

OFFICIAL STATEMENT
DATED MARCH 21, 2022

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Resolution (defined below) and subject to the matters described under “TAX MATTERS” herein, interest on the Bonds under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See “TAX MATTERS” herein.)

The Issuer has designated the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions.

\$3,600,000

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
(A political subdivision of the State of Texas located in Denton County, Texas)
UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022**

Dated Date: May 1, 2022

Due: August 1, as shown on the following page

The \$3,600,000 Lake Cities Municipal Utility Authority Utility System Revenue Refunding Bonds, Series 2022 (the “Bonds”) are being issued pursuant to the Constitution and the general and applicable special laws of the State of Texas, including Chapter 49, as amended, Texas Water Code, Chapters 1201, 1207, and 1371, as amended, Texas Government Code, House Bill 3804, Chapter 1137, Acts of the 76th Legislature (representing a validation of the Authority’s creation and a statement of prior legislation), as heretofore or hereinafter amended, and a resolution (the “Resolution”) adopted by the Board of Directors of the Lake Cities Municipal Utility Authority (the “Authority” or “Issuer”) on March 21, 2022, being the date of sale of the Bonds. (See “THE BONDS - Authority for Issuance” herein.)

The Bonds are special obligations of the Issuer payable from a first and prior lien on and pledge of the Pledged Revenues (defined herein), being (primarily) the Net Revenues (defined herein) derived from the operation of the Issuer’s waterworks and sewer system (the “System”). In the Resolution, the Authority has reserved the right to issue Additional Parity Bonds (as defined in the Resolution) without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise and has prohibited the issuance of prospective obligations with a lien on and pledge of Net Revenues prior and superior to the lien thereon and pledge thereof securing the payment of the Bonds and any Bonds Similarly Secured (as defined in the Resolution). Additionally, in the Resolution, the Authority has also reserved the right to issue Junior Lien Obligations and Subordinate Lien Obligations (each as defined in the Resolution) and to issue Special Project Bonds (as defined in the Resolution), which will be payable from and secured by the proceeds of a contract or contracts with persons, corporations, municipal corporations, political subdivisions or other entities. (See “THE BONDS – Security for Payment” herein.)

The Bonds shall not be a charge upon any other income or revenues of the Issuer and shall never constitute an indebtedness or pledge of the general credit or taxing power of the Issuer. The Resolution does not create any lien or mortgage on the System and any judgment against the Issuer may not be enforced by levy and execution against the property owned by the Issuer. The Resolution does not create or constitute a legal or equitable pledge, charge, lien, mortgage or encumbrance upon any property of the Issuer or the System, except the Pledged Revenues. As additional security, there has been established a Reserve Fund which shall be funded in an amount at least equal to the Average Annual Debt Service Requirements (as defined in the Resolution) of the Bonds and any Additional Parity Obligations hereinafter issued by the Issuer; however, the Issuer’s obligation to fund the Reserve Fund is initially suspended and shall remain so suspended for so long as certain annual debt service coverage ratios are maintained at or above minimum levels. (See “THE BONDS – Security for Payment” herein.)

Interest on the Bonds will accrue from the Dated Date as shown above and will be payable on February 1 and August 1 of each year, commencing August 1, 2022, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository (“Securities Depository”) for the Bonds. Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

Proceeds from the sale of the Bonds will be used (i) to refund a portion of the Authority’s outstanding bonds, as identified in Schedule I attached hereto (the “Refunded Obligations”) for debt service savings, and (ii) to pay the costs of issuance and expenses relating to the Bonds. (See “PLAN OF FINANCING - Purpose” herein.)

SEE INSIDE FRONT COVER HEREOF FOR MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS

The Bonds are offered for delivery, when, as and if issued and received by the initial purchaser thereof named below (the “Underwriter”) and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on or attached to the Bonds. See “LEGAL MATTERS” herein. Certain legal matters will be passed upon for the Underwriter by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. It is expected that the Bonds will be available for initial delivery through the services of DTC on or about May 3, 2022.

\$3,600,000
LAKE CITIES MUNICIPAL UTILITY AUTHORITY
(A political subdivision of the State of Texas located in Denton County, Texas)
UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022

STATED MATURITY SCHEDULE
(Due August 1)

Cusip No. Prefix ⁽¹⁾ 507797

Stated Maturity 8/1	Principal Amount	Interest Rate (%)	Initial Yield (%)	Cusip No. Suffix ⁽¹⁾
2023	\$ 265,000	4.000	1.450	AZ1
2024	280,000	4.000	1.700	BA5
2025	290,000	4.000	1.850	BB3
2026	300,000	4.000	2.000	BC1
2027	310,000	4.000	2.150	BD9
2028	325,000	4.000	2.300	BE7
2029	340,000	4.000	2.400	BF4
2030	350,000	4.000	2.500	BG2
2031	365,000	4.000	2.600	BH0
2032	380,000	4.000	2.700	BJ6
2033	395,000	4.000	2.800 ⁽²⁾	BK3

(Accrued Interest from Dated Date to be added)

The Issuer reserves the right to redeem the Bonds maturing on or after August 1, 2033 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2032, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described herein. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)

(1) *CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Authority, Financial Advisor, or Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.*

(2) *Yield calculated based on the assumption the Bonds denoted and sold at a premium will be redeemed on August 1, 2032, the first optional call date for the Bonds.*

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
501 N Shady Shores Drive
Lake Dallas, Texas 75065
(940) 497-2999 (Phone)
(940) 497-2926 (Fax)

BOARD OF DIRECTORS:

Name	Time Served	Term Expires May	Occupation
Tom Rufer, President	6 years	2022 ⁽¹⁾	Retired
Evan Huff, Vice President	6 years	2022 ⁽¹⁾	Self Employed
Jennifer Gordon, Secretary/Treasurer	6 years	2024	Self Employed
Cecil Carter, Director	14 years	2024	Retired
Joe Flowers, Director	2 years	2024	Self Employed

⁽¹⁾ Director position to be voted upon at the May 7, 2022 election.

ADMINISTRATIVE OFFICIALS:

Name	Position	Length of Service (Years)
Mike Fairfield	General Manager	15 years
Kate Boatler	Assistant General Manager	10 years
Jeff Knight	Project Manager	39 years
Becky Vickers	Human Resources	32 years
Mark DiCiaccio	Operations Manager	10 years
Makesha Bailey	Utility Billing Manager	10 years

CONSULTANTS AND ADVISORS

Bond Counsel Norton Rose Fulbright US LLP
Austin, Texas

Certified Public Accountants CliftonLarsonAllen LLP
Fort Worth, Texas

Financial Advisor SAMCO Capital Markets, Inc.
San Antonio, Texas

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

The information set forth or included in this Official Statement has been provided by the Authority and from other sources believed by the Authority and the Underwriter to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the Issuer described herein since the date hereof. The Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the Authority and as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

None of the Authority, its Financial Advisor, or the Underwriter makes any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its book-entry-only system, as such information has been provided by DTC.

The agreements of the Authority and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the Underwriter. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

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The cover page, subsequent pages hereof, the Schedule, and appendices attached hereto, are part of this Official Statement.

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SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement.

The Issuer

Lake Cities Municipal Utility Authority (the "Authority") is a political subdivision created by House Bill 1008 on April 30, 1963 during the 58th Session of the Texas Legislature; further amended from time to time including Bill 3804 in 1999 during the 76th Legislative Session (representing a validation of the Authority's creation and a restatement of prior legislation), as heretofore or hereinafter amended, (collectively, the "Act"). The Authority has all the rights, powers, privileges, authority, functions, and duties provided by the general law of the state, including Chapter 49 and 51 of the Texas Water Code. Additional rights, powers, privileges authority, functions and duties are also provided by Chapters 54 and 55 of the Texas Water Code. The Authority supplies water under CCN number 10166 and wastewater under CCD number 20060. The Board of Directors (the "Board") of the Authority, is comprised of five members, each serving a four-year term. Elections are held bi-annually. The Board selects a General Manager who is responsible for managing day-to-day operations and bringing issues to the Board in an efficient and timely manner.

The Bonds

The Bonds are being issued pursuant to the Constitution and the general and applicable special laws of the State of Texas, Chapter 49, as amended, Texas Water Code, Chapters 1201, 1207, and 1371, as amended, Texas Government Code, and the Act, and a resolution (the "Resolution") adopted by the Board on March 21, 2022, being the date of sale of the Bonds. (See "THE BONDS - Authority for Issuance" herein.)

Security for Payment

The Bonds are special obligations of the Issuer payable from a first and prior lien on and pledge of the Pledged Revenues (defined herein), being (primarily) the Net Revenues (defined herein) derived from the operation of the Issuer's waterworks and sewer system (the "System").

In the Resolution, the Authority has reserved the right to issue Additional Parity Obligations (as defined in the Resolution) without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise and has prohibited the issuance of prospective obligations with a lien on and pledge of Net Revenues prior to the lien on and pledge thereof securing the payment of the Bonds and any Bonds Similarly Secured (as defined in the Resolution). Additionally, in the Resolution, the Authority has also reserved the right to issue Junior Lien Obligations and Subordinate Lien Obligations (each as defined in the Resolution) and to issue Special Project Bonds (as defined in the Resolution), which will be payable from and secured by the proceeds of a contract or contracts with persons, corporations, municipal corporations, political subdivisions or other entities. See "THE BONDS – Security for Payment" herein.

The Bonds shall not be a charge upon any other income or revenues of the Issuer and shall never constitute an indebtedness or pledge of the general credit or taxing power of the Issuer. The Resolution does not create any lien or mortgage on the System and any judgment against the Issuer may not be enforced by levy and execution against the property owned by the Issuer. The Resolution does not create or constitute a legal or equitable pledge, charge, lien, mortgage or encumbrance upon any property of the Issuer or the System, except the Pledged Revenues. As additional security, there has been established a Reserve Fund which shall be funded in an amount at least equal to the Average Annual Debt Service Requirements (as defined in the Resolution) of the Bonds and any Additional Parity Obligations hereinafter issued by the Issuer. See "THE BONDS – Security for Payment" herein.

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.

Redemption Provision of the Bonds	The Issuer reserves the right to redeem the Bonds maturing on or after August 1, 2033 in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2032, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described herein. See “THE BONDS - Redemption Provisions of the Bonds” herein.
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under “TAX MATTERS”. (See “TAX MATTERS” and “APPENDIX D – Form of Legal Opinion of Bond Counsel” herein).
Qualified Tax-Exempt Obligations	The Issuer has designated the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations” herein.
Use of Bond Proceeds	Proceeds from the sale of the Bonds will be used (i) to refund a portion of the Authority’s outstanding bonds, as identified in Schedule I attached hereto (the “Refunded Obligations”) for debt service savings, and (ii) to pay the costs of issuance and expenses relating to the Bonds. (See “THE BONDS - Use of Bond Proceeds” herein.)
Ratings	S&P has assigned an underlying, unenhanced rating of “AA-” to the Bonds without regard to credit enhancement. An explanation of the significance of such rating may be obtained from S&P (See “OTHER PERTINENT INFORMATION – Ratings” herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York, relating to the method and timing of payment and the method and transfer relating to the Bonds. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)
Future Bond Issues	The Issuer does not expect to issue any additional obligations during the current calendar year. In 2023, the Authority anticipates issuing approximately \$10 million to fund capital improvement projects.
Delivery	When issued, anticipated on or about May 3, 2022.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel.

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OFFICIAL STATEMENT
relating to

\$3,600,000
LAKE CITIES MUNICIPAL UTILITY AUTHORITY
(A political subdivision of the State of Texas located in Denton County, Texas)
UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the Lake Cities Municipal Utility Authority (the "Authority" or "Issuer") of its \$3,600,000 Utility System Revenue Refunding Bonds, Series 2022 (the "Bonds") identified on the page 2 hereof.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution (defined herein). Included in this Official Statement are descriptions of the Bonds, the System (defined herein) and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained from the Issuer or the Financial Advisor, SAMCO Capital Markets, Inc., 1020 Northeast Loop 410, Suite 640, San Antonio, Texas 78209, upon request by electronic mail, or upon payment of reasonable copying, mailing, handling, and delivery charges.

All financial and other information presented in this Official Statement has been provided by the Authority from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from System revenues and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in financial position or other affairs of the Authority. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the Authority's undertaking to provide certain information on a continuing basis.

Infectious Disease Outbreak – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and the State of Texas (the "State"). On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. However, on July 29, 2021, the Governor issued Executive Order GA-38, which supersedes all pre-existing executive orders related to COVID-19 and rescinds them in their entirety, except for Executive Order GA-13 (relating to detention in county and municipal jails) and Executive Order GA-37 (related to migrant transport). Executive order GA-38 combines several previous executive orders into one order and continues the prohibition against governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance. It also prohibits governmental entities from: (1) compelling any individual to receive a COVID-19 vaccine administered under emergency use authorization, and (ii) enforcing any requirements to show proof of vaccination before receiving a service or entering any place (other than nursing homes, hospitals and similar facilities) if the public or private entity that has adopted such requirement receives public funds through any means. Executive Order GA-38 remains in effect until amended, rescinded, or superseded by the Governor. Executive Order GA-39, issued on August 25, 2021, further provides that governmental entities cannot require mask mandates, vaccine passports, or mandatory vaccinations. On October 11, 2021, the Governor issued Executive Order GA-40, prohibiting any entity from requiring COVID vaccinations. Various lawsuits have been filed throughout the State related to the foregoing. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or otherwise

negatively affect the collection of Net Revenues which are pledged as security for the Bonds. The Bonds are secured by the utility system revenues produced through the operation of the System. Further, a reduction in the collection of System revenues may negatively impact the Authority's operating budget and overall financial condition.

Convening of the Texas Legislature

On January 12, 2021, the 87th Texas Legislature convened in general session which adjourned on May 31, 2021. The Texas Governor called a first special session which began July 8, 2021 and concluded on August 6, 2021. The Governor called a second special session which began on August 7, 2021 and concluded on September 2, 2021. The Governor called a third special session which convened on September 20, 2021 and concluded on October 19, 2021. The Texas Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the Issuer and the financial condition of the Issuer. The Issuer makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed and final legislation for any developments applicable to the Issuer.

Texas 2021 Winter Weather Event

General. From February 14, 2021 through February 19, 2021, the continental United States experienced a severe winter storm (the "2021 Event"). As a result of the 2021 Event, areas throughout Texas experienced widespread, record breaking cold.

Beginning February 12, 2021 and continuing over the next several days, the natural gas and real-time wholesale power markets experienced extreme price volatility. With multiple natural gas pipelines restricting gas flows and significant power demand increases, next day delivery natural gas spot prices at various delivery hubs skyrocketed from an average of less than \$3.00 per million British thermal unit (mBtu) to \$1,250 per mBtu at their peak. The price per megawatt hour (MWh) of electricity exceeded \$9,000, when it had settled at only \$30 on February 10, 2021.

Due to effects of the 2021 Event and a reduction in available gas supply, approximately 185 generating units in the Electric Reliability Council of Texas ("ERCOT") grid tripped offline, and the grid lost roughly 46,000 MW of generation. In order to limit demand and protect the integrity of the grid, ERCOT implemented widespread and prolonged blackouts. As a result, approximately 4 million Texas residents were without power for significant stretches of the week.

Extended subfreezing temperatures caused water pipes to freeze and burst, and combined with the lack of power, eventually led to multiple water system failures across the State that impacted water availability generally and, in some instances, required the issuance of water boil notices. Initial reports indicated that roughly 14 million Texans were under boil water notices as of February 19, 2021.

On February 19, 2021, the President of the United States issued a Major Disaster Declaration for 77 counties in Texas, which was subsequently expanded to cover an addition 31 counties. The Texas Governor, on February 18, 2021, declared the 2021 Event an emergency item for the Texas Legislature which mandated the winterization of Texas' power system and ensured the necessary funding for winterization.

Legislative Response. On June 8, 2021, the Governor signed Senate Bill 3 ("SB 3") to address issues that arose during the 2021 Event. The new law requires weather emergency preparedness and the identification of critical public utilities facilities, including in the natural gas supply chain and electric utilities.

The new law also creates Section 13.1394 of the Texas Water Code that requires water utilities to ensure the emergency operation of its water system during a power outage that lasts longer than 24 hours at a minimum water pressure of 20 pounds per square inch, or at a water pressure level approved by the Texas Commission on Environmental Quality (the "TCEQ"), as soon as safe and practicable following the occurrence of a natural disaster. This section also requires that a water utility adopt and submit an emergency preparedness plan to the TCEQ for its approval that includes a timeline for implementing the plan. The submitted plan must provide for one, or a combination, of fourteen options and approaches to provide service as required by this section. The options provided include, but are not limited to: backup or on-site power generation; designation of the water system as a critical load facility or redundant, isolated or dedicated electrical feeds; the ability to provide water through artesian pressure; redundant interconnectivity between pressure zones; and any other alternative determined by the TCEQ to be acceptable.

Water utilities are required to submit their emergency preparedness plan to the TCEQ by March 1, 2022. Implementation of emergency plans must begin by the later of July 1, 2022, or upon final approval by the TCEQ. A utility may submit a written request for an extension not to exceed 90 days.

SB 3 also created Section 13.151 of the Texas Water Code ("Section 13.151") that addresses billing for services provided during an extreme weather emergency. Section 13.151 defines an "extreme weather emergency" as a period when the previous day's highest temperature did not exceed 28 degrees Fahrenheit, and the temperature is predicted to remain at or below that level for the next 24 hours according to the nearest National Weather Service reports. In these circumstances a retail public utility that operates under a certificate of public convenience and necessity (a "CCN") is prohibited from imposing late fees or disconnecting service for nonpayment of bills that are due during an extreme weather emergency until after the emergency is over and is required to work with customers that request to establish a payment schedule for unpaid bills that are due during the extreme

weather emergency. A violation of Section 13.151 is subject to a civil penalty of not less than \$100 nor more than \$50,000 for each violation.

Impact on the Authority. The 2021 Event did not have a material financial impact on the Authority. The Authority previously engaged in, and continues to engage in winterization efforts.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the Authority's outstanding bonds, as identified in Schedule I attached hereto (the "Refunded Obligations") for debt service savings, and (ii) pay the costs of issuance and expenses relating to the Bonds.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with BOKF, NA, Dallas, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow Deposit Letter dated as of March 21, 2022 (the "Escrow Agreement") between the Authority and the Escrow Agent.

The Resolution provides that the Authority will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the Authority (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled date of early redemption. Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the Authority, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Obligations, when due, on the Redemption Date (the "Sufficiency Certificate"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Resolution was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA" (the "Federal Securities"). Cash and investments (if any) held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

Prior to, or simultaneously with, the issuance of the Bonds, the Authority will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem or defease the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the cash and Federal Securities with the Escrow Agent pursuant to the Escrow Agreement, the Authority will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate provided by SAMCO Capital Markets, Inc., that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the Authority payable from Net Revenues nor for the purpose of applying any limitation on the issuance of debt. The Authority has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

THE BONDS

General Description

The Bonds will be dated May 1, 2022 ("Dated Date"), will mature on the dates and in the principal amounts and will bear interest from the Dated Date at the rates set forth on page 2 of this Official Statement. Principal of and interest on the Bonds are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Dallas, Texas, as the initial Paying Agent/Registrar, as of the Record Date (defined herein), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Bonds will be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment must be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on

which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and the general and applicable special laws of the State of Texas, including Chapter 49, as amended, Texas Water Code, Chapters 1201, 1207, and 1371, as amended, Texas Government Code, House Bill 3804, Chapter 1137, Acts of the 76th Legislature (representing a validation of the Authority's creation and a statement of prior legislation), as heretofore or hereinafter amended (collectively, the "Act") and a resolution (the "Resolution") adopted by the Board of Directors (the "Board") of the Authority on March 21, 2022, being the date of sale of the Bonds.

Security for Payment

General. The Bonds are special obligations of the Issuer payable from a first and prior lien on and pledge of the Pledged Revenues (defined herein), being (primarily) Net Revenues (defined herein) derived from the operation of the Issuer's waterworks and sewer system (the "System"). The Resolution defines "Pledged Revenues" to mean (1) Net Revenues (defined in the Resolution to include Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period), plus (2) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the Authority to the payment of the Bonds Similarly Secured, and excluding those revenues excluded from Gross Revenues. See "SELECTED PROVISIONS OF THE RESOLUTION" attached hereto as Appendix A.

Although authorized by State law to levy and collect ad valorem taxes for operation and maintenance purposes and for the payment of certain tax-supported obligations, the Authority has not conducted an election to authorize such levy and collection. Therefore, the Bonds are not secured by any collection of ad valorem tax revenue within the Authority, nor should investors expect that ad valorem tax revenues will be available at any time in the future to supplement operational revenues available for paying operation and maintenance costs of the Authority.

In the Resolution, the Authority has reserved the right to issue Additional Parity Bonds upon compliance with certain conditions precedent and the Authority also reserves the right to issue Junior Lien Obligations and Subordinate Lien Obligations and to issue Special Project Bonds which will be payable from and secured by the proceeds of a contract or contracts with persons, corporations, municipal corporations, political subdivisions or other entities.

The Bonds shall not be a charge upon any other income or revenues of the Issuer and shall never constitute an indebtedness or pledge of the general credit or taxing power of the Issuer. The Resolution does not create any lien or mortgage on the System and any judgment against the Issuer may not be enforced by levy and execution against the property owned by the Issuer. The Resolution does not create or constitute a legal or equitable pledge, charge, lien, mortgage or encumbrance upon any property of the Issuer or the System, except the Pledged Revenues. As additional security, there has been established a Reserve Fund which shall be funded in an amount at least equal to the Average Annual Debt Service Requirements of the Bonds and any Additional Parity Bonds hereinafter issued by the Issuer.

Flow of Funds. As included in "Selected Provisions of the Resolution" attached hereto as Appendix A, the following represents a substantive description of the flow of funds with respect to the Gross Revenues of the System. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

- **FIRST:** to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined in the Resolution or required by statute to be a first charge on and claim against the Gross Revenues of the System, provided, however, that the Authority has reserved the right to levy and collect a maintenance and operations ad valorem tax to be utilized to pay Maintenance and Operating Expenses if this maintenance and operations ad valorem tax is approved by the qualified voters of the Authority at an election held and conducted in accordance with the provisions of the Texas Water Code and other applicable law. See "THE BONDS – Security for Payment".
- **SECOND:** to the payment of the amounts required to be deposited into the funds created and established for the payment, security, and benefit of any Bonds Similarly Secured (including the Bonds) now outstanding or hereafter issued as the same become due and payable.
- **THIRD:** to the payment of the amounts required to be deposited into the Reserve Fund to establish and maintain the Required Reserve in accordance with the Resolution or any other resolution relating to the issuance of Additional Parity Bonds.
- **FOURTH:** to the payment of the amounts required to be deposited into the funds created and established for the payment, security, and benefit of any Junior Lien Obligations hereafter issued as the same become due and payable.

- FIFTH: to the payment of the amounts required to be deposited into the funds created and established for the payment, security, and benefit of any Subordinate Lien Obligations hereafter issued as the same become due and payable.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Authority purpose now or hereafter permitted by law.

The Authority shall also fix and maintain rates and collect charges for the facilities and services afforded by the System, which will produce Net Revenues equal to at least 1.10 times the Debt Service Requirements due and payable on the outstanding Bonds Similarly Secured.

Rate Covenants

For the benefit of the holders of the Bonds and any other Bonds Similarly Secured and in addition to all provisions and covenants in the laws of the State of Texas and in the Resolution, the Authority has expressly stipulated and agreed, while any of the Bonds Similarly Secured are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System, that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

- A. to pay all Maintenance and Operating Expenses, together with any other lawfully available funds, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;
- B. to produce Pledged Revenues, together with any other lawfully available funds, sufficient to pay the Debt Service Requirements on the Bonds Similarly Secured, as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security thereof and any other obligations or evidence of indebtedness issued or incurred that are payable from and secured by a first and prior lien on and pledge of the Net Revenues of the System;
- C. to produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Junior Lien Obligations hereafter issued by the Authority as the same become due and payable, and to deposit the amounts required to be deposited in any reserve or contingency fund or account created for the payment and security of any Junior Lien Obligations and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured by a junior and inferior lien on and pledge of the Net Revenues;
- D. to produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Subordinate Lien Obligations hereafter issued by the Authority as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of any Subordinate Lien Obligations and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured by a subordinate and inferior lien on and pledge of the Net Revenues; and
- E. to pay, together with any other lawfully available funds, any other legally incurred indebtedness payable from the Net Revenues and/or secured by a lien on the System.

The Authority has also covenanted to fix and maintain rates and collect charges for the facilities and services afforded by the System, which will produce Net Revenues equal to at least 1.10 times the Debt Service Requirements due and payable on the Bonds Similarly Secured from time to time outstanding.

Funds

In addition to the System Fund described under "THE BONDS – Flow of Funds", the Authority has agreed and covenanted to create and maintain the following funds and accounts:

Bond Fund; Excess Bond Proceeds

For purposes of providing funds to pay the principal of and interest on the Bonds Similarly Secured (including the Bonds) as the same become due and payable, the Authority has agreed to maintain, establish and create, a separate and special Fund known as the "Lake Cities Municipal Utility Authority Utility System Revenue Refunding Bonds Interest and Sinking Fund" (the "Bond Fund"). The Authority has covenanted that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the available Pledged Revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the Bonds Similarly Secured then falling due and payable, such deposits to pay maturing principal and accrued interest on the Bonds Similarly Secured to be made in substantially equal monthly installments on or before the 1st day of each month, beginning on or before the first day of the month next following the delivery of the Bonds to the Underwriter. If the Pledged Revenues in any month are insufficient to make the required payments into the Bond Fund,

then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

Reserve Fund

The Resolution creates and establishes, and provides for the maintenance of, a Reserve Fund for the payment of the principal of and interest on the Bonds Similarly Secured (which includes the Bonds) when money in the Bond Fund is insufficient on any payment date. The amount to be accumulated and maintained as a reserve amount (the "Required Reserve") in the Reserve Fund shall be equal to the Average Annual Debt Service Requirement of the Bonds Similarly Secured then outstanding (calculated on a Fiscal Year basis as of the date the last series of Outstanding Bonds Similarly Secured was delivered). Following the delivery of the Bonds, the Required Reserve, being the initial amount required to be on deposit in the Reserve Fund, is calculated to equal \$410,927. Beginning on or before the 1st day of the month next following the month the Bonds are delivered to the Underwriter and on or before the 1st day of each following month until the Required Reserve has been fully accumulated, there shall be deposited into the Reserve Fund from the Net Revenues of the System an amount equal to at least 1/60th of the Required Reserve. After the Required Reserve has been accumulated, monthly deposits to the Reserve Fund may be terminated; provided, however, should a deficiency thereafter exist (other than as a result of the issuance of Additional Parity Bonds) in the Required Reserve, the Authority shall resume monthly deposits to the Reserve Fund calculated to cure the deficiency by making monthly deposits to the Reserve Fund in amounts of not less than 1/60th of the deficiency and continuing such deposits until the deficiency is cured. In the Resolution, the Authority has the right to fund the Required Reserve by securing an insurance policy, surety policy, or other similar credit facility.

To the extent permitted by law and upon earlier to occur the Previously Issued Parity Bonds issued on or before September 18, 2013 being no longer Outstanding, each resolution authorizing the series of such Previously Issued Parity Bonds is properly amended, or the Authority receives written consent of each holder of such Previously Issued Parity Bonds, the Authority expressly reserves the right at any time to fund all or any part of the Reserve Fund to be held in the Reserve Fund by entering into a Credit Agreement with or purchasing a Credit Facility from a Credit Provider that will unconditionally obligate the Credit Provider to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the Bond Fund are not sufficient to pay the debt service requirements on the Bonds Similarly Secured. Such Credit Agreement or Credit Facility, authorized pursuant to Chapter 1371 will be submitted to the Attorney General of the State of Texas for review and approval. All resolutions adopted after the date hereof authorizing the issuance of Additional Parity Bonds shall contain a provision to this effect. For the avoidance of doubt, and though not effective initially, this provision shall become effective upon the occurrence of one of the events specified above and, at such time, will apply to the Bonds Similarly Secured while the same remain Outstanding.

The requirements set forth above to fund the Reserve Fund in the amount of the Required Reserve shall be suspended for such time as the Pledged Revenues for each Fiscal Year are equal to at least 110% of the Average Annual Debt Service Requirements. In the event that the Pledged Revenues for any two consecutive Fiscal Years are less than 110% (unless such percentage is below 100% in any Fiscal Year, in which case the hereinafter-specified requirements will commence after such Fiscal Year) of the Average Annual Debt Service Requirements, the Authority will be required to commence making the deposits to the Reserve Fund, as provided above, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve Amount or (ii) the Pledged Revenues for a Fiscal Year have been equal to not less than 110% of the Average Annual Debt Service Requirements.

Redemption Provisions of the Bonds

Optional Redemption

The Issuer reserves the right, at its sole option, to redeem Bonds stated to mature, on or after August 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on August 1, 2032, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption

Selection of Bonds for Redemption; Notice of Redemption

At least 30 days prior to the date fixed for any redemption of any Bonds or portions thereof prior to stated maturity, the Issuer shall cause notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Bond to be redeemed, in whole or in part, at the address of the registered owner as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Bonds or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE BONDHOLDER, AND, PROVIDED THAT PROVISION FOR PAYMENT OF THE REDEMPTION PRICE IS MADE AND ANY OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST

ON THE REDEEMED BONDS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A BOND HAS NOT BEEN PRESENTED FOR PAYMENT.

Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any integral multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same stated maturity and interest rate for the unredeemed portion of the principal.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Resolution or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Issuer will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Resolution and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Payment Record

The Issuer has not defaulted on the payment of its bonded indebtedness.

Additional Parity Obligations

The Authority has reserved the right to issue Additional Parity Bonds upon satisfying certain conditions precedent. See "Appendix A – Selected Provisions of the Resolution - Section 18 – Issuance of Additional Parity Obligations". In addition, the Authority has also reserved the right to issue, at any time, obligations including, but not limited to, inferior lien obligations payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the Bonds Similarly Secured as may be authorized by the laws of the State of Texas upon satisfying any conditions precedent contained in the resolutions authorizing the issuance of the Bonds Similarly Secured.

Amendments

The Issuer may amend the Resolution without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds Similarly Secured then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Resolution; except that, without the consent of the registered owners of all of the Bonds Similarly Secured affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, the redemption price therefor, change the place or places at or the coin or currency in which any Bond similarly secured or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds Similarly Secured, (2) give any preference to any Bond similarly secured over any other Bond, or (3) reduce the aggregate principal amount of Bonds Similarly Secured required for consent to any amendment, change, modification, or waiver.

Defeasance

The Resolution provides that any Bond will be deemed paid and will no longer be considered to be outstanding within the meaning of the Resolution when payment of principal of and interest on such Bond to its stated maturity or date of prior redemption has been made or provided for. Payment may be provided for by deposit of any combination of (1) money in an amount sufficient to make such payment and/or (2) Government Securities (defined herein). Any such deposit must be certified by an independent public accountant, the Authority's Financial Advisor, or other qualified financial institution (as provided in the Resolution) to be of such maturities and interest payment dates and bear such interest as will, without reinvestment, be sufficient to make the payment to be provided for on the Bond. The Resolution provides that "Government Securities" means (A) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (B) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (C) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (D) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no

assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (A) through (C) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the Authority has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Resolution does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the Authority to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding for purposes of applying any limitation on indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the Authority to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the Authority has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the Authority (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Default and Remedies

If the Authority defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Resolution, the registered owners may seek a writ of mandamus to compel Authority officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Resolution and the Authority's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Resolution does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the Authority to perform in accordance with the terms of the Resolution, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the Authority, permits the Authority to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with its issuance of the Bonds (as further described herein under the subcaption "THE BONDS - Authority for Issuance"), the Authority has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the Authority's sovereign immunity from a suit for money damages outside of Chapter 1371, bondholders may not be able to bring such a suit against the Authority for breach of the Bonds or the Resolution. Even if a judgment against the Authority could be obtained, it could not be enforced by direct levy and execution against the Authority's property. Furthermore, the Authority is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9").

Special districts, such as the Authority, must obtain the approval of the TCEQ as a condition of seeking relief under Chapter 9. TCEQ is required to investigate the financial condition of a financially troubled special district and authorize such district to proceed under Chapter 9 only if such special district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, if the Authority is permitted to proceed with Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The Authority may not be placed into bankruptcy involuntarily. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principals of equity that permit the exercise of judicial discretion.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds, along with the Authority's cash contribution, will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Bonds	\$3,600,000.00
Reoffering Premium	328,957.00
Accrued Interest on the Bonds	800.00
Cash Contribution	<u>37,200.00</u>
Total Sources of Funds	<u>\$3,966,957.00</u>

Uses of Funds	
Deposit to Escrow Fund	\$3,848,228.13
Underwriter's Discount	28,700.00
Interest and Sinking Fund Deposit	800.00
Costs of Issuance	<u>89,228.87</u>
Total Uses of Funds	<u>\$3,966,957.00</u>

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Resolution, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds affected by the change by United States mail, first-class, postage prepaid.

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive the interest payable on a Bond on any interest payment date means the fifteenth (15th) day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment" herein.)

Special Record Date for Interest Payment

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last day next preceding the date of mailing of such notice.

The Bonds will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or earlier redemption upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Future Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar,

and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.)

Limitation on Transfer of Bonds

Neither the Issuer nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond called for redemption, in whole or in part (1) to transfer or exchange any Bond during a period beginning at the opening of business fifteen (15) days before the day of the first mailing of a notice of redemption of Bonds hereunder and ending at the close of business on the day of such mailing or (2) thereafter to transfer or exchange in whole or in part any Bond so selected for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

THE AUTHORITY AND THE SYSTEM

The Authority

The Authority, a conservation and reclamation district and political subdivision of the State was created in 1963 pursuant to Article XVI, Section 59 of the Texas Constitution, the Act, and Chapter 49, as amended, Texas Water Code for the purpose of providing a source of water supply for municipal, domestic, and industrial use and for operating a complete sanitary sewer system. The Authority has all the powers, rights, privileges, and functions of a public utility agency and a political subdivision of the State, including the power to engage in utility business that involves the collection, conservation, storage, transportation, treatment, or distribution of water for System users. The Authority may perform any act necessary to exercise its powers to the fullest extent, including the issuance of obligations, payment of which is secured by the revenue derived from all or part of its facilities, including facilities acquired after the obligations are issued, provided such obligations are scheduled to mature not later than 40 years after the date of issuance. The issuance of the Bonds by the Authority represents the Authority's exercise of its authorized powers.

The System

The System currently serves the cities of Hickory Creek, Lake Dallas, and Shady Shores, Texas, and their extra-territorial jurisdictions all located in Denton County Texas on and near Lake Lewisville.

Authority's water supply is surface water from the Upper Trinity Regional Water District ("UTRWD") and groundwater from three wells. Pursuant to a September 1990 contract with UTRWD, the Authority is to receive a minimum of 3.8 million gallons per day ("MGD") from the UTRWD with the ability to receive additional amounts. The Authority is responsible for approximately 96 miles of water lines, 2 pump stations, 3 elevated storage tanks, 4 ground storage tanks, and 3 water wells. The elevated storage tanks have a capacity of 1.55 million gallons and the ground storage tanks have capacity of 1.67 million gallons. The UTRWD contract is the primary source of water for the Authority. The water wells are maintained for emergency needs of the System.

The Authority's wastewater treatment is provided by the UTRWD in the Authority's Lakeview plant. Pursuant to a June 1995 contract (as amended November 1997 and October 2005), the Authority is entitled to 0.9 MGD of capacity in the Lakeview plant and 0.3 MGD capacity in a shared trunk line. The Authority is responsible for 65 miles of gravity wastewater collection lines, 9 miles of force main lines, and 20 lift stations. In exchange for the Authority's existing treatment plant, UTRWD expanded and upgraded the plant for regional service. The Authority in turn received a phase-in capital payment plan that ended in Fiscal Year 2015. The Authority retained first right of refusal to own and operate the treatment plant should UTRWD cease to exist.

ENVIRONMENTAL REGULATION

Wastewater treatment and water supply facilities, such as the System, are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways such as:

1. Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
2. Restricting the manner in which wastes are released into the air, water, or soils;
3. Restricting or regulating the use of wetlands or other property;
4. Requiring remedial action to prevent or mitigate pollution; and
5. Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance of and the ability to operate the Authority's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the Authority. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the Authority.

Water Supply & Discharge Issues. Water supply and discharge regulations that utility and special water districts, including the Authority, may be required to comply with involve: (1) public water supply systems, (2) wastewater discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities.

Pursuant to the federal Safe Drinking Water Act ("SDWA") and EPA's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, municipal utility and special district's provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utilities and special districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state. It has a 5-year permit term and is then subject to renewal. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility and special district must comply may have an impact on a municipal utility or special district's ability to obtain and maintain compliance with TPDES permits.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Authority, the Financial Advisor, and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Authority cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings' rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent/Registrar, on payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates representing each Bond stated maturity are required to be printed and delivered. The Issuer may decide to

discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates representing each Bond stated maturity will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority, the Financial Advisor, and the Underwriter believe to be reliable, but none of the Authority, the Financial Advisor, nor the Purchaser takes responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under the Resolution will be given only to DTC.

INVESTMENT POLICIES

The Issuer invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both State law and the Issuer's investment policies are subject to change.

Legal Investment

Under Texas law and subject to certain limitations, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The Issuer may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the Issuer may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the Issuer may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the Issuer is not required to liquidate the investment unless it no longer carries a required rating, in which case the Issuer is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

Investment Policies

Under State law, the Issuer is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The Issuer is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the Issuer's investments be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for

investment considering the probable safety of capital and the probable income to be derived.” The Issuer is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

Current Investments

Current Investments ⁽¹⁾

TABLE 1

As of January 26, 2022 the Authority had the following investments:

<u>Type of Security</u>	<u>Fair Value</u>	<u>Percentage</u>
Cash, Money Markets, and Certificates of Deposit	\$ 2,225,622	17%
Investment Pools	\$ 10,558,834	83%
Total	\$ 12,784,456	100%

As of such date, the market value of such investments (as determined by the Issuer by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the Issuer are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. A form of Bond Counsel’s opinion is reproduced as APPENDIX D. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon the Sufficiency Certificate of the Financial Advisor regarding the sufficiency of the deposit to the Escrow Fund on the date of closing and the representations and certifications of the Authority pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the Authority with the provisions of the Resolution subsequent to the issuance of the Bonds. The Resolution contains covenants by the Authority with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the periodic calculation and payment to the United States Treasury of any arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the Authority as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Authority may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to Bond holders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchaser of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

¹ Unaudited.

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions (see “Qualified Tax-Exempt Obligations” below), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (“FASIT”), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the “Discount Bonds”). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see “Qualified Tax-Exempt Obligations” below), life insurance companies, property and casualty insurance companies, S corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium on Certain Bonds

The initial public offering price to be paid for certain Bonds (the “Premium Bonds”) may be greater than the stated redemption price on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable certificate premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable certificate premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable certificate premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Qualified Tax Exempt Obligations

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by “financial institutions” described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for financial institutions, stating that such disallowance does not apply to interest expense allocable to tax-

exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are properly designated by an issuer, such as the Issuer, as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds and other than certain current refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The Issuer has designated the Bonds as “qualified tax-exempt obligations” and certified its expectation that the above, described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

The Authority is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the “Rule”) pursuant to the exemption under subsection (d) (2), which applies to certain small issuers such as the Authority who are not an “obligated person” (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Bonds) in an aggregate principal amount exceeding \$10,000,000. In the Resolution, the Authority has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The Authority is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Authority will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (the “MSRB”) through its EMMA system, where it will be available to the general public, free of charge at www.emma.msrb.com.

Annual Reports

Under Texas Law, the Authority must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must maintain each audit report within 180 days after the close of the Authority’s fiscal year. The Authority’s fiscal records and audit reports are available for public inspection during the regular business hours, and the Authority is required to provide a copy of the Authority’s audit reports to any Bondholder or other member of the public within a reasonable time on request to the Authority’s Secretary/Treasurer, 501 North Shady Shores Road, Lake Dallas, Texas 75065, upon payment of charges prescribed by the Texas General Services Commission.

The Authority will provide certain updated financial information and operating data, which is customarily prepared by the Authority and is publicly available, to the MSRB on an annual basis. Such information to be provided consists of the Authority’s financial statements of the type attached hereto as Appendix E. The Authority will update and provide this information within 6 months after the end of each fiscal year, commencing with the fiscal year ending August 31, 2022. The financial statements of the Authority will be audited, if the Authority commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 6 months after any such fiscal year end, then the Authority shall file unaudited financial statements within such 6 month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available. The Authority may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12.

Any such financial statements will be prepared in accordance with the accounting principles described in Appendix E or such other accounting principles as the Authority may be required to employ from time to time pursuant to State law or regulation.

The Authority’s current fiscal year end is August 31. Accordingly, it must provide updated information by the last day in February in each year, unless the Authority changes its fiscal year. If the Authority changes its fiscal year, it will notify the MSRB through EMMA of the change.

Notices of Certain Events

The Authority will file with the MSRB notice of any of the following events with respect to the Bonds not more than 10 business days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of Registered Owners of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Authority, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the Authority, if material, or agreement to covenants,

events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the Authority, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the Authority, any of which reflect financial difficulties. In the Resolution, the Authority adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. Neither the Bonds nor the Resolution make any provision for credit enhancement, or liquidity enhancement for the Bonds. In addition, the Authority will provide timely notice of any failure by the Authority to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The Authority will file each notice described in this paragraph with the MSRB.

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority, and (b) the Authority intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

All information and documentation filing required to be made by the Authority in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

Limitations and Amendments

The Authority has agreed to update information and to provide notices of certain events only as described above. The Authority has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Authority makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Authority disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Authority to comply with its agreement.

The Authority may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Authority, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the Authority (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The Authority may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the Authority so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

In the past five years, the Authority has complied with its continuing disclosure agreements made in accordance with the Rule.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Bond is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds, issued in compliance with the provisions of the Resolution, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the Authority in connection with the issuance of the Bonds. In such capacity, Bond Counsel has reviewed the information under the captions "PLAN OF FINANCING – Refunded

Obligations”, “THE BONDS” (except under the subcaptions “Payment Record”, and “Default and Remedies”, as to which no opinion is expressed), “REGISTRATION, TRANSFER AND EXCHANGE”, “TAX MATTERS”, “CONTINUING DISCLOSURE OF INFORMATION” (except under the subheading “Compliance with Prior Undertakings”, as to which no opinion is expressed), “LEGAL MATTERS – Legal Opinions and No-Litigation Certificate” (excluding the last sentence of the first paragraph thereof, as to which no opinion is expressed), “LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas”, “OTHER PERTINENT INFORMATION—Registration and Qualification of Bonds for Sale” and “APPENDIX A – Selected Provisions of the Resolution” in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the Resolution contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and initial delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, as counsel to the Underwriter.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Litigation

In the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, as amended, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. Section 49.186, as amended, Texas Water Code, States the same with regard to the Bonds. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code, the Bonds must have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See “OTHER PERTINENT INFORMATION – Rating” herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

The Authority has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The Authority has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the Authority, that are not purely historical, are forward-looking statements, including statements regarding the Authority’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Authority on the date hereof, and the Authority assumes no obligation to update any such forward-looking statements. It is important to note that the Authority’s actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Authority. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Underwriter to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The Authority has agreed to cooperate, at the Underwriter's written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the Authority shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

Rating

S&P Global Ratings ("S&P") has assigned an unenhanced, underlying rating of "AA-" to the Bonds. An explanation of the significance of such rating may be obtained from the rating agency. A rating by a rating agency reflects only the view of such company at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that such a rating will continue for any given period of time, or that it will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Financial Advisor

SAMCO Capital Markets, Inc. is employed as Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for Financial Advisor are contingent upon the issuance, sale and initial delivery of the Bonds.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Underwriting

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to \$3,900,257.00 (representing the par amount of the Bonds of \$3,600,000.00, plus a reoffering premium of \$328,957.00, less an Underwriter's discount of \$28,700.00), plus accrued interest on the Bonds from their dated date to their date of initial delivery. The Underwriter's obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

On February 28, 2022, First Horizon Corporation and TD Bank Group announced that First Horizon Corporation entered into a definitive agreement to be acquired by TD Bank Group. FHN Financial Capital Markets is the municipal underwriting business line of FHN Financial, the fixed income division of First Horizon Bank, whose parent company is First Horizon Corporation. The acquisition is expected to be completed in late 2022 or early 2023 pending regulatory approvals. This transaction should not have any material effect on this underwriting transaction.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Underwriter will be furnished a certificate, executed by proper officers of the Issuer, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the Issuer contained in its Official Statement on the date of sale of the Bonds, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the Issuer and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the Issuer, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Issuer believes to be reliable and the Issuer has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the Issuer, since the date of the last financial statements of the Issuer appearing in the Official Statement.

Concluding Statement

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

The information set forth herein has been obtained from the Authority's records, audited financial statements and other sources which the Authority considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Resolution contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Resolution. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

The Resolution authorized the issuance of the Bonds and approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Underwriter.

This Official Statement was approved by the Board of Directors for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

LAKE CITIES MUNICIPAL UTILITY AUTHORITY

/s/ Tom Rufer
President, Board of Directors
Lake Cities Municipal Utility Authority

ATTEST:

/s/ Jennifer Gordon
Secretary/Treasurer, Board of Directors
Lake Cities Municipal Utility Authority

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

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**SCHEDULE I
SCHEDULE OF REFUNDED OBLIGATIONS
LAKE CITIES MUNICIPAL UTILITY AUTHORITY**

**Utility System Revenue Bonds, Series 2013
(Redemption Date 08-01-22 @ par)**

Current Interest Bonds				
<u>Original Dated Date</u>	<u>Original Maturity (August 1)</u>	<u>Original Principal Amount</u>	<u>Principal Being Refunded</u>	<u>Interest Rate</u>
08/01/2013	2023	\$ 285,000.00	\$ 285,000.00	3.250%
	2024	295,000.00	295,000.00	3.500%
	2025	305,000.00	305,000.00	3.500%
	2026	315,000.00	315,000.00	3.625%
	2027	325,000.00	325,000.00	3.750%
	2028	340,000.00	340,000.00	4.000%
	2029	355,000.00 ^(a)	355,000.00	4.000%
	2030	365,000.00 ^(a)	365,000.00	4.000%
	2031	380,000.00 ^(b)	380,000.00	4.200%
	2032	395,000.00 ^(b)	395,000.00	4.200%
	2033	<u>415,000.00</u>	<u>415,000.00</u>	4.250%
		\$ 3,775,000.00	\$ 3,775,000.00	

^(a) Represents a sinking fund redemption of a term bond that matures August 1, 2030.

^(b) Represents a sinking fund redemption of a term bond that matures August 1, 2032.

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APPENDIX A
SELECTED PROVISIONS OF THE RESOLUTION

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APPENDIX A

Selected Provisions of the Resolution

The following constitutes a summary of certain selected provisions of the Resolution. This summary should be qualified by reference to other provisions of the Resolution referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Resolution in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Resolution, a copy of which may be obtained from the Authority.

SECTION 9: Definitions. For all purposes of this Resolution (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 35 and 51 of this Resolution have the meanings assigned to them in such Sections, and all such terms include the plural as well as the singular; (ii) all references in this Resolution to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of this Resolution as originally adopted; and (iii) the words “herein”, “hereof”, and “hereunder” and other words of similar import refer to this Resolution as a whole and not to any particular Section or other subdivision.

A. The term *Additional Parity Bonds* shall mean (i) any bonds, notes, warrants, or other evidences of indebtedness which the Authority reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 18 of this Resolution and which are equally and ratably secured solely by a first and prior lien on and pledge of the Pledged Revenues and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and equally and ratably secured by a lien on and pledge of the Pledged Revenues as determined by the Board in accordance with applicable law.

B. The term *Authority* shall mean Lake Cities Municipal Utility Authority and any other public agency succeeding to the powers, rights, privileges and functions of the Authority and, when appropriate, the Board of the Authority.

C. The term *Authorized Officials* shall mean the President of the Board, the Secretary/Treasurer of the Board, the General Manager, or the Finance Director of the Authority.

D. The term *Average Annual Debt Service Requirements* shall mean that average amount which, at the time of computation, will be required to pay the Debt Service Requirement on all outstanding Bonds Similarly Secured when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Debt Service Requirement by the number of Fiscal Years then remaining before Stated Maturity of such Bonds Similarly Secured. For purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds and accrued interest on the Bonds Similarly Secured shall be excluded in making the aforementioned computation.

E. The term *Bond Fund* shall mean the special fund or account created and established by the provisions of Section 13 of this Resolution.

F. The term *Bonds* shall mean the \$3,600,000 “LAKE CITIES MUNICIPAL UTILITY AUTHORITY UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022”, dated May 1, 2022, authorized by this Resolution.

G. The term *Bonds Similarly Secured* shall mean the currently outstanding Previously Issued Parity Bonds, the Bonds, and any Additional Parity Bonds hereafter issued by the Authority or obligations issued to refund any of the foregoing if issued in a manner that provides that the refunding obligations are payable from and secured by a lien on and pledge of the Pledged Revenues as determined by the Board in accordance with applicable law.

H. The term *Closing Date* shall mean the date of physical delivery of the Initial Bonds for the payment in full by the Purchasers.

I. The term *Credit Agreement* shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the Board as a Credit Agreement in connection with the authorization, issuance, security or paying of any Bonds Similarly Secured.

J. The term *Credit Facility* shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations under and pursuant to Texas law, or (ii) a letter or line of credit issued by any financial institution authorized under applicable Texas law to deliver such types of financial instrument.

K. The term *Credit Provider* shall mean any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to a Credit Agreement or a provider of a Credit Facility.

L. The term *Debt Service Requirements* shall mean as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the Authority as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest calculated by assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the “Revenue Bond Index” or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity and (ii) that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity, the principal amounts thereof will be redeemed prior to Stated Maturity in accordance with the mandatory redemption provisions applicable thereto.

M. The term *Depository* shall mean an official depository bank of the Authority.

N. The term *Fiscal Year* shall mean the twelve month accounting period used by the Authority in connection with the operation of the System, currently ending on August 31st of each year, which may be any twelve consecutive month period established by the Authority, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

O. The term *Government Securities* shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge or obligations such as the Bonds.

P. The term *Gross Revenues* shall mean, for any defined period, all income, receipts, revenues, and increment which may be received or derived from the ownership and/or operation of the System as it is purchased, constructed or otherwise acquired from time to time, but shall not mean the income and increment derived from a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities which under the terms of the authorizing resolution(s) or order(s) that may be pledged for the requirements of the Authority's Special Project Obligations issued particularly to finance the water and wastewater facilities needed in performing any such contract or contracts.

Q. The term *Holder or Holders* shall mean the registered owner, whose name appears in the Security Register, for any Bond.

R. The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being February 1 and August 1 of each year, commencing August 1, 2022, while any of the Bonds remain Outstanding.

S. The term *Junior Lien Obligations* shall mean (i) bonds, notes, warrants, or other obligations hereafter issued by the Authority payable and equally and ratably secured wholly or in part from a pledge of and lien on, in whole or in part, Net Revenues of the System which is junior and inferior to the lien on and pledge of Pledged Revenues securing the payment of the then-outstanding Bonds Similarly Secured, and (ii) any obligations issued to refund the foregoing payable and equally and ratably secured from a junior and inferior lien on and pledge of the Net Revenues as determined by the Board in accordance with any applicable law.

T. The term *Maintenance and Operation Expenses* shall mean the expenses necessary to provide for the administration, efficient operation and adequate maintenance of the Authority's System, including the payment of necessary wages, salaries, and benefits, the acquisition of property and materials necessary to maintain the System in good condition and to

operate it efficiently, together with such other costs and expenses as may now or hereafter be defined by law as proper maintenance and operation expenses of the System (which costs and expenses, however, specifically exclude any allowance for depreciation, property, retirement, depletion, obsolescence, and other items not requiring an outlay of cash and any interest on notes, other Bonds Similarly Secured, or any Debt).

U. The term *Net Revenues* shall mean Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

V. The term *Outstanding* when used in this Resolution with respect to Bonds shall mean, as of the date of determination, all Bonds issued and delivered under this Resolution, except:

i. those Bonds cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

ii. those Bonds for which payment has been duly provided by the Authority in accordance with the provisions of Section 39 of this Resolution; and

iii. those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 33 of this Resolution.

W. The term *Pledged Revenues* means (1) the Net Revenues, plus (2) any additional revenues, income, receipts, or other resources, including, without limitation, any grants, donations, or income received or to be received from the United States Government, or any other public or private source, whether pursuant to an agreement or otherwise, which hereafter are pledged by the Authority to the payment of the Bonds Similarly Secured, and excluding those revenues excluded from Gross Revenues.

X. The term *Previously Issued Parity Bonds* shall mean (i) the currently outstanding and unpaid obligations of the Authority that are payable from and equally and ratably secured by a first and prior lien on and pledge of the Pledged Revenues of the System and designated as follows:

i. "Lake Cities Municipal Utility Authority Utility System Revenue Bonds, Series 2013", dated August 1, 2013, issued in the original principal amount of \$6,000,000; and

(ii) any obligations hereafter issued to refund any of the foregoing that are payable from and secured by a first and prior lien obligations on and pledge of the Pledged Revenues of the System as determined by the Board in accordance with any applicable law.

Y. The term *Purchasers* shall mean the initial purchaser or purchasers of the Bonds named in Section 34 of this Resolution.

Z. The term *Required Reserve* shall mean the amount required to be deposits and maintained in the Reserve Fund under the provisions of Section 14 of this Resolution.

AA. The term *Required Reserve Fund Deposits* shall mean the monthly deposited required to be deposited and maintained in the Reserve Fund under the provisions of Section 14 of this Resolution.

BB. The term *Resolution* shall mean this resolution adopted by the Board on March 21, 2022.

CC. The term *Special Project Obligations* shall mean bonds, notes or other evidences of indebtedness which the Authority expressly reserves the right to issue in Section 21 of this Resolution.

DD. The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on August 1 of each year, as set forth in Section 2 of this Resolution.

EE. The term *Subordinate Lien Obligations* shall mean (i) bonds, notes, warrants, or other obligations hereafter issued by the Authority payable and equally and ratably secured wholly or in part from a pledge of and lien on, in whole or in part, Net Revenues of the System which is subordinate and inferior to the lien on and pledge of Net Revenues included in the definition of Pledged Revenues that secures the payment of the then-outstanding Bonds Similarly Secured and the lien on and pledge of Net Revenues that secures the payment of any then-outstanding Junior Lien Obligations, and (ii) any obligations issued to refund the foregoing payable and equally and ratably secured from a subordinate and inferior lien on and pledge of the Net Revenues as determined by the Board in accordance with any applicable law.

FF. The term *System* shall mean the works, improvements, facilities, plants, equipment, appliances, property, easements, leaseholds, licenses, privileges, right of use or enjoyment, contract rights or other interests in property comprising the water and wastewater system of the Authority now owned or to be hereafter purchased, constructed or otherwise acquired whether by deed, contract or otherwise, together with any additions or extensions thereto or improvements and replacements thereof, or the water and wastewater system of any other entity to which the Authority has contractual rights of use, except the water and wastewater facilities which the Authority may purchase or acquire with the proceeds of the sale of Special Project Obligations, so long as such Special Project Obligations are outstanding, notwithstanding that such facilities may be physically connected with the System.

SECTION 10. Pledge of Pledged Revenues.

A. The Authority hereby covenants and agrees that the Pledged Revenues are hereby irrevocably pledged to the payment and security of the Bonds Similarly Secured including the establishment and maintenance of the special funds or accounts created and established for the payment and security thereof, all as hereinafter provided; and it is hereby resolved that the Bonds Similarly Secured, and the interest thereon, shall constitute a lien on and pledge of the Pledged Revenues and be valid and binding without any physical delivery thereof or further act by the Authority, and the lien created hereby on the Pledged Revenues for the payment and security of the Bonds Similarly Secured shall be prior in right and claim as to any other indebtedness, liability, or obligation of the Authority or the System.

B. Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of Pledged Revenues granted by the Authority under subsection (a) of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the Pledged Revenues granted by the Authority is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in this pledge, the Authority agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

SECTION 11. Rates and Charges. For the benefit of the Holders of the Bonds Similarly Secured and in addition to all provisions and covenants in the laws of the State of Texas and in this Resolution, the Authority hereby expressly stipulates and agrees, while any of the Bonds Similarly Secured are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. To pay all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;

B. to produce Pledged Revenues, together with any other lawfully available funds, equal to 1.10 times the amount that is sufficient to pay the scheduled principal of and interest on the Bonds Similarly Secured, plus one times the amount (if any) required to be deposited in any reserve or contingency fund or account created for the payment and security of the Bonds Similarly Secured;

C. to produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on any Junior Lien Obligations hereafter issued by the Authority as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of any Junior Lien Obligations hereafter issued by the Authority.

D. to produce Net Revenues, together with any other lawfully available funds, to pay the principal of and interest on any Subordinate Lien Obligations hereafter issued by the Authority as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of any subordinate Lien Obligations hereafter issued by the Authority; and

E. to pay, together with any lawfully available funds, any other legally incurred indebtedness payable from the Net Revenues and/or secured by a lien on the System.

SECTION 12. System Fund. The Authority hereby agrees and covenants with the Holders of the Bonds Similarly Secured (including the Bonds) that the Gross Revenues of the System shall be deposited, as collected and received, into a separate Fund or account to be created, established, and maintained with the Depository known as the "Lake Cities Municipal Utility Authority Utility

System Revenue Fund” (the *System Fund*) and that the Gross Revenues of the System shall be kept separate and apart from all other funds of the Authority. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

- FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, to be a first charge on and claim against the Gross Revenues of the System.
- SECOND: to the payment of the amounts required to be deposited into the Bond Fund created and established for the payment of the Bonds Similarly Secured as the same become due and payable.
- THIRD: to the payment of the amounts required to be deposited into the Reserve Fund to establish and maintain the Required Reserve (hereinafter defined) in accordance with the provisions of this Resolution or any other resolution relating to the issuance of Additional Parity Bonds.
- FOURTH: to the payment of the amounts that must be deposited in any special funds or accounts created and established for the payment and security of any Junior Lien Obligations hereafter issued by the Authority.
- FIFTH: to the payment of the amounts that must be deposited in any special funds or accounts created and established for the payment and security of any Subordinate Lien Obligations hereafter issued by the Authority.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Authority purpose now or hereafter permitted by law.

SECTION 13. Bond Fund; Excess Bond Proceeds. For purposes of providing funds to pay the principal of and interest on the Bonds Similarly Secured (including the Bonds) as the same become due and payable, the Authority hereby agrees to maintain, and hereby establishes and creates, a separate and special Fund known as the “Lake Cities Municipal Utility Authority Utility System Revenue Refunding Bonds Interest and Sinking Fund” (the *Bond Fund*). The Authority covenants that there shall be deposited by the Authorized Officials into the Bond Fund prior to each principal and interest payment date from the available Pledged Revenues an amount equal to one hundred percent (100%) of the amount required to fully pay the interest on and the principal of the Bonds Similarly Secured then falling due and payable, such deposits to pay maturing principal and accrued interest on the Bonds Similarly Secured to be made in substantially equal monthly installments on or before the first day of each month, beginning on or before the 1st day of the month next following the delivery of the Bonds to the Purchasers. If the Pledged Revenues in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds Similarly Secured shall continue to be made as hereinabove provided until such time

as (i) the total amount on deposit in the Bond Fund and Reserve Fund is equal to the amount required to fully pay and discharge all outstanding Bonds Similarly Secured (principal and interest) or, (ii) the Bonds are no longer Outstanding.

Accrued interest received from the Purchasers shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Pledged Revenues (unless such revenues are not permissibly spent for such purpose, whether by operation of applicable law or by contract). Additionally, any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Pledged Revenues.

SECTION 14. Reserve Fund. To accumulate and maintain a reserve for the payment of the Bonds Similarly Secured (the *Required Reserve*) equal to the lesser of (i) the Average Annual Debt Service Requirements (calculated on a Fiscal Year basis and determined as of the date of issuance of the Bonds or the most recently issued series of Additional Parity Bonds then Outstanding) for the Bonds Similarly Secured or (ii) the maximum amount in a reasonably required reserve fund for the Bonds Similarly Secured from time to time that can be invested without restriction as to yield pursuant to section 148 of the Code (as defined in Section 35), the Authority agrees to maintain, and hereby establishes and creates, a separate and special Fund or account known as the "Lake Cities Municipal Utility Authority Utility System Revenue Refunding Bond Reserve Fund" (the *Reserve Fund*), which Fund or account shall be maintained at the Depository. All funds deposited into the Reserve Fund (excluding surplus funds which include earnings and income derived or received from deposits or investments which will be transferred to the System Fund established in Section 12 of this Resolution during such period as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds Similarly Secured, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last stated maturity or interest on the Bonds Similarly Secured.

Upon issuance of the Bonds, the total amount required to be accumulated and maintained in the Reserve Fund is hereby determined to be \$410,927.00 (the *Required Reserve*), which is equal to not less than the Average Annual Debt Service for the Bonds Similarly Secured outstanding upon issuance of the Bonds, and on or before the 1st day of the month next following the month the Bonds are delivered to the Purchasers and on or before the 1st day of each following month, the Authority shall cause to be deposited to the Reserve Fund from the Pledged Revenues an amount equal to at least one-sixtieth (1/60th) of the Required Reserve, being \$0.00 per month. After the Required Reserve has been fully accumulated and while the total amount on deposit in the Reserve Fund is in excess of the Required Reserve, no monthly deposits shall be required to be made to the Reserve Fund.

As and when Additional Parity Bonds are delivered or incurred, the Required Reserve shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this Section. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit of the necessary amount of the proceeds of the issue or other lawfully available funds in the Reserve Fund immediately after the delivery of the then proposed Additional Parity Bonds, or, at the option of the Authority, by the deposit of monthly installments, made on

or before the 1st day of each month following the month of delivery of the then proposed Additional Parity Bonds, of not less than 1/60th of the additional amount to be maintained in the Reserve Fund by reason of the issuance of the Additional Parity Bonds then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve.

When and so long as the cash and investments in the Reserve Fund equal the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the issuance of Additional Parity Bonds as provided in the preceding paragraph), the Authority covenants and agrees to cure the deficiency in the Required Reserve by resuming the Required Reserve Fund Deposits to said Fund or account from the Pledged Revenues, or any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve covenanted by the Authority to be maintained in the Reserve Fund with any such deficiency payments being made on or before the 1st day of each month until the Required Reserve has been fully restored. The Authority further covenants and agrees that, subject only to the prior payments to be made to the Bond Fund, the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of this Resolution and any other resolution pertaining to the issuance of Additional Parity Bonds.

During such time as the Reserve Fund contains the Required Reserve, the Authority may, at its option, withdraw all surplus funds in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the System Fund, unless such surplus funds represent proceeds of the Bonds, then such surplus will be transferred to the Bond Fund. The Authority hereby designates its Depository as the custodian of the Reserve Fund.

To the extent permitted by law and upon earlier to occur the Previously Issued Parity Bonds issued on or before September 18, 2013 being no longer Outstanding, each resolution authorizing the series of such Previously Issued Parity Bonds is properly amended, or the Authority receives written consent of each holder of such Previously Issued Parity Bonds, the Authority expressly reserves the right at any time to fund all or any part of the Reserve Fund to be held in the Reserve Fund by entering into a Credit Agreement with or purchasing a Credit Facility from a Credit Provider that will unconditionally obligate the Credit Provider to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the Bond Fund are not sufficient to pay the debt service requirements on the Bonds Similarly Secured. Such Credit Agreement or Credit Facility, authorized pursuant to Chapter 1371 will be submitted to the Attorney General of the State of Texas for review and approval. All resolutions adopted after the date hereof authorizing the issuance of Additional Parity Bonds shall contain a provision to this effect. For the avoidance of doubt, and though not effective initially, this provision shall become effective upon the occurrence of one of the events specified above and, at such time, will apply to the Bonds Similarly Secured while the same remain Outstanding.

In the event a Credit Agreement or Credit Facility issued to satisfy all or part of the Authority's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve, the Authority may transfer such excess amount to any fund or account established for the payment of or security for the Bonds Similarly Secured

(including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law.

Notwithstanding anything to the contrary contained in this Section, the requirements set forth above to fund the Reserve Fund in the amount of the Required Reserve shall be suspended for such time as the Pledged Revenues for each Fiscal Year are equal to at least 110% of the Average Annual Debt Service Requirements. In the event that the Pledged Revenues for any two consecutive Fiscal Years are less than 110% (unless such percentage is below 100% in any Fiscal Year, in which case the hereinafter-specified requirements will commence after such Fiscal Year) of the Average Annual Debt Service Requirements, the Authority will be required to commence making the deposits to the Reserve Fund, as provided above, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve or (ii) the Pledged Revenues for a Fiscal Year have been equal to not less than 110% of the Average Annual Debt Service Requirements.

SECTION 15. Deficiencies - Excess Pledged Revenues.

A. If on any occasion there shall not be sufficient Pledged Revenues (after making all payments pertaining to Bonds Similarly Secured) to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Pledged Revenues, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds or accounts during such month or months.

B. Subject to making the required deposits to the Bond Fund and the Reserve Fund when and as required by this Resolution, or any resolution authorizing the issuance of Additional Parity Bonds, the excess Pledged Revenues may be used by the Authority for any lawful purpose including, but not limited to, the redemption of any Bonds Similarly Secured.

SECTION 16. Payment of Bonds Similarly Secured. While any of the Bonds Similarly Secured are Outstanding, the Authorized Officials shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Bonds Similarly Secured as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds Similarly Secured at the close of the business day next preceding the date a debt service payment is due on the Bonds Similarly Secured.

SECTION 17. Investments. Money in any fund established pursuant to this Resolution may, at the option of the Authority and pursuant to the authority provided by the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code, be placed in time deposits, certificates of deposit, guaranteed investment contracts or similar contractual agreements as permitted by the provisions of the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, or be invested, as authorized by any law, including investments held in book-entry form, in securities including, but not limited to,

direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage Association, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of adoption of each resolution authorizing the issuance of Additional Parity Bonds. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 14 hereof, be credited to and deposited into the System Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds Similarly Secured.

SECTION 18. Issuance of Additional Parity Bonds. In addition to the right to issue Junior Lien Obligations and Subordinate Lien Obligations as authorized by Section 19 hereof and any laws of the State of Texas, the Authority reserves the right hereafter to issue additional parity bonds (*Additional Parity Bonds*) payable from and equally and ratably secured by a first and prior lien on and pledge of the Pledged Revenues in the same manner and to the same extent as are the Bonds, and the Bonds and Additional Parity Bonds shall be in all respects of equal dignity. The Additional Parity Bonds may be issued in one or more installments, provided, however, that none shall be issued unless and until the following conditions have been met:

A. the General Manager of the Authority (or other official of the Authority having primary responsibility for the fiscal affairs of the Authority) shall have executed a certificate stating that (i) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Parity Bonds to satisfy the Authority's obligations under this Resolution, the Authority is not then in default as to any covenant, obligation, or agreement contained in any resolution or other proceedings relating to any obligations of the Authority payable from and secured by a lien on and pledge of the Pledged Revenues and (ii) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Pledged Revenues have been duly made and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;

B. the General Manager of the Authority confirms that, according to the books and records of the Authority, the Pledged Revenues, for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the resolution authorizing the Additional Parity Bonds is adopted, are at least equal to one and one-fourth (1-1/4) times the Average Annual Debt Service Requirements for the payment of principal of and interest

on all outstanding Bonds Similarly Secured after giving effect to the Additional Parity Bonds then proposed. In making a determination of the Pledged Revenues, the General Manager may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Pledged Revenues are to be determined and, for purposes of satisfying the above Pledged Revenues test, make a pro forma determination of the Pledged Revenues for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion;

C. the resolution authorizing the issuance of the Additional Parity Bonds provides for deposits to be made to the Bond Fund in amounts sufficient to pay the principal of and interest on such Additional Parity Bonds as same mature;

D. the resolution authorizing the issuance of the Additional Parity Bonds shall provide that interest on such Additional Parity Bonds shall be payable on February 1 and August 1 of each year and that such Additional Parity Bonds shall mature on August 1 in each year the same are to be outstanding; and

Bonds Similarly Secured may be refunded (pursuant to any law then available) upon such terms and conditions as the Board may deem to the best interest of the Authority and its inhabitants, and, if the refunding of any then-Outstanding Bonds Similarly Secured (in whole or in part) produces an aggregate net present value debt service savings, then the General Manager's certificate identified in Paragraph B above shall not be required as a condition to the issuance of such refunding obligations (notwithstanding the fact that, upon issuance, such refunding obligations shall be Bonds Similarly Secured for all purposes).

All calculations of principal and interest requirements made pursuant to this Section are made as of and from the date of the Additional Parity Bonds then proposed to be issued.

SECTION 19. Obligations of Junior Lien and Subordinate Lien Pledge. The Authority hereby reserves the right to issue, at any time, obligations including, but not limited to, Junior Lien Obligations and Subordinate Lien Obligations payable from and secured, in whole or in part, by a lien on and pledge of the Net Revenues of the System junior and inferior in rank and dignity to the lien on and pledge of Pledged Revenues securing the payment of the Bonds Similarly Secured, and any deposits to Funds relating to such Bonds Similarly Secured as required under this Resolution, as may be authorized by the laws of the State of Texas.

SECTION 20. Special Project Obligations. The Authority further reserves the right to issue bonds, notes or other evidences of indebtedness in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of water, irrigation and/or drainage facilities necessary under a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities, such obligations to be payable from and secured by the proceeds of such contract or contracts. The Authority further reserves the right to refund such obligations and secure the payment of the debt service requirements on the refunding bonds or notes in the same manner.

SECTION 21. No Superior Lien To Bonds Similarly Secured. The Authority will not hereafter issue any additional obligations or create or issue evidences of indebtedness for any purpose possessing a lien on and pledge of the Pledged Revenues superior and prior to that possessed by the Bonds Similarly Secured.

SECTION 22. Maintenance of System - Insurance. The Authority covenants and agrees that while the Bonds Similarly Secured remain outstanding it will maintain and operate the System with all possible efficiency and maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State of Texas engaged in a similar type of business (which may include an adequate program of self-insurance); and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State of Texas. All money received from losses under such insurance policies, other than public liability policies, shall be retained for the benefit of the holders of the Bonds Similarly Secured, until and unless the proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, either by replacing the property destroyed or repairing the property damaged, and adequate provision for making good such loss or damage must be made within ninety (90) days after the date of loss. The payment of premiums for all insurance policies required under the provisions hereof shall be considered Maintenance and Operating Expenses. Nothing in this Resolution shall be construed as requiring the Authority to expend any funds which are derived from sources other than the operation of the System but nothing herein shall be construed as preventing the Authority from doing so.

SECTION 23. Records and Accounts – Annual Audit. The Authority covenants, agrees, and affirms its covenants that so long as any of the Bonds Similarly Secured remain outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto as provided by applicable law. The Holders of the Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The Authority further agrees that following (and in no event later than 120 days after) the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Expenses incurred in making the annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses.

SECTION 24. Sale or Encumbrance of System. While any Bonds Similarly Secured remain Outstanding, the Authority will not sell, dispose of or, except as permitted in Sections 18 and 19, further encumber the System or any substantial part thereof; provided, however, that this provision shall not prevent the Authority from disposing of any of the System which is being replaced or is deemed by the Authority to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Any agreement pursuant to which the Authority contracts with a person, corporation, municipal corporation or political subdivision to operate the System or to lease and/or operate all or part of the System shall not be considered as an encumbrance of the System.

SECTION 25. Competition. To the extent it legally may, the Authority will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which

might be used as a substitute for the System and will prohibit the operation of any such competing facilities.

SECTION 26. Special Covenants. The Authority further covenants and agrees that:

A. Encumbrance of Pledged Revenues. Other than with respect to the Bonds, and except as provided in this Resolution, the Net Revenues have not in any manner been pledged to the payment of any debt or obligation of the Authority currently Outstanding, or otherwise; and while any of the Bonds Similarly Secured are Outstanding, the Authority will not, except with respect to the Bonds Similarly Secured and except as provided in this Resolution, additionally encumber the Pledged Revenues unless such encumbrance is made junior and inferior in all respects to the Bonds Similarly Secured and all liens, pledges and covenants made in connection therewith.

B. Title. The Authority lawfully owns or will own and is or will be lawfully possessed of the lands or easements upon which its System is and will be located, and has or will purchase good and indefeasible estate in such lands in fee simple, or has or will lawfully obtain any necessary easements to operate the System, and it warrants that it has or will obtain and will defend, the title to all the aforesaid lands and easements for the benefit of the owners of the Bonds against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Pledged Revenues to the payment of the Bonds, in the manner prescribed herein, and that has lawfully exercised such rights.

C. Liens. The Authority will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, or its System, and it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge upon its System, provided, however, that no such tax, assessment, or charge, and that no such claims which might be or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the Authority.

D. Performance. The Authority will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and each resolution authorizing the issuance of Bonds, and in each and every Bond and pay from the Pledged Revenues the principal of and interest on every Bond on the dates and in the places and manner prescribed in such resolutions and Bonds; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited from the Pledged Revenues the amounts required to be deposited into the Bond Fund and the Reserve Fund; and the Holder of the Bonds may require the Authority, its officials, agents, and employees to carry out, respect, or enforce the covenants and obligations of this Resolution or any resolution authorizing the issuance of Bonds including, but without limitation, the use and filing of mandamus proceedings, in any court or competent jurisdiction, against the Authority, its officials, agents, and employees.

E. Legal Authority. The Authority is duly authorized under the laws of the State of Texas to issue the Bonds; that all action on its part for the authorization and issuance of the Bonds has been duly and effectively taken, and the Bonds in the hands of the Holders thereof are

and will be valid and enforceable special obligations of the Authority in accordance with their terms.

F. Budget. The Authority will prepare, adopt, and place into effect an annual budget (the *Annual Budget*) for operation and maintenance of the System for each Fiscal Year, including in each Annual Budget such items as are customarily and reasonably contained in a water and wastewater system budget under generally accepted accounting procedures.

G. Permits. The Authority will comply with all of the terms and conditions of any and all franchises, permits, and authorizations applicable to or necessary with respect to the System and which have been obtained from any governmental agency; and the Authority has or will obtain and keep in full force and effect all franchises, permits, authorizations, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System.

SECTION 27. Limited Obligations of the Authority. The Bonds Similarly Secured are limited, special obligations of the Authority payable from and equally and ratably secured solely by a first and prior lien on and pledge of the Pledged Revenues, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds Similarly Secured from any funds raised or to be raised through taxation by the Authority.

SECTION 28. Security of Funds. All money on deposit in the special funds or accounts for which this Resolution makes provision (except any portions thereof as may be at any time properly invested) shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and money on deposit in such funds or accounts shall be used only for the purposes permitted by this Resolution.

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APPENDIX B
FINANCIAL INFORMATION RELATING TO
THE LAKE CITIES MUNICIPAL UTILITY AUTHORITY

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FINANCIAL INFORMATION OF THE ISSUER

REVENUE BOND DEBT DATA

(As of September 1, 2021)

Revenue Bond Debt Outstanding:

	<u>Par Amount</u>
Utility System Revenue Bonds, Series 2013	\$ 275,000 ^(a)
Utility System Revenue Refunding Bonds, Series 2022 (the "Bonds")	<u>3,600,000</u>
Total	\$ <u>3,875,000</u>

^(a) Excludes the Refunded Obligations

CAPITAL ASSETS

TABLE 1

	<u>8/31/2021</u>	<u>8/31/2020</u>	<u>8/31/2019</u>	<u>8/31/2018</u>	<u>8/30/2017</u>
Construction in Progress	\$ 502,733	\$ 516,143	\$ 3,185,619	\$ 6,442,755	\$ 7,427,947
Land	1,645,573	1,541,912	1,541,912	1,541,912	514,312
Infrastructure	40,563,660	39,874,544	36,501,033	30,976,459	25,764,223
Other Capital Assets	3,888,271	3,823,597	3,758,473	2,785,417	2,760,824
Total Capital Assets	\$ 46,600,237	\$ 45,756,196	\$ 44,987,037	\$ 41,746,543	\$ 36,467,306
Accumulated Depreciation					
Infrastructure	\$ 15,332,591	\$ 14,333,597	\$ 13,400,115	\$ 12,755,882	\$ 12,291,975
Other Capital Assets	1,912,962	1,869,454	1,799,882	1,730,438	1,594,800
Total Accumulated Depreciation	\$ 17,245,553	\$ 16,203,051	\$ 15,199,997	\$ 14,486,320	\$ 13,886,775
Net Capital Assets	\$ 29,354,684	\$ 29,553,145	\$ 29,787,040	\$ 27,260,223	\$ 22,580,531

Source: The Issuer's Annual Financial Reports.

REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 31-Aug	Current Total Outstanding Debt	Less: Refunded Obligations	The Bonds			Combined Debt Service
			Principal	Interest	Total	
2022	\$ 275,000	\$ -	\$ -	\$ 36,000	\$ 36,000	\$ 311,000
2023	285,000	285,000	265,000	144,000	409,000	409,000
2024	295,000	295,000	280,000	133,400	413,400	413,400
2025	305,000	305,000	290,000	122,200	412,200	412,200
2026	315,000	315,000	300,000	110,600	410,600	410,600
2027	325,000	325,000	310,000	98,600	408,600	408,600
2028	340,000	340,000	325,000	86,200	411,200	411,200
2029	355,000	355,000	340,000	73,200	413,200	413,200
2030	365,000	365,000	350,000	59,600	409,600	409,600
2031	380,000	380,000	365,000	45,600	410,600	410,600
2032	395,000	395,000	380,000	31,000	411,000	411,000
2033	415,000	415,000	395,000	15,800	410,800	410,800
Total	<u>\$ 4,050,000</u>	<u>\$ 3,775,000</u>	<u>\$ 3,600,000</u>	<u>\$ 956,200</u>	<u>\$ 4,556,200</u>	<u>\$ 4,831,200</u>

COVERAGE FACTOR

(1) Average Annual Debt Service Requirement:

Net Revenue available for debt service for fiscal year ended 8/31/2021	\$ 3,774,916
Average Annual Debt Service Requirements (2022-2033)	\$ 402,600
Coverage Factor	9.38X

(2) Maximum Annual Debt Service Requirement:

Net Revenues available for debt service for fiscal year ended 8/31/2021	\$ 3,774,916
Maximum Annual Debt Service Requirement (8/31/2024)	\$ 413,400
Coverage Factor	9.13X

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year Ending 9/30	Currently Outstanding Principal Repayment Schedule	Less: The Refunded Obligations	The Bonds Repayment Schedule	Combined Principal Repayment Schedule	Bonds Outstanding at End of Year	Percent of Principal Retired
2022	\$ 275,000	\$ -	\$ -	\$ 275,000	\$ 3,600,000	
2023	285,000	285,000	265,000	265,000	3,335,000	14%
2024	295,000	295,000	280,000	280,000	3,055,000	21%
2025	305,000	305,000	290,000	290,000	2,765,000	29%
2026	315,000	315,000	300,000	300,000	2,465,000	36%
2027	325,000	325,000	310,000	310,000	2,155,000	44%
2028	340,000	340,000	325,000	325,000	1,830,000	53%
2029	355,000	355,000	340,000	340,000	1,490,000	62%
2030	365,000	365,000	350,000	350,000	1,140,000	71%
2031	380,000	380,000	365,000	365,000	775,000	80%
2032	395,000	395,000	380,000	380,000	395,000	90%
2033	415,000	415,000	395,000	395,000	-	100%
	<u>\$ 4,050,000</u>	<u>\$ 3,775,000</u>	<u>\$ 3,600,000</u>	<u>\$ 3,875,000</u>		

REVENUE BOND RESERVE FUND BALANCES

TABLE 2

(As of August 31, 2021)

Existing Reserve Fund Requirement.....	\$ 410,927 *
Current Reserve Fund Balance.....	\$ 551,819

*As provided in the Resolution, the requirement to fund the Reserve Fund is suspended as long as the Authority's Pledged Revenues are greater than 110% of the average annual debt service requirement.

WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT**TABLE 3**

The following condensed statements have been compiled using accounting principles customarily employed in the determination of net revenues available for debt service, and in all instances exclude depreciation, transfers, bad debt, debt service payments and expenditures identified as capital.

	8/31/2021	8/31/2020	8/31/2019	8/31/2018	8/31/2017
Income					
Water Services	\$ 5,824,436	\$ 5,834,076	\$ 5,024,552	\$ 5,740,601	\$ 5,421,454
Sewer Services	3,723,099	3,485,948	3,428,337	3,394,352	3,204,121
Tap Connection Fees	2,385,991	1,616,448	811,994	650,804	388,903
Penalties and Interest	<u>181,853</u>	<u>179,014</u>	<u>216,434</u>	<u>231,636</u>	<u>180,255</u>
Total Operating Revenue	\$ 12,115,379	\$ 11,115,486	\$ 9,481,317	\$ 10,017,393	\$ 9,194,733
Expenses					
Purchased Water Service	\$ 2,381,306	\$ 2,344,984	\$ 2,199,755	\$ 2,314,171	\$ 2,169,971
Purchased Sewer Service	1,470,093	1,443,745	1,487,367	1,365,683	1,374,409
Water Service	-	-	-	-	-
Salaries and Payroll Taxes	1,543,875	1,464,260	1,350,519	965,493	1,735,298
Benefits	884,789	943,583	611,549		
Contracted Services	345,909	332,738	319,332	223,251	200,604
Professional Fees	273,268	172,104	113,954	251,555	153,612
Utilities	121,796	89,737	86,653	89,634	77,862
W&S System Maintenance	639,676	223,657	233,093	201,551	166,981
Other	<u>679,751</u>	<u>628,326</u>	<u>508,128</u>	<u>270,237</u>	<u>369,097</u>
Total Operating Expenses	\$ 8,340,463	\$ 7,643,134	\$ 6,910,350	\$ 5,681,575	\$ 6,247,834
Net Revenue Available for Debt	<u>\$ 3,774,916</u>	<u>\$ 3,472,352</u>	<u>\$ 2,570,967</u>	<u>\$ 4,335,818</u>	<u>\$ 2,946,899</u>

Customer Count:

Water	5,444	5,221	5,089	5,014	4,952
Sewer	5,045	4,807	4,643	4,513	4,513
Gallons Pumped into the System:	561,154,000	571,337,000	483,642,000	619,480,000	542,545,000
Water Billed to Customers:	527,099,343	519,194,633	438,237,534	543,820,794	495,582,900
Water Accountability Ratio:	93.93%	90.87%	90.61%	87.79%	91.34%

Source: The Issuer's Annual Financial Reports.

EMPLOYEE BENEFIT PLAN

For information see the Issuers Financial Statements, Note 6, beginning on page 21.

WATER SYSTEM**TABLE 4**

The System currently serves the cities of Hickory Creek, Lake Dallas, and Shady Shores, Texas and their extra-territorial jurisdictions. The Authority's water supply is surface water from the Upper Trinity Regional Water District ("UTRWD") and groundwater from three wells. Pursuant to a September 1990 contract with UTRWD, the Authority is to receive a minimum of 3.8 MGD from the UTRWD with the ability to receive additional amounts. The Authority is responsible for approximately 96 miles of water lines, 2 pump stations, 3 elevated storage tanks, 4 ground storage tanks, and 3 water wells. The elevated storage tanks have capacity of 1.55 million gallons and the ground storage tanks have capacity of 1.67 million gallons. The UTRWD contract is the primary source of water for the Authority. The water wells are maintained for emergency needs of the system.

TOP TEN WATER CUSTOMERS**TABLE 5**

(Gallons)

Customer	Type of Customer	Annual Consumption
LAKE HAVEN & ASSOCIATES	COMMERCIAL - APARTMENTS	9,704,700
MANSIONS @ HICKORY CREEK BLD1	COMMERCIAL - APARTMENTS	5,663,500
LAKESHORE CLD LP	COMMERCIAL - APARTMENTS	5,320,500
AV ASHLEYE VILLAGE APT	COMMERCIAL - APARTMENTS	5,225,700
MANSIONS @ HICKORY CREEK IRR 1	COMMERCIAL - APARTMENTS IRRIGATION	4,217,100
CLEAN GREEN CARWASH	COMMERCIAL - RETAIL	3,736,400
LDISD SS ELEMENTARY	INSTITUTIONAL - SCHOOL	3,421,100
CAR WASH LLC, ADVENTURE	COMMERCIAL - RETAIL	3,374,100
BETTYE MYERS MIDDLE SCHOOL	INSTITUTIONAL - SCHOOL IRRIGATION	1,982,600
WAL-MART STORES INC.	COMMERCIAL - RETIAL	1,933,000
Total		44,578,700

The top 10 users above represent 5.32% of the total water billed to customers in fiscal year ending August 31, 2021.

WATER PRODUCED**TABLE 6***(Gallons)*

Month	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
September	50,162,000	66,834,000	41,125,000	59,985,000	54,295,000
October	54,665,000	51,425,000	36,640,000	51,700,000	47,150,000
November	40,444,000	33,474,000	31,085,000	43,155,000	36,880,000
December	34,351,000	31,152,000	31,200,000	36,930,000	39,525,000
January	34,494,000	29,289,000	29,955,000	33,750,000	30,630,000
February	37,841,000	28,238,000	27,545,000	29,645,000	29,950,000
March	38,610,000	33,290,000	34,115,000	37,965,000	36,560,000
April	44,823,000	40,790,000	33,966,000	44,015,000	38,310,000
May	39,281,000	40,846,000	37,587,000	61,130,000	54,105,000
June	49,173,000	63,353,000	45,350,000	67,075,000	52,985,000
July	65,796,000	75,442,000	68,402,000	88,500,000	68,565,000
August	71,514,000	77,201,000	66,672,000	65,630,000	59,890,000
Total	<u>561,154,000</u>	<u>571,334,000</u>	<u>483,642,000</u>	<u>619,480,000</u>	<u>548,845,000</u>

WATER USAGE**TABLE 7***(Gallons)*

Month	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
September	63,752,748	61,956,468	46,373,890	57,218,400	57,578,200
October	51,942,600	61,587,705	36,781,730	47,332,270	43,391,100
November	43,826,800	39,916,000	29,296,200	44,679,090	38,597,500
December	36,646,100	29,577,800	28,123,500	38,518,500	30,213,600
January	30,456,400	28,862,500	27,707,300	31,775,100	31,878,500
February	35,163,500	26,786,700	25,904,140	45,459,500	27,309,400
March	30,724,200	27,803,500	28,324,700	26,339,700	27,718,200
April	38,732,800	29,076,600	30,431,800	41,523,410	39,168,100
May	40,265,400	42,543,000	31,281,800	32,359,400	39,668,200
June	37,992,800	52,265,300	36,618,801	51,605,440	46,448,900
July	49,069,200	62,493,000	51,421,673	69,473,854	48,137,400
August	68,526,800	71,669,600	65,972,000	78,840,930	65,473,800
Total	<u>527,099,348</u>	<u>534,538,173</u>	<u>438,237,534</u>	<u>565,125,594</u>	<u>495,582,900</u>

HISTORICAL WATER ONSUMPTION

TABLE 8

FYE (8/31)	Daily Average	Peak Day	Peak Month	Water Pumped	Water Billed	Water Revenue
2012	1,545,000	3,455,000	77,798,000	556,757,000	524,948,800	3,958,267
2013	1,324,000	3,249,000	61,986,000	401,335,000	377,534,281	3,874,901
2014	1,369,000	2,816,000	60,515,000	500,653,000	472,946,000	3,776,503
2015	1,377,000	3,310,000	85,643,000	507,855,000	438,865,000	3,681,212
2016	1,436,000	3,170,000	70,502,000	526,103,000	339,282,864	4,071,394
2017	1,497,000	3,505,000	69,071,000	547,541,000	495,495,000	4,960,973
2018	1,587,000	3,070,000	88,500,000	619,480,000	543,820,794	5,725,252
2019	1,325,000	2,779,510	68,402,000	438,642,000	438,237,534	4,965,241
2020	1,292,000	2,041,762	71,669,600	471,464,000	534,538,176	5,842,951
2021	1,352,000	2,384,695	68,526,800	493,505,654	527,099,348	5,804,891

WATER RATES

TABLE 9

(Based on Monthly Billing-Effective August 31, 2021)

NEW RATES

Monthly Minimums by Meter Size (in inches)	
3/4 x 5/8	\$ 32.00
Full 3/4	\$ 32.00
1 inch	\$ 80.00
*For Larger Meter Sizes, Contract LCMUA	
Plus Volume Charge (per 1,000 gallons)	
0-8,000	\$ 5.20
8,001-20,000	\$ 6.70
20,001-45,000	\$ 8.70
45,001 and above	\$ 11.30
Senior Discount	\$ (10.00)

OLD RATES

(as of August 31, 2020)

Monthly Minimums by Meter Size (in inches)	
3/4 x 5/8	\$ 32.00
Full 3/4	\$ 32.00
1 inch	\$ 80.00
Plus Volume Charge (per 1,000 gallons)	
0-8,000	\$ 5.00
8,001-20,000	\$ 6.50
20,001-45,000	\$ 8.40
45,001 and above	\$ 10.90
Senior Discount	\$ (10.00)

SEWER RATES (Effective August 31, 2021)

TABLE 10

NEW RATES

Monthly Minimums	
Residential ***	\$ 33.00
Commercial	\$ 36.00
Plus Volume Charge (per 1,000 gallons)	
	\$ 6.10
Senior Discount	\$ (10.00)
***Residents are charged a Winter Wastewater Average. New customers are billed volume	
Wastewater only	\$ 70.20
A flat rate equal to Area Average of 7,000 Gallons	

OLD RATES

(as of August 31, 2020)

Monthly Minimums	
Residential ***	\$ 33.00
Commercial	\$ 36.00
Plus Volume Charge (per 1,000 gallons)	
	\$ 6.10
Senior Discount	\$ (10.00)
***Residents are charged a Winter Wastewater Average. New customers are billed volume based on their water consumption up to 7,000 gallons which is the area average until they establish an average of their own.	
Wastewater only	\$ 70.20

Source: The Issuer.

WASTEWATER SYSTEM**TABLE 11**

The Authority's wastewater treatment is provided by the UTRWD at the Lakeview plant. Pursuant to a June 1995 contract (as amended November 1997 and October 2005), the Authority is entitled to 0.9 MGD of capacity in the Lakeview plant and 0.3 MGD capacity in a shared trunk line. The Authority is responsible for approximately 65 miles of gravity wastewater collection lines, 9 miles of force main lines, and 20 lift stations. In exchange for the Authority's existing treatment plant, UTRWD expanded and upgraded the plant for regional service. The Authority in turn received a phase-in capital payment plan that ended in Fiscal Year 2015. The Authority retained first right of refusal to own and operate the treatment plant should UTRWD cease to exist.

WASTEWATER USAGE**TABLE 12**

(Gallons)

FYE (8/31)	Daily Average	Monthly Average	Total Usage	Total Revenues
2012	526,000	16,041,000	192,489,000	2,462,130
2013	463,000	21,852,000	140,323,000	2,319,648
2014	644,000	22,291,000	234,901,000	2,090,932
2015	818,000	25,094,000	315,587,000	2,373,701
2016	874,000	32,808,000	309,389,000	2,433,751
2017	851,000	25,872,000	310,466,000	3,276,932
2018	810,000	24,641,000	295,684,000	3,532,600
2019	1,078,000	32,813,000	393,758,000	3,499,798
2020	1,002,000	30,475,000	365,699,000	3,581,393
2021	1,049,000	31,913,000	382,950,000	3,891,618

Source: *The Issuer.*

APPENDIX C

**GENERAL INFORMATION REGARDING LAKE CITIES MUNICIPAL UTILITY AUTHORITY
AND DENTON COUNTY, TEXAS**

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GENERAL INFORMATION REGARDING LAKE CITIES MUNICIPAL UTILITY AUTHORITY AND DENTON COUNTY, TEXAS

Lake Cities Municipal Utility Authority ("LCMUA") is a governmental agency created by the State of Texas in 1963 to service Lake Dallas, Shady Shores and Hickory Creek as a Public Water Utility. The Authority's mission is to produce and distribute safe, high quality water for domestic and commercial uses as well as provide fire protection in ample quantity and the collection of wastewater in a professional manner and at the most economical cost to its customers. LCMUA meets or exceeds all federal and state regulatory standards and is recognized as a Superior Water System by the Texas Commission of Environmental Quality. The LCMUA is governed by five elected Board Members with designated positions for each of the three municipalities served and two at large members.

LCMUA has approximately 5,450 customers to date and is staffed by twenty-eight employees and is located at 501 N Shady Shores Road, Lake Dallas, Texas 75065. LCMUA currently has three facilities; the Main Administrative Office, where the bills are received and posted, and the Service Center that is home to our outside field staff and where the equipment is protected, and an equipment and materials storage yard with temporary workplace facilities housing a special projects crew. LCMUA has three elevated storage tanks, four ground storage tanks totaling more than 3.2 million gallons, and twenty-two lift stations throughout the system.

In 1989, along with twenty-one other municipalities and utility districts, LCMUA joined in creating Upper Trinity Regional Water District. UTRWD was created as regional, non-profit government agency authorized to provide water, wastewater, solid waste and storm water (watershed protection) services on a wholesale basis in the Denton County area. Each founding participant has a Board appointed representative to sit on the UTRWD Board to protect the interest of their respective customers.

Lake Cities Municipal Utility Authority is dedicated to being a vital part of the community, keeping up with technology, keeping staff well trained, meeting or exceeding all state and federal requirements along with providing its customers with excellent water and wastewater services.

Watershed Protection

The Watershed Protection Program was initiated in January 2001 as part of a plan to reduce the overall pollutants within the surface waters of Denton County and to ensure compliance with the National Pollution Discharge Elimination System Storm Water Phase II rule.

This program incorporates the infrastructure established by an Environmental Protection Agency EMPACT grant awarded to the City of Denton and the University of North Texas in 1998. During the first year of the Watershed Protection Program, monitoring results from the EMPACT system and additional watershed monitoring were used to establish preliminary baseline conditions for the physical, chemical, and biological components of the city's surface water resources. Results from this monitoring program are used to support the requirements of the Phase II storm water program, which assess water quality for the purposes of source water protection, and in establishing baseline conditions that can be used to evaluate any future changes in water quality.

Cooper Creek, Hickory Creek, and Pecan Creek are the three main watersheds that convey water through Denton. Using topographical information and professional judgment, approximately 82 sub-basins have been delineated within the city. Sampling stations were established within these 82 sub-basins at locations that would be the most likely to represent the water quality of the sub-basins. Monitoring of these 82 sub-basins during base-flow conditions was initiated in January 2001 and has continued on a monthly basis ever since.

Permanent monitoring stations were established near the ends of the three major watersheds prior to the confluence of the watersheds with Lewisville Lake. These include a station above and below the Pecan Creek Water Reclamation Plant's outfall. The City has also had more extensive monitoring is conducted at these stations to provide a more comprehensive assessment of the combined effects of sub-basin water quality just prior to entering the city's main drinking water source, Lake Lewisville.

DENTON COUNTY

General

The County of Denton, established in 1846, is located in the north central part of the state, which is considered to be a top growth area in the state, and one of the top growth areas in the country. The County of Denton currently occupies a land area of 911 square miles and serves a population of approximately 836,000 according to the most recent estimates of the North Central Texas Council of Governments.



Economic

The County continues to experience strong growth in population and in its economic base. The population has grown by almost 29% since the 2010 census and over 98% since the 2000 census. During the same period, the county's tax base has grown from \$10 billion in 1990 to over \$96 billion in 2019.

Denton County's economy and employment picture have rebounded strongly since the 2008 recession. The September, 2019, unemployment rate of 2.8% compares favorably with the 3.3% statewide rate, and with the 3.4% national rate. During the 2019 year, the County had over \$4.4 billion in new property added to the tax rolls. This is a 16% increase in new construction in the County compared to 2018, and it well exceeds our pre-recession tax base growth. Also, in 2018, approximately 9,500 new single family residences were added to the County tax roll.

Major industrial investments in the past, which include Alliance Airport, Wal-Mart, Target, Aldi and Winco distribution centers, and the Texas Motor Speedway, continue to attract additional development in the County. New housing developments such as Rayzor Ranch, the Hills of Denton, Hunter Ranch and Cole Ranch are expected to add over 28,000 new housing units in the next 20 years, and construction has rebounded from the recession. There also have been major investments in the County by the healthcare profession with several major hospitals undergoing significant expansions. Other business are relocating from other areas in the country to Denton County including Charles Swab, which is expected to bring 7000 jobs from California, and the PGA Headquarters, which is expected to add over \$20 Billion to the tax base once all the development surrounding it is complete. These expansions have in turn spurred additional investment in office buildings and other medical services. The retail industry continues to expand throughout Denton County as the population of the County continues to grow steadily. Denton County's two major universities, the University of North Texas and Texas Woman's University, and North Central Texas College continue to turn out a large number of skilled graduates each year, and enrollment at these schools continues to increase significantly each year. This labor supply, combined with air, rail and highway transportation centers, assists to the County's continued economic growth.

LEADING EMPLOYERS

<u>Employer</u>	<u>Principal Line of Business</u>	<u>Approximate Number of Employees</u>
University of North Texas	Education	10,894
Lewisville ISD	Education	6,500
Denton ISD	Education	4,417
Wal-Mart	Retail	3,722
Peterbilt Motors	Manufacturing	3,075
Centex Home Equity	Finance/Insurance	2,600
Frito Lay Co.	Manufacturing	2,500
Northwest ISD	Education	2,246
American Airlines	Transportation/Warehousing	2,154
Nebraska Furniture Mart	Retail	2,000
Texas Womens University	Education	1,875
Denton State School	Health Care/Social Assistance	1,700

APPENDIX D
FORM OF LEGAL OPINION OF BOND COUNSEL

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May 3, 2022

Norton Rose Fulbright US LLP
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FINAL

IN REGARD to the authorization and issuance of the “Lake Cities Municipal Utility Authority Utility System Revenue Refunding Bonds, Series 2022” (the *Bonds*), dated May 1, 2022, in the aggregate principal amount of \$3,600,000 we have reviewed the legality and validity of the issuance thereof by the Lake Cities Municipal Utility Authority (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. The Bonds have Stated Maturities of August 1 in each of the years 2023 through 2033, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the resolution (the *Resolution*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Resolution.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the Issuer’s obligations being refunded by the Bonds, and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer or the System or the disclosure thereof in connection with the sale of the Bonds. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the System. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the transcript of proceedings of the Board of Directors (the *Board*) of the Issuer in connection with the issuance of the Bonds, including the Resolution and the Escrow Deposit Letter, dated March 21, 2022 (the *Escrow Agreement*) between the Issuer and BOKF, NA, Dallas, Texas (the *Escrow Agent*), and the certification (the *Sufficiency Certificate*) by SAMCO Capital Markets, Inc., as Financial Advisor to the Issuer, concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the

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Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “LAKE CITIES MUNICIPAL UTILITY AUTHORITY UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022”

Issuer, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the resolution authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Sufficiency Certificate concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding special obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from and equally and ratably secured solely by a first and prior lien on and pledge of the Pledged Revenues of the System on a parity with the Issuer's currently outstanding Previously Issued Parity Bonds. In the Resolution, the Issuer retains the right to issue Additional Parity Obligations, Junior Lien Obligations, and Subordinate Lien Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Issuer, except with respect to the Pledged Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation. The pledge of Pledged Revenues is subject to the right of a city, under existing Texas law, to annex all of the territory within the Issuer; to take over all properties and assets of the Issuer; to assume all debts, liabilities, and obligations of the Issuer, including the Bonds; and to abolish the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Resolution and in reliance upon the Sufficiency Certificate concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement, and upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103

Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “LAKE CITIES MUNICIPAL UTILITY AUTHORITY UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022”

of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

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APPENDIX E

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED AUGUST 31, 2021

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements – not intended to be a complete statement of the Issuer's financial condition. Reference is made to the Annual Financial Report for further information.)

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LAKE CITIES MUNICIPAL UTILITY AUTHORITY
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED AUGUST 31, 2021 AND 2020



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**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Lake Cities Municipal Utility Authority (the Authority), as of and for the years ended August 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lake Cities Municipal Utility Authority, as of August 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 and the schedule of changes in total OPEB liability and related ratios, schedule of changes in net pension liability and related ratios, the schedule of employer pension contributions, budgetary comparison information and notes to required supplementary information on pages 33-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 audits were conducted for the purpose of forming an opinion on the basic financial statements of Lake Cities Municipal Utility Authority. The Texas supplemental information on pages 39-48 (the supplementary information) is required by the Texas Commission on Environmental Quality as published in the Water District Financial Management Guide. The Texas supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information, other than the Schedules of Service Rates (TSI-1) and board Members, Key Personnel, and Consultants (TSI-8) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 Lake Cities Municipal Utility Authority's basic financial statements for the years ended August 31, 2017 (presented herein), were audited by other auditors whose reports dated January 8, 2018, respectively, expressed an unmodified opinion on those statements. The reports of the other auditors dated January 8, 2018, respectively, stated the Comparative Schedule of Revenues and Expenses

Members of the Board of Directors
Lake Cities Municipal Utility Authority

Enterprise Fund for the years ended August 31, 2017, were subjected to the auditing procedures applied in the audit of the 2017, basic financial statements and certain underlying accounting and other records used to prepare those basic financial statements or those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the years ended August 31, 2017.

The Schedules of Service and Rates (TSI-1) and Board Members, Key Personnel, and Consultants (TSI-8) 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 January 14, 2022, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Cities Municipal Utility Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Fort Worth, Texas
January 14, 2022

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED AUGUST 31, 2021 AND 2020**

As management of Lake Cities Municipal Utility Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended August 31, 2021 and 2020.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Authority exceed its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$35,637,776 (net position). Of this amount, \$3,418,904 (unrestricted net position) may be used to meet the Authority's ongoing obligations to customers and creditors in accordance with the Authority's fiscal policies. The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended August 31, 2020, by \$33,409,415 (net position). Of this amount, \$2,617,194 (unrestricted net position) may be used to meet the government's ongoing obligations to customers and creditors in accordance with the Authority's fiscal policies.
- The Authority's total net position increased by \$2,228,361 for the year ending August 31, 2021. This increase is primarily the result of the Authority's operating income of \$2,362,738. For the year ended August 31, 2020, the Authority's total net position increased by \$2,168,638. This increase is primarily the result of the Authority's operating income of \$2,095,476.
- The Authority's total debt decreased by \$275,142 and \$265,142, primarily due to principal payments during the years ended August 31, 2021 and August 31, 2020, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three statements: 1) statement of net position, which provide all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities); 2) statement of revenues, expenses, and changes in net position shows the business-type activities of the Authority and provides information regarding revenues and expenses, both operating and nonoperating, that affect the net position; and 3) statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the period using the direct method of reporting cash flows from operating, investing, and capital and noncapital financing activities. The basic financial statements can be found on pages 10-12.

Notes to the Financial Statements

Integral to the financial statements are the notes to the basic financial statements. These notes provide additional information that is essential to a full understanding of the financial data provided in the basic financial statements. The Authority has prepared notes sufficient to provide the readers of these financial statements a clear picture of the Authority's financial position and insight into the results of its operations. These notes comply with the Texas Commission on Environmental Quality (TCEQ) standardized reporting requirements and are in conformity with accounting principles generally accepted in the United States of America (GAAP). The Notes to the financial statements can be found on pages 13-32.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED AUGUST 31, 2021 AND 2020**

Other Information

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

The supplementary information can be found on pages 33-48 of the report.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

Our analysis below focuses on the Authority's net position (Table 1) and changes in net position (Table 2) during the fiscal years ended August 31, 2021, 2020, and 2019.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Lake Cities Municipal Utility Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$35,637,776 and \$33,409,415 as of August 31, 2021 and 2020, respectively.

As of August 31, 2021 and 2020, the largest portion of the Authority's net position (71% and 75%, respectively) reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities. An additional portion of the Authority's net position (19% and 17%, respectively) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$3,418,904 or 10% and \$2,617,194 or 8%, respectively) may be used to meet the Authority's ongoing obligations to customers and creditors.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED AUGUST 31, 2021 AND 2020**

Lake Cities Municipal Authority's Net Position – Table 1

	2021	2020	2019
Current and Other Assets	\$ 13,059,372	\$ 10,444,297	\$ 7,992,666
Capital Assets	29,354,684	29,553,145	29,787,040
Deferred Outflows of Resources	258,169	108,932	199,918
Total Assets and Deferred Outflows of Resources	42,672,225	40,106,374	37,979,624
Current Liabilities	1,239,966	1,110,272	1,195,923
Long-Term Liabilities	5,685,842	5,481,556	5,393,398
Deferred Inflows of Resources	108,641	105,131	92,550
Total Liabilities and Deferred Inflows of Resources	7,034,449	6,696,959	6,681,871
Net Position:			
Net Investment in Capital Assets	25,313,943	25,211,507	26,703,813
Restricted	6,904,929	5,580,714	4,232,617
Unrestricted	3,418,904	2,617,194	304,347
Total Net Position	<u>\$ 35,637,776</u>	<u>\$ 33,409,415</u>	<u>\$ 31,240,777</u>

Regarding restricted net position, \$6,353,174 represents Impact Fees restricted for capital improvements and \$551,755 represents the portion restricted for debt service as of August 31, 2021. Unrestricted net position of \$3,418,904 may be used to meet the Authority's ongoing obligations to its customers and creditors. As of August 31, 2020, \$5,029,287 represents Impact Fees restricted for capital improvements and \$551,427 represents the portion restricted for debt service. Unrestricted net position of \$2,617,194 may be used to meet the Authority's ongoing obligations to its customers and creditors.

As of August 31, 2021, the Authority is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

The current and other assets increased by \$2,615,075 and \$2,451,631 during the years ended August 31, 2021 and 2020, respectively.

During the current year, the Authority's debt (its revenue bonds and notes) decreased by \$280,142. Also included in long-term liabilities is the requirement to report an OPEB (Other Postemployment Benefits) liability of \$1,754,444, which includes a \$389,526 increase. During the prior year, the Authority's debt decreased by \$275,142, while the OPEB liability increased by \$363,300 to a balance of \$1,364,918.

The Authority's net position increased by \$2,228,361 during the current fiscal year. Net position invested in capital assets, net of related debt, increased by \$102,436. Unrestricted net position increased by \$801,710 or 31%. During the prior fiscal year, the Authority's net position increased by \$2,168,638, net position invested in capital assets, net of related debt, decreased by \$1,492,306 and unrestricted net position increased by \$2,312,847 or 760%.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED AUGUST 31, 2021 AND 2020**

The following table provides a summary of the Authority's operations for the fiscal years ended August 31, 2021 and 2020, with comparative totals for the fiscal year ended August 31, 2019.

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

	2021	2020	2019
Total Operating Revenues	\$ 12,115,379	\$ 11,115,486	9,481,317
Operating Expenses	(9,752,641)	(9,020,010)	(7,967,001)
Nonoperating Revenue (Expense), Net	(134,377)	(97,809)	(75,742)
Excess of Revenues Over Expenses	2,228,361	1,997,667	1,438,574
Capital Contributions	-	170,971	172,354
Change in Net Position	2,228,361	2,168,638	1,610,928
Net Position - Beginning of Year	33,409,415	31,240,777	29,629,849
Net Position - End of Year	<u>\$ 35,637,776</u>	<u>\$ 33,409,415</u>	<u>31,240,777</u>

THE AUTHORITY'S FUNDS

The Authority has one activity, the Enterprise Fund. Unrestricted net position of the proprietary fund, the Water and Sewer Fund, is \$3,418,904, \$2,617,194 and 304,347 as of August 31, 2021, 2020, and 2019, respectively. This fund's net position increased in the fiscal year ended August 31, 2021 and 2020, by \$801,710 and \$2,312,847, respectively.

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

Actual operating revenues were \$1,199,879 higher than the budgeted amounts, due in large part to the increase in tap and connection fees.

Actual operating expenditures were \$1,523,732 above the budgeted amounts, largely due to depreciation expense not being budgeted for.

Overall, the change in net position for the year was \$1,746,792 lower than the budget amount, due to the changes described above as well as contributed capital that was not received.

Additional information on the comparison of the Authority's actual operations to its budget can be found in the Budgetary Comparison Schedule – Enterprise Fund beginning on page 38.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED AUGUST 31, 2021 AND 2020**

CAPITAL ASSETS

The Authority's capital assets for its business-type activities as of August 31, 2021 and 2020 totaled to \$29,354,684 and 29,553,145 (net of accumulated depreciation), respectively. Capital assets include land, building, equipment, improvements, infrastructure, vehicles and construction in progress (CIP).

The Authority's capital assets decreased \$198,461 during the current year. Major capital asset events during the current fiscal year included the following:

1. Completion of the Meadowlake Subdivision and Hundley Dr Waterline projects totaling \$551,345 of capitalization from CIP.
2. Continuation of several infrastructure projects adding approximately \$396,980 to CIP while several new projects began adding an approximately \$63,800 to CIP as well.
3. Land was purchased as the future reconstruction site for Lift Station 7.
4. Office Equipment that had reached end of life were disposed of and not replaced due to technology advances resulting in lowered asset valuations.
5. Fleet size was reduced resulting in lower asset valuations.
6. Depreciation expense of approximately \$1,412,178 was recognized.

The Authority's capital assets decreased \$233,895 during the year ended August 31, 2020. Major capital asset events during that year included:

1. The Lift Station 1 and Folly Beach Waterline projects were completed which resulted in the capitalization of approximately \$3,236,000 in CIP.
2. Several additional infrastructure projects were started, adding approximately \$438,000 in CIP. Depreciation expense of approximately \$1,377,000 was recognized.

Capital assets at year-end net of accumulated depreciation are as follows:

	2021	2020	2019
Construction in Progress	\$ 502,733	\$ 516,140	3,185,618
Land	1,645,573	1,541,912	1,541,912
Infrastructure/Equipment	25,231,069	25,539,972	23,100,919
Auto/Trucks	434,451	382,287	335,239
Office Equipment/Software	779,322	783,757	801,228
Building	761,536	789,077	822,124
Total	<u>\$ 29,354,684</u>	<u>\$ 29,553,145</u>	<u>\$ 29,787,040</u>

The following table summarizes the changes in capital assets:

	2021	2020	2019
Balance - Beginning of Year	\$ 29,553,145	\$ 29,787,040	\$ 27,913,527
Additions and Transfers	1,772,110	4,381,583	8,740,037
Depreciation	(1,412,178)	(1,376,876)	(1,056,651)
Disposals and Transfers	(558,393)	(3,238,602)	(5,809,873)
Balance - End of Year	<u>\$ 29,354,684</u>	<u>\$ 29,553,145</u>	<u>\$ 29,787,040</u>

Additional information on the Authority's capital assets can be found in Note 4 on page 18 of this report.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED AUGUST 31, 2021 AND 2020**

DEBT ADMINISTRATION

As of August 31, 2021 and 2020, the Authority had total debt obligations of \$4,049,800 and 4,319,800, respectively. The payoff date of the Authority's revenue bond is August 1, 2033.

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

	2021	2020	2019
Revenue Bonds/Notes Payable	\$ 4,049,800	\$ 4,319,800	\$ 4,579,800

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

Additional information on the Authority's long-term debt can be found beginning with Note 5 on pages 19-21 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the 2020-2021 Budget, water and sewer revenues are budgeted to decrease by approximately 2% from the 2019-2020 budget year. A rate study conducted during the 2016 fiscal year revealed a structure change in water and wastewater rates (including depreciation) was needed to continue building acceptable working capital and fund capital improvement projects over the next five years. The Board of Directors passed a resolution affecting rates during the regular meeting held December 02, 2019, with an effective date of January 1, 2020.

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

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

REQUEST FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
STATEMENTS OF NET POSITION
AUGUST 31, 2021 AND 2020

	2021	2020
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,259,391	\$ 3,384,730
Investments	1,074,652	1,072,725
Trade Accounts Receivable, Net of Allowance	1,391,040	1,440,713
Other Accounts Receivable	80,895	196,477
Supplies Inventory	129,706	190,382
Total Current Assets	5,935,684	6,285,027
RESTRICTED ASSETS		
Cash and Cash Equivalents	7,123,688	4,129,764
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION		
Construction in Progress (Nondepreciable)	502,733	516,140
Land (Nondepreciable)	1,645,573	1,541,912
Infrastructure/Equipment	25,231,069	25,539,972
Auto/Trucks	434,451	382,287
Office Equipment	779,322	783,757
Building	761,536	789,077
Total Capital Assets	29,354,684	29,553,145
OTHER ASSETS		
Net Pension Asset - TCDRS	-	29,506
Total Other Assets	-	29,506
DEFERRED OUTFLOWS OF RESOURCES		
Related to TCDRS Pension	258,169	108,932
Total Deferred Outflows of Resources	258,169	108,932
Total Assets and Deferred Outflows of Resources	\$ 42,672,225	\$ 40,106,374
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 549,480	\$ 471,239
Salaries and Benefits Payable	147,429	142,651
Accrued Interest Payable	12,330	12,330
Security Deposits	255,727	214,052
Current Portion of Long-Term Debt	275,000	270,000
Total Current Liabilities	1,239,966	1,110,272
LONG-TERM LIABILITIES		
Long-Term Debt, Net of Current Portion	3,836,496	4,116,638
Net Pension Liability - TCDRS	94,902	-
OPEB Liability	1,754,444	1,364,918
Total Long-Term Liabilities	5,685,842	5,481,556
DEFERRED INFLOWS OF RESOURCES		
Related to TCDRS Pension	108,641	105,131
Total Liabilities and Deferred Inflows of Resources	7,034,449	6,696,959
NET POSITION		
Net Investment in Capital Assets	25,313,943	25,211,507
Restricted for Debt Service	551,755	551,427
Restricted for Capital Improvement	6,353,174	5,029,287
Unrestricted	3,418,904	2,617,194
Total Net Position	35,637,776	33,409,415
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 42,672,225	\$ 40,106,374

See accompanying Notes to Basic Financial Statements.

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Charges for Water Service	\$ 5,824,436	\$ 5,834,076
Charges for Sewer Service	3,723,099	3,485,948
Tap Connection and Inspection Fees	2,385,991	1,616,448
Penalties and Interest	181,853	179,014
Total Operating Revenues	12,115,379	11,115,486
OPERATING EXPENSES		
Purchased Water Service	2,381,306	2,344,984
Purchased Sewer Service	1,470,093	1,443,745
Salaries and Payroll Taxes	1,543,875	1,464,260
Benefits	884,789	943,583
Contracted Services	345,909	332,738
Professional Fees	273,268	172,104
Utilities	121,796	89,737
Depreciation	1,412,178	1,376,876
Water and Sewer System Maintenance	639,676	223,657
Other	679,751	628,326
Total Operating Expenses	9,752,641	9,020,010
OPERATING INCOME	2,362,738	2,095,476
NONOPERATING REVENUES (EXPENSES)		
Investment Earnings	6,274	66,555
Interest Expense	(158,064)	(165,864)
Gain on Sale of Fixed Assets	17,413	1,500
Total Nonoperating Revenues	(134,377)	(97,809)
Income Before Capital Contributions	2,228,361	1,997,667
Capital Contributions	-	170,971
INCREASE IN NET POSITION	2,228,361	2,168,638
Total Net Position - Beginning	33,409,415	31,240,777
TOTAL NET POSITION - ENDING	\$ 35,637,776	\$ 33,409,415

See accompanying Notes to Basic Financial Statements.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 12,322,309	\$ 10,915,500
Cash Paid to Employees for Services	(2,055,679)	(2,026,012)
Cash Paid to Suppliers	(5,093,131)	(4,616,136)
Cash Paid for Other Expenses	(679,751)	(628,326)
Net Cash Provided by Operating Activities	4,493,748	3,645,026
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	6,274	66,555
Proceeds from Sale of Fixed Assets	17,413	1,500
Purchases of Investments	(1,927)	(31,957)
Net Cash Provided (Used) by Investing Activities	21,760	36,098
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(1,213,717)	(1,128,532)
Principal Payments on Long-Term Debt	(275,142)	(265,142)
Interest on Long-Term Debt	(158,064)	(165,864)
Net Cash Used by Capital and Related Financing Activities	(1,646,923)	(1,559,538)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,868,585	2,121,586
Cash and Cash Equivalents - Beginning of Year	7,514,494	5,392,908
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 10,383,079	\$ 7,514,494
CASH AND CASH EQUIVALENTS	\$ 3,259,391	\$ 3,384,730
RESTRICTED CASH AND CASH EQUIVALENTS	7,123,688	4,129,764
TOTAL CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 10,383,079	\$ 7,514,494
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 2,362,738	\$ 2,095,476
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,412,178	1,376,876
Change in Accounts Receivable	165,255	(231,709)
Change in Supplies Inventory	60,676	(36,873)
Change in Net Pension Asset (Liability)	124,408	(86,482)
Change in Deferred Inflows and Outflows related to Pension	(145,727)	103,567
Change in OPEB Liability	389,526	363,300
Change in Accounts Payable	78,241	27,702
Change in Salaries Payable	4,778	1,446
Change in Customer Deposits	41,675	31,723
Net Cash Provided by Operating Activities	\$ 4,493,748	\$ 3,645,026
NONCASH ITEMS		
Capital Contributions	\$ -	\$ 170,971

See accompanying Notes to Basic Financial Statements.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Measurement Focus

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

Basis of Presentation

The Authority presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended*, guidance for governments engaged in business-type activities. Accordingly, the basic financial statements and Required Supplementary Information (RSI) of the Authority consist of Management's Discussion & Analysis, statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, notes to financial statements, schedule of funding progress for the retiree health plan, schedule of changes in net pension liability and related ratios, and the schedule of employer pension contributions. Additionally, the Authority complies with the reporting requirements promulgated by the "Water District Financial Management Guide" published by the Texas Commission on Environmental Quality.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues

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

Expenses

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

Cash Equivalents

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

Deposits

At August 31, 2021 and 2020, respectively, the bank balance of the Authority's cash deposits totaled \$178,546 and \$322,603, and the carrying value was \$235,871 and \$346,085. These amounts include the restricted cash amount held in escrow which totaled \$70,755 and \$45,000 at August 31, 2021 and 2020, respectively. The Authority has obtained pledges of securities in the amount of \$2,818,061 from financial institutions in order to mitigate credit and custodial risks associated with deposits. This amount plus the bank depository insurance limits were sufficient to fully collateralize the Authority's deposits.

Accounts Receivable

Accounts receivable consists primarily of receivables related to water and sewer services. Accounts receivable includes an accrual for unbilled revenue earned during the months of August 2021 and August 2020. The unbilled revenue balance as of August 31, 2021 and 2020 was \$568,344 and \$559,006, respectively.

Allowances for Doubtful Accounts

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

Inventories

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

Use of Estimates

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

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

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

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

Compensated Absences

Employees are allowed to accumulate vacation within certain limitations. Payment for accrued vacation (within limits) upon termination is subject to the employee leaving in good standing. Payment for accrued sick leave (within limits) is paid upon retirement. At August 31, 2021 and 2020, a liability of \$56,069 and \$68,937 for unused vacation leave has been accrued and is included in current liabilities within salaries and benefits payable.

Net Position

Net position is the residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The Authority maintains the following classifications of net position:

- Net Investment in Capital Assets – This category of net position represents capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.
- Restricted – This category of net position represents any net positions subject to externally imposed conditions.
- Unrestricted – This category of net position represents any net position not recorded as Net Investment in Capital Assets or Restricted.

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

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020

NOTE 2 CASH AND INVESTMENTS

Legal provisions generally permit the Authority to invest in direct and indirect obligations of the United States of America or its agencies, certain certificates of deposit, repurchase agreements, public funds investment pools, and mutual funds. During the year ended August 31, 2021 and 2020, the Authority did not own any types of securities other than those permitted by statute.

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

	2021		
	Credit Quality Ratings	Fair Value	Weighted Average Maturity
Unrestricted Cash and Investments			
Deposits with a Financial Institution	Not Rated	\$ 1,700,801	N/A
Cash on Hand	Not Rated	1,227	N/A
TexPool	AAAm	345,734	30 Days
LOGIC	AAAm	2,286,281	55 Days
Total		<u>\$ 4,334,043</u>	
Restricted Cash and Investments			
Cash Held in Escrow	Not Rated	\$ 70,755	N/A
Deposits with a Financial Institution	Not Rated	(219,735)	N/A
TexPool	AAAm	5,671,600	30 Days
LOGIC	AAAm	104,955	55 Days
TexasTerm	AAAm	1,496,113	54 Days
Total		<u>\$ 7,123,688</u>	
	2020		
	Credit Quality Ratings	Fair Value	Weighted Average Maturity
Unrestricted Cash and Investments			
Deposits with a Financial Institution	Not Rated	\$ 1,833,568	N/A
Cash on Hand	Not Rated	1,227	N/A
TexPool	AAAm	194,132	32 Days
LOGIC	AAAm	2,428,528	47 Days
Total		<u>\$ 4,457,455</u>	
Restricted Cash and Investments			
Cash Held in Escrow	Not Rated	\$ 45,000	N/A
Deposits with a Financial Institution	Not Rated	(236,117)	N/A
TexPool	AAAm	3,265,599	32 Days
LOGIC	AAAm	104,833	47 Days
TexasTERM	AAAm	950,449	57 Days
Total		<u>\$ 4,129,764</u>	

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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

	2021	2020
Restricted Cash and Investments		
Restricted for Customer Deposits	\$ 255,727	\$ 214,052
Restricted for Impact Fees	5,119,845	2,714,172
Restricted for Capital Projects	1,196,361	650,113
Restricted for Debt Service	551,755	551,427
Total Restricted Cash and Equivalents	\$ 7,123,688	\$ 4,129,764

In compliance with the Authority's investment policy, the Authority limits exposure to credit risk and interest rate risk by limiting the effective duration of securities to less than 12 months and limiting investments to high quality rated securities. The Authority limits exposure to custodial credit risk through a pledge of securities obtained from a financial institution.

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

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

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

Investment pools are measured at amortized cost and are exempt for fair value reporting under GASB Statement No. 79, Certain External Investments Pools and Pool Participants.

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020

NOTE 3 ACCOUNTS RECEIVABLE

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

	2021	2020
Accounts Receivable - Water/Sewer	845,490	\$ 918,615
Accounts Receivable - Construction	61,896	174,729
Accrued Unbilled Revenue	568,344	559,006
Developer Engineering Fees	18,114	21,021
Other Receivables	9,123	9,151
Less: Allowance for Uncollectibles	(31,032)	(45,332)
Total Accounts Receivable, Net	<u>\$ 1,471,935</u>	<u>\$ 1,637,190</u>

NOTE 4 CAPITAL ASSETS

A summary of changes in capital assets follows.

	Balance at September 1, 2020	Additions and Transfers	Disposals and Transfers	Balance at August 31, 2021
Capital Assets, Nondepreciable:				
Construction in Progress	\$ 516,143	\$ 540,985	\$ 554,395	\$ 502,733
Land	1,541,912	103,661	-	1,645,573
Total Nondepreciable Assets	<u>2,058,055</u>	<u>644,646</u>	<u>554,395</u>	<u>2,148,306</u>
Capital Assets, Depreciable:				
Infrastructure/Equipment	39,874,544	873,715	184,599	40,563,660
Auto/Trucks	1,156,213	195,538	172,979	1,178,772
Office Equipment/Software	984,060	-	16,096	967,964
Building	1,683,324	58,211	-	1,741,535
Total Depreciable Assets	<u>43,698,141</u>	<u>1,127,464</u>	<u>373,674</u>	<u>44,451,931</u>
Less Accumulated Depreciation:				
Infrastructure/Equipment	14,333,597	1,183,595	184,601	15,332,591
Auto/Trucks	773,926	139,374	168,979	744,321
Office Equipment/Software	200,302	4,436	16,096	188,642
Building	895,226	84,773	-	979,999
Total Accumulated Depreciation	<u>16,203,051</u>	<u>1,412,178</u>	<u>369,676</u>	<u>17,245,553</u>
Total Depreciable Assets, Net	<u>27,495,090</u>	<u>(284,714)</u>	<u>3,998</u>	<u>27,206,378</u>
Capital Assets, Net	<u>\$29,553,145</u>	<u>\$ 359,932</u>	<u>\$ 558,393</u>	<u>\$29,354,684</u>

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Balance at September 1, 2019	Additions and Transfers	Disposals and Transfers	Balance at August 31, 2020
Capital Assets, Undepreciable:				
Construction in Progress	\$ 3,185,619	\$ 566,944	\$ 3,236,420	\$ 516,143
Land	1,541,912	-	-	1,541,912
Total Nondepreciable Assets	4,727,531	566,944	3,236,420	2,058,055
Capital Assets, Depreciable:				
Infrastructure/Equipment	36,501,033	3,613,250	239,739	39,874,544
Auto/Trucks	1,106,619	155,642	106,048	1,156,213
Office Equipment/Software	1,001,019	-	16,959	984,060
Building	1,650,835	45,747	13,258	1,683,324
Total Depreciable Assets	40,259,506	3,814,639	376,004	43,698,141
Less Accumulated Depreciation:				
Infrastructure/Equipment	13,400,115	1,171,041	237,559	14,333,597
Auto/Trucks	771,380	108,594	106,048	773,926
Office Equipment/Software	199,791	17,470	16,959	200,302
Building	828,711	79,771	13,256	895,226
Total Accumulated Depreciation	15,199,997	1,376,876	373,822	16,203,051
Total Depreciable Assets, Net	25,059,509	2,437,763	2,182	27,495,090
Capital Assets, Net	<u>\$29,787,040</u>	<u>\$ 3,004,707</u>	<u>\$ 3,238,602</u>	<u>\$29,553,145</u>

NOTE 5 LONG-TERM LIABILITIES

Summary of long-term liabilities are summarized as follows:

	Balance at September 1, 2020	Additions	Reductions	Balance at August 31, 2021	Amount Due Within One Year
Revenue Bonds	\$ 4,319,800	\$ -	\$ (270,000)	\$ 4,049,800	\$ 275,000
Premium	66,838	-	(5,142)	61,696	-
Total Bonds Payable	4,386,638	-	(275,142)	4,111,496	275,000
Net Pension Liability (Asset)	(29,506)	124,408	-	94,902	-
OPEB Liability	1,364,918	389,526	-	1,754,444	-
Total Long-Term Liabilities	<u>\$ 5,722,050</u>	<u>\$ 513,934</u>	<u>\$ (275,142)</u>	<u>\$ 5,960,842</u>	<u>\$ 275,000</u>

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

	Balance at September 1, 2019	Additions	Reductions	Balance at August 31, 2020	Amount Due Within One Year
Revenue Bonds	\$ 4,579,800	\$ -	\$ (260,000)	\$ 4,319,800	\$ 270,000
Premium	71,980	-	(5,142)	66,838	-
Total Bonds Payable	4,651,780	-	(265,142)	4,386,638	270,000
Net Pension Liability (Asset)	56,976	-	(86,482)	(29,506)	-
OPEB Liability	1,001,618	363,300	-	1,364,918	-
Total Long-Term Liabilities	<u>\$ 5,710,374</u>	<u>\$ 363,300</u>	<u>\$ (351,624)</u>	<u>\$ 5,722,050</u>	<u>\$ 270,000</u>

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

Long-term debt includes the following issuances:

As of August 31, 2021:

	Interest Rate (%)	Maturity Date	Outstanding	Due Within One Year
Revenue Bonds:				
2013 Revenue Bonds	3.00-4.25%	8/31/2033	4,049,800	275,000
Plus Deferred Amounts:				
For Issuance Premiums and Discounts			61,696	-
Net Long-Term Debt			<u>\$ 4,111,496</u>	<u>\$ 275,000</u>

As of August 31, 2020:

	Interest Rate (%)	Maturity Date	Outstanding	Due Within One Year
Revenue Bonds:				
2013 Revenue Bonds	3.00-4.25%	8/31/2033	\$ 4,319,800	\$ 270,000
Plus Deferred Amounts:				
For Issuance Premiums and Discounts			66,838	-
Net Long-Term Debt			<u>\$ 4,386,638</u>	<u>\$ 270,000</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

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

<u>Year Ending August 31.</u>	<u>Interest Amount</u>	<u>Principal Amount</u>	<u>Total Bond Service Requirements</u>
2022	\$ 154,706	\$ 275,000	\$ 429,706
2023	146,456	285,000	431,456
2024	137,194	295,000	432,194
2025	126,869	305,000	431,869
2026	116,194	315,000	431,194
2027 - 2031	391,327	1,765,000	2,156,327
2032 - 2036	51,866	809,800	861,666
Total	<u>\$ 1,124,612</u>	<u>\$ 4,049,800</u>	<u>\$ 5,174,412</u>

NOTE 6 RETIREMENT PLANS

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

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

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

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 6 RETIREMENT PLANS (CONTINUED)

Contributions

The employer has elected the annually determined contribution rate (ADCR) plan provision of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The employer contributed using the actuarially determined rate of 8.60% for the 2020 plan year. Total employer contributions for the years ended August 31, 2021 and 2020 were \$139,755 and \$118,699 respectively.

The contribution rate payable by the employee members for calendar years 2019 and 2020 is the rate of 7.00% as adopted by the governing body of the employer. The employee contribution rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

At the December 31, 2020 and 2019 valuation and measurement dates, the following employees were covered by the benefit terms:

	2020	2019
Inactive employees or beneficiaries currently receiving benefits	3	2
Inactive employees entitled to but not yet receiving benefits	20	16
Active employees	30	28

Actuarial Assumptions

The total pension liability in the December 31, 2020 and 2019 actuarial valuations was determined using the following actuarial assumptions:

	December 31, 2020	December 31, 2019
Valuation Date	December 31, 2020	December 31, 2019
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method:		
Smoothing Period	5 Years	5 Years
Recognition Method	Nonasymptotic	Nonasymptotic
Corridor	None	None
Inflation	2.50%	2.75%
Salary Increase	4.60%	4.90%
Investment Rate of Return	7.50%	8.00%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 6 RETIREMENT PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.60% and 8.10% in the December 31, 2020 and 2019 actuarial valuations, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the nonemployer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 7.60% and 8.10% in the December 31, 2020 and 2019 actuarial valuations, respectively. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of December 31, 2020 and 2019 are summarized below:

December 31, 2020			
Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected Minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	11.50%	4.25%
Global Equities	MSCI World (Net) Index	2.50%	4.55%
International Equities - Developed	MSCI World Ex USA (Net)	5.00%	4.25%
International Equities - Emerging	MSCI Emerging Markets (Net) Index	6.00%	4.75%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	-0.85%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	9.00%	2.11%
Direct Lending	S&P/LSTA Leveraged Loan Index	16.00%	6.70%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽³⁾	4.00%	5.70%
REIT Equities	67% FTSE NA REIT Equity REITs Index + 33% S&P Global REIT (Net) Index	2.00%	3.45%
Master Limited Partnership (MLPs)	Alerian MLP Index	2.00%	5.10%
Private Real Estate Partnership	Cambridge Associates Real Estate Index ⁽⁴⁾	6.00%	4.90%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index ⁽⁵⁾	25.00%	7.25%
Hedges Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	6.00%	1.85%
Cash Equivalents	90- Day U.S. Treasury	2.00%	-0.70%

(1) Target asset allocation adopted at the March 2021 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 2.0%, per Cliffwater's 2021 capital market assumptions.

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

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

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

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 6 RETIREMENT PLANS (CONTINUED)

Discount Rate (Continued)

December 31, 2019

Asset Class	Benchmark	Target Allocation ⁽¹⁾	Geometric Real Rate of Return (Expected Minus Inflation) ⁽²⁾
US Equities	Dow Jones U.S. Total Stock Market Index	14.50%	5.20%
Private Equity	Cambridge Associates Global Private Equity and Venture Capital Index ⁽³⁾	20.00%	8.20%
Global Equities	MSCI World (Net) Index	2.50%	5.50%
International Equities - Developed	MSCI World Ex USA (Net)	7.00%	5.20%
International Equities - Emerging	MSCI Emerging Markets (Net) Index	7.00%	5.70%
Investment-Grade Bonds	Bloomberg Barclays U.S Aggregate Bond Index	3.00%	-0.20%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	3.14%
Direct Lending	S&P/LSTA Leveraged Loan Index	11.00%	7.16%
Distressed Debt	Cambridge Associates Distressed Securities Index ⁽⁴⁾	4.00%	6.90%
REIT Equities	67% FTSE NA REIT Equity REITs Index + 33% FTSE	3.00%	4.50%
Master Limited Partnership (MLPs)	Alerian MLP Index	2.00%	8.40%
Private Real Estate Partnership	Cambridge Associates Real Estate Index ⁽⁵⁾	6.00%	5.50%
Hedges Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	8.00%	2.30%

(1) Target asset allocation adopted at the June 2020 TCDRS Board meeting.

(2) Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.80%, per Cliffwater's 2020 capital market assumptions.

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

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

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

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability (Asset) if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.60%) in measuring the 2020 Net Pension Liability (Asset):

	1% Decrease	Current Discount Rate	1% Increase
	6.60%	7.60%	8.60%
Net Pension Liability	\$ 498,905	\$ 94,902	\$ (225,188)

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 6 RETIREMENT PLANS (CONTINUED)

Discount Rate Sensitivity Analysis (Continued)

The following schedule shows the impact of the Net Pension Liability (Asset) if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8.10%) in measuring the 2019 Net Pension Liability (Asset):

	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Net Pension Liability	\$ 255,871	\$ (29,506)	\$ (260,996)

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

At August 31, 2021, the Authority reported \$94,902 for the net pension liability and pension expense of \$115,823 related to the December 31, 2020 valuation. The breakdown of the components of pension expense as follows:

	January 1, 2020 to December 31, 2020
Net Pension Liability (Asset) - Beginning of Period	\$ (29,506)
Changes in Pension Liability	
Service Cost	220,670
Interest on Total Pension Liability ⁽¹⁾	141,997
Changes in Benefit Terms	-
Difference Between Expected and Actual Experience in the Measurement of the Total Pension Liability	18,267
Changes in Assumptions or Other Inputs	162,996
Contributions from the Employer	(139,755)
Contributions from the Employee	(111,217)
Pension Plan Net Investment Income	(163,249)
Benefit Payments	-
Administrative Expenses	1,439
Other Changes	(6,740)
Net Pension Liability (Asset) - End of Period	\$ 94,902

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 6 RETIREMENT PLANS (CONTINUED)

Pension Assets/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 67,800	\$ 32,216
Changes in Assumptions	-	143,516
Net Difference Between Projected and Actual Earnings	40,841	-
Contributions Made Subsequent to Measurement Date	-	82,437
Total	<u>\$ 108,641</u>	<u>\$ 258,169</u>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions, other than contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 4,503
2022	12,976
2023	(8,002)
2024	9,688
2025	19,269
Thereafter	28,657
Total	<u>\$ 67,091</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 6 RETIREMENT PLANS (CONTINUED)

Pension Asset/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At August 31, 2020, the Authority reported \$29,506 for the net pension asset and pension expense of \$97,368 related to the December 31, 2019 valuation. The breakdown of the components of pension expense follows:

	January 1, 2019 to December 31, 2019
Net Pension Liability (Asset) - Beginning of Period	\$ 56,976
Changes in Pension Liability	
Service Cost	193,971
Interest on Total Pension Liability ⁽¹⁾	114,742
Changes in Benefit Terms	-
Difference Between Expected and Actual Experience in the Measurement of the Total Pension Liability	18,003
Changes in Assumptions or Other Inputs	-
Contributions from the Employer	(118,939)
Contributions from the Employee	(96,391)
Pension Plan Net Investment Income	(191,676)
Benefit Payments	-
Administrative Expenses	1,201
Other Changes	(7,393)
Net Pension Liability (Asset) - End of Period	<u>\$ (29,506)</u>

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

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences Between Expected and Actual Experience	\$ 82,212	\$ 19,318
Changes in Assumptions	-	4,565
Net Difference Between Projected and Actual Earnings	22,919	-
Contributions Made Subsequent to Measurement Date	N/A	85,049
Total	<u>\$ 105,131</u>	<u>\$ 108,932</u>

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 6 RETIREMENT PLANS (CONTINUED)

Pension Asset/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Total and net pension liability are as follows:

	December 31 2019	December 31 2020
Total Pension Liability	\$ 1,546,329	\$ 2,061,794
Fiduciary Net Position	1,575,835	1,966,892
Net Pension Liability (Asset)	\$ (29,506)	\$ 94,902
Fiduciary Net Position as a % of Total Pension Liability	101.91%	95.40%
Pensionable Covered Payroll	1,377,018	1,588,819
Net Pension Liability as a % of Covered Payroll	-2.14%	5.97%

The Authority also sponsors a 457(b) plan, the Authority Employees' Pension Plan (the Plan), whereby retirement benefits are provided to eligible full-time employees in lieu of Social Security. Under the Plan, Authority will match one-to-one the amount equal to 0.65% of the employee's salary. Employees are permitted to contribute between 1% of the employees' compensation up to the maximum of 12%.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

Authority participates in the TML Multistate Intergovernmental Employee Benefits Pool (TML-MEBP) Retiree Reimbursement Arrangement. The plan is an agent multiple-employer plan. Employees hired before April 1, 2016, with at least 10 years of service and meeting the retirement eligibility requirements set forth in E.5.1 may opt to participate in the Retiree Reimbursement Arrangement, under which Authority will fund an account for reimbursement of eligible health care expenses for the retiree in the amounts provided for annually in Authority's fiscal year budget for retirees within the following classifications:

- a. Retirees with 10 years of service, but less than 15 years of service;
- b. Retirees with 15 years of service, but less than 20 years of service; and
- c. Retirees with 20 years of service or more.

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

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Description (Continued)

At August 31, 2021 and 2020, the Plan had 15 total participants (13 active and 2 retired) and met the requirements to use the alternative measurement method and elected to do so.

Effective September 1, 2017, the Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The statement established standards for purposes of measuring the net other postemployment benefits (OPEB) liability, deferred outflows of resources and deferred inflow of resources related to OPEB, and related expenses.

Total OPEB Liability

The Authority's total OPEB liability was measured as of August 31, 2021 and 2020, and was determined by an actuarial valuation as of that date.

Actuarial Methods and Assumptions

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

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

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

Valuation Date	August 31, 2021	August 31, 2020
Amortization Method	Level Percentage of Payroll	Level Percentage of Payroll
Discount Rate	1.50%	2.21%
Mortality Rates	Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years	RP2000 Mortality Table for Males and Females Projected 18 years
Turnover Rates	Derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of the employee group covered by the Federal Employees Retirement System	Derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of the employee group covered by the Federal Employees Retirement System
Average Salary Increase	2.00%	2.00%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Health Care Trend, August 31, 2021 and 2020

August 31, 2021 Healthcare Cost Trend Rates

	Medical	Pharmacy	Dental	Vision
Year 1	4.90%	5.90%	3.50%	3.00%
Year 2	4.80%	4.80%	3.50%	3.00%
Year 3	4.70%	4.70%	3.00%	3.00%
Year 4	4.70%	4.70%	3.00%	3.00%
Year 5	4.60%	4.60%	3.00%	3.00%
Year 6	4.50%	4.50%	3.00%	3.00%
Year 7	4.40%	4.40%	3.00%	3.00%
Year 8	4.30%	4.30%	3.00%	3.00%
Year 9	4.30%	4.30%	3.00%	3.00%
Year 10+	4.30%	4.30%	3.00%	3.00%

August 31, 2020 Healthcare Cost Trend Rates

	Medical	Pharmacy	Dental	Vision
Year 1	4.60%	7.60%	3.50%	3.00%
Year 2	4.70%	6.20%	3.50%	3.00%
Year 3	4.80%	4.90%	3.00%	3.00%
Year 4	4.80%	4.80%	3.00%	3.00%
Year 5	4.80%	4.80%	3.00%	3.00%
Year 6	4.80%	4.80%	3.00%	3.00%
Year 7	4.70%	4.70%	3.00%	3.00%
Year 8	4.70%	4.70%	3.00%	3.00%
Year 9	4.70%	4.70%	3.00%	3.00%
Year 10+	4.70%	4.70%	3.00%	3.00%

Discount Rate

The discount rate is based on a yield or index for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or better for benefits not covered by plan assets.

The S&P Municipal Bond 20-Year High Grade Rate Index was used in determining the discount rate used to measure the Total OPEB Liability as of August 31, 2021 (measurement date under GASB 75).

	2021	2020
Discount Rate	1.50%	2.21%
S&P Municipal Bond 20 Year High Grade Rate Index	1.50%	2.21%

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Change in the Net OPEB Liability

The changes in the net OPEB liability for the Plan are as follows:

	<u>2021</u>	<u>2020</u>
Changes in Net OPEB Liability:		
Service Cost	\$ 54,191	\$ 54,192
Interest on Total OPEB Liability	31,262	24,248
Effect of Plan Changes	-	-
Effect of Economic/Demographic Gains or Losses	75,737	270,362
Effect of Assumptions Changes or Inputs	237,446	26,808
Employer Contributions	<u>(9,110)</u>	<u>(12,310)</u>
 Total Change in Total OPEB Liability	 389,526	 363,300
 Total OPEB Liability - Beginning	 <u>1,364,918</u>	 <u>1,001,618</u>
 Total OPEB Liability - Ending	 <u><u>\$ 1,754,444</u></u>	 <u><u>\$ 1,364,918</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the Authority's Total OPEB Liability if it were calculated using a discount rate that is 1% point lower (0.50%) or 1% point higher (2.50%) than the current rate, for measurement period ended August 31, 2021:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	0.50%	1.50%	2.50%
Total OPEB Liability	\$ 2,176,190	\$ 1,754,444	\$ 1,431,920

The following presents the Authority's Total OPEB Liability if it were calculated using a discount rate that is 1% point lower (1.21%) or 1% point higher (3.21%) than the current rate, for measurement period ended August 31, 2019:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	1.21%	2.21%	3.21%
Total OPEB Liability	\$ 1,674,319	\$ 1,364,918	\$ 1,124,425

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
AUGUST 31, 2021 AND 2020**

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gain and losses related to the changes in total OPEB liability is recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are recognized in future OPEB expense.

The recognition period differs depending on the source of gain or loss:

Item	Amortization Period
The difference between projected and actual earnings on OPEB plan investments	5-year straight-line amortization
All other amounts	Recognized in OPEB expense immediately

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended August 31, 2021, the Authority recognized OPEB expense of \$389,526. As of fiscal year ended August 31, 2021, the Authority reported no deferred inflows or outflows of resources related to OPEB.

For the fiscal year ended August 31, 2020, the Authority recognized a gain related to OPEB of \$375,610. As of fiscal year ended August 31, 2020, the Authority reported no deferred inflows or outflows of resources related to OPEB.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020	2019	2018
Total OPEB Liability:				
Service Cost	\$ 54,191	\$ 54,192	\$ 183,805	\$ 194,607
Interest on Total OPEB Liability	31,262	24,248	40,754	39,207
Effect of Plan Changes	-	238,893	238,893	338,432
Effect of Assumption Changes or Inputs	237,446	26,808	(285,427)	237,446
Effect of Economic/Demographic (Gains) or Losses	75,737	270,362	(21,261)	35,531
Benefit Payments/Refunds of Contributions	(9,110)	(12,310)	(11,905)	(13,205)
Net Change in Total OPEB Liability	389,526	363,300	144,859	832,018
Total OPEB Liability - Beginning	1,364,918	1,001,618	856,759	-
Total OPEB Liability - Ending (a)	<u>\$ 1,754,444</u>	<u>\$ 1,364,918</u>	<u>\$ 1,001,618</u>	<u>\$ 832,018</u>
Fiduciary Net Position:				
Employer Contributions	\$ 12,310	\$ 12,310	\$ 11,905	\$ 11,871
Benefit Payments/Refunds of Contributions	(12,310)	(12,310)	(11,905)	(11,871)
Net Change in Fiduciary Net Position	-	-	-	-
Fiduciary Net Position - Beginning	-	-	-	-
Fiduciary Net Position - Ending (b)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net OPEB Liability (Asset) - Ending <=(a)-(b)	<u>\$ 1,754,444</u>	<u>\$ 1,364,918</u>	<u>\$ 1,001,618</u>	<u>\$ 832,018</u>
Fiduciary Net Position as a % of Total OPEB Liability	0.00%	0.00%	0.00%	0.00%
Covered- Employee Payroll (1)	N/A	N/A	N/A	N/A
Total OPEB Liability as a % of Covered Employee Payroll	N/A	N/A	N/A	N/A

(1) Covered-employee payroll not available

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

See accompanying Note to Required Supplementary Information.

LAKE CITIES MUNICIPAL UTILITY AUTHORITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEARS ENDED AUGUST 31, 2021 AND 2020

	2021	2020	2019	2018	2017	2016	2015
Total Pension Liability:							
Service Cost	\$ 220,670	\$ 193,970	\$ 180,424	\$ 169,767	\$ 183,804	\$ 144,987	\$ 155,483
Interest on Total Pension Liability	141,997	114,742	91,957	72,809	50,629	43,843	31,848
Effect of Plan Changes	-	-	-	-	-	(26,350)	-
Effect of Assumption Changes or Inputs	162,996	-	-	1,927	-	6,011	-
Effect of Economic/Demographic (Gains) or Losses	18,267	18,003	4,583	(6,432)	(24,596)	(103,836)	(16,767)
Benefit Payments/Refunds of Contributions	(28,464)	(5,847)	(12,456)	(12,223)	(18,969)	(1,146)	(13,324)
Net Change in Total Pension Liability	515,466	320,868	264,508	225,848	190,868	63,509	157,240
Total Pension Liability - Beginning	1,546,330	1,225,462	960,954	735,106	544,238	480,729	323,489
Total Pension Liability - Ending (a)	<u>\$2,061,796</u>	<u>\$1,546,330</u>	<u>\$1,225,462</u>	<u>\$ 960,954</u>	<u>\$ 735,106</u>	<u>\$ 544,238</u>	<u>\$ 480,729</u>
Fiduciary Net Position:							
Employer Contributions	\$ 139,755	\$ 118,939	\$ 109,560	\$ 105,354	\$ 98,963	\$ 96,213	\$ 94,153
Member Contributions	111,217	96,391	84,417	80,562	76,937	74,419	69,158
Investment Income Net of Investment Expenses	163,249	191,676	(16,583)	107,346	38,410	(8,513)	12,643
Benefit Payments/Refunds of Contributions	(28,464)	(5,847)	(12,456)	(12,223)	(18,968)	(1,146)	(13,325)
Administrative Expenses	(1,439)	(1,201)	(939)	(664)	(418)	(315)	(208)
Other	6,740	7,393	5,508	2,322	17,574	(54)	88
Net Change in Fiduciary Net Position	391,058	407,351	169,507	282,697	212,498	160,604	162,509
Fiduciary Net Position - Beginning	1,575,836	1,168,485	998,978	716,281	503,783	343,179	180,670
Fiduciary Net Position - Ending (b)	<u>\$1,966,894</u>	<u>\$1,575,836</u>	<u>\$1,168,485</u>	<u>\$ 998,978</u>	<u>\$ 716,281</u>	<u>\$ 503,783</u>	<u>\$ 343,179</u>
Net Pension Liability (Asset) - Ending <=(a)-(b)	<u>\$ 94,902</u>	<u>\$ (29,506)</u>	<u>\$ 56,977</u>	<u>\$ (38,024)</u>	<u>\$ 18,825</u>	<u>\$ 40,455</u>	<u>\$ 137,550</u>
Fiduciary Net Position as a % of Total Pension Liability	95.40%	101.91%	95.35%	103.96%	97.44%	92.57%	71.39%
Pensionable Covered Payroll	\$1,588,819	\$1,377,018	\$1,205,961	\$1,150,893	\$1,099,105	\$1,063,129	\$ 987,970
Net Pension Liability as a % of Covered Payroll	5.97%	-2.14%	4.72%	-3.30%	1.71%	3.81%	13.92%

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

See accompanying Note to Required Supplementary Information.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEARS ENDED AUGUST 31, 2021 AND 2020**

Year Ending December 31,	Actuarially Determined Contribution ⁽¹⁾	Actual Employer Contribution ⁽¹⁾	Contribution Deficiency (Excess)	Pensionable Covered Payroll ⁽²⁾	Actual Contributions as a % of Covered Payroll
2010	Not Available	Not Available	Not Available	Not Available	Not Available
2011	Not Available	Not Available	Not Available	Not Available	Not Available
2012	Not Available	Not Available	Not Available	Not Available	Not Available
2013	\$ 93,808	\$ 109,807	\$ (16,000)	\$ 984,341	11.2%
2014	94,153	94,153	-	987,970	9.5%
2015	96,213	96,213	-	1,063,129	9.1%
2016	98,919	98,963	(44)	1,099,105	9.0%
2017	105,354	105,354	-	1,150,893	9.2%
2018	109,560	109,560	-	1,205,961	9.1%
2019	118,699	118,939	(240)	1,377,018	8.6%
2020	139,755	139,755	-	1,588,819	8.8%

(1) TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis. If additional assistance is needed, please contact TCDRS.

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

See accompanying Note to Required Supplementary Information.

**LAKE CITIES MUNICIPAL UTILITY AUTHORITY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2021 AND 2020**

NOTE 1 OPEB AND PENSION LIABILITY

Change in Benefit Terms

There were no changes of benefit terms that had a significant effect on the measurement of the total OPEB or pension liability during the measurement period.

Change in Assumptions

There were no changes in assumptions or other inputs that had a significant effect on the measurement of the total OPEB or pension liability during the measurement period.

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