

REPORT OF EXAMINATION

**CITY OF
MEADOWLAKES**

Meadowlakes, Texas

**For the Year Ended
September 30, 2014**

CITY OF MEADOWLAKES, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2014

CITY OF MEADOWLAKES
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

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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, 2014, 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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the Schedule of Funding Progress for the Retirement Plan 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, Dooss + Company, P.C.
NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas

February 2, 2015

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, 2014. 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 \$4,241,243 (net position). Of this amount, \$1,057,852 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$66,366 as a result of this year's operations.
- At September 30, 2014, the City's governmental funds reported combined ending fund balances of \$498,664, a decrease of \$85,541 in comparison with the prior year.
- At September 30, 2014, the City's Enterprise Funds reported unrestricted net position of \$812,321, an increase of \$11,492 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) and the Schedule of Funding Progress for the Retirement Plan are presented as required supplementary information on page 33 and 34.

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 \$(427,896) to \$(230,473). 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 \$245,531 at September 30, 2014. This decrease in governmental net position was the result of three factors. First, the City's expenditures exceeded the revenues by \$85,541. Second, the City paid principal on long-term debt of \$345,000. Third, the City recorded depreciation in the amounts of \$64,577.

Net position of the City's business-type activities decreased from \$4,602,773 to \$4,471,716. Unrestricted net position was \$812,321 at September 30, 2014. This decrease in business-type net position was the result of a net loss of \$131,057.

Table I
City of Meadowlakes

NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Current and Restricted Assets	\$ 543,182	\$ 621,248	\$ 981,800	\$ 1,132,537	\$ 1,524,982	\$ 1,753,785
Capital Assets	2,903,861	2,961,227	3,899,427	3,918,586	6,803,288	6,879,813
Total Assets	\$ 3,447,043	\$ 3,582,475	\$ 4,881,227	\$ 5,051,123	\$ 8,328,270	\$ 8,633,598
Long-Term Liabilities	\$ 3,175,000	\$ 3,535,000	\$ 198,794	\$ 280,258	\$ 3,373,794	\$ 3,815,258
Other Liabilities	480,882	451,333	210,717	168,092	691,599	619,425
Total Liabilities	\$ 3,655,882	\$ 3,986,333	\$ 409,511	\$ 448,350	\$ 4,065,393	\$ 4,434,683
Deferred Inflow of Resources						
Deferred Inflow Refunding	\$ 21,634	\$ 24,038	\$ -	\$ 24,038	\$ 21,634	\$ 48,076
Total Deferred Inflows of Resources	\$ 21,634	\$ 24,038	\$ -	\$ 24,038	\$ 21,634	\$ 48,076
Net Position:						
Net Investment in Capital Assets	\$ (631,139)	\$ (918,773)	\$ 3,659,395	\$ 3,638,328	\$ 3,028,256	\$ 2,719,555
Restricted	155,135	284,295		163,616	155,135	447,911
Unrestricted	245,531	206,582	812,321	800,829	1,057,852	1,007,411
Total Net Position	\$ (230,473)	\$ (427,896)	\$ 4,471,716	\$ 4,602,773	\$ 4,241,243	\$ 4,174,877

Table II
City of Meadowlakes

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Property Taxes	\$ 622,855	\$ 624,519	\$	\$	\$ 622,855	\$ 624,519
Franchise Tax	53,093	49,449			53,093	49,449
Charges for Services	7,838	8,572	1,068,060	1,071,342	1,075,898	1,079,914
Miscellaneous	4,587	4,323	112,512	98,559	117,099	102,882
Contributions and Donations			10,000	20,149	10,000	20,149
Interest Earnings	942	871	690	2,746	1,632	3,617
Total Revenue	\$ 689,315	\$ 687,734	\$ 1,191,262	\$ 1,192,796	\$ 1,880,577	\$ 1,880,530
Expenses:						
General Government	\$ 271,994	\$ 256,569	\$	\$	\$ 271,994	\$ 256,569
BCAD	11,810	12,177			11,810	12,177
Building Committee	691	291			691	291
Flood Plain Administrator	1,298	1,569			1,298	
Ordinance Enforcement/Public Safety	90,842	97,182			90,842	97,182
Traffic Control	23,875	24,036			23,875	
Municipal Court	3,095	3,107			3,095	
Animal Control	11,608	8,595				8,595
Water and Sewer			1,065,476	1,007,350	1,065,476	1,007,350
Recreation Fund			99,179	40,209	99,179	40,209
Debt Service - Interest	234,343	177,801		-	234,343	177,801
Fiscal Agent's Fees		500			-	500
Issuance Costs		68,980			-	68,980
Total Expenses	\$ 649,556	\$ 650,807	\$ 1,164,655	\$ 1,047,559	\$ 1,802,603	\$ 1,669,654
Increase (Decrease) in Net Position						
Before Transfers & Capital Contributions	\$ 39,759	\$ 36,927	\$ 26,607	\$ 145,237	\$ 66,366	\$ 182,164
Transfers	157,664	(157,248)	(157,664)	157,248	-	-
Net Change	197,423	(120,321)	(131,057)	302,485	66,366	182,164
Net Position - Beginning	(427,896)	(249,898)	4,602,773	4,300,288	4,174,877	4,050,389
Prior Period Adjustment	-	(57,677)		-	-	(57,677)
Net Position - Ending	\$ (230,473)	\$ (427,896)	\$ 4,471,716	\$ 4,602,773	\$ 4,241,243	\$ 4,174,877

The cost of all governmental activities this year was \$649,556. 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 \$622,855, because the other costs were paid by franchise tax (\$53,093), user charges (\$7,838), interest (\$942) and other miscellaneous (\$3,200).

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 \$498,664, which is less than last year's total of \$584,205. Included in this year's total change in fund balance is an increase of \$43,619 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, 2014, the City had the following amounts invested in capital assets, net of depreciation:

CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Land and Improvements	\$ 1,824,901	\$ 1,824,901	\$ 42,334	\$ 42,334	\$ 1,867,235	\$ 1,867,235
Infrastructure			6,046,799	5,592,659	6,046,799	5,592,659
Buildings	1,201,683	1,201,683	406,159	406,159	1,607,842	1,607,842
Improvements	180,851	180,851	304,856	298,696	485,707	479,547
Machinery & Equipment	140,908	140,908	376,392	611,079	517,300	751,987
Construction in Progress	7,211		-	276,603	7,211	276,603
Total Capital Assets	\$ 3,355,554	\$ 3,348,343	\$ 7,176,540	\$ 7,227,530	\$ 10,532,094	\$ 10,575,873
Less: Accumulated Depreciation	(451,693)	(387,116)	(3,277,112)	(3,308,943)	(3,728,805)	(3,696,059)
Capital Assets, Net	\$ 2,903,861	\$ 2,961,227	\$ 3,899,428	\$ 3,918,587	\$ 6,803,289	\$ 6,879,814

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

DEBT

At September 30, 2014, the City had the following outstanding debt:

OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2014	2013	2014	2013	2014	2013
Bonds Payable	\$ 3,535,000	\$ 3,880,000	\$ -	\$ -	\$ 3,535,000	\$ 3,880,000
Notes Payable			240,032	280,258	240,032	280,258
Compensated Absences	95,942	84,235	12,853	12,282	108,795	96,517
Total Outstanding Debt	\$ 3,630,942	\$ 3,964,235	\$ 252,885	\$ 292,540	\$ 3,883,827	\$ 4,256,775

For governmental activities, the City paid \$345,000 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 2015 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 2015. Amounts available for appropriation in the General Fund budget are \$396,000 and expenditures are estimated to be \$374,076.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by the close of 2015.

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, 2014

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Nonmajor Component Unit
ASSETS				
Cash and Cash Equivalents	\$ 101,808	\$ 225,032	\$ 326,840	\$ 17,440
Investments - Current	280,677	350,654	631,331	-
Receivables (net of allowance for uncollectibles)	19,577	79,685	99,262	32,707
Note Receivable	-	278,394	278,394	-
Inventories	-	47,835	47,835	6,252
Prepaid Items	-	200	200	2,658
Restricted Assets:				
Restricted Asset - Debt Service	141,120	-	141,120	-
Capital Assets:				
Land	1,824,901	42,334	1,867,235	-
Infrastructure, net	-	3,252,062	3,252,062	-
Buildings, net	939,008	261,677	1,200,685	-
Improvements other than Buildings, net	122,002	256,684	378,686	-
Machinery and Equipment, net	10,739	86,670	97,409	67,192
Construction in Progress	7,211	-	7,211	-
Intangible Asset, Net	-	-	-	17,630
Total Assets	3,447,043	4,881,227	8,328,270	143,879
LIABILITIES				
Accounts Payable	905	75,999	76,904	20,075
Wages Payable	-	-	-	12,204
Compensated Absences	95,942	12,853	108,795	-
Intergovernmental Payable	1,231	1,026	2,257	-
Deferred Revenues	12,845	-	12,845	-
Notes Payable - Current	-	41,238	41,238	21,573
Other Current Liabilities	9,959	79,601	89,560	-
Noncurrent Liabilities				
Due Within One Year	360,000	-	360,000	-
Due in More Than One Year	3,175,000	198,794	3,373,794	306,033
Total Liabilities	3,655,882	409,511	4,065,393	359,885
DEFERRED INFLOW OF RESOURCES				
Deferred Resource Inflow for Refunding	21,634	-	21,634	-
Total Deferred Inflows of Resources	21,634	-	21,634	-
NET POSITION				
Net Investment in Capital Assets	(631,139)	3,659,395	3,028,256	21,572
Restricted for Debt Service	155,135	-	155,135	-
Unrestricted Net Position	245,531	812,321	1,057,852	(237,578)
Total Net Position	\$ (230,473)	\$ 4,471,716	\$ 4,241,243	\$ (216,006)

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
\$ (267,719)	\$ -	\$ (267,719)	\$ -
(11,810)	-	(11,810)	-
(691)	-	(691)	-
(1,298)	-	(1,298)	-
(87,279)	-	(87,279)	-
(23,875)	-	(23,875)	-
(3,095)	-	(3,095)	-
(11,608)	-	(11,608)	-
(234,343)	-	(234,343)	-
(641,718)	-	(641,718)	-
-	12,584	12,584	-
-	(99,179)	(99,179)	-
-	(86,595)	(86,595)	-
(641,718)	(86,595)	(728,313)	-
-	-	-	(51,401)
-	-	-	(51,401)
330,113	-	330,113	-
292,742	-	292,742	-
53,093	-	53,093	-
1,387	-	1,387	-
3,200	112,512	115,712	1,500
942	690	1,632	15
157,664	(157,664)	-	-
839,141	(44,462)	794,679	1,515
197,423	(131,057)	66,366	(49,886)
(427,896)	4,602,773	4,174,877	(166,120)
<u>\$ (230,473)</u>	<u>\$ 4,471,716</u>	<u>\$ 4,241,243</u>	<u>\$ (216,006)</u>

CITY OF MEADOWLAKES, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 87,793	\$ 14,015	\$ 101,808
Investments - Current	280,677	-	280,677
Taxes Receivable	10,032	9,044	19,076
Restricted Asset - Escrow Interest	-	141,120	141,120
Total Assets	<u>\$ 378,502</u>	<u>\$ 164,179</u>	<u>\$ 542,681</u>
LIABILITIES			
Accounts Payable	\$ 906	\$ -	\$ 906
Intergovernmental Payable	1,231	-	1,231
Unearned Revenues	12,845	-	12,845
Other Current Liabilities	9,959	-	9,959
Total Liabilities	<u>24,941</u>	<u>-</u>	<u>24,941</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Property Taxes	10,032	9,044	19,076
Total Deferred Inflows of Resources	<u>10,032</u>	<u>9,044</u>	<u>19,076</u>
FUND BALANCES			
Restricted Fund Balance:			
Retirement of Long-Term Debt	-	155,135	155,135
Unassigned Fund Balance	343,529	-	343,529
Total Fund Balances	<u>343,529</u>	<u>155,135</u>	<u>498,664</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 378,502</u>	<u>\$ 164,179</u>	<u>\$ 542,681</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, 2014

Total Fund Balances - Governmental Funds	\$ 498,664
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 \$3,348,343 and the accumulated depreciation was \$387,116. 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.	(918,773)
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 2014 capital outlays and debt principal payments is to increase net position.	330,577
The 2014 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(64,577)
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.	(76,364)
Net Position of Governmental Activities	<u>\$ (230,473)</u>

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, 2014

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 325,098	\$ 292,687	\$ 617,785
Franchise Tax	53,093	-	53,093
Other Taxes	1,387	-	1,387
Licenses and Permits	4,275	-	4,275
Fines	3,563	-	3,563
Investment Earnings	706	236	942
Other Revenue	3,637	-	3,637
Total Revenues	391,759	292,923	684,682
EXPENDITURES:			
Current:			
General Government	217,291	-	217,291
BCAD	11,260	-	11,260
Building Committee	580	-	580
Flood Plain Administrator	1,090	-	1,090
Ordinance Enforcement/Public Safety	76,304	-	76,304
Traffic Control	20,054	-	20,054
Municipal Court	2,600	-	2,600
Animal Control	9,750	-	9,750
Debt Service:			
Bond Principal	-	345,000	345,000
Bond Interest	-	236,747	236,747
Capital Outlay:			
Capital Outlay	7,211	-	7,211
Total Expenditures	346,140	581,747	927,887
Excess (Deficiency) of Revenues Over (Under) Expenditures	45,619	(288,824)	(243,205)
OTHER FINANCING SOURCES (USES):			
Transfers In	-	159,664	159,664
Transfers Out (Use)	(2,000)	-	(2,000)
Total Other Financing Sources (Uses)	(2,000)	159,664	157,664
Net Change in Fund Balances	43,619	(129,160)	(85,541)
Fund Balance - October 1 (Beginning)	299,910	284,295	584,205
Fund Balance - September 30 (Ending)	\$ 343,529	\$ 155,135	\$ 498,664

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, 2014

Total Net Change in Fund Balances - Governmental Funds	\$ (85,541)
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 2014 capital outlays and debt principal payments is to increase the change in net position.	330,577
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.	(64,577)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.	16,964
Change in Net Position of Governmental Activities	\$ 197,423

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, 2014

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 179,882	\$ 45,150	\$ 225,032
Investments - Current	350,654	-	350,654
Miscellaneous Receivable	46	-	46
Accounts Receivable-Net of Uncollectible Allowance	79,639	-	79,639
Note Receivable	278,394	-	278,394
Inventories	47,835	-	47,835
Prepaid Items	-	200	200
Total Current Assets	936,450	45,350	981,800
Noncurrent Assets:			
Capital Assets:			
Land Purchase and Improvements	42,334	-	42,334
Infrastructure	6,046,797	-	6,046,797
Accumulated Depreciation - Infrastructure	(2,794,735)	-	(2,794,735)
Buildings	406,159	-	406,159
Accumulated Depreciation - Buildings	(144,482)	-	(144,482)
Improvements other than Buildings	279,082	32,554	311,636
Accumulated Depreciation - Other Improvements	(54,952)	-	(54,952)
Machinery and Equipment	364,969	4,643	369,612
Accumulated Depreciation - Machinery & Equipment	(278,562)	-	(278,562)
Accumulated Depreciation - Capital Assets	-	(4,380)	(4,380)
Total Noncurrent Assets	3,866,610	32,817	3,899,427
Total Assets	4,803,060	78,167	4,881,227
LIABILITIES			
Current Liabilities:			
Accounts Payable	75,962	37	75,999
Compensated Absences	12,853	-	12,853
Intergovernmental Payable	1,026	-	1,026
Notes Payable - Current	41,238	-	41,238
Other Current Liabilities	77,334	2,267	79,601
Total Current Liabilities	208,413	2,304	210,717
NonCurrent Liabilities:			
Notes Payable - Noncurrent	198,794	-	198,794
Total Noncurrent Liabilities	198,794	-	198,794
Total Liabilities	407,207	2,304	409,511
NET POSITION			
Net Investment in Capital Assets	3,626,578	32,817	3,659,395
Unrestricted Net Position	769,275	43,046	812,321
Total Net Position	\$ 4,395,853	\$ 75,863	\$ 4,471,716

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, 2014

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Services	\$ 369,002	\$ -	\$ 369,002
Charges for Sewerage Service	499,909	-	499,909
Charges for Sanitation Service	199,149	-	199,149
Rents and Royalties	-	5,750	5,750
Other Revenue	101,234	5,528	106,762
Total Operating Revenues	<u>1,169,294</u>	<u>11,278</u>	<u>1,180,572</u>
OPERATING EXPENSES:			
Proprietary Fund Function - Water			
Personnel Services - Salaries and Wages	326,749	-	326,749
Personnel Services - Employee Benefits	97,224	-	97,224
Purchased Professional & Technical Services	190,128	-	190,128
Purchased Property Services	161,312	-	161,312
Other Operating Expenses	62,220	-	62,220
Supplies	61,910	-	61,910
Total Proprietary Fund Function - Water	<u>899,543</u>	<u>-</u>	<u>899,543</u>
Proprietary Fund Function - Golf			
Purchased Property Services	-	3,724	3,724
Other Operating Expenses	-	19,152	19,152
Total Proprietary Fund Function - Golf	<u>-</u>	<u>22,876</u>	<u>22,876</u>
Proprietary Fund Function - Restaurant & Bar			
Purchased Property Services	-	1,562	1,562
Depreciation	159,895	1,149	161,044
Total Operating Expenses	<u>1,059,438</u>	<u>25,587</u>	<u>1,085,025</u>
Operating Income (Loss)	<u>109,856</u>	<u>(14,309)</u>	<u>95,547</u>
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	690	-	690
(Loss) on Sale of Real and Personal Property	-	(73,592)	(73,592)
Interest Expense - Non-Operating	(6,038)	-	(6,038)
Total Non-operating Revenue (Expenses)	<u>(5,348)</u>	<u>(73,592)</u>	<u>(78,940)</u>
Income (Loss) Before Contributions & Transfers	104,508	(87,901)	16,607
Capital Contributions	10,000	-	10,000
Non-Operating Transfer In	48,000	41,000	89,000
Transfers Out	(246,664)	-	(246,664)
Change in Net Position	<u>(84,156)</u>	<u>(46,901)</u>	<u>(131,057)</u>
Total Net Position - October 1 (Beginning)	<u>4,480,009</u>	<u>122,764</u>	<u>4,602,773</u>
Total Net Position - September 30 (Ending)	<u>\$ 4,395,853</u>	<u>\$ 75,863</u>	<u>\$ 4,471,716</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, 2014

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	\$ 1,071,014	\$ -	\$ 1,071,014
Cash Received from Others	101,234	11,278	112,512
Cash Payments to Employees for Services	(423,402)	-	(423,402)
Cash Payments for Suppliers	(61,910)	-	(61,910)
Cash Payments for Other Operating Expenses	(399,650)	(24,438)	(424,088)
Net Cash Provided by (Used for) Operating Activities	287,286	(13,160)	274,126
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	(198,664)	41,000	(157,664)
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	(202,536)	(12,940)	(215,476)
Capital Contributed by Other Funds	10,000	-	10,000
Use of Restricted Assets	163,616	-	163,616
Interest Paid	(6,757)	-	(6,757)
Loan Payment	(40,226)	-	(40,226)
Net Cash Provided by (Used for) Capital & Related Financing Activities	(75,903)	(12,940)	(88,843)
<u>Cash Flows from Investing Activities:</u>			
Interest and Dividends on Investments	689	-	689
Net Increase in Cash and Cash Equivalents	13,408	14,900	28,308
Cash and Cash Equivalents at Beginning of the Year:	517,128	30,250	547,378
Cash and Cash Equivalents at the End of the Year:	\$ 530,536	\$ 45,150	\$ 575,686

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, 2014

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 (Used For) Operating Activities:</u>			
Operating Income (Loss):	\$ 109,856	\$ (14,309)	\$ 95,547
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Depreciation	159,895	1,149	161,044
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	2,954	-	2,954
Decrease (increase) in Inventories	(14,558)	-	(14,558)
Decrease (increase) in Prepaid Expenses	3,750	-	3,750
Increase (decrease) in Accounts Payable	21,336	-	21,336
Decrease (increase) in Due From	580	-	580
Increase (decrease) in Intergovernmental	(1,034)	-	(1,034)
Increase (decrease) in Other Current Liabilities	3,936	-	3,936
Increase (decrease) in Compensated Absences	571	-	571
Net Cash Provided by (Used for) Operating Activities	<u>\$ 287,286</u>	<u>\$ (13,160)</u>	<u>\$ 274,126</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, 2014

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. 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, 2014, the carrying amount of the City's deposits was \$326,091 and the bank balance was \$317,417. The carrying amount of the Hidden Falls Golf Club's deposits was \$17,440 and the bank balance was \$21,058. The City's cash deposits held at September 30, 2014 and during the year ended September 30, 2014 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, 2014, 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	\$280,477	\$280,477	-0-	\$280,477
Business-Type Activities:				
First State Bank of Central Texas	\$350,654	\$350,654	-0-	\$350,654

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, 2014, 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 2013 tax roll, the assessed valuation was \$193,205,325. The tax rate was \$.1686 for maintenance and operations and \$.1520 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 accordance with the annual reimbursement cost agreement, loan payments were waived for fiscal year 2014. On September 30, 2014 the balance of the Note Receivable was \$278,394.

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 10/1/13	Additions	Deletions	Balance 9/30/14
Land	\$ 42,334	\$	\$	\$ 42,334
Construction in Progress	276,603		(276,603)	-
Infrastructure	5,592,659	454,140		6,046,799
Buildings	406,159			406,159
Improvements	298,696	6,160		304,856
Machinery and Equipment	611,079	31,780	(266,467)	376,392
Totals	\$ 7,227,530	\$ 492,080	\$ (543,070)	\$ 7,176,540
Accumulated Depreciation	(3,308,943)	(161,044)	192,875	(3,277,112)
Fixed Assets, Net	\$ 3,918,587	\$ 331,036	\$ (350,195)	\$ 3,899,428

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

	Component Unit			
	Balance 10/1/13	Additions	Deletions	Balance 9/30/14
Improvements	\$ 9,505	\$	\$	\$ 9,505
Machinery and Equipment	24,439	52,092		76,531
Totals	\$ 33,944	\$ 52,092	\$ -	\$ 86,036
Accumulated Depreciation	(13,684)	(5,161)		(18,845)
Fixed Assets, Net	\$ 20,260	\$ 46,931	\$ -	\$ 67,191
Intangible Assets	\$ 193,930	\$ -	\$	\$ 193,930
Accumulated Amortization	(141,040)	(35,260)		(176,300)
Total Intangible Assets, Net	52,890	(35,260)	-	17,630

F. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2014, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 1,824,901	\$	\$	\$ 1,824,901
Buildings	1,201,683			1,201,683
Improvements	180,851			180,851
Machinery and Equipment	140,908			140,908
Construction in Progress		7,211		7,211
Totals	<u>3,348,343</u>	<u>7,211</u>	<u>-</u>	<u>3,355,554</u>
Accumulated Depreciation	<u>(387,116)</u>	<u>(64,577)</u>		<u>(451,693)</u>
Capital Assets, Net	<u>\$ 2,961,227</u>	<u>\$ (57,366)</u>	<u>\$ -</u>	<u>\$ 2,903,861</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 41,401
BCAD	2,145
Ordinance Enforcement/Public Safety	14,538
Building Committee	111
Traffic Control	3,821
Municipal Court	495
Animal Control	1,858
Flood Plain Administrator	208
	<u>\$ 64,577</u>

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, 2014 follows:

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/13	Additions	Deletions	Amounts Outstanding 9/30/14	Due in One Year
Governmental Activities:								
<u>Bonds Payable</u>								
Combination Tax & Rev -								
Cert Of Obligation - Series 2008	4.80%	\$ 3,600,000	\$ 28,080	\$ 585,000	\$	(285,000)	\$ 300,000	\$ 300,000
General Obligation								
Refunding Bond - Series 2013	2.05%	3,340,000	67,467	3,295,000		(60,000)	3,235,000	60,000
Compensated Absences	N/A	N/A	N/A	84,235	11,707		95,942	N/A
Total		<u>\$ 6,940,000</u>	<u>\$ 95,547</u>	<u>\$ 3,964,235</u>	<u>\$ 11,707</u>	<u>\$ (345,000)</u>	<u>\$ 3,630,942</u>	<u>\$ 360,000</u>

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/13	Additions	Deletions	Amounts Outstanding 9/30/14	Due in One Year
Business-Type Activities:								
<u>Other Long-Term Debt</u>								
<u>Note Payable</u>								
Meadowlakes POA	2.50%	\$ 300,000	\$ 6,757	\$ 280,258	\$ -	\$ (40,226)	\$ 240,032	\$ 41,238
Compensated Absences	N/A	N/A	N/A	12,282	571		12,853	N/A
Total		\$ 300,000	\$ 6,757	\$ 292,540	\$ 571	\$ (40,226)	\$ 252,885	\$ 41,238

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, 2013.

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/13	Additions	Deletions	Amounts Outstanding 9/30/14	Due in One Year
Component Unit:								
<u>Note Payable</u>								
<u>Note Payable - City of</u>								
Meadowlakes Public Works Fund	N/A	\$ 350,000	\$ N/A	\$ 278,394	\$ -	\$ -	\$ 278,394	\$ 12,000
Meadowlakes POA		50,000	94		50,000	(788)	49,212	9,573
Total		\$ 400,000	\$ 94	\$ 278,394	\$ 50,000	\$ (788)	\$ 327,606	\$ 21,573

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
2015	\$ 360,000	\$ 80,717	\$ 440,717
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
2020-2023	1,635,000	84,664	1,719,664
	<u>\$ 3,535,000</u>	<u>\$ 378,683</u>	<u>\$ 3,913,683</u>

Debt service requirements for the City's component unit, MPFC, are as follows:

Component Unit:

Year Ended	Note Payable		
September 30	Principal	Interest	Total
2015	\$ 12,000	\$ -	\$ 12,000
2016	12,000	-	12,000
2017	12,000	-	12,000
2018	12,000	-	12,000
2019	12,000	-	12,000
2020-2024	60,000	-	60,000
2025-2029	60,000	-	60,000
2030-2034	60,000	-	60,000
2035-2038	38,394	-	38,394
	<u>\$ 278,394</u>	<u>\$ -</u>	<u>\$ 278,394</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, 2014 follows:

Year Ended	
September 30	
2015	\$ 46,983
2016	46,983
2017	46,983
2018	46,983
2019	46,983
2020	23,491
Total Minimum Lease Payments	\$ 258,406
Less Amount Representing Interest	18,375
Present Value of Lease Payments	<u>\$ 240,031</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, 2014 follows:

Year Ended September 30	
2015	\$ 10,582
2016	10,582
2017	10,582
2018	10,582
2019	9,701
Total Minimum Lease Payments	\$ 52,029
Less Amount Representing Interest	2,818
Present Value of Lease Payments	\$ 49,211

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 provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

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 2013	Plan Year 2014
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

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal

cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Three Year Trend Information

<u>Actuarial Assumptions</u>	<u>12/31/2011</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
Actuarial Cost Method -	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method -	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	24.8 Years-Closed Period	25.0 Years – Closed Period	25.0 Years – Closed Period
Amortization Period for new Gains/Losses	25 Years	25 Years	25 Years
Asset Valuation Method -	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return -	7.0%	7.0%	7.0%
Projected Salary Increases -	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation At -	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	0%	0%	0%

Funded Status and Funding Progress

The funded status as of December 31, 2013, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
(1)	(2)	(3)	(1)/(2)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2013	\$ 318,779	\$ 300,552	106.1%	\$ (18,227)	\$ 447,517	(4.1)%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

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 2014, 2013 and 2012 were \$499, \$472 and \$453, respectively, which equaled the required contributions each year.

N. Interfund Receivable and Payables

During the year ended September 30, 2014, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
General Fund	\$	\$ 2,000
Debt Service Fund	159,664	
Enterprise Funds -		
Utility Fund	48,000	246,664
Recreation Fund	41,000	
Totals	\$ 248,664	\$ 248,664

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 2013 and 2014. The City paid interest in the amount of \$12,675 in 2013 and \$6,757 in 2014.

Q. Excess of Expenditures over Appropriations

Expenditures in the General Fund budget line item functions Building Committee, Animal Control 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. Subsequent Event

The City has evaluated subsequent events through February 2, 2015, the date which the financial statements were available to be issued. The City is not aware of any subsequent events that materially impact the financial statements

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MEADOWLAKES, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 325,800	\$ 325,800	\$ 325,098	\$ (702)
Franchise Tax	48,500	48,500	53,093	4,593
Other Taxes	1,200	1,200	1,387	187
Licenses and Permits	5,000	4,500	4,275	(225)
Fines	3,450	3,450	3,563	113
Investment Earnings	900	900	706	(194)
Other Revenue	2,250	2,750	3,637	887
Total Revenues	387,100	387,100	391,759	4,659
EXPENDITURES:				
Current:				
General Government	246,040	247,694	217,291	30,403
BCAD	13,750	13,750	11,260	2,490
Building Committee	400	400	580	(180)
Flood Plain Administrator	1,750	1,750	1,090	660
Ordinance Enforcement/Public Safety	77,185	77,185	76,304	881
Traffic Control	29,275	29,275	20,054	9,221
Municipal Court	4,200	4,200	2,600	1,600
Animal Control	9,000	9,000	9,750	(750)
Capital Outlay:				
Capital Outlay	3,500	3,500	7,211	(3,711)
Total Expenditures	385,100	386,754	346,140	40,614
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,000	346	45,619	45,273
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	-	(1,654)	43,619	45,273
Fund Balance - October 1 (Beginning)	299,910	299,910	299,910	-
Fund Balance - September 30 (Ending)	\$ 299,910	\$ 298,256	\$ 343,529	\$ 45,273

CITY OF MEADOWLAKES, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION

Texas Municipal Retirement System

Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1)/(2)	Unfunded AAL (UAAL) (4) (2)-(1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4)/(5)
12/31/2011	\$ 223,711	\$ 179,434	124.7%	(44,277)	\$ 416,701	(10.6)%
12/31/2012	266,883	221,960	120.2	(44,923)	419,412	(10.7)
12/31/2013	318,779	300,552	106.1	(18,227)	447,517	(4.1)

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

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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, 2014, 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, 2015.

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.

Neffendorf, Knopp, Dooss & Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas

February 2, 2015

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.

Certified Public Accountants

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February 2, 2015

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, 2014. 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 October 1, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Meadowlakes, Texas are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 31, 2014. 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, 2015.

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.

Recommendations

Prior Year Recommendations

Meadowlakes Public Facility Corporation (MPFC)

Merchandise owned by the General Manager is sold through the MPFC point of sale system. The General Manager makes payments to himself for the merchandise sold without review or approval of a board member. We again recommend any payments made to the General Manager be reviewed and approved by a board member prior to payment.

Current Year Recommendations

Meadowlakes Public Facility Corporation (MPFC)

The General Manager is paid an incentive payment each year in compliance with his contract. Calculation of this incentive pay was selected for audit review. The calculation was prepared by the General Manager and there was no indication of review or approval by a board member. We recommend someone other than the General Manager prepare the calculation for the incentive pay and it be reviewed and approved by a board member prior to payment.

We noted several invoices without proper approval during our test of transactions. We recommend that all invoices contain documentation of proper approval.

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, Doss + Company, P.C.

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Fredericksburg, Texas