

REPORT OF EXAMINATION

**CITY OF
MEADOWLAKES**

Meadowlakes, Texas

**For the Year Ended
September 30, 2011**

CITY OF MEADOWLAKES, TEXAS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2011

CITY OF MEADOWLAKES
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

Certified Public Accountants

P.O. BOX 874 · 736 S. WASHINGTON ST.

FREDERICKSBURG, TEXAS 78624-0874

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER

AMERICAN INSTITUTE OF

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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, 2011, 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, 2011, 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 January 19, 2012, 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

January 19, 2012

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, 2011. 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 \$ 3,944,441 (net assets). Of this amount, \$ 945,431 (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 \$ 326,872 as a result of this year's operations.
- At September 30, 2011, the City's governmental funds reported combined ending fund balances of \$ 255,719 , an increase of \$ 32,444 in comparison with the prior year.
- At September 30, 2011, the City's Enterprise Funds reported unrestricted net assets of \$ 674,258 , an increase of \$ 342,016 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 32 and 33.

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, 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 decreased from \$ (157,322) to \$ (172,466) . 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 \$ 271,173 at September 30, 2011. This decrease in governmental net assets was the result of four factors. First, the City's revenues exceeded the expenditures by \$ 32,444 . Second, the City paid principal on long-term debt of \$ 15,000 . Third, the City recorded depreciation in the amounts of \$64,320. Fourth the City recorded a prior period adjustment in the amount of \$(396,264).

Net assets of the City's business-type activities increased from \$ 3,774,891 to \$ 4,116,907 . Unrestricted net assets were \$ 674,258 at September 30, 2011. This increase in business-type net assets was the result of net income of \$ 342,016 and a prior period adjustment in the amount of \$396,264..

Table I
City of Meadowlakes

NET ASSETS

	Governmental Activities		Business-Type Activities		TOTALS	
					Primary Government	
	2011	2010	2011	2010	2011	2010
Current and Restricted Assets	\$ 375,099	\$ 275,565	\$ 868,434	\$ 795,869	\$ 1,243,533	\$ 1,071,434
Capital Assets	3,062,036	2,726	3,980,460	7,192,386	7,042,496	7,195,112
Total Assets	\$ 3,437,135	\$ 278,291	\$ 4,848,894	\$ 7,988,255	\$ 8,286,029	\$ 8,266,546
Long-Term Liabilities	\$ 3,540,000	\$	\$ 260,000	\$ 4,138,159	\$ 3,800,000	\$ 4,138,159
Other Liabilities	69,601	39,349	471,987	471,469	541,588	510,818
Total Liabilities	\$ 3,609,601	\$ 39,349	\$ 731,987	\$ 4,609,628	\$ 4,341,588	\$ 4,648,977
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	\$ (443,639)	\$ 2,725	\$ 3,392,427	\$ 2,717,499	\$ 2,948,788	\$ 2,720,224
Restricted			50,222	71,973	50,222	71,973
Unrestricted	271,173	236,217	674,258	589,155	945,431	825,372
Total Net Assets	\$ (172,466)	\$ 238,942	\$ 4,116,907	\$ 3,378,627	\$ 3,944,441	\$ 3,617,569

Table II
City of Meadowlakes

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Property Taxes	\$ 576,392	\$ 578,268	\$	\$	\$ 576,392	\$ 578,268
Franchise Tax	56,278	58,894			56,278	58,894
Charges for Services	9,060	8,312	1,074,595	932,729	1,083,655	941,041
Miscellaneous	9,067	8,582	172,466	204,403	181,533	212,985
Interest Earnings	1,854	1,901	8,727	9,266	10,581	11,167
Total Revenue	\$ 652,651	\$ 655,957	\$ 1,255,788	\$ 1,146,398	\$ 1,908,439	\$ 1,802,355
Expenses:						
General Government	\$ 207,868	\$ 198,595	\$	\$	\$ 207,868	\$ 198,595
Financial Administration	12,543	11,928			12,543	11,928
Code Enforcement	20,670	15,255			20,670	15,255
Recreation	63,648				63,648	
Public Safety	85,967	75,955			85,967	75,955
Water and Sewer			786,573	831,632	786,573	831,632
Recreation Fund			-	1,386	-	1,386
Tennis					-	-
Swimming					-	-
Restaurant and Bar				41,570	-	41,570
Debt Service - Interest	176,507	17	31,889	221,064	208,396	221,081
Depreciation			200,666	274,905	200,666	274,905
Total Expenses	\$ 567,203	\$ 301,750	\$ 1,019,128	\$ 1,370,557	\$ 1,586,331	\$ 1,672,307
Increase (Decrease) in Net Assets						
Before Transfers & Capital Contributions	\$ 85,448	\$ 354,207	\$ 236,660	\$ (224,159)	\$ 322,108	\$ 130,048
Capital Contributions			130	36,227	130	
Gain (Loss) on Sale of Assets			4,634	(4,107)	4,634	
Sale of Intangible Asset				193,930	-	
Transfers	(100,592)	(244,910)	100,592	305,516	-	
Net Change	(15,144)	109,297	342,016	307,407	326,872	130,048
Net Assets - Beginning	238,942	76,357	3,378,627	3,071,220	3,617,569	3,147,577
Prior Period Adjustment	(396,264)		396,264		-	-
Net Assets - Ending	\$ (172,466)	\$ 185,654	\$ 4,116,907	\$ 3,378,627	\$ 3,944,441	\$ 3,277,625

The cost of all governmental activities this year was \$ 567,203 . 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 \$576,392, because the other costs were paid by franchise tax (\$54,691), user charges (\$ 9,060), interest (\$1,854) and other miscellaneous (\$9,067).

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 \$ 255,719 , which is more than last year's total of \$ 223,275 . Included in this year's total change in fund balance is an increase of \$ 32,444 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 not amend the original budget during the year; actual expenditures were less than the budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2011, the City had the following amounts invested in capital assets, net of depreciation:

	CAPITAL ASSETS					
	Governmental Activities		Business-Type Activities		TOTALS	
	2011	2010	2011	2010	2011	2010
Land and Improvements	\$ 1,796,556	\$	\$ 42,334	\$ 1,838,890	\$ 1,838,890	\$ 1,838,890
Infrastructure			5,591,710	5,507,187	5,591,710	5,507,187
Buildings	1,201,683		373,790	1,568,435	1,575,473	1,568,435
Improvements	180,851		280,995	461,846	461,846	461,846
Machinery & Equipment	140,908	42,090	779,431	885,620	920,339	927,710
Total Capital Assets	\$ 3,319,998	\$ 42,090	\$ 7,068,260	\$ 10,261,978	\$ 10,388,258	\$ 10,304,068
Less: Accumulated Depreciation	(257,962)	(38,737)	(3,087,801)	(3,069,592)	(3,345,763)	(3,108,329)
Capital Assets, Net	<u>\$ 3,062,036</u>	<u>\$ 3,353</u>	<u>\$ 3,980,459</u>	<u>\$ 7,192,386</u>	<u>\$ 7,042,495</u>	<u>\$ 7,195,739</u>

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

DEBT

At September 30, 2011, the City had the following outstanding debt:

OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2011	2010	2011	2010	2011	2010
Bonds Payable	\$ 3,555,000	\$ -	\$ 510,000	\$ 4,330,000	\$ 4,065,000	\$ 4,330,000
Capital Leases Payable	-	-	73,159	144,887	73,159	144,887
Total Outstanding Debt	<u>\$ 3,555,000</u>	<u>\$ -</u>	<u>\$ 583,159</u>	<u>\$ 4,474,887</u>	<u>\$ 4,138,159</u>	<u>\$ 4,474,887</u>

For governmental activities, the City paid \$15,000 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 2012 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 2012. Amounts available for appropriation in the General Fund budget are \$661,630 and expenditures are estimated to be \$711,725.

If these estimates are realized, the City's budgetary General fund balance is expected to decrease by the close of 2012.

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, 2011

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Meadowlakes Public Facility Corp
ASSETS				
Cash and Cash Equivalents	\$ 251,330	\$ 380,535	\$ 631,865	\$ 33,361
Investments - Current	50,669	-	50,669	-
Receivables (net of allowance for uncollectibles)	15,454	105,074	120,528	8,749
Note Receivable	-	293,394	293,394	-
Internal Balances	(5,274)	5,274	-	-
Inventories	-	29,301	29,301	7,931
Prepaid Items	-	200	200	-
Capitalized Debt Issuance Costs	62,920	4,434	67,354	-
Restricted Assets:				
Restricted Asset Debt Service	-	49,742	49,742	-
Restricted Asset Construction	-	480	480	-
Capital Assets:				
Land	1,796,556	42,334	1,838,890	-
Infrastructure, net	-	2,623,260	2,623,260	-
Buildings, net	1,064,861	403,204	1,468,065	-
Improvements other than Buildings, net	146,670	272,352	419,022	22,096
Machinery and Equipment, net	53,949	639,310	693,259	244
Intangible Asset, Net	-	-	-	123,410
Other Asset	-	-	-	7,500
Total Assets	3,437,135	4,848,894	8,286,029	203,291
LIABILITIES				
Accounts Payable	4,692	69,681	74,373	29,266
Intergovernmental Payable	515	936	1,451	-
Accrued Interest Payable	13,595	4,874	18,469	-
Deferred Revenues	29,987	3,147	33,134	-
Other Current Liabilities	5,812	-	5,812	12,926
Service Deposits	-	70,190	70,190	-
Noncurrent Liabilities				
Due Within One Year	15,000	323,159	338,159	-
Due in More Than One Year	3,540,000	260,000	3,800,000	293,386
Total Liabilities	3,609,601	731,987	4,341,588	335,578
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	(443,639)	3,392,427	2,948,788	22,340
Restricted for:				
Restricted for Debt Service	-	49,742	49,742	-
Restricted for Construction	-	480	480	-
Unrestricted Net Assets	271,173	674,258	945,431	(154,627)
Total Net Assets	\$ (172,466)	\$ 4,116,907	\$ 3,944,441	\$ (132,287)

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, 2011

		Program Revenues	
	Expenses	Charges for Services	Capital Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
General Government	\$ 207,868	\$ 4,390	\$ -
Financial Administration	12,543	-	-
Public Safety	85,967	4,670	-
Code Enforcement	20,670	-	-
Recreation	63,648	-	-
Bond Interest	171,227	-	-
Issuance Costs	5,280	-	-
Total Governmental Activities:	567,203	9,060	-
BUSINESS-TYPE ACTIVITIES:			
Public Works Fund	977,315	1,074,595	130
Recreation Fund	41,813	-	-
Total Business-Type Activities:	1,019,128	1,074,595	130
TOTAL PRIMARY GOVERNMENT:	\$ 1,586,331	\$ 1,083,655	\$ 130
Component Unit:			
PFC-Hidden Falls Golf Club	\$ 948,746	\$ 901,888	\$ -
TOTAL COMPONENT UNITS:	\$ 948,746	\$ 901,888	\$ -

General Revenues:

Taxes:

Property Taxes, Levied for General Purposes

Property Taxes, Levied for Debt Service

Franchise Taxes

Other Taxes

Miscellaneous Revenue

Investment Earnings

Transfers In (Out)

Total General Revenues and Transfers

Change in Net Assets

Net Assets--Beginning

Prior Period Adjustment

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
\$ (203,478)	\$ -	\$ (203,478)	\$ -
(12,543)	-	(12,543)	-
(81,297)	-	(81,297)	-
(20,670)	-	(20,670)	-
(63,648)	-	(63,648)	-
(171,227)	-	(171,227)	-
(5,280)	-	(5,280)	-
(558,143)	-	(558,143)	-
-	97,410	97,410	-
-	(41,813)	(41,813)	-
-	55,597	55,597	-
(558,143)	55,597	(502,546)	-
-	-	-	(46,858)
-	-	-	(46,858)
291,345	-	291,345	-
285,047	-	285,047	-
54,691	-	54,691	-
1,587	-	1,587	-
9,067	177,100	186,167	-
1,854	8,727	10,581	24
(100,592)	100,592	-	-
542,999	286,419	829,418	24
(15,144)	342,016	326,872	(46,834)
238,942	3,378,627	3,617,569	(85,453)
(396,264)	396,264	-	-
\$ (172,466)	\$ 4,116,907	\$ 3,944,441	\$ (132,287)

CITY OF MEADOWLAKES
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 251,330	\$ -	\$ 251,330
Investments - Current	50,669	-	50,669
Taxes Receivable	9,056	2,656	11,712
Total Assets	<u>\$ 311,055</u>	<u>\$ 2,656</u>	<u>\$ 313,711</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 4,692	\$ -	\$ 4,692
Intergovernmental Payable	515	-	515
Due to Other Funds	5,274	-	5,274
Deferred Revenues	39,043	2,656	41,699
Other Current Liabilities	5,812	-	5,812
Total Liabilities	<u>55,336</u>	<u>2,656</u>	<u>57,992</u>
Fund Balances:			
Unassigned Fund Balance	<u>255,719</u>	-	<u>255,719</u>
Total Fund Balances	<u>255,719</u>	-	<u>255,719</u>
Total Liabilities and Fund Balances	<u>\$ 311,055</u>	<u>\$ 2,656</u>	<u>\$ 313,711</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, 2011

Total Fund Balances - Governmental Funds	\$ 255,719
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 \$3,315,499 and the accumulated depreciation was \$193,642. 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 assets.	(393,538)
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 2011 capital outlays and debt principal payments is to increase net assets.	14,219
The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(64,320)
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.	15,454
Net Assets of Governmental Activities	<hr/> \$ (172,466) <hr/>

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, 2011

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Taxes:			
Property Taxes	\$ 288,832	\$ 285,047	\$ 573,879
Franchise Tax	54,691	-	54,691
Other Taxes	1,587	-	1,587
Licenses and Permits	4,390	-	4,390
Fines	4,670	-	4,670
Investment Earnings	1,854	-	1,854
Other Revenue	9,067	-	9,067
Total Revenues	365,091	285,047	650,138
EXPENDITURES:			
Current:			
General Government	207,441	-	207,441
Financial Administration	12,517	-	12,517
Public Safety	85,790	-	85,790
Code Enforcement	20,628	-	20,628
Debt Service:			
Bond Principal	-	15,000	15,000
Bond Interest	-	171,227	171,227
Capital Outlay:			
Capital Outlay	4,499	-	4,499
Total Expenditures	330,875	186,227	517,102
Excess of Revenues Over Expenditures	34,216	98,820	133,036
OTHER FINANCING SOURCES (USES):			
Transfers In	285,047	-	285,047
Transfers Out (Use)	(286,819)	(98,820)	(385,639)
Total Other Financing Sources (Uses)	(1,772)	(98,820)	(100,592)
Net Change in Fund Balances	32,444	-	32,444
Fund Balance - October 1 (Beginning)	223,275	-	223,275
Fund Balance - September 30 (Ending)	\$ 255,719	\$ -	\$ 255,719

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, 2011

Total Net Change in Fund Balances - Governmental Funds	\$ 32,444
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 2011 capital outlays and debt principal payments is to increase net assets.	14,219
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.	(64,320)
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 net assets.	2,513
Change in Net Assets of Governmental Activities	<u><u>\$ (15,144)</u></u>

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

CITY OF MEADOWLAKES
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 378,806	\$ 1,729	\$ 380,535
Restricted Assets - Current:			
Restricted Asset Debt Service	16,367	33,375	49,742
Restricted Asset Construction	480	-	480
Taxes Receivable	3,147	-	3,147
Accounts Receivable-Net of Uncollectible Allowance	101,927	-	101,927
Note Receivable	293,394	-	293,394
Due from Other Funds	5,274	-	5,274
Inventories	29,301	-	29,301
Prepaid Items	-	200	200
Total Current Assets	828,696	35,304	864,000
Noncurrent Assets:			
Capitalized Debt Issuance Costs	4,434	-	4,434
Capital Assets:			
Land Purchase and Improvements	42,334	-	42,334
Infrastructure	5,592,659	-	5,592,659
Accumulated Depreciation	(2,969,399)	-	(2,969,399)
Buildings	403,204	-	403,204
Improvements other than Buildings	272,352	-	272,352
Machinery and Equipment	486,601	271,110	757,711
Accumulated Depreciation	-	(118,401)	(118,401)
Total Noncurrent Assets	3,832,185	152,709	3,984,894
Total Assets	4,660,881	188,013	4,848,894

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

CITY OF MEADOWLAKES
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

Business-Type Activities - Enterprise Funds			
	Public Works Fund	Recreation Fund	Total Enterprise Funds
LIABILITIES			
Current Liabilities:			
Accounts Payable	69,681	-	69,681
Intergovernmental Payable	936	-	936
Accrued Interest Payable	1,408	3,466	4,874
Deferred Revenue	3,147	-	3,147
Bonds Payable - Current:			
General Obligation Bonds Payable	250,000	-	250,000
Capital Leases Payable - Current	-	73,159	73,159
Service Deposits	70,190	-	70,190
Total Current Liabilities	395,362	76,625	471,987
NonCurrent Liabilities:			
Bonds Payable - Non-Current:			
General Obligation Bonds Payable	260,000	-	260,000
Total Noncurrent Liabilities	260,000	-	260,000
Total Liabilities	655,362	76,625	731,987
NET ASSETS			
Investments in Capital Assets, Net of Debt	3,316,343	76,084	3,392,427
Restricted for Debt Service	16,367	33,375	49,742
Restricted for Construction	480	-	480
Unrestricted Net Assets	672,329	1,929	674,258
Total Net Assets	\$ 4,005,519	\$ 111,388	\$ 4,116,907

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, 2011

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
OPERATING REVENUES:			
Charges for Water Services	\$ 430,464	\$ -	\$ 430,464
Charges for Sewerage Service	452,232	-	452,232
Charges for Sanitation Service	191,899	-	191,899
Rents and Royalties	-	120	120
Other Revenue	96,686	75,660	172,346
Total Operating Revenues	<u>1,171,281</u>	<u>75,780</u>	<u>1,247,061</u>
OPERATING EXPENSES:			
Proprietary Fund Function - Water			
Personnel Services - Salaries and Wages	280,269	-	280,269
Personnel Services - Employee Benefits	73,669	-	73,669
Purchased Professional & Technical Services	183,130	-	183,130
Purchased Property Services	148,090	-	148,090
Other Operating Expenses	44,955	-	44,955
Supplies	56,460	-	56,460
Total Proprietary Fund Function - Water	<u>786,573</u>	<u>-</u>	<u>786,573</u>
Depreciation	<u>161,936</u>	<u>38,730</u>	<u>200,666</u>
Total Operating Expenses	<u>948,509</u>	<u>38,730</u>	<u>987,239</u>
Operating Income	<u>222,772</u>	<u>37,050</u>	<u>259,822</u>
NON-OPERATING REVENUES (EXPENSES):			
Gain in Sale of Property	4,634	-	4,634
Bond Issuance Cost	(2,915)	-	(2,915)
Investment Earnings	8,728	-	8,728
Interest Expense - Non-Operating	(25,891)	(3,083)	(28,974)
Total Non-operating Revenue (Expenses)	<u>(15,444)</u>	<u>(3,083)</u>	<u>(18,527)</u>
Income Before Contributions & Transfers	207,328	33,967	241,295
Capital Contributions	130	-	130
Non-Operating Transfer In	286,819	-	286,819
Transfers Out	(186,227)	-	(186,227)
Change in Net Assets	308,050	33,967	342,017
Total Net Assets - October 1 (Beginning)	3,400,883	(22,256)	3,378,627
Prior Period Adjustment	296,586	99,677	396,263
Total Net Assets - September 30 (Ending)	<u>\$ 4,005,519</u>	<u>\$ 111,388</u>	<u>\$ 4,116,907</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, 2011

EXHIBIT D-3 (Cont'd)

	Business-Type Activities		
	Public		Total
	Works Fund	Recreation Fund	Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 1,053,010	\$ -	\$ 1,053,010
Cash Received from Others	96,686	75,780	172,466
Cash Payments to Employees for Services	(354,331)	-	(354,331)
Cash Payments for Suppliers	(56,460)	-	(56,460)
Cash Payments for Other Operating Expenses	(356,098)	-	(356,098)
Net Cash Provided by Operating Activities	382,807	75,780	458,587
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer Out	100,592	-	100,592
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Acquisition of Capital Assets	(107,871)	-	(107,871)
Capital Contributed by Other Funds	130	-	130
Use of Restricted Assets	22,711	(959)	21,752
Capital Lease Payments	-	(71,728)	(71,728)
Interest Paid	(25,891)	(3,083)	(28,974)
Increase (Decrease) in Accrued Interest	(842)	-	(842)
Sales of Capital Assets	4,634	-	4,634
Principal Bond Payments	(250,000)	-	(250,000)
Net Cash Provided by (Used for) Capital & Related Financing Activities	(357,129)	(75,770)	(432,899)
<u>Cash Flows from Investing Activities:</u>			
Note Receivable Payments	29,800	-	29,800
Interest and Dividends on Investments	8,729	-	8,729
Net Cash Provided by Investing Activities	38,529	-	38,529
Net Increase in Cash and Cash Equivalents	164,799	10	164,809
Cash and Cash Equivalents at Beginning of the Year:	214,007	1,719	215,726
Cash and Cash Equivalents at the End of the Year:	\$ 378,806	\$ 1,729	\$ 380,535

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, 2011

EXHIBIT D-3

	Business-Type Activities		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<u>Reconciliation of Operating Income to Net Cash</u>			
<u>Provided By Operating Activities:</u>			
Operating Income:	\$ 222,772	\$ 37,050	\$ 259,822
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	161,936	38,730	200,666
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(21,585)	-	(21,585)
Decrease (increase) in Inventories	(4,025)	-	(4,025)
Decrease (increase) in Due From Other Govts	130	-	130
Increase (decrease) in Accounts Payable	24,032	-	24,032
Increase (decrease) in Due From Other Funds	(4,943)	-	(4,943)
Increase (decrease) in Intergovernmental	(62)	-	(62)
Increase (decrease) in Other Current Liabilities	4,552	-	4,552
Net Cash Provided by Operating Activities	<u>\$ 382,807</u>	<u>\$ 75,780</u>	<u>\$ 458,587</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, 2011

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 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, 2011 are estimated to be immaterial, and are not reflected in the accompanying financial statements.
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.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

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. 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, 2011, the carrying amount of the City's deposits was \$686,552 and the bank balance was \$692,441. The carrying amount of the Hidden Falls Golf Club's deposits was \$32,711 and the bank balance was \$37,133. The City's cash deposits held at September 30, 2011 and during the year ended September 30, 2011 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, 2011, 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 -				
American Bank of Texas	50,469	50,469	-0-	50,469

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, 2011, 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 2010 tax roll, the assessed valuation was \$195,332,157. The tax rate was \$.149 for maintenance and operations and \$.150 for interest and sinking. The total tax rate was \$.299 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. Loan payments in the amount of \$3,000 are due on the first of each month. The term of the loan is 11 years at 2.0% interest. On September 30, 2011 the balance of the Note Receivable was \$293,394.

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 10/1/10	Additions	Deletions	Balance 9/30/11
Land	\$ 42,334	\$ -	\$	\$ 42,334
Infrastructure	5,507,187	84,523		5,591,710
Buildings	366,752	7,038		373,790
Improvements	280,995			280,995
Machinery and Equipment	791,300	16,310	(28,179)	779,431
Totals	\$ 6,988,568	\$ 107,871	\$ (28,179)	\$ 7,068,260
Accumulated Depreciation	(2,915,314)	(200,666)	28,179	(3,087,801)
Fixed Assets, Net	\$ 4,073,254	\$ (92,795)	\$ -	\$ 3,980,459

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

	Component Unit			
	Balance 10/1/10	Additions	Deletions	Balance 9/30/11
Improvements	\$ 9,505	\$	\$	\$ 9,505
Machinery and Equipment	18,485			18,485
Totals	\$ 27,990	\$ -	\$ -	\$ 27,990
Accumulated Depreciation	(2,059)	(3,591)		(5,650)
Fixed Assets, Net	\$ 25,931	\$ (3,591)	\$ -	\$ 22,340
Intangible Assets	\$ 193,930	\$	\$	\$ 193,930
Accumulated Amortization	(35,260)	(35,260)		(70,520)
Total Intangible Assets, Net	158,670	(35,260)	-	123,410

F. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2011, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 1,796,556	\$	\$	\$ 1,796,556
Buildings	1,201,683			1,201,683
Improvements	180,851			180,851
Machinery and Equipment	136,409	4,499		140,908
Totals	3,315,499	4,499	-	3,319,998
Accumulated Depreciation	(193,642)	(64,320)		(257,962)
Capital Assets, Net	\$ 3,121,857	\$ (59,821)	\$ -	\$ 3,062,036

G. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2011 follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable-					
Combination Tax and Revenue					
Certificates of Obligation-					
Series 2008	\$ 3,570,000	\$	\$ 15,000	\$ 3,555,000	\$ 15,000
Total Governmental Activities	\$ 3,570,000	\$	\$ 15,000	\$ 3,555,000	\$ 15,000
Business-Type Activities:					
Bonds Payable -					
General Obligation Refunding					
Bonds -Series 2008	760,000		250,000	510,000	250,000
Total Bonds Payable	\$ 760,000	\$	\$ 250,000	\$ 510,000	\$ 250,000
Capital Leases -					
Government Capital Corporation	144,887		71,728	73,159	73,159
Business-Type Activity -					
Long-Term Debt	\$ 904,887	\$	\$ 321,728	\$ 583,159	\$ 323,159

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.

Debt service requirements are as follows:

<u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	265,000	183,941	448,941
2013	275,000	174,383	449,383
2014	285,000	169,200	454,200
2015	300,000	155,520	455,520
2016	320,000	141,120	461,120
2017 – 2021	1,785,000	464,640	2,249,640
2022 - 2026	835,000	60,480	895,480
Totals	<u>\$ 4,065,000</u>	<u>\$ 1,349,284</u>	<u>\$ 5,414,284</u>

I. Capitalized Leases

Capital lease obligations at September 30, 2011, are composed of the following:

	<u>Balance at 9/30/11</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>\$ 73,159</u>
Total Enterprise Funds	<u>\$ 73,159</u>

Future minimum lease payments under the lease along with the present value of the minimum lease payments as of September 30, 2011:

<u>Year Ended September 30,</u>	<u>Amount</u>
2012	<u>\$ 74,809</u>
Total Minimum Lease Payments	<u>\$ 74,809</u>
Less Amount Representing Interest	<u>1,650</u>
Present Value of Lease Payments	<u>\$ 73,159</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:

	Plan Year 2010	Plan Year 2011
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 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 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Three Year Trend Information

<u>Actuarial Assumptions</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</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	24 Years-Closed Period	23.3 Years – Closed Period	25.2 Years – Closed Period
Amortization Period for new Gains/Losses	25 Years	25 Years	25 Years
Asset Valuation Method -	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market
Investment Rate of Return -	7.5%	7.5%	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

In June, 2011, SB 350 was enacted by the Texas Legislature, Resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1,

2006 through December 31, 2009). For a complete descriptions of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2009, the most recent actuarial valuation date, is as follows:

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)
12/31/2010 ¹	\$ 182,593	\$ 151,413	120.6%	\$ (31,180)	\$ 423,639	(7.4)%
12/31/2010 ²	\$ 183,812	\$ 142,344	129.1%	\$ (41,468)	\$ 423,639	(9.8)%

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.

K. Interfund Receivable and Payables

Interfund balances at September 30, 2011, consisted of the following:

	Receivable	Payable
<i>Governmental Funds:</i>		
<u>General Fund-</u>		
Utility Fund		5,274
<i>Enterprise Funds:</i>		
<u>Utility Fund -</u>		
General Fund	\$ 5,274	\$
Totals	\$ 5,274	\$ 5,274

During the year ended September 30, 2011, the City's transfers between funds consisted of:

	Transfers In	Transfers Out
General Fund	\$ 285,047	\$ 286,819
Debt Service Fund		98,820
Enterprise Funds -		
Utility Fund	286,819	186,227
Totals	\$ 571,866	\$ 571,866

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 2010 and 2011. The City paid interest in the amount of \$218,277 in 2010 and \$29,816 in 2011.

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. Prior Period Adjustment

On September 13, 2010 the City passed an ordinance adopting the tax rate for the year ended September 30, 2011. The total tax rate was apportioned \$.149 for maintenance and support (General Fund) and \$.150 for interest and sinking fund (Debt Service Fund). In prior years the tax rate was adopted only for maintenance and support. The interest and sinking portion of the tax rate was levied to pay for debt recorded in the Enterprise Funds. A transfer of assets and debt from the Enterprise Funds to the Governmental Funds was necessary to comply with the adopted tax rate apportionment. The transfer resulted in an increase of \$396,264 to the Enterprise Funds Net Assets and a decrease of \$396,264 to the Governmental Funds Net Assets.

P. Subsequent Event

The City has evaluated subsequent events through January 19, 2012, 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, 2011

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 571,630	\$ 571,630	\$ 288,832	\$ (282,798)
Franchise Tax	56,000	56,000	54,691	(1,309)
Other Taxes	1,000	1,000	1,587	587
Licenses and Permits	2,950	2,950	4,390	1,440
Fines	6,275	6,275	4,670	(1,605)
Investment Earnings	1,600	1,600	1,854	254
Other Revenue	1,400	1,400	9,067	7,667
Total Revenues	640,855	640,855	365,091	(275,764)
EXPENDITURES:				
Current:				
General Government	232,325	232,325	207,441	24,884
Financial Administration	14,000	14,000	12,517	1,483
Public Safety	78,985	78,985	85,790	(6,805)
Code Enforcement	25,750	25,750	20,628	5,122
Debt Service:				
Other Debt Principal	286,293	286,293	-	286,293
Capital Outlay:				
Capital Outlay	43,000	43,000	4,499	38,501
Total Expenditures	680,353	680,353	330,875	349,478
Excess (Deficiency) of Revenues Over (Under) Expenditures	(39,498)	(39,498)	34,216	73,714
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	285,047	285,047
Transfers Out (Use)	-	-	(286,819)	(286,819)
Total Other Financing Sources (Uses)	-	-	(1,772)	(1,772)
Net Change	(39,498)	(39,498)	32,444	71,942
Fund Balance - October 1 (Beginning)	223,275	223,275	223,275	-
Fund Balance - September 30 (Ending)	\$ 183,777	\$ 183,777	\$ 255,719	\$ 71,942

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)
12/31/2008	\$ 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)
12/31/2010 ¹	182,593	151,413	120.6	(31,180)	423,639	(7.4)
12/31/2010 ²	183,812	142,344	129.1	(41,468)	423,639	(9.8)

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

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

Certified Public Accountants

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

(830) 997-3348

FAX: (830) 997-3333

Email: nkhd@austin.rr.com

MEMBER

AMERICAN INSTITUTE OF
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MEMBER

TEXAS SOCIETY OF
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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, 2011, which collectively comprise the City of Meadowlake's basic financial statements and have issued our report thereon dated January 19, 2012. 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

January 19, 2012

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

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

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

MEMBER
AMERICAN INSTITUTE OF
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January 19, 2012

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, 2011, and have issued our report thereon dated January 19, 2012. 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 2011. 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 January 19, 2012.

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.

Recommendations

Debt Service Fund

The City began allocating a portion of the tax rate to debt service. The City should maintain a separate debt service fund in the general ledger to record the tax collections allocated to debt service and the principal and interest payments on long-term debt to be paid with taxes. The City should also amend the 2012 Budget to reflect the proper accounting for the debt service fund.

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