

To the Honorable Mayor and  
Members of the City Council  
City of Bee Cave, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bee Cave for the year ended September 30, 2011, and have issued our report thereon dated January 9, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, and *Government Auditing Standards*, 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 July 21, 2011. 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 Bee Cave are described in Note 1 to the financial statements. As described in the notes to the financial statements, the City changed accounting policies related to fund balance and fund classifications by implementing Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, for the fiscal year ended September 30, 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. 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. The most sensitive estimates affecting the City's financial statements were:

- Management's estimate of uncollectible accounts receivable
- Accumulated depreciation on capital assets
- TMRS actuarial valuation

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

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated January 9, 2012.

### ***Management Consultations with Other Independent Accountants***

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

### ***Other Audit Findings or Issues***

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

**Other Information in Documents Containing Audited Financial Statements**

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.

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

*Pasullo, Brown & Hill, LLP*

January 9, 2012

**CITY OF BEE CAVE, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2011**

**CITY OF BEE CAVE, TEXAS**

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**CITY OF BEE CAVE, TEXAS**

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# **FINANCIAL SECTION**



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Member of the City of Council  
City of Bee Cave, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bee Cave, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bee Cave, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bee Cave, Texas, as of September 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2012, on our consideration of the City of Bee Cave, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and information, budgetary comparison information and schedule of funding progress on pages 3 through 10 and pages 37 through 39 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Davillo, Brown & Hill, LLP*

January 9, 2012

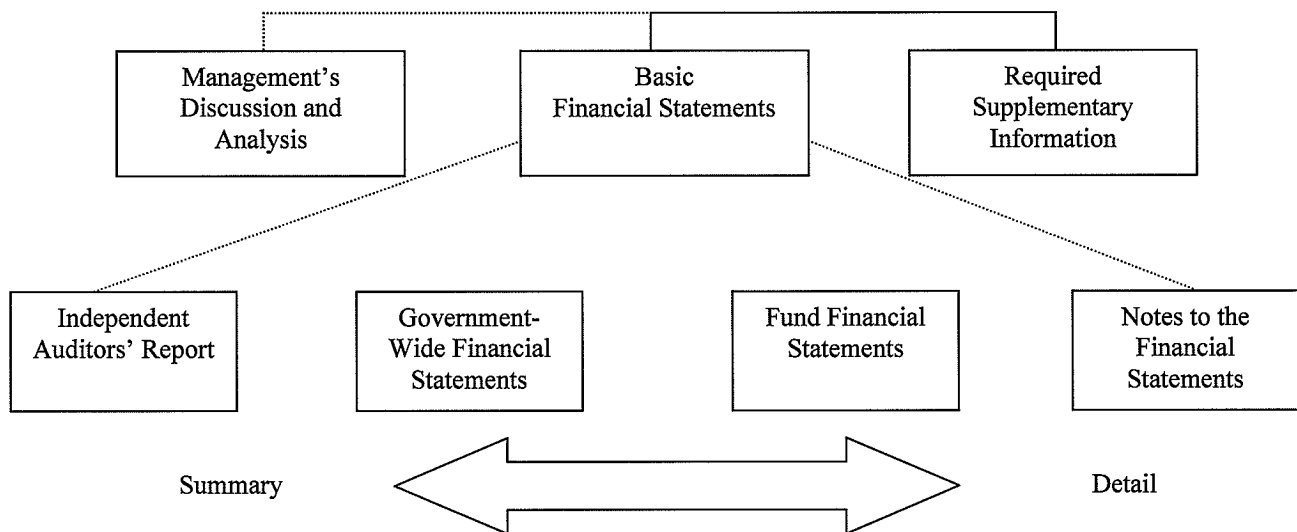
**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of the Management's Discussion and Analysis ("MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the City of Bee Cave, Texas (the "City") for the year. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities. Governmental Accounting Standards Board ("GASB") Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MDA in conjunction with the City's financial statements, which follow this section.

### THE STRUCTURE OF OUR ANNUAL REPORT

#### Components of the Financial Section



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as a Management's Discussion and Analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

### GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property and sales tax base and the condition of the City's infrastructure, net to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets, changed during the most recent year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than the modified accrual method that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities presents the City's governmental activities. The City's basic services are reported in the governmental activities, including public safety (police), community services, culture and recreation, and general government. Sales tax, franchise taxes, and licenses and permit fees finance most of these activities.

The government-wide financial statements can be found after the MD&A.

## **FUND FINANCIAL STATEMENTS**

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The City uses only one category of funds, which is governmental.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Maintenance Fund and Economic Development 4-B Sales Tax Fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with its budget.

## **Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found after the financial statements within this report.

## **Other Information**

In addition to basic financial statements, this report also presents other certain required supplementary information (RSI). These items include a budgetary comparison schedule for the General Fund, as well as a schedule of funding progress for the Texas Municipal Retirement System. RSI can be found after the notes to the financial statements within this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$38,305,155 as of year-end.

The largest portion of the City's net assets (64%) reflects its investments in capital assets (e.g., land, city hall, streets, and equipment), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt, if applicable, must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

## Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

### CITY OF BEE CAVE'S CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities	
	2011	2010
Current and other assets	\$ 16,470,234	\$ 8,154,046
Capital assets, net	<u>33,797,409</u>	<u>30,733,657</u>
Total assets	<u>50,267,643</u>	<u>38,887,703</u>
Long-term liabilities	10,701,767	4,100,055
Other liabilities	<u>1,260,721</u>	<u>793,719</u>
Total liabilities	<u>11,962,488</u>	<u>4,893,774</u>
Net assets:		
Invested in capital assets, net of related debt	24,678,246	26,633,602
Restricted	6,468,640	3,919,212
Unrestricted	<u>7,158,269</u>	<u>3,441,115</u>
Total net assets	<u>\$ 38,305,155</u>	<u>\$ 33,993,929</u>

A portion of the City's net assets (17%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$7,158,269, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved from the prior year, with an increase in net assets of \$4,311,226.

## Statement of Activities

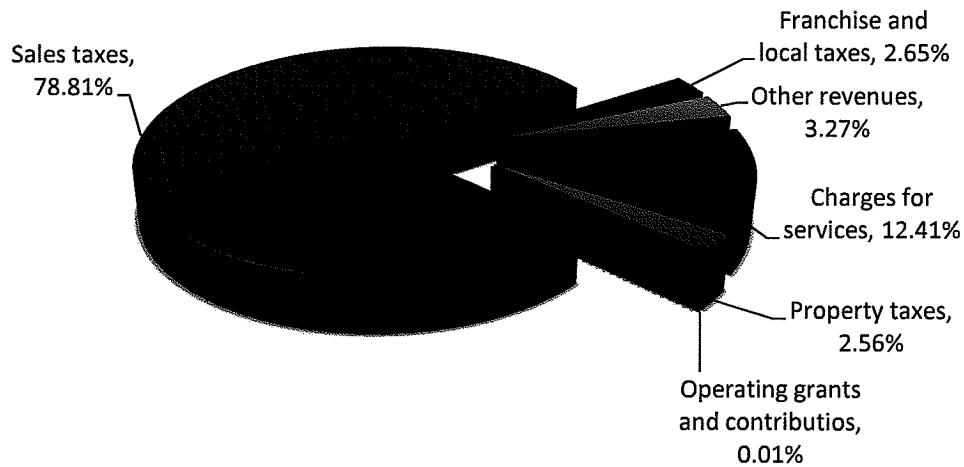
The following table provides a summary of the City's changes in net assets:

### CITY OF BEE CAVE, TEXAS' CONDENSED STATEMENT OF ACTIVITIES

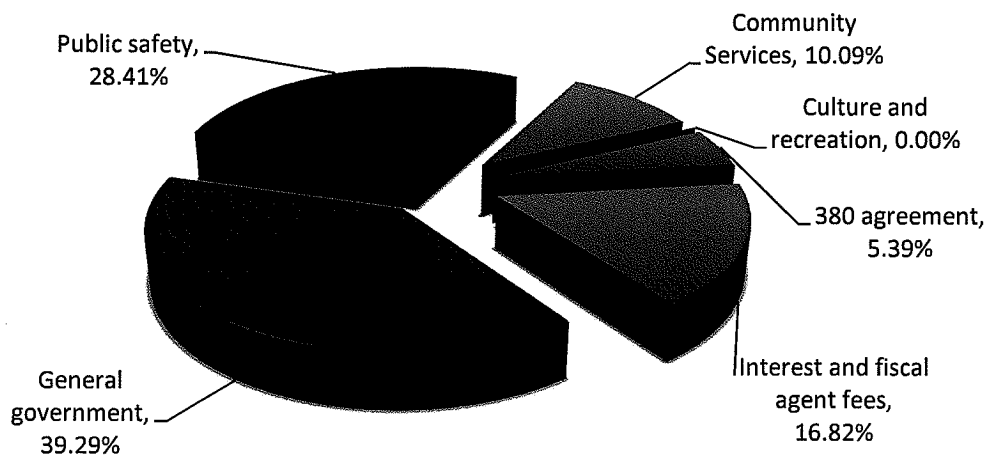
	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 836,370	\$ 793,426
Operating grants and and contributions	13,756	344
Capital grants and and contributions	400,000	-
General revenues:		
Property taxes	153,069	164,005
Sales taxes	6,364,798	5,039,619
Franchise and local taxes	466,825	169,741
Investment earnings	19,778	18,262
Other	21,341	209,382
Extraordinary item	145,728	-
Total revenues	<u>8,421,665</u>	<u>6,394,779</u>
Expenses		
General government	1,940,661	2,049,158
Public safety	1,596,257	1,481,700
Community services	536,614	526,276
Culture and recreation	435,696	281,197
Economic development	1,256,791	877,322
Interest and other cost	411,075	159,549
Total expenses	<u>6,177,094</u>	<u>5,375,202</u>
Change in net assets	2,244,571	1,019,577
Net assets, beginning	33,993,929	32,974,352
Prior period adjustment	<u>2,066,655</u>	<u>-</u>
Net assets, ending	<u>\$ 38,305,155</u>	<u>\$ 33,993,929</u>

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

### Governmental Revenues



### Governmental Expenses



For the year ended September 30, 2011, revenues from governmental activities totaled \$8,421,665, an increase of \$2,026,886 (32%) compared to the prior year. The majority of this change is due to the payment received as a result of a water infiltration settlement with the design and construction firms of the Bee Cave City Hall.

As of the end of the fiscal year, expenses for governmental activities totaled \$6,177,094, which represents a \$801,892 increase from 2010. Much of this increase is a result of the increase in legal expenses and a mid-year budget amendment approved for capital outlay procurement of extensive library shelving and three (3) fully-equipped police patrol cars.



## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$15,158,330. Of this, \$8,039,807 is restricted for various purposes, \$691,692 is assigned for public safety and beautification, and \$6,426,831 is unassigned in the General Fund.

There was an increase in the combined fund balance of \$5,262,725 in comparison to the prior year, which was primarily the result of 1) pre-paid development fees assigned for road construction; 2) an increase in sales tax revenue; and 3) additional franchise fee payment that resulted from updated agreements with other government entities.

The General Fund had revenues which exceeded expenditures by \$1,342,732 and, after transfers and extraordinary item, the net change in fund balance was an increase of \$3,324,378. Greater than anticipated revenues in the following categories contributed to the increase in fund balance for fiscal year 2011:

- Sales tax - \$112,456
- Franchise fees and local taxes - \$281,825
- Licenses and permits - \$90,752
- Fines and forfeitures - \$1034,721
- Contributions from Development - \$400,000
- City Hall settlement - \$2,004,000

The road maintenance fund had a positive net change in fund balance of \$508,952 for sales taxes received.

The Economic Development 4-B Sales Tax Fund had a positive net change in fund balance of \$177,849 for sales taxes received from the voter-approved increase in the allocation reserved for economic development and reducing the allocation reserved for road maintenance.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Actual General Fund revenues were more than original and amended budgeted revenues by \$1,010,919 during the year. This net variance is primarily attributable to higher sales than forecasted and contribution from a developer. General Fund expenditures came in over the amended budget by \$14,802 and after transfers to other funds, there was a net positive variance of \$206,236 from the amended budget for the year.

During the year, City Council amended the budget for the following purposes:

- To increase appropriations and pay for previously approved commitments.

## **Capital Assets**

At the end of the year, the City's governmental activities funds had invested \$33,797,409, net of depreciation, in a variety of capital assets and infrastructure. Accumulated depreciation is included with the governmental capital assets.

Major capital asset events during the year include the following:

- Continue phased construction of Bee Cave Parkway extension II & III

For more detailed information on changes in capital assets, please refer to the notes to the financial statements.

## **Long-term Debt**

At the end of the current year, the City had total bonds and tax notes outstanding of \$10,675,000. During the current year the City issued \$1,500,000 of tax notes.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Given the lasting economic impacts on our primary sales tax revenue stream, the City of Bee Cave continues a tradition of exercising a cautious, conservative approach to budget planning and the appropriation for operational revenue and expense. The Bee Cave City Council, through their comprehensive decisions related to fiscal policy, continues to keep property taxes as low as any in the State of Texas. As in prior fiscal years, all City departments continue to conduct their specific operations in a lean, efficient manner. It is a testament to our commitment that we continue to do so without adversely impacting the outstanding service provided to public customers.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City of Bee Cave, Travis Askey, Deputy City Administrator, 4000 Galleria Parkway, Bee Cave, Texas, 78738 or by calling 512.767.6600. You may also visit the City's website at [www.beecavetexas.com](http://www.beecavetexas.com).

**BASIC  
FINANCIAL STATEMENTS**

# CITY OF BEE CAVE, TEXAS

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 15,189,293
Receivables, net	
Taxes	1,190,156
Accounts	31,138
Due from other governments	10,954
Deferred charges	48,693
Capital assets:	
Nondepreciable	11,261,928
Depreciable, net	<u>22,535,481</u>
Total capital assets	<u>33,797,409</u>
Total assets	<u>50,267,643</u>
<b>LIABILITIES</b>	
Accounts payable	86,811
Accrued liabilities	691,309
Unearned revenue	399,999
Interest payable	32,806
Due to other governments	49,796
Noncurrent liabilities:	
Due within one year	975,830
Due in more than one year	<u>9,725,937</u>
Total liabilities	<u>11,962,488</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	24,678,246
Restricted for:	
Court technology	23,301
Court security	34,860
Road maintenance	3,800,416
Economic development	2,610,063
Unrestricted	<u>7,158,269</u>
Total net assets	<u>\$ 38,305,155</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF BEE CAVE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental activities:</b>					
General government	\$ 1,940,661	\$ -	\$ 11,369	\$ 400,000	\$( 1,529,292)
Public safety	1,596,257	334,859	-	-	( 1,261,398)
Community services	536,614	492,745	-	-	( 43,869)
Culture and recreation	435,696	8,766	2,387	-	( 424,543)
Economic development	1,256,791	-	-	-	( 1,256,791)
Interest and other cost	411,075	-	-	-	( 411,075)
<b>Total governmental activities</b>	<b>\$ 6,177,094</b>	<b>\$ 836,370</b>	<b>\$ 13,756</b>	<b>\$ 400,000</b>	<b>( 4,926,968)</b>
<b>General revenues:</b>					
<b>Taxes:</b>					
Property					153,069
Sales					6,364,798
Franchise fees and local taxes					466,825
Investment earnings					19,778
Other					21,341
Extraordinary item					145,728
<b>Total general revenues and extraordinary item</b>					<b>7,171,539</b>
Change in net assets					2,244,571
Net assets, beginning					33,993,929
Prior period adjustment					2,066,655
Net assets, ending					<b>\$ 38,305,155</b>

**The accompanying notes are an integral part of these financial statements.**

**CITY OF BEE CAVE, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2011**

	<u>General</u>	<u>Road Maintenance</u>	<u>Economic Development 4-B Sales Tax</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and investments	\$ 9,651,422	\$ 1,901,795	\$ 2,629,855	\$ 1,006,221	\$ 15,189,293
Receivables (net of allowance for uncollectibles):					
Taxes	929,632	127,262	130,915	2,347	1,190,156
Accounts	31,138	-	-	-	31,138
Due from other governments	10,954	-	-	-	10,954
Due from other funds	<u>-</u>	<u>1,771,359</u>	<u>67,624</u>	<u>574,446</u>	<u>2,413,429</u>
Total assets	<u>\$ 10,623,146</u>	<u>\$ 3,800,416</u>	<u>\$ 2,828,394</u>	<u>\$ 1,583,014</u>	<u>\$ 18,834,970</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 62,890	\$ -	\$ 23,921	\$ -	\$ 86,811
Accrued liabilities	606,845	-	84,464	-	691,309
Deferred revenues	432,948	-	-	2,347	435,295
Due to other governments	49,796	-	-	-	49,796
Due to other funds	<u>2,293,983</u>	<u>-</u>	<u>109,946</u>	<u>9,500</u>	<u>2,413,429</u>
Total liabilities	<u>3,446,462</u>	<u>-</u>	<u>218,331</u>	<u>11,847</u>	<u>3,676,640</u>
Fund balances:					
Restricted for:					
Court technology	23,301	-	-	-	23,301
Court security	34,860	-	-	-	34,860
Economic development	-	-	2,610,063	-	2,610,063
Capital projects	-	-	-	1,561,667	1,561,667
Debt service	-	-	-	9,500	9,500
Road maintenance	-	3,800,416	-	-	3,800,416
Assigned for:					
Public safety	501,088	-	-	-	501,088
Beautification	190,604	-	-	-	190,604
Unassigned	<u>6,426,831</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,426,831</u>
Total fund balances	<u>7,176,684</u>	<u>3,800,416</u>	<u>2,610,063</u>	<u>1,571,167</u>	<u>15,158,330</u>
Total liabilities and fund balances	<u>\$ 10,623,146</u>	<u>\$ 3,800,416</u>	<u>\$ 2,828,394</u>	<u>\$ 1,583,014</u>	<u>18,834,970</u>
Adjustments for the statement of net assets:					
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.					33,797,409
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.					35,296
Some liabilities are not reported as liabilities in the governmental funds.					
Interest payable					(32,806)
Deferred changes					48,693
Long-term liabilities					<u>(10,701,767)</u>
Net assets of governmental activities					<u>\$ 38,305,155</u>

**The accompanying notes are an integral part of these financial statements.**

**CITY OF BEE CAVE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>General</u>	<u>Road Maintenance</u>	<u>Economic Development 4-B Sales Tax</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Property taxes	\$ -	\$ -	\$ -	\$ 153,069	\$ 153,069
Sales taxes	4,773,599	596,452	994,747	-	6,364,798
Franchise fees and local taxes	466,825	-	-	-	466,825
Licenses and permits	490,752	-	-	-	490,752
Intergovernmental	13,341	-	-	-	13,341
Charges for services	8,766	-	-	-	8,766
Fines and forfeitures	303,721	-	-	-	303,721
Investment earnings	16,156	-	2,388	1,234	19,778
Contributions	400,068	-	-	347	400,415
Miscellaneous	23,334	-	-	-	23,334
Total revenues	<u>6,496,562</u>	<u>596,452</u>	<u>997,135</u>	<u>154,650</u>	<u>8,244,799</u>
<b>EXPENDITURES</b>					
Current:					
General government	1,685,690	87,500	-	74	1,773,264
Public safety	1,463,195	-	-	-	1,463,195
Community services	306,603	-	-	-	306,603
Culture and recreation	323,225	-	-	-	323,225
Economic development	1,162,053	-	94,738	-	1,256,791
Capital outlay	179,995	-	266,246	-	446,241
Debt service:					
Principal	30,767	-	210,000	250,000	490,767
Interest and other cost	2,302	-	248,302	175,384	425,988
Total expenditures	<u>5,153,830</u>	<u>87,500</u>	<u>819,286</u>	<u>425,458</u>	<u>6,486,074</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,342,732</u>	<u>508,952</u>	<u>177,849</u>	<u>( 270,808)</u>	<u>1,758,725</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of tax notes	-	-	-	1,500,000	1,500,000
Transfers in	230,169	-	-	252,523	482,692
Transfers out	( 252,523)	-	-	( 230,169)	( 482,692)
Total other financing sources (uses)	<u>( 22,354)</u>	<u>-</u>	<u>-</u>	<u>1,522,354</u>	<u>1,500,000</u>
<b>EXTRAORDINARY ITEM</b>					
City Hall settlement	2,004,000	-	-	-	2,004,000
Total extraordinary item	<u>2,004,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,004,000</u>
<b>NET CHANGE IN FUND BALANCES</b>	3,324,378	508,952	177,849	1,251,546	5,262,725
<b>FUND BALANCES, BEGINNING</b>	<u>3,744,110</u>	<u>3,291,464</u>	<u>-</u>	<u>319,621</u>	<u>7,355,195</u>
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>108,196</u>	<u>-</u>	<u>2,432,214</u>	<u>-</u>	<u>2,540,410</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 7,176,684</u>	<u>\$ 3,800,416</u>	<u>\$ 2,610,063</u>	<u>\$ 1,571,167</u>	<u>\$ 15,158,330</u>

**The accompanying notes are an integral part of these financial statements.**

## CITY OF BEE CAVE, TEXAS

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds \$ 5,262,725

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	446,241
Depreciation expense	( 655,462)
Impairment of City Hall	( 1,858,272)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Fines	31,138
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	12,521
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The issuance of long-term debt (e.g., bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of tax notes	( 1,500,000)
Principal payments	490,767
Interest payable	( 12,114)
Deferred charges	<u>27,027</u>

Change in net assets of governmental activities \$ 2,244,571

**The accompanying notes are an integral part of these financial statements.**



# CITY OF BEE CAVE, TEXAS

## NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The City of Bee Cave, Texas (the "City") is a municipal corporation incorporated as a type-A general law government. The City operates under a mayor and City Council (the "Council") form of government and provides such services as are authorized by the Texas Local Government Code to advance the welfare, health, morals, comfort, safety and convenience of the City and its inhabitants.

The City is an independent political subdivision of the State of Texas, governed by an elected Council and a mayor, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Bee Cave Economic Development Corporation, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### A. Reporting Entity (Continued)

#### **Blended Component Unit – Bee Cave Economic Development Corporation**

The Bee Cave Economic Development Corporation (the “Corporation”) has been included in the reporting entity as a blended component unit. The City of Bee Cave formed the Corporation, which was created by voters approving an additional sales tax. State law allows the City to collect sales tax to assist in the promotion and development activities of the City. The Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net assets of the Corporation shall be conveyed to the City. Separate financial statements of the Corporation may be obtained from the City.

### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., Statement of Net Assets and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements, if applicable. Governmental activities are supported by taxes, licenses and permits, and fines and forfeitures.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The government-wide financial statements are reported using the *economic resources measurement focus*, which is the *accrual basis of accounting*. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund types. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period.

Property taxes, sales taxes, and franchise taxes associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due, if applicable.

The City has the following major governmental funds:

The **General Fund** is used to account for all financial transactions not properly includable in other funds.

The **Road Maintenance Fund** is used to account for sales tax revenue restricted by enabling legislation and expenditures for road maintenance within the City.

The **Economic Development 4-B Sales Tax Fund** is used to account for the activity of the City’s blended component unit. The activity includes sales tax revenue restricted by enabling legislation and expenditures for economic development.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Liabilities and Net Assets or Fund Equity

#### **Deposits and Investments**

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for “money market investments” and “2a7-like pools.” Money market investments, which are short-term, highly liquid debt instruments that may include U. S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools’ share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the City is authorized to invest in the following:

- Obligations of the United States or its agencies and instruments;
- Obligations of State of Texas or its agencies and instrumentalities; and
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities.

#### **Receivables/Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statements.

All trade receivables are shown net of an allowance for uncollectibles.

Property taxes are levied October 1 of each year and are due upon receipt of the City’s tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year. All property values and exempt status, if any, are determined by the Travis County Appraisal District. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**D. Assets, Liabilities and Net Assets or Fund Equity** (Continued)

**Capital Assets**

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental column in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Buildings and improvements, infrastructure furniture and equipment are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of one year or more. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of assets are not capitalized.

Property, infrastructure, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Vehicles	3 - 5 years
Computers and equipment	3 - 5 years
Furniture and fixtures	7 - 10 years
Infrastructure	10 - 40 years
Buildings and improvements	40 years

**Long-term Obligations**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets, if applicable. The long-term debt consists primarily of bonds payable and capital leases.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payments of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as liabilities in the fund financial statements only for the portion expected to be financed from expendable available financial resources.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the General Fund. Lease payments representing both principal and interest are recorded as expenditures in the General Fund upon payment, with an appropriate reduction of principal recorded in the government-wide financial statements.

(continued)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Assets, Liabilities and Net Assets or Fund Equity (Continued)

#### **Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation benefits. GASB Interpretation No. 6 indicates that liabilities for compensated absences are normally expected to be liquidated with expendable available financial resources and should be recognized as governmental fund liabilities to the extent that they mature each period. Accrued compensated absences are reported in the respective columns in the government-wide financial statements and in the proprietary fund financial statements when earned. Compensated absences are reported in governmental funds only if they have matured.

#### **Fund Balance**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or City Administrator
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The City's fund balance policy is to maintain unassigned fund balance of up to nine months of General Fund operating expenditures. If it is determined that the City is below this minimum established fund balance level, the City Council will be informed of this condition and take necessary budgetary steps to increase fund balance.

(continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**D. Assets, Liabilities and Net Assets or Fund Equity** (Continued)

**Fund Balance** (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Estimates**

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/expenses during the reporting period. Actual results could differ from those estimates.

2. **DETAILED NOTES ON ALL FUNDS**

**Deposits and Investments**

As of September 30, 2011, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Rating</u>
External investment pools:			
TexPool	\$ 1,703,634	82	AAAm
TexStar	1,753,472	46	AAAm
LOGIC	5,075,194	46	AAAm
CLASS	<u>2,436,811</u>	30	AAAm
Total fair value	<u>\$ 10,969,111</u>		
Portfolio weighted average maturity		48	

(continued)

## 2. DETAILED NOTES ON ALL FUNDS (Continued)

### Deposits and Investments (Continued)

**Interest Rate Risk.** In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maximum allowable stated maturity of any individual investment not to exceed two years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act, and investing operating funds primarily in short-term securities or similar government investment pools.

**Credit Risk.** The City's investment policy limits investments in external investment pools rated as to investment quality not less than AAA by a nationally recognized investment rating firm.

**Custodial Credit Risk – Deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized to 102 percent by collateral securities. At year-end, market values of the City's pledged securities and FDIC insurance exceeded bank balances.

**Custodial Credit Risk – Investments.** For an investment, 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 investment policy requires that it will seek to safe keep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAM. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the Office of the Comptroller of Public Accounts for review.

The Texas Short-term Reserve Fund ("TexStar") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexStar was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. J. P. Morgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. J. P. Morgan Chase Bank and/or its subsidiary, J. P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

(continued)



## 2. DETAILED NOTES ON ALL FUNDS (Continued)

### **Deposits and Investments** (Continued)

Local Government Investment Cooperative (“LOGIC”) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The Public Funds Investment Act allows eligible local governments, state agencies, and nonprofit corporations of the State of Texas (each a “Governmental Entity”) to jointly invest their funds in permitted investments. LOGIC’s governing body is a six-member board of directors comprised of employees, officers or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the co-administrators of LOGIC.

The Cooperative Liquid Assets Securities System – Texas (“CLASS”) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Chapter 2256, Texas Government Code. CLASS is created under an Amended and Restated Trust Agreement, dated as of May 1, 2001 (the “Agreement”) among certain Texas governmental entities investing in the pool (the “Participants”), Municipal Investors Services Corporation (“MBIA-MISC”) as program administrator, and Wells Fargo as custodian. CLASS is not SEC-registered and is not subject to regulation by the State of Texas. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the “Board”), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with MBIA-MISC to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained by contacting MBIA Asset Management at 815-A Brazos Street, Suite 345, Austin, Texas 78701-9996 or by calling (800) 707-6242.

Each of the external investment pools (the “Pools”) operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. The Pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the Pools is the same as the value of Pool shares.

(continued)

**2. DETAILED NOTES ON ALL FUNDS (Continued)**

**Receivables**

The following comprise receivable balances at year-end:

	<u>General</u>	<u>Road Maintenance</u>	<u>Economic Development 4-B Sales Tax</u>	<u>Other Governmental</u>	<u>Total</u>
Receivables:					
Property taxes	\$ 1,930	\$ -	\$ -	\$ 2,422	\$ 4,352
Sales taxes	774,534	127,262	130,915	-	1,032,711
Mixed beverage taxes	13,473	-	-	-	13,473
Franchise fees	139,814	-	-	-	139,814
Fines and fees	<u>1,132,285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,132,285</u>
Gross receivables	2,062,036	127,262	130,915	2,422	2,322,635
Less: allowance for uncollectibles	<u>(1,101,266)</u>	<u>-</u>	<u>-</u>	<u>( 75)</u>	<u>(1,101,341)</u>
Net total receivables	<u>\$ 960,770</u>	<u>\$ 127,262</u>	<u>\$ 130,915</u>	<u>\$ 2,347</u>	<u>\$ 1,221,294</u>

**Deferred Revenue**

Deferred revenue at year-end consisted of the following:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ 4,157	\$ -
Court fines	31,138	-
Developer contribution	<u>-</u>	<u>400,000</u>
	<u>\$ 35,295</u>	<u>\$ 400,000</u>

(continued)

## 2. DETAILED NOTES ON ALL FUNDS (Continued)

### Capital Assets

A summary of changes in capital assets for the year ended September 30, 2011, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 11,261,928	\$ -	\$ -	\$ 11,261,928
Construction in progress	<u>9,300,152</u>	<u>266,246</u>	<u>( 4,168,907)</u>	<u>5,397,491</u>
Total assets not being depreciated	<u>20,562,080</u>	<u>266,246</u>	<u>( 4,168,907)</u>	<u>16,659,419</u>
Capital assets, being depreciated:				
Infrastructure	9,190,174	-	-	9,190,174
Buildings and improvements	7,406,159	8,419	4,168,907	11,583,485
Furniture and equipment	<u>959,228</u>	<u>171,576</u>	<u>-</u>	<u>1,130,804</u>
Total capital assets being depreciated	<u>17,555,561</u>	<u>179,995</u>	<u>4,168,907</u>	<u>21,904,463</u>
Less accumulated depreciation:				
Infrastructure	( 919,016)	( 229,754)	-	( 1,148,770)
Buildings and improvements	( 557,177)	( 290,219)	( 1,858,272)	( 2,705,668)
Furniture and equipment	<u>( 776,546)</u>	<u>( 135,489)</u>	<u>-</u>	<u>( 912,035)</u>
Total accumulated depreciation	<u>( 2,252,739)</u>	<u>( 655,462)</u>	<u>( 1,858,272)</u>	<u>( 4,766,473)</u>
Total capital assets being depreciated, net	<u>15,302,822</u>	<u>( 475,467)</u>	<u>2,310,635</u>	<u>17,137,990</u>
Governmental activities capital assets, net	<u>\$ 35,864,902</u>	<u>\$ ( 209,221)</u>	<u>\$ ( 1,858,272)</u>	<u>\$ 33,797,409</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 179,918
Public safety	133,062
Community services	230,011
Culture and recreation	<u>112,471</u>
	<u>\$ 655,462</u>

### Impairment of City Hall

Subsequent to the completion of City Hall it was determined that the building was impaired. A legal settlement for the amount of \$2,004,000 was received by the City in the current year, and an impairment loss of \$1,858,272 was determined. These items were netted in the statement of activities and reported as an extraordinary item in the amount of \$145,728.

(continued)

**2. DETAILED NOTES ON ALL FUNDS (Continued)**

**Long-term Debt**

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended; in general, the City uses the General Fund to liquidate compensated absences.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
General obligation bonds	\$ 4,030,000	\$ -	\$ 250,000	\$ 3,780,000	\$ 255,000
Tax revenue bonds	5,605,000	-	210,000	5,395,000	220,000
Tax notes	-	1,500,000	-	1,500,000	495,000
Capital leases	36,597	-	30,767	5,830	5,830
Compensated absences	<u>33,458</u>	<u>65,334</u>	<u>77,855</u>	<u>20,937</u>	<u>-</u>
Total governmental activities	<u>\$ 9,705,055</u>	<u>\$ 1,565,334</u>	<u>\$ 568,622</u>	<u>\$ 10,701,767</u>	<u>\$ 975,830</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

**General Obligation Bonds** – The City issued general obligation bonds, Series 2008, in the amount of \$4,500,000 for the purpose of capital improvements. The bonds bear an interest rate of 3.64 percent annually. General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds is from taxes levied on all taxable property located within the City. The annual debt service requirements to maturity for these bonds are as follows:

<u>General Obligation Bonds, Series 2008</u>		
<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 255,000	\$ 137,592
2013	265,000	128,310
2014	275,000	118,664
2015	285,000	108,654
2016	295,000	98,280
2017-2021	1,655,000	321,230
2022-2023	<u>750,000</u>	<u>41,132</u>
Total	<u>\$ 3,780,000</u>	<u>\$ 953,862</u>

(continued)

**2. DETAILED NOTES ON ALL FUNDS (Continued)**

**Long-term Debt** (Continued)

**Tax Notes** – The City issued tax notes, Series 2011, in the amount of \$1,500,000 for the purpose of paying contractual obligations to be incurred for the construction of the remaining portion of Bee Cave Parkway and the payment of professional services and costs of issuance. The notes bear varying interest rates between 1.00 – 1.50 percent annually. The sales tax notes are issuable solely as fully registered notes, without interest coupons, and are transferable or exchangeable upon presentation and surrender at the designated payment office of the paying registrar. Repayment of sales tax notes is from annual ad valorem taxes levied on all taxable property located within the City. The annual debt service requirements to maturity for these notes are as follows:

Tax Notes, Series 2011		
<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 495,000	\$ 20,600
2013	500,000	13,825
2014	<u>505,000</u>	<u>7,575</u>
Total	<u>\$ 1,500,000</u>	<u>\$ 42,000</u>

**Sales Tax Revenue Bonds – Bee Cave Economic Development Corporation** - The City’s component unit, the Bee Cave Economic Development Corporation, has issued general obligation bonds to finance capital improvements, payable from a lien on and pledge of revenues which includes the proceeds of a one-fourth of one percent sales tax. The bonds were originally issued in the amount of \$6,000,000 and bear interest at a rate of 4.43 percent annually. Annual debt service to maturity for these bonds is as follows:

Tax Revenue Bonds, Series 2007		
<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 220,000	\$ 238,998
2013	230,000	229,252
2014	240,000	219,064
2015	250,000	208,432
2016	260,000	197,357
2017-2021	1,485,000	803,602
2022-2026	1,850,000	443,000
2027-2028	<u>860,000</u>	<u>57,590</u>
Total	<u>\$ 5,395,000</u>	<u>\$ 2,397,295</u>

(continued)

**2. DETAILED NOTES ON ALL FUNDS (Continued)**

**Long-term Debt** (Continued)

**Capital Leases**

The City has entered into lease agreements as lessee for financing the acquisition of police vehicles. As of year-end, the City had one outstanding police vehicle lease through Ford Motor Credit with an interest rate of 5.95 percent. The future minimum lease obligations and the net present value of the minimum lease payments as of September 30, 2011, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ <u>5,830</u>	\$ <u>347</u>
Total	\$ <u>5,830</u>	\$ <u>347</u>

The historical cost of the police vehicle was \$22,704 with accumulated depreciation of \$13,622, and net book value is \$9,082.

**Interfund Balances and Transfers**

The composition of interfund balances as of September 30, 2011, is as follows:

<u>Due from</u>	<u>Due to</u>	<u>Amounts</u>
General	Nonmajor governmental	\$ 455,000
General	Road maintenance	1,771,359
General	Economic development 4-B	67,624
Nonmajor governmental	Nonmajor governmental	9,500
Economic development 4-B	Nonmajor governmental	<u>109,946</u>
		<u>\$ 2,413,429</u>

Balances resulted from the time lag between the dates that payments between funds are made.

Interfund transfers for the year were as follows:

<u>Transfers out</u>	<u>Transfers in</u>	<u>Amounts</u>	<u>Purpose</u>
Economic development	General	\$ 230,169	To close out fund
General	Debt service	<u>252,523</u>	To fund debt service
		<u>\$ 482,692</u>	

(continued)

**2. DETAILED NOTES ON ALL FUNDS (Continued)**

**Prior Period Adjustment**

The City has restated beginning fund balance for the General and Economic Development 4-B Sales Tax Funds, as well as beginning net assets for governmental activities. The restatement of beginning fund balance and net assets is as follows:

	<u>General</u>	<u>Economic Development 4-B Sales Tax</u>	<u>Governmental Activities</u>
Prior year ending fund balance/ net assets as reported	\$ 3,744,110	\$ -	\$ 33,993,929
Increase due to overstatement of municipal court payables	108,196	-	108,196
Increase due to reclassification of Economic Development to a blended component unit	<u>-</u>	<u>2,432,214</u>	<u>1,958,459</u>
Restated beginning fund balance/ net assets	<u>\$ 3,852,306</u>	<u>\$ 2,432,214</u>	<u>\$ 36,060,584</u>

**3. OTHER INFORMATION**

**Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

**Contingent Liabilities**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

(continued)

### 3. **OTHER INFORMATION** (Continued)

#### **Contingent Liabilities** (Continued)

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year-end.

#### **Chapter 380 Economic Development Agreement**

Chapter 380, *Miscellaneous Provisions Relating to Municipal Planning and Development*, of the Texas Local Government Code provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs, including programs for making loans and grants of public money and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality. In August of 2004, the City adopted by ordinance, a comprehensive economic development policy and program for economic development activities.

In July 2005, the City approved a Chapter 380 Economic Development Agreement with the Hill Country Galleria (the "HCG") whereby a 156-acre, mixed use development consisting of approximately one million square feet of retail, office, and restaurant space would be constructed within the City boundaries.

In addition to the economic benefits that the City received from increased economic activity within the City, the HCG developers also provided capital improvements to the City estimated at \$62 million. In exchange for these economic benefits and capital improvements, the City is obligated to pay to the HCG development manager a total of 55% of the sales taxes collected each year in the new development for the first four years and then 50 percent thereafter. These payments will continue for 15 years, or until total payments have reached \$21 million, whichever occurs first. For purposes of calculating the reduction in the payment cap of \$21 million, payments made to HCG are calculated on the current value basis. For purposes of calculating the current value basis, the amount of a payment applied to the payment cap is to be discounted at a rate of 10 percent per annum from the initial payment date.

HCG subsequently filed for bankruptcy and entered into default status under the 380 agreement with the City. In January of 2010 an agreement was reached between HCG, the City, and REIT Management and Research Trust ("RMR") in which the default status was cured and RMR assumed the 380 agreement with the City.

(continued)



### 3. OTHER INFORMATION (Continued)

#### **Chapter 380 Economic Development Agreement** (Continued)

The City has a similar agreement in regard to another development within the City called the Shops at the Galleria whereby approximately 88 acres of land is to be developed for retail and related uses. In this agreement, the City pays 45 percent of the sales taxes collected within that development to the development manager, Lincoln Management. These payments are to continue until a payment cap, calculated on the current value basis of \$4,950,000 is reached or a period of 15 years has elapsed, whichever is sooner. However, if the payment cap has not been reached by the end of 15 years, the agreement will automatically extend up to five years. For purposes of calculating the current value basis, the amount of a payment applied to the payment cap is to be discounted at a rate of 10 percent per annum from the initial payment date. In addition to the economic benefits that the City receives from the increased economic activity within this development, the City also received the benefit of highway improvements to portions of State Highway 71 located within the City, which were paid for by the developer.

#### **Texas Municipal Retirement System**

##### **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 statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and Required Supplementary Information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8611. In addition, the report is available on TMRS' website at [www.TMRS.com](http://www.TMRS.com).

(continued)

**3. OTHER INFORMATION (Continued)**

**Texas Municipal Retirement System (Continued)**

**Plan Description (Continued)**

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 2010</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/25	60/5, 0/25
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	0% CPI	0% 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 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 remainder of the plan's 30-year amortization period. 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 annual pension cost and the net pension obligation (asset) are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual required contribution (ARC)	\$ 124,003	\$ 118,435	\$ 138,981
Contributions made	<u>124,003</u>	<u>118,435</u>	<u>138,981</u>
NPO at the end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**(continued)**

### 3. OTHER INFORMATION (Continued)

#### Texas Municipal Retirement System (Continued)

##### Contributions (Continued)

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Actuarial Valuation Date	12/31/08	12/31/09	12/31/10 - Prior to restructuring	12/31/10 Restructured
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	24 years; closed period	23.7 years; closed period	23 years; closed period	23.1 years; closed period
Amortization period for new gains/losses	25 years	25 years	25 years	25 years
Asset valuation method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:				
Investment rate of return*	7.5%	7.5%	7.5%	7.0%
Projected salary increases*	varies by age and service	varies by age and service	varies by age and service	varies by age and service
*Includes inflation at	3.0%	3.0%	3.0%	3.0%
Cost-of-living adjustments	0%	0%	0%	0%

##### Funded Status and Funding Progress

In June, 2011, SSB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects of TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

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.

(continued)

### 3. OTHER INFORMATION (Continued)

The funded status as of December 31, 2010, the most recent valuation date, is as follows:

Actuarial Valuation Date	12/31/2010 <sup>(1)</sup>	12/31/2010 <sup>(2)</sup>
Actuarial Value of Assets	\$ 1,487,435	\$ 1,594,191
Actuarial Accrued Liability	1,917,230	2,066,074
Annual Pension Cost	77.6%	77.2%
Unfunded Actuarial Accrued Liability (UAAL)	429,795	471,883
Annual Covered Payroll	1,705,607	1,705,607
UAAL as a Percentage of Covered Payroll	25.2%	27.7%

<sup>(1)</sup> Actuarial valuation performed under the original fund structure.

<sup>(2)</sup> Actuarial valuation performed under the new fund structure.

The schedule of funding progress, presented as RSI 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.

#### **Other Post Employee Benefits**

##### **TMRS – Supplemental Death Benefit 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), and retired employees are insured for \$7,500. This coverage is an "other post employment 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 employees' entire careers.

(continued)

### 3. OTHER INFORMATION (Continued)

#### Contributions (Continued)

The City's contribution rate to the TMRS SDBF for the retiree portion, for the year ended September 30, 2011, is shown below:

<u>Plan/Calendar Year</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual required contribution (ARC)	0.01%	0.01%	0.01%
Actual contribution made	0.01%	0.01%	0.01%
Percentage of ARC contribution	100.00%	100.00%	100.00%

#### Change in Accounting Principles

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the City reclassifying fund balances of its governmental funds.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

## CITY OF BEE CAVE, TEXAS

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

#### GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Sales taxes	\$ 4,045,372	\$ 4,729,818	\$ 4,773,599	\$ 43,781
Franchise fees and local taxes	154,000	313,485	466,825	153,340
Licenses and permits	400,000	484,045	490,752	6,707
Intergovernmental	-	-	13,341	13,341
Charges for services	12,000	7,335	8,766	1,431
Fines and forfeitures	200,000	237,665	303,721	66,056
Investment earnings	12,000	14,789	16,156	1,367
Contributions	-	-	400,068	400,068
Miscellaneous	7,500	17,370	23,334	5,964
Total revenues	<u>4,830,872</u>	<u>5,804,507</u>	<u>6,496,562</u>	<u>692,055</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,500,670	1,674,333	1,685,690	( 11,357)
Public safety	1,367,951	1,582,645	1,463,195	119,450
Community services	287,454	307,454	306,603	851
Culture and recreation	308,338	362,042	323,225	38,817
Economic development	999,999	988,848	1,162,053	( 173,205)
Capital outlay	206,800	72,000	179,995	( 107,995)
Debt service:				
Principal	30,767	30,767	30,767	-
Interest	2,302	2,302	2,302	-
Total expenditures	<u>4,704,281</u>	<u>5,020,391</u>	<u>5,153,830</u>	<u>( 133,439)</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>126,591</u>	<u>784,116</u>	<u>1,342,732</u>	<u>558,616</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	230,169	230,169	-
Transfers out	-	( 243,392)	( 252,523)	( 9,131)
Total other financing sources (uses)	<u>-</u>	<u>( 13,223)</u>	<u>( 22,354)</u>	<u>( 9,131)</u>
<b>EXTRAORDINARY ITEM</b>				
City hall settlement	-	2,004,000	2,004,000	-
Total extraordinary item	<u>-</u>	<u>2,004,000</u>	<u>2,004,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	126,591	2,774,893	3,324,378	549,485
<b>FUND BALANCES, BEGINNING</b>	<u>3,744,110</u>	<u>3,744,110</u>	<u>3,744,110</u>	<u>-</u>
<b>PRIOR PERIOD ADJUSTMENTS</b>	<u>-</u>	<u>-</u>	<u>108,196</u>	<u>108,196</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 3,870,701</u>	<u>\$ 6,519,003</u>	<u>\$ 7,176,684</u>	<u>\$ 657,681</u>

# CITY OF BEE CAVE, TEXAS

## NOTES TO GENERAL FUND BUDGET AND ACTUAL SCHEDULE

SEPTEMBER 30, 2011

### BUDGETARY POLICIES

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the General Fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the function. City Council may amend the budget throughout the year. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

### EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year, expenditures exceeded appropriations at the legal level of control as follows:

General government	\$ 11,357
Economic development	173,205
Capital outlay	107,995

These overruns were funded with greater than anticipated revenues.



# CITY OF BEE CAVE, TEXAS

## SCHEDULE OF FUNDING PROGRESS TEXAS MUNICIPAL RETIREMENT SYSTEM

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Actuarial valuation date	12/31/08	12/31/09	12/31/10 <sup>(1)</sup>	12/31/10 <sup>(2)</sup>
Actuarial value of assets	\$ 931,340	\$ 1,181,338	\$ 1,487,435	\$ 1,594,191
Actuarial accrued liability (AAL)	1,158,268	1,506,747	1,917,230	2,066,074
Funded ratio	80.4%	78.4%	77.6%	77.2%
Unfunded actuarial accrued liability (UAAL)	226,928	325,409	429,795	471,883
Covered payroll	2,036,843	1,855,177	1,705,607	1,705,607
Unfunded actuarial accrued liability (UAAL) as a % of covered payroll	11.1%	17.5%	25.2%	27.7%

<sup>(1)</sup> Actuarial valuation performed under the original fund structure.

<sup>(2)</sup> Actuarial valuation performed under the new fund structure.

# **COMBINING STATEMENTS**

**CITY OF BEE CAVE, TEXAS**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2011**

	<u>Economic Development</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments	\$ -	\$ 1,006,221	\$ -	\$ 1,006,221
Receivables (net of allowance for uncollectibles):				
Taxes	-	-	2,347	2,347
Due from other funds	<u>-</u>	<u>564,946</u>	<u>9,500</u>	<u>574,446</u>
Total assets	<u>\$ -</u>	<u>\$ 1,571,167</u>	<u>\$ 11,847</u>	<u>\$ 1,583,014</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Deferred revenues	\$ -	\$ -	\$ 2,347	\$ 2,347
Due to other funds	<u>-</u>	<u>9,500</u>	<u>-</u>	<u>9,500</u>
Total liabilities	<u>-</u>	<u>9,500</u>	<u>2,347</u>	<u>11,847</u>
Fund balances:				
Restricted for:				
Capital projects	-	1,561,667	-	1,561,667
Debt service	<u>-</u>	<u>-</u>	<u>9,500</u>	<u>9,500</u>
Total fund balances	<u>-</u>	<u>1,561,667</u>	<u>9,500</u>	<u>1,571,167</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 1,571,167</u>	<u>\$ 11,847</u>	<u>\$ 1,583,014</u>

**CITY OF BEE CAVE, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<u>Economic Development</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ -	\$ -	\$ 153,069	\$ 153,069
Investment earnings	-	1,234	-	1,234
Contributions	-	347	-	347
Total revenues	<u>-</u>	<u>1,581</u>	<u>153,069</u>	<u>154,650</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	74	-	74
Debt service:				
Principal	-	-	250,000	250,000
Interest and other cost	-	28,692	146,692	175,384
Total expenditures	<u>-</u>	<u>28,766</u>	<u>396,692</u>	<u>425,458</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>-</u>	<u>( 27,185)</u>	<u>( 243,623)</u>	<u>( 270,808)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of tax notes	-	1,500,000	-	1,500,000
Transfers in	-	-	252,523	252,523
Transfers out	<u>( 230,169)</u>	<u>-</u>	<u>-</u>	<u>( 230,169)</u>
Total other financing sources (uses)	<u>( 230,169)</u>	<u>1,500,000</u>	<u>252,523</u>	<u>1,522,354</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>( 230,169)</u>	<u>1,472,815</u>	<u>8,900</u>	<u>1,251,546</u>
<b>FUND BALANCES, BEGINNING</b>	<u>230,169</u>	<u>88,852</u>	<u>600</u>	<u>319,621</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ -</u>	<u>\$ 1,561,667</u>	<u>\$ 9,500</u>	<u>\$ 1,571,167</u>

# **COMPLIANCE SECTION**



**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**

To the Honorable Mayor and  
Members of City Council  
City of Bee Cave, Texas

We have audited the financial statements of the governmental activities and each major fund of the City of Bee Cave, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

**Compliance and Other Matters**

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

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

*Pavullo, Brown & Hill, LLP*

January 9, 2012