

REPORT OF EXAMINATION

**CITY OF
MEADOWLAKES**

Meadowlakes, Texas

**For the Year Ended
September 30, 2010**

CITY OF MEADOWLAKES, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2010

CITY OF MEADOWLAKES
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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Certified Public Accountants

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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, as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Meadowlakes's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2011, on our consideration of the City of Meadowlakes's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and the Schedule of Funding Progress for the Retirement Plan on pages 3 through 8, 32 and 33 , are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

February 2, 2011

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, 2010. Please read it in conjunction with the independent auditors' report on page 1, and City's Basic Financial Statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$ 3,617,569 (net assets). Of this amount, \$ 825,372 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net assets increased by \$ 388,276 as a result of this year's operations.
- At September 30, 2010, the City's governmental funds reported combined ending fund balances of \$ 223,275 , an increase of \$ 75,631 in comparison with the prior year.
- At September 30, 2010, the City's Enterprise Funds reported unrestricted net assets of \$ 589,155 , an increase of \$ 307,407 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 Assets 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 21) 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 31 and 32.

Reporting the City as a Whole

The Statement of Net Assets 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 Assets 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 assets and changes in them. The City's net assets (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 assets 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 Assets 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, public works, 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 Assets 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 assets (Table I) and changes in net assets (Table II) of the City's governmental and business-type activities.

Net assets of the City's governmental activities increased from \$ 158,073 to \$ 238,942 . Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$ 236,217 at September 30, 2010. This increase in governmental net assets was the result of three factors. First, the City's revenues exceeded the expenditures by \$ 75,631. Second, the City paid principal on long-term debt of \$ 2,645. Third, the City recorded depreciation in the amounts of \$627.

Net assets of the City's business-type activities increased from \$ 3,071,220 to \$ 3,378,627. Unrestricted net assets were \$ 589,155 at September 30, 2010. This increase in business-type net assets was the result of net income of \$ 307,407.

Table I
City of Meadowlakes

NET ASSETS

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2010	2009	2010	2009	2010	2009
Current and Restricted Assets	\$ 275,565	\$ 212,318	\$ 795,869	\$ 675,414	\$ 1,071,434	\$ 887,732
Capital Assets	2,726	3,353	7,192,386	7,392,895	7,195,112	7,396,248
Total Assets	\$ 278,291	\$ 215,671	\$ 7,988,255	\$ 8,068,309	\$ 8,266,546	\$ 8,283,980
Long-Term Liabilities	\$ -	\$ -	\$ 4,138,159	\$ 4,520,465	\$ 4,138,159	\$ 4,520,465
Other Liabilities	39,349	57,598	471,469	476,624	510,818	534,222
Total Liabilities	\$ 39,349	\$ 57,598	\$ 4,609,628	\$ 4,997,089	\$ 4,648,977	\$ 5,054,687
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ 2,725	\$ 3,353	\$ 2,717,499	\$ 2,527,816	\$ 2,720,224	\$ 2,531,169
Restricted			71,973	83,601	71,973	83,601
Unrestricted	236,217	154,720	589,155	459,803	825,372	614,523
Total Net Assets	\$ 238,942	\$ 158,073	\$ 3,378,627	\$ 3,071,220	\$ 3,617,569	\$ 3,229,293

Table II
City of Meadowlakes

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Property Taxes	\$ 578,268	\$ 564,325	\$	\$	\$ 578,268	\$ 564,325
Franchise Tax	58,894	56,671			58,894	56,671
Charges for Services	8,312	13,723	932,729	2,080,352	941,041	2,094,075
Miscellaneous	8,582	1,913	204,403	83,711	212,985	85,624
Interest Earnings	1,901	2,858	9,266	11,143	11,167	14,001
Total Revenue	\$ 655,957	\$ 639,490	\$ 1,146,398	\$ 2,175,206	\$ 1,802,355	\$ 2,814,696
Expenses:						
General Government	\$ 198,595	\$ 213,356	\$	\$	\$ 198,595	\$ 213,356
Financial Administration	11,928	12,796			11,928	12,796
Code Enforcement	15,255	16,988			15,255	16,988
Fire and EMS Services	75,955	69,385			75,955	69,385
Water and Sewer			831,632	728,898	831,632	728,898
Golf Course			1,386	758,312	1,386	758,312
Tennis					-	-
Swimming				2,861	-	2,861
Restaurant and Bar			41,570	386,205	41,570	386,205
Debt Service - Interest	17	339	221,064	242,949	221,081	243,288
Depreciation			274,905	270,150	274,905	270,150
Total Expenses	\$ 301,750	\$ 312,864	\$ 1,370,557	\$ 2,389,375	\$ 1,672,307	\$ 2,702,239
Increase (Decrease) in Net Assets						
Before Transfers & Capital Contributions	\$ 354,207	\$ 326,626	\$ (224,159)	\$ (214,169)	\$ 130,048	\$ 112,457
Capital Contributions			36,227		36,227	
Gain (Loss) on Sale of Assets			(4,107)		(4,107)	
Sale of Intangible Asset			193,930		193,930	
Transfers	(273,338)	(244,910)	305,516	244,910	32,178	
Net Change	80,869	81,716	307,407	30,741	388,276	112,457
Net Assets - Beginning	158,073	76,357	3,071,220	3,040,479	3,229,293	3,116,836
Net Assets - Ending	\$ 238,942	\$ 158,073	\$ 3,378,627	\$ 3,071,220	\$ 3,617,569	\$ 3,229,293

The cost of all governmental activities this year was \$ 301,750 . 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 \$578,268, because the other costs were paid by franchise tax (\$58,894), user charges (\$ 8,312), interest (\$1,901) and other miscellaneous (\$7,338).

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 \$ 223,275 , which is more than last year's total of \$ 147,644 . Included in this year's total change in fund balance is an increase of \$ 75,631 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. The City did amend the original budget during the year; actual expenditures were less than the budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2010, the City had the following amounts invested in capital assets, net of depreciation:

CAPITAL ASSETS						
	Governmental Activities		Business-Type Activities		TOTALS	
	2010	2009	2010	2009	Primary Government	
Land and Improvements	\$	\$	\$ 1,838,890	\$ 1,838,890	\$ 1,838,890	\$ 1,838,890
Infrastructure			5,507,187	5,486,140	5,507,187	5,486,140
Buildings			1,568,435	1,521,741	1,568,435	1,521,741
Improvements			461,846	435,571	461,846	435,571
Machinery & Equipment	42,090	42,090	885,620	994,692	927,710	1,036,782
Total Capital Assets	\$ 42,090	\$ 42,090	\$ 10,261,978	\$ 10,277,034	\$ 10,304,068	\$ 10,319,124
Less: Accumulated Depreciation	(39,364)	(38,737)	(3,069,592)	(2,884,139)	(3,108,956)	(2,922,876)
Capital Assets, Net	\$ 2,726	\$ 3,353	\$ 7,192,386	\$ 7,392,895	\$ 7,195,112	\$ 7,396,248

This year's major additions included:

	Business Type
	Activities
Irrigation System Improvements	\$ 25,326
Improvements – Water Plant	949
Building Improvements	30,567
Clubhouse Renovations	16,127
Machinery & Equipment	27,070
Infrastructure Improvements	21,047
TOTALS	\$ 121,086

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

DEBT

At September 30, 2010, the City had the following outstanding debt:

OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2010	2009	2010	2009	2010	2009
Bonds Payable	\$	\$	\$ 4,330,000	\$ 4,585,000	\$ 4,330,000	\$ 4,585,000
Notes Payable		2,645			-	2,645
Capital Leases Payable			144,887	280,079	144,887	280,079
Total Outstanding Debt	\$ -	\$ 2,645	\$ 4,474,887	\$ 4,865,079	\$ 4,474,887	\$ 4,867,724

For governmental activities, the City paid \$2,645 in principal on the outstanding long-term debt.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2011 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 2011. Amounts available for appropriation in the General Fund budget are \$640,855 and expenditures are estimated to be \$680,353.

If these estimates are realized, the City's budgetary General fund balance is expected to remain about the same by the close of 2011.

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
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Meadowlakes Public Facility Corp
ASSETS				
Cash and Cash Equivalents	\$ 162,424	\$ 215,726	\$ 378,150	\$ 37,235
Investments - Current	100,200	-	100,200	-
Receivables (net of allowance for uncollectibles)	12,941	406,683	419,624	12,828
Due from Other Governments	-	130	130	-
Notes Receivable	-	323,194	323,194	-
Due from Component Unit	-	331	331	-
Inventories	-	25,276	25,276	7,615
Prepaid Items	-	200	200	3,256
Capitalized Debt Issuance Costs	-	75,550	75,550	-
Restricted Assets:				
Restricted Asset - Debt Service	-	53,029	53,029	-
Restricted Asset - Construction	-	18,944	18,944	-
Capital Assets:				
Land	-	1,838,890	1,838,890	-
Infrastructure, net	-	2,645,963	2,645,963	-
Buildings, net	-	1,803,210	1,803,210	-
Improvements other than Buildings, net	-	226,122	226,122	2,884
Machinery and Equipment, net	2,726	885,620	888,346	23,047
Intangible Asset, Net	-	(207,418)	(207,418)	158,670
Other Assets	-	-	-	7,500
Total Assets	278,291	8,311,450	8,589,741	253,035
LIABILITIES				
Accounts Payable	1,250	45,650	46,900	7,589
Intergovernmental Payable	-	998	998	-
Due to Primary Government	-	-	-	331
Accrued Interest Payable	-	19,311	19,311	-
Deferred Revenues	32,399	3,147	35,546	-
Other Current Liabilities	5,700	65,638	71,338	7,374
Noncurrent Liabilities				
Due Within One Year	-	336,728	336,728	29,808
Due in More Than One Year	-	4,138,159	4,138,159	293,386
Total Liabilities	39,349	4,609,631	4,648,980	338,488
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	2,725	2,717,499	2,720,224	25,931
Restricted for:				
Restricted for Debt Service	-	53,029	53,029	-
Restricted for Construction	-	18,944	18,944	-
Unrestricted Net Assets	236,217	589,155	825,372	(111,384)
Total Net Assets	\$ 238,942	\$ 3,378,627	\$ 3,617,569	\$ (85,453)

The notes to the Financial Statements are an integral part of this statement.

CITY OF MEADOWLAKES
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2010

		Program Revenues	
		Charges for Services	Capital Grants and Contributions
	Expenses		
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 198,595	\$ 3,740	\$ -
Financial Administration	11,928	-	-
Public Safety	75,955	4,572	-
Code Enforcement	15,255	-	-
Other Debt Interest	17	-	-
Total Governmental Activities:	301,750	8,312	-
BUSINESS-TYPE ACTIVITIES:			
Public Works Fund	1,208,062	932,729	36,227
Recreation Fund	166,602	-	-
Total Business-Type Activities:	1,374,664	932,729	36,227
TOTAL PRIMARY GOVERNMENT:	\$ 1,676,414	\$ 941,041	\$ 36,227
Component Unit:			
PFC - Hidden Falls Golf Club	\$ 868,264	\$ 813,638	\$ -
TOTAL COMPONENT UNITS:	\$ 868,264	\$ 813,638	\$ -

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Franchise Taxes

Other Taxes

Miscellaneous Revenue

Investment Earnings

Sale of Intangible Asset

Transfers In (Out)

Total General Revenues, Special Items, and Transfers

Change in Net Assets

Net Assets--Beginning

Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Meadowlakes Public Facility Corp
\$ (194,855)	\$ -	\$ (194,855)	\$ -
(11,928)	-	(11,928)	-
(71,383)	-	(71,383)	-
(15,255)	-	(15,255)	-
(17)	-	(17)	-
(293,438)	-	(293,438)	-
-	(239,106)	(239,106)	-
-	(166,602)	(166,602)	-
-	(405,708)	(405,708)	-
(293,438)	(405,708)	(699,146)	-
-	-	-	(54,626)
-	-	-	(54,626)
578,268	-	578,268	-
58,894	-	58,894	-
1,244	-	1,244	-
7,338	204,403	211,741	1,231
1,901	9,266	11,167	120
-	193,930	193,930	-
(273,338)	305,516	32,178	(32,178)
374,307	713,115	1,087,422	(30,827)
80,869	307,407	388,276	(85,453)
158,073	3,071,220	3,229,293	-
<u>\$ 238,942</u>	<u>\$ 3,378,627</u>	<u>\$ 3,617,569</u>	<u>\$ (85,453)</u>

CITY OF MEADOWLAKES
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

EXHIBIT C-1

	General Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 162,424
Investments - Current	100,200
Taxes Receivable	9,199
Total Assets	<u>\$ 271,823</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 1,250
Deferred Revenues	41,598
Other Current Liabilities	5,700
Total Liabilities	<u>48,548</u>
Fund Balances:	
Unreserved and Undesignated:	
Reported in the General Fund	<u>223,275</u>
Total Fund Balances	<u>223,275</u>
Total Liabilities and Fund Balances	<u>\$ 271,823</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF MEADOWLAKES
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2010

Total Fund Balances - Governmental Funds	\$ 223,275
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 \$42,090 and the accumulated depreciation was \$38,737. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.	708
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 2010 capital outlays and debt principal payments is to increase net assets.	2,645
The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(627)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.	12,941
Net Assets of Governmental Activities	\$ 238,942

The notes to the Financial Statements are an integral part of this statement.

CITY OF MEADOWLAKES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

EXHIBIT C-3

	General Fund
REVENUES:	
Taxes:	
Property Taxes	\$ 578,620
Franchise Tax	58,894
Other Taxes	1,244
Licenses and Permits	3,740
Fines	4,572
Investment Earnings	1,901
Other Revenue	3,766
Total Revenues	<u>652,737</u>
EXPENDITURES:	
Current:	
General Government	198,182
Financial Administration	11,903
Public Safety	75,797
Code Enforcement	15,224
Debt Service:	
Other Debt Principal	2,645
Other Debt Interest	17
Total Expenditures	<u>303,768</u>
Excess of Revenues Over Expenditures	<u>348,969</u>
OTHER FINANCING SOURCES (USES):	
Transfers Out (Use)	<u>(273,338)</u>
Total Other Financing Sources (Uses)	<u>(273,338)</u>
Net Change in Fund Balances	75,631
Fund Balance - October 1 (Beginning)	<u>147,644</u>
Fund Balance - September 30 (Ending)	<u><u>\$ 223,275</u></u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF MEADOWLAKES

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, 2010

Total Net Change in Fund Balances - Governmental Funds	\$ 75,631
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 2010 capital outlays and debt principal payments is to increase net assets.	2,645
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 net assets.	(627)
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 and eliminating interfund transfers. The net effect of these reclassifications and recognitions is to increase net assets.	3,220
Change in Net Assets of Governmental Activities	\$ 80,869

The notes to the Financial Statements are an integral part of this statement.

CITY OF MEADOWLAKES
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

Business-Type Activities - Enterprise Funds

	Public Works Fund	Recreation Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 214,007	\$ 1,719	\$ 215,726
Restricted Assets - Current:			
Restricted Asset Debt Service	20,614	32,415	53,029
Restricted Asset Construction	18,944	-	18,944
Taxes Receivable	3,147	-	3,147
Accounts Receivable-Net of Uncollectible Allowance	80,342	-	80,342
Due from Other Governments	130	-	130
Notes Receivable	323,194	-	323,194
Due from Component Units	331	-	331
Inventories	25,276	-	25,276
Prepaid Items	-	200	200
Total Current Assets	685,985	34,334	720,319
Noncurrent Assets:			
Capitalized Debt Issuance Costs	75,550	-	75,550
Capital Assets:			
Land Purchase and Improvements	1,838,890	-	1,838,890
Infrastructure	5,508,136	-	5,508,136
Accumulated Depreciation - Infrastructure	(2,862,173)	-	(2,862,173)
Buildings	1,803,210	-	1,803,210
Improvements other than Buildings	219,772	6,350	226,122
Machinery and Equipment	592,790	292,830	885,620
Accumulated Depreciation - Capital Assets	-	(207,418)	(207,418)
Total Noncurrent Assets	7,176,175	91,762	7,267,937
Total Assets	7,862,160	126,096	7,988,256

The notes to the Financial Statements are an integral part of this statement.

CITY OF MEADOWLAKES
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2010

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
LIABILITIES			
Current Liabilities:			
Accounts Payable	45,256	-	45,256
Wages and Salaries Payable	393	-	393
Intergovernmental Payable	998	-	998
Accrued Interest Payable	15,845	3,465	19,310
Deferred Revenue	3,147	-	3,147
Bonds Payable - Current:			
General Obligation Bonds Payable	265,000	-	265,000
Capital Leases Payable - Current	-	71,728	71,728
Other Current Liabilities	65,638	-	65,638
Total Current Liabilities	396,277	75,193	471,470
NonCurrent Liabilities:			
Bonds Payable - Non-Current:			
General Obligation Bonds Payable	510,000	-	510,000
Revenue Bonds Payable	3,555,000	-	3,555,000
Capital Leases Payable - Noncurrent	-	73,159	73,159
Total Noncurrent Liabilities	4,065,000	73,159	4,138,159
Total Liabilities	4,461,277	148,352	4,609,629
NET ASSETS			
Investments in Capital Assets, Net of Debt	2,752,834	(35,335)	2,717,499
Restricted for Debt Service	20,614	32,415	53,029
Restricted for Construction	18,944	-	18,944
Unrestricted Net Assets	608,491	(19,336)	589,155
Total Net Assets	\$ 3,400,883	\$ (22,256)	\$ 3,378,627

The notes to the Financial Statements are an integral part of this statement.

CITY OF MEADOWLAKES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Services	\$ 302,467	\$ -	\$ 302,467
Charges for Sewerage Service	446,642	-	446,642
Charges for Sanitation Service	183,620	-	183,620
Rents and Royalties	-	120	120
Other Revenue	89,904	113,942	203,846
Total Operating Revenues	<u>1,022,633</u>	<u>114,062</u>	<u>1,136,695</u>
OPERATING EXPENSES:			
Proprietary Fund Function - Water			
Personnel Services - Salaries and Wages	298,781	-	298,781
Personnel Services - Employee Benefits	77,407	-	77,407
Purchased Professional & Technical Services	183,653	-	183,653
Purchased Property Services	190,736	-	190,736
Other Operating Expenses	23,800	-	23,800
Supplies	57,251	-	57,251
Total Proprietary Fund Function - Water	<u>831,628</u>	<u>-</u>	<u>831,628</u>
Proprietary Fund Function - Golf			
Other Operating Expenses	-	1,299	1,299
Supplies	-	87	87
Total Proprietary Fund Function - Golf	<u>-</u>	<u>1,386</u>	<u>1,386</u>
Proprietary Fund Function - Restaurant & Bar			
Other Operating Expenses	-	41,570	41,570
Depreciation	161,947	112,958	274,905
Total Operating Expenses	<u>993,575</u>	<u>155,914</u>	<u>1,149,489</u>
Operating Income (Loss)	<u>29,058</u>	<u>(41,852)</u>	<u>(12,794)</u>
NON-OPERATING REVENUES (EXPENSES):			
Gain in Sale of Property	437	-	437
Bond Issuance Cost	(8,195)	-	(8,195)
Investment Earnings	9,164	102	9,266
(Loss) on Sale of Real and Personal Property	-	(4,111)	(4,111)
Interest Expense - Non-Operating	(206,292)	(6,577)	(212,869)
Total Non-operating Revenue (Expenses)	<u>(204,886)</u>	<u>(10,586)</u>	<u>(215,472)</u>
Income Before Transfers, Contributions, Gains or Losses	<u>(175,828)</u>	<u>(52,438)</u>	<u>(228,266)</u>
Capital Contributions	36,227	-	36,227
Non-Operating Transfer In	273,338	43,922	317,260
Transfers Out	(8,527)	(3,217)	(11,744)
Sale of Intangible Asset	-	193,930	193,930
Change in Net Assets	<u>125,210</u>	<u>182,197</u>	<u>307,407</u>
Total Net Assets - October 1 (Beginning)	<u>3,275,673</u>	<u>(204,453)</u>	<u>3,071,220</u>
Total Net Assets - September 30 (Ending)	<u>\$ 3,400,883</u>	<u>\$ (22,256)</u>	<u>\$ 3,378,627</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF MEADOWLAKES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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	\$ 1,160,940	\$ -	\$ 1,160,940
Cash Received from Others	89,904	128,403	218,307
Cash Payments to Employees for Services	(376,188)	-	(376,188)
Cash Payments for Suppliers	(60,441)	(87)	(60,528)
Cash Payments for Other Operating Expenses	(398,189)	(225,383)	(623,572)
Net Cash Provided by (Used for) Operating Activities	416,026	(97,067)	318,959
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer In	264,811	40,705	305,516
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	(102,603)	(18,483)	(121,086)
Capital Contributed by Other Funds	36,227	-	36,227
Use of Restricted Assets	25,680	(14,052)	11,628
Increase (Decrease) in Accrued Interest	13,055	(18,463)	(5,408)
Principal Payments Revenue Notes	(255,000)	-	(255,000)
Interest Paid	(206,292)	(6,577)	(212,869)
Capital Lease Payments	-	(135,192)	(135,192)
Sale of Capital Assets	2,016	41,000	43,016
Sale of Intangible Asset	-	193,930	193,930
Net Cash Provided by (Used for) Capital & Related Financing Activities	(486,917)	42,163	(444,754)
<u>Cash Flows from Investing Activities:</u>			
Note Receivable	(323,194)	-	(323,194)
Interest and Dividends on Investments	9,164	101	9,265
Net Cash Provided by (Used for) Investing Activities	(314,030)	101	(313,929)
Net Increase(Decrease) in Cash and Cash Equivalents	(120,110)	(14,098)	(134,208)
Cash and Cash Equivalents at Beginning of the Year:	334,117	15,817	349,934
Cash and Cash Equivalents at the End of the Year:	\$ 214,007	\$ 1,719	\$ 215,726

The notes to the Financial Statements are an integral part of this statement.

CITY OF MEADOWLAKES
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2010

EXHIBIT D-3

	Business-Type Activities		
	Public		Total
	Works Fund	Recreation Fund	Enterprise Funds
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided By (Used For) Operating Activities:</u>			
Operating Income (Loss):	\$ 29,058	\$ (41,852)	\$ (12,794)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Depreciation	161,947	112,958	274,905
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(6,032)	14,341	8,309
Decrease (increase) in Inventories	(2,051)	39,428	37,377
Decrease (increase) in Prepaid Expenses	-	1,624	1,624
Increase (decrease) in Accounts Payable	(2,137)	7,908	5,771
Increase (decrease) in Due from Other Funds	231,143	(231,474)	(331)
Increase (decrease) in Intergovernmental	998	-	998
Increase (decrease) in Other Current Liabilities	3,100	-	3,100
Net Cash Provided by (Used for)			
Operating Activities	<u>\$ 416,026</u>	<u>\$ (97,067)</u>	<u>\$ 318,959</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, 2010

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Meadowlakes operates under a Manager-Council form of government. On May 7, 1998, the citizens elected to become a Class A city, represented by a mayor and five (5) councilpersons.

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 Assets 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.

Proprietary Fund:

1. **Enterprise Fund** - The City operates the Utility (Public Works Department) Fund and the Recreation Fund as Enterprise Funds.

E. Other Accounting Policies

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 assets. 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. The liabilities for accumulated vacation leave at September 30, 2010 are estimated to be immaterial, and are not reflected in the accompanying financial statements.
4. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

5. 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.
6. 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.

7. 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, 2010, the carrying amount of the City's deposits was \$454,771 and the bank balance was \$459,046. The carrying amount of the Hidden Falls Golf Club's deposits was \$36,585 and the bank balance was \$36,164. The City's cash deposits held at September 30, 2010 and during the year ended September 30, 2010 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 District's temporary investments at September 30, 2010, are shown below:

Name	Carrying Amount	Market Value	FDIC Coverage	Pledged Securities
Money Market Fund -				
Wells Fargo	\$ 200	\$ 200	\$ 200	\$ - 0 -
Certificates of Deposit -				
Wells Fargo	50,000	50,066	50,000	-0-
American Bank of Texas	50,000	50,107	-0-	50,107

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, 2010, 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 2009 tax roll, the assessed valuation was \$195,367,860 and the tax rate was \$.2990 per \$100 valuation (general fund only).

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. Loan payments in the amount of \$3,000 are due on the first of each month. The term of the loan is 5.5 years at 2.0% interest. On September 30, 2010 the balance of the Note Receivable was \$323,194.

D. Restricted Assets

Restricted assets represent cash that has been set aside in the Enterprise Funds for future payment of the long-term debt and construction.

E. Land, Structures and Equipment-Enterprise Funds

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

	Balance 10/1/09	Additions	Deletions	Balance 9/30/10
Land	\$ 1,838,890	\$ -	\$ -	\$ 1,838,890
Infrastructure	5,486,140	21,047		5,507,187
Buildings	1,521,741	46,694		1,568,435
Improvements	435,571	26,275		461,846
Machinery and Equipment	994,692	27,070	(136,142)	885,620
Totals	\$ 10,277,034	\$ 121,086	\$ (136,142)	\$ 10,261,978
Accumulated Depreciation	(2,884,139)	(274,905)	89,452	(3,069,592)
Fixed Assets, Net	\$ 7,392,895	\$ (153,819)	\$ (46,690)	\$ 7,192,386

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

	Component Unit			
	Balance 10/1/09	Additions	Deletions	Balance 9/30/10
Improvements	\$ -	\$ 9,505	\$ -	\$ 9,505
Machinery and Equipment	-	18,485		18,485
Totals	\$ -	\$ 27,990	\$ -	\$ 27,990
Accumulated Depreciation	-	(2,059)		(2,059)
Fixed Assets, Net	\$ -	\$ 25,931	\$ -	\$ 25,931
Intangible Assets	\$ -	\$ 193,930	\$ -	\$ 193,930
Accumulated Amortization	-	(35,260)		(35,260)
Total Intangible Assets, Net	-	158,670	-	158,670

F. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2010, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Machinery and Equipment	\$ 42,090	\$ -	\$ -	\$ 42,090
Accumulated Depreciation	(38,737)	(627)		(39,364)
Capital Assets, Net	\$ 3,353	\$ (627)	\$ -	\$ 2,726

G. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2010 follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
Notes Payable -					
Meadowlakes POA	\$ 2,645	\$ -	\$ 2,645	\$ -	\$ -
Governmental Activity -					
Long-Term Debt	\$ 2,645	\$ -	\$ 2,645	\$ -	\$ -

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Business-Type Activities:					
Bonds Payable -					
General Obligation Refunding					
Bonds -Series 2008	1,000,000		240,000	760,000	250,000
Combination Tax and Revenue					
Certificates of Obligation -					
Series 2008	3,585,000		15,000	3,570,000	15,000
Total Bonds Payable	\$ 4,585,000	\$	\$ 255,000	\$ 4,330,000	\$ 265,000
Capital Leases -					
Government Capital Corporation	280,079		135,192	144,887	71,728
Business-Type Activity -					
Long-Term Debt	\$ 4,865,079	\$	\$ 390,192	\$ 4,474,887	\$ 336,728

H. Revenue Bonds and Certificates of Obligation

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

The City issued \$3,600,000 Combination Tax and Revenue Certificates of Obligation - Series 2008 for purchase of real property (golf course) and repair, rehabilitation and renovation of such real property. The Certificates were issued at an interest rate of 4.8%. The Certificates are payable from and secured by an ad valorem tax levied on all taxable property in the City and further secured by and payable from a first lien on and pledge of the Net Revenues of the System. Since the City anticipates the Enterprise (Utility) Fund will provide the annual debt service of the certificates, the Certificates are shown as a long-term obligation of the Enterprise (Utility) Fund.

Debt service requirements are as follows:

September 30,	Principal	Interest	Total
2011	265,000	193,409	458,409
2012	265,000	183,941	448,941
2013	270,000	174,383	444,383
2014	285,000	169,200	454,200
2015	300,000	155,520	455,520
2016 - 2020	1,715,000	546,960	2,261,960
2021 - 2025	1,230,000	119,280	1,349,280
Totals	\$ 4,330,000	\$ 1,542,693	\$ 5,872,693

I. Capitalized Leases

Capital lease obligations at September 30, 2010, are composed of the following:

	<u>Balance at 9/30/10</u>
ENTERPRISE FUND	
Lease payable to Government Capital Corporation for golf course maintenance equipment; semi-annual installments of \$37,405 including principal and interest through May 4, 2012; interest at 4%	\$ <u>144,887</u>
Total Enterprise Funds	\$ <u><u>144,887</u></u>

Future minimum lease payments under the lease along with the present value of the minimum lease payments as of September 30, 2010:

<u>Year Ended September 30,</u>	<u>Amount</u>
2011	\$ 74,811
2012	<u>74,809</u>
Total Minimum Lease Payments	\$ 149,620
Less Amount Representing Interest	<u>4,733</u>
Present Value of Lease Payments	<u><u>\$ 144,887</u></u>

J. RETIREMENT PLAN

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

Plan Description

The City 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 by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on 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:

	<u>Plan Year 2009</u>	<u>Plan Year 2010</u>
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	1 to 1	1 to 1
A member is vested after	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 Projected Unit Credit actuarial cost method. 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 finances the portion of an active member's projected benefit allocated annually; 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.

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

Three Year Trend Information

<u>Actuarial Assumptions</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2009</u>
Actuarial Cost Method -	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method -	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	25 Years - Closed Period	24 Years - Closed Period	23 Years - Closed Period
Amortization Period for new Gains/Losses	25 Years	25 Years	25 Years
Asset Valuation Method -	Amortized Cost	Amortized Cost	10-year Smoothed Market
Investment Rate of Return -	7.0%	7.5%	7.5%
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%

The funded status as of December 31, 2009, 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)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2009	\$ 142,316	\$ 106,970	133.0%	\$ (35,346)	\$ 624,965	(5.7)%

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.

K. Interfund Receivable and Payables

Interfund balances at September 30, 2010, consisted of the following:

	<u>Receivable</u>	<u>Payable</u>
<i>Enterprise Funds:</i>		
<u>Utility Fund -</u>		
Hidden Falls Golf Club – CU	\$ 331	\$
<u>Hidden Falls Golf Club - CU</u>		
Utility Fund		331
Totals	<u>\$ 331</u>	<u>\$ 331</u>

During the year ended September 30, 2010, the City's transfers between funds consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 273,338
Enterprise Funds -		
Utility Fund	264,811	-
Recreation Fund	40,705	
Component Unit		
Hidden Falls Golf Club		32,178
Totals	<u>\$ 305,516</u>	<u>\$ 305,516</u>

L. 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.

M. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt no income tax was paid in 2009 and 2010. The City paid interest in the amount of \$231,606 in 2009 and \$218,277 in 2010.

N. 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.

O. Subsequent Event

The City has evaluated subsequent events through February 2, 2011, 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
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 303,725	\$ 312,176	\$ 578,620	\$ 266,444
Franchise Tax	54,000	56,671	58,894	2,223
Other Taxes	500	616	1,244	628
Licenses and Permits	3,350	3,215	3,740	525
Fines	8,775	10,143	4,572	(5,571)
Investment Earnings	1,525	2,858	1,901	(957)
Other Revenue	1,550	1,677	3,766	2,089
Total Revenues	373,425	387,355	652,737	265,382
EXPENDITURES:				
Current:				
General Government	239,015	212,008	198,182	13,826
Financial Administration	15,700	12,695	11,903	792
Public Safety	73,990	68,776	75,797	(7,021)
Code Enforcement	26,930	17,222	15,224	1,998
Debt Service:				
Other Debt Principal	2,790	2,790	2,645	145
Other Debt Interest	-	-	17	(17)
Capital Outlay:				
Capital Outlay	15,000	-	-	-
Total Expenditures	373,425	313,491	303,768	9,723
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	73,864	348,969	275,105
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	-	-	(273,338)	(273,338)
Total Other Financing Sources (Uses)	-	-	(273,338)	(273,338)
Net Change	-	73,864	75,631	1,767
Fund Balance - October 1 (Beginning)	147,644	147,644	147,644	-
Fund Balance - September 30 (Ending)	\$ 147,644	\$ 221,508	\$ 223,275	\$ 1,767

CITY OF MEADOWLAKES, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION

Texas Municipal Retirement System

Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2)-(1)		(4)/(5)
12/31/2007 \$	27,482 \$	24,633	111.6% \$	(2,849) \$	284,520	(1.0) %
12/31/2008	89,762	66,563	134.9	(23,199)	656,063	(3.5)
12/31/2009	142,316	106,970	133.0	(35,346)	624,965	(5.7)

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

Members of the Board:

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 City of Meadowlakes, as of and for the year ended September 30, 2010, which collectively comprise the City of Meadowlake's basic financial statements and have issued our report thereon dated February 2, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Meadowlake's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Meadowlakes's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Meadowlakes's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Meadowlakes's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Meadowlakes's financial statements that is more than inconsequential will not be prevented or detected by the City of Meadowlakes's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Meadowlakes's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Meadowlake's financial statements are free of 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*.

This report is intended solely for the information and use of management, Mayor and Aldermen, federal awarding agencies, pass-through entities and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Neffendorf, Knopp, Doss + Company, P.C.

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

February 2, 2011

NEFFENDORF, KNOPP, DOSS & COMPANY, P.C.
Certified Public Accountants

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February 2, 2011

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 City of Meadowlakes for the year ended September 30, 2010, and have issued our report thereon dated February 2, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

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 City of Meadowlakes 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 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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.

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

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 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 the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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, 2011.

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.

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, Dooss & Company, P.C.

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