

***REPORT OF EXAMINATION***

**CITY OF  
MEADOWLAKES**

***Meadowlakes, Texas***

**For the Year Ended  
September 30, 2013**

CITY OF MEADOWLAKES, TEXAS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2013

CITY OF MEADOWLAKES  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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***Certified Public Accountants***

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Meadowlakes, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Meadowlakes, Texas, as of September 30, 2013, and the respective changes in financial

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

#### **Other Matters**

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the Schedule of Funding Progress for the Retirement Plan on pages 3–8, 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Neffendorf, Knopp, Doos + Company, P.C.*

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

February 6, 2014

## 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, 2013. Please read it in conjunction with the independent auditors' report on page 1, and City's Basic Financial Statements which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$4,174,877 (net position). Of this amount, \$1,007,411 (unrestricted net position) may be used to meet the City's ongoing obligations to citizen's and creditors.
- The City's net position increased by \$182,164 as a result of this year's operations.
- At September 30, 2013, the City's governmental funds reported combined ending fund balances of \$584,205, an increase of \$295,777 in comparison with the prior year.
- At September 30, 2013, the City's Enterprise Funds reported unrestricted net position of \$800,829, an increase of \$72,330 in comparison with the prior year.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 9 through 11). These provide information about the activities of the City as a whole and present a longer-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (beginning on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 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 34 and 35.

## **Reporting the City as a Whole**

### ***The Statement of Net Position and the Statement of Activities***

The analysis of the City's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the City is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the City's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets and liabilities) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider other factors as well, such as changes in the City's customers or its property tax base and the condition of the City's facilities.

In the Statement of Net Position and the Statement of Activities, the City has two kinds of activity:

- **Governmental activity** - Most of the City's basic services are reported here, including the public safety, municipal court and administration. Property taxes, user charges, sales tax and franchise tax finance most of these activities.
- **Business-type activity** - The City's water and sewer system, sanitation and recreation are reported as a business-type activity since the fees charged to customers cover the cost of services provided.

## **Reporting the City's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has two kinds of funds:

- **Governmental funds** - All of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in Note II to the financial statements.
- **Proprietary funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. The City's utility fund (Water, Sewer, Sanitation and Recreation) is a business-type activity and provides both long and short-term financial information.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the City's governmental activities decreased from \$(249,898) to \$(427,896). Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$206,582 at September 30, 2013. This decrease in governmental net position was the result of four factors. First, the City's revenues exceeded the expenditures by \$295,777. Second, the City paid principal on long-term debt of \$3,000,000. Third, the City recorded depreciation in the amounts of \$64,577. Fourth the City recorded a prior period adjustment in the amount of \$(57,677).

Net position of the City's business-type activities increased from \$4,300,288 to \$4,602,773. Unrestricted net position was \$800,829 at September 30, 2013. This increase in business-type net position was the result of net income of \$302,485.

**Table I**  
**City of Meadowlakes**

### NET POSITION

	Governmental Activities		Business-Type Activities		TOTALS	
					Primary Government	
	2013	2012	2013	2012	2013	2012
Current and Restricted Assets	\$ 621,248	\$ 384,850	\$ 1,132,537	\$ 884,770	\$ 1,753,785	\$ 1,269,620
Capital Assets	2,961,227	2,998,459	3,918,586	3,826,789	6,879,813	6,825,248
Total Assets	\$ 3,582,475	\$ 3,383,309	\$ 5,051,123	\$ 4,711,559	\$ 8,633,598	\$ 8,094,868
Long-Term Liabilities	\$ 3,535,000	\$ 3,592,372	\$ 280,258	\$ 255,000	\$ 3,815,258	\$ 3,847,372
Other Liabilities	451,333	40,835	168,092	145,817	619,425	186,652
Total Liabilities	\$ 3,986,333	\$ 3,633,207	\$ 448,350	\$ 400,817	\$ 4,434,683	\$ 4,034,024
Deferred Inflow of Resources						
Property Taxes	\$ 24,038	\$ -	\$ -	\$ -	\$ 24,038	\$ -
Total Deferred Inflows of Resources	\$ 24,038	\$ -	\$ -	\$ -	\$ 24,038	\$ -
Net Position:						
Net Investment in Capital Assets	\$ (918,773)	\$ (541,541)	\$ 3,638,328	\$ 3,571,789	\$ 2,719,555	\$ 3,030,248
Restricted	284,295		163,616	-	447,911	-
Unrestricted	206,582	291,643	800,829	728,499	1,007,411	1,020,142
Total Net Position	\$ (427,896)	\$ (249,898)	\$ 4,602,773	\$ 4,300,288	\$ 4,174,877	\$ 4,050,390



**Table II**  
**City of Meadowlakes**

**CHANGES IN NET POSITION**

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
Property Taxes	\$ 624,519	\$ 605,591	\$	\$	\$ 624,519	\$ 605,591
Franchise Tax	49,449	52,864			49,449	52,864
Charges for Services	8,572	9,196	1,071,342	1,011,306	1,079,914	1,020,502
Miscellaneous	4,323	1,165	98,559	150,986	102,882	152,151
Contributions and Donations			20,149		20,149	-
Interest Earnings	871	1,210	2,746	9,018	3,617	10,228
<b>Total Revenue</b>	<b>\$ 687,734</b>	<b>\$ 670,026</b>	<b>\$ 1,192,796</b>	<b>\$ 1,171,310</b>	<b>\$ 1,880,530</b>	<b>\$ 1,841,336</b>
<b>Expenses:</b>						
General Government	\$ 240,370	\$ 320,098	\$	\$	\$ 240,370	\$ 320,098
Financial Administration	30,236				30,236	-
Code Enforcement	25,890	11,756			25,890	11,756
Recreation					-	
Public Safety	107,030	117,774			107,030	117,774
Water and Sewer			1,007,350	1,023,009	1,007,350	1,023,009
Recreation Fund			40,209	60,306	40,209	60,306
Debt Service - Interest	177,801	175,883		17,161	177,801	193,044
Fiscal Agent's Fees	500				500	-
Issuance Costs	68,980				68,980	-
<b>Total Expenses</b>	<b>\$ 650,807</b>	<b>\$ 625,511</b>	<b>\$ 1,047,559</b>	<b>\$ 1,100,476</b>	<b>\$ 1,698,366</b>	<b>\$ 1,725,987</b>
<b>Increase (Decrease) in Net Position</b>						
Before Transfers & Capital Contributions	\$ 36,927	\$ 44,515	\$ 145,237	\$ 70,834	\$ 182,164	\$ 115,349
<b>Transfers</b>	<b>(157,248)</b>	<b>(118,385)</b>	<b>157,248</b>	<b>118,385</b>	<b>-</b>	<b>-</b>
<b>Net Change</b>	<b>(120,321)</b>	<b>(73,870)</b>	<b>302,485</b>	<b>189,219</b>	<b>182,164</b>	<b>115,349</b>
Net Position - Beginning	(249,898)	(172,466)	4,300,288	4,116,907	4,050,390	3,944,440
Prior Period Adjustment	(57,677)	(3,562)		(5,837)	(57,677)	(9,399)
<b>Net Position - Ending</b>	<b>\$ (427,896)</b>	<b>\$ (249,898)</b>	<b>\$ 4,602,773</b>	<b>\$ 4,300,289</b>	<b>\$ 4,174,877</b>	<b>\$ 4,050,390</b>

The cost of all governmental activities this year was \$650,807. 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 \$624,519, because the other costs were paid by franchise tax (\$49,449), user charges (\$8,572), interest (\$871) and other miscellaneous (\$3,141).

## 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 \$584,205, which is more than last year's total of \$288,428. Included in this year's total change in fund balance is an increase of \$11,482 in the City's General Fund. This increase in the General Fund balance was caused by the excess of revenues over expenditures.

The City adopted the General Fund Budget. Actual revenues were more than budgeted amounts and actual expenditures were less than the budgeted amounts.

## CAPITAL ASSET AND DEBT ADMINISTRATION

At September 30, 2013, the City had the following amounts invested in capital assets, net of depreciation:

### CAPITAL ASSETS

	Governmental Activities		Business-Type Activities		TOTALS Primary Government	
	2013	2012	2013	2012	2013	2012
Land and Improvements	\$ 1,824,901	\$ 1,797,556	\$ 42,334	\$ 42,334	\$ 1,867,235	\$ 1,839,890
Infrastructure			5,592,659	5,592,659	5,592,659	5,592,659
Buildings	1,201,683	1,201,683	406,159	406,159	1,607,842	1,607,842
Improvements	180,851	180,851	298,696	272,352	479,547	453,203
Machinery & Equipment	140,908	140,908	611,079	646,920	751,987	787,828
Construction in Progress			276,603	25,993	276,603	25,993
Total Capital Assets	\$ 3,348,343	\$ 3,320,998	\$ 7,227,530	\$ 6,986,417	\$ 10,575,873	\$ 10,307,415
Less: Accumulated Depreciation	(387,116)	(322,539)	(3,308,943)	(3,159,628)	(3,696,059)	(3,482,167)
Capital Assets, Net	<u>\$ 2,961,227</u>	<u>\$ 2,998,459</u>	<u>\$ 3,918,587</u>	<u>\$ 3,826,789</u>	<u>\$ 6,879,814</u>	<u>\$ 6,825,248</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, 2013, the City had the following outstanding debt:

### OUTSTANDING DEBT

	Governmental Activities		Business-Type Activities		TOTALS	
					Primary Government	
	2013	2012	2013	2012	2013	2012
Bonds Payable	\$ 3,880,000	\$ 3,540,000	\$	\$ 255,000	\$ 3,880,000	\$ 3,795,000
Notes Payable			280,258		280,258	-
Compensated Absences	84,235	67,372	12,282	10,454	96,517	77,826
Total Outstanding Debt	\$ 3,964,235	\$ 3,607,372	\$ 292,540	\$ 265,454	\$ 4,256,775	\$ 3,872,826

For governmental activities, the City partially refunded series 2008 Certificates of Obligation with series 2013 Refunding Bonds and paid \$60,000 in principal payments on 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 2014 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 2014. Amounts available for appropriation in the General Fund budget are \$387,100 and expenditures are estimated to be \$385,125.

If these estimates are realized, the City's budgetary General fund balance is expected to increase by the close of 2014.

## 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 POSITION  
SEPTEMBER 30, 2013

EXHIBIT A-1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Component Unit
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 273,202	\$ 547,378	\$ 820,580	\$ 21,631
Investments - Current	50,861	-	50,861	-
Receivables (net of allowance for uncollectibles)	14,945	105,379	120,324	34,830
Note Receivable	-	278,394	278,394	-
Due from Component Unit	-	543	543	-
Inventories	-	33,277	33,277	6,785
Prepaid Items	-	3,950	3,950	-
Restricted Assets:				
Restricted Asset - Debt Service	282,240	13,458	295,698	-
Restricted Asset - Construction	-	150,158	150,158	-
Capital Assets:				
Land	1,824,901	42,334	1,867,235	-
Infrastructure, net	-	2,932,850	2,932,850	-
Buildings, net	980,139	276,158	1,256,297	-
Improvements other than Buildings, net	131,045	254,231	385,276	-
Machinery and Equipment, net	25,142	136,411	161,553	20,261
Construction in Progress	-	276,602	276,602	-
Intangible Asset, Net	-	-	-	52,890
Total Assets	3,582,475	5,051,123	8,633,598	136,397
<b>LIABILITIES</b>				
Accounts Payable	87,862	54,626	142,488	19,116
Compensated Absences Payable	-	12,282	12,282	-
Intergovernmental Payable	-	1,034	1,034	-
Due to Primary Government	-	-	-	543
Accrued Interest Payable	-	719	719	-
Deferred Revenues	-	22,740	22,740	-
Unearned Revenues	10,095	-	10,095	-
Notes Payable - Current	-	40,226	40,226	-
Other Current Liabilities	8,376	76,691	85,067	4,464
Noncurrent Liabilities				
Due Within One Year	345,000	-	345,000	-
Due in More Than One Year	3,535,000	240,032	3,775,032	278,394
Total Liabilities	3,986,333	448,350	4,434,683	302,517
<b>DEFERRED INFLOW OF RESOURCES</b>				
Deferred Resource Inflow Resource for Refunding	24,038	-	24,038	-
Total Deferred Inflows of Resources	24,038	-	24,038	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	(918,773)	3,638,328	2,719,555	20,261
Restricted for:				
Restricted for Debt Service	284,295	13,458	297,753	-
Restricted for Construction	-	150,158	150,158	-
Unrestricted Net Position	206,582	800,829	1,007,411	(186,381)
Total Net Position	\$ (427,896)	\$ 4,602,773	\$ 4,174,877	\$ (166,120)

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (234,940)	\$ -	\$ (234,940)	\$ -
(30,236)	-	(30,236)	-
(103,888)	-	(103,888)	-
(25,890)	-	(25,890)	-
(177,801)	-	(177,801)	-
(500)	-	(500)	-
(68,980)	-	(68,980)	-
(642,235)	-	(642,235)	-
-	63,992	63,992	-
-	(20,060)	(20,060)	-
-	43,932	43,932	-
(642,235)	43,932	(598,303)	-
-	-	-	(54,246)
-	-	-	(54,246)
330,639	-	330,639	-
293,880	-	293,880	-
49,449	-	49,449	-
1,182	-	1,182	-
3,141	98,559	101,700	-
871	2,746	3,617	114
(157,248)	157,248	-	-
521,914	258,553	780,467	114
(120,321)	302,485	182,164	(54,132)
(249,898)	4,300,288	4,050,390	(119,156)
(57,677)	-	(57,677)	7,168
\$ (427,896)	\$ 4,602,773	\$ 4,174,877	\$ (166,120)

CITY OF MEADOWLAKES  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2013

	General Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 271,147	\$ 2,055	\$ 273,202
Investments - Current	50,861	-	50,861
Taxes Receivable	7,424	6,583	14,007
Restricted Asset - Escrow Interest	-	282,240	282,240
Total Assets	<u>\$ 329,432</u>	<u>\$ 290,878</u>	<u>\$ 620,310</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 3,627	\$ -	\$ 3,627
Unearned Revenues	10,095	-	10,095
Other Current Liabilities	8,376	-	8,376
Total Liabilities	<u>22,098</u>	<u>-</u>	<u>22,098</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Revenue - Property Taxes	7,424	6,583	14,007
Total Deferred Inflows of Resources	<u>7,424</u>	<u>6,583</u>	<u>14,007</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
Retirement of Long-Term Debt	-	284,295	284,295
Unassigned Fund Balance	299,910	-	299,910
Total Fund Balances	<u>299,910</u>	<u>284,295</u>	<u>584,205</u>
Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 329,432</u>	<u>\$ 290,878</u>	<u>\$ 620,310</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 POSITION  
SEPTEMBER 30, 2013

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 584,205</b>
Prior period adjustment to expense prior period bond issuance cost. The net effect of this prior period adjustment is to decrease net position	(57,677)
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 \$3,320,998 and the accumulated depreciation was \$322,539. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net position.	(551,236)
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 2013 capital outlays and debt principal payments is to decrease net position.	(336,693)
The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(64,577)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.	(1,918)
<b>Net Position of Governmental Activities</b>	<b>\$ (427,896)</b>

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, 2013

	General Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES:</b>			
Taxes:			
Property Taxes	\$ 329,132	\$ 294,290	\$ 623,422
Franchise Tax	49,449	-	49,449
Other Taxes	1,182	-	1,182
Licenses and Permits	5,430	-	5,430
Fines	3,142	-	3,142
Investment Earnings	871	-	871
Other Revenue	2,203	-	2,203
Total Revenues	391,409	294,290	685,699
<b>EXPENDITURES:</b>			
Current:			
General Government	198,897	-	198,897
Financial Administration	12,468	-	12,468
Public Safety	89,155	-	89,155
Code Enforcement	21,566	-	21,566
Debt Service:			
Bond Principal	-	60,000	60,000
Bond Interest	-	178,098	178,098
Fiscal Agent's Fees	-	500	500
Issuance Costs	-	68,980	68,980
Capital Outlay:			
Capital Outlay	27,345	-	27,345
Total Expenditures	349,431	307,578	657,009
Excess (Deficiency) of Revenues Over (Under) Expenditures	41,978	(13,288)	28,690
<b>OTHER FINANCING SOURCES (USES):</b>			
Capital-related Debt Issued (Regular Bonds)	-	3,340,000	3,340,000
Transfers Out (Use)	(30,496)	(126,752)	(157,248)
Other (Uses)	-	(2,915,665)	(2,915,665)
Total Other Financing Sources (Uses)	(30,496)	297,583	267,087
Net Change in Fund Balances	11,482	284,295	295,777
Fund Balance - October 1 (Beginning)	288,428	-	288,428
Fund Balance - September 30 (Ending)	\$ 299,910	\$ 284,295	\$ 584,205

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, 2013

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 295,777</b>
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 2013 capital outlays and debt principal payments is to decrease the change in net position.	(336,693)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(64,577)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease the change in net position.	(14,828)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ (120,321)</b>

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2013

EXHIBIT D-1 (Cont'd)

Business-Type Activities - Enterprise Funds			
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 517,128	\$ 30,250	\$ 547,378
Restricted Assets - Current:			
Restricted Asset - Debt Service	13,458	-	13,458
Restricted Asset - Construction	150,158	-	150,158
Accounts Receivable-Net of Uncollectible Allowance	105,379	-	105,379
Note Receivable	278,394	-	278,394
Due from Other Funds	37	-	37
Due from Component Units	543	-	543
Inventories	33,277	-	33,277
Prepaid Items	3,750	200	3,950
<b>Total Current Assets</b>	<b>1,102,124</b>	<b>30,450</b>	<b>1,132,574</b>
<b>Noncurrent Assets:</b>			
<b>Capital Assets:</b>			
Land Purchase and Improvements	42,334	-	42,334
Infrastructure	5,592,659	-	5,592,659
Accumulated Depreciation - Infrastructure	(2,659,809)	-	(2,659,809)
Buildings	406,159	-	406,159
Accumulated Depreciation - Buildings	(130,001)	-	(130,001)
Improvements other than Buildings	279,082	19,614	298,696
Accumulated Depreciation - Other Improvements	(44,465)	-	(44,465)
Machinery and Equipment	339,969	271,110	611,079
Accumulated Depreciation - Machinery & Equipment	(278,562)	-	(278,562)
Accumulated Depreciation - Capital Assets	-	(196,106)	(196,106)
Construction in Progress	276,602	-	276,602
<b>Total Noncurrent Assets</b>	<b>3,823,968</b>	<b>94,618</b>	<b>3,918,586</b>
<b>Total Assets</b>	<b>4,926,092</b>	<b>125,068</b>	<b>5,051,160</b>

The notes to the financial statements are an integral part of this statement.

CITY OF MEADOWLAKES  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2013

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	54,626	-	54,626
Compensated Absences Payable	12,282	-	12,282
Intergovernmental Payable	1,034	-	1,034
Due to Other Funds	-	37	37
Accrued Interest Payable	719	-	719
Deferred Revenue	22,740	-	22,740
Notes Payable - Current	40,226	-	40,226
Other Current Liabilities	74,424	2,267	76,691
Total Current Liabilities	206,051	2,304	208,355
<b>NonCurrent Liabilities:</b>			
Notes Payable - Noncurrent	240,032	-	240,032
Total Noncurrent Liabilities	240,032	-	240,032
Total Liabilities	446,083	2,304	448,387
<b>NET POSITION</b>			
Net Investment in Capital Assets	3,543,710	94,618	3,638,328
Restricted for Debt Service	13,458	-	13,458
Restricted for Construction	150,158	-	150,158
Unrestricted Net Position	772,683	28,146	800,829
Total Net Position	\$ 4,480,009	\$ 122,764	\$ 4,602,773

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 POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Business-Type Activities - Enterprise Funds		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
Charges for Water Services	\$ 415,191	\$ -	\$ 415,191
Charges for Sewerage Service	458,609	-	458,609
Charges for Sanitation Service	197,542	-	197,542
Rents and Royalties	-	11,625	11,625
Contributions & Donations from Private Source	-	20,148	20,148
Other Revenue	86,936	-	86,936
Total Operating Revenues	<u>1,158,278</u>	<u>31,773</u>	<u>1,190,051</u>
<b>OPERATING EXPENSES:</b>			
Proprietary Fund Function - Water			
Personnel Services - Salaries and Wages	299,477	-	299,477
Personnel Services - Employee Benefits	80,135	-	80,135
Purchased Professional & Technical Services	186,423	-	186,423
Purchased Property Services	161,218	-	161,218
Other Operating Expenses	56,485	-	56,485
Supplies	55,039	-	55,039
Total Proprietary Fund Function - Water	<u>838,777</u>	<u>-</u>	<u>838,777</u>
Proprietary Fund Function - Golf			
Purchased Property Services	-	750	750
Other Operating Expenses	-	484	484
Total Proprietary Fund Function - Golf	<u>-</u>	<u>1,234</u>	<u>1,234</u>
Depreciation	<u>153,681</u>	<u>38,975</u>	<u>192,656</u>
Total Operating Expenses	<u>992,458</u>	<u>40,209</u>	<u>1,032,667</u>
Operating Income (Loss)	<u>165,820</u>	<u>(8,436)</u>	<u>157,384</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Bond Issuance Cost	(2,217)	-	(2,217)
Investment Earnings	2,746	-	2,746
Interest Expense - Non-Operating	(12,675)	-	(12,675)
Total Non-operating Revenue (Expenses)	<u>(12,146)</u>	<u>-</u>	<u>(12,146)</u>
Income (Loss) Before Transfers	153,674	(8,436)	145,238
Non-Operating Transfer In	152,248	16,000	168,248
Transfers Out	<u>(11,000)</u>	<u>-</u>	<u>(11,000)</u>
Change in Net Position	294,922	7,564	302,486
Total Net Position - October 1 (Beginning)	<u>4,185,087</u>	<u>115,200</u>	<u>4,300,287</u>
Total Net Position - September 30 (Ending)	<u>\$ 4,480,009</u>	<u>\$ 122,764</u>	<u>\$ 4,602,773</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, 2013

EXHIBIT D-3 (Cont'd)

	Business-Type Activities		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ 1,067,218	\$ -	\$ 1,067,218
Cash Received from Others	106,528	31,774	138,302
Cash Payments to Employees for Services	(382,902)	-	(382,902)
Cash Payments for Suppliers	(55,039)	-	(55,039)
Cash Payments for Other Operating Expenses	(417,635)	(3,073)	(420,708)
Net Cash Provided by Operating Activities	318,170	28,701	346,871
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfer	141,248	16,000	157,248
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>			
Acquisition of Capital Assets	(264,840)	(19,614)	(284,454)
Use of Restricted Assets	(163,616)	-	(163,616)
Interest Paid	(12,675)	-	(12,675)
Loan Proceeds	300,000	-	300,000
Loan Payments	(19,742)	-	(19,742)
Principal Bond Payments	(255,000)	-	(255,000)
Net Cash Provided by (Used for) Capital & Related Financing Activities	(415,873)	(19,614)	(435,487)
<u>Cash Flows from Investing Activities:</u>			
Note Receivable Payments	11,000	-	11,000
Interest and Dividends on Investments	2,746	-	2,746
Net Cash Provided by Investing Activities	13,746	-	13,746
Net Increase in Cash and Cash Equivalents	57,291	25,087	82,378
Cash and Cash Equivalents at Beginning of the Year:	459,837	5,163	465,000
Cash and Cash Equivalents at the End of the Year:	\$ 517,128	\$ 30,250	\$ 547,378

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, 2013

EXHIBIT D-3

	Business-Type Activities		
	Public Works Fund	Recreation Fund	Total Enterprise Funds
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided By Operating Activities:</u>			
Operating Income (Loss):	\$ 165,820	\$ (8,436)	\$ 157,384
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	153,681	38,975	192,656
Effect of Increases and Decreases in Current Assets and Liabilities:			
Decrease (increase) in Receivables	(4,124)	-	(4,124)
Decrease (increase) in Inventories	(6,573)	-	(6,573)
Decrease (increase) in Prepaid Expenses	(3,750)	-	(3,750)
Increase (decrease) in Accounts Payable	(4,805)	(4,141)	(8,946)
Increase (decrease) in Compensated Absences	(3,290)	-	(3,290)
Decrease (increase) in Due to Due From	(580)	37	(543)
Increase (decrease) in Other Current Liabilities	2,199	2,266	4,465
Increase (decrease) in Deferred Revenue	19,592	-	19,592
Net Cash Provided by Operating Activities	<u>\$ 318,170</u>	<u>\$ 28,701</u>	<u>\$ 346,871</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, 2013

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Meadowlakes, Texas conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

- A. Reporting Entity - The Mayor and City Council is the level of government which has governance responsibilities over all activities within the jurisdiction of the City of Meadowlakes. The City is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since the Mayor and Aldermen are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

On March 1, 2007, the Meadowlakes Municipal Utility District was annexed into the City. The City has assumed all the assets, liabilities and debt obligations of the District as of that date and the District was abolished.

Hidden Falls Golf Club – Public Facilities Corporation - On October 1, 2009 the City established The Meadowlakes Public Facility Corporation (the Corporation) under the Public Facility Corporation Act Chapter 303 (the Act) of the Texas Local Government Code. The Corporation is legally separate from the City, but the City appoints all of the board members and has the ability to remove those board members at will. The Corporation is empowered with responsibility and authority to finance and manage retail operations and maintenance of the City owned Municipal Golf Complex (MGC). Since the Corporation is financially accountable to the City, it is treated as a component unit of the City and is reported as part of the overall financial reporting entity of the City.

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the City of Meadowlakes nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, sales tax, franchise tax, municipal court fines, charges for services and other miscellaneous revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates how other people or entities that participate in programs the City operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and proprietary. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e. revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the "susceptible to accrual" concept; that is, when they are both measurable and available. The City considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

D. Fund Accounting

The City reports the following major governmental funds:

1. **The General Fund** - The general fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **The Debt Service Fund** – The City accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Proprietary Fund:

1. **Public Works Fund** - The City accounts for the sales and related costs of its water, sewer utility operations, and sanitation in the Public Works Fund.
2. **Recreation Fund** – The City accounts for golf course related assets and operations not accounted for in the General Fund or the MPFC, component unit, in the Recreation Fund.



Discretely Presented Component Unit:

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

E. 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 Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

2. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water & Sewer Plant & Facilities	30-50
Buildings and Improvements	30
Furniture	7-10
Machinery and Equipment	5-7
Automotive Equipment	3-5

Pursuant to GASB Statement Number 34, an extended period of deferral is available before the requirement to record and depreciate infrastructure assets (e.g., roads, bridges, and similar items) acquired before the implementation date becomes effective. Therefore, infrastructure assets acquired prior to October 1, 2001 have not yet been capitalized.

3. Vacation leave and sick leave is earned by each full-time employee. Vacation leave is earned at the rate of 10 days per year for employees with less than ten years of service, 15 days per year from ten to fifteen years of service and 20 days after fifteen years of service. Vacation leave must be taken within one year after it is earned. Sick leave is earned at a rate of 12 days per year but is not paid upon termination.
4. Beginning with fiscal year end September 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the

constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in non-spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or other purposes).

5. Implementation of new GASB Accounting Standard:

The City has implemented new GASB Statement NO. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position* as well as the early implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Under GASB 63 and 65, amounts previously reported as deferred charges as a part of total assets and deferred amounts from refunded debt have been reported in a separate section as deferred outflows of resources and amounts previously reported as deferred revenue as a part of total liabilities have been reported in a separate section as deferred inflows of resources.

Implementation resulted in the reclassification of \$24,038 (bond refunding gain) to a deferred inflow of resources in the Government Wide Statement of Net Position.

The implementation resulted in a prior period adjustment of \$57,677 (expensing bond issuance costs) in the Government Wide Statement of Activities.

6. When the City incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
7. The original budget is adopted by the City Council prior to the beginning of the fiscal year through passage of an ordinance. The budget includes proposed expenditures and the means of financing them.

Budgeted amounts for expenditures from the various funds may not exceed the beginning balances of those funds plus the anticipated revenues for the fiscal year. The final amended budget has been presented in this report. Unencumbered appropriations lapse at the end of each year.

8. The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date

of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

### A. Deposits and Investments

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At September 30, 2013, the carrying amount of the City's deposits was \$1,265,686 and the bank balance was \$1,279,557. The carrying amount of the Hidden Falls Golf Club's deposits was \$20,981 and the bank balance was \$20,447. The City's cash deposits held at September 30, 2013 and during the year ended September 30, 2013 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, 2013, are shown below:

Name	Carrying Amount	Market Value	FDIC Coverage	Pledged Securities
Certificates of Deposit -				
American Bank of Texas	50,861	50,861	-0-	50,861

### 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, 2013, 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 2012 tax roll, the assessed valuation was \$196,127,181. The tax rate was \$.1662 for maintenance and operations and \$.1497 for interest and sinking. The total tax rate was \$.3159 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 of \$1,000 per month for eleven months were made in fiscal year 2013. In accordance with the annual reimbursement cost agreement, loan payments were waived for fiscal year 2014. On September 30, 2013 the balance of the Note Receivable was \$278,394.

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 10/1/12	Additions	Deletions	Balance 9/30/13
Land	\$ 42,334	\$	\$	\$ 42,334
Construction in Progress	25,993	250,610		276,603
Infrastructure	5,592,659			5,592,659
Buildings	406,159			406,159
Improvements	272,352	26,344		298,696
Machinery and Equipment	646,920	7,500	(43,341)	611,079
Totals	\$ 6,986,417	\$ 284,454	\$ (43,341)	\$ 7,227,530
Accumulated Depreciation	(3,159,628)	(192,656)	43,341	(3,308,943)
Fixed Assets, Net	\$ 3,826,789	\$ 91,798	\$ -	\$ 3,918,587

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

Hidden Falls Golf Club

	Component Unit			
	Balance 10/1/12	Additions	Deletions	Balance 9/30/13
Improvements	\$ 9,505	\$	\$	\$ 9,505
Machinery and Equipment	24,439			24,439
Totals	\$ 33,944	\$ -	\$ -	\$ 33,944
Accumulated Depreciation	(9,242)	(4,442)		(13,684)
Fixed Assets, Net	\$ 24,702	\$ (4,442)	\$ -	\$ 20,260
Intangible Assets	\$ 193,930	\$	\$	\$ 193,930
Accumulated Amortization	(105,780)	(35,260)		(141,040)
Total Intangible Assets, Net	88,150	(35,260)	-	52,890

F. Capital Asset Activity

Capital asset activity for the City for the year ended September 30, 2013, was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Land	\$ 1,797,556	\$ 27,345	\$	\$ 1,824,901
Buildings	1,201,683			1,201,683
Improvements	180,851			180,851
Machinery and Equipment	140,908			140,908
Totals	3,320,998	27,345	-	3,348,343
Accumulated Depreciation	(322,539)	(64,577)		(387,116)
Capital Assets, Net	\$ 2,998,459	\$ (37,232)	\$ -	\$ 2,961,227

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 39,878
Financial Administration	2,500
Public Safety	17,875
Code Enforcement	4,324
	\$ 64,577

G. Changes in Long-Term Liabilities

A summary of changes in long-term debt for the year ended September 30, 2013 follows:

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/12	Additions	Deletions	Amounts Outstanding 9/30/13	Due in One Year
Governmental Activities:								
<u>Bonds Payable</u>								
Combination Tax & Rev -								
Cert Of Obligation - Series 2008	4.80%	\$ 3,600,000	\$ 88,055	\$ 3,540,000	\$	(2,955,000)	\$ 585,000	\$ 285,000
General Obligation								
Refunding Bond - Series 2013	2.05%	3,340,000	13,583		3,340,000	(45,000)	3,295,000	60,000
Compensated Absences	N/A	N/A	N/A	67,372	16,863		84,235	N/A
Total		\$ 6,940,000	\$ 101,638	\$ 3,607,372	\$ 3,356,863	\$ (3,000,000)	\$ 3,964,235	\$ 345,000

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/12	Additions	Deletions	Amounts Outstanding 9/30/13	Due in One Year
<b>Business-Type Activities:</b>								
<u>Bonds Payable</u>								
General Obligation								
Refunding Bonds - Series 2008	3.50%	\$ 1,225,000	\$ 8,925	\$ 255,000	\$	(255,000)	\$ -	\$
<u>Other Long-Term Debt</u>								
Note Payable								
Meadowlakes POA	2.50%	300,000	3,750		300,000	(19,742)	280,258	40,226
Compensated Absences	N/A	N/A	N/A	10,454	1,828		12,282	N/A
Total		\$ 1,525,000	\$ 12,675	\$ 265,454	\$ 301,828	\$ (274,742)	\$ 292,540	\$ 40,226

The following is a summary of the changes in long-term debt outstanding in the City's component unit, Meadowlakes Public Facility Corporation, as of September 30, 2013.

Description	Interest Rate	Amounts Original Issue	Interest Paid	Amounts Outstanding 10/1/12	Additions	Deletions	Amounts Outstanding 9/30/13	Due in One Year
<b>Component Unit:</b>								
<u>Note Payable</u>								
Note Payable - City of								
Meadowlakes Public Works Fund	N/A	\$ 350,000	\$ N/A	\$ 289,394	\$	(11,000)	\$ 278,394	\$ 12,000
Total		\$ 350,000	\$ -	\$ 289,394	\$ -	\$ (11,000)	\$ 278,394	\$ 12,000

#### 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.

The City issued \$3,340,000 General Obligation Refunding Bonds, Series 2013 for the purpose of providing funds to refund part of the outstanding Combination Tax & Revenue Certificates of Obligation Bonds, Series 2008. The refunded bonds consist of \$2,940,000 of Series 2008 bonds. These bonds were called and were redeemed on July 18, 2013 by depositing \$2,915,665 into an escrow account. The portions of the Series 2008 bonds have been defeased and have been removed as a liability of the City. The General Obligation Refunding Bonds, Series 2013 mature on September 1, in each year of the years 2013 through 2023, bearing interest at 2.050%. The financial gain on these refunding bonds was \$179,029 and the economic gain was \$163,435.

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

Debt service requirements are as follows:

**Governmental Activities:**

Year Ended	Bonds Payable		
September 30	Principal	Interest	Total
2014	\$ 345,000	\$ 95,547	\$ 440,547
2015	360,000	80,717	440,717
2016	380,000	65,087	445,087
2017	385,000	57,297	442,297
2018	385,000	49,405	434,405
2019-2023	2,025,000	126,177	2,151,177
	<u>\$ 3,880,000</u>	<u>\$ 474,230</u>	<u>\$ 4,354,230</u>

**Business-Type Activities:**

Year Ended	Note Payable		
September 30	Principal	Interest	Total
2014	\$ 40,226	\$ 6,757	\$ 46,983
2015	41,238	5,745	46,983
2016	42,276	4,707	46,983
2017	43,339	3,644	46,983
2018	44,430	2,554	46,983
2019-2020	68,749	1,726	70,475
	<u>\$ 280,258</u>	<u>\$ 25,132</u>	<u>\$ 305,390</u>

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

**Component Unit:**

Year Ended	Note Payable		
September 30	Principal	Interest	Total
2014	\$ 12,000	\$	\$ 12,000
2015	12,000		12,000
2016	12,000		12,000
2017	12,000		12,000
2018	12,000		12,000
2019-2023	60,000		60,000
2024-2028	60,000		60,000
2029-2033	60,000		60,000
2034-2037	38,394		38,394
	<u>\$ 278,394</u>	<u>\$ -</u>	<u>\$ 278,394</u>

**I. RETIREMENT PLAN**

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

Plan Description

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

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

	Plan Year 2011	Plan Year 2012
Deposit Rate:	7%	7%
Matching Ratio (City to Employee):	1 to 1	1 to 1
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 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:

#### Three Year Trend Information

<u>Actuarial Assumptions</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</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	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
Investment 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 -	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	0%	0%	0%



### Funded Status and Funding Progress

The funded status as of December 31, 2011, 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)
12/31/2011	\$ 223,711	\$ 179,434	124.7%	\$ (44,277)	\$ 416,701	(10.6)%

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.

#### J. Supplemental Death Benefits Fund

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

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

#### Contributions

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

The City's contributions for the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$472, \$453 and \$442, respectively, which equaled the required contributions each year.

K. Interfund Receivable and Payables

Interfund balances at September 30, 2013, consisted of the following:

	<u>Receivable</u>	<u>Payable</u>
<i>Enterprise Funds:</i>		
<u>Utility Fund -</u>		
Recreation Fund	\$ 37	\$
<u>Recreation Fund -</u>		
Utility Fund		37
	<u>37</u>	<u>37</u>
Totals	<u>\$ 37</u>	<u>\$ 37</u>

During the year ended September 30, 2013, the City's transfers between funds consisted of:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$	\$ 30,496
Debt Service Fund		126,752
Enterprise Funds -		
Utility Fund	152,248	11,000
Recreation Fund	16,000	
Totals	<u>\$ 168,248</u>	<u>\$ 168,248</u>

L. Employee Insurance Benefits

All regular full time employees of the City are eligible for coverage under the group hospitalization, medical and life insurance program provided by the City through the TML Intergovernmental Benefits Pool. The City pays the premium for eligible employees and employees, at their option, may authorize payroll withholdings to pay premiums for eligible family members.

M. Cash Flows Statement - Supplemental Disclosures

Since the City is tax exempt no income tax was paid in 2012 and 2013. The City paid interest in the amount of \$17,161 in 2012 and \$12,675 in 2013.

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

A revenue account in the City's component unit, MPFC, was classified as a cash account in the prior year. A prior period adjustment in the amount of \$7,168 was necessary to correct the financial statements.

P. Subsequent Event

The City has evaluated subsequent events through February 6, 2014, 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, 2013

	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property Taxes	\$ 325,800	\$ 325,800	\$ 329,132	\$ 3,332
Franchise Tax	53,500	53,500	49,449	(4,051)
Other Taxes	1,200	1,200	1,182	(18)
Licenses and Permits	2,650	2,650	5,430	2,780
Fines	3,400	3,400	3,142	(258)
Investment Earnings	900	900	871	(29)
Other Revenue	1,850	1,850	2,203	353
Total Revenues	389,300	389,300	391,409	2,109
EXPENDITURES:				
Current:				
General Government	213,300	213,300	198,897	14,403
Financial Administration	14,500	14,500	12,468	2,032
Public Safety	91,975	91,975	89,155	2,820
Code Enforcement	24,950	24,950	21,566	3,384
Capital Outlay:				
Capital Outlay	4,575	34,575	27,345	7,230
Total Expenditures	349,300	379,300	349,431	29,869
Excess (Deficiency) of Revenues Over (Under) Expenditures	40,000	10,000	41,978	31,978
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	(30,000)	(40,000)	(30,496)	9,504
Total Other Financing Sources (Uses)	(30,000)	(40,000)	(30,496)	9,504
Net Change	10,000	(30,000)	11,482	41,482
Fund Balance - October 1 (Beginning)	288,428	288,428	288,428	-
Fund Balance - September 30 (Ending)	\$ 298,428	\$ 258,428	\$ 299,910	\$ 41,482

CITY OF MEADOWLAKES, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION

Texas Municipal Retirement System

Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) (2)	Funded Ratio (3) (1)/(2)	Unfunded AAL (UAAL) (4) (2)-(1)	Covered Payroll (5)	UAAL as a Percentage of Covered Payroll (6) (4)/(5)
12/31/2009	\$ 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)

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

## Certified Public Accountants

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CERTIFIED PUBLIC ACCOUNTANTS

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

#### Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Meadowlakes, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Meadowlakes, Texas's basic financial statements, and have issued our report thereon dated February 6, 2014.

#### **Internal Control Over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

### Purpose of this Report

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

*Neffendorf, Knopp, Doss & Company, P.C.*

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

February 6, 2014



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

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MEMBER  
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CERTIFIED PUBLIC ACCOUNTANTS

February 6, 2014

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Meadowlakes, Texas for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 8, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Meadowlakes, Texas are described in Note 1 to the financial statements. The City implemented new GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* as well as the early implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The application of existing policies was not changed during the year ended September 31, 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 6, 2014.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### *Recommendations*

#### Debt Service Fund

The City appropriately allocates 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.

#### Meadowlakes Public Facility Corporation (MPFC)

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

We noted credit card payments, petty cash payments and contract labor payments without proper support during our test of transactions. We recommend the MPFC utilize a purchase authorization form for payments that includes the support for the expense. We also recommend the authorization forms be reviewed monthly by a board member.

This information is intended solely for the use of the City Council and management of City of Meadowlakes and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

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

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