

CITY OF MEADOWLAKES, TEXAS

ANNUAL FINANCIAL AND  
COMPLIANCE REPORT

FOR THE YEAR ENDED  
SEPTEMBER 30, 2012

Singleton, Clark & Company, PC  
Certified Public Accountants

9442 Capital of Texas Highway N  
Arboretum Plaza One, Suite 500  
Austin, Texas 78759  
Phone (512) 310-5600

[www.singletonclark.com](http://www.singletonclark.com)

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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED  
SUPPLEMENTARY INFORMATION AND OTHER SUPPLEMENTARY INFORMATION

**Independent Auditors' Report**

Honorable Mayor and City Council Members  
City of Meadowlakes, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of the City of Meadowlakes, Texas (the "City") as of and for the year ended September 30, 2012, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of the City of Meadowlakes, Texas, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 2-7 of this report is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of this report is to describe the scope of our testing of internal control of financial reporting and compliance with the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Singleton, Clark & Company, PC  
Austin, Texas  
January 25, 2013

# CITY OF MEADOWLAKES, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report of the City of Meadowlakes ("the City") presents our discussion and analysis of the financial performance of the City during the fiscal year ended September 30, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- For the year ended September 30, 2012, the General Fund of the City of Meadowlakes reported a fund balance increase in the amount of \$36,271. This increase was primarily the result of the City's expenditures being less for the fiscal year than budgeted.
- The total cost of the City of Meadowlakes' governmental activities as measured under the full accrual method of accounting (See Exhibit B-1) was \$625,511. This amount is inclusive of depreciation expense recorded on the capital assets of the City, but also reflects the capitalization, rather than treatment as expense, of the capital outlay costs during the year.
- The business-type funds experienced an increase in net assets for the year by \$189,218, to end at \$4,300,288.

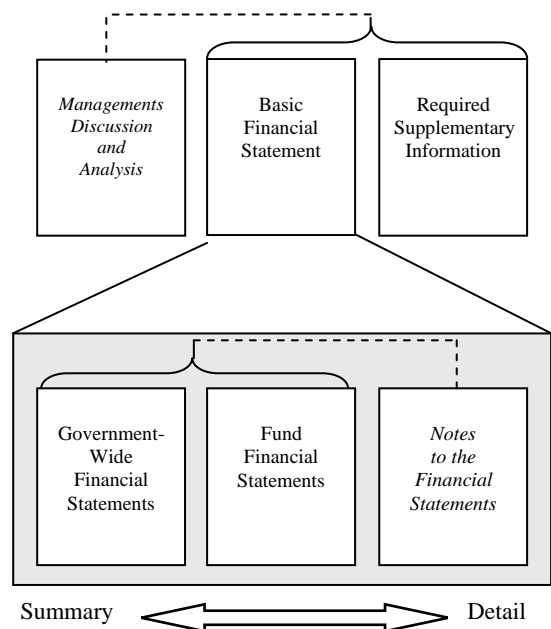
### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two types of statements that present different views of the City of Meadowlakes:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**Figure A-1. Required Components of the City's Annual Financial Report**



## Government-wide Statements

The government-wide statements report information about the City of Meadowlakes as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets - the difference between the City's assets and liabilities - are one way to measure the City of Meadowlakes' financial health or position. Over time, increases or decreases in net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City of Meadowlakes include *governmental activities* and *proprietary activities*. *Governmental activities* are activities supported primarily by taxes and user charges. Most of the City of Meadowlakes' basic services are included here, such as general government services, public safety, and code enforcement. *Proprietary activities* are activities undertaken by the City that are operated much like a private business. The City's proprietary activities include its water and wastewater utility services.

## FINANCIAL ANALYSIS OF THE CITY OF MEADOWLAKES AS A WHOLE

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

**Table I**  
**City of Meadowlakes, Texas**  
**Net Assets - Governmental Activities**

	Governmental Activities 2012	Governmental Activities 2011	Change
<b>ASSETS</b>			
Current and other assets	\$ 384,850	\$ 375,099	\$ 9,751
Capital assets	2,998,459	3,062,036	(63,577)
Total assets	<u>\$ 3,383,309</u>	<u>\$ 3,437,135</u>	<u>\$ (53,826)</u>
<b>LIABILITIES</b>			
Current liabilities	\$ -	\$ 69,601	\$ (69,601)
Noncurrent liabilities	3,633,207	3,540,000	93,207
Total liabilities	<u>3,633,207</u>	<u>3,609,601</u>	<u>23,606</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of debt	(541,541)	(443,639)	(97,902)
Unrestricted	291,643	271,173	20,470
Total net assets	<u>\$ (249,898)</u>	<u>\$ (172,466)</u>	<u>\$ (77,432)</u>

**Table I (continued)**  
**City of Meadowlakes, Texas**  
**Net Assets – Business-Type Activities**

	Business-Type Activities 2012	Business-Type Activities 2011	Change
<b>ASSETS</b>			
Current and other assets	\$ 884,770	\$ 868,434	\$ 16,336
Capital assets	3,826,789	3,980,460	(153,671)
Total assets	<u>\$ 4,711,559</u>	<u>\$ 4,848,894</u>	<u>\$ (137,335)</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 145,817	\$ 471,987	\$ (326,170)
Noncurrent liabilities	255,000	260,000	(5,000)
Total liabilities	<u>400,817</u>	<u>731,987</u>	<u>(331,170)</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of debt	3,571,789	3,392,427	179,362
Restricted	-	50,222	(50,222)
Unrestricted	728,499	674,258	54,241
Total net assets	<u>\$ 4,300,288</u>	<u>\$ 4,116,907</u>	<u>\$ 183,381</u>

**Table II**  
**City of Meadowlakes, Texas**  
**Statement of Activities – Governmental Activities**

	Governmental Activities 2012	Governmental Activities 2011	Change
<b>REVENUES:</b>			
Program revenues:			
Charges for services	\$ 9,196	\$ 9,060	\$ 136
General revenues:			
Property taxes	605,591	576,392	29,199
Sales taxes	1,165	-	1,165
Franchise taxes	52,864	56,278	(3,414)
Investment earnings	1,210	1,854	(644)
Miscellaneous revenue	-	9,067	(9,067)
Total revenue	<u>670,026</u>	<u>652,651</u>	<u>17,375</u>
<b>EXPENSES:</b>			
General government	320,098	-	320,098
Public Safety	117,774	-	117,774
Code Enforcement	11,756	-	11,756
Debt Service	175,883	567,203	(391,320)
Total expenses	<u>625,511</u>	<u>567,203</u>	<u>58,308</u>
Change in net assets	44,515	85,448	(40,933)
Transfer Out	(118,385)	(100,592)	(17,793)
Net change	(73,870)	(15,144)	(58,726)
Net assets at 10/1/11 and 10/1/10	(172,466)	238,942	(411,408)
Prior period adjustment	(3,562)	(396,264)	392,702
Net assets at 9/30/12 and 9/30/11	<u>\$ (249,898)</u>	<u>\$ (172,466)</u>	<u>\$ (77,432)</u>

**Table II (continued)**  
**City of Meadowlakes, Texas**  
**Statement of Activities – Business-Type Activities**

	Business-Type Activities 2012	Business-Type Activities 2011	Change
<b>REVENUES:</b>			
Program revenues:			
Charges for services	\$ 1,011,306	\$ 1,074,595	\$ (63,289)
General revenues:			
Investment earnings	9,018	8,727	291
Donations	28,820	-	28,820
Miscellaneous revenue	122,166	172,466	(50,300)
Total revenue	<u>1,171,310</u>	<u>1,255,788</u>	<u>(84,478)</u>
<b>EXPENSES:</b>			
Public Works	1,023,009	948,509	74,500
Recreation	60,306	38,730	21,576
Total expenses	<u>1,083,315</u>	<u>987,239</u>	<u>96,076</u>
Operating Income	87,995	268,549	(180,554)
<b>NON-OPERATING REVENUE (EXPENSES):</b>			
Gain (Loss) on sale of assets	-	4,634	(4,634)
Capital contributions	-	130	(130)
Interest expense	(17,161)	(31,889)	14,728
Transfers In	118,385	100,592	17,793
Net change	189,219	342,016	(152,797)
Net assets at 10/1/11 and 10/1/10	4,116,907	3,378,627	738,280
Prior period adjustment	(5,837)	396,264	(402,101)
Net assets at 9/30/12 and 9/30/11	<u>\$ 4,300,289</u>	<u>\$ 4,116,907</u>	<u>\$ 183,382</u>

**THE CITY'S GOVERNMENTAL FUNDS**

As the City completed Fiscal Year 2011-2012, the General Fund reported an ending fund balance of \$288,428, an increase of \$36,271 over the prior year. The General Fund accounts for the City's services related to general government, public safety, and code enforcement. The General Fund fund balance increase is primarily the result of actual expenditures for the fiscal year being less than budgeted. The City also maintains a Debt Service Fund to administer outstanding long-term debt. The fund balance of the Debt Service Fund ended both fiscal years 2012 and 2011 with no balance.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of Fiscal Year 2011-2012 the City of Meadowlakes had invested \$2,998,459 in a broad range of capital assets for its governmental activities, including land, infrastructure, buildings, and machinery & equipment. (Table III) This amount is net of accumulated depreciation and represents a decrease of \$63,577 over the prior year. The City's business-type activities had invested \$3,826,789 in capital assets, net of accumulated depreciation, including land, construction in progress, infrastructure, buildings, improvements, and machinery & equipment. (Table III).

**Table III**  
**City of Meadowlakes, Texas**  
**Summary of Capital Assets**

	Governmental Activities 2012	Governmental Activities 2011	Change
Land	\$ 1,797,556	\$ 1,796,556	\$ 1,000
Buildings	1,201,683	1,201,683	-
Improvements	180,851	180,851	-
Machinery & Equipment	140,908	140,908	-
Totals at historical cost	<u>3,320,998</u>	<u>3,319,998</u>	<u>1,000</u>
Less accumulated depreciation	<u>(322,539)</u>	<u>(257,962)</u>	<u>(64,577)</u>
Capital assets, net of depreciation	<u><u>\$ 2,998,459</u></u>	<u><u>\$ 3,062,036</u></u>	<u><u>\$ (63,577)</u></u>
	Business-Type Activities 2012	Business-Type Activities 2011	Change
Land	\$ 42,334	\$ 42,334	\$ -
Construction in progress	25,993	-	25,993
Water/Wastewater Infrastructure	5,592,659	5,591,710	949
Buildings	406,159	373,790	32,369
Improvements	272,352	280,995	(8,643)
Machinery & Equipment	646,920	779,431	(132,511)
Totals at historical cost	<u>6,986,417</u>	<u>7,068,260</u>	<u>(81,843)</u>
Less accumulated depreciation	<u>(3,159,628)</u>	<u>(3,087,801)</u>	<u>(71,827)</u>
Capital assets, net of depreciation	<u><u>\$ 3,826,789</u></u>	<u><u>\$ 3,980,459</u></u>	<u><u>\$ (153,670)</u></u>



**Long-Term Debt**

At year end, the City of Meadowlakes had total outstanding long-term debt in governmental funds of \$3.6 million, a decrease of 1.5% over the prior year. The City had total outstanding long-term debt in business-type funds of approximately \$265 thousand at year-end, a decrease of 54.5% over the prior year. The \$255,000 in business-type bonds payable will all mature during the next fiscal year. A summary of long-term debt balances is presented below.

**City of Meadowlakes, Texas  
Summary of Long-Term Debt**

	Governmental Activities 2012	Governmental Activities 2011	Change
Bonds Payable	\$ 3,540,000	\$ 3,555,000	\$ (15,000)
Compensated Absences	67,372	-	67,372
Totals	<u>\$ 3,607,372</u>	<u>\$ 3,555,000</u>	<u>\$ 52,372</u>

	Business-Type Activities 2012	Business-Type Activities 2011	Change
Bonds Payable	\$ 255,000	\$ 510,000	\$ (255,000)
Capital Lease Payable	-	73,159	(73,159)
Compensated Absences	10,454	-	10,454
Totals	<u>\$ 265,454</u>	<u>\$ 583,159</u>	<u>\$ (317,705)</u>

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The City’s budgeted expenditures for the 2012-2013 fiscal year total \$2,100,485 and the City’s Council adopted an M & O tax rate of \$.1662 and an I & S tax rate of \$.1497 for a total tax rate of \$.3159 per \$100 valuation.

**CONTACTING FINANCIAL MANAGEMENT PERSONNEL OF THE CITY OF MEADOWLAKES**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City of Meadowlakes’ finances and to demonstrate the City’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Meadowlakes City Manager, Johnnie Thompson, at 830-693-2951. You may also visit the City’s website at [www.meadowlakestexas.org](http://www.meadowlakestexas.org)

**GOVERNMENT-WIDE STATEMENTS**

CITY OF MEADOWLAKES  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Meadowlakes Public Facility Corporation
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 314,262	\$ 453,577	\$ 767,839	\$ 32,385
Receivables (net of uncollectible allowance)	12,911	112,678	125,589	38,289
Note Receivable	-	289,394	289,394	-
Inventory	-	26,704	26,704	7,974
Other Assets	-	200	200	2,551
Capitalized Debt Issuance Costs	57,677	2,217	59,894	-
Goodwill, net	-	-	-	88,150
Capital Assets:				
Land	1,797,556	42,334	1,839,890	-
Infrastructure, net	-	3,035,476	3,035,476	-
Buildings, net	1,021,270	290,640	1,311,910	-
Improvements, net	140,088	238,206	378,294	7,287
Machinery and Equipment, net	39,545	194,140	233,685	17,415
Construction in Progress	-	25,993	25,993	-
Total Assets	<u>\$ 3,383,309</u>	<u>\$ 4,711,559</u>	<u>\$ 8,094,868</u>	<u>\$ 194,051</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 22,189	\$ 67,755	\$ 89,944	\$ 23,629
Salaries & Wages Payable	3,646	5,118	8,764	192
Accrued Interest Payable	-	719	719	-
Service Deposits	-	72,225	72,225	-
Non Current Liabilities:				
Due Within One Year	15,000	255,000	270,000	12,000
Due in More Than One Year	3,592,372	10,454	3,602,826	277,386
Total Liabilities	<u>3,633,207</u>	<u>411,271</u>	<u>4,044,478</u>	<u>313,207</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Debt	(541,541)	3,571,789	3,030,248	24,702
Unrestricted Net Assets	291,643	728,499	1,020,142	(143,858)
Total Net Assets	<u>\$ (249,898)</u>	<u>\$ 4,300,288</u>	<u>\$ 4,050,390</u>	<u>\$ (119,156)</u>

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, 2012

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit
			Primary Government			
	Expenses	Charges for Services	Governmental Activities	Business-type Activities	Total	Meadowlakes Public Facility Corporation
<b>Primary Government</b>						
GOVERNMENTAL ACTIVITIES:						
General Government	\$ 320,098	\$ -	\$ (320,098)	\$ -	\$ (320,098)	\$ -
Public Safety	117,774	9,196	(108,578)	-	(108,578)	-
Code Enforcement	11,756	-	(11,756)	-	(11,756)	-
Debt Service - Interest & Fees	175,883	-	(175,883)	-	(175,883)	-
Total Governmental Activities	<u>625,511</u>	<u>9,196</u>	<u>(616,315)</u>	<u>-</u>	<u>(616,315)</u>	<u>-</u>
BUSINESS-TYPE ACTIVITIES:						
Public Works	1,040,171	1,094,181	-	54,010	54,010	-
Recreation	60,306	-	-	(60,306)	(60,306)	-
Total Business-Type Activities	<u>1,100,477</u>	<u>1,094,181</u>	<u>-</u>	<u>(6,296)</u>	<u>(6,296)</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT:	<u>1,725,988</u>	<u>1,103,377</u>	<u>(616,315)</u>	<u>(6,296)</u>	<u>(622,611)</u>	<u>-</u>
<b>Component Unit</b>						
MPFC-Hidden Falls Golf Club	\$ 975,403	\$ 965,545	-	-	-	(9,858)
TOTAL COMPONENT UNIT:	<u>\$ 975,403</u>	<u>\$ 965,545</u>	<u>-</u>	<u>(9,858)</u>	<u>-</u>	<u>(9,858)</u>
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes			605,591	-	605,591	-
Sales Taxes			1,165	-	1,165	-
Franchise Taxes			52,864	-	52,864	-
Donations			-	28,820	28,820	-
Miscellaneous Revenues			-	39,291	39,291	27
Investment Earnings			1,210	9,018	10,228	272
Total General Revenues			<u>660,830</u>	<u>77,129</u>	<u>737,959</u>	<u>299</u>
Transfers In/(Out)			(118,385)	118,385	-	-
Change in Net Assets			(73,870)	189,218	115,348	(9,559)
Prior Period Adjustment			(3,562)	(5,837)	(9,399)	22,690
Net Assets - Beginning			(172,466)	4,116,907	3,944,441	(132,287)
Net Assets - Ending			<u>\$ (249,898)</u>	<u>\$ 4,300,288</u>	<u>\$ 4,050,390</u>	<u>\$ (119,156)</u>

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

FUND BASIS STATEMENTS

CITY OF MEADOWLAKES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2012

	General Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 314,262	\$ -	\$ 314,262
Taxes Receivable	9,107	3,804	12,911
Total Assets	<u>\$ 323,369</u>	<u>\$ 3,804</u>	<u>\$ 327,173</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 19,043	\$ -	\$ 19,043
Wages and Salaries Payable	6,791	-	6,791
Deferred Revenues	9,107	3,804	12,911
Total Liabilities	<u>34,941</u>	<u>3,804</u>	<u>38,745</u>
Fund Balances:			
Unassigned Fund Balance	288,428	-	288,428
Total Fund Balances	<u>288,428</u>	<u>-</u>	<u>288,428</u>
Total Liabilities and Fund Balances	<u>\$ 323,369</u>	<u>\$ 3,804</u>	<u>\$ 327,173</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, 2012

<b>Total Fund Balances - Governmental Funds</b>	\$ 288,428
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of recording the beginning of the year value of \$3,319,998 for capital assets and \$257,962 for accumulated depreciation to the Statement of Net Assets was an increase in net assets.	3,062,036
Capital outlay transactions are expenditures in governmental funds but are capitalized as assets on the Statement of Net Assets. The net effect of capitalizing current expenditures for capital outlays during the year was an increase in net assets.	1,000
Since capital assets are not reported in governmental funds, related depreciation expense is also not reported. The net effect of recording depreciation expense to the Statement of Net Assets is a decrease in net assets.	(64,577)
Long-term debt issued by governmental activities is treated as an inflow of financial resources and not reported as a liability. The net effect of recording the beginning of the year value for all long-term debt outstanding is a decrease in net assets.	(3,555,000)
Long-term debt payments are expenditures in the governmental funds but are treated as reductions of long-term debt on the Statement of Net Assets. The net effect of reducing long-term debt is an increase in net assets.	15,000
Since the long-term liability related to compensated absences is not reported in governmental funds, related annual expense or decrease in liability is also not reported. The net effect of recording compensated absences expense to the Statement of Net Assets is a decrease in net assets.	(67,372)
Since bond issuance costs and related amortization are not reported in governmental funds, the amortized ending balance is not reported. The net effect of recording bond issuance costs as of year end to the Statement of Net Assets is an increase in net assets.	57,677
Property taxes are recognized as revenue in the governmental funds when collected but recognized on the Statement of Activities in the year levied. The net effect of this difference in property tax revenue recognition is an increase in net assets.	12,910
<b>Net Assets of Governmental Activities</b>	\$ (249,898)

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, 2012

	General Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES</b>			
Taxes:			
Property Taxes	\$ 300,514	\$ 294,025	\$ 594,539
General Sales and Use Taxes	1,165	-	1,165
Franchise Tax	52,864	-	52,864
Charges for Services	5,360	-	5,360
Fines and Court Costs	3,836	-	3,836
Investment Earnings	1,210	-	1,210
Total Revenues	364,949	294,025	658,974
<b>EXPENDITURES</b>			
Current:			
General Government	209,655	-	209,655
Public Safety	98,219	-	98,219
Code Enforcement	9,804	-	9,804
Debt Service:			
Debt Principal	-	15,000	15,000
Debt Interest	-	170,640	170,640
Capital Outlay:			
Capital Outlay	1,000	-	1,000
Total Expenditures	318,678	185,640	504,318
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers Out (Use)	10,000	108,385	118,385
Total Expenditures	10,000	108,385	118,385
Net Change in Fund Balances	36,271	-	36,271
Prior Period Adjustment	(3,562)	-	(3,562)
Fund Balance - October 1 (Beginning)	255,719	-	255,719
Fund Balance - September 30 (Ending)	\$ 288,428	\$ -	\$ 288,428

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, 2012

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ 36,271
Capital outlay transactions are expenditures in governmental funds but are capitalized as assets on the Statement of Net Assets. The net effect of capitalizing current expenditures for capital outlays during the year was an increase in the change in net assets.	1,000
Since capital assets are not reported in governmental funds, related depreciation expense is also not reported. The net effect of recording depreciation expense to the Statement of Net Assets is a decrease in the change in net assets.	(64,577)
Long-term debt payments are expenditures in the governmental funds but are treated as reductions of long-term debt on the Statement of Net Assets. The net effect of reducing long-term debt is an increase in the change in net assets.	15,000
Since the long-term liability related to compensated absences is not reported in governmental funds, related annual expense or decrease in liability is also not reported. The net effect of recording compensated absences expense to the Statement of Net Assets is a decrease in net assets.	(67,372)
Since bond issuance costs and related amortization are not reported in governmental funds, the current year amortization is also not reported. The net effect of recording bond issuance cost amortization is a decrease in net assets.	(5,243)
Property taxes are recognized as revenue in the governmental funds when collected but are recognized on the Statement of Activities in the year levied. The net effect of this difference in property tax revenue recognition is a decrease in the change in net assets.	11,051
<b>Change in Net Assets of Governmental Activities</b>	<u><u>\$ (73,870)</u></u>

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

CITY OF MEADOWLAKES  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amount (GAAP Basis)	
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ 589,280	\$ 589,280	\$ 300,514	\$ (288,766)
General Sales & Use Taxes	1,000	1,000	1,165	165
Franchise Tax	57,000	57,000	52,864	(4,136)
Charges for Services	3,350	3,350	5,360	2,010
Fines	8,100	8,100	3,836	(4,264)
Investment Earnings	1,500	1,500	1,210	(290)
Other Revenue	1,400	1,400	-	(1,400)
Total Revenues	661,630	661,630	364,949	(296,681)
<b>EXPENDITURES</b>				
Current:				
General Government	263,575	263,575	209,655	53,920
Public Safety	108,525	108,525	98,219	10,306
Code Enforcement	9,625	9,625	9,804	(179)
Capital Outlay:				
Capital Outlay	30,000	30,000	1,000	29,000
Total Expenditures	411,725	411,725	318,678	93,047
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(300,000)	(300,000)	(10,000)	290,000
Total Expenditures	(300,000)	(300,000)	(10,000)	290,000
Net Change in Fund Balance	(50,095)	(50,095)	36,271	86,366
Fund Balance-Oct 1 (Beginning)	255,719	255,719	255,719	-
Prior Period Adjustment	(3,562)	(3,562)	(3,562)	-
Fund Balance-Sept 30 (Ending)	\$ 252,157	\$ 252,157	\$ 288,428	\$ 86,366

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

CITY OF MEADOWLAKES  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2012

	Public Works Fund	Recreation Fund	Total Enterprise Funds
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 459,837	\$ 5,163	\$ 465,000
Accounts Receivable, net	101,255	-	101,255
Inventory	26,704	-	26,704
Bond Issuance Costs	2,217	-	2,217
Other Assets	-	200	200
Total Current Assets	590,013	5,363	595,376
Noncurrent Assets:			
Capital Assets:			
Land	42,334	-	42,334
Utility Infrastructure, net	3,035,475	-	3,035,475
Buildings, net	290,640	-	290,640
Improvements, net	238,206	-	238,206
Machinery and Equipment, net	80,161	113,979	194,140
Construction in Progress	25,993	-	25,993
Note Receivable	289,394	-	289,394
Total Noncurrent Assets	4,002,203	113,979	4,116,182
Total Assets	\$ 4,592,216	\$ 119,342	\$ 4,711,558
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	\$ 60,465	\$ 4,141	\$ 64,606
Wages and Salaries Payable	5,118	-	5,118
Due to Others	72,225	-	72,225
Accrued Interest Payable	719	-	719
Deferred Revenue	3,147	-	3,147
Bonds Payable - Current:			
Revenue Bonds Payable	255,000	-	255,000
Total Current Liabilities	396,674	4,141	400,815
NonCurrent Liabilities:			
Compensated Absences	10,454	-	10,454
Total Noncurrent Liabilities	10,454	-	10,454
Total Liabilities	407,128	4,141	411,269
<b>NET ASSETS</b>			
Investments in Capital Assets, Net of Debt	3,457,809	113,979	3,571,788
Unrestricted Net Assets	727,279	1,222	728,501
Total Net Assets	\$ 4,185,088	\$ 115,201	\$ 4,300,289

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, 2012

	Public Works Fund	Recreation Fund	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
Charges for Water Services	\$ 364,639	\$ -	\$ 364,639
Charges for Sewerage Service	451,556	-	451,556
Charges for Sanitation Service	195,111	-	195,111
Other Revenue	96,880	25,286	122,166
Total Operating Revenues	<u>1,108,186</u>	<u>25,286</u>	<u>1,133,472</u>
<b>OPERATING EXPENSES:</b>			
Personnel Services - Salaries and Wages	366,365	-	366,365
Repair and Maintenance Services	276,021	21,318	297,339
Other Operating Costs	217,658	258	217,916
Depreciation	160,748	38,730	199,478
Amortization of Bond Costs	2,217	-	2,217
Total Operating Expenses	<u>1,023,009</u>	<u>60,306</u>	<u>1,083,315</u>
Operating Income	<u>85,177</u>	<u>(35,020)</u>	<u>50,157</u>
<b>NON-OPERATING REVENUE (EXPENSES):</b>			
Investment Earnings	9,005	13	9,018
Donations	-	28,820	28,820
Transfers In	108,385	10,000	118,385
Interest Expense - Non-Operating	(17,161)	-	(17,161)
Total Non-operating Revenue (Expenses)	<u>100,229</u>	<u>38,833</u>	<u>139,062</u>
Change in Net Assets	185,406	3,813	189,219
Prior Period Adjustment	(5,837)	-	(5,837)
Total Net Assets - October 1 (Beginning)	<u>4,005,519</u>	<u>111,388</u>	<u>4,116,907</u>
Total Net Assets - September 30 (Ending)	<u>\$ 4,185,088</u>	<u>\$ 115,201</u>	<u>\$ 4,300,289</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, 2012

	Public Works Fund	Recreation Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 1,020,399	\$ -	\$ 1,020,399
Cash Received from Property Taxes & Other Revenue	96,880	25,286	122,166
Cash Payments to Employees for Services	(350,793)	-	(350,793)
Cash Payments for Other Operating	(501,698)	(20,901)	(522,599)
Net Cash Provided for Operating Activities	<u>264,788</u>	<u>4,385</u>	<u>269,173</u>
<u>Cash Flows from Non-Operating Activities:</u>			
Transfers from Other Funds	108,385	10,000	118,385
Donations	-	28,820	28,820
Net Cash Provided by (Used for) Non-Operating Activities	<u>108,385</u>	<u>38,820</u>	<u>147,205</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>			
Acquisition of Capital Assets	(49,833)	-	(49,833)
Capital Lease Payments	-	(73,159)	(73,159)
Payments on Long-Term Debt	(255,000)	-	(255,000)
Interest Expense	(17,161)	-	(17,161)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(321,994)</u>	<u>(73,159)</u>	<u>(395,153)</u>
<u>Cash Flows from Investing Activities:</u>			
Note Receivable Payments	4,000	-	4,000
Interest and Dividends on Investments	9,005	13	9,018
Net Increase(Decrease) in Cash and Cash Equivalents	64,184	(29,941)	34,243
Cash and Cash Equivalents at Beginning of the Year:	395,653	35,104	430,757
Cash and Cash Equivalents at the End of the Year:	<u>\$ 459,837</u>	<u>\$ 5,163</u>	<u>\$ 465,000</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>			
Operating Income:	\$ 85,177	\$ (35,020)	\$ 50,157
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	162,965	38,730	201,695
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	9,093	-	9,093
Increase (decrease) in Accounts Payable	(8,280)	675	(7,605)
Increase (decrease) in Accrued Salaries	15,572	-	15,572
Increase (decrease) in Other Liabilities	261	-	261
Net Cash Provided by Operating Activities	<u>\$ 264,788</u>	<u>\$ 4,385</u>	<u>\$ 269,173</u>

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

NOTES TO THE FINANCIAL STATEMENTS

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY**

The City of Meadowlakes (the City) was incorporated in 1985 under the provisions of the State of Texas as a Class C municipality and on May 7, 1998 the citizens elected to become a Class A city. The citizens of the City approved by positive vote on May 8, 2010 to change its Mayor-Council form of government to its current Council-Manager form of government, as authorized under the Texas Local Government Code. The City provides the following services: water services, sewer services, sanitation, public safety, and general administration services.

The Meadowlakes Municipal Utility District (MUD) was created in 1974. In 2007, the MUD was merged with the City as the Public Works Department.

For financial reporting purposes, in conformance with generally accepted accounting principles, the City's financial statements include all funds, agencies, boards, commissions and other organizations over which the Board of Aldermen are financially accountable. In addition, component units which may be included are organizations for which the nature and the significance of their operational or financial relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The City established the Meadowlakes Public Facility Corporation (MPFC) in 2009 under the Public Facilities Corporation Act. The MPFC manages the golf course owned by the City and located within City boundaries. Though the MPFC is a separate legal entity, it is considered a component unit and reported as such in this report due to its board being appointed by the City and its financial accountability with the City. The City presents the MPFC as a discretely presented component unit.

**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's non-fiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, grants, and other intergovernmental revenues. Business-type activities include operations that rely to a significant extent on fees and charges for support.

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. If revenue is not program revenue, it is a general revenue used to support all of the City's functions. Taxes are always general revenues

Interfund transactions between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as internal balances on the government-wide Statement of Net Assets.

The fund statements provide reports on the financial condition and results of operations for the individual governmental and business-type funds. The City currently has only one governmental-type fund and one business-type fund.

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

Business-type funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a business-type fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating

**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, as do the business-type fund financial statements. 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 the 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.

Property and sales tax revenues are recognized when both measurable and available. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earnings and investments) are recorded as revenues when received in cash, because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are measurable and available.

The Business-type Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.



CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

**D. FUND ACCOUNTING**

Basis of Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate fiscal and accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts recording cash and other financial resources together with all related liabilities and residual equities or balances and changes therein. They are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

The City maintains two governmental funds. A description of these governmental funds is as follows:

**General Fund** – The General Fund is the primary operating fund of the City. It accounts for all financial resources except those required to be accounted for in another fund.

**Debt Service Fund** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Additionally, the City maintains two business-type funds to account for its proprietary activities as described below:

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

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

Further, the City includes a discretely presented component unit as described below:

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

**E. OTHER ACCOUNTING POLICIES**

1. For purposes of the statement of cash flows for business-type funds, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased. Investments are carried at fair value, which is based on quoted market prices.
2. In the government-wide financial statements, and business-type fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities or business-type fund 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 straight-line method. Bonds payable are reported net of the applicable bond premium or discount.
3. The Public Works Fund reports inventory consisting of utility maintenance and operating supplies. The MPFC also reports inventory consisting of food and beverage items relating to restaurant operations.

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

4. Capital assets, which include land, buildings, machinery and equipment, infrastructure and the water/wastewater system, are reported in the applicable governmental and 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 an estimated useful life in excess of one year. 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.

Buildings and improvements	10-30 years
Infrastructure (streets, sidewalks, etc.)	18-50 years
Computers and equipment	5-10 years
Furniture and fixtures	7 years
Vehicles	5 years

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.

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 preparation 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 expenditures during the reporting period. Actual results could differ from those estimates.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. BUDGET**

During budget preparations each year, department and division leaders of the City submit requests for appropriations to the City Manager so that a budget may be prepared. The budget is prepared by fund, department, and activity, and includes information on the past year, current year budget and requested appropriations for the next fiscal year.

Before August 31, the proposed budget is presented to the City Council for review. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council. Management may not amend the budget without Council approval. Expenditures may not legally exceed budget appropriations at the department level. Budgets are adopted for the General Fund, Debt Service Fund, and the proprietary funds, and are prepared on a basis consistent with generally accepted accounting principles.

CITY OF MEADOWLAKES, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The City’s expenditures for the year in the General Fund did not exceed appropriations for any budgeted line item.

**III. DETAILED NOTES ON ALL FUNDS**

**A. DEPOSITS AND INVESTMENTS**

Legal and Contractual Provisions Governing 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, 2012, the combined carrying amount of the City’s deposits (cash, certificates of deposit, money market, and interest-bearing savings accounts included in temporary investments) was \$818,815 and the combined bank balances were \$833,866. Pledged security coverage was adequate at all times of the year to insure deposits in excess of FDIC coverage.

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 investments were in temporary investment certificates of deposit at September 30, 2012, which are included in cash and temporary investments on the combined balance sheet, are as follows:

Deposits	Carrying Amount	Fair Value
American Bank of Texas CD	\$ 50,647	\$ 50,647

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

Policies Governing Deposits and Investments

In compliance with the Public Funds Investments Act, the City has adopted a deposit and investment policy. That policy addresses 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 during the year since its deposits did not exceed the combined value of FDIC depository insurance coverage and securities pledged against its investments.

**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. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

**Other Credit Risk:** There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, investment policies of the City's investment pools allow the portfolio's investment manager to only invest in obligations of the U.S. Government, its agencies; repurchase agreements; and no-load AAAm money market mutual funds registered with the SEC.

**B. PROPERTY TAX**

Property taxes are considered available when collected within the current period or expected to be collected soon. Property taxes are considered available when collected within the current period or expected to be enough thereafter to be used to pay liabilities of the current period. The City levies its taxes on October 1<sup>st</sup> in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1<sup>st</sup> of the year following the October 1<sup>st</sup> levy date. The assessed value of the property tax roll of January 1, 2011, upon which the levy for the 2011/2012 fiscal year was based, was \$199,806,323. Taxes are delinquent if not paid by February 1<sup>st</sup> of the following calendar year. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2012, to finance General Fund operations were \$.1662 and \$.1497 for debt service operations for a total tax rate of \$.3159 per \$100 property valuation. Total tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2012, were 99% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates for the year of the levy. Allowances for uncollectible taxes are based on historical experience in collecting taxes.

**C. INTERFUND BALANCES AND TRANSFERS**

Short-term advances between funds are recorded as a receivable (Due From) and payable (Due To) between the funds involved in the transaction. As of year-end there were no interfund balances. During the year, the City transferred \$10,000 from the General Fund to the Recreation Fund and transferred \$108,385 from the Debt Service Fund to the Public Works Fund.

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

**D. FIXED ASSETS**

Capital asset activity for City of Meadowlakes for the year ended September 30, 2012, was as follows:

Description	Balance 10/1/2011	Additions	Retirements	Balance 9/30/2012
<b>Governmental activities:</b>				
Land	\$ 1,796,556	\$ 1,000	\$ -	\$ 1,797,556
Buildings	1,201,683	-	-	1,201,683
Improvements	180,851	-	-	180,851
Machinery & Equipment	140,908	-	-	140,908
Total Historical Costs	<u>3,319,998</u>	<u>1,000</u>	<u>-</u>	<u>3,320,998</u>
Less Accumulated Depreciation:				
Buildings	(139,282)	(41,131)	-	(180,413)
Improvements	(31,720)	(9,043)	-	(40,763)
Machinery & Equipment	(86,960)	(14,403)	-	(101,363)
Total Accum. Depreciation	<u>(257,962)</u>	<u>(64,577)</u>	<u>-</u>	<u>(322,539)</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,062,036</u>	<u>\$ (63,577)</u>	<u>\$ -</u>	<u>\$ 2,998,459</u>
<b>Business-type activities:</b>				
Land	\$ 42,334	\$ -	\$ -	\$ 42,334
Construction in Progress	-	25,993	-	25,993
Water/Wastewater Infrastructure	5,592,659	-	-	5,592,659
Buildings	403,203	6,956	(4,000)	406,159
Improvements	272,352	-	-	272,352
Machinery & Equipment	757,712	16,884	(127,676)	646,920
Total Historical Costs	<u>7,068,260</u>	<u>49,833</u>	<u>(131,676)</u>	<u>6,986,417</u>
Less Accumulated Depreciation:				
Water/Wastewater Infrastructure	(2,454,433)	(102,750)	-	(2,557,183)
Buildings	(101,437)	(14,882)	800	(115,519)
Improvements	(23,883)	(10,263)	-	(34,146)
Machinery & Equipment	(508,048)	(71,583)	126,851	(452,780)
Total Accum. Depreciation	<u>(3,087,801)</u>	<u>(199,478)</u>	<u>127,651</u>	<u>(3,159,628)</u>
Business-type Activities Capital Assets, Net	<u>\$ 3,980,459</u>	<u>\$ (149,645)</u>	<u>\$ (4,025)</u>	<u>\$ 3,826,788</u>

Depreciation expense for the governmental activities was charged to general government departments as follows:

Department	Allocated Depreciation Amount
General Government	\$ 43,070
Public Safety	19,555
Code Enforcement	1,952
Total	<u>\$ 64,577</u>

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

Capital asset activity for the City's component unit, Meadowlakes Public Facility Corporation, for the year ended September 30, 2012, was as follows:

Description	Balance 10/1/2011	Additions	Retirements	Balance 9/30/2012
<b>Component Unit:</b>				
Machinery & Equipment	\$ 18,485	\$ 5,954	\$ -	\$ 24,439
Improvements	9,505	-	-	9,505
Total Historical Costs	<u>27,990</u>	<u>5,954</u>	<u>-</u>	<u>33,944</u>
Less Accumulated Depreciation:				
Machinery & Equipment	(4,383)	(2,641)	-	(7,024)
Improvements	(1,267)	(951)	-	(2,218)
Total Accum. Depreciation	<u>(5,650)</u>	<u>(3,592)</u>	<u>-</u>	<u>(9,242)</u>
Component Unit Capital Assets, Net	<u>\$ 22,340</u>	<u>\$ 2,362</u>	<u>\$ -</u>	<u>\$ 24,702</u>

In addition to capital assets, the City's component unit, Meadowlakes Public Facility Corporation (MPFC), has recorded an intangible asset. This asset, goodwill, originally recorded for \$193,930 resulted from the creation of the MPFC in 2009; the transaction involved the transfer of assets from the City and the issue of a note payable to the City. Goodwill is currently being amortized by \$35,260 per year over 5.5 years, the original note payable term. Intangible asset activity for the MPFC for the year ended September 30, 2012, was as follows:

Description	Balance 10/1/2011	Additions	Retirements	Balance 9/30/2012
<b>Component Unit:</b>				
Intangible Asset-Goodwill	\$ 193,930	\$ -	\$ -	\$ 193,930
Total Intangible Asset	<u>193,930</u>	<u>-</u>	<u>-</u>	<u>193,930</u>
Less Accumulated Amortization:				
Intangible Asset-Goodwill	(70,520)	(35,260)	-	(105,780)
Total Accum. Amortization	<u>(70,520)</u>	<u>(35,260)</u>	<u>-</u>	<u>(105,780)</u>
Component Unit Intangible Asset, Net	<u>\$ 123,410</u>	<u>\$ (35,260)</u>	<u>\$ -</u>	<u>\$ 88,150</u>

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

**E. BONDS PAYABLE**

The following is a summary of the changes in long-term debt outstanding in governmental and business-type funds as of September 30, 2012.

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/2011	Additions	Deletions	Amounts Outstanding 9/30/2012	Due in One Year
<b>Governmental activities:</b>								
<u>Bonds Payable</u>								
Comb. Tax & Rev. - Cert. of Obligation - Series 2008	4.80%	\$ 3,600,000	\$ 170,640	\$ 3,555,000	\$ -	\$ (15,000)	\$ 3,540,000	\$ 15,000
Compensated Absences	N/A	N/A	N/A	-	67,372	-	67,372	N/A
Total		<u>\$ 3,600,000</u>	<u>\$ 170,640</u>	<u>\$ 3,555,000</u>	<u>\$ 67,372</u>	<u>\$ (15,000)</u>	<u>\$ 3,607,372</u>	<u>\$ 15,000</u>
<b>Business-Type activities:</b>								
<u>Bonds Payable</u>								
General Obligation Refunding Bonds - Series 2008	3.5%	\$ 1,225,000	\$ 17,850	\$ 510,000	\$ -	\$ (255,000)	\$ 255,000	\$255,000
<u>Other Long-Term Debt</u>								
Capital Lease - Government Capital Corporation	4.0%	N/A	-	73,159	-	(73,159)	-	-
Compensated Absences	N/A	N/A	N/A	-	10,454	-	10,454	N/A
Total		<u>\$ 1,225,000</u>	<u>\$ 17,850</u>	<u>\$ 583,159</u>	<u>\$ 10,454</u>	<u>\$ (328,159)</u>	<u>\$ 265,454</u>	<u>\$255,000</u>

The following is a summary of the changes in long-term debt outstanding in the City's component unit, Meadowlakes Public Facility Corporation, as of September 30, 2012.

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/2011	Additions	Deletions	Amounts Outstanding 9/30/2012	Due in One Year
<b>Component Unit:</b>								
<u>Note Payable</u>								
Note Payable - City of Meadowlakes Public Works Fund	N/A	\$ 350,000	\$ -	\$ 293,386	\$ -	\$ (4,000)	\$ 289,386	\$ 12,000
Total		<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ 293,386</u>	<u>\$ -</u>	<u>\$ (4,000)</u>	<u>\$ 289,386</u>	<u>\$ 12,000</u>

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

Debt service requirements for governmental and business-type funds are as follows:

**Governmental activities:**

Year Ended September 30	Bonds Payable		Total
	Principal	Interest	
2013	\$ 15,000	\$ 169,920	\$ 184,920
2014	285,000	169,200	454,200
2015	300,000	155,520	455,520
2016	320,000	141,120	461,120
2017	330,000	125,760	455,760
2018-2022	1,865,000	378,960	2,243,960
2023	425,000	20,400	445,400
Total	<u>\$ 3,540,000</u>	<u>\$ 1,160,880</u>	<u>\$ 4,700,880</u>

**Business-Type activities:**

Year Ended September 30	Bonds Payable		Total
	Principal	Interest	
2013	\$ 255,000	\$ 4,463	\$ 259,463
Total	<u>\$ 255,000</u>	<u>\$ 4,463</u>	<u>\$ 259,463</u>

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

**Component Unit:**

Year Ended September 30	Bonds Payable		Total
	Principal	Interest	
2013	\$ 12,000	\$ -	\$ 12,000
2014	12,000	-	12,000
2015	12,000	-	12,000
2016	12,000	-	12,000
2017	12,000	-	12,000
2018-2022	60,000	-	60,000
2023-2027	60,000	-	60,000
2028-2032	60,000	-	60,000
2033-2037	49,386	-	49,386
Total	<u>\$ 289,386</u>	<u>\$ -</u>	<u>\$ 289,386</u>



CITY OF MEADOWLAKES, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 SEPTEMBER 30, 2012

**F. RISK MANAGEMENT**

A public entity risk pool is a cooperative group of governmental entities joining together to finance an exposure, liability or risk. The City participates in the Texas Municipal League Risk Pool, a risk-sharing pool, for property, liability and workers compensation insurance, wherein member cities pool risks and funds and share in costs of losses. Claims against the City are expected to be paid by the public entity risk pool. Should the risk pool become insolvent, or otherwise be unable to pay claims, the City may have to pay the claims. There were no significant reductions in insurance coverage or insurance settlements exceeding insurance coverage during each of past three years.

**G. PENSION PLAN**

*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 for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://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 2011</u>	<u>Plan Year 2012</u>
Employee deposit rate	7%	7%
Matching ratio (City to employee)	1:1	1:1
Years required for vesting	5	5
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, 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 the Annuity Increases.

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation Date	12/31/2009	12/31/2010	12/31/2011
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	23.3 years; closed period	25.2 years; closed period	24.8 years; closed period
Amortization Period for new Gains/Losses	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Invested Rate of Return	7.5%	7.0%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

*Funded Status and Funding Progress*

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1)/(2)	Unfunded AAL (UAAL) (4) (2) - (1)	Annual Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4)/(5)
12/31/2009	\$ 142,316	\$ 106,970	133.0%	\$ (35,346)	\$ 624,965	-5.7%
12/31/2010	183,812	142,344	129.1%	(41,468)	423,639	-9.8%
12/31/2011	223,711	179,434	124.7%	(44,277)	416,701	-10.6%

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

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, also 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.

*Supplemental death benefit fund*

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

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

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

The City's contributions to the TMRS SDBF for the years ended 2012, 2011, and 2010 were \$1,032, \$885, and \$487, respectively, which equaled the required contributions each year.

**H. LITIGATION**

The City was not involved in any litigation at year-end that the City's attorney feels would result in a negative outcome or present any material liability to the City as of September 30, 2012.

**I. PRIOR PERIOD ADJUSTMENTS**

In prior year salary accruals in the governmental and business-type funds were not recorded. As a result of salary accruals in the current year in the General Fund of \$3,646 and in the Public Works Fund of \$5,118, it was necessary to record prior period adjustments decreasing beginning net assets in the General Fund and the Public Works Fund of \$3,562 and \$5,837 respectively.

CITY OF MEADOWLAKES, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012

Additionally, in the City's component unit, MPFC, in prior years a receivable related to transferred inventory and an allowance for uncollectible receivables had not been recorded. Prior period adjustments were recorded in current year to adjust these accounts. In October 2009 inventory valued at \$33,375 was transferred to another party creating a receivable, adjustment made in current year resulted in an increase in beginning net assets and recording of a receivable of \$33,375. Customer receivables greater than 150 days old as of current year end which were recorded as revenue and receivable in fiscal year 2011 or earlier were allowed for, resulting in a decrease of \$10,685 in beginning net assets and a receivable contra-account, allowance for uncollectible accounts for the same amount. The adjusted year-end balance in MPFC in receivables, net, is \$38,289.

**J. SUBSEQUENT EVENTS**

The City has evaluated subsequent events through January 25, 2013, 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.

OTHER SUPPLEMENTAL INFORMATION

CITY OF MEADOWLAKES  
STATEMENT OF CASH FLOWS  
MEADOWLAKES PUBLIC FACILITY CORPORATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Component Unit
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Received from User Charges	\$ 958,695
Cash Payments to Employees for Services	(380,675)
Cash Payments for Food and Beverage	(140,358)
Cash Payments for Repairs and Maintenance	(148,451)
Cash Payments for Other Op. Expenses	(280,532)
Net Cash Provided (Used) by Operating Activities	8,679
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Acquisition of Capital Assets	(5,954)
Payments on Long-Term Debt	(4,000)
Net Cash Provided (Used) by Investing Activities	(9,954)
<b><u>Cash Flows from Investing Activities:</u></b>	
Interest and Dividends on Investments	299
Net Cash Provided (Used) by Investing Activities	299
Net Increase (Decrease) in Cash & Pooled Cash	(976)
Cash & Pooled Cash - Beginning of the Year	33,361
Cash & Pooled Cash - End of the Year	\$ 32,385
<b><u>Reconciliation of Operating Income to Net</u></b>	
<b><u>Cash Provided by Operating Activities:</u></b>	
Operating Income (Loss)	\$ (9,858)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) By Operating Activities:	
Prior Period Adjustment	22,690
Depreciation and Amortization	38,852
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(29,540)
Decrease (Increase) in Inventory	(43)
Decrease (Increase) in Other Assets	4,949
Increase (Decrease) in Wages Payable	(6,622)
Increase (Decrease) in Accounts Payable	(11,749)
Net Cash Provided (Used) by Operating Activities	\$ 8,679

OTHER INFORMATION REQUIRED BY GAO



9442 Capital of Texas Highway N. | Arboretum Plaza One, Suite 500  
Austin, Texas 78759 | Phone (512) 310-5600 | www.singletonclark.com

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 Auditors' Report**

Honorable Mayor and City Council Members  
City of Meadowlakes

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of the City of Meadowlakes, Texas (the "City") as of and for the year ended September 30, 2012; and have issued our report thereon dated January 25, 2013. 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 the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City'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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity's internal control.

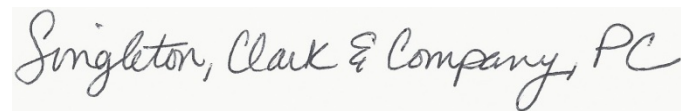
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 for the information of the City's trustees, the audit committee, and the administration and is not intended to be used and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Singleton, Clark & Company, PC". The signature is written in black ink on a light-colored background.

Singleton, Clark & Company, PC  
Austin, Texas

January 25, 2013