

*REPORT OF EXAMINATION*

**CITY OF  
MEADOWLAKES**

*Meadowlakes, Texas*

**For the Year Ended  
September 30, 2017**

CITY OF MEADOWLAKES, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2017

CITY OF MEADOWLAKES  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Aldermen  
City of Meadowlakes, Texas  
Meadowlakes, TX 78654

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Meadowlakes, Texas, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Meadowlakes, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the Schedule of Changes in Net Pension Liability and Related Ratios and the Schedule of Employer Contributions on pages 3–8, 36, 37 and 38 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.

*Neffendorf + Knopp, P.C.*

NEFFENDORF & KNOPP, P.C.  
Fredericksburg, Texas

February 27, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Meadowlakes, we offer readers of the City's financial statements this narrative overview and analysis of the financial statements of the City for the year ended September 30, 2017. Please read it in conjunction with the independent auditors' report on page 1, and City's Basic Financial Statements which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$5,086,680 (net position). Of this amount, \$976,041 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$543,759 as a result of this year's operations.
- At September 30, 2017, the City's governmental funds reported combined ending fund balances of \$426,783, an increase of \$42,428 in comparison with the prior year.
- At September 30, 2017, the City's Enterprise Funds reported unrestricted net position of \$551,845, an increase of \$101,512 in comparison with the prior year.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 through 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Budgetary Comparison Schedule (operating fund), Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions and the Notes to the Schedule of Contributions are presented as required supplementary information on pages 36, 37, 38 and 39.

## **Reporting the City as a Whole**

### ***The Statement of Net Position and the Statement of Activities***

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider other factors as well, such as changes in the City's customers or its property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activity:

- Governmental activity - Most of the City's basic services are reported here, including the public safety, municipal court and administration. Property taxes, user charges, sales tax and franchise tax finance most of these activities.
- Business-type activity - The City's water and sewer system, sanitation and recreation are reported as a business-type activity since the fees charged to customers cover the cost of services provided.

## **Reporting the City's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has two kinds of funds:

- Governmental funds - All of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in Note II to the financial statements.
- Proprietary funds - Services for which the City charges customers a fee are generally reported in proprietary funds. The City's utility fund (Water, Sewer, Sanitation and Recreation) is a business-type activity and provides both long and short-term financial information.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the City's governmental and business-type activities.

Net position of the City's governmental activities increased from \$355,061 to \$834,993. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$424,196 at September 30, 2017. This increase in governmental net position was the result of three factors. First, the City's revenues exceeded the expenditures by \$42,428. Second, the City paid principal on long-term debt of \$385,000. Third, the City recorded depreciation in the amounts of \$58,045 and third, due to implementation of GASB Statement No. 68 a decrease in expenses was necessary in the amount of \$9,722.

Net position of the City's business-type activities increased from \$4,187,860 to \$4,251,687. Unrestricted net position was \$551,845 at September 30, 2017. This increase in business-type net position was the result of a net income of \$63,827.

**Table I**  
**City of Meadowlakes**

### NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Current and Restricted Assets	\$ 513,979	\$ 447,333	\$ 795,437	\$ 571,962	\$ 1,309,416	\$ 1,019,295
Capital Assets	2,805,627	2,863,672	3,866,722	3,957,767	6,672,349	6,821,439
Total Assets	\$ 3,319,606	\$ 3,311,005	\$ 4,662,159	\$ 4,529,729	\$ 7,981,765	\$ 7,840,734
Deferred Outflow of Resources						
Deferred Outflow Related to Pension Plan	\$ 16,958	\$ 19,516	\$ 36,037	\$ 42,317	\$ 52,995	\$ 61,833
Total Deferred Outflows of Resources	\$ 16,958	\$ 19,516	\$ 36,037	\$ 42,317	\$ 52,995	\$ 61,833
Long-Term Liabilities	\$ 2,025,000	\$ 2,412,789	\$ 112,289	\$ 173,596	\$ 2,137,289	\$ 2,586,385
Other Liabilities	450,285	540,743	309,009	199,746	759,294	740,489
Total Liabilities	\$ 2,475,285	\$ 2,953,532	\$ 421,298	\$ 373,342	\$ 2,896,583	\$ 3,326,874
Deferred Inflow of Resources						
Deferred Inflow Related to Pension Plan	\$ 11,864	\$ 5,102	\$ 25,211	\$ 10,844	\$ 37,075	\$ 15,946
Deferred Inflow Refunding	14,422	16,826			14,422	16,826
Total Deferred Inflows of Resources	\$ 26,286	\$ 21,928	\$ 25,211	\$ 10,844	\$ 51,497	\$ 32,772
Net Position:						
Net Investment in Capital Assets	\$ 395,626	\$ 68,671	\$ 3,699,842	\$ 3,737,527	\$ 4,095,468	\$ 3,806,198
Restricted	15,171	13,732			15,171	13,732
Unrestricted	424,196	272,658	551,845	450,333	976,041	722,991
Total Net Position	\$ 834,993	\$ 355,061	\$ 4,251,687	\$ 4,187,860	\$ 5,086,680	\$ 4,542,921

**Table II**  
**City of Meadowlakes**

**CHANGES IN NET POSITION**

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Property Taxes	\$ 706,507	\$ 698,506	\$	\$	\$ 706,507	\$ 698,506
Franchise Tax	54,023	78,678			54,023	78,678
Charges for Services	8,717	7,013	2,155,616	2,020,915	2,164,333	2,027,928
Miscellaneous	5,616	6,622	121,781	91,209	127,397	97,831
Contributions and Donations				-	-	-
Interest Earnings	2,116	257	1,690	24	3,806	281
Total Revenue	\$ 776,979	\$ 791,076	\$ 2,279,087	\$ 2,112,148	\$ 3,056,066	\$ 2,903,224
Expenses:						
General Government	\$ 329,276	\$ 335,929	\$	\$	\$ 329,276	\$ 335,929
BCAD	11,594	11,760			11,594	11,760
Building Committee					-	-
Flood Plain Administrator					-	-
Ordinance Enforcement/Public Safety	85,970	84,355			85,970	84,355
Traffic Control	18,322	19,830			18,322	19,830
Municipal Court	9,755	8,890			9,755	8,890
Animal Control	9,342	9,556			9,342	9,556
Water and Sewer			1,036,704	1,165,195	1,036,704	1,165,195
Recreation Fund			956,451	1,020,393	956,451	1,020,393
Debt Service - Interest	54,893	62,684			54,893	62,684
Fiscal Agent's Fees					-	-
Issuance Costs					-	-
Total Expenses	\$ 519,152	\$ 533,004	\$ 1,993,155	\$ 2,185,588	\$ 2,512,307	\$ 2,718,592
Increase (Decrease) in Net Position						
Before Transfers & Capital Contributions	\$ 257,827	\$ 258,072	\$ 285,932	\$ (73,440)	\$ 543,759	\$ 184,632
Transfers	222,105	91,127	(222,105)	(46,283)	-	
Net Change	479,932	349,199	63,827	(119,723)	543,759	184,632
Net Position - Beginning	355,061	5,862	4,187,860	4,262,739	4,542,921	4,268,600
Prior Period Adjustment		-		44,844	-	44,844
Net Position - Ending	\$ 834,993	\$ 355,061	\$ 4,251,687	\$ 4,187,860	\$ 5,086,680	\$ 4,498,077

The cost of all governmental activities this year was \$519,152. However, as shown in the Statement of Activities on page 10, the amount that our taxpayers ultimately financed for these activities through City taxes was only \$706,507, because the other costs were paid by franchise tax (\$54,023), user charges (\$8,717), interest (\$2,116) and other miscellaneous (\$4,194).

#### THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a fund balance of \$426,783, which is more than last year's total of \$384,355. Included in this year's total change in fund balance is an increase of \$40,990 in the City's General Fund. This increase in the General Fund balance was caused by the excess of revenues over expenditures.

The City adopted the General Fund Budget. Actual revenues were less than budgeted amounts and actual expenditures were less than the budgeted amounts.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2017, the City had the following amounts invested in capital assets, net of depreciation:

	<b>CAPITAL ASSETS</b>					
	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Land and Improvements	\$ 1,851,301	\$ 1,851,301	\$ 42,334	\$ 42,334	\$ 1,893,635	\$ 1,893,635
Infrastructure			6,219,357	6,098,997	6,219,357	6,098,997
Buildings	1,201,683	1,201,683	411,659	411,659	1,613,342	1,613,342
Improvements	205,724	205,724	343,281	343,281	549,005	549,005
Machinery & Equipment	170,908	170,908	677,835	665,835	848,743	836,743
Construction in Progress	-	-	-	-	-	-
Total Capital Assets	\$ 3,429,616	\$ 3,429,616	\$ 7,694,466	\$ 7,562,106	\$ 11,124,082	\$ 10,991,722
Less: Accumulated Depreciation	(623,989)	(565,944)	(3,827,742)	(3,604,337)	(4,451,731)	(4,170,281)
Capital Assets, Net	<u>\$ 2,805,627</u>	<u>\$ 2,863,672</u>	<u>\$ 3,866,724</u>	<u>\$ 3,957,769</u>	<u>\$ 6,672,351</u>	<u>\$ 6,821,441</u>

More detailed information about the City's capital assets is presented in Note D and E to the financial statements.

## DEBT

At September 30, 2017, the City had the following outstanding debt:

### OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2017	2016	2017	2016	2017	2016
Bonds Payable	\$ 2,410,000	\$ 2,795,000	\$ -	\$ -	\$ 2,410,000	\$ 2,795,000
Notes Payable			166,880	220,260	166,880	220,260
Compensated Absences	8,780	117,005	20,864	9,212	29,644	126,217
Total Outstanding Debt	<u>\$ 2,418,780</u>	<u>\$ 2,912,005</u>	<u>\$ 187,744</u>	<u>\$ 229,472</u>	<u>\$ 2,606,524</u>	<u>\$ 3,141,477</u>

For governmental activities, the City paid \$385,000 in principal payments on long-term debt.

More detailed information about the City's long-term liabilities is presented in Notes G, H, and I to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2018 budget and tax rates. The major factors are the assessed property valuation and population growth. These indicators were taken into account when adopting the General Fund budget for 2018. Amounts available for appropriation in the General Fund budget are \$709,150 (including a transfer in from other funds in the amount of \$245,500) and expenditures are estimated to be \$709,150 (including a transfer out to other funds in the amount of \$125,500).

If these estimates are realized, the City's budgetary General fund balance is expected to remain the same by the close of 2018.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City's business office, at City of Meadowlakes, Texas.

CITY OF MEADOWLAKES, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

EXHIBIT A-1

	Primary Government		
	Governmental Activities	Business - Type Activities	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 196,384	\$ 348,589	\$ 544,973
Investments - Current	242,306	252,427	494,733
Accounts Receivable (Net)	26,065	122,647	148,712
Due from Other Funds	40,993	(40,993)	-
Inventories	-	45,654	45,654
Prepaid Items	3,603	50,745	54,348
Capital Assets:			
Land Purchase and Improvements	1,851,301	42,334	1,893,635
Infrastructure, Net	-	2,965,790	2,965,790
Buildings, Net	818,075	237,133	1,055,208
Improvements other than Buildings, Net	114,074	277,338	391,412
Furniture and Equipment, Net	22,177	344,127	366,304
Net Pension Asset	4,628	9,835	14,463
Other Assets	-	6,533	6,533
Total Assets	<u>3,319,606</u>	<u>4,662,159</u>	<u>7,981,765</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred Outflow Related to Pension Plan	16,958	36,037	52,995
Total Deferred Outflows of Resources	<u>16,958</u>	<u>36,037</u>	<u>52,995</u>
<b>LIABILITIES</b>			
Accounts Payable	5,969	105,312	111,281
Wages and Salaries Payable	11,159	32,097	43,256
Compensated Absences Payable	8,780	20,864	29,644
Intergovernmental Payable	719	1,506	2,225
Unearned Revenues	12,054	6,038	18,092
Note Payable - Current	-	54,591	54,591
Other Current Liabilities	26,604	88,601	115,205
Noncurrent Liabilities:			
Debt Due Within One Year	385,000	-	385,000
Due in More Than One Year	2,025,000	112,289	2,137,289
Total Liabilities	<u>2,475,285</u>	<u>421,298</u>	<u>2,896,583</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred Inflow Related to Pension Plan	11,864	25,211	37,075
Deferred Resource Inflow for Refunding	14,422	-	14,422
Total Deferred Inflows of Resources	<u>26,286</u>	<u>25,211</u>	<u>51,497</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	395,626	3,699,842	4,095,468
Restricted for Debt Service	15,171	-	15,171
Unrestricted Net Position	424,196	551,845	976,041
Total Net Position	<u>\$ 834,993</u>	<u>\$ 4,251,687</u>	<u>\$ 5,086,680</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

		Program Revenues
	Expenses	Charges for Services
<b>Primary Government:</b>		
GOVERNMENTAL ACTIVITIES:		
General Government	329,276	5,350
BCAD	11,594	-
Ordinance Enforcement/Public Safety	85,970	3,367
Traffic Control	18,322	-
Municipal Court	9,755	-
Animal Control	9,342	-
Interest on Debt	54,893	-
Total Governmental Activities	519,152	8,717
BUSINESS-TYPE ACTIVITIES:		
Public Works Fund	1,036,704	1,229,494
Recreation Fund	956,451	926,122
Total Business-Type Activities	1,993,155	2,155,616
<b>TOTAL PRIMARY GOVERNMENT:</b>	\$ 2,512,307	\$ 2,164,333

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Franchise Tax

Other Taxes

Investment Earnings

Miscellaneous Revenue

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position--Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (323,926)	\$ -	\$ (323,926)
(11,594)	-	(11,594)
(82,603)	-	(82,603)
(18,322)	-	(18,322)
(9,755)	-	(9,755)
(9,342)	-	(9,342)
(54,893)	-	(54,893)
(510,435)	-	(510,435)
-	192,790	192,790
-	(30,329)	(30,329)
-	162,461	162,461
(510,435)	162,461	(347,974)
346,188	-	346,188
360,319	-	360,319
54,023	-	54,023
1,422	-	1,422
2,116	1,690	3,806
4,194	121,781	125,975
222,105	(222,105)	-
990,367	(98,634)	891,733
479,932	63,827	543,759
355,061	4,187,860	4,542,921
\$ 834,993	\$ 4,251,687	\$ 5,086,680

CITY OF MEADOWLAKES, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 181,215	\$ 15,171	\$ 196,386
Investments - Current	242,306	-	242,306
Taxes Receivable	11,807	12,289	24,096
Due from Other Funds	40,994	-	40,994
Prepaid Items	3,603	-	3,603
Total Assets	<u>\$ 479,925</u>	<u>\$ 27,460</u>	<u>\$ 507,385</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 5,970	\$ -	\$ 5,970
Wages and Salaries Payable	11,159	-	11,159
Intergovernmental Payable	719	-	719
Unearned Revenues	12,054	-	12,054
Other Current Liabilities	26,604	-	26,604
Total Liabilities	<u>56,506</u>	<u>-</u>	<u>56,506</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	11,807	12,289	24,096
Total Deferred Inflows of Resources	<u>11,807</u>	<u>12,289</u>	<u>24,096</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
Retirement of Long-Term Debt	-	15,171	15,171
Assigned Fund Balance:			
Fire Department Reserve	10,000	-	10,000
Unassigned Fund Balance	401,612	-	401,612
Total Fund Balances	<u>411,612</u>	<u>15,171</u>	<u>426,783</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 479,925</u>	<u>\$ 27,460</u>	<u>\$ 507,385</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 426,783</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	51,846
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays and debt principal payments is to increase net position.	387,405
This fiscal year required that the City report their Net Pension Asset in the Government Wide Statement of Net Position to comply with GASB 68. The items reported as a result of this implementation included a Net Pension Asset of \$4,628, a Deferred Resource Outflow of \$16,958 and a Deferred Resource Inflow of \$11,864. The net effect of these was to increase the ending net position by \$9,722.	9,722
The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(58,046)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	17,283
<b>Net Position of Governmental Activities</b>	<b>\$ 834,993</b>

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 351,827	\$ 352,947	\$ 704,774
Franchise Tax	54,023	-	54,023
Other Taxes	1,422	-	1,422
Licenses and Permits	5,350	-	5,350
Fines	3,367	-	3,367
Investment Earnings	1,328	788	2,116
Other Revenue	4,104	-	4,104
Total Revenues	421,421	353,735	775,156
EXPENDITURES:			
Current:			
General Government	377,553	-	377,553
BCAD	11,594	-	11,594
Ordinance Enforcement/Public Safety	85,970	-	85,970
Traffic Control	18,322	-	18,322
Municipal Court	9,755	-	9,755
Animal Control	9,342	-	9,342
Debt Service:			
Principal on Debt	-	385,000	385,000
Interest on Debt	-	57,297	57,297
Total Expenditures	512,536	442,297	954,833
Excess (Deficiency) of Revenues Over (Under) Expenditures	(91,115)	(88,562)	(179,677)
OTHER FINANCING SOURCES (USES):			
Transfers In	133,105	90,000	223,105
Transfers Out (Use)	(1,000)	-	(1,000)
Total Other Financing Sources (Uses)	132,105	90,000	222,105
Net Change in Fund Balances	40,990	1,438	42,428
Fund Balance - October 1 (Beginning)	370,622	13,733	384,355
Fund Balance - September 30 (Ending)	\$ 411,612	\$ 15,171	\$ 426,783

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 42,428</b>
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2017 capital outlays and debt principal payments is to increase the change in net position.	387,405
The entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expenses were \$8,640 and total debits to expenses were \$10,543. The net effect on the change in net position on Exhibit B-1 is a decrease of \$1,903.	(1,903)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(58,045)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.	110,047
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 479,932</b>

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 289,707	\$ 58,882	\$ 348,589
Investments - Current	252,427	-	252,427
Accounts Receivable (Net)	122,354	293	122,647
Due from Other Funds	3,153	-	3,153
Inventories	26,544	19,110	45,654
Prepaid Items	4,353	46,392	50,745
Total Current Assets	698,538	124,677	823,215
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	42,334	-	42,334
Infrastructure	6,219,355	-	6,219,355
Accumulated Depreciation - Infrastructure	(3,253,565)	-	(3,253,565)
Buildings	406,159	5,500	411,659
Accumulated Depreciation - Buildings	(174,526)	-	(174,526)
Improvements other than Buildings	279,082	70,979	350,061
Accumulated Depreciation - Other Improvements	(72,723)	-	(72,723)
Furniture and Equipment	356,177	314,878	671,055
Accumulated Depreciation - Furniture & Equipment	(233,563)	-	(233,563)
Accumulated Depreciation - Capital Assets	-	(93,365)	(93,365)
Net Pension Asset	4,721	5,114	9,835
Other Assets	-	6,533	6,533
Total Noncurrent Assets	3,573,451	309,639	3,883,090
Total Assets	4,271,989	434,316	4,706,305
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Outflow Related to Pension Plan	17,298	18,739	36,037
Total Deferred Outflows of Resources	17,298	18,739	36,037

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2017

Business-Type Activities - Enterprise Funds			
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	51,550	53,762	105,312
Wages and Salaries Payable	11,673	20,424	32,097
Compensated Absences Payable	11,844	9,020	20,864
Intergovernmental Payable	1,093	413	1,506
Due to Other Funds	166	43,980	44,146
Unearned Revenues	-	6,038	6,038
Notes Payable - Current	-	54,591	54,591
Other Current Liabilities	86,015	2,586	88,601
Total Current Liabilities	162,341	190,814	353,155
Noncurrent Liabilities:			
Other Long Term Debt Payable - Noncurrent	-	112,289	112,289
Total Noncurrent Liabilities	-	112,289	112,289
Total Liabilities	162,341	303,103	465,444
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Inflow Related to Pension Plan	12,101	13,110	25,211
Total Deferred Inflows of Resources	12,101	13,110	25,211
<b>NET POSITION</b>			
Net Investment in Capital Assets	3,568,730	131,112	3,699,842
Unrestricted Net Position	546,115	5,730	551,845
Total Net Position	\$ 4,114,845	\$ 136,842	\$ 4,251,687

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-2 (Cont'd)

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
Charges for Services	\$ 1,229,494	\$ 926,122	\$ 2,155,616
Other Revenue	116,951	4,830	121,781
Total Operating Revenues	1,346,445	930,952	2,277,397
<b>OPERATING EXPENSES:</b>			
Proprietary Fund Function - Water			
Personnel Services - Salaries and Wages	271,943	-	271,943
Personnel Services - Employee Benefits	110,762	-	110,762
Purchased Professional & Technical Services	190,333	-	190,333
Purchased Property Services	186,481	-	186,481
Other Operating Costs	49,964	-	49,964
Supplies	49,844	-	49,844
Total Proprietary Fund Function - Water	859,327	-	859,327
Proprietary Fund Function - Golf			
Personnel Services - Salaries and Wages	-	254,156	254,156
Personnel Services - Employee Benefits	-	64,300	64,300
Purchased Property Services	-	112,920	112,920
Other Operating Costs	-	106,050	106,050
Supplies	-	31,904	31,904
Total Proprietary Fund Function - Golf	-	569,330	569,330
Proprietary Fund Function - Tennis			
Purchased Property Services	-	988	988
Proprietary Fund Function - Swimming			
Personnel Services - Salaries and Wages	-	5,057	5,057
Personnel Services - Employee Benefits	-	225	225
Purchased Property Services	-	1,913	1,913
Other Operating Costs	-	237	237
Supplies	-	164	164
Total Proprietary Fund Function - Swimming	-	7,596	7,596
Proprietary Fund Function - Restaurant & Bar			
Personnel Services - Salaries and Wages	-	164,733	164,733
Personnel Services - Employee Benefits	-	24,885	24,885
Purchased Property Services	-	6,652	6,652
Other Operating Costs	-	22,163	22,163
Supplies	-	109,550	109,550
Total Proprietary Fund Function - Restaurant & Bar	-	327,983	327,983
Depreciation	177,377	46,028	223,405
Total Operating Expenses	1,036,704	951,925	1,988,629
Operating Income (Loss)	309,741	(20,973)	288,768
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment Earnings	1,634	56	1,690
Interest Expense - Non-Operating	-	(4,526)	(4,526)
Total Nonoperating Revenue (Expenses)	1,634	(4,470)	(2,836)

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
Income (Loss) Before Transfers	311,375	(25,443)	285,932
Non-Operating Transfers In	-	93,000	93,000
Transfers Out (Use)	(285,605)	(29,500)	(315,105)
Change in Net Position	25,770	38,057	63,827
Total Net Position - October 1 (Beginning)	4,089,075	98,785	4,187,860
Total Net Position - September 30 (Ending)	<u>\$ 4,114,845</u>	<u>\$ 136,842</u>	<u>\$ 4,251,687</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-3 (Cont'd)

	Business-Type Activities		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 1,201,030	\$ 926,122	\$ 2,127,152
Cash Received from Other	116,951	4,830	121,781
Cash Payments to Employees for Services	(356,133)	(506,167)	(862,300)
Cash Payments for Suppliers	(49,844)	(141,618)	(191,462)
Cash Payments for Other Operating Expenses	(359,631)	(230,401)	(590,032)
Net Cash Provided by Operating Activities	552,373	52,766	605,139
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	(285,605)	63,500	(222,105)
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition of Capital Assets	(132,360)	-	(132,360)
Capital Lease Payments	-	(53,361)	(53,361)
Interest Paid	-	(4,526)	(4,526)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(132,360)	(57,887)	(190,247)
<u>Cash Flows from Investing Activities:</u>			
Interest and Dividends on Investments	1,634	56	1,690
Net Increase in Cash and Cash Equivalents	136,042	58,435	194,477
Cash and Cash Equivalents at the Beginning of the Year	406,092	447	406,539
Cash and Cash Equivalents at the End of the Year	\$ 542,134	\$ 58,882	\$ 601,016

CITY OF MEADOWLAKES, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

EXHIBIT D-3

	Business-Type Activities		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided By Operating Activities:</u>			
Operating Income (Loss)	\$ 309,741	\$ (20,973)	\$ 288,768
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	177,377	46,028	223,405
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (Increase) in Receivables	(28,464)	-	(28,464)
Decrease (Increase) in Inventories	13,518	(374)	13,144
Decrease (Increase) in Prepaid Expenses	641	(38,944)	(38,303)
Increase (Decrease) in Accounts Payable	51,550	20,904	72,454
Increase (Decrease) in Wages Payable	11,673	20,424	32,097
Increase (Decrease) in Compensated Absences	2,632	(5,854)	(3,222)
Decrease (Increase) in Due to Due From Other Funds	(2,987)	43,980	40,993
Increase (Decrease) in Pension Asset	12,267	(7,381)	4,886
Increase (Decrease) in Other Current Liabilities	4,425	1,648	6,073
Decrease (Increase) in Other Assets	-	(6,533)	(6,533)
Increase (Decrease) in Intergovernmental Payable	-	(1,229)	(1,229)
Increase (Decrease) in Unearned Revenue	-	1,070	1,070
Net Cash Provided by Operating Activities	<u>\$ 552,373</u>	<u>\$ 52,766</u>	<u>\$ 605,139</u>

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Meadowlakes, Texas conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

- A. Reporting Entity - The Mayor and City Council is the level of government which has governance responsibilities over all activities within the jurisdiction of the City of Meadowlakes. The City is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since the Mayor and Aldermen are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

On March 1, 2007, the Meadowlakes Municipal Utility District was annexed into the City. The City has assumed all the assets, liabilities and debt obligations of the District as of that date and the District was abolished.

Hidden Falls Golf Club – Public Facilities Corporation - On October 1, 2009 the City established The Meadowlakes Public Facility Corporation (the Corporation) under the Public Facility Corporation Act Chapter 303 (the Act) of the Texas Local Government Code. The Corporation is legally separate from the City, but the City appoints all of the board members and has the ability to remove those board members at will. The Corporation is empowered with responsibility and authority to finance and manage retail operations and maintenance of the City owned Municipal Golf Complex (MGC). Since the Corporation is financially accountable to the City, it is treated as a component unit of the City and is reported as part of the overall financial reporting entity of the City.

As of October 1, 2016 the Meadowlakes Public Facility Corporation was no longer operating the City owned Municipal Golf Complex. The Corporation has not been dissolved but it no longer has any operations.

- B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Meadowlakes nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, sales tax, franchise tax, municipal court fines, charges for services and other miscellaneous revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two

fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

D. Fund Accounting

The City reports the following major governmental funds:

1. **The General Fund** - The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **The Debt Service Fund** - The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Proprietary Fund:

1. **Public Works Fund** - The City accounts for the sales and related costs of its water, sewer utility operations, and sanitation in the Public Works Fund.

2. **Recreation Fund** – The City accounts for golf course related assets and operations not accounted for in the General Fund or the MPFC, component unit, in the Recreation Fund.

E. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position

1. In the government-wide financial statements in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

2. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water & Sewer Plant & Facilities	30-50
Buildings and Improvements	30
Furniture	7-10
Machinery and Equipment	5-7
Automotive Equipment	3-5

Pursuant to GASB Statement Number 34, an extended period of deferral is available before the requirement to record and depreciate infrastructure assets (e.g., roads, bridges, and similar items) acquired before the implementation date becomes effective. Therefore, infrastructure assets acquired prior to October 1, 2001 have not yet been capitalized.

3. Vacation leave and sick leave is earned by each full-time employee. Vacation leave is earned at the rate of 10 days per year for employees with less than ten years of service, 15 days per year from ten to fifteen years of service and 20 days after fifteen years of service. Vacation leave must be taken within one year after it is earned. Sick leave is earned at a rate of 12 days per year but is not paid upon termination.
4. Beginning with fiscal year end September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

5. Implementation of GASB Accounting Standard:

The City has implemented GASB Statement NO. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position* as well as GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under GASB 63 and 65, amounts previously reported as deferred charges as a part of total assets and deferred amounts from refunded debt have been reported in a separate section as deferred outflows of resources and amounts previously reported as deferred revenue as a part of total liabilities have been reported in a separate section as deferred inflows of resources.

6. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
7. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

Budgeted amounts for expenditures from the various funds may not exceed the beginning balances of those funds plus the anticipated revenues for the fiscal year. The final amended budget has been presented in this report. Unencumbered appropriations lapse at the end of each year.

8. Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
9. The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

### A. Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2017, the carrying amount of the City's deposits was \$544,973 and the bank balance was \$581,741. The City's cash deposits held at September 30, 2017 and during the year ended September 30, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

The City's temporary investments at September 30, 2017, are shown below:

Name	Carrying Amount	Market Value	FDIC Coverage	Pledged Securities
Certificates of Deposit - Governmental Activities:				
First State Bank of Central Texas	\$242,306	\$242,306	-0-	\$242,306
Business-Type Activities:				
First State Bank of Central Texas	\$252,427	\$252,427	-0-	\$252,427

### Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the City has adopted a deposit and investment policy. That policy does address the following risks:

**Custodial Credit Risk - Deposits:** This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

**Custodial Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments (certificates of deposit) were secured by FDIC insurance and pledged securities.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2017, the City was not exposed to concentration of credit risk, interest rate risk or foreign currency risk.

B. Property Taxes

Property taxes are levied by October 1 and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

The City contracted with the Burnet County Appraisal District for the appraisal and collection of taxes. For the 2016 tax roll, the assessed valuation was \$220,403,333. The tax rate was \$.1588 for maintenance and operations and \$.1598 for interest and sinking. The total tax rate was \$.3186 per \$100 valuation.

C. Restricted Assets

Restricted assets represent cash that has been set aside in the Debt Service Fund for future payment of the long-term debt.

D. Land, Structures and Equipment-Enterprise Funds

A summary of changes in fixed assets for the enterprise funds appears below:

	Balance 10/1/16	Additions	Deletions	Balance 9/30/17
Land	\$ 42,334	\$	\$	\$ 42,334
Infrastructure	6,098,997	120,360		6,219,357
Buildings	411,659			411,659
Improvements	343,281			343,281
Machinery and Equipment	665,835	12,000		677,835
Totals	\$ 7,562,106	\$ 132,360	\$ -	\$ 7,694,466
Accumulated Depreciation	(3,604,337)	(223,405)		(3,827,742)
Fixed Assets, Net	\$ 3,957,769	\$ (91,045)	\$ -	\$ 3,866,724

E. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2017, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 1,851,301	\$	\$	1,851,301
Buildings	1,201,683			1,201,683
Improvements	205,724			205,724
Machinery and Equipment	170,908			170,908
Construction in Progress	-	-	-	-
Totals	3,429,616	-	-	3,429,616
Accumulated Depreciation	(565,944)	(58,045)		(623,989)
Capital Assets, Net	\$ 2,863,672	\$ (58,045)	\$ -	\$ 2,805,627

Depreciation expense was charged to  
governmental functions as follows:  
General Government

\$	58,045
\$	<u>58,045</u>

F. Operating Lease

On August 11, 2016 the City entered into an equipment lease agreement with PNC Equipment Finance, LLC for a golf cart fleet. The lease is for (18) monthly payments of \$2,717 beginning September 11, 2016.

G. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2017 follows:

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/16	Additions	Deletions	Amounts Outstanding 9/30/17	Due in One Year
<b>Governmental Activities:</b>								
<u>Bonds Payable</u>								
General Obligation								
Refunding Bond - Series 2013	2.05%	\$ 3,340,000	\$ 57,297	\$ 2,795,000	\$	\$ (385,000)	\$ 2,410,000	\$ 385,000
Compensated Absences	N/A	N/A	N/A	117,005	1,144	(109,369)	8,780	N/A
Total		<u>\$ 3,340,000</u>	<u>\$ 57,297</u>	<u>\$ 2,912,005</u>	<u>\$ 1,144</u>	<u>\$ (494,369)</u>	<u>\$ 2,418,780</u>	<u>\$ 385,000</u>
Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/16	Additions	Deletions	Amounts Outstanding 9/30/17	Due in One Year
<b>Business-Type Activities:</b>								
<u>Other Long-Term Debt</u>								
Note Payable								
Meadowlakes POA	2.50%	\$ 300,000	\$ 1,505	\$	\$ -	\$	\$ -	\$ -
Meadowlakes POA	2.25%	223,112	3,586	191,220		(43,366)	147,854	44,350
Meadowlakes POA		50,000	773	29,040		(10,014)	19,026	10,241
Compensated Absences	N/A	N/A	N/A	9,212	11,652		20,864	N/A
Total		<u>\$ 573,112</u>	<u>\$ 5,864</u>	<u>\$ 229,472</u>	<u>\$ 11,652</u>	<u>\$ (53,380)</u>	<u>\$ 187,744</u>	<u>\$ 54,591</u>

H. Revenue Bonds and Certificates of Obligation

The City issued \$1,225,000 General Obligation Refunding Bonds, Series 2008 for the purpose of providing funds to refund the outstanding Revenue Notes, Series 2001 (\$1,210,000). These bonds were called and were redeemed on March 12, 2008 by depositing \$1,220,000 into an escrow account. The Series 2001 notes have been defeased and removed as a liability of the City. The Series 2008 bonds mature on March 1, in each of the years 2009 through 2013, bearing interest at 3.5%. The financial gain on these refunding bonds is \$66,028 and the economic gain is \$71,180.

The City issued \$3,600,000 Combination Tax and Revenue Certificates of Obligation – Series 2008 for purchase of real property (golf course) and repair, rehabilitation and renovation of such real property. The Certificates were issued at an interest rate of 4.8%. The Certificates are payable from and secured by an ad valorem tax levied on all taxable property in the City and further secured by and payable from a first lien on and pledge of the Net Revenues of the System.

The City issued \$3,340,000 General Obligation Refunding Bonds, Series 2013 for the purpose of providing funds to refund part of the outstanding Combination Tax & Revenue Certificates of Obligation Bonds, Series 2008. The refunded bonds consist of \$2,940,000 of Series 2008 bonds. These bonds were called and were redeemed on July 18, 2013 by depositing \$2,915,665 into an escrow account. The portions of the Series 2008 bonds have been defeased and have been removed as a liability of the City. The General Obligation Refunding Bonds, Series 2013 mature on September 1, in each year of the years 2013 through 2023, bearing interest at 2.050%. The financial gain on these refunding bonds was \$179,029 and the economic gain was \$163,435.

Debt service requirements are as follows:

<b>Governmental Activities:</b>			
Year Ended	Bonds Payable		
September 30	Principal	Interest	Total
2018	\$ 385,000	\$ 49,405	\$ 434,405
2019	390,000	41,513	431,513
2020	395,000	33,517	428,517
2021	405,000	25,420	430,420
2022	415,000	17,117	432,117
2023	420,000	8,610	428,610
	<u>\$ 2,410,000</u>	<u>\$ 175,582</u>	<u>\$ 2,585,582</u>

#### I. Capital Lease

On July 29, 2014 the City's component unit, Meadowlakes Public Facility Corporation, entered into a capital lease-purchase agreement with Meadowlakes Property Owners Association for the purchase of a 4wd Diesel Tractor and a Trimax Snake Mowing attachment. The capital lease is payable in (60) monthly payments of \$881.87 (including interest at 2.25%). As of October 1, 2016 the component unit ceased to operate and the City assumed the debt.

On October 1, 2015 the City entered into a capital lease-purchase agreement with Meadowlakes Property Owners Association for the purchase of equipment. The capital lease is payable in (20) quarterly payment of \$11,826 (including interest at 2.25%).

A summary of the future minimum lease payments under the lease along with the present value of the minimum lease payments as of September 30, 2017 follows:

Year Ended		
September 30		
2018	\$	57,886
2019		56,198
2020		47,305
2021		11,827
Total Minimum Lease Payments	\$	<u>173,216</u>
Less Amount Representing Interest		<u>6,336</u>
Present Value of Lease Payments	\$	<u><u>166,880</u></u>

J. Retirement Plan

The City joined the Texas Municipal Retirement System on March 1, 2007 upon the annexation of the Meadowlakes Municipal Utility District.

Plan Description

The City of Meadowlakes, Texas participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2015	Plan Year 2016
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	1 to 1	1 to 1
Years required for vesting	5 yrs	5 yrs
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

***Employees covered by benefit terms.***

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	9
Active employees	19
	<hr/>
	29

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially

determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Meadowlakes, Texas were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Meadowlakes, Texas were 1.30% and 2.28 in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$14,942, and were equal to the required contributions.

#### Net Pension Asset

The city's Net Pension Asset (NPA) was measured as of December 31, 2016, and the Total Pension Asset (TPA) used to calculate the Net Pension Asset was determined by an actuarial valuation as of that date.

#### ***Actuarial assumptions:***

The Total Pension Asset in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation                                      2.5% per year

Overall payroll growth                      3.0% per year

Investment Rate of Return 6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 95%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

#### Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the 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.

	Increase/(Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balances as of December 31, 2015	\$ 419,344	\$ 410,629	\$ 8,715
Changes for the year:			
Service cost	73,961		73,961
Interest	29,666		29,666
Changes of Benefit Terms			-
Difference between Expected and Actual Experience	(33,198)		(33,198)
Changes in Assumptions	-		-
Contributions - Employer		10,383	(10,383)
Contributions - Employee		55,910	(55,910)
Net investment income		27,644	(27,644)
Benefit Payments, Including Refunds of			
Employee Contributions	(33,655)	(33,655)	-
Administrative Expense		(313)	313
Other Changes		(17)	17
	-		-
Net Changes	36,774	59,952	(23,178)
Balances as of December 31, 2016	\$ 456,118	\$ 470,581	\$ (14,463)

#### Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

1 % Decrease 5.75%	Current Single Rate Assumption 6.75%	1 % Increase 7.75%
\$ 52,794	\$ (14,463)	\$ (69,482)

#### ***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

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

For the year ended September 30, 2017, the City recognized pension expense of \$23,905.

At September 30, 2017 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 37,075	\$ 13,347
Changes of assumptions	-	9,467
Net difference between projected and actual earnings	-	17,675
Contributions made subsequent to measurement date	-	12,506
Total	<u>\$ 37,075</u>	<u>\$ 52,995</u>

\$12,506 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 1,684
2018	1,784
2019	6,177
2020	(6,231)
2021	-
Thereafter	-
Total	<u>\$ 3,414</u>

K. Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during the employees' entire careers.

The City's contributions for the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$1,226, \$1,197 and \$580, respectively, which equaled the required contributions each year.

L. Interfund Transfers

During the year ended September 30, 2017, the City's transfers between funds consisted of:

<u>Receivable Fund</u>		<u>Payable Fund</u>		<u>Amount</u>
General Fund		Recreation Fund	\$	40,827
General Fund		Utility Fund		166
Utility Fund		Recreation Fund		3,153
Total			\$	<u>44,146</u>
		<u>Transfers In</u>		<u>Transfers Out</u>
General Fund	\$	133,105	\$	1,000
Debt Service Fund		90,000		
Enterprise Funds:				
Utility Fund				285,605
Recreation Fund		93,000		29,500
Totals	\$	<u>316,105</u>	\$	<u>316,105</u>

M. Employee Insurance Benefits

All regular full time employees of the City are eligible for coverage under the group hospitalization, medical and life insurance program provided by the City through the TML Intergovernmental Benefits Pool. The City pays the premium for eligible employees and employees, at their option, may authorize payroll withholdings to pay premiums for eligible family members.

N. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt no income tax was paid in 2016 and 2017. The City paid interest in the amount of \$5,864 in 2016 and \$4,526 in 2017.

O. Excess of Expenditures over Appropriations

Expenditures in the General Fund budget line item function Traffic Control exceeded appropriations. Expenditures in total did not exceed appropriations.

P. Risk Management

The City's risk management program includes coverage for property, general liability, automobile liability, public officials' liability and employee dishonesty bonds. The City participates in the Texas Municipal League joint self-insurance fund, which is a public entity risk pool. The premiums paid to TML result in the transfer of risk to the pool.

R. Subsequent Event

The City has evaluated subsequent events through February 27, 2018, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MEADOWLAKES, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 352,400	\$ 352,400	\$ 351,827	\$ (573)
Franchise Tax	75,200	75,200	54,023	(21,177)
Other Taxes	1,300	1,300	1,422	122
Licenses and Permits	5,250	4,250	5,350	1,100
Fines	4,000	4,000	3,367	(633)
Investment Earnings	600	600	1,328	728
Other Revenue	2,300	3,300	4,104	804
Total Revenues	441,050	441,050	421,421	(19,629)
EXPENDITURES:				
Current:				
General Government	408,805	407,305	377,553	29,752
BCAD	12,100	12,600	11,594	1,006
Ordinance Enforcement/Public Safety	95,325	95,325	85,970	9,355
Traffic Control	15,470	15,470	18,322	(2,852)
Municipal Court	10,750	10,750	9,755	995
Animal Control	9,800	10,800	9,342	1,458
Total Expenditures	552,250	552,250	512,536	39,714
Excess (Deficiency) of Revenues Over (Under) Expenditures	(111,200)	(111,200)	(91,115)	20,085
OTHER FINANCING SOURCES (USES):				
Transfers In	133,555	133,555	133,105	(450)
Transfers Out (Use)	(22,355)	(1,000)	(1,000)	-
Total Other Financing Sources (Uses)	111,200	132,555	132,105	(450)
Net Change	-	21,355	40,990	19,635
Fund Balance - October 1 (Beginning)	370,622	370,622	370,622	-
Fund Balance - September 30 (Ending)	\$ 370,622	\$ 391,977	\$ 411,612	\$ 19,635

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES, TEXAS  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SEPTEMBER 30, 2017

EXHIBIT G-2

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
<b>A. Total Pension Liability</b>			
Service Cost	\$ 73,961	\$ 48,690	\$ 40,640
Interest (on the Total Pension Liability)	29,666	24,109	22,277
Changes of Benefit Terms	-0-	-0-	-0-
Difference between Expected and Actual Experience	(33,198)	22,217	(26,644)
Changes of Assumptions	-0-	15,757	-0-
Benefit Payments, including refunds of employee contributions	(33,655)	(22,995)	(5,259)
Net change in Total Pension Liability	\$ 36,774	\$ 87,778	\$ 31,014
Total Pension Liability - Beginning	419,344	331,566	300,552
Total Pension Liability - Ending	\$ 456,118	\$ 419,344	\$ 331,566
<b>B. Total Fiduciary Net Position</b>			
Contributions - Employer	\$ 10,383	\$ 8,033	\$ 5,271
Contributions - Employee	55,910	38,512	32,651
Net Investment Income	27,644	571	19,188
Benefit Payments, including refunds of employee contributions	(33,655)	(22,995)	(5,259)
Administrative Expense	(313)	(348)	(200)
Other	(17)	(17)	(16)
Net Change in Plan Fiduciary Net Position	\$ 59,952	\$ 23,755	\$ 51,635
Plan Fiduciary Net Position - Beginning	410,629	386,874	335,239
Plan Fiduciary Net Position - Ending	\$ 470,581	\$ 410,629	\$ 386,874
<b>C. Net Pension Liability</b>	\$ (14,463)	\$ 8,715	\$ (55,308)
<b>D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	103.17%	97.92%	116.68%
<b>E. Covered Employee Payroll</b>	\$ 798,720	\$ 550,170	\$ 466,448
<b>F. Net Pension Liability as a Percentage of Covered Employee Payroll</b>	(1.81%)	1.58%	(11.86%)

Note: GASB 68, Paragraph 46, a and b requires that the data in this schedule be presented for the time period covered by the measurement date rather than the governmental entity's current fiscal year.

Note: Only three years of data are presented in accordance with GASBS #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF MEADOWLAKES, TEXAS  
SCHEDULE OF CONTRIBUTIONS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SEPTEMBER 30, 2017

EXHIBIT G-3

	2017	2016	2015
Actuarially Determined Contribution	\$ 14,942	\$ 11,087	\$ 6,391
Contributions in Relation to the Actuarially Determined Contributions	14,942	11,087	6,391
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-
Covered Employee Payroll	\$ 743,196	\$ 826,357	\$ 466,573
Contributions as a Percentage of Covered Employee Payroll	2.01%	1.35%	1.37%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's respective fiscal years as opposed to the time periods covered by the measurement dates ending December 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE SCHEDULE OF CONTRIBUTIONS  
SEPTEMBER 30, 2017

**Valuation Date:**

Notes                      Actuarially determined contribution rates are calculated as of December 31, and become effective in January 13 months later.

**Methods and assumptions used to determine contribution rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based tables of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB

**Other Information:**

Notes                      There were no benefit changes during the year.

**NEFFENDORF & KNOPP, P.C.**  
***Certified Public Accountants***

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CERTIFIED PUBLIC ACCOUNTANTS

MEMBER  
TEXAS SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

February 27, 2018

Honorable Mayor and Aldermen  
City of Meadowlakes, Texas  
Meadowlakes, TX 78654

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Meadowlakes, Texas for the year ended September 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 31, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Meadowlakes, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 27, 2018.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Other Matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

#### Prior Year Recommendations

#### Budget Amendments

Expenditures in the General Fund budget line item function Traffic Control exceeded appropriations. Expenditures did not exceed appropriations in total. We again recommend the City monitor the budget and make the appropriate budget amendments.

#### Restriction on Use

This information is intended solely for the use of the City Council and management of City of Meadowlakes and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Neffendorf + Knopp, P.C.*

NEFFENDORF & KNOPP, P.C.  
Fredericksburg, Texas