

CITY OF MEADOWLAKES, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2015

CITY OF MEADOWLAKES
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2015

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	3
 <u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Position	9
B-1 Statement of Activities	10
Governmental Fund Financial Statements:	
C-1 Balance Sheet	12
C-2 Reconciliation for C-1	13
C-3 Statement of Revenues, Expenditures and Changes in Fund Balance	14
C-4 Reconciliation for C-3	15
Proprietary Fund Financial Statements:	
D-1 Statement of Net Position	16
D-2 Statement of Revenues, Expenses and Changes in Fund Net Position	18
D-3 Statement of Cash Flows	19
Notes to the Financial Statements	21
 <u>Required Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund	36
G-2 Schedule of Changes in Net Pension Liability and Related Ratios	37
G-3 Schedule of Employer Contributions	38
Notes to the Schedule of Contributions	39

NEFFENDORF & KNOPP, P.C.

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.
FREDERICKSBURG, TEXAS 78624-0874
(830) 997-3348

FAX: (830) 997-3333
Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Meadowlakes, Texas, as of and for the year ended September 30, 2015, 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Meadowlakes, Texas, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note L to the financial statements, in 2015, the City adopted new accounting guidance prescribed by GASB #68 for its pension plan a nontraditional defined benefit pension plan. Because GASB #68 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements, Statement of Net Position and Governmental Funds Balance Sheet discloses the City's Net Pension Asset and some deferred resources inflows and deferred resources outflows related to the City's pension plan. The Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance discloses the adjustment to the City's Beginning Net Position. Our opinion is not modified with respect to the matter.

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, 33 and 34 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.
Fredericksburg, Texas

February 2, 2016

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, 2015. 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 \$4,268,601 (net position). Of this amount, \$851,247 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position decreased by \$10,958 as a result of this year's operations.
- At September 30, 2015, the City's governmental funds reported combined ending fund balances of \$380,098, a decrease of \$118,566 in comparison with the prior year.
- At September 30, 2015, the City's Enterprise Funds reported unrestricted net position of \$573,726, a decrease of \$238,595 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 20) 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 \$(230,473) to \$5,862. 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 \$277,521 at September 30, 2015. This increase in governmental net position was the result of four factors. First, the City's expenditures exceeded the revenues by \$118,566. Second, the City paid principal on long-term debt of \$360,000. Third, the City purchased capital assets in the amount of \$44,062 and recorded depreciation in the amounts of \$58,669 and fourth, due to implementation of GASB Statement No. 68 a prior period adjustment was necessary in the amount of \$12,261.

Net position of the City's business-type activities decreased from \$4,471,717 to \$4,262,739. Unrestricted net position was \$573,726 at September 30, 2015. This decrease in business-type net position was the result of a net loss of \$235,032 and due to implementation of GASB Statement No. 68 a prior period adjustment in the amount of \$26,054.

Table I
City of Meadowlakes

NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2015	2014	2015	2014	2015	2014
Current and Restricted Assets	\$ 457,210	\$ 543,182	\$ 724,598	\$ 981,800	\$ 1,181,808	\$ 1,524,982
Capital Assets	2,889,254	2,903,861	3,828,142	3,899,427	6,717,396	6,803,288
Total Assets	\$ 3,346,464	\$ 3,447,043	\$ 4,552,740	\$ 4,881,227	\$ 7,899,204	\$ 8,328,270
Deferred Outflow of Resources						
Deferred Outflow Related to Pension Plan	\$ 2,800	\$	\$ 5,952	\$	\$ 8,752	\$
Total Deferred Outflows of Resources	\$ 2,800	\$	\$ 5,952	\$	\$ 8,752	\$
Long-Term Liabilities	\$ 2,795,000	\$ 3,175,000	\$ 55,268	\$ 198,794	\$ 2,850,268	\$ 3,373,794
Other Liabilities	522,358	480,882	226,204	210,717	748,562	691,599
Total Liabilities	\$ 3,317,358	\$ 3,655,882	\$ 281,472	\$ 409,511	\$ 3,598,830	\$ 4,065,393
Deferred Inflow of Resources						
Deferred Inflow Related to Pension Plan	\$ 6,814	\$	\$ 14,481	\$	\$ 21,295	\$
Deferred Inflow Refunding	19,230	21,634			19,230	21,634
Total Deferred Inflows of Resources	\$ 26,044	\$ 21,634	\$ 14,481	\$ -	\$ 40,525	\$ 21,634
Net Position:						
Net Investment in Capital Assets	\$ (285,747)	\$ (631,139)	\$ 3,689,013	\$ 3,659,395	\$ 3,403,266	\$ 3,028,256
Restricted	14,088	155,135			14,088	155,135
Unrestricted	277,521	245,531	573,726	812,321	851,247	1,057,852
Total Net Position	\$ 5,862	\$ (230,473)	\$ 4,262,739	\$ 4,471,716	\$ 4,268,601	\$ 4,241,243

Table II
City of Meadowlakes

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues:						
Property Taxes	\$ 646,448	\$ 622,855	\$	\$	\$ 646,448	\$ 622,855
Franchise Tax	52,597	53,093			52,597	53,093
Charges for Services	9,076	7,838	1,172,652	1,068,060	1,181,728	1,075,898
Miscellaneous	31,574	4,587	107,536	112,512	139,110	117,099
Contributions and Donations			411	10,000	411	10,000
Interest Earnings	852	942	800	690	1,652	1,632
Total Revenue	\$ 740,547	\$ 689,315	\$ 1,281,399	\$ 1,191,262	\$ 2,021,946	\$ 1,880,577
Expenses:						
General Government	\$ 275,320	\$ 271,994	\$	\$	\$ 275,320	\$ 271,994
BCAD	14,556	11,810			14,556	11,810
Building Committee	197	691			197	691
Flood Plain Administrator	3,974	1,298			3,974	
Ordinance Enforcement/Public Safety	92,072	90,842			92,072	90,842
Traffic Control	28,224	23,875			28,224	
Municipal Court	6,482	3,095			6,482	
Animal Control	10,414	11,608			10,414	11,608
Water and Sewer			1,070,686	1,065,476	1,070,686	1,065,476
Recreation Fund			33,150	99,179	33,150	99,179
Debt Service - Interest	219,434	234,343			219,434	234,343
Fiscal Agent's Fees					-	-
Issuance Costs					-	-
Total Expenses	\$ 650,673	\$ 649,556	\$ 1,103,836	\$ 1,164,655	\$ 1,754,509	\$ 1,785,943
Increase (Decrease) in Net Position						
Before Transfers & Capital Contributions	\$ 89,874	\$ 39,759	\$ 177,563	\$ 26,607	\$ 267,437	\$ 66,366
Special Item - Uncollectible Debt Component U	-		(278,394)		(278,394)	
Transfers	134,200	157,664	(134,200)	(157,664)	-	
Net Change	224,074	197,423	(235,031)	(131,057)	(10,957)	66,366
Net Position - Beginning	(230,473)	(427,896)	4,471,716	4,602,773	4,241,243	4,174,876
Prior Period Adjustment	12,261		26,054	-	38,315	-
Net Position - Ending	\$ 5,862	\$ (230,473)	\$ 4,262,739	\$ 4,471,716	\$ 4,268,601	\$ 4,241,243

The cost of all governmental activities this year was \$650,673. 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 \$646,448, because the other costs were paid by franchise tax (\$52,597), user charges (\$9,076), interest (\$852) and other miscellaneous (\$31,574).

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 \$380,098, which is less than last year's total of \$498,664. Included in this year's total change in fund balance is an increase of \$22,481 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 more than budgeted amounts and actual expenditures were less than the budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2015, the City had the following amounts invested in capital assets, net of depreciation:

CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2015	2014	2015	2014	2015	2014
Land and Improvements	\$ 1,851,301	\$ 1,824,901	\$ 42,334	\$ 42,334	\$ 1,893,635	\$ 1,867,235
Infrastructure	-	-	6,058,945	6,046,799	6,058,945	6,046,799
Buildings	1,201,683	1,201,683	406,159	406,159	1,607,842	1,607,842
Improvements	205,724	180,851	325,495	304,856	531,219	485,707
Machinery & Equipment	140,908	140,908	378,700	376,392	519,608	517,300
Construction in Progress	-	7,211	-	-	-	7,211
Total Capital Assets	\$ 3,399,616	\$ 3,355,554	\$ 7,211,633	\$ 7,176,540	\$ 10,611,249	\$ 10,532,094
Less: Accumulated Depreciation	(510,362)	(451,693)	(3,383,493)	(3,277,112)	(3,893,855)	(3,728,805)
Capital Assets, Net	\$ 2,889,254	\$ 2,903,861	\$ 3,828,140	\$ 3,899,428	\$ 6,717,394	\$ 6,803,289

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

DEBT

At September 30, 2015, the City had the following outstanding debt:

OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2015	2014	2015	2014	2015	2014
Bonds Payable	\$ 3,175,000	\$ 3,535,000	\$ -	\$ -	\$ 3,175,000	\$ 3,535,000
Notes Payable			97,544	240,032	97,544	240,032
Compensated Absences	105,241	95,942	11,183	12,853	116,424	108,795
Total Outstanding Debt	\$ <u>3,280,241</u>	\$ <u>3,630,942</u>	\$ <u>108,727</u>	\$ <u>252,885</u>	\$ <u>3,388,968</u>	\$ <u>3,883,827</u>

For governmental activities, the City paid \$360,000 in principal payments on long-term debt.

More detailed information about the City's long-term liabilities is presented in Notes H, I, and J 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 2016 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 2016. Amounts available for appropriation in the General Fund budget are \$412,350 and expenditures are estimated to be \$402,380.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by the close of 2016.

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, 2015

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 154,599	\$ 230,509	\$ 385,108	\$ 4,295
Investments - Current	241,208	251,108	492,316	-
Receivables (net of allowance for uncollectibles)	22,295	125,482	147,777	22,531
Due from Component Unit	20,000	-	20,000	-
Inventories	-	76,490	76,490	34,595
Prepaid Items	1,409	3,400	4,809	665
Capital Assets:				
Land	1,851,301	42,334	1,893,635	-
Infrastructure, net	-	3,107,055	3,107,055	-
Buildings, net	900,337	251,662	1,151,999	-
Improvements other than Buildings, net	134,647	271,797	406,444	-
Machinery and Equipment, net	2,969	161,922	164,891	55,309
Capital Assets, net	-	(6,628)	(6,628)	-
Net Pension Asset	17,699	37,609	55,308	-
Total Assets	3,346,464	4,552,740	7,899,204	117,395
DEFERRED OUTFLOW OF RESOURCES				
Deferred Outflow Related to Pension Plan	\$ 2,800	\$ 5,952	\$ 8,752	-
Total Deferred Outflows of Resources	2,800	5,952	8,752	-
LIABILITIES				
Accounts Payable	3,599	84,317	87,916	33,709
Intergovernmental Payable	-	1,043	1,043	-
Compensated Absences	105,241	11,183	116,424	-
Unearned Revenues	15,595	-	15,595	-
Note Payable - Current	-	42,276	42,276	9,791
Other Current Liabilities	17,923	87,385	105,308	-
Noncurrent Liabilities				
Due Within One Year	380,000	-	380,000	-
Due in More Than One Year	2,795,000	55,268	2,850,268	29,040
Total Liabilities	3,317,358	281,472	3,598,830	72,540
DEFERRED INFLOW OF RESOURCES				
Deferred Inflow Related to Pension Plan	6,814	14,481	21,295	-
Deferred Resource Inflow for Refunding	19,230	-	19,230	-
Total Deferred Inflows of Resources	26,044	14,481	40,525	-
NET POSITION				
Net Investment in Capital Assets	(285,747)	3,689,013	3,403,266	16,478
Restricted for Debt Service	14,088	-	14,088	-
Unrestricted Net Position	277,521	573,726	851,247	28,377
Total Net Position	\$ 5,862	\$ 4,262,739	\$ 4,268,601	\$ 44,855

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, 2015

		Program Revenues	
		Charges for Services	Operating Grants and Contributions
	Expenses		
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 275,320	\$ 6,300	\$ -
BCAD	14,556	-	-
Building Committee	197	-	-
Flood Plain Administrator	3,974	-	-
Ordinance Enforcement/Public Safety	92,072	2,776	-
Traffic Control	28,224	-	-
Municipal Court	6,482	-	-
Animal Control	10,414	-	-
Bond Interest	219,434	-	-
Total Governmental Activities:	650,673	9,076	-
BUSINESS-TYPE ACTIVITIES:			
Public Works Fund	1,070,686	1,172,652	-
Recreation Fund	33,150	-	411
Total Business-Type Activities:	1,103,836	1,172,652	411
TOTAL PRIMARY GOVERNMENT:	\$ 1,754,509	\$ 1,181,728	\$ 411
Component Unit:			
PFC - Hidden Falls Golf Club	\$ 900,055	\$ 871,741	\$ -
TOTAL COMPONENT UNITS:	\$ 900,055	\$ 871,741	\$ -

General Revenues:

Taxes:
 Property Taxes, Levied for General Purposes
 Property Taxes, Levied for Debt Service
 Franchise Taxes
 Other Taxes
 Miscellaneous Revenue
 Investment Earnings
 Component Unit - Uncollectible Debt
 Transfers In (Out)
 Total General Revenues, Special Items, and Transfers

Change in Net Position

Net Position - Beginning
 Prior Period Adjustment
 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			Component Unit
Governmental Activities	Business-type Activities	Total	Nonmajor Component Unit
\$ (269,020)	\$ -	\$ (269,020)	\$ -
(14,556)	-	(14,556)	-
(197)	-	(197)	-
(3,974)	-	(3,974)	-
(89,296)	-	(89,296)	-
(28,224)	-	(28,224)	-
(6,482)	-	(6,482)	-
(10,414)	-	(10,414)	-
(219,434)	-	(219,434)	-
(641,597)	-	(641,597)	-
-	101,966	101,966	-
-	(32,739)	(32,739)	-
-	69,227	69,227	-
(641,597)	69,227	(572,370)	-
-	-	-	(28,314)
-	-	-	(28,314)
342,617	-	342,617	-
303,831	-	303,831	-
52,597	-	52,597	-
1,210	-	1,210	-
30,364	107,535	137,899	10,765
852	800	1,652	16
-	(278,394)	(278,394)	278,394
134,200	(134,200)	-	-
865,671	(304,259)	561,412	289,175
224,074	(235,032)	(10,958)	260,861
(230,473)	4,471,717	4,241,244	(216,006)
12,261	26,054	38,315	-
\$ 5,862	\$ 4,262,739	\$ 4,268,601	\$ 44,855

CITY OF MEADOWLAKES, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 140,511	\$ 14,088	\$ 154,599
Investments - Current	241,208	-	241,208
Taxes Receivable	11,647	10,328	21,975
Due from Component Unit	20,000	-	20,000
Prepaid Items	1,409	-	1,409
Total Assets	<u>\$ 414,775</u>	<u>\$ 24,416</u>	<u>\$ 439,191</u>
LIABILITIES			
Accounts Payable	\$ 3,600	\$ -	\$ 3,600
Unearned Revenues	15,595	-	15,595
Other Current Liabilities	17,923	-	17,923
Total Liabilities	<u>37,118</u>	<u>-</u>	<u>37,118</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	11,647	10,328	21,975
Total Deferred Inflows of Resources	<u>11,647</u>	<u>10,328</u>	<u>21,975</u>
FUND BALANCES			
Restricted Fund Balance:			
Retirement of Long-Term Debt	-	14,088	14,088
Unassigned Fund Balance	366,010	-	366,010
Total Fund Balances	<u>366,010</u>	<u>14,088</u>	<u>380,098</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 414,775</u>	<u>\$ 24,416</u>	<u>\$ 439,191</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, 2015

Total Fund Balances - Governmental Funds	\$ 380,098
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$3,355,554 and the accumulated depreciation was \$451,693. 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 decrease net position.	(631,139)
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 2015 capital outlays and debt principal payments is to increase net position.	404,062
The implementation of GASB 68 for this fiscal year required that the City report their net pension liability in the Government Wide Statement of Net Position. The items reported as a result of this implementation included a net pension asset of \$17,699, a Deferred Resource Outflow of \$2,800 and a Deferred Resource Inflow of \$6,814. The net effect of these was to increase the ending net position by \$13,685.	13,685
The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(58,669)
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 decrease net position.	(102,175)
Net Position of Governmental Activities	\$ 5,862

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 BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 339,203	\$ 304,346	\$ 643,549
Franchise Tax	52,597	-	52,597
Other Taxes	1,210	-	1,210
Licenses and Permits	6,300	-	6,300
Fines	2,776	-	2,776
Investment Earnings	607	245	852
Other Revenue	4,145	-	4,145
Total Revenues	406,838	304,591	711,429
EXPENDITURES:			
Current:			
General Government	230,187	-	230,187
BCAD	12,539	-	12,539
Building Committee	170	-	170
Flood Plain Administrator	3,423	-	3,423
Ordinance Enforcement/Public Safety	79,373	-	79,373
Traffic Control	24,448	-	24,448
Municipal Court	5,584	-	5,584
Animal Control	8,971	-	8,971
Debt Service:			
Bond Principal	-	360,000	360,000
Bond Interest	-	221,838	221,838
Capital Outlay:			
Capital Outlay	17,662	-	17,662
Total Expenditures	382,357	581,838	964,195
Excess (Deficiency) of Revenues Over (Under) Expenditures	24,481	(277,247)	(252,766)
OTHER FINANCING SOURCES (USES):			
Transfers In	-	136,200	136,200
Transfers Out (Use)	(2,000)	-	(2,000)
Total Other Financing Sources (Uses)	(2,000)	136,200	134,200
Net Change in Fund Balances	22,481	(141,047)	(118,566)
Fund Balance - October 1 (Beginning)	343,529	155,135	498,664
Fund Balance - September 30 (Ending)	\$ 366,010	\$ 14,088	\$ 380,098

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, 2015

Total Net Change in Fund Balances - Governmental Funds	\$ (118,566)
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 2015 capital outlays and debt principal payments is to increase the change in net position.	404,062
The implementation of the requirements of GASB 68 for this fiscal year resulted in a prior period adjustment to record the retroactive impact. This is NOT included in the explanation as to why the CHANGE in net position is different on Exhibit B-1 than the change in fund balance on Exhibit C-3. The entries required by GASB 68 did require that some expenses on B-1 be adjusted. Total credits to expense were \$3,410 and total debits to expense were \$1,986. The net effect on the change in net position on Exhibit B-1 is an increase of \$1,424.	1,424
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.	(58,669)
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 decrease the change in net position.	(4,177)
Change in Net Position of Governmental Activities	\$ 224,074

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, 2015

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 181,029	\$ 49,480	\$ 230,509
Investments - Current	251,108	-	251,108
Accounts Receivable-Net of Uncollectible Allowance	125,482	-	125,482
Due from Other Funds	8,409	-	8,409
Inventories	76,490	-	76,490
Prepaid Items	3,200	200	3,400
Total Current Assets	645,718	49,680	695,398
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	42,334	-	42,334
Infrastructure	6,058,944	-	6,058,944
Accumulated Depreciation - Infrastructure	(2,951,889)	-	(2,951,889)
Buildings	406,159	-	406,159
Accumulated Depreciation - Buildings	(154,497)	-	(154,497)
Improvements other than Buildings	279,082	53,194	332,276
Accumulated Depreciation - Other Improvements	(60,479)	-	(60,479)
Machinery and Equipment	330,677	41,243	371,920
Accumulated Depreciation - Machinery & Equipment	(209,998)	-	(209,998)
Accumulated Depreciation - Capital Assets	-	(6,628)	(6,628)
Net Pension Asset	37,609	-	37,609
Total Noncurrent Assets	3,777,942	87,809	3,865,751
Total Assets	4,423,660	137,489	4,561,149
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pension Plan	5,952	-	5,952
Total Deferred Outflows of Resources	5,952	-	5,952

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, 2015

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
LIABILITIES			
Current Liabilities:			
Accounts Payable	51,280	33,037	84,317
Compensated Absences Payable	11,183	-	11,183
Intergovernmental Payable	1,043	-	1,043
Due to Other Funds	-	8,409	8,409
Notes Payable - Current	42,276	-	42,276
Other Current Liabilities	85,118	2,267	87,385
Total Current Liabilities	190,900	43,713	234,613
NonCurrent Liabilities:			
Notes Payable - Noncurrent	55,268	-	55,268
Total Noncurrent Liabilities	55,268	-	55,268
Total Liabilities	246,168	43,713	289,881
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pension Plan	14,481	-	14,481
Total Deferred Inflows of Resources	14,481	-	14,481
NET POSITION			
Net Investment in Capital Assets	3,612,929	76,084	3,689,013
Unrestricted Net Position	556,034	17,692	573,726
Total Net Position	\$ 4,168,963	\$ 93,776	\$ 4,262,739

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, 2015

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Services	\$ 460,454	\$ -	\$ 460,454
Charges for Sewerage Service	512,391	-	512,391
Charges for Sanitation Service	199,807	-	199,807
Rents and Royalties	-	1,200	1,200
Contributions & Donations from Private Source	-	411	411
Other Revenue	105,885	450	106,335
Total Operating Revenues	<u>1,278,537</u>	<u>2,061</u>	<u>1,280,598</u>
OPERATING EXPENSES:			
Proprietary Fund Function - Water			
Personnel Services - Salaries and Wages	317,157	-	317,157
Personnel Services - Employee Benefits	90,654	-	90,654
Purchased Professional & Technical Services	186,914	-	186,914
Purchased Property Services	175,082	-	175,082
Other Operating Expenses	71,572	-	71,572
Supplies	52,115	-	52,115
Total Proprietary Fund Function - Water	<u>893,494</u>	<u>-</u>	<u>893,494</u>
Proprietary Fund Function - Golf			
Purchased Property Services	-	21,238	21,238
Proprietary Fund Function - Restaurant & Bar			
Purchased Property Services	-	9,664	9,664
Depreciation	172,697	2,248	174,945
Total Operating Expenses	<u>1,066,191</u>	<u>33,150</u>	<u>1,099,341</u>
Operating Income (Loss)	<u>212,346</u>	<u>(31,089)</u>	<u>181,257</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	799	1	800
Interest Expense - Non-Operating	(4,495)	-	(4,495)
Total Non-operating Revenue (Expenses)	<u>(3,696)</u>	<u>1</u>	<u>(3,695)</u>
Income Before Transfers, Gains or Losses	208,650	(31,088)	177,562
Non-Operating Transfer In	47,984	49,000	96,984
Transfers Out	(231,184)	-	(231,184)
Component Unit - Uncollectible Debt	(278,394)	-	(278,394)
Change in Net Position	(252,944)	17,912	(235,032)
Total Net Position - October 1 (Beginning)	4,395,853	75,864	4,471,717
Prior Period Adjustment	26,054	-	26,054
Total Net Position - September 30 (Ending)	<u>\$ 4,168,963</u>	<u>\$ 93,776</u>	<u>\$ 4,262,739</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, 2015

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	\$ 1,126,855	\$ -	\$ 1,126,855
Cash Received from Assessments - Other Funds	105,886	2,060	107,946
Cash Payments to Employees for Services	(412,508)	-	(412,508)
Cash Payments for Suppliers	(105,453)	-	(105,453)
Cash Payments for Other Operating Expenses	(437,376)	10,508	(426,868)
Net Cash Provided by Operating Activities	277,404	12,568	289,972
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out/In	(183,200)	49,000	(134,200)
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	(46,418)	(57,239)	(103,657)
Loan Payment	(142,488)	-	(142,488)
Interest Paid	(4,495)	-	(4,495)
Net Cash Provided by (Used for) Capital & Related Financing Activities	(193,401)	(57,239)	(250,640)
<u>Cash Flows from Investing Activities:</u>			
Interest and Dividends on Investments	799	-	799
Net Increase(Decrease) in Cash and Cash Equivalents	(98,398)	4,329	(94,069)
Cash and Cash Equivalents at Beginning of the Year:	530,536	45,150	575,686
Cash and Cash Equivalents at the End of the Year:	\$ 432,138	\$ 49,479	\$ 481,617

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, 2015

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):	\$ 212,346	\$ (31,089)	\$ 181,257
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	172,697	2,248	174,945
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(45,797)	-	(45,797)
Decrease (increase) in Inventories	(28,655)	-	(28,655)
Decrease (increase) in Prepaid Expenses	(3,200)	-	(3,200)
Increase (decrease) in Accounts Payable	(24,683)	33,037	8,354
Increase (decrease) in Compensated Absences	(1,670)	-	(1,670)
Increase (decrease) in Intergovernmental	1,043	-	1,043
Increase (decrease) in Other Current Liabilities	6,758	-	6,758
(Decrease) increase in Due To/From Other Funds	(8,409)	8,372	(37)
(Decrease) increase in Pension Liability	(3,026)	-	(3,026)
Net Cash Provided by Operating Activities	<u>\$ 277,404</u>	<u>\$ 12,568</u>	<u>\$ 289,972</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, 2015

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.

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.

Discretely Presented Component Unit:

1. **Meadowlakes Public Facility Corporation** – the MPFC operates the golf course, owned by the City, and related operations.

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, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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, 2015, the carrying amount of the City's deposits was \$380,864 and the bank balance was \$389,392. The carrying amount of the Hidden Falls Golf Club's deposits was \$3,645 and the bank balance was \$33,676. The City's cash deposits held at September 30, 2015 and during the year ended September 30, 2015 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, 2015, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>
Certificates of Deposit -				
Governmental Activities:				
First State Bank of Central Texas	\$241,008	\$241,008	-0-	\$241,008
Business-Type Activities:				
First State Bank of Central Texas	\$251,108	\$251,108	-0-	\$251,108

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, 2015, 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 2014 tax roll, the assessed valuation was \$200,357,178. The tax rate was \$.1687 for maintenance and operations and \$.1519 for interest and sinking. The total tax rate was \$.3206 per \$100 valuation.

C. Note Receivable

On October 5, 2009 the Utility Fund refinanced prior loans made to the golf course Recreational Country Club (RCC) Fund and provided new loan proceeds for the purpose of establishing the Hidden Falls Golf Corporation's (discretely presented component unit) startup and operating fund needs. Refinanced loans are \$255,445 and new proceeds total \$94,555.

In May 2015 the City Council voted to begin the process of dissolving the Meadowlakes Public Facility Corporation (Hidden Falls Golf Corporation). The balance of the note receivable at September 30, 2015 was \$278,394. Due to the decision to dissolve the Meadowlakes Public Facility Corporation the note receivable was deemed uncollectible and written off as of September 30, 2015.

D. Restricted Assets

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

E. Land, Structures and Equipment-Enterprise Funds

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

	Balance 10/1/14	Additions	Deletions	Balance 9/30/15
Land	\$ 42,334	\$	\$	\$ 42,334
Infrastructure	6,046,799	12,146		6,058,945
Buildings	406,159			406,159
Improvements	304,856	20,639		325,495
Machinery and Equipment	376,392	70,872	(68,564)	378,700
Totals	\$ 7,176,540	\$ 103,657	\$ (68,564)	\$ 7,211,633
Accumulated Depreciation	(3,277,112)	(174,945)	68,564	(3,383,493)
Fixed Assets, Net	\$ 3,899,428	\$ (71,288)	\$ -	\$ 3,828,140

Capital asset activities of the Hidden Falls Golf Club were as follows:

	Component Unit			
	Balance 10/1/14	Additions	Deletions	Balance 9/30/15
Improvements	\$ 9,505	\$	\$	\$ 9,505
Machinery and Equipment	76,531			76,531
Totals	\$ 86,036	\$ -	\$ -	\$ 86,036
Accumulated Depreciation	(18,845)	(11,884)		(30,729)
Fixed Assets, Net	\$ 67,191	\$ (11,884)	\$ -	\$ 55,307
Intangible Assets	\$ 193,930	\$ -	\$	\$ 193,930
Accumulated Amortization	(176,300)	(17,630)		(193,930)
Total Intangible Assets, Net	17,630	(17,630)	-	-

F. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2015, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 1,824,901	\$ 26,400	\$	\$ 1,851,301
Buildings	1,201,683			1,201,683
Improvements	180,851	24,873		205,724
Machinery and Equipment	140,908			140,908
Construction in Progress	7,211	-	7,211	-
Totals	3,355,554	51,273	7,211	3,399,616
Accumulated Depreciation	(451,693)	(58,669)		(510,362)
Capital Assets, Net	\$ 2,903,861	\$ (7,396)	\$ 14,422	\$ 2,889,254

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 37,031
BCAD	2,017
Ordinance Enforcement/Public Safety	12,769
Building Committee	27
Traffic Control	3,933
Municipal Court	898
Animal Control	1,443
Flood Plain Administrator	551
	\$ 58,669

G. Operating Lease – Component Unit

On December 31, 2013 the City's component unit, Meadowlakes Public Facility Corporation, entered into an operating lease with PNC Equipment Finance for the lease of (38) 2014 EZGO Electric Golf Carts. The terms of the lease are \$2,717 per month for 48 months.

H. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2015 follows:

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/14	Additions	Deletions	Amounts Outstanding 9/30/15	Due in One Year
Governmental Activities:								
<u>Bonds Payable</u>								
Combination Tax & Rev -								
Cert Of Obligation - Series 2008	4.80%	\$ 3,600,000	\$ 13,246	\$ 300,000	\$	(300,000)	\$ -	-
General Obligation								
Refunding Bond - Series 2013	2.05%	3,340,000	66,190	3,235,000		(60,000)	3,175,000	380,000
Compensated Absences	N/A	N/A	N/A	95,942	9,299		105,241	N/A
Total		\$ 6,940,000	\$ 79,436	\$ 3,630,942	\$ 9,299	\$ (360,000)	\$ 3,280,241	\$ 380,000

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/14	Additions	Deletions	Amounts Outstanding 9/30/15	Due in One Year
Business-Type Activities:								
<u>Other Long-Term Debt</u>								
Note Payable								
Meadowlakes POA	2.50%	\$ 300,000	\$ 4,495	\$ 240,032	\$ -	(142,488)	\$ 97,544	\$ 42,276
Compensated Absences	N/A	N/A	N/A	12,853		(1,670)	11,183	N/A
Total		\$ 300,000	\$ 4,495	\$ 252,885	\$ -	\$ (144,158)	\$ 108,727	\$ 42,276

The following is a summary of the changes in long-term debt outstanding in the City's component unit, Meadowlakes Public Facility Corporation, as of September 30, 2015.

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/14	Additions	Deletions	Amounts Outstanding 9/30/15	Due in One Year
Component Unit:								
<u>Note Payable</u>								
Note Payable - City of								
Meadowlakes Public Works Fund	N/A	\$ 350,000	\$ N/A	\$ 278,394	\$	(278,394)	\$ -	-
Meadowlakes POA		50,000	1,083	49,212	-	(10,381)	38,831	9,791
Total		\$ 400,000	\$ 1,083	\$ 327,606	\$ -	\$ (288,775)	\$ 38,831	\$ 9,791

I. 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:

Governmental Activities:

Year Ended	Bonds Payable		
September 30	Principal	Interest	Total
2016	\$ 380,000	\$ 65,087	\$ 445,087
2017	385,000	57,297	442,297
2018	385,000	49,405	434,405
2019	390,000	41,513	431,513
2020	395,000	33,517	428,517
2021-2024	1,240,000	51,147	1,291,147
	<u>\$ 3,175,000</u>	<u>\$ 297,966</u>	<u>\$ 3,472,966</u>

J. Capital Lease

The City entered into a capital lease agreement with the POA for the purchase of a water storage tank for \$300,000. The capital lease is payable in fourteen (14) semi-annual installments of \$23,491.54 (including interest at 2.5%).

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, 2015 follows:

Year Ended	
September 30	
2016	\$ 42,276
2017	46,983
2018	8,285
Total Minimum Lease Payments	\$ 97,544
Less Amount Representing Interest	16,875
Present Value of Lease Payments	<u>\$ 80,669</u>

K. Capital Lease – Component Unit

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%).

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, 2015 follows:

Year Ended September 30		
2016	\$	10,582
2017		10,582
2018		10,582
2019		8,837
Total Minimum Lease Payments	\$	40,583
Less Amount Representing Interest		1,752
Present Value of Lease Payments	\$	38,831

L. 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 860 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.tmrs.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 2014	Plan Year 2015
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	1 to1	1 to1
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, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	3
Active employees	10
	<hr/>
	13

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 1.25% and 1.59% in calendar years 2014 and 2015, respectively. The city's contributions to TMRS for the year ended September 30, 2015, were \$6,972, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation 3.0% per year

Overall payroll growth 3.0% per year

Investment Rate of Return 7.0%, 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 96%. 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, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 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 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. 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%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. 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, 2013	\$ 300,552	\$ 335,239	\$ (34,687)
Changes for the year:			
Service cost	40,640		40,640
Interest	22,277		22,277
Changes of Benefit Terms			-
Difference between Expected and Actual Experience	(26,644)		(26,644)
Changes in Assumptions			-
Contributions - Employer		5,271	(5,271)
Contributions - Employee		32,651	(32,651)
Net investment income		19,188	(19,188)
Benefit Payments, Including Refunds of Employee Contributions	(5,259)	(5,259)	200
Administrative Expense		(200)	200
Other Changes		(16)	16
	-		-
Net Changes	31,014	51,635	(20,421)
Balances as of December 31, 2014	\$ 331,566	\$ 386,874	\$ (55,308)

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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
\$ (2,422)	\$ (55,308)	\$ (98,140)

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.tmr.com.

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

For the year ended September 30, 2015, the City recognized pension expense of \$2,522.

At September 30, 2015, 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	\$ 21,295	
Changes of assumptions	-	
Net difference between projected and actual earnings	-	3,423
Contributions made subsequent to measurement date	-	5,329

\$5,329 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, 2015. 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:

2015	\$ (4,493)
2016	(4,493)
2017	(4,493)
2018	(4,393)
2019	-
Thereafter	-
Total	\$ (17,872)

M. 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 2015, 2014 and 2013 were \$580, \$499 and \$472, respectively, which equaled the required contributions each year.

N. Interfund Receivable and Payables

During the year ended September 30, 2015, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
General Fund	\$	\$ 2,000
Debt Service Fund	136,200	
Enterprise Funds -		
Utility Fund	47,984	231,184
Recreation Fund	49,000	
Totals	\$ 233,184	\$ 233,184

O. 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.

P. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt no income tax was paid in 2014 and 2015. The City paid interest in the amount of \$6,757 in 2014 and \$4,495 in 2015.

Q. Excess of Expenditures over Appropriations

Expenditures in the General Fund budget line item functions Flood Plain Administrator, Municipal Court and Capital Outlay exceeded appropriations. Expenditures did not exceed appropriations in total.

R. 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.

S. Prior Period Adjustment

During fiscal year 2015, the City adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. Adoption of GASB Statement No. 68 required a prior period adjustment to report the effect of GASB Statement No. 68 retroactively. The amount of the prior period adjustment in the governmental activities is \$12,261 and \$26,054 in the business type activities. The restated beginning net position of the Governmental Activities is (\$218,212) and in the Business Type Activities is \$4,497,771.

T. Subsequent Event

The City has evaluated subsequent events through February 2, 2016, the date which the financial statements were available to be issued. In May of 2015 the City Council voted to begin the process of dissolving the Meadowlakes Public Facility Corporation (discretely presented component unit). A final dissolution date is pending. On October 1, 2015 the City entered into a lease purchase agreement with the Meadowlakes Property Owners' Association, Inc. for the purchase of equipment in the amount of \$223,111. The City is not aware of any other 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, 2015

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 332,000	\$ 338,000	\$ 339,203	\$ 1,203
Franchise Tax	51,200	51,200	52,597	1,397
Other Taxes	1,200	1,200	1,210	10
Licenses and Permits	5,000	4,500	6,300	1,800
Fines	3,450	3,450	2,776	(674)
Investment Earnings	900	900	607	(293)
Other Revenue	2,250	2,750	4,145	1,395
Total Revenues	396,000	402,000	406,838	4,838
EXPENDITURES:				
Current:				
General Government	230,051	243,724	230,187	13,537
BCAD	12,675	12,675	12,539	136
Building Committee	400	400	170	230
Flood Plain Administrator	1,750	-	3,423	(3,423)
Ordinance Enforcement/Public Safety	79,651	79,651	79,373	278
Traffic Control	29,025	29,025	24,448	4,577
Municipal Court	4,200	4,200	5,584	(1,384)
Animal Control	9,325	12,825	8,971	3,854
Capital Outlay:				
Capital Outlay	5,000	17,500	17,662	(162)
Total Expenditures	372,077	400,000	382,357	17,643
Excess (Deficiency) of Revenues Over (Under) Expenditures	23,923	2,000	24,481	22,481
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	(2,000)	(2,000)	(2,000)	-
Total Other Financing Sources (Uses)	(2,000)	(2,000)	(2,000)	-
Net Change	21,923	-	22,481	22,481
Fund Balance - October 1 (Beginning)	343,529	343,529	343,529	-
Fund Balance - September 30 (Ending)	\$ 365,452	\$ 343,529	\$ 366,010	\$ 22,481

CITY OF MEADOWLAKES, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2015

EXHIBIT G-2

	2015
A. Total Pension Liability	
Service Cost	\$ 40,640
Interest (on the Total Pension Liability)	22,277
Changes of Benefit Terms	-0-
Difference between Expected and Actual Experience	(26,644)
Changes of Assumptions	-0-
Benefit Payments, including refunds of employee contributions	(5,259)
Net change in Total Pension Liability	\$ 31,014
Total Pension Liability - Beginning	300,552
Total Pension Liability - Ending	\$ 331,566
B. Total Fiduciary Net Position	
Contributions - Employer	\$ 5,271
Contributions - Employee	32,651
Net Investment Income	19,188
Benefit Payments, including refunds of employee contributions	(5,259)
Administrative Expense	(200)
Other	(16)
Net Change in Plan Fiduciary Net Position	\$ 51,635
Plan Fiduciary Net Position - Beginning	335,239
Plan Fiduciary Net Position - Ending	\$ 386,874
C. Net Pension Liability	\$ (55,308)
D. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	116.68%
E. Covered Employee Payroll	\$ 466,448
F. Net Pension Liability as a Percentage of Covered Employee Payroll	(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 one year of data is 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, 2015

EXHIBIT G-3

	<u>2015</u>
Actuarially Determined Contribution	\$ 6,972
Contributions in Relation to the Actuarially Determined Contributions	(6,972)
	<u>\$ -0-</u>
Contribution Deficiency (Excess)	
Covered Employee Payroll	\$ 466,573
Contributions as a Percentage of Covered Employee Payroll	1.49%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the governmental entity's current fiscal year as opposed to the time period covered by the measurement date.

Note: Only one year of data is presented in accordance with GASB 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
NOTES TO THE SCHEDULE OF CONTRIBUTIONS
SEPTEMBER 30, 2015

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	3.0%
Salary Increases	3.5% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based tables of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005-2009
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

P.O. BOX 874 · 736 S. WASHINGTON ST.
FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Meadowlakes, Texas, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Meadowlakes, Texas's basic financial statements, and have issued our report thereon dated February 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Meadowlakes, Texas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Meadowlakes, Texas's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Meadowlakes, Texas's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Meadowlakes, Texas's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Neffendorf & Knopp, P.C." in a cursive, stylized font.

NEFFENDORF & KNOPP, P.C.
Fredericksburg, Texas

February 2, 2016

NEFFENDORF & KNOPP, P.C.

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.
FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER
TEXAS SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

February 2, 2016

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Meadowlakes, Texas for the year ended September 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), 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 September 15, 2015. 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. GASB Statement No. 68 *Accounting and Reporting for Pensions* was adopted and the application of existing policies was not changed during the year ended September 30, 2015. 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 2, 2016.

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.

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.
Fredericksburg, Texas