

Lakeway Municipal Utility District

Annual Report

September 30, 2016

LAKEWAY MUNICIPAL UTILITY DISTRICT
Annual Financial Report
For the Year Ended September 30, 2016

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ANNUAL FILING AFFIDAVIT

THE STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

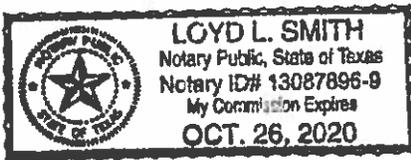
I, Larry Burmeier, President of the Board of Directors of Lakeway Municipal Utility District hereby swear, or affirm, that Lakeway Municipal Utility District (District) has reviewed and approved at a meeting of the Board of the Directors of the District on the 8th day of February, 2017, its annual audit report for the fiscal year ended September 30, 2016 and that copies of the annual audit report have been filed in the District Office, located at 1097 Lohmans Crossing, Lakeway, TX 78734.

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: February 8, 2017

By: *Larry Burmeier*
Larry Burmeier, President

Sworn to and subscribed to before me this 8th day of February, 2017.



(SEAL)

Loyd L. Smith
Notary Public in the State of Texas

Independent Auditors' Report

Board of Directors
Lakeway Municipal Utility District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lakeway Municipal Utility District (the "District") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lakeway Municipal Utility District as of September 30, 2016, and the respective changes in financial position for the year then ended in conformity 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 management's discussion and analysis on pages 4 through 8 and the pension information on pages 29 through 33 as well as the budgetary comparison information on pages 34 and 35, 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 consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental schedules on pages 37 through 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules on pages 39 through 48 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The supplemental schedules on pages 37 through 38, and page 49 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2017, on our consideration of the District'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 the District's internal control over financial reporting and compliance.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

February 8, 2017
Austin, Texas

LAKEWAY MUNICIPAL UTILITY DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended September 30, 2016

PURPOSE

These financial statements include this discussion and analysis of Lakeway Municipal Utility District's (District) overall financial position and results of operations in a format that will facilitate the public's understanding of reported data. This discussion provides an overview of our financial activities for the fiscal year ended September 30, 2016.

OVERVIEW

We (the District) are on a sound financial footing. Standard and Poor's Ratings Services established an 'AA-' credit rating for the District in 2016. The financial statements show continued growth in net position and taxpayer equity. Our budgeting and rate setting process is effective. Management and the Board of Directors effectively monitor and control expenses. The annual financial report, beginning on page 9, provides detailed schedules of the financial position. The following discussion will refer to those schedules.

FINANCIAL STATEMENTS

The government wide financial statements (the Statement of Net Position and the Statement of Activities) and the governmental fund financial statements are combined and are presented in pages 9 and 10, and report our financial information.

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

The Statement of Activities presents information showing how our net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund financial statements report our operations on a current resources measurement basis rather than on the economic resources measurement basis contained in the government-wide financial statements by providing information on our most significant funds. The governmental funds balance sheet reports financial information for the general, debt service, and capital project funds in separate columns because we believe each to be a major fund and are particularly important to financial statement users. The governmental funds revenues, expenditures, and changes in fund balances also reports the three major funds in separate columns, and reports the expenses, program revenues, and general revenues for each fund.

STATEMENT OF NET POSITION

We ended fiscal year 2016 with \$23,589,929 in total net position. This was made up of \$41,588,490 in assets, comprised of cash, investments, accounts receivable, and capital assets, and with liabilities of \$17,998,561 including accounts payable, security deposits payable, salaries and benefits payable, and long term liabilities (debt service and net pension liability). See page 9.

STATEMENT OF ACTIVITIES

Program revenues totaled \$5,057,196, general revenue totaled \$1,876,603, other government funds totaled \$4,941,000, and total revenue for the year was \$11,874,799. Total expenses for the year were \$5,805,665, resulting in an increase in net position of \$6,068,834. See page 10.

LAKEWAY MUNICIPAL UTILITY DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended September 30, 2016
(Continued)

CONDENSED FINANCIAL STATEMENTS

Table I
Condensed Schedules of Net Position
As of September 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Current assets	\$ 16,040,477	\$ 12,406,632
Capital assets (net of depreciation)	24,744,493	24,858,488
Other assets	803,520	952,374
Total assets	<u>41,588,490</u>	<u>38,217,494</u>
Current liabilities	718,525	2,131,065
Long-term liabilities	17,280,036	18,565,334
Total liabilities	<u>17,998,561</u>	<u>20,696,399</u>
Net Position:		
Invested in capital assets	8,099,493	12,431,125
Restricted	495,308	383,998
Unrestricted	14,995,128	4,705,972
Total net position	<u>\$ 23,589,929</u>	<u>\$ 17,521,095</u>

Table II
Condensed Schedules of Activities
For the Years ended September 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Expenses:		
Program expenses	\$ 3,867,858	\$ 3,608,251
Capital outlay	136,828	256,146
Debt service	670,042	795,535
Depreciation	1,131,237	1,470,939
Total expenses	<u>5,805,965</u>	<u>6,130,871</u>
Revenues:		
Program revenues	5,057,196	4,702,141
General revenues	1,876,603	2,237,123
Other sources of revenues	4,941,000	-
Total revenues	<u>11,874,799</u>	<u>6,939,264</u>
Change in net position	6,068,834	808,393
Beginning of year	17,521,095	16,712,702
End of year	<u>\$ 23,589,929</u>	<u>\$ 17,521,095</u>

LAKEWAY MUNICIPAL UTILITY DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended September 30, 2016
(Continued)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The focus of the presentation of our governmental funds is to provide information on inflows, outflows, and balances of spendable resources. Such information is useful in assessing our financing requirements. In particular, unreserved fund balance may serve as a useful measure of our net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the governmental funds combined ending fund balances increased \$5,245,469 over prior year to \$16,263,362. Approximately 6% of this total is a nonspendable noncurrent receivable balance. The restricted funds of \$495,308, or 3%, represent debt service funds restricted for principal and interest payments on long term debt. The assigned fund balance of \$9,821,370, or 60%, represents resources whose use is constrained by limitations that the District imposes upon itself through decisions made by the Board of Directors. The remaining balance, \$4,955,153, or 30%, is allocated to Capital Improvement Construction projects of \$3,839,153 and \$1,116,000 for fund balance and rate stabilization.

SOURCE OF FUNDS

We generate operating funds in two ways:

Rates

Revenue is received through bi-monthly customer billings for water and wastewater service. We had 4,135 active water connections as of September 30, 2016. This was an increase of 22 connections over the prior fiscal year. We had 3,072 active wastewater connections as of September 30, 2016. This was an increase of 7 connections over the prior fiscal year.

Rates are calculated annually and reviewed in a mid-year rate audit. Rates are based upon actual costs and revenues in the most recent twelve-month period running from June 1st to May 31st, after adjustments for known and measurable change. Generally, the rates will change annually. In FY 2016, water base rates remained at \$23.00 and wastewater base rates remained at \$17.00. Water volume rate charges remained the same: 0-15,000 gallons (\$2.50 per thousand); 15,001-30,000 (\$3.25); 30,001-50,000 (\$3.50); 50,001-80,000 (\$4.00); 80,001-100,000 (\$4.50); and over 100,000 (\$5.00). Rates were adequate to cover the projected cost of operations. See page 30.

Ad Valorem Taxes

Ad valorem taxes of \$.1350 per \$100 valuation were collected to make principal and interest payments on wastewater debt. Tax charges of \$.00186 per \$100 valuation, were collected for general maintenance and operations. 95.5% of the taxes levied in 2015 were collected and the remaining .50% is considered collectable. Total assessed valuation increased from \$1 billion in fiscal 2014 to \$1.1 billion in fiscal 2015.

All Ad valorem taxes are applied to principal and interest payments for wastewater debt or for wastewater operations and maintenance. The remainder of the principal and interest payment comes from water rate revenue. Principal and interest payments made by the District during the fiscal year ended September 30, 2016 totaled \$2,269,110.

LAKEWAY MUNICIPAL UTILITY DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended September 30, 2016
(Continued)

OPERATING REVENUES AND EXPENDITURES

Operating revenues and expenses are budgeted annually. The administrative staff develops the budget then it is reviewed and approved by the Board of Directors. During the year the budget is reviewed frequently and all significant deviations are discussed with and approved by the Board of Directors. There is a formal mid-year review that may result in rate changes; however, there was no mid-year rate change for fiscal year 2016.

REVENUES

General Fund revenues for the year totaled \$5,391,022 or approximately \$551,222 greater than originally budgeted in fiscal year 2016. Similarly, General Fund revenues for fiscal year 2015 totaled \$5,113,449 or approximately \$12,000 less than budget. The 2016 budget variances were due to higher volume than expected for water service.

EXPENDITURES

General Fund expenditures of \$3,379,612 and \$3,944,658 for fiscal years 2016 and 2015, respectively, were approximately \$361,042 lower and \$204,000 higher than budgeted expenditures for fiscal years 2016 and 2015, respectively. The increase and decrease were primarily due to the accrual adjustment for the net pension liability and slightly different than expected variable costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Our investment in capital assets, net of accumulated depreciation, as of September 30, 2016, was \$24,744,493, a decrease of \$113,995 over the total of \$24,858,488 as of September 30, 2016. See Note D for additional information on capital assets.

Long-Term Debt

At the end of the fiscal year, we had total bonded debt outstanding of \$16,645,000, a decrease of 9% from the prior year outstanding amount of \$18,255,000. See Note E for additional information on long-term debt.

WATER/WASTEWATER TREATMENT PLANTS AND COLLECTION SYSTEMS

Treatment Plants

We have one water and two wastewater treatment plants. The plants were completed or modernized in May of 2003. These plants have the capacity to serve us through build out. The CIP Plan calls for replacement of a treatment plant in 2017. Government regulatory agencies are constantly revising standards, so future actions may be necessary.

Distribution and Collection System

Our water distribution system is in good condition, even though some of the underground piping is forty years old and subject to breaks and leaks. During the 1980's some polybutylene piping was installed which has proven defective. We received financial compensation from the manufacturer for repair and replacement. We have determined that it is more economical to repair and replace piping when it fails than implement a capital intensive replacement program.

Similarly, the wastewater collection system is aging. We have a continuing program to monitor and repair these pipelines.

LAKEWAY MUNICIPAL UTILITY DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Year Ended September 30, 2016
(Continued)

DIRECTORS, MANAGEMENT AND OPERATING PERSONNEL

Board of Directors

We receive overall direction from a five person Board of Directors. All are volunteer residents of the District. They are elected by the taxpayers and serve a staggered four year term. See page 49.

Management

A professional General Manager controls daily operations. See page 49.

Personnel

We employ 21 full time and -0- part-time employees. There was turnover in one employee position in fiscal year 2016.

State regulations require specific levels of job qualifications for operations and management personnel. All concerned personnel were at or above the required level of certification through the fiscal year 2016. We have an incentive program to encourage employees to obtain more advanced certifications.

We provide retirement, disability and death benefits for all full-time employees through a defined benefit pension plan operated by the statewide Texas County & District Retirement System (TCDRS). We fund the plan by monthly contributions from both employees and the District. The employee contributes 7% by payroll deduction. The actuarially determined rate paid by the District for calendar year 2015 was 12.00%. The District contributed \$137,964 for the year ended September 30, 2016. See Note L.

Contacting the District's Financial Management

This financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives and spends. If you have questions about this report or need additional information, contact the District office, 1097 Lohmans Crossing, Lakeway, Texas 78734.

LAKEWAY MUNICIPAL UTILITY DISTRICT
Statement of Net Position and Governmental Funds Balance Sheet
As of September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Total</u>	<u>Adjustments (Note N)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 4,316,761	\$ 661,330	\$ 9,821,370	\$ 14,799,461	\$ -	\$ 14,799,461
Taxes receivable, net	5,090	67,568	-	72,658	-	72,658
Other receivables, net	980,347	-	-	980,347	-	980,347
Prepayments and other assets	6,635	-	-	6,635	-	6,635
Due from/to other funds	166,022	(166,022)	-	-	-	-
Due from Rough Hollow - current	181,376	-	-	181,376	-	181,376
Due from Rough Hollow - noncurrent	803,520	-	-	803,520	-	803,520
Capital assets, net	-	-	-	-	-	-
Land and construction in progress	-	-	-	-	5,280,661	5,280,661
Capital assets	-	-	-	-	19,463,832	19,463,832
Total assets	<u>\$ 6,459,751</u>	<u>\$ 562,876</u>	<u>\$ 9,821,370</u>	<u>\$ 16,843,997</u>	<u>\$ 24,744,493</u>	<u>\$ 41,588,490</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 307,997	\$ -	\$ -	\$ 307,997	\$ -	\$ 307,997
Security deposits payable	200,050	-	-	200,050	-	200,050
Salaries/benefits payable	-	-	-	-	160,078	160,078
Accrued interest payable	-	-	-	-	50,400	50,400
Deferred inflows	5,020	67,568	-	72,588	(72,658)	(70)
Net pension liability	-	-	-	-	635,106	635,106
Long-term liabilities:						
Due within one year	-	-	-	-	1,340,000	1,340,000
Due after one year	-	-	-	-	15,305,000	15,305,000
Total liabilities	<u>513,067</u>	<u>67,568</u>	<u>-</u>	<u>580,635</u>	<u>17,417,926</u>	<u>17,998,561</u>
Fund balances:						
Nonspendable	991,531	-	-	991,531	(991,531)	
Restricted for debt service	-	495,308	-	495,308	(495,308)	
Assigned to construction	-	-	9,821,370	9,821,370	(9,821,370)	
Unassigned	4,955,153	-	-	4,955,153	(4,955,153)	
Total fund balances	<u>5,946,684</u>	<u>495,308</u>	<u>9,821,370</u>	<u>16,263,362</u>	<u>(16,263,362)</u>	
Total liabilities and fund balances	<u>\$ 6,459,751</u>	<u>\$ 562,876</u>	<u>\$ 9,821,370</u>	<u>\$ 16,843,997</u>		
Net Position:						
Net investment in capital assets					8,099,493	8,099,493
Restricted					495,308	495,308
Unrestricted					14,995,128	14,995,128
Total net position					<u>\$ 23,589,929</u>	<u>\$ 23,589,929</u>

LAKEWAY MUNICIPAL UTILITY DISTRICT
Statement of Activities and Governmental Funds Revenue, Expenditures, and Changes in Fund Balances
For the Year Ended September 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Total</u>	<u>Adjustments (Note O)</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES:						
Service operations:						
Water service	\$ 813,766	\$ -	\$ -	\$ 813,766	\$ -	\$ 813,766
Wastewater service	528,484	-	-	528,484	-	528,484
Salaries, benefits & payroll taxes	1,641,018	-	-	1,641,018	31,714	1,672,732
Accrued retirement expense	(310,334)	-	-	(310,334)	635,106	324,772
Contracted services	350,871	-	-	350,871	-	350,871
Professional fees	138,416	-	-	138,416	-	138,416
Administrative supplies & maintenance	38,817	-	-	38,817	-	38,817
Capital outlay-Capitalized	41,746	-	975,496	1,017,242	(1,017,242)	-
Capital outlay-Not Capitalized	136,828	-	-	136,828	-	136,828
Debt service:						
Principal	-	1,610,000	-	1,610,000	(1,610,000)	-
Interest and fiscal charges	-	673,749	-	673,749	(3,707)	670,042
Accretion	-	-	-	-	-	-
Depreciation	-	-	-	-	1,131,237	1,131,237
Total expenditures/expenses	<u>3,379,612</u>	<u>2,283,749</u>	<u>975,496</u>	<u>6,638,857</u>	<u>(832,892)</u>	<u>5,805,965</u>
REVENUES:						
Program revenues:						
Charges for water service	3,281,815	-	-	3,281,815	-	3,281,815
Charges for wastewater service	1,700,727	-	-	1,700,727	-	1,700,727
Tap connection & inspection fees	74,654	-	-	74,654	-	74,654
Total program revenues	<u>5,057,196</u>	<u>-</u>	<u>-</u>	<u>5,057,196</u>	<u>-</u>	<u>5,057,196</u>
Net program revenue/(expense)						<u>(748,769)</u>
General revenues:						
Property taxes	206,171	1,496,971	-	1,703,142	(9,527)	1,693,615
Investment earnings	10,841	6,143	28,229	45,213	-	45,213
Penalties and interest	40,255	14,766	-	55,021	-	55,021
Intergovernmental revenue	15,000	-	-	15,000	-	15,000
Other	61,559	6,195	-	67,754	-	67,754
Transfers-internal activities	(870,984)	870,984	-	-	-	-
Total general revenues/transfers	<u>(537,158)</u>	<u>2,395,059</u>	<u>28,229</u>	<u>1,886,130</u>	<u>(9,527)</u>	<u>1,876,603</u>
Total revenues and transfers	<u>4,520,038</u>	<u>2,395,059</u>	<u>28,229</u>	<u>6,943,326</u>	<u>(9,527)</u>	<u>6,933,799</u>
OTHER FINANCING SOURCES:						
Proceeds from other governmental entities	-	-	4,941,000	4,941,000	-	4,941,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>4,941,000</u>	<u>4,941,000</u>	<u>-</u>	<u>4,941,000</u>
Excess (deficiency) of revenues, transfers in, and other sources over expenditures and transfers out	1,140,426	111,310	3,993,733	5,245,469		
Change in net position						6,068,834
Fund balance/net position:						
Beginning of the year	4,806,258	383,998	5,827,637	11,017,893	6,503,202	17,521,095
End of the year	<u>\$ 5,946,684</u>	<u>\$ 495,308</u>	<u>\$ 9,821,370</u>	<u>\$ 16,263,362</u>	<u>\$ 6,503,202</u>	<u>\$ 23,589,929</u>

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Creation of District** - Lakeway Municipal Utility District (the "District") was created by an order of the Texas Water Rights Commission on February 17, 1972, under Chapter 54 of the Texas Water Code and confirmed by the electorate of Lakeway Municipal Utility District at a confirmation election held on April 28, 1972. The Board of Directors held its first meeting on February 21, 1972, and the first bonds were sold on September 1, 1972. The District is a tax-exempt entity. The accounting policies of the District conform to generally accepted accounting principles. The following is a summary of significant accounting policies.
2. **Reporting Entity** - In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in codification of Government and Financial Reporting Standards, Section 2100. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units.
3. **Government-wide and Fund Financial Statements** - The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all governmental and business-type activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include charges to customers for water, wastewater, and related services. Other revenues not properly included among program revenues are reported as general revenues.

The accounts of the District are organized on the basis of funds. The fund level statements focus on the governmental and proprietary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by the codification of Government and Financial Reporting Standards, Section 1300. Major individual governmental funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental fund groupings.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

4. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for bond principal and interest which are reported as expenditures in the year due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

Property taxes, interest revenue, and charges for services are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available in the fiscal period the District receives cash.

Fund Accounting - The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped by category and type in the financial statements. The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

5. **Cash and Investments** - The District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased. Investments are carried at fair value, which is based on quoted market price. The District's cash deposits at year end and during the year were covered by Federal Depository Insurance or by pledged collateral held by a national bank in the District's name.

State statutes and District resolutions authorize the District's investments. The District is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, no-load money market mutual funds whose investments are restricted to 100% U.S. Treasury Obligations, and the Texas Treasury Safekeeping Trust Company's public investment pool (Texpool).

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

6. **Capital Assets, Depreciation, and Amortization** - The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported as assets in the Statement of Net Position. Current year acquisitions of capital assets are reported as capital expenditures in the governmental funds financial statements. The District maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District capitalizes assets with cost or estimated historical cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, not including land and construction in progress, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	30
Infrastructure & Improvements	20-30
Machinery and Equipment	5-20

7. **Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include accumulated depreciation and net pension liability. Actual results could differ from those estimates.
8. **Capitalized Interest** - The District capitalizes net interest costs as part of the cost of constructing various projects. The amount was immaterial during the year ended September 30, 2016.
9. **Inventories and Prepaids** - The District records purchases of inventories (expendable supplies) as expenditures at the time of purchase. At year end, the amounts on hand are immaterial and therefore no inventory (asset) amount is reported in the financial statements.
10. **Long-Term Debt** - In the Statement of Net Position, long-term debt is reported as liabilities. Payments of bond principal and interest are reported as expenditures in the debt service fund.
11. **Compensated Absences** - This represents the estimated liability for employees accrued vacation and sick leave for which employees are entitled to be paid upon termination. Employees are granted working days of paid vacation in varying amounts to specified maximums depending on tenure with the District. Vacation pay is charged to operations when taken by the employees. Sick leave accrues to full-time employees to specified maximums. Upon termination of employment, unused sick leave and vacation time earned will be paid to employees up to specified maximums. Compensated absences are reported as accrued and included in salaries/benefits payable in the government wide financial statements (the statement of net position and the statement of activities). The governmental fund financial statements include only matured compensated absences payable to currently terminating employees and are included in salaries and benefits payable. The estimated liabilities include required salary-related payments.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

- 12. Classification of Fund Balance** - The District classifies its fund balance into five categories: nonspendable, restricted, committed, assigned or unassigned. Only restrictions on funds imposed by external sources are shown as restricted fund balance in the fund basis financial statements and as restricted net position on the government-wide financial statements. Classification of fund balance restraints imposed by the reporting government itself, whether by administrative policy or legislative action of the reporting government, are shown in aggregate on the governmental fund financial statements as committed fund balance. Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors, the government's highest level of decision-making authority. A formal action would also be required to modify or rescind an established commitment. Assigned fund balance amounts are intended to be used by the government for specific purposes but do not meet the criteria to be restricted or committed. Assigned fund balance represents the remaining amount that is not restricted or committed in governmental funds other than the general fund, where it is classified as unassigned. Assigned fund balance is expressed by the direction of the Board of Directors or other individual with the authority to assign amounts to be used for specific purposes. Nonspendable fund balance represents amounts that are not in spendable form such as inventories or prepaid expenditures, and can include long-term receivables or amounts that are legally or contractually required to be maintained intact. Restricted fund balances have constraints on use of resources by externally imposed creditors or by constitutional provisions or enabling legislation. Unassigned fund balance is the residual classification for the general fund.
- 13. Net Position** - Net position presents the difference between assets and liabilities in the Statement of Net Position. Net position invested in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.
- 14. Deferred Inflows** - Deferred inflows arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In general, monies received within sixty days after year-end are considered to have been for prior year services. Tax revenue reported as deferred inflows in the general fund and debt service fund is recorded as revenue in the Statement of Activities. Accordingly, deferred tax inflows are excluded in the Statement of Net Position.
- 15. Property Taxes** - Property taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Property taxes attach as an enforceable lien on property as of January 1. The tax rates assessed for the year ended September 30, 2016, for the maintenance and operation of the District and for the payment of debt service on the District's outstanding bonds, were \$.0186 and \$.1350 per \$100 valuation, respectively, for a total of \$.1536 per \$100 valuation, and was based on an assessed valuation of \$1,106,119,772.

Property tax revenues are recognized in the governmental funds when they become available. Tax receivables expected to be collected within sixty days after year end are considered available. In the Statement of Activities, property tax revenues are recognized in the year for which they are levied regardless of when the tax collections are received.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

- 16. Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Authority’s participation in the Texas County and District Retirement System (“TCDRS”), an Agent Plan, and additions to/deductions from TCERS’s fiduciary net position have been determined on the same basis as they are reported by TCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized in the TCERS net pension liability calculations when due and payable in accordance with benefit terms. The investments are stated at fair value.
- 17. Subsequent Events** - The District evaluates events that occur subsequent to the statement of financial position date of periodic reports, but before financial statements are issued for periods ending on such dates, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which the District’s financial statements are issued. For the financial statements as of and for the year ending September 30, 2016, this date was February 8, 2016.

B. CASH AND INVESTMENTS

Deposit and investment resources are exposed to risks that have the potential to result in losses that could impact the delivery of the District’s services. The District’s Board has adopted an Investment Policy to set forth the factors involved in the management of investment assets for the District. The District is authorized to invest funds in accordance with its investment policy, bond indentures, and the Texas Public Funds Investment Act. Authorized investments include, but are not limited to: U.S. Treasury and Federal Agency issues, certificates of deposit issued by a state or national bank domiciled in the State of Texas, repurchase agreements collateralized by U.S. Treasury or Federal Agency securities, guaranteed investment contracts (GICs), obligations of states and municipalities, SEC registered no-load money market mutual funds, and local government investment funds. The District seeks to mitigate risk by investing in compliance with the investment policy, qualifying the broker or financial institution with whom the District will transact, maintain sufficient collateralization, portfolio diversification, and limiting maturity.

As of September 30, 2016, the District had the following investments:

<u>Summary of Cash and Investments by Type</u>	<u>2016</u>
Cash	\$ 226,195
Certificate of deposits	1,000,000
TexPool	13,573,266
Total investments	\$ <u>14,799,461</u>
Interest income	\$ 45,213
Total investment income	\$ <u>45,213</u>

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover its collateral securities that are in the possession of an outside party. While the Board has no formal policy specific to custodial credit risk, operating bank accounts are fully collateralized with pledged securities for amounts in excess of the FDIC limit for the year ended September 30, 2016.

At September 30, 2016, the carrying amount of the District's cash and investments was \$14,799,461. The bank balance was \$225,895 and petty cash was \$300 as of September 30, 2016. The remaining amount was maintained in TexPool and certificates of deposit.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the District, and are held by the counterparty, its trust or agent, but not in the District's name. The District's investment securities are not exposed to custodial credit risk because all securities are held by the District's custodial bank in the District's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investments are insured or registered and are held by the District or its agent in the District's name.

As of September 30, 2016, the District's investment portfolio consisted of the following:

	2016
TexPool	\$13,573,266
Certificates of deposits	1,000,000
Total	<u>\$14,573,266</u>

Interest Rate Risk

Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. Interest rate risk may be mitigated by investing operating funds primarily in shorter term securities, money market funds or similar investment pools and limiting the average maturity of the portfolio.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

The District's investment policy notes that with regard to maximum maturities, the District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest operating or general funds in securities maturing more than sixteen months from the date of purchase, unless approved by the District's Board. Investment of bond proceeds shall not exceed the projected expenditure schedule of the related project. Reserve funds may be invested in securities exceeding twelve months if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the District. To help mitigate credit risk, credit quality guidelines are incorporated into the investment policy, as follows:

- Limiting investments to the safest types of securities, as listed above under the 'Concentration of Credit Risk' section; and
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the District will do business

TexPool is rated AAA by Standard and Poor's and is fully collateralized and maintains a weighted average maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The amounts can be withdrawn with limited notice. The United States government agency securities are obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk. Financial statements for TexPool may be obtained by writing TexPool, 1001 Texas Avenue, Suite 1400, Houston, TX 77002, or by calling 1-866-839-7665.

C. RECEIVABLES

Property taxes receivable – Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

Other receivables – Significant amounts include what is due from customers primarily from water and wastewater billings. Other receivables are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

D. CAPITAL ASSETS

The capital asset activity for the District for the year ended September 30, 2016 was as follows:

Capital assets	Construction		Buildings	Infrastructure and Improvements	Machinery and Equipment	Totals
	Land	in Progress				
September 30, 2015	\$ 1,901,958	\$ 2,403,497	\$ 4,314,736	\$ 51,048,050	\$ 828,608	\$ 60,496,559
Increases	-	975,496	-	-	41,746	1,017,242
Decreases	-	-	-	-	-	-
September 30, 2016	<u>1,901,958</u>	<u>3,378,703</u>	<u>4,314,736</u>	<u>51,048,050</u>	<u>870,354</u>	<u>61,513,801</u>
Accumulated Depreciation						
September 30, 2015	-	-	1,010,181	33,799,282	828,608	35,638,071
Increases	-	-	137,981	984,907	8,349	1,131,237
Decreases	-	-	-	-	-	-
September 30, 2016	<u>-</u>	<u>-</u>	<u>1,148,162</u>	<u>34,784,189</u>	<u>836,957</u>	<u>36,769,308</u>
Capital assets, net	<u>\$ 1,901,958</u>	<u>\$ 3,378,703</u>	<u>\$ 3,166,574</u>	<u>\$ 16,263,861</u>	<u>\$ 33,397</u>	<u>\$ 24,744,493</u>

E. CHANGES IN LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable:					
Unlimited Tax Bonds:					
Series 2005	\$ 5,135,000	\$ -	\$ (660,000)	\$ 4,475,000	\$ 780,000
Series 2009	5,275,000	-	(260,000)	5,015,000	270,000
Series 2013-1	415,000	-	(415,000)	-	-
Series 2013-2	<u>7,430,000</u>	<u>-</u>	<u>(275,000)</u>	<u>7,155,000</u>	<u>290,000</u>
Total Bonds Payable	18,255,000	-	(1,610,000)	16,645,000	1,340,000
Plus deferred amount:					
Issuance premiums	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 18,255,000</u>	<u>\$ -</u>	<u>\$ (1,610,000)</u>	<u>\$ 16,645,000</u>	<u>\$ 1,340,000</u>

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

F. LONG-TERM DEBT

Bonded Debt consists of Lakeway Municipal Utility District Water and Sewer Combination Revenue and Unlimited Tax Bonds: Series 2005, Series 2009, and Series 2013-2. Bond interest and principal is secured by and payable from the proceeds of an ad valorem tax levied without limitation as to rate or amount on all property within the District. Net revenues from the District's operations are not pledged for payment on the bonds, but may be used for such purpose.

Bonds payable at September 30, 2016 are comprised of the following individual issues:

Series 2005, due in annual principal installments ranging from \$470,000 to \$885,000 through September 1, 2022; interest rate is fixed at 3.57%.	\$ 4,475,000
Series 2009, due in annual principal installments ranging From \$270,000 to \$530,000 through September 1, 2029; Interest rate is variable from 4.375% to 4.50%.	5,015,000
Series 2013-2, due in annual principal installments ranging from \$290,000 to \$585,000 through September 1, 2033; interest rate is variable from 2% to 4.125%.	<u>7,155,000</u>
Total bonds payable at September 30, 2016	\$ <u><u>16,645,000</u></u>

Debt service requirements to maturity are as follows:

Due Fiscal Year Ended September 30	Principal	Interest	Accumulated Accretion	Total
2017	\$ 1,340,000	\$ 613,485	-	\$ 1,953,485
2018	1,470,000	568,028	-	2,038,028
2019	1,505,000	517,963	-	2,022,963
2020	1,445,000	466,725	-	1,911,725
2021	1,340,000	417,744	-	1,757,744
2022-2026	4,440,000	1,528,956	-	5,968,956
2027-2031	3,960,000	675,381	-	4,635,381
2032-2033	<u>1,145,000</u>	<u>71,360</u>	<u>-</u>	<u>1,216,360</u>
Totals	\$ <u><u>16,645,000</u></u>	\$ <u><u>4,859,642</u></u>	\$ <u><u>-</u></u>	\$ <u><u>21,504,642</u></u>

The provisions of the orders relating to debt service requirements for the upcoming fiscal year will be met with the cash allocated for these purposes and the proceeds of the ad valorem tax to be collected.

Redemption of Bonds

The provisions relating to the redemption, callability, and call price of outstanding bonds are as follows:

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

Series 2005:

Bonds maturing on and after September 1, 2009 are subject to redemption, in whole or in part, at any date, at the par value thereof plus accrued interest to the date of redemption.

Series 2009:

Bonds maturing on and after September 1, 2019 are callable in whole or in part on any date beginning September 1, 2018 at par value plus accrued interest to the date of redemption.

Series 2013 (1):

Bonds are callable in whole or in part on any date at par value plus accrued interest to the date of redemption. These bonds were paid in full and held a \$0 balance as of September 30, 2016.

Series 2013 (2):

Bonds are callable in whole or in part on any date at par value plus accrued interest to the date of redemption.

G. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees and natural disaster. During the year ended September 30, 2016, coverages provided are as follows:

Public Official and Employee Bond (Per occurrence)	\$	50,000
Auto Liability and Physical Damage	\$	1,000,000
General Liability	\$	1,000,000
Commercial Property – Real and Personal Property	\$	19,054,842
Tax Collector Bond	\$	50,000
Errors and Omissions Liability	\$	5,000,000

The District has had no significant reduction in insurance coverage from prior years. The District has had no settlements exceeding insurance coverage. Workers' compensation was maintained by paying premiums to the Texas Municipal League Intergovernmental Risk Pool and Texas Political Subdivisions Joint Self-Insurance Funds. The premium is calculated based upon accident history and administrative costs.

H. OPERATING TRANSFERS

During the year ended September 30, 2016, the General Fund transferred \$870,984 to the Debt Service Fund for the payment of bond interest and principal.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

I. INTEREST AND FISCAL CHARGES

The Debt Service Fund incurred interest and fiscal charges broken down as follows:

	<u>Debt Service</u>
Interest	\$ 660,275
Appraisal Services	9,001
Collection Expenses	4,473
Total	<u>\$ 673,749</u>

J. RELATIONSHIPS WITH OTHER DISTRICTS

The District has two interconnects, one with Hurst Creek Municipal Utility District and one with Travis County Water District No. 17 for use in emergency situations. The cost of the interconnects was shared equally with Hurst Creek Municipal Utility District, Lakeway MUD, and Travis County Water District No. 17.

The District has two wholesale contracts – water and wastewater with Travis County Municipal Utility No.11 (aka Rough Hollow) and wastewater with Travis County WCID No. 17. The contract with Rough Hollow includes a Debt Service Component (DSC) cost for wastewater service. The District receives a minimum of \$15,000 per month (\$180,000 per year) for this DSC and the funds are then accounted for in the District’s rate design to pay wastewater debt service. The District records the DSC as intergovernmental revenue and transfers to its Debt Service Fund.

In November of 1997, the District entered an exclusion and development agreement with Lakeway Partners, LLC (“LP”). The agreement was revised and restated in June of 1998. The agreement provides that LP shall pay the capital costs portion owed by the District for the proposed Lower Colorado River Authority (“LCRA”) barge, including the on-shore connection cost. LP has since been acquired by Rough Hollow. During 2012, the District entered into a Joint Ownership and Operating Agreement to purchase the barge and water intake, pumping and transportation facilities from LCRA. As such, the District has recorded intergovernmental revenue in the amount of capital cost spent by the District to acquire its portion of the barge and system, including the additional installation and connection costs, which totaled \$1,725,398. Rough Hollow paid the District \$169,208 during 2015. As of September 30, 2016, there is a receivable balance due from Rough Hollow of \$984,896. Rough Hollow is scheduled to pay the District monthly installments of \$14,100 per month in 2017. As such, the District has classified the total expected to be collected in 2017 as a current receivable of \$181,376, with the remaining balance of \$803,520 recorded as a long-term receivable included in nonspendable fund balance. Rough Hollow has a letter of credit with the Bank of New York Mellon for \$1,500,000 on file at Lakeway MUD.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

K. JOINT OWNERSHIP AND OPERATING AGREEMENT

During 2012, the District entered into a joint ownership and operating agreement (JOOA) for the Lakeway Regional Raw Water Transportation System. The agreement was entered into between the District ("LMUD"), Hurst Creek Municipal Utility District ("HCMUD"), Travis County Municipal Utility District No. 11 ("TCMUD11"), and Lakeway Rough Hollow South Community, Inc. ("Rough Hollow"). Each of the parties has a separate agreement with LCRA whereby LCRA provides the party with a raw water supply from Lake Travis. The parties agreed to their percentage ownership, and made initial capital outlay for their respective shares in the system, referred to as the "Barge Fund". The percentage shares are as follows:

- LMUD 59%
- HCMUD 32%
- TCMUD11 2%
- Rough Hollow 7%

LMUD is currently the administrator of the Barge Fund. In accordance with the JOOA, the District maintains complete books and records showing all deposits into and expenditures of any nature from the Barge Fund, which are kept in accordance with generally accepted accounting principles as applied to special districts in Texas. The Administrator can be changed by the parties, if a majority of parties vote to change. All records are kept separate and outside the general ledger of the District and the District is invoiced for its share of any costs incurred by the Barge Fund. Separate financial statements for the Barge Fund are available upon request.

L. EMPLOYEE RETIREMENT PLAN

Plan Description-Lakeway Municipal Utility District 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. TCDRS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. The annual financial report is available upon written request from the Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or may be downloaded at <http://www.tcdrs.com>.

The Plan provisions are adopted by the governing body of the employer, within the options available in the Texas statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 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 8 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.

Benefited Amounts-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 deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

Employees covered by benefit terms-At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>21</u>
Total	<u><u>34</u></u>

Contributions-The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings. Under state law, employers participating in the system must pay 100% of their actuarially determined required contributions on an annual basis.

Employees for the District were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the District were 11.89% in calendar year 2015. The District contributions to TCDRS for the year ended September 30, 2016, were \$137,964 and were equal to the required contributions.

Net Pension Liability-The District's Net Pension Liability (NPL) was measured as of December 31, 2015, and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial assumptions-The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Real rate of return	5.0% per year
Investment Rate of Return	8.0%, net of pension plan investment expense, including inflation

The long-term investment return of 8% is net of investment expenses and is expected to enable the system to credit interest at the nominal annual rates shown below to the following major funds:

Subdivision Accumulation Fund:	9%
Employees Saving Fund:	7%
Current Service Annuity Reserve Fund:	7%

Assuming interest will be credited at these nominal annual rates to the various funds, we have then assumed the following:

- An annual rate of 9% for calculating the actuarial accrued liability and normal cost contributions rate for the retirement plan of each participating employer.
- An annual rate of 7% required under the TCDRS Act for: (1) accumulating current service credit and multiple matching credit after the valuation date; (2) accumulating prior service credit after the valuation date; (3) determining the amount of the monthly benefit at future dates of retirement or disability; and (4) calculating the actuarial accrued liability of the system-wide Current Service Annuity Reserve Fund.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

The annual salary increase rates assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee. Employer-specific economic assumptions:

Growth in membership:	0.0%
Payroll growth:	1.5%

The payroll growth assumption is for the aggregate covered payroll of an employer. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate 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.

Long-Term Expected Rate of Return-The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year horizon. The most recent analysis was performed in 2013. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expectation-inflation)
US Equities	Dow Jones U.S Total Stock Market Index	14.50%	5.45%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	14.00%	8.45%
Global Equities	MSCI World (net) Index	1.50%	5.75%
International Equities-Developed	50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index	10.00%	5.45%
International Equities-Emerging	50% MSCI EM Standard Ex USA (net) + 50% MSCI EM 100% Hedged to USD (net) Index	8.00%	6.45%
Investment- Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	1.00%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	5.10%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	5.09%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	5.00%	5.80%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.40%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	3.00%	8.10%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	4.00%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	5.00%	6.90%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	5.25%

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

Discount Rate-The discount rate used to measure the total pension liability was 8.10% and the longer-term expected rate of return, net of investment expense was 8.10%. The rate reflects the long-term rate of return funding valuation assumption of 8.00% plus 0.10%% adjustment to be gross of administrative expenses as required by GASB 68. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is the long-term expected rate of return, and the municipal bond rate does not apply.

Changes in Net Pension Liability/(Asset)	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2014	\$ 5,322,031	\$ 5,011,696	\$ 310,335
Changes for the year:			
Service cost	151,958	-	151,958
Interest	430,979	-	430,979
Change of benefit terms	(42,600)	-	(42,600)
Effect of economic/demographic gains or losses	(54,987)	-	(54,987)
Effect of assumptions changes or inputs	34,487		34,487
Benefit payments	(146,497)	(146,497)	-
Contributions - employer	-	137,964	(137,964)
Contributions - employee	-	80,613	(80,613)
Net investment income	-	(26,107)	26,107
Benefit payments, including refunds of employee contributions			-
Administrative expense	-	(3,623)	3,623
Other changes	-	6,219	(6,219)
Balance at December 31, 2015	<u>\$ 5,695,371</u>	<u>\$ 5,060,265</u>	<u>\$ 635,106</u>

Sensitivity Analysis-The District calculated using the discount rate of 8.1%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

	1% Decrease in Discount Rate (7.1%)	Discount Rate (8.1%)	1% Increase in Discount Rate (9.1%)
Total pension liability	\$ 6,504,163	\$ 5,695,371	\$ 5,024,813
Fiduciary net position	5,060,265	5,060,265	5,060,265
Net pension liability/ (asset)	<u>\$ 1,443,899</u>	<u>\$ 635,106</u>	<u>\$ (35,452)</u>

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions-For the year ended December 31, 2015, the District recognized pension expense of \$145,152.

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

Pension Expense / (Income)

Service Cost	\$	151,958
Interest on total pension liability		430,979
Effect of plan changes		(42,600)
Administrative expense		3,623
Member contribution		(80,613)
Expected investment return net of investment expenses		(412,536)
Recognition of deferred inflow/outflows of resources		
Recognition of economic / demographic gains or losses		(5,204)
Recognition of assumption changes or inputs		(4,927)
Recognition of investment gains or losses		100,838
Other		(6,219)
Total pension expense/ (income)	\$	<u>145,152</u>

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		<u>Deferred Inflows of Resources</u>		<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$	47,132	\$	15,907
Changes in actuarial assumptions		-		29,561
Net difference between projected and actual economic experience		-		390,242
Total	\$	<u>47,132</u>	\$	<u>435,710</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows for the year ended December 31:

2016	\$	100,560
2017		100,560
2018		100,560
2019		87,451
2020		(277)
2021 and thereafter		(277)
Total	\$	<u>388,577</u>

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

M. LITIGATION

The District has no pending litigation that would materially affect these financial statements.

N. EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE STATEMENT OF NET POSITION

Explanation	Amount of Adjustment
Total Fund Balances as of September 30, 2016	\$ 16,263,362
<p>Capital assets are not reported as assets in the governmental funds but are reported as expenditures when acquired. However, in the statement of net position, these assets are capitalized and reported at cost net of depreciation:</p>	
Land and construction in progress	5,280,661
Other capital assets	19,463,832
<p>Long-term liabilities and other payables applicable to the District's governmental activities are not due and payable in the current period and therefore are not reported as liabilities in the funds. All liabilities, both current and long-term, are reported in the statement of net position:</p>	
Pension liabilities	(635,106)
Interest payable	(50,400)
Compensated absences	(160,078)
Bonds payable	(16,645,000)
Deferred tax revenues as reported in the funds included as deferred revenue are not available to pay current period expenditures and therefore are deferred in the funds but are reported as property tax revenue in the statement of activities and therefore no tax revenue deferral amount is reported in the statement of net position.	72,658
Total net position as of September 30, 2016	\$ 23,589,229

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2016

(Continued)

O. EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE STATEMENT OF ACTIVITIES

Explanation	Amount of Adjustment
Excess of revenues, transfers and other sources of income over expenditures and transfers for the year ended September 30, 2016	\$ 5,245,469
Salaries/benefits payable (compensated absences and pension liabilities) are currently reported as an expense in the statement of activities and since this expense does not require the use of current financial resources, it is not reported as an expenditure in the governmental funds.	(666,820)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Current year capital assets purchased or constructed	1,017,242
Depreciation expense	(1,131,237)
Incremental deferred tax revenues as reported in the funds included as deferred revenue are not available to pay current period expenditures and therefore are deferred in the funds but are reported as property tax revenue in the statement of activities.	(9,527)
Repayment of bond principal is an expenditure in the governmental funds, and a reduction in long-term liabilities in the statement of net position and does not result in an expense in the statement of activities.	1,610,000
Incremental interest expense reported in the statement of activities includes accrued interest at year end whereas in the governmental funds interest expense is reported when due.	3,707
Change in net position for the year ended September 30, 2016	\$ 6,068,834

LAKEWAY MUNICIPAL UTILITY DISTRICT
Required Supplementary Information - Pension Plan
For the Year Ended September 30, 2016

Schedule of Changes in Net Pension Assets and Related Ratios
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 151,958	\$ 148,401
Interest on total pension liability	430,979	397,121
Effect on plan changes	(42,600)	-
Effect on assumption changes or inputs	34,487	-
Effect of economic/demographic (gains) losses	(54,987)	21,209
Benefit payments/refunds of contributions	(146,497)	(146,497)
Net change in total pension liability	<u>373,340</u>	<u>420,234</u>
Total pension liability at beginning of year	<u>5,322,031</u>	<u>4,901,797</u>
Total pension liability at end of year (a)	<u>5,695,371</u>	<u>5,322,031</u>
Fiduciary net position:		
Employer contributions	137,964	148,842
Member contributions	80,613	79,961
Investment income net of investment expense	(26,107)	315,167
Benefit payments/refunds of contributions	(146,497)	(146,497)
Administrative expenses	(3,623)	(3,707)
Other	<u>6,219</u>	<u>4,071</u>
Net change in fiduciary net position	<u>48,569</u>	<u>397,837</u>
Fiduciary net position at beginning of year	<u>5,011,696</u>	<u>4,613,859</u>
Fiduciary net position at end of year (b)	<u>5,060,265</u>	<u>5,011,696</u>
Net pension liability/(asset) (a)-(b)	\$ 635,106	\$ 310,335
Fiduciary net position as a percentage of total pension liability	88.85%	94.17%
Pensionable covered payroll	1,151,618	1,142,301
Net pension liability (asset) as a percentage of covered payroll	55.15%	27.17%

Note: The Schedule of Changes in Net Pension Assets and related ratio disclosure is required for 10 years. The schedule noted above is only for the years in which the new GASB Statements have been implemented.

See accompanying notes to financial statements.

LAKEWAY MUNICIPAL UTILITY DISTRICT
Required Supplementary Information-Pension Plan
For the Year Ended September 30, 2016

Schedule of Employer Contributions

Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pension Covered Payroll	Actual Contributions as a % of Covered Payroll
2006	\$ 94,948	\$ 103,717	\$ (8,769)	\$ 942,878	11.0%
2007	95,249	95,249	-	979,926	9.7%
2008	95,633	100,710	(5,077)	1,036,108	9.7%
2009	105,869	109,143	(3,274)	1,091,433	10.0%
2010	127,196	131,748	(4,552)	1,197,706	11.0%
2011	119,221	125,495	(6,274)	1,140,866	11.0%
2012	116,449	117,733	(1,284)	1,070,304	11.0%
2013	131,812	131,812	-	1,113,276	11.8%
2014	148,842	148,842	-	1,142,301	13.0%
2015	137,964	137,964	-	1,151,618	12.0%

Note: TCDRS calculates actuarially determined contributions on a calendar basis. GASB No. 68 indicates the District should report on a fiscal year basis. Payroll is calculated based on contributions as reported to TCDRS.

LAKEWAY MUNICIPAL UTILITY DISTRICT
 Required Supplementary Information - Pension Plan
 For the Year Ended September 30, 2016

Notes to Schedule of Employer Contributions and Net Pension Liability

Valuation Date: Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	14.0 years (based on contribution rate calculated in 12/31/2015 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule*	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

* Note: Only changes effective 2015 and later are shown in the Notes to the Schedule.

LAKEWAY MUNICIPAL UTILITY DISTRICT
 Required Supplementary Information - Pension Plan
 For the Year Ended September 30, 2016

Schedule of Annual Rates of Service Retirement*

Age	Male	Female	Age	Male	Female
40-44	4.5%	4.5%	62	25.0%	25.0%
45-40	9.0	9.0	63	16.0	16.0
50	10.0	10.0	64	16.0	16.0
51	10.0	10.0	65	30.0	30.0
52	10.5	10.5	66	25.0	25.0
53	10.5	10.5	67	24.0	24.0
54	10.5	10.5	68	22.0	22.0
55	11.0	11.0	69	22.0	22.0
56	11.0	11.0	70	22.0	22.0
57	11.0	11.0	71	22.0	22.0
58	12.0	12.0	72	22.0	22.0
59	12.0	12.0	73	22.0	22.0
60	14.0	14.0	74**	22.0	22.0
61	12.0	12.0			

* Deferred members are assumed to retire (100% probability) at the later of:

- a) age 60
- b) earliest retirement eligibility.

** For all eligible members ages 75 and later, retirement is assumed to occur immediately.

Employer-specific demographic assumptions:

Other terminations of employment — The rate of assumed future termination from active participation in the plan for reasons other than death, disability or retirement are all set at 0% and the rates do not vary by length of service, entry-age group (age at hire) and gender. No termination after eligibility for retirement is assumed.

LAKEWAY MUNICIPAL UTILITY DISTRICT
 Required Supplementary Information - Pension Plan
 For the Year Ended September 30, 2016

Schedule of Probability of Withdrawal

Withdrawals — Members who terminate may either elect to leave their account with TCDRS or withdraw their funds. The probability that a member elects a withdrawal varies by length of service and vesting schedule. Rates applied to your plan are shown in Table 5. For non-depositing members who are not vested, 100% are assumed to elect a withdrawal.

Years of Service	Probability	Years of Service	Probability
0	100%	15	40%
1	100	16	38
2	100	17	36
3	100	18	34
4	100	19	32
5	100	20	30
6	100	21	28
7	100	22	26
8	50	23	24
9	49	24	22
10	48	25	20
11	47	26	15
12	46	27	10
13	44	28*	5
14	42		

* Members with more than 28 years of service are not assumed to withdraw.

LAKEWAY MUNICIPAL UTILITY DISTRICT
 Budgetary Comparison Schedule - Required Supplementary Information
 General Fund
 For the Year Ended September 30, 2016

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive (Negative)
	Original (unaudited)	Final (unaudited)	Actual Amounts	
Revenues:				
Charges for water services	\$ 2,839,733	\$ 2,839,733	\$ 3,281,815	\$ 442,082
Charges for wastewater service	1,748,867	1,748,867	1,700,727	(48,140)
Property taxes	-	-	206,171	206,171
Tap connection and inspection fees	28,700	28,700	74,654	45,954
Investment earnings	1,500	1,500	10,841	9,341
Penalties and interest	36,000	36,000	40,255	4,255
Intergovernmental revenue	180,000	180,000	15,000	(165,000)
Other	5,000	5,000	61,559	56,559
Total revenues	<u>4,839,800</u>	<u>4,839,800</u>	<u>5,391,022</u>	<u>551,222</u>
Expenditures/expenses:				
Service operations:				
Water service	967,800	967,800	813,766	154,034
Wastewater service	508,700	508,700	528,484	(19,784)
Salaries, benefits, and payroll taxes	1,625,450	1,625,450	1,641,018	(15,568)
Accrued retirement expense	-	-	(310,334)	310,334
Contracted services	250,150	250,150	350,871	(100,721)
Professional fees	153,750	153,750	138,416	15,334
Administrative Supplies and Maintenance-	117,500	117,500	38,817	78,683
Capital outlay	<u>117,304</u>	<u>117,304</u>	<u>178,574</u>	<u>(61,270)</u>
Total expenditures/expenses	<u>3,740,654</u>	<u>3,740,654</u>	<u>3,379,612</u>	<u>361,042</u>
Excess (deficiency) of revenues over expenditures	1,099,146	1,099,146	2,011,410	912,264
Other financing sources (uses):				
Transfers-internal activities	(1,418,746)	(1,418,746)	(870,984)	547,762
Total other sources (uses)	<u>(1,418,746)</u>	<u>(1,418,746)</u>	<u>(870,984)</u>	<u>547,762</u>
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(319,600)	(319,600)	1,140,426	1,460,026
Fund balance:				
Beginning of the year	4,806,258	4,806,258	4,806,258	-
End of the year	<u>\$ 4,486,658</u>	<u>\$ 4,486,658</u>	<u>\$ 5,946,684</u>	<u>\$ 1,460,026</u>

See Accompanying Note to Financial Statements

LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to Required Supplementary Information

For the Year Ended September 30, 2016

Budgetary Information

The General Manager submits an annual budget to the Finance Committee, which in turn presents it to the Board of Directors. In August, the Board adopts the annual fiscal year budget for the District for the general fund prepared in accordance with generally accepted accounting principles. Once approved, the Board may amend the adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The budget is prepared in a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: salaries and benefits, supplies, maintenance, purchased and contracted services, and capital expenditures. Budget approvals for capital expenditures are subject to final review by the Board. The level of control is by department, which has been established by an Authority Matrix. Expenditures may not exceed appropriations.

The budget is prepared on a cash and expenditures basis. Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year that the applicable expenditure is expected to be made. The budget amounts presented in the budgetary comparison schedule represent the original and final amended budget as adopted during the year. The District does not appropriate current funds for estimates of expenditures for construction projects in the general fund. Instead, the District budgets for construction project expenditures on a project basis and not on an annual basis. All budget appropriations lapse at fiscal year end. The District's budget is used for management control and rate setting purposes.

LAKEWAY MUNICIPAL UTILITY DISTRICT
Supplemental Schedules Included Within This Report
For the Year Ended September 30, 2016

- A. *Schedule of Services and Rates*
- B. *Schedule of General Fund Expenditures*
- C. *Schedule of Temporary Investments*
- D. *Schedule of Taxes Levied and Receivable*
- E. *Long-Term Debt Service Requirements by Years*
- F. *Analysis of Changes in Long-Term Debt*
- G. *Comparative Schedule of Revenues and Expenditures - General Fund and Debt Service Fund-Five Years*
- H. *Board Members, Key Personnel and Consultants*

LAKEWAY MUNICIPAL UTILITY DISTRICT
 (A) Schedule of Services and Rates (unaudited)
 For the Year Ended September 30, 2016
 (continued)

5 Standby Fees:

Does the District assess Standby Fees? Yes _____ No X

For the most recent full fiscal year, FYE 9/30/16:

General Fund:

Total Levy	\$	-
Total Collected	\$	-
Percentage Collected		N/A

Have Standby Fees been levied in accordance with Water Code Section 49.231, thereby constituting a lien on property? Yes _____ No X

* Standby Fees have not been levied since August 1998. Existing uncollected Fees still remain.

6 Anticipated sources of funds to be used for debt service payments in the District's following fiscal year:

a. Debt Service Tax Receipts	\$	1,700,171
b. Water and Wastewater Revenue		358,939
c. Debt Service Fund Balances To Be Used		-
TOTAL ANTICIPATED FUNDS TO BE USED*	\$	<u>2,059,110</u>

* This total should equal the District's total annual debt service for the fiscal year following the fiscal year reported or in the audited financial statements.

7 Location of District

County (ies) in which District is located. Travis

Is the District located entirely within one county? Yes X No _____

Is the District located within a city? Entirely _____ Partly X Not at all _____

City (ies) in which District is located. Lakeway Village of the Hills, City of Lakeway

Is the District located within a city's extra territorial jurisdiction (ETJ)?
 Entirely _____ Partly X Not at all _____

ETJ's in which District is located. City of Lakeway

Is the general membership of the Board appointed by an office outside the District?
 Yes _____ No X

If Yes, by whom? _____

LAKEWAY MUNICIPAL UTILITY DISTRICT

(B) Schedule of General Fund Expenditures

For the Year Ended September 30, 2016

Water Services:

Treated Water and Chemicals	\$	63,051
Raw Water		426,235
LCRA Variable Cost (B-4 Energy)		84,066
Energy		94,043
Supplies		15,834
Maintenance		130,537
		<u>813,766</u>

Wastewater Services:

Chemicals		43,171
Energy		251,259
Supplies		16,787
Maintenance		217,267
		<u>528,484</u>

Personnel (including benefits)		1,641,018
Accrued Retirement Expense		(310,334)
		<u>1,330,684</u>

Professional Fees:

Auditing		14,040
Legal		13,920
Engineering		37,011
Other		73,445
		<u>138,416</u>

Administrative Supplies and Maintenance:

Supplies		22,235
Maintenance		16,582
		<u>38,817</u>

Capital Outlay:

Capitalized Assets		41,746
Not Capitalized		136,828
		<u>178,574</u>

LAKEWAY MUNICIPAL UTILITY DISTRICT

(B) Schedule of General Fund Expenditures

For the Year Ended September 30, 2015

(continued)

Purchased and Contracted Services:

Inflow and Infiltration	\$	148,976
Bank Fees		43,186
Insurance		36,456
Testing and Lab Fees		27,812
Communications		23,835
Inspection Fees		18,185
Miscellaneous		13,957
Permits		11,119
Transportation		6,825
Equipment Rental		6,267
Custodial		5,240
Education		4,267
Safety		3,640
Security Fees		805
Medical		301
		<u>350,871</u>

TOTAL EXPENDITURES \$ 3,379,612

Number of persons employed by the District: 21 Full-Time
(Does not include independent contractors or consultants) 0 Part-Time

LAKEWAY MUNICIPAL UTILITY DISTRICT

(C) Schedule of Temporary Investments

As of September 30, 2016

<u>Funds</u>	<u>Account Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance At End Of Year</u>	<u>Accrued Interest At End of Year</u>
General Fund					
Investment Pool -					
TexPool	8121300002	*	Open	\$ 4,152,825	\$ -
Total				<u>4,152,825</u>	<u>-</u>
Debt Service Fund					
Investment Pool -					
TexPool	8121300017	*	Open	655,390	-
Total				<u>655,390</u>	<u>-</u>
Capital Projects Fund					
Certificate of deposits				1,000,000	
Investment Pool -					
TexPool	8121300015	*	Open	8,765,051	-
Total				<u>9,765,051</u>	<u>-</u>
Total - All Funds				\$ <u>14,573,266</u>	\$ <u>-</u>

* Variable Rate - Texpool interest rate as of September 30, 2016 was .3799%.

LAKEWAY MUNICIPAL UTILITY DISTRICT
(D) Schedule of Taxes Levied and Receivable
For the Year Ended September 30, 2016

	Maintenance Taxes	Debt Service Taxes
Taxes Receivable, Beginning of Year	\$ 5,466	\$ 77,986
2015 Original Tax Levy - Net of Adjustments	205,796	1,493,672
Adjustments - Prior Years	-	-
Total to be Accounted For	211,262	1,571,658
Tax Collections:		
Current Year	(204,776)	(1,486,279)
Prior Years	(1,395)	(17,811)
Total Collections	(206,171)	(1,504,090)
Taxes Receivable, End of Year	\$ 5,090	\$ 67,568
Taxes Receivable, By Years:		

1992 and earlier	-	11,586
1993	-	126
1994	-	216
1995	-	856
1996	-	294
1997	-	131
1998	-	255
1999	-	282
2000	-	1,258
2001	252	2,423
2002	105	1,013
2003	1	13
2004	199	1,917
2005	230	2,204
2006	219	2,101
2007	295	2,827
2008	319	1,725
2009	271	2,396
2010	376	3,475
2011	467	4,526
2012	418	7,183
2013	478	5,746
2014	438	7,607
2015	1,021	7,409

Taxes Receivable, End of Year \$ 5,090 \$ 67,568

	2015	2014	2013	2012	2011
Property Valuations (Unaudited):	\$ 1,106,119,772	\$ 1,039,623,881	\$ 978,797,382	\$ 940,308,021	\$ 961,501,452
Tax Rates per \$100 Valuation:					
Debt Service tax rates	\$ 0.1350	\$ 0.1736	\$ 0.1812	\$ 0.1939	\$ 0.1860
Maintenance tax rates	\$ 0.0186	\$ 0.0100	\$ 0.0151	\$ 0.0113	\$ 0.0192
Total Tax Rates per \$100 Valuation	\$ 0.1536	\$ 0.1836	\$ 0.1963	\$ 0.2052	\$ 0.2052
Original Tax Levy:	\$ 1,699,468	\$ 1,908,954	\$ 1,910,620	\$ 1,928,890	\$ 1,763,643
Percent of Taxes Collected to Taxes Levied *	99.50%	99.69%	99.24%	99.07%	99.09%

* Calculated as taxes collected in current and previous years divided by tax levy.

LAKEWAY MUNICIPAL UTILITY DISTRICT
(E) Long-Term Debt Service Requirements by Years
For the Year Ended September 30, 2016

Due During Fiscal Year Ending September 30	Series 2005		
	Principal Due Sept. 1	Interest Due March 1 and Sept. 1	Total
2017	\$ 780,000	\$ 159,758	\$ 939,758
2018	885,000	131,912	1,016,912
2019	885,000	100,317	985,317
2020	795,000	68,723	863,723
2021	660,000	40,341	700,341
2022	470,000	16,779	486,779
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
2027	-	-	-
2028	-	-	-
2029	-	-	-
2030	-	-	-
2031	-	-	-
2032	-	-	-
2033	-	-	-
TOTALS	\$ <u>4,475,000</u>	\$ <u>517,830</u>	\$ <u>4,992,830</u>

LAKEWAY MUNICIPAL UTILITY DISTRICT
(E) Long-Term Debt Service Requirements by Years
For the Year Ended September 30, 2016

Due During Fiscal Year Ending September 30	Series 2009			Series 2013 (1)			Series 2013 (2)		
	Principal Due Sept. 1	Interest Due March 1 and Sept. 1	Total	Principal Due Sept.1	Interest Due March 1 and Sept. 1	Total	Principal Due Sept.1	Interest Due March 1 and Sept. 1	Total
2017	\$ 270,000	\$ 220,693	\$ 490,693	\$ -	\$ -	\$ -	\$ 290,000	\$ 233,034	\$ 523,034
2018	285,000	208,882	493,882	-	-	-	300,000	227,234	527,234
2019	305,000	196,412	501,412	-	-	-	315,000	221,234	536,234
2020	320,000	183,068	503,068	-	-	-	330,000	214,934	544,934
2021	335,000	169,069	504,069	-	-	-	345,000	208,334	553,334
2022	355,000	154,414	509,414	-	-	-	360,000	200,744	560,744
2023	380,000	138,880	518,880	-	-	-	375,000	192,104	567,104
2024	400,000	122,256	522,256	-	-	-	395,000	182,354	577,354
2025	420,000	104,756	524,756	-	-	-	410,000	171,294	581,294
2026	445,000	86,381	531,381	-	-	-	430,000	158,994	588,994
2027	470,000	66,913	536,913	-	-	-	450,000	143,944	593,944
2028	500,000	46,350	546,350	-	-	-	470,000	127,631	597,631
2029	530,000	23,850	553,850	-	-	-	490,000	108,831	598,831
2030	-	-	-	-	-	-	515,000	89,231	604,231
2031	-	-	-	-	-	-	535,000	68,631	603,631
2032	-	-	-	-	-	-	560,000	47,231	607,231
2033	-	-	-	-	-	-	585,000	24,129	609,129
TOTALS	\$ 5,015,000	\$ 1,721,924	\$ 6,736,924	\$ -	\$ -	\$ -	\$ 7,155,000	\$ 2,619,888	\$ 9,774,888

LAKEWAY MUNICIPAL UTILITY DISTRICT
(E) Long-Term Debt Service Requirements by Years
For the Year Ended September 30, 2016

Due During Fiscal Year Ending September 30	Annual Requirements for All Series			
	Principal Due Sept. 1	Interest Due March 1 and Sept. 1	Accumulated Accretion	Total
2017	1,340,000	613,485	-	1,953,485
2018	1,470,000	568,028	-	2,038,028
2019	1,505,000	517,963	-	2,022,963
2020	1,445,000	466,725	-	1,911,725
2021	1,340,000	417,744	-	1,757,744
2022	1,185,000	371,937	-	1,556,937
2023	755,000	330,984	-	1,085,984
2024	795,000	304,610	-	1,099,610
2025	830,000	276,050	-	1,106,050
2026	875,000	245,375	-	1,120,375
2027	920,000	210,857	-	1,130,857
2028	970,000	173,981	-	1,143,981
2029	1,020,000	132,681	-	1,152,681
2030	515,000	89,231	-	604,231
2031	535,000	68,631	-	603,631
2032	560,000	47,231	-	607,231
2033	585,000	24,129	-	609,129
TOTALS	\$ 16,645,000	\$ 4,859,642	\$ -	\$ 21,504,642

Cash and Temporary Investment Balance at September 30, 2016

Debt Service Fund \$ 661,330

LAKEWAY MUNICIPAL UTILITY DISTRICT

(F) Analysis of Changes in Long-Term Debt

For the Year Ended September 30, 2016

	<u>Series 2005</u>	<u>Series 2009</u>	<u>Series 2013 (1)</u>	<u>Series 2013 (2)</u>	<u>Totals</u>
Interest Rate	3.57%	4.375-4.50%	1.25%	2.0-4.125%	
Dates Interest Payable	3/1:9/1	3/1:9/1	3/1:9/1	3/1:9/1	
Bonds Outstanding					
Beginning of Current Year	\$ 5,135,000	\$ 5,275,000	\$ 415,000	\$ 7,430,000	\$ 18,255,000
Bonds Issued During Current Year	-	-	-	-	-
Current Year Accretion	-	-	-	-	-
Retirements:					
Principal	<u>660,000</u>	<u>260,000</u>	<u>415,000</u>	<u>275,000</u>	<u>1,610,000</u>
Bonds Outstanding					
End of Current Year	\$ <u>4,475,000</u>	\$ <u>5,015,000</u>	\$ <u>-</u>	\$ <u>7,155,000</u>	\$ <u>16,645,000</u>
Retirements:					
Interest	\$ <u>159,758</u>	\$ <u>220,693</u>	\$ <u>-</u>	\$ <u>233,034</u>	\$ <u>613,485</u>

Paying Agent's Name & Address:

J.P. Morgan Chase Bank
P.O. Box 911542
Dallas, Texas 75391-1542

Bond Authority:

Tax
Bonds*

Tax
Bonds*

Amount Authorized by Voters

\$ 53,115,000

The Bank of New York

Amount Issued

\$ 53,115,000

P.O. Box 14099

Remaining to be Issued

\$ -

New York, New York 07198-0099

Debt Service Fund Cash and Temporary Investments
balances as of September 30, 2016: \$661,330
Average Annual Debt Service Payment (Principal and Interest)
for remaining term of all debt: \$1,264,979

* Includes all bonds secured with tax revenues. Bonds in this
category may also be secured with other revenues in combination
with taxes.

LAKEWAY MUNICIPAL UTILITY DISTRICT
(G) Comparative Schedule of Revenues and Expenditures
For the Five Years Ended September 30, 2012 to 2016

						Percent of Fund Total Revenues				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>General Fund Revenues</u>										
Property Taxes - M&O	\$ 206,171	\$ 104,527	\$ 145,928	\$ 108,295	\$ 187,229	3.82%	2.04%	2.84%	2.84%	2.01%
Water & Wastewater Charges	4,982,542	4,622,121	4,599,378	4,857,096	5,190,951	92.42%	90.39%	89.43%	89.43%	90.22%
Meter Installation	74,654	80,020	107,134	129,560	88,334	1.38%	1.56%	2.08%	2.08%	2.41%
Interest, Penalties & Other	127,655	306,781	290,833	288,934	2,096,493	2.37%	6.00%	5.65%	5.65%	5.37%
Total General Fund Revenues	<u>5,391,022</u>	<u>5,113,449</u>	<u>5,143,273</u>	<u>5,383,885</u>	<u>7,563,007</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<u>General Fund Expenditures</u>										
Salaries	1,330,684	1,577,316	1,538,396	1,464,767	1,517,235	39.37%	30.85%	29.91%	29.91%	27.21%
Supplies	54,856	52,692	73,189	62,025	71,743	1.62%	1.03%	1.42%	1.42%	1.15%
Maintenance & Repair	364,386	377,529	435,271	463,764	419,691	10.78%	7.38%	8.46%	8.46%	8.61%
Purchased & Contracted Services	1,451,112	1,370,640	1,319,001	1,427,541	1,521,437	42.94%	26.80%	25.65%	25.65%	26.52%
Capital Outlay	178,574	256,147	348,026	294,166	1,882,954	5.28%	5.01%	6.77%	6.77%	5.46%
Total General Fund Expenditures	<u>3,379,612</u>	<u>3,634,324</u>	<u>3,713,883</u>	<u>3,712,263</u>	<u>5,413,060</u>	<u>62.69%</u>	<u>62.69%</u>	<u>72.21%</u>	<u>72.21%</u>	<u>68.95%</u>
General Fund Revenue Over/Under Expenditures	2,011,410	1,479,125	1,429,390	1,671,622	2,149,947	37.31%	28.93%	27.79%	27.79%	31.05%
<u>Other Finance Sources (Uses)</u>										
Other Sources	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Transfers In	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Transfers Out	(870,984)	(1,626,555)	(885,150)	(1,654,392)	(1,716,825)	-16.16%	-31.81%	-17.21%	-17.21%	-30.73%
Total Other Financing Sources (Uses)	<u>(870,984)</u>	<u>(1,626,555)</u>	<u>(885,150)</u>	<u>(1,654,392)</u>	<u>(1,716,825)</u>	<u>-16.16%</u>	<u>-31.81%</u>	<u>-17.21%</u>	<u>-17.21%</u>	<u>-30.73%</u>
General Fund Revenue And Other Sources Over/Under Expenditures And Other Uses	\$ <u>1,140,426</u>	\$ <u>(147,430)</u>	\$ <u>544,240</u>	\$ <u>17,230</u>	\$ <u>433,122</u>	<u>21.15%</u>	<u>-2.88%</u>	<u>10.58%</u>	<u>10.58%</u>	<u>0.32%</u>

LAKEWAY MUNICIPAL UTILITY DISTRICT
(G) Comparative Schedule of Revenues and Expenditures
For the Five Years Ended September 30, 2012 to 2016
(continued)

	<u>Amounts</u>					<u>Percent of Fund Total Revenues</u>				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Debt Service Fund Revenues</u>										
Property Taxes - M&O	\$ 1,496,971	\$ 1,810,877	\$ 1,745,463	\$ 1,832,151	\$ 1,792,524	98.22%	99%	99.58%	99.01%	98.85%
Penalties & Interest	27,104	11,544	7,351	18,261	20,874	1.78%	1%	0.42%	0.99%	1.15%
Total Debt Service Fund Revenues	<u>1,524,075</u>	<u>1,822,421</u>	<u>1,752,814</u>	<u>1,850,412</u>	<u>1,813,398</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<u>Debt Service Fund Expenditures</u>										
Tax Collection Expenditures	12,329	12,329	12,329	12,329	12,329	0.81%	0.68%	0.70%	0.67%	0.68%
Debt Service Interest & Fees	661,420	698,489	661,854	546,442	551,847	43.40%	38.33%	37.76%	29.53%	30.43%
Debt Service Principal	1,610,000	2,830,000	2,815,000	2,820,000	2,735,000	105.64%	155.29%	160.60%	152.40%	150.82%
Refunding Bonds Issuance Costs	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Total Debt Service Fund Expenditures	<u>2,283,749</u>	<u>3,540,818</u>	<u>3,489,183</u>	<u>3,378,771</u>	<u>3,299,176</u>	<u>149.84%</u>	<u>202.01%</u>	<u>199.06%</u>	<u>221.69%</u>	<u>178.29%</u>
Debt Service Revenue Over/Under Expenditures	(759,674)	(1,718,397)	(1,736,369)	(1,528,359)	(1,485,778)	-49.84%	-94.29%	-99.06%	-82.60%	-81.93%
<u>Other Financing Sources</u>										
Operating Transfers In From General Fund	870,984	1,626,555	885,150	1,654,392	1,716,825	57.15%	89.25%	50.50%	89.41%	94.67%
Sale of Land	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Sale of Bonds	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Refunding Bonds Proceeds/Payments-Net	-	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Total Other Financing Sources	<u>870,984</u>	<u>1,626,555</u>	<u>885,150</u>	<u>1,654,392</u>	<u>1,716,825</u>	<u>57.15%</u>	<u>89.25%</u>	<u>50.50%</u>	<u>89.41%</u>	<u>94.67%</u>
Debt Service Revenue And Other Sources Over/Under Expenditures	\$ <u>111,310</u>	\$ <u>(91,842)</u>	\$ <u>(851,219)</u>	\$ <u>126,033</u>	\$ <u>231,047</u>	<u>7.30%</u>	<u>-5.04%</u>	<u>-48.56%</u>	<u>6.81%</u>	<u>12.74%</u>
Total Active Retail Water Connections	<u>4,113</u>	<u>4,135</u>	<u>4,105</u>	<u>4,140</u>	<u>4,001</u>					
Total Active Retail Wastewater	<u>3,072</u>	<u>3,024</u>	<u>3,024</u>	<u>2,987</u>	<u>2,966</u>					

LAKEWAY MUNICIPAL UTILITY DISTRICT
(H) Board Members, Key Personnel, and Consultants (Unaudited)
For the Year Ended September 30, 2016

<u>Board Members</u>	Term of Office (Elected or Appointed) or Date Hired	Annual Fees Paid	Expense Reimb.	Title	Resident of District	*Relationship w/ Major Land Owner, Eng., Attorney & Tax Asses.-Col.
Larry Burmeier 1097 Lohmans Crossing Lakeway, TX 78734	05/21/14 05/31/18	\$	\$ -	President	Yes	None
Tom Brewer 1097 Lohmans Crossing Lakeway, TX 78734	05/25/04 05/25/20	\$ -	\$ -	Vice President	Yes	None
Don Goff 1097 Lohmans Crossing Lakeway, TX 78734	05/07/16 05/25/20	\$	\$ -	Secretary	Yes	None
Lawrence M. Christian 1097 Lohmans Crossing Lakeway, TX 78734	05/07/16 05/25/20	\$ -	\$ -	Treasurer	Yes	None
Jerry Hietpas 1097 Lohmans Crossing Lakeway, TX 78734	05/23/12 05/31/16 05/31/18	\$ -	\$ -	Director	Yes	None
Earl Foster 1097 Lohmans Crossing Lakeway, TX 78734	2010	\$ 134,872	\$ 6,300	General Manager	No	None
Loyd Smith 1097 Lohmans Crossing Lakeway, TX 78734	2012	\$ 72,013	\$	Finance/Administration Manager	No	None
<u>Consultants</u>						
Carls, McDonald & Dalrymple 901 S. Mopac, Bldg 2, Suite 500 Austin, Texas 78746	2010	\$ 19,082	\$ -	Attorney	No	None
Travis Central Appraisal District P.O. Box 149012 Austin, Texas 78714-9012	1982	\$ 9,756	\$ -	Central Appraisal District	No	None
Travis County Tax Collector P.O. Box 1748 Austin, Texas 78767	1982	\$ 3,855	\$ -	Tax Collector	No	None

* Includes business or family relationship.