 2014, the Authority did not own any types of securities other than those permitted by statute.

The following is a summary of cash and investments at August 31, 2014:

	<u>Credit Quality Ratings</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
<u>Unrestricted Cash and Investments</u>			
Deposits with a financial institution	Not Rated	\$ 296,871	n/a
Cash on hand	Not Rated	1,284	n/a
TexPool	AAAm	1,979,121	48 Days
LOGIC	AAA	747,688	56 Days
		<u>\$ 3,024,964</u>	
<u>Restricted Cash and Investments</u>			
Cash Held in Escrow	Not Rated	4,312,329	n/a
Deposits with a financial institution	Not Rated	1,036,242	n/a
TexPool	AAAm	1,038,192	48 Days
		<u>\$ 6,386,763</u>	

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

The following is a summary of cash restrictions as of August 31, 2014:

<u>Restricted Cash and Investments</u>	
Restricted for customer deposits	\$ 183,490
Restricted for impact fees	422,999
Restricted for capital projects	5,348,571
Restricted for debt service	<u>431,703</u>
Total restricted cash and equivalents	<u>\$ 6,386,763</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.

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.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3. ACCOUNTS RECEIVABLE**

Accounts receivable arising from business activities at August 31, 2014 are as follows:

Accounts receivable	\$ 716,242
Accrued unbilled revenue	217,222
Other receivables	397,305
Less: Allowance for uncollectibles	<u>(52,492)</u>
Total accounts receivable, net	<u><u>\$ 1,278,277</u></u>

**NOTE 4. CAPITAL ASSETS**

A summary of changes in capital assets follows:

	<u>Balance at September 1, 2013</u>	<u>Additions and Transfers</u>	<u>Disposals and Transfers</u>	<u>Balance at August 31, 2014</u>
Capital assets, nondepreciable:				
Construction in progress	\$ 57,185	\$ 505,202	\$ 24,639	\$ 537,748
Land	<u>394,160</u>	<u>-</u>	<u>-</u>	<u>394,160</u>
Total nondepreciable assets	<u>451,345</u>	<u>505,202</u>	<u>24,639</u>	<u>931,908</u>
Capital assets, depreciable:				
Infrastructure	24,687,140	221,837	410,735	24,498,242
Auto/ Trucks	694,306	119,165	78,532	734,939
Office Equipment	232,256	10,936	1,949	241,243
Building	<u>1,488,268</u>	<u>-</u>	<u>-</u>	<u>1,488,268</u>
Total depreciable assets	<u>27,101,970</u>	<u>351,938</u>	<u>491,216</u>	<u>26,962,692</u>
Less accumulated depreciation:				
Infrastructure	10,045,737	675,366	398,437	10,322,666
Auto/ Trucks	450,662	80,827	71,632	459,857
Office Equipment	94,992	30,460	1,949	123,503
Building	<u>430,096</u>	<u>57,989</u>	<u>-</u>	<u>488,085</u>
Total accumulated depreciation	<u>11,021,487</u>	<u>844,642</u>	<u>472,018</u>	<u>11,394,111</u>
Total depreciable assets, net	<u>16,080,483</u>	<u>(492,704)</u>	<u>19,198</u>	<u>15,568,581</u>
Capital assets, net	<u><u>\$ 16,531,828</u></u>	<u><u>\$ 12,498</u></u>	<u><u>\$ 43,837</u></u>	<u><u>\$ 16,500,489</u></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, 2013	Issued	Retired or Refunded	Balance at August 31, 2014	Amounts due Within One Year
Revenue Bonds	\$ 6,000,000	\$ -	\$ (225,000)	\$ 5,775,000	\$ 225,000
Premium	-	121,968	(10,520)	111,448	-
Total Bonds Payable	6,000,000	121,968	(235,520)	5,886,448	225,000
Note Payable	145,000	-	(145,000)	-	-
Total Debt Payable	6,145,000	121,968	(380,520)	5,886,448	225,000
OPEB Liability	522,833	153,762	-	676,595	-
Total Long Term Liabilities	<u>\$ 6,667,833</u>	<u>\$ 275,730</u>	<u>\$ (380,520)</u>	<u>\$ 6,563,043</u>	<u>\$ 225,000</u>

Series 2013 Revenue Bonds were issued in the amount of \$6,000,000, with each series being due annually each August 1. These bonds 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. These bonds were issued August 19, 2013 but the funding was not received by the Authority until September 16, 2013.

Long-term debt includes the following individual issue:

	Interest Rate (%)	Maturity Date	Outstanding	Due Within One Year
Revenue bonds:				
2013 Revenue bond	3.00-4.25%	8/31/2033	\$ 5,775,000	\$ 225,000
Total long-term bonded debt			5,775,000	225,000
Net long-term bonded debt			<u>\$ 5,775,000</u>	<u>\$ 225,000</u>

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

Year ended August 31,	Interest Amount	Principal Amount	Total Bond Service Requirements
2015	\$ 206,456	\$ 225,000	\$ 431,456
2016	199,706	230,000	429,706
2017	192,806	240,000	432,806
2018	185,606	245,000	430,606
2019	178,256	255,000	433,256
2020-2024	771,769	1,385,000	2,156,769
2025-2029	519,413	1,640,000	2,159,413
2030-2033	166,840	1,555,000	1,721,840
Totals	<u>\$ 2,420,852</u>	<u>\$ 5,775,000</u>	<u>\$ 8,195,852</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. CONSTRUCTION NOTE PAYABLE**

In May of 2009, the Authority entered into a construction escrow agreement with a financial institution, in the amount of \$650,000 with interest at approximately 6% per annum to provide financing for the new service building to be located adjacent to existing offices. The loan was secured by the net revenues of the Authority and a lien on the real property. This note payable was paid in full during fiscal year 2014.

**NOTE 7. OTHER POSTEMPLOYMENT BENEFITS**

**Plan Description**

The Authority provides other postemployment benefits (OPEB) in the form of health and dental insurance benefits for certain retirees and their spouses age 62 or over, upon retirement from the Authority. Upon the retirees' eligibility for Medicare benefits, supplement coverage is offered. The Plan is a single-employer defined benefit variety. The Plan does not have a separately issued GAAP-basis postemployment benefit plan report available for the current reporting period.

These benefits are funded based on years of service, as follows:

10 years of service	Authority pays 50% of Medical and Dental insurance premiums.
15 years of service	Authority pays 75% of Medical and Dental insurance premiums.
20 years of service	Authority pays 100% of Medical and Dental insurance premiums.
Employee spouse	Authority pays 75% of Medical and Dental insurance premiums.

At August 31, 2014, the plan had 30 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, 2014. 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**

**NOTE 7. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED**

**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, 2014 and 2013 is shown below:

	2014	2013
Annual required contribution	\$ 167,669	\$ 163,892
Annual OPEB cost	167,669	163,892
Contributions made	(13,907)	(13,369)
Increase in net OPEB obligation	153,762	150,523
Net OPEB obligation - beginning of year	522,833	372,310
Net OPEB obligation - end of year	\$ 676,595	\$ 522,833
Percentage of Annual OPEB Cost Contributed	8%	8%

**Funded Status and Funding Progress**

The funded status of other postemployment benefits as of August 31, 2014, the date of the latest actuarial valuation, was as follows:

Actuarial accrued liability (AAL)	\$ 872,352
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	\$ 872,352
Funded ratio (actuarial value of plan asset/AAL)	0.0%

The Unfunded Actuarial Accrued Liability (UAAL) as a percent of covered payroll is as follows:

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%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED**

**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.

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

Valuation Date	August 31, 2014
Amortization method	Level Dollar
Discount Rate	4%
Spouse election coverage	30%
Medical inflation	3.7% - 7.1%
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
Initial Health Insurance	
Premium inflation rate	4.0%
Ultimate Health Insurance	
Premium inflation rate	5.7%

**NOTE 8. EMPLOYEE BENEFIT PLAN**

The Company 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%. The Authority also participates in a plan with TCDRS whereby employees contribute 7% and the Authority matches based on TCDRS requirements. Employees can also choose to participate in the 457 plan at a higher rate with no additional employer match. The Authority contributed \$102,334 to these plans during the year ended August 31, 2014.

**REQUIRED TCEQ SUPPLEMENTAL  
INFORMATION**

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND  
FOR THE YEAR ENDED AUGUST 31, 2014**

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>OPERATING REVENUE</b>			
Charges for water service	\$ 3,670,500	\$ 3,805,927	\$ 135,427
Charges for sewer service	2,220,000	2,189,328	(30,672)
Tap connection and inspection fees	675,000	698,005	23,005
Penalties and interest	93,500	122,636	29,136
<b>Total operating revenue</b>	<b>6,659,000</b>	<b>6,815,896</b>	<b>156,896</b>
<b>OPERATING EXPENSES</b>			
Purchased water service	1,912,580	1,885,532	27,048
Purchased sewer service	1,218,990	1,167,432	51,558
Salaries, benefits and payroll taxes	1,440,300	1,567,678	(127,378)
Contracted services	185,500	184,714	786
Professional fees	77,500	83,624	(6,124)
Utilities	141,000	90,054	50,946
Depreciation	-	844,642	(844,642)
Water and sewer system maintenance	139,300	144,481	(5,181)
Other	617,730	454,757	162,973
<b>Total operating expenses</b>	<b>5,732,900</b>	<b>6,422,914</b>	<b>(690,014)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment earnings	4,600	30,109	25,509
Bond issuance costs	(225,000)	(306,044)	(81,044)
Interest expense	(279,200)	(222,311)	56,889
Contributed capital	-	220,900	220,900
Loss on dispositions	-	15,633	15,633
<b>Total non-operating revenues (expenses)</b>	<b>(499,600)</b>	<b>(261,713)</b>	<b>237,887</b>
<b>CHANGE IN NET POSITION – GAAP BASIS</b>	<b>\$ 426,500</b>	<b>\$ 131,269</b>	<b>\$ (295,231)</b>
<b>NON-OPERATING COSTS – NON-GAAP</b>			
Capital expenditures	\$ 56,500	\$ 857,140	\$ (800,640)
Principal payments on long-term debt	370,000	370,000	-
<b>Total non-operating costs – non-GAAP</b>	<b>\$ 426,500</b>	<b>\$ 1,227,140</b>	<b>\$ (800,640)</b>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
NOTES TO THE BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND  
FOR THE YEAR ENDED AUGUST 31, 2014**

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, 2014  
(Unaudited)**

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

<u>  X  </u>	Retail Water
<u>  X  </u>	Retail Wastewater

**2. Retail Service Providers**

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Usage</u>	<u>Usage Levels</u>
Water:	\$23.57	1,000	N	\$4.00	0 to 20,000
				\$6.40	20,001 to 45,000
				\$9.58	45,001 and Above

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

Wastewater:

Residential	\$19.86	-	N	\$4.10	0 and Above
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*Individuals over the age of 65 receive 2,000 gallons in the monthly minimum.*

Commercial	\$21.50	-	N	\$4.10	0 and Above
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Authority employs winter averaging for wastewater usage? Yes

Total charges per 10,000 gallons usage:	Water	\$63.57
	Wastewater	\$60.86

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-1. SERVICES AND RATES – CONTINUED  
AUGUST 31, 2014  
(Unaudited)**

**2. Retail Service Providers**

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

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	15	15	X 1.0	15
≤ 3/4"	4,396	4,396	X 1.0	4,396
1"	101	101	X 2.5	253
1 1/2"	25	25	X 5.0	125
2"	70	70	X 8.0	560
3"	12	12	X 15.0	180
4"	2	2	X 25.0	50
6"	2	2	X 50.0	100
8"	-	-	X 80.0	-
10"	-	-	X 115.0	-
Total water connections	4,627	4,627		5,679
Total wastewater connections	4,210	4,210	X 1.0	4,210

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

Gallons pumped into system:	500,960,000
Gallons billed to customers:	472,951,000
Water Accountability Ratio: (Gallons billed / Gallons pumped)	94.41%

**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, 2014**

<b>PURCHASED WATER SERVICE</b>	\$ 1,885,532
<b>PURCHASED SEWER SERVICE</b>	1,167,432
<b>SALARIES, BENEFITS AND PAYROLL TAXES*</b>	1,567,678
<b>CONTRACTED SERVICES</b>	184,714
<b>PROFESSIONAL FEES</b>	
Auditing	29,500
Engineering	19,522
Consulting fees	13,848
Legal	20,754
<b>UTILITIES</b>	90,054
<b>WATER AND SEWER SYSTEM MAINTENANCE</b>	144,481
<b>OTHER</b>	
Other	172,110
Insurance/surety bonds	28,646
Fuel and lube	45,410
Telephone/2-way radios	33,465
Postage	29,345
Software maintenance/training	35,375
Printing	25,400
Uniforms	8,859
Other expense – subscriptions, dues, misc.	15,651
Safety supplies/training	3,656
Office equipment maintenance/rental	18,502
Office supplies	9,383
Travel expenses	8,867
Training/enrollment/license	8,299
Chemicals	4,409
Rents – equipment/space	2,711
Hardware/Software - office	4,669
<b>DEPRECIATION EXPENSE</b>	844,642
<b>TOTAL EXPENDITURES</b>	<u>\$ 6,422,914</u>

\* Number of persons employed by the Authority: 21 Full-Time 0 Part-Time  
(Not including independent contractors or consultants)

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-3. SCHEDULE OF TEMPORARY INVESTMENTS  
AUGUST 31, 2014**

<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>Governmental</u>					
Investment Pool	610200006	0.148%	N/A	\$ 1,564,062	\$ -
Investment Pool	610200003	0.148%	N/A	808,378	-
Investment Pool	610200002	0.148%	N/A	115,219	-
Investment Pool	610200005	0.148%	N/A	307,780	-
Investment Pool	610200009	0.148%	N/A	221,874	-
Investment Pool	1299179001	0.127%	N/A	<u>747,688</u>	<u>-</u>
<b>Total</b>				<u><u>\$ 3,765,001</u></u>	<u><u>\$ -</u></u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-4. TAXES LEVIED AND RECEIVABLE  
AUGUST 31, 2014  
(Unaudited)**

*(Does not apply to the Authority)*

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY**  
**TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS**  
**AUGUST 31, 2014**

Due During Fiscal Years Ending	Series 2013 Bonds		
	Principal Due August 1	Interest Due February 1 and August 1	Total Annual Requirements
2015	\$ 225,000	\$ 206,456	\$ 431,456
2016	230,000	199,706	429,706
2017	240,000	192,806	432,806
2018	245,000	185,606	430,606
2019	255,000	178,256	433,256
2020-2024	1,385,000	771,769	2,156,769
2025-2029	1,640,000	519,413	2,159,413
2030-2033	1,555,000	166,840	1,721,840
Totals	<u>\$ 5,775,000</u>	<u>\$ 2,420,852</u>	<u>\$ 8,195,852</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-6. CHANGES IN LONG-TERM BONDED DEBT  
FOR THE YEAR ENDED AUGUST 31, 2014**

	<b>Bond Issue Series 2013</b>
Interest rate	3.00% - 4.25%
Dates interest payable	February 1; August 1
Maturity date	August 1, 2033
Beginning bonds outstanding	\$ 6,000,000
Bonds sold during the fiscal year	-
Bonds retired during the fiscal year	225,000
Ending bonds outstanding	\$ 5,775,000
Interest paid during the fiscal year	\$ 222,311

Paying Agent's Name and City: BOKF, NA dba Bank of Texas, N.A.

Bond Authority:	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ -	\$ 6,000,000	\$ -
Amount issued	-	6,000,000	-
Remaining to be issued	-	-	-

Enterprise Fund cash and temporary investments balances  
as of August 31, 2014: -

Average annual bonded debt service payment (Principal and Interest)  
for remaining term of all debt: \$ 431,703

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY**  
**TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES**  
**ENTERPRISE FUND—FIVE YEARS ENDED**  
**FOR THE YEAR ENDED AUGUST 31, 2014**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUE</b>					
Charges for water service	\$ 3,805,927	\$ 3,957,275	\$ 3,958,267	\$ 3,796,820	\$ 2,589,905
Charges for sewer service	2,189,328	2,318,908	2,462,130	2,288,500	1,927,779
Tap connection and inspection fees	698,005	515,264	180,601	139,202	122,232
Penalties and interest	122,636	120,540	129,641	97,796	101,122
<b>Total operating revenue</b>	<u>6,815,896</u>	<u>6,911,987</u>	<u>6,730,639</u>	<u>6,322,318</u>	<u>4,741,038</u>
<b>OPERATING EXPENSES</b>					
Purchased water service	1,885,532	1,866,103	1,824,739	1,810,185	1,611,737
Purchased sewer service	1,167,432	1,055,366	1,011,174	896,961	921,167
Water service	-	-	-	580	1,250
Salaries, benefits and payroll taxes	1,567,678	1,487,924	1,433,870	1,255,190	1,281,153
Contracted services	184,714	164,447	206,180	115,602	122,975
Professional fees	83,624	131,456	157,282	61,587	112,876
Utilities	90,054	97,248	107,861	120,385	152,220
Depreciation	844,642	758,595	801,646	785,011	762,662
Water and sewer system maintenance	144,481	120,233	111,398	143,210	164,577
Other	454,757	378,468	462,064	340,037	397,747
<b>Total operating expenses</b>	<u>6,422,914</u>	<u>6,059,840</u>	<u>6,116,214</u>	<u>5,528,748</u>	<u>5,528,364</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Investment earnings	30,109	3,092	3,676	1,215	1,732
Bond issuance costs	(306,044)	-	-	-	-
Interest expense	(222,311)	(4,228)	(26,609)	(41,025)	(69,195)
Gain (Loss) on dispositions	15,633	(89,695)	(4,476)	(37,628)	480
<b>Total non-operating revenues (expenses)</b>	<u>(482,613)</u>	<u>(90,831)</u>	<u>(27,409)</u>	<u>(77,438)</u>	<u>(66,983)</u>
<b>EXCESS (DEFICIENCY)</b>	<u>(89,631)</u>	<u>761,316</u>	<u>587,016</u>	<u>716,132</u>	<u>(854,309)</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>220,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,054</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 131,269</u>	<u>\$ 761,316</u>	<u>\$ 587,016</u>	<u>\$ 716,132</u>	<u>\$ (778,255)</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, 2014**

	Percentage of Total Revenue				
	2014	2013	2012	2011	2010
<b>OPERATING REVENUE</b>					
Charges for water service	55.8%	57.3%	58.8%	60.1%	54.6%
Charges for sewer service	32.1%	33.5%	36.6%	36.2%	40.7%
Tap connection and inspection fees	10.2%	7.5%	2.7%	2.2%	2.6%
Penalties and interest	1.8%	1.7%	1.9%	1.5%	2.1%
<b>Total operating revenue</b>	100.0%	100.0%	100.0%	100.0%	100.0%
<b>OPERATING EXPENSES</b>					
Purchased water service	27.7%	27.0%	27.1%	28.6%	34.0%
Purchased sewer service	17.1%	15.3%	15.0%	14.2%	19.4%
Water service	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries, benefits and payroll taxes	23.0%	21.5%	21.3%	19.9%	27.0%
Contracted services	2.7%	2.4%	3.1%	1.8%	2.6%
Professional fees	1.2%	1.9%	2.3%	1.0%	2.4%
Utilities	1.3%	1.4%	1.6%	1.9%	3.2%
Depreciation	12.4%	11.0%	11.9%	12.4%	16.1%
Water and sewer system maintenance	2.1%	1.7%	1.7%	2.3%	3.5%
Other	6.7%	5.5%	6.9%	5.4%	8.4%
<b>Total operating expenses</b>	94.2%	87.7%	90.9%	87.5%	116.6%
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Investment earnings	0.4%	0.0%	0.1%	0.0%	0.0%
Bond issuance costs	-4.5%	0.0%	0.0%	0.0%	0.0%
Interest expense	-3.3%	-0.1%	-0.4%	-0.6%	-1.5%
Gain (Loss) on dispositions	0.2%	-1.3%	-0.1%	-0.6%	0.0%
<b>Total non-operating revenues (expenses)</b>	-7.1%	-1.3%	-0.4%	-1.2%	-1.4%
<b>EXCESS (DEFICIENCY)</b>	-1.4%	11.0%	8.7%	11.3%	-18.0%
<b>CAPITAL CONTRIBUTIONS</b>	3.2%	0.0%	0.0%	0.0%	1.6%
<b>CHANGE IN NET POSITION</b>	1.8%	11.0%	8.7%	11.3%	-16.4%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY  
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS  
AUGUST 31, 2014  
(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 2014</b>	<b>Expense Reimbursements 2014</b>	<b>Title at Year End</b>
<b><u>Board Members:</u></b>				
Cecil Carter	(Elected) 05/12 - 05/16	N/A	N/A	President
Raymond Dickey	(Elected) 5/12 - 5/16	N/A	N/A	Vice President
Chris Hoppe	(Elected) 5/14 - 5/18	N/A	N/A	Secretary
Norma Barker	(Elected) 5/12 - 5/16	N/A	N/A	Director
David Shershen	(Elected) 5/14 - 5/18	N/A	N/A	Director