

LAKE CITIES MUNICIPAL UTILITY AUTHORITY

ANNUAL FINANCIAL REPORT

AUGUST 31, 2015

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ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS }
COUNTY OF Denton }

I, Chris Hoppe 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 13th day of January, 2016, its annual audit report for the fiscal year or period ended August 31, 2015 and that copies of the annual audit report have been filed in the Authority office, located at 501 N. Shady Shores Dr Lake Dallas TX 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 13, 2016 By: Chris Hoppe
(Signature of Authority Representative)

Chris Hoppe, Secretary
(Typed Name & Title of above Authority Representative)

Sworn to and subscribed to before me this 13th day of January, 2016

Teresa C. Fairfield
(Signature of Notary)



My Commission Expires On: July 5, 2017
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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the Authority adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, as of August 31, 2015. Our opinion is not modified with respect to this matter.

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 and the schedule of funding progress for the retiree health plan, schedule of change 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.

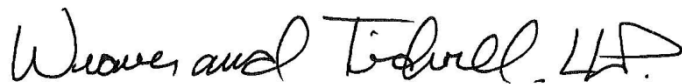
Other Information

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2016, 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.



WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
January 11, 2016

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2015**

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, 2015.

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 \$20,648,551 (Net Position). Of this amount, \$3,052,022 (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 \$270,360. This increase is primarily the result of the Authority's operating revenues outpacing operating expenses resulting in \$449,298 of operating income and interest expense of \$196,731.
- The Authority's total debt decreased by (\$225,000), primarily due to principal payments on the 2013 revenue bonds and the final payment on the note payable. Total principal payments during the current year amounted to \$225,000.

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, 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) 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 14-27.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2015**

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 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, 2015.

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 \$20,648,551 as of August 31, 2015.

The largest portion of the Authority's net position (77%) 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 (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$3,052,022, or 15%) may be used to meet the Authority's ongoing obligations to customers and creditors.

Lake Cities Municipal Authority's Net Position – Table 1

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Current and other assets	\$ 11,686,242	\$ 10,790,727	\$ 895,515
Capital assets	16,535,236	16,500,489	34,747
Deferred outflows of resources	<u>67,784</u>	<u>-</u>	<u>67,784</u>
Total assets and deferred outflows of resources	28,289,262	27,291,216	998,046
Current liabilities	1,196,955	504,593	692,362
Long-term liabilities	6,428,513	6,338,043	90,470
Deferred inflows of resources	<u>15,243</u>	<u>-</u>	<u>15,243</u>
Total liabilities and deferred inflows of resources	7,640,711	6,842,636	798,075
Net position:			
Net investment in capital assets	15,973,120	15,962,612	10,508
Restricted	1,623,409	854,702	768,707
Unrestricted	<u>3,052,022</u>	<u>3,640,777</u>	<u>(588,755)</u>
Total net position	<u>\$ 20,648,551</u>	<u>\$ 20,458,091</u>	<u>\$ 190,460</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2015**

Regarding restricted net position, \$1,191,686 represents Impact Fees restricted for capital improvements and \$431,723 represents the portion restricted for debt service. Unrestricted net position of \$3,052,022 may be used to meet the government's ongoing obligations to its customer and creditors.

As of August 31, 2015, 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 increased by \$895,515, primarily due to an increase in cash and cash equivalents of \$955,828.

During the current year, the Authority's debt (its revenue bonds) decreased by (\$225,000). Also included in long-term liabilities is the requirement to report an OPEB (Other Post-Employment Benefits) liability of \$869,640, which includes a \$193,045 increase.

The Authority's net position increased by \$270,360 during the current fiscal year. Net position invested in capital assets, net of related debt, increased by \$10,508. Unrestricted net position decreased by \$588,755 or 16%, which includes a prior year restatement of (\$79,900) to record the beginning pension liability related to implementation of GASB 68.

The overall increase in net position of \$270,360 reflects a year of increased demand due to restrictions being eased coupled with a wetter than normal summer. The following table provides a summary of the Authority's operations for the fiscal year ended August 31, 2015, with comparative totals for the fiscal year ended August 31, 2014.

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

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Total operating revenues	\$ 7,154,992	\$ 6,815,896	\$ 339,096
Operating expenses	6,705,694	6,422,914	282,780
Non operating expense (net)	<u>178,938</u>	<u>482,613</u>	<u>303,675</u>
Excess (deficiency) of revenues (under) expenses	270,360	(89,631)	359,991
Capital contributions	<u>-</u>	<u>220,900</u>	<u>(220,900)</u>
Change in net position	270,360	131,269	139,091
Net position at beginning of year (as restated)	<u>20,378,191</u>	<u>20,326,822</u>	<u>51,369</u>
Net position at end of year	<u>\$ 20,648,551</u>	<u>\$ 20,458,091</u>	<u>\$ 190,460</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2015**

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 \$3,052,022. This fund's net position increased in the fiscal year ended August 31, 2015 by \$270,360.

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 (\$38,874) below the budgeted amounts, due in large part to the decrease in water usage by customers caused by wet weather during the summer months.

Actual operating expenditures were (\$801,584) below the budgeted amounts, largely due to depreciation expense and other operating expenses.

The change in net position for the year was (\$609,731) 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 32.

CAPITAL ASSETS

The Authority's capital assets for its business-type activities as of August 31, 2015 totaled to \$16,535,236 (net of accumulated depreciation). Capital assets includes land, building, equipment, improvements, infrastructure and construction in progress.

The Authority's capital assets increased approximately 0.21% during the current year.

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

1. Approximately \$78,000 of new and replacement vehicles;
2. Approximately \$1,030,000 of new and replacement water and sewer infrastructure.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2015**

Capital Assets at year-end net of accumulated depreciation

	<u>2015</u>	<u>2014</u>	<u>change</u>
Construction in progress	\$ 304,429	\$ 537,748	\$ (233,319)
Land	394,160	394,160	-
Infrastructure	14,452,291	14,175,576	276,715
Auto/ Trucks	280,217	275,082	5,135
Office Equipment	91,486	117,740	(26,254)
Building	<u>1,012,653</u>	<u>1,000,183</u>	<u>12,470</u>
Totals	<u>\$ 16,535,236</u>	<u>\$ 16,500,489</u>	<u>\$ 34,747</u>

The following table summarizes the changes in capital assets.

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 16,500,489	\$ 16,531,828
Additions and transfers	947,889	857,140
Depreciation	(866,726)	(844,642)
Disposals and transfers	<u>(46,416)</u>	<u>(43,837)</u>
Balance at end of year	<u>\$ 16,535,236</u>	<u>\$ 16,500,489</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 \$5,550,000. 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>2015</u>	<u>2014</u>	<u>Change</u>
Revenue Bonds Payable	<u>\$ 5,550,000</u>	<u>\$ 5,775,000</u>	<u>\$ (225,000)</u>
Totals	<u>\$ 5,550,000</u>	<u>\$ 5,775,000</u>	<u>\$ (225,000)</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
FISCAL YEAR ENDED AUGUST 31, 2015**

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 2015-2016 Budget, water and sewer revenues are budgeted to increase by approximately 8% from the 2014-2015 budget year. A rate study conducted during the 2012 fiscal year revealed a structure change in water and wastewater 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 in repairs and maintenance. A significant increase in supplies expense is attributable to a three year 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, 2015**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS		
Cash and cash equivalents	\$	3,468,699
Accounts receivable, net of allowance		1,220,796
Supplies inventory		97,891
Total current assets		<u>4,787,386</u>
RESTRICTED ASSETS		
Cash and cash equivalents		<u>6,898,856</u>
Total restricted assets		<u>6,898,856</u>
CAPITAL ASSETS – net of accumulated depreciation		
Construction in progress (non-depreciable)		304,429
Land (non-depreciable)		394,160
Infrastructure		14,452,291
Auto/ Trucks		280,217
Office Equipment		91,486
Building		<u>1,012,653</u>
Total capital assets		<u>16,535,236</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to TCDRS pension		<u>67,784</u>
Total deferred outflows of resources		<u>67,784</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		<u><u>\$ 28,289,262</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$	702,156
Salaries and benefits payable		68,479
Accrued interest payable		12,330
Security deposits		183,990
Current portion of long-term debt		<u>230,000</u>
Total current liabilities		<u>1,196,955</u>
LONG-TERM LIABILITIES		
Long-term debt, net of current portion		5,421,323
Net pension liability - TCDRS		137,550
OPEB liability		<u>869,640</u>
Total long-term liabilities		<u>6,428,513</u>
DEFERRED INFLOWS OF RESOURCES		
Related to TCDRS pension		<u>15,243</u>
Total deferred inflows of resources		<u>15,243</u>
Total liabilities and deferred inflows of resources		<u>7,640,711</u>
NET POSITION		
Net investment in capital assets		15,973,120
Restricted for debt service		431,723
Restricted for capital improvement		1,191,686
Unrestricted net assets		<u>3,052,022</u>
Total net position		<u>20,648,551</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		<u><u>\$ 28,289,262</u></u>

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, 2015**

OPERATING REVENUES

Charges for water service	\$ 4,285,730
Charges for sewer service	2,305,649
Tap connection and inspection fees	442,605
Penalties and interest	121,008
	121,008

Total operating revenues

7,154,992

OPERATING EXPENSES

Purchased water service	1,948,376
Purchased sewer service	1,376,418
Salaries, benefits and payroll taxes	1,643,299
Contracted services	213,840
Professional fees	75,226
Utilities	85,447
Depreciation	866,726
Water and sewer system maintenance	158,735
Other	337,627
	337,627

Total operating expenses

6,705,694

OPERATING INCOME

449,298

NON-OPERATING REVENUES (EXPENSES)

Investment earnings	2,310
Interest expense	(196,731)
Gain on dispositions of capital assets	15,483
	15,483

Total non-operating revenues (expenses)

(178,938)

INCREASE IN NET POSITION

270,360

TOTAL NET POSITION – BEGINNING (AS RESTATED)

20,378,191

TOTAL NET POSITION – ENDING

\$ 20,648,551

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, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 7,212,823
Cash paid to employees for services	(1,441,039)
Cash paid to suppliers	(2,888,497)
Cash paid for other expenses	<u>(596,530)</u>
Net cash provided by operating activities	<u>2,286,757</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>2,400</u>
Net cash provided by financing activities	<u>2,400</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(901,473)
Principal payments on long-term debt	(225,000)
Interest on long-term debt	<u>(206,856)</u>
Net cash used in capital and related financing activities	<u>(1,333,329)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	955,828
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>9,411,727</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10,367,555</u>
CASH AND CASH EQUIVALENTS	\$ 3,468,699
RESTRICTED CASH AND CASH EQUIVALENTS	<u>6,898,856</u>
TOTAL CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10,367,555</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
OPERATING INCOME	\$ 449,298
Adjustments to reconcile operating income to net cash provided by operating activities	
Gain on disposal of capital assets	(15,483)
Depreciation	866,726
Change in accounts receivable	57,481
Change in pension liability and deferred inflows and outflows	5,019
Change in OPEB liability	193,045
Change in supplies inventory	2,832
Change in accounts payable, salaries payable and deposits	<u>727,839</u>
Net cash provided by operating activities	<u>\$ 2,286,757</u>

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, 58th 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, 76th 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, 79th Legislature, which was signed into law on June 18, 2005, effective September 1, 2005. This law repealed Chapter 312, Acts of the 58th 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, Notes to the 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 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, 2015, the bank balance of the Authority's cash deposits totaled \$1,936,695, and the carrying value was \$1,429,772. These amounts exclude the restricted cash amount held in escrow which totaled \$4,312,329 at August 31, 2015. 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 2015. The unbilled revenue balance as of August 31, 2015 was \$386,997.

**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, 2015, a liability of \$53,309 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, 2015 through January 11, 2016, 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, 2015, 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, 2015:

	<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	\$ 652,894	n/a
Cash on hand	Not Rated	1,048	n/a
TexPool	AAAm	1,966,207	41 Days
LOGIC	AAA	848,550	38 Days
		<u>\$ 3,468,699</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	776,878	n/a
TexPool	AAAm	1,809,649	41 Days
		<u>\$ 6,898,856</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, 2015:

<u>Restricted Cash and Investments</u>	
Restricted for customer deposits	\$ 183,990
Restricted for impact fees	1,191,686
Restricted for capital projects	5,091,457
Restricted for debt service	<u>431,723</u>
Total restricted cash and equivalents	<u><u>\$6,898,856</u></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, 2015 are as follows:

Accounts receivable	\$ 743,453
Accrued unbilled revenue	386,997
Developer engineering fees	63,698
Other receivables	121,243
Less: Allowance for uncollectibles	<u>(94,595)</u>
Total accounts receivable, net	<u><u>\$ 1,220,796</u></u>

NOTE 4. CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance at September 1, 2014	Additions and Transfers	Disposals and Transfers	Balance at August 31, 2015
Capital assets, nondepreciable:				
Construction in progress	\$ 537,748	\$ 584,935	\$ 818,254	\$ 304,429
Land	<u>394,160</u>	<u>-</u>	<u>-</u>	<u>394,160</u>
Total nondepreciable assets	<u>931,908</u>	<u>584,935</u>	<u>818,254</u>	<u>698,589</u>
Capital assets, depreciable:				
Infrastructure	24,498,242	1,031,581	81,272	25,448,551
Auto/ Trucks	734,939	78,246		813,185
Office Equipment	241,243	-	-	241,243
Building	<u>1,488,268</u>	<u>71,382</u>	<u>-</u>	<u>1,559,650</u>
Total depreciable assets	<u>26,962,692</u>	<u>1,181,209</u>	<u>81,272</u>	<u>28,062,629</u>
Less accumulated depreciation:				
Infrastructure	10,322,666	673,594		10,996,260
Auto/ Trucks	459,857	107,964	34,853	532,968
Office Equipment	123,503	26,254		149,757
Building	<u>488,085</u>	<u>58,912</u>	<u>-</u>	<u>546,997</u>
Total accumulated depreciation	<u>11,394,111</u>	<u>866,724</u>	<u>34,853</u>	<u>12,225,982</u>
Total depreciable assets, net	<u>15,568,581</u>	<u>314,485</u>	<u>46,419</u>	<u>15,836,647</u>
Capital assets, net	<u><u>\$16,500,489</u></u>	<u><u>\$ 899,420</u></u>	<u><u>\$ 864,673</u></u>	<u><u>\$16,535,236</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, 2014	Additions/ Issued	Retired or Refunded	Balance at August 31, 2015	Amounts due Within One Year
Revenue Bonds	\$ 5,775,000	\$ -	\$ (225,000)	\$5,550,000	\$ 230,000
Premium	111,448	-	(10,125)	101,323	-
Total Bonds Payable	<u>5,886,448</u>	-	<u>(235,125)</u>	<u>5,651,323</u>	<u>230,000</u>
Net pension liability	-	137,550	-	137,550	
OPEB Liability	<u>676,595</u>	<u>193,045</u>	-	<u>869,640</u>	-
Total Long Term Liabilities	<u>\$ 6,563,043</u>	<u>\$ 330,595</u>	<u>\$ (235,125)</u>	<u>\$6,658,513</u>	<u>\$ 230,000</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.

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	<u>\$5,550,000</u>	<u>\$ 230,000</u>
Total long-term bonded debt			<u>5,550,000</u>	<u>230,000</u>
Net long-term bonded debt			<u>\$5,550,000</u>	<u>\$ 230,000</u>

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

Year ended August 31,	Interest Amount	Principal Amount	Total Bond Service Requirements
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	170,606	260,000	430,606
2021-2025	728,031	1,430,000	2,158,031
2026-2030	457,331	1,700,000	2,157,331
2031-2033	<u>102,053</u>	<u>1,190,000</u>	<u>1,292,053</u>
Totals	<u>\$2,214,395</u>	<u>\$5,550,000</u>	<u>\$ 7,764,395</u>

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

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 641 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 9.53% for the months of the accounting year in 2014, and 9.05% for the months of the accounting year in 2015.

The contribution rate payable by the employee members for calendar years 2014 and 2015 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.

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

NOTE 6. RETIREMENT PLANS – CONTINUED

Actuarial Assumptions

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	December 31, 2014
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	
Smoothing period	5 Years
Recognition method	Non-asymptotic
Corridor	None
Inflation	3.50%
Salary Increase	5.40%
Investment Rate of Return	8.10%
Payroll Growth	2.00%

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**

NOTE 6. RETIREMENT PLANS – CONTINUED

Discount Rate – Continued

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of December 31, 2015 are summarized below:

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	16.50%	5.35%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽³⁾	12.00%	8.35%
Global Equities	MSCI World (net) Index	1.50%	5.65%
International Equities - Developed	50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index	11.00%	5.35%
International Equities - Emerging	50% MSCI EM Standard (net) Index + 50% MSCI EM 100% Hedged to USD (net) Index	9.00%	6.35%
Investment-Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.55%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.75%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	5.00%	5.54%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.80%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.75%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	4.00%
Commodities	Bloomberg Commodities Index	2.00%	-0.20%
Master Limited Partnerships (MLPs)	Alerian MLP Index	2.00%	5.30%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index ⁽⁴⁾	3.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFR) Fund of Funds Composite Index	25.00%	5.15%

(1) Target asset allocation adopted at the April 2015 TCDRS Board meeting.

(2) Geometric real rates of return in addition to assumed inflation of 1.7%, per Cliffwater's 2015 capital market assumptions.

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

(4) 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 2014 Net Pension Liability:

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total pension liability	\$ 535,814	\$ 480,729	\$ 427,851
Fiduciary net position	<u>343,179</u>	<u>343,179</u>	<u>343,179</u>
Net pension liability / (asset)	<u>\$ 192,635</u>	<u>\$ 137,550</u>	<u>\$ 84,672</u>

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

NOTE 6. RETIREMENT PLANS – CONTINUED

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

At August 31, 2015, the Authority reported \$137,550 for the net pension liability and pension expense of \$97,608 related to the December 31, 2014 valuation. The breakdown of the components of pension expense follows:

Pension Expense / (Income)	<u>January 1, 2014 to December 31, 2014</u>
Service cost	\$ 155,483
Interest on total pension liability ⁽¹⁾	31,848
Administrative expenses	208
Member contributions	(69,158)
Expected investment return net of investment expenses	(20,793)
Recognition of deferred inflows/outflows of resources	
Recognition of economic/demographic gains or losses	(1,524)
Recognition of investment gains or losses	1,630
Other ⁽²⁾	<u>(86)</u>
Pension expense / (income)	<u>\$ 97,608</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:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 15,243	\$ -
Net difference between projected and actual earnings	-	6,520
Contributions made subsequent to measurement date	-	61,264
	<u>\$ 15,243</u>	<u>\$ 67,784</u>

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:

<u>Year Ended December 31</u>	
2015	\$ 61,370
2016	106
2017	106
2018	106
2019	(1,524)
Thereafter	<u>(7,623)</u>
	<u>\$ 52,541</u>

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

NOTE 6. RETIREMENT PLANS – CONTINUED

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

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, 2015, 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, 2015. 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, 2015 and 2014 is shown below:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 206,953	\$ 167,669
Annual OPEB cost	206,953	167,669
Contributions made	<u>(13,908)</u>	<u>(13,908)</u>
Increase in net OPEB obligation	193,045	153,761
Net OPEB obligation - beginning of year	<u>676,595</u>	<u>522,834</u>
Net OPEB obligation - end of year	<u>\$ 869,640</u>	<u>\$ 676,595</u>
Percentage of Annual OPEB Cost Contributed	7%	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)	\$ 950,006
Value of plan assets	<u>-</u>
Unfunded actuarial accrued liability	<u>\$ 950,006</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.

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

NOTE 7. OTHER POSTEMPLOYMENT BENEFITS – CONTINUED

Actuarial Methods and Assumptions – Continued

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, 2015
Amortization method	Level Dollar
Discount Rate	4.0%
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
Average salary increase	3.0%
Investment rate of return	4.0%

NOTE 8. RESTATEMENT

As a result of the implementation of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – and Amendment of GASB Statement No. 27 and GASB statement N. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date", a restatement of beginning net position has been made to record the Authority's net pension liability as of August 31, 2014.

The effect of this prior year restatement is as follows:

August 31, 2014 net position (as previously stated)	\$ 20,458,091
Implementation of GASB 68	<u>(79,900)</u>
August 31, 2014 net position (as restated)	<u><u>\$ 20,378,191</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
FOR THE YEAR ENDED AUGUST 31, 2015**

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%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED AUGUST 31, 2015**

Total Pension Liability		
Service cost	\$	155,483
Interest on total pension liability		31,848
Effect of economic/demographic (gains) or losses		(16,767)
Benefit payments/refunds of contributions		<u>(13,324)</u>
Net change in total pension liability		157,240
Total pension liability, beginning		<u>323,489</u>
Total pension liability, ending (a)	\$	<u><u>480,729</u></u>
 Fiduciary Net Position		
Employer contributions	\$	94,153
Member contributions		69,158
Investment income net of investment expenses		12,643
Benefit payments/refunds of contributions		(13,325)
Administrative expenses		(208)
Other		<u>88</u>
Net change in fiduciary net position		162,509
Fiduciary net position, beginning		<u>180,670</u>
Fiduciary net position, ending (b)	\$	<u><u>343,179</u></u>
Net pension liability / (asset), ending <= (a) - (b)	\$	<u><u>137,550</u></u>
Fiduciary net position as a % of total pension liability		71.39%
Pensionable covered payroll	\$	987,970
Net pension liability as a % of covered payroll		13.92%

Note: Only one year of data is presented in accordance with GASB #68, paragraph 138.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
FOR THE YEAR ENDED AUGUST 31, 2015**

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽¹⁾	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	(93,808)	984,341	11.2%
2014	94,153	94,153	-	987,970	9.5%

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

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

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, 2015**

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OPERATING REVENUE			
Charges for water service	\$ 4,486,100	\$ 4,285,730	\$ (200,370)
Charges for sewer service	2,326,300	2,305,649	(20,651)
Tap connection and inspection fees	350,500	442,605	92,105
Penalties and interest	118,165	121,008	2,843
Total operating revenue	7,281,065	7,154,992	(126,073)
OPERATING EXPENSES			
Purchased water service	1,986,510	1,948,376	38,134
Purchased sewer service	1,357,200	1,376,418	(19,218)
Salaries, benefits and payroll taxes	1,509,600	1,643,299	(133,699)
Contracted services	188,500	213,840	(25,340)
Professional fees	80,090	75,226	4,864
Utilities	141,000	85,447	55,553
Depreciation	-	866,726	(866,726)
Water and sewer system maintenance	161,800	158,735	3,065
Other	466,700	337,627	129,073
Total operating expenses	5,891,400	6,705,694	(814,294)
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	4,835	2,310	(2,525)
Interest expense	(250,857)	(196,731)	54,126
Other expense	(163,643)	-	163,643
Loss on dispositions	-	15,483	15,483
Total non-operating revenues (expenses)	(409,665)	(178,938)	230,727
CHANGE IN NET POSITION – GAAP BASIS	\$ 980,000	\$ 270,360	\$ (709,640)
NON-OPERATING COSTS – NON-GAAP			
Capital expenditures	\$ 785,000	\$ 901,473	\$ (116,473)
Principal payments on long-term debt	195,000	225,000	(30,000)
Total non-operating costs – non-GAAP	\$ 980,000	\$ 1,126,473	\$ (146,473)

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO THE BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND
FOR THE YEAR ENDED AUGUST 31, 2015**

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, 2015
(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):

	<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:	\$24.00	-	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	\$64.00
	Wastewater	\$63.40

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-1. SERVICES AND RATES – CONTINUED
AUGUST 31, 2015
(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	4	15	X 1.0	15
≤ 3/4"	4,489	4,396	X 1.0	4,396
1"	101	101	X 2.5	253
1 1/2"	24	24	X 5.0	120
2"	68	70	X 8.0	560
3"	10	12	X 15.0	180
4"	2	2	X 25.0	50
6"	4	2	X 50.0	100
8"	-	-	X 80.0	-
10"	-	-	X 115.0	-
Total water connections	4,702	4,627		5,674
Total wastewater connections	4,275	4,210	X 1.0	4,210

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

Gallons pumped into system:	507,855,000
Gallons billed to customers:	442,434,846
Water Accountability Ratio: (Gallons billed / Gallons pumped)	87.12%

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, 2015**

PURCHASED WATER SERVICE	\$ 1,948,376
PURCHASED SEWER SERVICE	1,376,418
SALARIES, BENEFITS AND PAYROLL TAXES*	1,643,299
CONTRACTED SERVICES	213,840
PROFESSIONAL FEES	
Auditing	29,625
Engineering	18,408
Consulting fees	14,648
Legal	12,545
UTILITIES	85,447
WATER AND SEWER SYSTEM MAINTENANCE	158,735
OTHER	
Other	105,578
Insurance/surety bonds	23,383
Fuel and lube	34,064
Telephone/2-way radios	27,647
Postage	27,785
Software maintenance/training	26,318
Printing	25,366
Uniforms	9,550
Other expense – subscriptions, dues, misc.	8,270
Safety supplies/training	1,791
Office equipment maintenance/rental	19,190
Office supplies	7,045
Travel expenses	4,396
Training/enrollment/license	11,034
Chemicals	4,906
Rents – equipment/space	1,005
Hardware/Software - office	299
DEPRECIATION EXPENSE	<u>866,726</u>
TOTAL EXPENSES	<u>\$ 6,705,694</u>

* Number of persons employed by the Authority: 22 Full-Time 0 Part-Time
(Not including independent contractors or consultants)

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-3. SCHEDULE OF TEMPORARY INVESTMENTS
AUGUST 31, 2015**

Funds	Account Number	Interest Rate at End of Year	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>Business Type</u>					
Investment Pool	610200006	0.075%	N/A	\$ 1,789,445	\$ -
Investment Pool	610200003	0.075%	N/A	992,339	-
Investment Pool	610200002	0.075%	N/A	298,935	-
Investment Pool	610200005	0.075%	N/A	459,743	-
Investment Pool	610200009	0.075%	N/A	221,979	-
Investment Pool	1299179001	0.137%	N/A	<u>848,550</u>	<u>-</u>
Total				<u>\$ 4,610,991</u>	<u>\$ -</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-4. TAXES LEVIED AND RECEIVABLE
AUGUST 31, 2015
(Unaudited)**

(Does not apply to the Authority)

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS BY YEARS
AUGUST 31, 2015**

Due During Fiscal Years Ending	Series 2013 Bonds		
	Principal Due August 1	Interest Due February 1 and August 1	Total Annual Requirements
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	260,000	170,606	430,606
20121-2025	1,430,000	728,031	2,158,031
2026-2030	1,700,000	457,331	2,157,331
2031-2033	1,190,000	102,053	1,292,053
Totals	<u>\$ 5,550,000</u>	<u>\$ 2,214,395</u>	<u>\$ 7,764,395</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-6. CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED AUGUST 31, 2015**

	Bond Issue Series 2013
Interest rate	3.00% - 4.25%
Dates interest payable	February 1; August 1
Maturity date	August 1, 2033
Beginning bonds outstanding	\$ 5,775,000
Bonds sold during the fiscal year	-
Bonds retired during the fiscal year	225,000
Ending bonds outstanding	\$ 5,550,000
Interest paid during the fiscal year	\$ 196,731

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, 2015: \$ 10,367,555

Average annual bonded debt service payment (Principal and Interest)
for remaining term of all debt: \$ 431,355

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
ENTERPRISE FUND—FIVE YEARS ENDED
FOR THE YEAR ENDED AUGUST 31, 2015**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
OPERATING REVENUE					
Charges for water service	\$4,285,730	\$3,805,927	\$3,957,275	\$3,958,267	\$3,796,820
Charges for sewer service	2,305,649	2,189,328	2,318,908	2,462,130	2,288,500
Tap connection and inspection fees	442,605	698,005	515,264	180,601	139,202
Penalties and interest	121,008	122,636	120,540	129,641	97,796
Total operating revenue	<u>7,154,992</u>	<u>6,815,896</u>	<u>6,911,987</u>	<u>6,730,639</u>	<u>6,322,318</u>
OPERATING EXPENSES					
Purchased water service	1,948,376	1,885,532	1,866,103	1,824,739	1,810,185
Purchased sewer service	1,376,418	1,167,432	1,055,366	1,011,174	896,961
Water service	-	-	-	-	580
Salaries, benefits and payroll taxes	1,643,299	1,567,678	1,487,924	1,433,870	1,255,190
Contracted services	213,840	184,714	164,447	206,180	115,602
Professional fees	75,226	83,624	131,456	157,282	61,587
Utilities	85,447	90,054	97,248	107,861	120,385
Depreciation	866,726	844,642	758,595	801,646	785,011
Water and sewer system maintenance	158,735	144,481	120,233	111,398	143,210
Other	337,627	454,757	378,468	462,064	340,037
Total operating expenses	<u>6,705,694</u>	<u>6,422,914</u>	<u>6,059,840</u>	<u>6,116,214</u>	<u>5,528,748</u>
NON-OPERATING REVENUES (EXPENSES)					
Investment earnings	2,310	30,109	3,092	3,676	1,215
Bond issuance costs	-	(30,644)	-	-	-
Interest expense	(196,731)	(222,311)	(4,228)	(26,609)	(41,025)
Gain (Loss) on dispositions	15,483	15,633	(89,695)	(4,476)	(37,628)
Total non-operating revenues (expenses)	<u>(178,938)</u>	<u>(207,213)</u>	<u>(90,831)</u>	<u>(27,409)</u>	<u>(77,438)</u>
EXCESS (DEFICIENCY)	<u>270,360</u>	<u>185,769</u>	<u>761,316</u>	<u>587,016</u>	<u>716,132</u>
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>220,900</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET POSITION	<u>\$ 270,360</u>	<u>\$ 406,669</u>	<u>\$ 761,316</u>	<u>\$ 587,016</u>	<u>\$ 716,132</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, 2015

	Percentage of Total Revenue				
	2015	2014	2013	2012	2011
OPERATING REVENUE					
Charges for water service	59.9%	55.8%	57.3%	58.8%	60.1%
Charges for sewer service	32.2%	32.1%	33.5%	36.6%	36.2%
Tap connection and inspection fees	6.2%	10.2%	7.5%	2.7%	2.2%
Penalties and interest	1.7%	1.8%	1.7%	1.9%	1.5%
Total operating revenue	100.0%	100.0%	100.0%	100.0%	100.0%
OPERATING EXPENSES					
Purchased water service	27.2%	27.7%	27.0%	27.1%	28.6%
Purchased sewer service	19.2%	17.1%	15.3%	15.0%	14.2%
Water service	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries, benefits and payroll taxes	23.0%	23.0%	21.5%	21.3%	19.9%
Contracted services	3.0%	2.7%	2.4%	3.1%	1.8%
Professional fees	1.1%	1.2%	1.9%	2.3%	1.0%
Utilities	1.2%	1.3%	1.4%	1.6%	1.9%
Depreciation	12.1%	12.4%	11.0%	11.9%	12.4%
Water and sewer system maintenance	2.2%	2.1%	1.7%	1.7%	2.3%
Other	4.7%	6.7%	5.5%	6.9%	5.4%
Total operating expenses	93.7%	94.2%	87.7%	90.9%	87.4%
NON-OPERATING REVENUES (EXPENSES)					
Investment earnings	0.0%	0.4%	0.0%	0.1%	0.0%
Bond issuance costs	0.0%	-0.4%	0.0%	0.0%	0.0%
Interest expense	-2.7%	-3.3%	-0.1%	-0.4%	-0.6%
Gain (Loss) on dispositions	0.2%	0.2%	-1.3%	-0.1%	-0.6%
Total non-operating revenues (expenses)	-2.5%	-3.0%	-1.3%	-0.4%	-1.2%
EXCESS (DEFICIENCY)	3.7%	2.7%	11.0%	8.7%	11.3%
CAPITAL CONTRIBUTIONS	0.0%	3.2%	0.0%	0.0%	0.0%
CHANGE IN NET POSITION	3.7%	6.0%	11.0%	8.7%	11.3%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
TSI-8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS
AUGUST 31, 2015
(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

	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid 2014	Expense Reimbursements 2014	Title at Year End
<u>Board Members:</u>				
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