

CITY OF BEE CAVE, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2013**

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the City of Bee Cave, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bee Cave, Texas, as of September 30, 2013, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information and the TMRS schedule of funding progress on pages 3-9 and 33-36 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. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014, 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* in considering City of Bee Cave, Texas’ internal control over financial reporting and compliance.

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

Waco, Texas
January 6, 2014

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, 2013. 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 \$43,268,629 (net position). Of this amount, \$7,364,932 represents unrestricted net position that may be used to meet the City's ongoing obligations to citizens and creditors. Net position also reflects \$30,838,680 that is invested in capital assets net of related debt.
- The governmental fund statements report a fund balance at year-end of \$12,642,911; of which \$6,730,441, or 53.2% represents unassigned fund balances.
- The General Fund unassigned fund balance of \$6,730,441 equals 115.4% of total General Fund expenditures.
- The City's total debt decreased by \$1,239,304 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 Position 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 Position presents information on all of the City's assets and liabilities. The difference between the two is reported as *net position*. Over time, increases and decreases in net position 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 position, changed during the most recent year. All changes in the net position 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 Position 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 all funds. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with the General Fund and Economic Development 4-B Sales Tax 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 position may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$43,268,629 as of year-end.

The largest portion of the City's net position (71%) 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 Position

The following table reflects the condensed Statement of Net Position:

CITY OF BEE CAVE'S CONDENSED STATEMENT OF NET POSITION

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 14,291,921	\$ 14,679,247
Capital assets, net	<u>39,014,614</u>	<u>37,729,092</u>
Total assets	<u>53,306,535</u>	<u>52,408,339</u>
Long-term liabilities	8,485,949	9,725,253
Other liabilities	<u>1,551,957</u>	<u>2,263,090</u>
Total liabilities	<u>10,037,906</u>	<u>11,988,343</u>
Net position:		
Net investment in capital assets, net of related debt	30,838,680	28,452,218
Restricted	5,065,017	5,135,373
Unrestricted	<u>7,364,932</u>	<u>6,832,405</u>
Total net position	<u>\$ 43,268,629</u>	<u>\$ 40,419,996</u>

A portion of the City's net position (12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$7,364,932, 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 position of \$2,848,633.

Statement of Activities

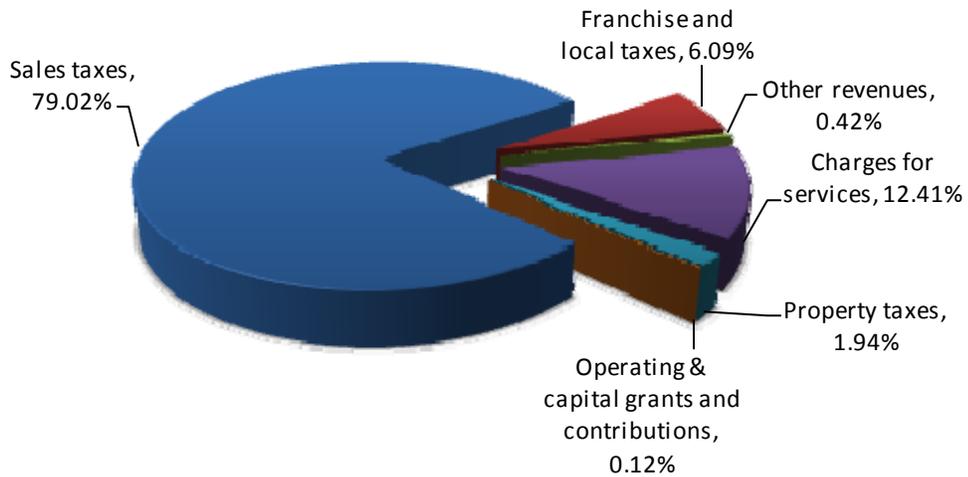
The following table provides a summary of the City's changes in net position:

CITY OF BEE CAVE, TEXAS' CONDENSED STATEMENT OF ACTIVITIES

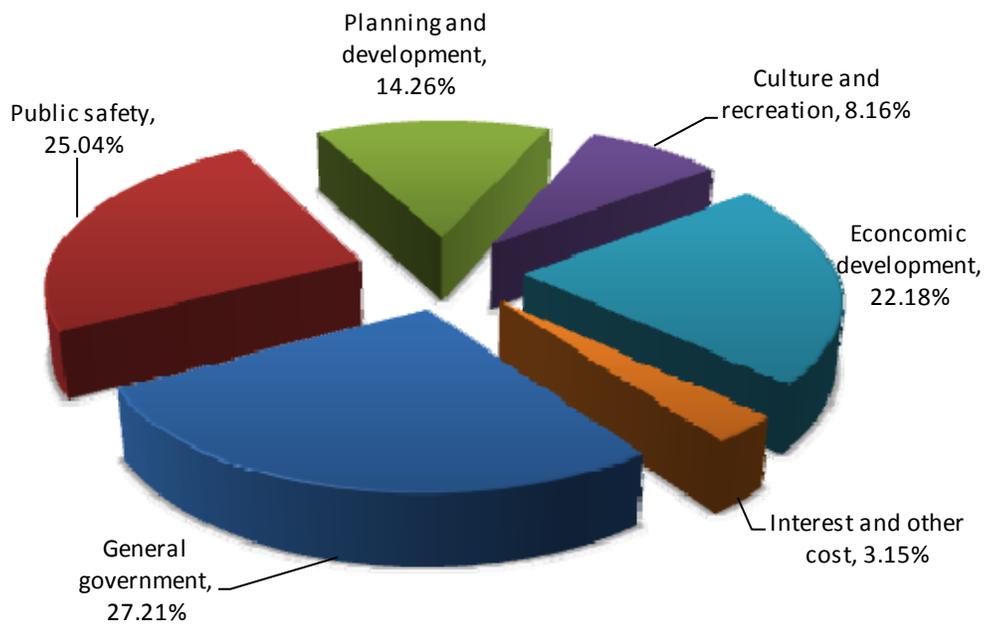
	Governmental Activities	
	2013	2012
Revenues		
Program revenues:		
Charges for services	\$ 1,206,938	\$ 850,772
Operating grants and and contributions	12,076	39,750
Capital grants and and contributions	-	17,500
General revenues:		
Property taxes	188,136	161,631
Sales taxes	7,683,894	7,096,838
Franchise and local taxes	591,701	547,643
Investment earnings	20,083	30,321
Other	20,593	60,664
Total revenues	<u>9,723,421</u>	<u>8,805,119</u>
Expenses		
General government	1,869,964	1,947,294
Public safety	1,721,404	1,722,421
Planning and development	980,758	628,762
Culture and recreation	561,185	517,823
Economic development	1,524,922	1,529,659
Interest and other cost	216,555	428,783
Total expenses	<u>6,874,788</u>	<u>6,774,742</u>
Change in net position	2,848,633	2,030,377
Net position, beginning	40,419,996	38,305,155
Prior period adjustment	<u>-</u>	<u>84,464</u>
Net position, ending	<u>\$ 43,268,629</u>	<u>\$ 40,419,996</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, 2013, revenues from governmental activities totaled \$9,723,421, an increase of \$918,302 (10%) 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 \$6,874,788, which represents a \$100,046 increase from 2012. 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 2012 due to addition of staff to manage growth and development.

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 \$12,642,911. Of this, \$5,365,792 is restricted for various purposes, \$546,678 is assigned for public safety and beautification, and \$6,730,441 is unassigned in the General Fund. Of the General Fund's unassigned fund balance \$3,949,568 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 an increase in the combined fund balance of \$121,563 in comparison to the prior year, which was primarily the result of increased tax revenue across all funds.

The General Fund had revenues which exceeded expenditures by \$1,773,383 , and after inter-fund transfers the net change in fund balance was an increase of \$497,990. The increase resulted from an increase revenues derived from taxes and development.

The Capital Projects Fund had a decrease in fund balance as a result of the City funding City projects as mentioned in the capital assets section.

The Road Maintenance Fund had a positive net change in fund balance of \$166,615 due to an increase tax revenue.

The Economic Development 4-B Sales Tax Fund had a negative change in fund balance of \$259,291 as a result of funding a portion of the Bee Cave Parkway IIIB project, lease and improvements of primitive parkland and paying additional debt payments associated with refunding of tax revenue bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues were more than budgeted revenues by \$329,115 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 \$45,127 and after other financing sources and uses, there was a net positive variance of \$381,850 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 IIIB with the exception of vegetation
- 2013 Street rehabilitation
- Completed City Hall renovations phase I

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 long-term debt of \$8,485,949 as of year-end. Long-term debt decreased by \$1.4 million. This change was primarily the result of bond principal payments in the amount of \$1,315,000. During the year a portion of the Series 2007 Tax Revenue Bonds were refunded to take advantage of a lower interest rate.

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, 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.beecavetexas.com.

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**BASIC
FINANCIAL STATEMENTS**

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CITY OF BEE CAVE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 12,666,790
Receivables, net	
Taxes	1,490,477
Accounts	49,629
Deferred charges	85,025
Capital assets:	
Nondepreciable	13,954,789
Depreciable, net	<u>25,059,825</u>
Total capital assets	<u>39,014,614</u>
Total assets	<u>53,306,535</u>
LIABILITIES	
Accounts payable	664,968
Accrued liabilities	839,381
Interest payable	18,588
Due to other governments	29,020
Noncurrent liabilities:	
Due within one year	1,300,000
Due in more than one year	<u>7,185,949</u>
Total liabilities	<u>10,037,906</u>
NET POSITION	
Net investment in capital assets	30,838,680
Restricted for:	
Court technology	21,860
Court security	45,315
Economic development	2,042,956
Road maintenance	2,930,622
Promotion of tourism and hotel industry	24,264
Unrestricted	<u>7,364,932</u>
Total net position	<u>\$ 43,268,629</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, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
General government	\$ 1,869,964	\$ -	\$ 12,076	\$(1,857,888)
Public safety	1,721,404	328,710	-	(1,392,694)
Planning and development	980,758	871,432	-	(109,326)
Culture and recreation	561,185	6,796	-	(554,389)
Economic development	1,524,922	-	-	(1,524,922)
Interest and other cost	<u>216,555</u>	<u>-</u>	<u>-</u>	<u>(216,555)</u>
Total governmental activities	<u>\$ 6,874,788</u>	<u>\$ 1,206,938</u>	<u>\$ 12,076</u>	<u>(5,655,774)</u>
General revenues:				
Taxes:				
				188,136
				7,683,894
				591,701
				20,083
				<u>20,593</u>
				<u>8,504,407</u>
				2,848,633
				<u>40,419,996</u>
				<u>\$ 43,268,629</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, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Road Maintenance</u>	<u>Economic Development 4-B Sales Tax</u>	<u>Nonmajor Governmental Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and investments	\$ 7,712,073	\$ 298,060	\$ 2,848,913	\$ 1,797,827	\$ 9,917	\$ 12,666,790
Receivables (net of allowance for uncollectibles):						
Taxes	1,161,292	-	81,709	245,129	2,347	1,490,477
Accounts	<u>49,629</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,629</u>
Total assets	<u>\$ 8,922,994</u>	<u>\$ 298,060</u>	<u>\$ 2,930,622</u>	<u>\$ 2,042,956</u>	<u>\$ 12,264</u>	<u>\$ 14,206,896</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 657,766	\$ 7,202	\$ -	\$ -	\$ -	\$ 664,968
Accrued liabilities	839,381	-	-	-	-	839,381
Deferred revenues	28,269	-	-	-	2,347	30,616
Due to other governments	<u>29,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,020</u>
Total liabilities	<u>1,554,436</u>	<u>7,202</u>	<u>-</u>	<u>-</u>	<u>2,347</u>	<u>1,563,985</u>
Fund balances:						
Restricted for:						
Court technology	21,860	-	-	-	-	21,860
Court security	45,315	-	-	-	-	45,315
Economic development	-	-	-	2,042,956	-	2,042,956
Capital projects	-	290,858	-	-	-	290,858
Debt service	-	-	-	-	9,917	9,917
Road maintenance	-	-	2,930,622	-	-	2,930,622
Promotion of tourism and hotel industry	24,264	-	-	-	-	24,264
Assigned for:						
Public safety	357,599	-	-	-	-	357,599
Beautification	189,079	-	-	-	-	189,079
Unassigned	<u>6,730,441</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,730,441</u>
Total fund balances	<u>7,368,558</u>	<u>290,858</u>	<u>2,930,622</u>	<u>2,042,956</u>	<u>9,917</u>	<u>12,642,911</u>
Total liabilities and fund balances	<u>\$ 8,922,994</u>	<u>\$ 298,060</u>	<u>\$ 2,930,622</u>	<u>\$ 2,042,956</u>	<u>\$ 12,264</u>	<u>14,206,896</u>

Adjustments for the statement of net position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.	39,014,614
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	30,616
Other items not reported in the governmental funds.	
Interest payable	(18,588)
Deferred charges	85,025
Long-term liabilities	<u>(8,485,949)</u>
Net position of governmental activities	<u>\$ 43,268,629</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, 2013

	General	Capital Projects	Road Maintenance	Economic Development 4-B Sales Tax	Nonmajor Governmental Debt Service	Total Governmental Funds
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 188,136	\$ 188,136
Sales taxes	5,762,920	-	417,525	1,503,449	-	7,683,894
Franchise fees and local taxes	591,701	-	-	-	-	591,701
Licenses and permits	867,013	-	-	-	-	867,013
Intergovernmental	12,076	-	-	-	-	12,076
Charges for services	6,796	-	-	-	-	6,796
Fines and forfeitures	307,609	-	-	-	-	307,609
Investment earnings	20,041	42	-	-	-	20,083
Miscellaneous	35,800	-	90	5,571	-	41,461
Total revenues	<u>7,603,956</u>	<u>42</u>	<u>417,615</u>	<u>1,509,020</u>	<u>188,136</u>	<u>9,718,769</u>
EXPENDITURES						
Current:						
General government	1,510,794	42,000	47,669	-	2,767	1,603,230
Public safety	1,633,488	-	-	-	-	1,633,488
Planning and development	572,351	-	-	-	-	572,351
Culture and recreation	443,228	-	-	-	-	443,228
Economic development	1,407,643	-	-	117,279	-	1,524,922
Capital outlay	263,069	1,916,641	116,580	-	-	2,296,290
Debt service:						
Principal	-	-	-	550,000	765,000	1,315,000
Interest and other cost	-	-	-	133,146	142,135	275,281
Total expenditures	<u>5,830,573</u>	<u>1,958,641</u>	<u>164,249</u>	<u>800,425</u>	<u>909,902</u>	<u>9,663,790</u>
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	<u>1,773,383</u>	<u>(1,958,599)</u>	<u>253,366</u>	<u>708,595</u>	<u>(721,766)</u>	<u>54,979</u>
OTHER FINANCING SOURCES (USES)						
Issuance of refunding bonds	-	-	-	5,175,000	-	5,175,000
Payment to escrow agent	-	-	-	(5,116,208)	-	(5,116,208)
Insurance proceeds	7,792	-	-	-	-	7,792
Transfers in	116,500	1,674,673	-	-	721,941	2,513,114
Transfers out	<u>(1,399,685)</u>	<u>-</u>	<u>(86,751)</u>	<u>(1,026,678)</u>	<u>-</u>	<u>(2,513,114)</u>
Total other financing sources (uses)	<u>(1,275,393)</u>	<u>1,674,673</u>	<u>(86,751)</u>	<u>(967,886)</u>	<u>721,941</u>	<u>66,584</u>
NET CHANGE IN FUND BALANCES	497,990	(283,926)	166,615	(259,291)	175	121,563
FUND BALANCES, BEGINNING	<u>6,870,568</u>	<u>574,784</u>	<u>2,764,007</u>	<u>2,302,247</u>	<u>9,742</u>	<u>12,521,348</u>
FUND BALANCES, ENDING	<u>\$ 7,368,558</u>	<u>\$ 290,858</u>	<u>\$ 2,930,622</u>	<u>\$ 2,042,956</u>	<u>\$ 9,917</u>	<u>\$ 12,642,911</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, 2013

Net change in fund balances - total governmental funds	\$	121,563
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		2,296,290
Depreciation expense	(882,110)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Fines	(3,140)
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		1,096
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 position. 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 refunding bonds	(5,175,000)
Payment to escrow agent		5,116,208
Bond issuance cost on refunding		58,792
Principal payments		1,315,000
Interest payable		11,164
Deferred charges	(<u>11,230</u>)
Change in net position of governmental activities	\$	<u><u>2,848,633</u></u>

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, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Bee Cave, Texas (the “City”) currently operates as a Home Rule City. In May, 2013, the citizens of the City adopted a Home Rule Charter changing operations to follow a Council-Manager form of government. The Council-Manager form of government provides for leadership of elected officials in the form of a council and managerial experience of an appointed local government manager. Under its Home Rule Charter, the City operates and provides authorized services to advance the welfare, health, morals, comfort, safety, and convenience of the City and its inhabitants. Prior to May, the City operated as a Type-A general law government under a mayor and City Council form providing services authorized by the Texas Local Government Code.

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.

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 position 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 Position 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.

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*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

Property taxes, sales taxes, franchise taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements, and the amount received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

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 **Capital Projects Fund** is used to account for major capital purchases.

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.

During the course of operations the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

D. Assets, Liabilities and Net Position or Fund Balance

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

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.

Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure acquired subsequent to fiscal year 2003 has been capitalized. 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 governmental activities statement of net position. The long-term debt consists primarily of bonds payable.

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.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City does not have any items that qualify for reporting in either of the above categories in the current fiscal year.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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.

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered applied. It is the City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of the governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City’s highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. 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.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. City Council has delegated the authority to assign fund balance to the City Manager. The City Council and City Manager may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. 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.

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, 2013, 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	\$ 1,707,189	60	AAAm
TexStar	1,757,238	51	AAAm
LOGIC	4,648,366	55	AAAm
Texas CLASS	<u>2,446,178</u>	37	AAAm
 Total fair value	 <u>\$ 10,558,971</u>		
 Portfolio weighted average maturity		 51	

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.

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 fair value to report net position to compute share prices. Accordingly, the fair value of the position in the Pools is the same as the value of Pool shares.

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	980,515	81,709	245,129	-	1,307,353
Mixed beverage taxes	17,854	-	-	-	17,854
Franchise fees	161,113	-	-	-	161,113
Due from developer	21,360				
Fines and fees	<u>1,027,948</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,027,948</u>
Gross receivables	2,210,719	81,709	245,129	2,422	2,539,979
Less: allowance for uncollectibles	<u>(999,798)</u>	<u>-</u>	<u>-</u>	<u>(75)</u>	<u>(999,873)</u>
Net total receivables	<u>\$ 1,210,921</u>	<u>\$ 81,709</u>	<u>\$ 245,129</u>	<u>\$ 2,347</u>	<u>\$ 1,540,106</u>

Deferred Revenue

Deferred revenue at year-end consisted of the following:

	<u>Unavailable</u>
Property taxes	\$ 2,347
Court fines	<u>28,269</u>
	<u>\$ 30,616</u>

Capital Assets

A summary of changes in capital assets for the year ended September 30, 2013, 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>3,097,182</u>	<u>1,787,984</u>	<u>(2,192,305)</u>	<u>2,692,861</u>
Total assets not being depreciated	<u>14,359,110</u>	<u>1,787,984</u>	<u>(2,192,305)</u>	<u>13,954,789</u>
Capital assets, being depreciated:				
Infrastructure	16,111,607	163,899	-	16,275,506
Buildings and improvements	11,583,485	2,169,565	-	13,753,050
Furniture and equipment	<u>1,245,702</u>	<u>238,489</u>	<u>-</u>	<u>1,484,191</u>
Total capital assets being depreciated	<u>28,940,794</u>	<u>2,571,953</u>	<u>-</u>	<u>31,512,747</u>
Less accumulated depreciation:				
Infrastructure	(1,551,852)	(408,151)	-	(1,960,003)
Buildings and improvements	(2,995,887)	(344,458)	-	(3,340,345)
Furniture and equipment	<u>(1,023,073)</u>	<u>(129,501)</u>	<u>-</u>	<u>(1,152,574)</u>
Total accumulated depreciation	<u>(5,570,812)</u>	<u>(882,110)</u>	<u>-</u>	<u>(6,452,922)</u>
Total capital assets being depreciated, net	<u>23,369,982</u>	<u>1,689,843</u>	<u>-</u>	<u>25,059,825</u>
Governmental activities capital assets, net	<u>\$ 37,729,092</u>	<u>\$ 3,477,827</u>	<u>\$ (2,192,305)</u>	<u>\$ 39,014,614</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 267,830
Public safety	87,916
Planning and development	408,407
Culture and recreation	<u>117,957</u>
	<u>\$ 882,110</u>

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 and the Capital Projects Fund to liquidate retainage payable.

	<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	\$ 3,525,000	\$ -	\$ 265,000	\$ 3,260,000	\$ 275,000
Tax notes	1,005,000	-	500,000	505,000	505,000
Tax revenue bonds	5,175,000	-	4,935,000	240,000	240,000
Tax revenue refunding bonds	-	5,175,000	320,000	4,855,000	280,000
Deferred loss on refunding	-	(411,208)	-	(411,208)	-
Retainage payable	146,658	-	128,658	18,000	-
Compensated absences	<u>20,253</u>	<u>69,741</u>	<u>70,837</u>	<u>19,157</u>	<u>-</u>
Total governmental activities	<u>\$ 9,871,911</u>	<u>\$ 4,833,533</u>	<u>\$ 6,219,495</u>	<u>\$ 8,485,949</u>	<u>\$ 1,300,000</u>

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>
2014	\$ 275,000	\$ 118,664
2015	285,000	108,654
2016	295,000	98,280
2017	310,000	87,542
2018	320,000	76,258
2019-2023	<u>1,775,000</u>	<u>198,562</u>
Total	<u>\$ 3,260,000</u>	<u>\$ 687,960</u>

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 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. The City has a contract with the Bee Cave Economic Development Corporation in which the Corporation has agreed to use its sales tax revenues to reimburse the City for all annual debt service payments for the Notes.

The annual debt service requirements to maturity for these notes are as follows:

Tax Notes, Series 2011		
Year Ending September 30,	Principal	Interest
2014	\$ 505,000	\$ 7,575
Total	\$ 505,000	\$ 7,575

Sales Tax Revenue Bonds – Bee Cave Economic Development Corporation – The City’s component unit, the Bee Cave Economic Development Corporation, has issued 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. A portion of these bonds, \$4,705,000, were refunded in December 2012. Annual debt service to maturity for these bonds is as follows:

Sales Tax Revenue Bonds, Series 2007		
Year Ending September 30,	Principal	Interest
2014	\$ 240,000	\$ 10,632
Total	\$ 240,000	\$ 10,632

Refunding - In December 2012, the Economic Development Corporation issued \$5,175,000 Series 2013 Sales Tax Refunding bonds to retired a portion of the outstanding debt for the Sales Tax Revenue Bonds, Series 2007. The proceeds were deposited directly into an escrow trust account and invested in obligations of the United States Government with maturities that coincide with principal and interest due dates. The investments will be adequate to retire the full amount of refunded bonds, which had a total face value of \$5,175,000. As a result the refunded portions of the bonds are considered to be defeased and the liabilities have been removed from the long-term liabilities of the City.

The purpose of the refunding was to lower the overall service requirements of the City. The refunding decreased the total debt service required by approximately \$1,095,181 and resulted in a current economic gain of \$602,691.

The Sales Tax Refunding bonds, Series 2013 bear an interest rate of 1.96% and payable from a lien on and pledge of revenues which includes the proceeds of three-eighths of one percent sales tax.

Annual debt service to maturity for these bonds is as follows:

Sales Tax Revenue Refunding Bonds, Series 2013		
Year Ending September 30,	Principal	Interest
2014	\$ 280,000	\$ 95,158
2015	535,000	89,670
2016	545,000	79,184
2017	550,000	68,502
2018	565,000	57,722
2019-2022	<u>2,380,000</u>	<u>117,894</u>
Total	<u>\$ 4,855,000</u>	<u>\$ 508,130</u>

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 2013 is \$3,494,568. 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 Transfers

Interfund transfers for the year were as follows:

Transfers out	Transfers in	Amounts	Purpose
General Fund	Capital Projects	\$ 1,191,569	To fund capital project
General Fund	Debt service	208,116	To fund debt service
Road Maintenance	Capital Projects	86,751	To fund capital project
Economic development 4B	Debt service	513,825	To fund debt service
Economic development 4B	General fund	116,500	To fund economic development project
Economic development 4B	Capital Projects	<u>396,353</u>	To fund capital project
		<u>\$ 2,513,114</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.

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.

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.

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 2013</u>	<u>Plan Year 2012</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>2013</u>	<u>2012</u>	<u>2011</u>
Annual required contribution (ARC)	\$ 129,252	\$ 114,282	\$ 124,003
Actual contributions made	<u>129,252</u>	<u>114,282</u>	<u>124,003</u>
NPO at the end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
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	23.1 years; closed period	22.0 years; closed period	21.3 years; closed period
Amortization period for new gains/losses	25 years	25 years	25 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment rate of return*	7.0%	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 Cost-of-living adjustments	3.0% 0%	3.0% 0%	3.0% 0%

Funded Status and Funding Progress

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	12/31/2012
Actuarial Value of Assets	\$ 2,265,982
Actuarial Accrued Liability	2,620,062
Annual Pension Cost	86.5%
Unfunded Actuarial Accrued Liability (UAAL)	354,080
Annual Covered Payroll	1,934,519
UAAL as a Percentage of Covered Payroll	18.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

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 contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were \$3,268, \$3,034, and \$3,295, respectively, which equaled the required contributions each year.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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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, 2013

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales taxes	\$ 4,875,000	\$ 5,550,000	\$ 5,762,920	\$ 212,920
Franchise fees and local taxes	495,000	583,969	591,701	7,732
Licenses and permits	406,000	790,256	867,013	76,757
Intergovernmental	-	12,076	12,076	-
Charges for services	11,500	7,071	6,796	(275)
Fines and forfeitures	250,000	267,595	307,609	40,014
Investment earnings	25,000	21,000	20,041	(959)
Miscellaneous	48,000	42,874	35,800	(7,074)
Total revenues	<u>6,110,500</u>	<u>7,274,841</u>	<u>7,603,956</u>	<u>329,115</u>
EXPENDITURES				
Current:				
General government	1,514,864	1,590,170	1,510,794	79,376
Public safety	1,790,306	1,724,254	1,633,488	90,766
Planning and development	461,328	622,353	572,351	50,002
Culture and recreation	485,089	457,344	443,228	14,116
Economic development	1,300,000	1,352,500	1,407,643	(55,143)
Capital outlay	750,000	129,079	263,069	(133,990)
Total expenditures	<u>6,301,587</u>	<u>5,875,700</u>	<u>5,830,573</u>	<u>45,127</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	<u>(191,087)</u>	<u>1,399,141</u>	<u>1,773,383</u>	<u>374,242</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	184	-	(184)
Insurance proceeds	-	-	7,792	7,792
Transfers in	613,825	116,500	116,500	-
Transfers out	-	(1,399,685)	(1,399,685)	-
Total other financing sources (uses)	<u>613,825</u>	<u>(1,283,001)</u>	<u>(1,275,393)</u>	<u>7,608</u>
NET CHANGE IN FUND BALANCES	422,738	116,140	497,990	381,850
FUND BALANCES, BEGINNING	<u>6,870,568</u>	<u>6,870,568</u>	<u>6,870,568</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ 7,293,306</u>	<u>\$ 6,986,708</u>	<u>\$ 7,368,558</u>	<u>\$ 381,850</u>

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CITY OF BEE CAVE, TEXAS

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

ECONOMIC DEVELOPMENT 4-B SALES TAX

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Sales taxes	\$ 1,218,750	\$ 1,387,500	\$ 1,503,449	\$ 115,949
Miscellaneous	-	5,573	5,571	(2)
Interest earnings	550	550	-	(550)
Total revenues	1,219,300	1,393,623	1,509,020	115,397
EXPENDITURES				
Current:				
Economic development	146,223	133,452	117,279	16,173
Debt service:				
Principal	344,626	550,000	550,000	-
Interest and other cost	114,626	74,354	133,146	(58,792)
Total expenditures	605,475	757,806	800,425	(42,619)
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	613,825	635,817	708,595	72,778
OTHER FINANCING SOURCES (USES)				
Issuance of refunding bonds	-	-	5,175,000	5,175,000
Payment to escrow agent	-	-	(5,116,208)	(5,116,208)
Transfers out	(613,825)	(1,010,178)	(1,026,678)	(16,500)
Total other financing sources (uses)	(613,825)	(1,010,178)	(967,886)	42,292
NET CHANGE IN FUND BALANCES	-	(374,361)	(259,291)	115,070
FUND BALANCES, BEGINNING	2,302,247	2,302,247	2,302,247	-
FUND BALANCES, ENDING	\$ 2,302,247	\$ 1,927,886	\$ 2,042,956	\$ 115,070

CITY OF BEE CAVE, TEXAS

NOTES TO BUDGETARY SCHEDULES

SEPTEMBER 30, 2013

BUDGETARY POLICIES

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the General Fund and the Economic Development 4-B Sales Tax 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, 2013

	12/31/10	12/31/11	12/31/12
Actuarial valuation date			
Actuarial value of assets	\$ 1,594,191	\$ 1,917,601	\$ 2,265,982
Actuarial accrued liability (AAL)	2,066,074	2,375,167	2,620,062
Funded ratio	77.2%	80.7%	86.5%
Unfunded actuarial accrued liability (UAAL)	471,883	457,566	354,080
Covered payroll	1,705,607	1,750,812	1,934,519
Unfunded actuarial accrued liability (UAAL) as a % of covered payroll	27.7%	26.1%	18.3%

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COMPLIANCE SECTION

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

INDEPENDENT AUDITORS' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Bee Cave, Texas, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Bee Cave, Texas' basic financial statements, and have issued our report thereon dated January 6, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Waco, Texas
January 6, 2014