

CITY OF BEE CAVE, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2012**

CITY OF BEE CAVE, TEXAS

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FINANCIAL SECTION

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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, 2012, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages 3 through 10 and pages 36 through 38 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.

Pattillo, Brown & Hill, L.L.P.

January 11, 2013

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bee Cave, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Bee Cave, Texas for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information in the annual financial report.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$40,419,996 (net assets). Of this amount, \$6,832,405 represents unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors. Net assets also reflect \$28,452,218 that is invested in capital assets net of related debt.
- The governmental fund statements report a fund balance at year-end of \$12,521,348; of which \$6,107,894, or 48.8% represents unassigned fund balances.
- The General Fund unassigned fund balance of \$6,107,894 equals 87.8% of total General Fund expenditures.
- The City's total debt decreased by \$1,970,830 during the current fiscal year, as a result of annual debt service payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis are intended to serve as an introduction to the City of Bee Cave, Texas' basic financial statements. The City's basic financial statements comprise four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) other required supplementary information in addition to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial 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 a whole. 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.

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 five 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 \$40,419,996 as of year-end.

The largest portion of the City's net assets (70%) 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	
	2012	2011
Current and other assets	\$ 14,679,247	\$ 16,470,234
Capital assets, net	<u>37,729,092</u>	<u>33,797,409</u>
Total assets	<u>52,408,339</u>	<u>50,267,643</u>
Long-term liabilities	9,725,253	10,701,767
Other liabilities	<u>2,263,090</u>	<u>1,260,721</u>
Total liabilities	<u>11,988,343</u>	<u>11,962,488</u>
Net assets:		
Invested in capital assets, net of related debt	28,452,218	24,678,246
Restricted	5,135,373	6,468,640
Unrestricted	<u>6,832,405</u>	<u>7,158,269</u>
Total net assets	<u>\$ 40,419,996</u>	<u>\$ 38,305,155</u>

A portion of the City's net assets (13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$6,832,405, 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 \$2,114,841.

Statement of Activities

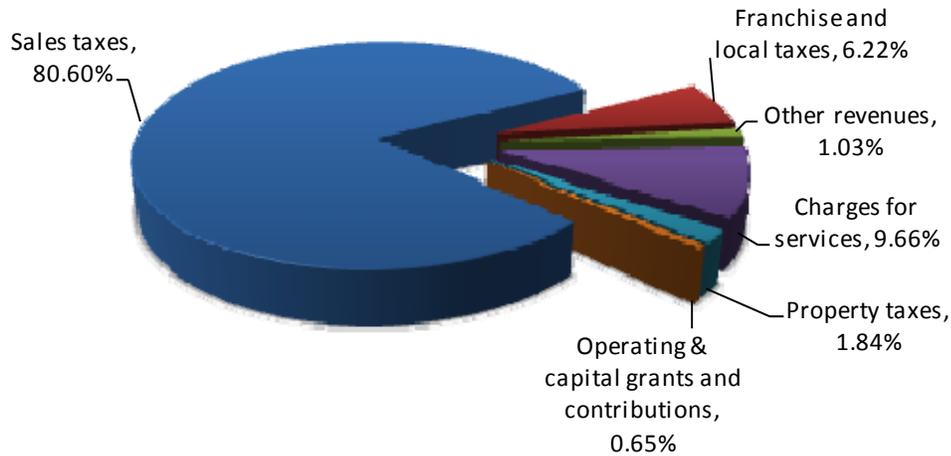
The following table provides a summary of the City's changes in net assets:

CITY OF BEE CAVE, TEXAS' CONDENSED STATEMENT OF ACTIVITIES

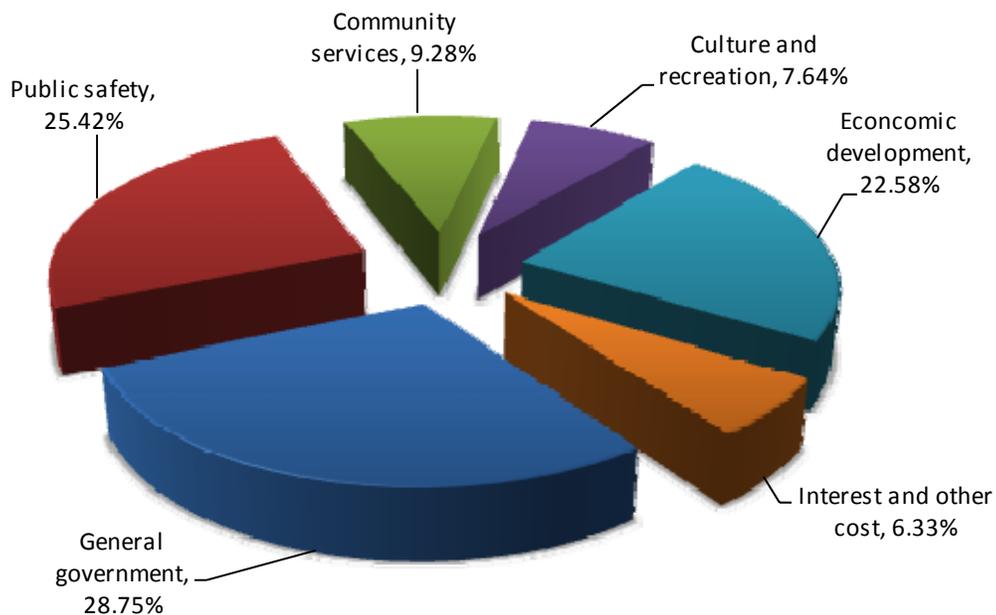
	Governmental Activities	
	2012	2011
Revenues		
Program revenues:		
Charges for services	\$ 850,772	\$ 836,370
Operating grants and and contributions	39,750	13,756
Capital grants and and contributions	17,500	400,000
General revenues:		
Property taxes	161,631	153,069
Sales taxes	7,096,838	6,364,798
Franchise and local taxes	547,643	466,825
Investment earnings	30,321	19,778
Other	60,664	21,341
Extraordinary item	-	145,728
Total revenues	8,805,119	8,421,665
Expenses		
General government	1,947,294	1,940,661
Public safety	1,722,421	1,596,257
Community services	628,762	536,614
Culture and recreation	517,823	435,696
Economic development	1,529,659	1,256,791
Interest and other cost	428,783	411,075
Total expenses	6,774,742	6,177,094
Change in net assets	2,030,377	2,244,571
Net assets, beginning	38,305,155	33,993,929
Prior period adjustment	84,464	2,066,655
Net assets, ending	\$ 40,419,996	\$ 38,305,155

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, 2012, revenues from governmental activities totaled \$8,805,119, an increase of \$383,454 (5%) compared to the prior year. The majority of this change is due to an increase in sales tax revenue and franchise fees.

As of the end of the fiscal year, expenses for governmental activities totaled \$6,774,742, which represents a \$597,648 increase from 2011. Much of this increase is due to an increase in 380 payments to developers as a result of sales tax revenue increasing. Additionally, payroll and supply cost increased as compared to 2011.

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 \$12,521,348. Of this, \$5,719,197 is restricted for various purposes, \$694,257 is assigned for public safety and beautification, and \$6,107,894 is unassigned in the General Fund. Of the General Fund's unassigned fund balance \$3,419,954 is maintained in accordance with the City's fund balance policy. The City's fund balance policy is to maintain unassigned fund balance of up to nine months of General Fund operating expenditures. Additionally, the City has set aside sales and use tax revenue reserves for use, if and only if there is a shortfall of sales tax revenue in a specific year in the amount of \$1.5 million.

There was a decrease in the combined fund balance of \$2,721,446 in comparison to the prior year, which was primarily the result of the construction of Bee Cave Parkway Phase IIIB, renovations to City Hall and City street rehabilitation projects.

The General Fund had expenditures which exceeded revenues by \$185,079 , and after transfers the net change in fund balance was a decrease of \$306,116. In fiscal year 2012, the City renovated the City Hall using existing fund balance, causing the decrease in fund balance.

The road maintenance fund had a negative net change in fund balance of \$1,036,409 due to an increase in capital outlay expenditures for City street rehabilitation.

The Economic Development 4-B Sales Tax Fund had a negative net change in fund balance of \$392,280 as a result of funding a portion of the Bee Cave Parkway project.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues were more than budgeted revenues by \$40,651 during the year. This net variance is primarily attributable to higher taxes collected than forecasted. General Fund expenditures came in under the amended budget by \$724,497 and after other financing uses and uses, there was a net positive variance of \$773,503 from the amended budget for the year.

Capital Assets

At the end of the year, the City's governmental activities funds had invested, 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:

- Completed Bee Cave Parkway phase IIIA
- Continued construction of Bee Cave Parkway phase IIIB
- Street rehabilitation
- City Hall renovations

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 \$9,705,000.

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. In fiscal year 2013, the City is refunding Tax Revenue Bonds, Series 2007, in order take advantage of lower interest rates.

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, Katherine Griffin, Director of Finance, 4000 Galleria Parkway, Bee Cave, Texas, 78738 or by calling 512.767.6600. You may also visit the City's website at www.becavetexas.com.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF BEE CAVE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 13,228,023
Receivables, net	
Taxes	1,382,352
Accounts	31,409
Deferred charges	37,463
Capital assets:	
Nondepreciable	11,261,928
Depreciable, net	<u>26,467,164</u>
Total capital assets	<u>37,729,092</u>
Total assets	<u>52,408,339</u>
LIABILITIES	
Accounts payable	1,864,768
Accrued liabilities	338,696
Interest payable	29,752
Due to other governments	29,874
Noncurrent liabilities:	
Due within one year	995,000
Due in more than one year	<u>8,730,253</u>
Total liabilities	<u>11,988,343</u>
NET ASSETS	
Invested in capital assets, net of related debt	28,452,218
Restricted for:	
Debt service	702
Court technology	28,617
Court security	39,800
Road maintenance	2,764,007
Economic development	2,302,247
Unrestricted	<u>6,832,405</u>
Total net assets	<u>\$ 40,419,996</u>

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

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CITY OF BEE CAVE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

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
Governmental activities:					
General government	\$ 1,947,294	\$ -	\$ 5,716	\$ 17,500	\$(1,924,078)
Public safety	1,722,421	313,810	-	-	(1,408,611)
Community services	628,762	525,876	-	-	(102,886)
Culture and recreation	517,823	11,086	-	-	(506,737)
Economic development	1,529,659	-	34,034	-	(1,495,625)
Interest and other cost	428,783	-	-	-	(428,783)
Total governmental activities	<u>\$ 6,774,742</u>	<u>\$ 850,772</u>	<u>\$ 39,750</u>	<u>\$ 17,500</u>	<u>(5,866,720)</u>
General revenues:					
Taxes:					
Property					161,631
Sales					7,096,838
Franchise fees and local taxes					547,643
Investment earnings					30,321
Other					60,664
Total general revenues					<u>7,897,097</u>
Change in net assets					2,030,377
Net assets, beginning					38,305,155
Prior period adjustment					<u>84,464</u>
Net assets, ending					<u>\$ 40,419,996</u>

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

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CITY OF BEE CAVE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	<u>General</u>	<u>Road Maintenance</u>	<u>Economic Development 4-B Sales Tax</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 10,299,792	\$ 1,122,661	\$ 1,785,990	\$ 19,580	\$ 13,228,023
Receivables (net of allowance for uncollectibles):					
Taxes	1,077,713	138,291	164,001	2,347	1,382,352
Accounts	31,409	-	-	-	31,409
Due from other funds	<u>-</u>	<u>1,771,359</u>	<u>467,624</u>	<u>574,446</u>	<u>2,813,429</u>
Total assets	<u>\$ 11,408,914</u>	<u>\$ 3,032,311</u>	<u>\$ 2,417,615</u>	<u>\$ 596,373</u>	<u>\$ 17,455,213</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,444,384	\$ 268,304	\$ 5,422	\$ -	\$ 1,718,110
Accrued liabilities	338,696	-	-	-	338,696
Deferred revenues	31,409	-	-	2,347	33,756
Due to other governments	29,874	-	-	-	29,874
Due to other funds	<u>2,693,983</u>	<u>-</u>	<u>109,946</u>	<u>9,500</u>	<u>2,813,429</u>
Total liabilities	<u>4,538,346</u>	<u>268,304</u>	<u>115,368</u>	<u>11,847</u>	<u>4,933,865</u>
Fund balances:					
Restricted for:					
Court technology	28,617	-	-	-	28,617
Court security	39,800	-	-	-	39,800
Economic development	-	-	2,302,247	-	2,302,247
Capital projects	-	-	-	574,784	574,784
Debt service	-	-	-	9,742	9,742
Road maintenance	-	2,764,007	-	-	2,764,007
Assigned for:					
Public safety	501,088	-	-	-	501,088
Beautification	193,169	-	-	-	193,169
Unassigned	<u>6,107,894</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,107,894</u>
Total fund balances	<u>6,870,568</u>	<u>2,764,007</u>	<u>2,302,247</u>	<u>584,526</u>	<u>12,521,348</u>
Total liabilities and fund balances	<u>\$ 11,408,914</u>	<u>\$ 3,032,311</u>	<u>\$ 2,417,615</u>	<u>\$ 596,373</u>	<u>17,455,213</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.					37,582,434
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.					33,756
Some liabilities are not reported as liabilities in the governmental funds.					
Interest payable					(29,752)
Deferred changes					37,463
Long-term liabilities					<u>(9,725,253)</u>
Net assets of governmental activities					<u>\$ 40,419,996</u>

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

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CITY OF BEE CAVE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General	Road Maintenance	Economic Development 4-B Sales Tax	Nonmajor Governmental	Total Governmental Funds
REVENUES					
Property taxes	\$ -	\$ -	\$ -	\$ 163,442	\$ 163,442
Sales taxes	5,322,628	443,553	1,330,657	-	7,096,838
Franchise fees and local taxes	547,643	-	-	-	547,643
Licenses and permits	523,311	-	-	-	523,311
Charges for services	11,086	-	-	-	11,086
Fines and forfeitures	281,049	-	-	-	281,049
Investment earnings	28,184	-	538	1,599	30,321
Contributions	5,716	-	34,034	-	39,750
Miscellaneous	49,465	9,029	-	37,225	95,719
Total revenues	<u>6,769,082</u>	<u>452,582</u>	<u>1,365,229</u>	<u>202,266</u>	<u>8,789,159</u>
EXPENDITURES					
Current:					
General government	1,543,098	-	-	41,833	1,584,931
Public safety	1,636,789	-	-	-	1,636,789
Community services	398,751	-	-	-	398,751
Culture and recreation	400,481	-	-	-	400,481
Economic development	1,523,864	-	5,795	-	1,529,659
Capital outlay	1,421,518	1,488,991	677,529	983,874	4,571,912
Debt service:					
Principal	5,830	-	220,000	750,000	975,830
Interest and other cost	23,830	-	238,585	158,192	420,607
Total expenditures	<u>6,954,161</u>	<u>1,488,991</u>	<u>1,141,909</u>	<u>1,933,899</u>	<u>11,518,960</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(185,079)</u>	<u>(1,036,409)</u>	<u>223,320</u>	<u>(1,731,633)</u>	<u>(2,729,801)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	8,355	-	-	-	8,355
Transfers in	100,000	-	-	744,992	844,992
Transfers out	<u>(229,392)</u>	<u>-</u>	<u>(615,600)</u>	<u>-</u>	<u>(844,992)</u>
Total other financing sources (uses)	<u>(121,037)</u>	<u>-</u>	<u>(615,600)</u>	<u>744,992</u>	<u>8,355</u>
NET CHANGE IN FUND BALANCES	<u>(306,116)</u>	<u>(1,036,409)</u>	<u>(392,280)</u>	<u>(986,641)</u>	<u>(2,721,446)</u>
FUND BALANCES, BEGINNING	7,176,684	3,800,416	2,610,063	1,571,167	15,158,330
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>84,464</u>	<u>-</u>	<u>84,464</u>
FUND BALANCES, ENDING	<u>\$ 6,870,568</u>	<u>\$ 2,764,007</u>	<u>\$ 2,302,247</u>	<u>\$ 584,526</u>	<u>\$ 12,521,348</u>

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

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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, 2012

Net change in fund balances - total governmental funds \$(2,721,446)

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	4,589,364
Depreciation expense	(804,339)

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

Property taxes	(1,811)
Fines	271

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	684
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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.

Principal payments	975,830
Interest payable	3,054
Deferred charges	(11,230)

Change in net assets of governmental activities \$ 2,030,377

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

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CITY OF BEE CAVE, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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 ordinance 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. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.
- **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. The Council has by resolution authorized the City Administrator to assign fund balance. The City Council may also assign fund balance. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.
- **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.

(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, 2012, 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	\$ 1,705,571	80	AAAm
TexStar	1,755,471	46	AAAm
LOGIC	5,310,036	48	AAAm
CLASS	<u>2,442,215</u>	46	AAAm
Total fair value	<u>\$ 11,213,293</u>		
Portfolio weighted average maturity		52	

(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	\$ 1,929	\$ -	\$ -	\$ 2,422	\$ 4,351
Sales taxes	906,877	138,291	164,001	-	1,209,169
Mixed beverage taxes	13,473	-	-	-	13,473
Franchise fees	155,553	-	-	-	155,553
Fines and fees	<u>1,142,166</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,142,166</u>
Gross receivables	2,219,998	138,291	164,001	2,422	2,524,712
Less: allowance for uncollectibles	<u>(1,110,876)</u>	<u>-</u>	<u>-</u>	<u>(75)</u>	<u>(1,110,951)</u>
Net total receivables	<u>\$ 1,109,122</u>	<u>\$ 138,291</u>	<u>\$ 164,001</u>	<u>\$ 2,347</u>	<u>\$ 1,413,761</u>

Deferred Revenue

Deferred revenue at year-end consisted of the following:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ 2,347	\$ -
Court fines	<u>31,409</u>	<u>-</u>
	<u>\$ 33,756</u>	<u>\$ -</u>

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets

A summary of changes in capital assets for the year ended September 30, 2012, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 11,261,928	\$ -	\$ -	\$ 11,261,928
Construction in progress	<u>5,397,491</u>	<u>3,097,182</u>	<u>(5,397,491)</u>	<u>3,097,182</u>
Total assets not being depreciated	<u>16,659,419</u>	<u>3,097,182</u>	<u>(5,397,491)</u>	<u>14,359,110</u>
Capital assets, being depreciated:				
Infrastructure	9,190,174	6,921,433	-	16,111,607
Buildings and improvements	11,583,485	-	-	11,583,485
Furniture and equipment	<u>1,130,804</u>	<u>114,898</u>	<u>-</u>	<u>1,245,702</u>
Total capital assets being depreciated	<u>21,904,463</u>	<u>7,036,331</u>	<u>-</u>	<u>28,940,794</u>
Less accumulated depreciation:				
Infrastructure	(1,148,770)	(403,082)	-	(1,551,852)
Buildings and improvements	(2,705,668)	(290,219)	-	(2,995,887)
Furniture and equipment	<u>(912,035)</u>	<u>(111,038)</u>	<u>-</u>	<u>(1,023,073)</u>
Total accumulated depreciation	<u>(4,766,473)</u>	<u>(804,339)</u>	<u>-</u>	<u>(5,570,812)</u>
Total capital assets being depreciated, net	<u>17,137,990</u>	<u>6,231,992</u>	<u>-</u>	<u>23,369,982</u>
Governmental activities capital assets, net	<u>\$ 33,797,409</u>	<u>\$ 9,329,174</u>	<u>\$(5,397,491)</u>	<u>\$ 37,729,092</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 371,354
Public safety	85,632
Community services	230,011
Culture and recreation	<u>117,342</u>
	<u>\$ 804,339</u>

(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>
Governmental activities					
General obligation bonds	\$ 3,780,000	\$ -	\$ 255,000	\$ 3,525,000	\$ 265,000
Tax revenue bonds	5,395,000	-	220,000	5,175,000	230,000
Tax notes	1,500,000	-	495,000	1,005,000	500,000
Capital leases	5,830	-	5,830	-	-
Compensated absences	<u>20,937</u>	<u>210,176</u>	<u>210,860</u>	<u>20,253</u>	<u>-</u>
Total governmental activities	<u>\$ 10,701,767</u>	<u>\$ 210,176</u>	<u>\$ 1,186,690</u>	<u>\$ 9,725,253</u>	<u>\$ 995,000</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>
2013	\$ 265,000	\$ 128,310
2014	275,000	118,664
2015	285,000	108,654
2016	295,000	98,280
2017	310,000	87,542
2018-2022	1,715,000	260,988
2023	<u>380,000</u>	<u>6,916</u>
Total	<u>\$ 3,525,000</u>	<u>\$ 809,354</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>
2013	\$ 500,000	\$ 13,825
2014	<u>505,000</u>	<u>7,575</u>
Total	<u>\$ 1,005,000</u>	<u>\$ 21,400</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>
2013	\$ 230,000	\$ 229,252
2014	240,000	219,064
2015	250,000	208,432
2016	260,000	197,357
2017	270,000	185,839
2018-2022	1,555,000	737,817
2023-2027	1,930,000	361,045
2028	<u>440,000</u>	<u>19,492</u>
Total	<u>\$ 5,175,000</u>	<u>\$ 2,158,298</u>

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

Fund Balance

The City’s fund balance policy is to maintain unassigned fund balance of up to nine months of General Fund operating expenditures. Nine months of General Fund operating expenditures for fiscal year 2012 is \$3,419,954. 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.

In addition to the City’s fund balance policy above the City has set aside sales and use tax revenue reserves for use, if and only if there is a shortfall of sales tax revenue in a specific year in the amount of \$1.5 million. This amount is included in unassigned fund balance.

Interfund Balances and Transfers

The composition of interfund balances as of September 30, 2012, 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	467,624
Nonmajor governmental	Nonmajor governmental	9,500
Economic development 4-B	Nonmajor governmental	<u>109,946</u>
		<u>\$ 2,813,429</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 4B	General	\$ 100,000	To fund economic development project
Economic development 4B	Debt service	515,600	To fund debt service
General	Debt service	<u>229,392</u>	To fund debt service
		<u>\$ 844,992</u>	

Prior Period Adjustment

During the current fiscal year, the City determined that a payment from a developer should have been reported as revenue in a prior period instead of deferred revenue. As a result, beginning fund balance in the Economic Development 4-B Sales Tax Fund and governmental activities net assets were restated by \$84,464.

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.

Contingent Liabilities

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.

(continued)

3. OTHER INFORMATION (Continued)

Chapter 380 Economic Development Agreement (Continued)

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.

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 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.

The City has a 380 agreement in regard to another development within the City called the Backyard at Bee Cave, whereby approximately 44 acres of land is developed for retail and related uses. In this agreement, the City pays a percentage of the sales taxes collected from the on-line ticket operation for 20 years to Backyard at Bee Cave, 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.

(continued)

3. OTHER INFORMATION (Continued)

Texas Municipal Retirement System (Continued)

Plan Description (Continued)

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.

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 2012</u>	<u>Plan Year 2011</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.

(continued)

3. OTHER INFORMATION (Continued)

Texas Municipal Retirement System (Continued)

Contributions (Continued)

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>2012</u>	<u>2011</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 114,282	\$ 124,003	\$ 118,435
Contributions made	<u>114,282</u>	<u>124,003</u>	<u>118,435</u>
NPO at the end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Actuarial Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	23.7 years; closed period	23.1 years; closed period	22.0 years; closed period
Amortization period for new new gains/losses	25 years	25 years	25 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment rate of return*	7.5%	7.0%	7.0%
Projected salary increases*	varies by age and service	varies by age and service	varies by age and service
*Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	0%	0%	0%

(continued)

3. OTHER INFORMATION (Continued)

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, 2011 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.

The funded status as of December 31, 2011, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	12/31/2011
Actuarial Value of Assets	\$ 1,917,601
Actuarial Accrued Liability	2,375,167
Annual Pension Cost	80.7%
Unfunded Actuarial Accrued Liability (UAAL)	457,566
Annual Covered Payroll	1,750,812
UAAL as a Percentage of Covered Payroll	26.1%

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.

(continued)

3. OTHER INFORMATION (Continued)

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.

The City's contribution rate to the TMRS SDBF for the retiree portion, for the year ended September 30, 2012, is shown below:

<u>Plan/Calendar Year</u>	<u>2012</u>	<u>2011</u>	<u>2010</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%

Subsequent Event

In December of 2012 the City Council and Economic Development Board approved the City's financial advisors and bond council to move forward with collecting bids for the Sales Tax Revenue Refunding Bond, Series 2013. The refunding will be in the amount of \$5,165,000. If the Council and the Board approve the 10 year maturity schedule the interest rate for the bond will be 2% and it will yield an approximate savings of \$578,000 or 12.31%. If the 15-year maturity schedule is approved the interest rate will be 2.5% and will yield an approximate savings of \$496,000 or 10.57%. The City Council and Economic Development Board will vote on the submitted bids on January 22, 2013.

**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, 2012

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales taxes	\$ 4,500,000	\$ 5,190,285	\$ 5,322,628	\$ 132,343
Franchise fees and local taxes	484,000	531,904	547,643	15,739
Licenses and permits	200,000	505,000	523,311	18,311
Charges for services	9,000	5,500	11,086	5,586
Fines and forfeitures	210,000	250,000	281,049	31,049
Investment earnings	12,000	24,742	28,184	3,442
Contributions	-	-	5,716	5,716
Miscellaneous	15,500	221,000	49,465	(171,535)
Total revenues	<u>5,430,500</u>	<u>6,728,431</u>	<u>6,769,082</u>	<u>40,651</u>
EXPENDITURES				
Current:				
General government	1,450,016	1,851,786	1,543,098	308,688
Public safety	1,569,717	1,678,171	1,636,789	41,382
Community services	298,429	405,949	398,751	7,198
Culture and recreation	342,401	398,441	400,481	(2,040)
Economic development	1,100,000	1,794,627	1,523,864	270,763
Capital outlay	777,786	1,513,684	1,421,518	92,166
Debt service:				
Principal	5,830	5,830	5,830	-
Interest	30,170	30,170	23,830	6,340
Total expenditures	<u>5,574,349</u>	<u>7,678,658</u>	<u>6,954,161</u>	<u>724,497</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(143,849)</u>	<u>(950,227)</u>	<u>(185,079)</u>	<u>765,148</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	8,355	8,355
Transfers in	100,000	100,000	100,000	-
Transfers out	(229,392)	(229,392)	(229,392)	-
Total other financing sources (uses)	<u>(129,392)</u>	<u>(129,392)</u>	<u>(121,037)</u>	<u>8,355</u>
NET CHANGE IN FUND BALANCES	<u>(273,241)</u>	<u>(1,079,619)</u>	<u>(306,116)</u>	<u>773,503</u>
FUND BALANCES, BEGINNING	<u>7,176,684</u>	<u>7,176,684</u>	<u>7,176,684</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 6,903,443</u>	<u>\$ 6,097,065</u>	<u>\$ 6,870,568</u>	<u>\$ 773,503</u>

CITY OF BEE CAVE, TEXAS

NOTES TO GENERAL FUND BUDGET AND ACTUAL SCHEDULE

SEPTEMBER 30, 2012

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.

CITY OF BEE CAVE, TEXAS

**SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM**

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Actuarial valuation date	12/31/09	12/31/10	12/31/11
Actuarial value of assets	\$ 1,181,338	\$ 1,594,191	\$ 1,917,601
Actuarial accrued liability (AAL)	1,506,747	2,066,074	2,375,167
Funded ratio	78.4%	77.2%	80.7%
Unfunded actuarial accrued liability (UAAL)	325,409	471,883	457,566
Covered payroll	1,855,177	1,705,607	1,750,812
Unfunded actuarial accrued liability (UAAL) as a % of covered payroll	17.5%	27.7%	26.1%

COMBINING STATEMENTS

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CITY OF BEE CAVE, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and investments	\$ 19,338	\$ 242	\$ 19,580
Receivables (net of allowance for uncollectibles):			
Taxes	-	2,347	2,347
Due from other funds	<u>564,946</u>	<u>9,500</u>	<u>574,446</u>
 Total assets	 <u>\$ 584,284</u>	 <u>\$ 12,089</u>	 <u>\$ 596,373</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenues	\$ -	\$ 2,347	\$ 2,347
Due to other funds	<u>9,500</u>	<u>-</u>	<u>9,500</u>
Total liabilities	<u>9,500</u>	<u>2,347</u>	<u>11,847</u>
Fund balances:			
Restricted for:			
Capital projects	574,784	-	574,784
Debt service	<u>-</u>	<u>9,742</u>	<u>9,742</u>
Total fund balances	<u>574,784</u>	<u>9,742</u>	<u>584,526</u>
 Total liabilities and fund balances	 <u>\$ 584,284</u>	 <u>\$ 12,089</u>	 <u>\$ 596,373</u>

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CITY OF BEE CAVE, TEXAS

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

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Property taxes	\$ -	\$ 163,442	\$ 163,442
Investment earnings	1,599	-	1,599
Miscellaneous	<u>37,225</u>	<u>-</u>	<u>37,225</u>
Total revenues	<u>38,824</u>	<u>163,442</u>	<u>202,266</u>
EXPENDITURES			
Current:			
General government	41,833	-	41,833
Capital outlay	983,874	-	983,874
Debt service:			
Principal	-	750,000	750,000
Interest and other cost	<u>-</u>	<u>158,192</u>	<u>158,192</u>
Total expenditures	<u>1,025,707</u>	<u>908,192</u>	<u>1,933,899</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(986,883)</u>	<u>(744,750)</u>	<u>(1,731,633)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>-</u>	<u>744,992</u>	<u>744,992</u>
Total other financing sources (uses)	<u>-</u>	<u>744,992</u>	<u>744,992</u>
NET CHANGE IN FUND BALANCE	<u>(986,883)</u>	242	<u>(986,641)</u>
FUND BALANCES, BEGINNING	<u>1,561,667</u>	<u>9,500</u>	<u>1,571,167</u>
FUND BALANCES, ENDING	<u>\$ 574,784</u>	<u>\$ 9,742</u>	<u>\$ 584,526</u>

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COMPLIANCE SECTION

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

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, and the aggregate remaining fund information of the City of Bee Cave, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon, dated January 11, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Bee Cave, Texas, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Bee Cave, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Bee Cave, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Bee Cave, Texas' 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, Texas' 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.

Pattillo, Brown & Hill, L.L.P.

January 11, 2013