

VILLAGE OF BEE CAVE, TEXAS

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2005

VILLAGE OF BEE CAVE, TEXAS

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INDEPENDENT AUDITOR'S REPORT

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Honorable Mayor and Aldermen
Village of Bee Cave, Texas
13333-A Highway 71 W
Bee Cave, Texas 78738

Mayor and Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Bee Cave, Texas (the "Village") as of and for the year ended September 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Village as of September 30, 2004 were audited by other auditors whose report dated December 17, 2004, expressed an unqualified opinion on those statements.

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 Village of Bee Cave as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages iii through viii are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Village of Bee Cave, Texas. Although the combining fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP
Fort Worth, Texas
December 12, 2005

VILLAGE OF BEE CAVE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Village of Bee Cave's annual financial report presents our discussion and analysis of the financial performance during the fiscal year ended September 30, 2005. Please read it in conjunction with the Village of Bee Cave's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Village of Bee Cave's total combined net assets were \$4.9 million on September 30, 2005.
- During the year, the Village of Bee Cave's total revenue was \$3.2 million generated in taxes, state and federal program revenues for governmental activities. This amount also includes a \$221 thousand transfer from 4B Economic Development Corporation, a component unit.
- The total cost of the Village of Bee Cave's programs was \$2.2 million. No new programs were added this year.
- The General Fund increased by \$435 thousand. The fund balance in all governmental funds this year is \$3.4 million.

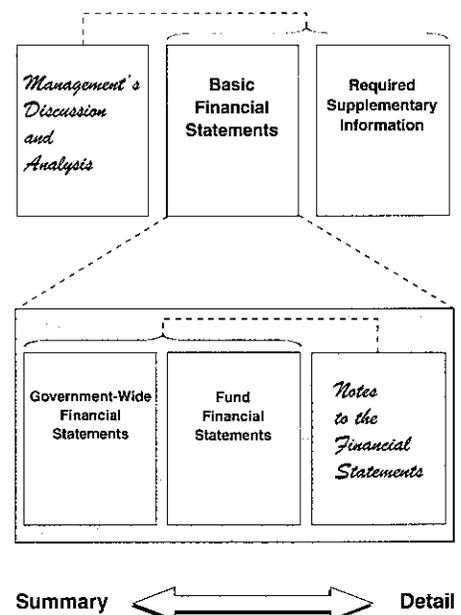
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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



Government-wide Statements

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

The two government-wide statements report the Village of Bee Cave's net assets and how they have changed. Net assets—the difference between the Village of Bee Cave's assets and liabilities—is one way to measure the Village of Bee Cave's financial health or position.

- Over time, increases or decreases in the Village of Bee Cave's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the Village of Bee Cave include the *Governmental activities*. Most of the Village of Bee Cave's basic services are included here, such as building inspection and development, code enforcement, municipal court and general administration. Sales and property taxes finance most of these activities.

FINANCIAL ANALYSIS OF THE VILLAGE OF BEE CAVE AS A WHOLE

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the Village's governmental activities.

Table I
Net Assets
(in thousands of dollars)

	Governmental Activities	
	2005	2004
Current and Other Assets		
Capital Assets	\$ 3,729	\$ 3,434
	1,476	1,000
Total Assets	5,205	4,434
Current Liabilities	295	174
Net Assets:		
Invested in Capital Assets, Net of Debt	1,476	1,000
Restricted	600	925
Unrestricted	2,834	2,335
Total Net Assets	\$ 4,910	\$ 4,260

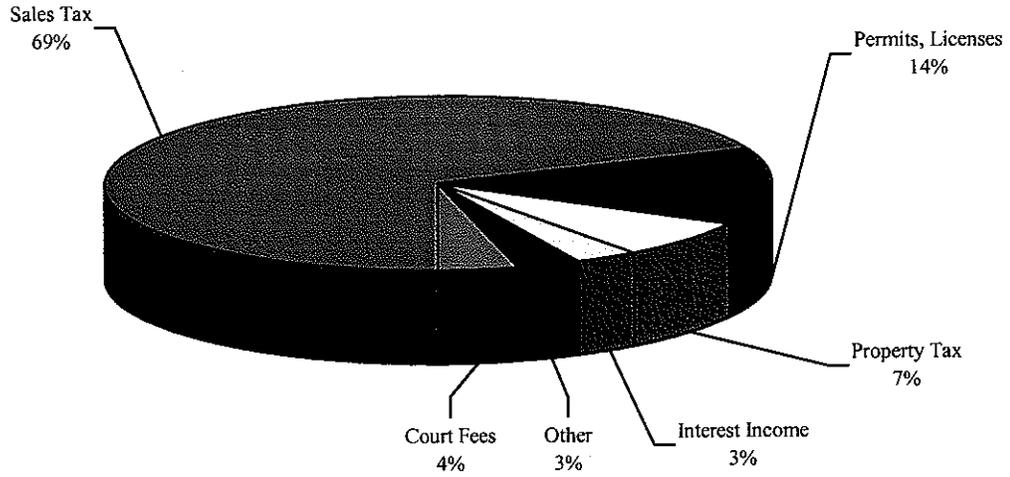
Table II
Changes in Net Assets
(in thousands of dollars)

	Governmental Activities	
	2005	2004
Revenues		
Program Revenues:		
Permits, licenses	\$ 397	\$ 718
Court fees	107	127
General Revenues:		
Sales tax	2,058	2,140
Property tax	220	179
Investment earnings	82	26
Other	121	5
	<u>2,985</u>	<u>3,195</u>
Expenses		
General government	1,299	1,504
Public safety	510	308
Highways and streets	36	-
Library and parks	387	35
Interest expense	1	7
	<u>2,233</u>	<u>1,854</u>
Increase in net assets before transfer	752	1,341
Transfer from 4B Economic Development Corp	221	-
Beginning net assets	4,260	2,919
Prior period adjustment	(323)	-
Ending Net Assets	<u>\$ 4,910</u>	<u>\$ 4,260</u>

Governmental Activities

As indicated by the chart on the following page, the Village of Bee Cave's revenue stream is supported primarily by Sales Tax, representing approximately 69% of the total revenue for FY 2004-05. The other significant portion, 14%, of the Village of Bee Cave's revenue comes from Building & Development fees, Inspections and Contractor registrations. The Village of Bee Cave's fiscal year 2004-05 property tax rate is \$0.08.

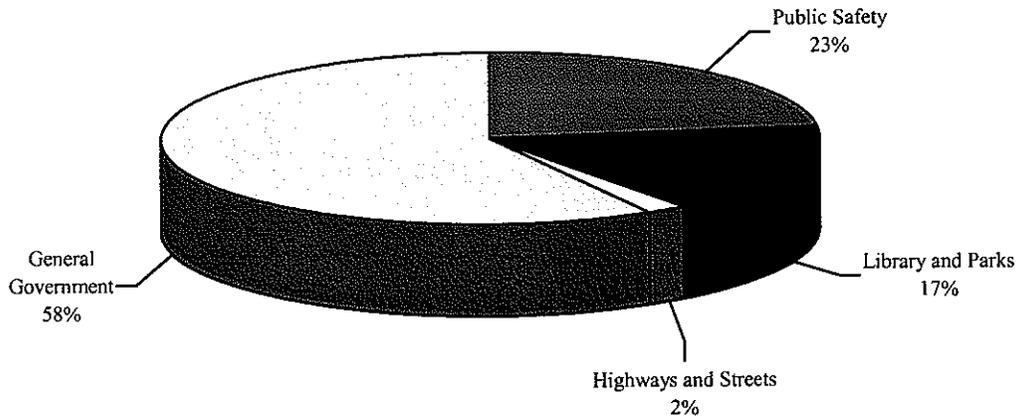
FY 2004-05 Revenue



Program Expenses

The Village of Bee Cave's various program expenses totaled \$2.2 million for the year ended September 30, 2005. The percentage distribution by program function is illustrated in the table below.

FY 2004-05 Expenditures



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005 the Village of Bee Cave had invested \$1.48 million in a broad range of capital assets, including land, equipment and buildings. (See table below.) This is a net amount. This amount represents a net increase of \$476 thousand. Given the organizational growth on our immediate horizon, we will continue to see a substantial increase in capital assets. During the year, the Village acquired five new vehicles, new computers and software, furniture and continued with road development.

	<u>2005</u>	<u>2004</u>
<u>Fixed Assets</u>		
Land	\$ 162,500	\$ 162,500
Buildings and Improvements	738,098	738,098
Furniture, Equipment and Vehicles	438,664	133,281
Construction in Progress	414,149	143,497
	<u>1,753,411</u>	<u>1,177,376</u>
Less accumulated depreciation	<u>276,629</u>	<u>177,332</u>
Net Fixed Assets	<u>\$ 1,476,782</u>	<u>\$ 1,000,044</u>

Long Term Debt

The Village of Bee Cave paid off \$50,000 of Tax Notes during the year ended September 30, 2005, and the Village is now debt free.

Financial Analysis of Governmental Funds

The General Fund net change in fund balance was \$434,750. This increase was primarily due to sales tax revenue of \$1.7 million. Sales tax revenue increased by 7% from the prior year due to the non-residential growth in the Village. However, sales tax revenue was 22% below budgeted amounts. Budget estimates were based on prior year growth which did not meet expectations due to construction delays of significant non-residential developments. Overall budgeted expenditures came in under budget by 13%. The net result is a \$268 thousand increase over the projected increase in the final budget.

The Road Maintenance Fund net change in fund balance was a decrease of \$236 thousand. This results from \$291 thousand in sales tax revenue less \$306 thousand in repairs and maintenance expenditures. The additional decrease is due to a transfer to the General Fund of \$221 thousand. Sales tax revenue increased by 19% over the prior year due to the non-residential growth in the Village. Repairs and maintenance expenditures increased from \$143 thousand in the prior year. These expenditures consist of road development costs that were capitalized as infrastructure in the government-wide statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

FY 2005-06 maintenance and operating expenses are projected to increase overall approximately 50%. This is substantial; however, the reason for the increase is simple. These increases are tied directly to the creation of our Police Department, full service Library and development of an Emergency Management Plan in fiscal year 2005-06. Unfortunately, recent events have shown the need for a well-planned and practiced, cohesive response to unforeseen circumstances by all government agencies. Without a comprehensive emergency plan in place, we risk citizen safety as well as inhibiting our ability to receive any federal reimbursement should an unfortunate event occur.

For FY 2005-06, our preliminary budget reflects a slight decrease of approximately 13% in the cost of professional services overall, since our contract with the Travis County Sheriff's Department for law enforcement comprised a substantial portion of this major category. Engineering fees make up much of the remainder of this category and while we do see an increase in the line item expenditure, this is quite understandable given the non-residential development underway in our community. As a general rule, engineering expenses are offset by the payment of development fees.

We are projecting an increase in FY 2005-06 for capital outlay and as with other line item expenditures, this is due primarily to the expansion of our organization. We are also hoping to dramatically improve customer service with planned expenditures related to GIS applications and the continued development of our website. In addition, we plan to continue our digital conversion for all required records retention with enhanced document imaging applications.

CONTACTING THE VILLAGE OF BEE CAVE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Village of Bee Cave's finances and to demonstrate the Village of Bee Cave's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Bee Cave's Administrator, James Fisher or the Assistant Administrator Travis Askey @ 512-767-6612. Visit the Village of Bee Cave's website at www.beecavetexas.com.

BASIC FINANCIAL STATEMENTS

VILLAGE OF BEE CAVE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

	Primary Government	Component Unit 4B Economic Development Corporation
	Governmental Activities	
ASSETS		
Cash and Temporary Investments	\$ 3,571,021	\$ 336,145
Receivables (net of allowance for uncollectibles)	157,555	20,470
Prepaid Items	122	-
Capital Assets:		
Land	162,500	-
Construction in Progress	414,149	-
Buildings, net	616,735	-
Machinery and Equipment, net	283,398	-
Total Assets	<u>5,205,480</u>	<u>356,615</u>
LIABILITIES		
Accounts Payable and other current liabilities	276,539	-
Intergovernmental Payable	14,863	8,539
Other Current Liabilities	4,065	-
Total Liabilities	<u>295,467</u>	<u>8,539</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	1,476,782	-
Restricted for:		
Restricted for Debt Service	66,425	-
Restricted for Municipal Court	146,495	-
Restricted for Road Maintenance	156,446	-
Restricted for Economic Development	230,169	348,076
Unrestricted Net Assets	2,833,696	-
Total Net Assets	<u>\$ 4,910,013</u>	<u>\$ 348,076</u>

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government	Component Unit
Governmental Activities	4B Economic Development Corporation
\$ (901,581)	\$ -
(403,642)	-
(35,613)	-
(387,242)	-
(121)	-
(1,438)	-
<u>(1,729,637)</u>	<u>-</u>
-	(59,492)
-	<u>(59,492)</u>
219,928	-
2,057,813	291,452
44,713	-
970	-
17,477	-
57,622	-
82,490	-
221,291	(221,291)
<u>2,702,304</u>	<u>70,161</u>
972,667	10,669
3,937,346	337,407
<u>\$ 4,910,013</u>	<u>\$ 348,076</u>

Other Funds	Total Governmental Funds
\$ 296,594	\$ 3,571,021
-	15,014
-	(751)
-	143,292
-	18,149
-	122
<u>\$ 296,594</u>	<u>\$ 3,746,847</u>
\$ -	\$ 276,539
-	14,863
-	18,149
-	14,263
-	4,065
<u>\$ -</u>	<u>\$ 327,879</u>
\$ 66,425	\$ 66,425
-	146,495
-	156,446
230,169	230,169
-	35,000
-	20,331
-	2,764,102
<u>\$ 296,594</u>	<u>\$ 3,418,968</u>
<u>\$ 296,594</u>	<u>\$ 3,746,847</u>

VILLAGE OF BEE CAVE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2005

Total Fund Balances - Governmental Funds	\$	3,418,968
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,177,376 and the accumulated depreciation was \$177,332. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		950,044
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the FY 2004-2005 capital outlays and debt principal payments is to increase net assets.		626,035
The 2005 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(99,297)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase net assets.		14,263
Net Assets of Governmental Activities	<u>\$</u>	<u>4,910,013</u>

The accompanying notes are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ -	\$ 220,403
-	2,057,813
-	44,713
-	970
-	380,630
-	17,477
-	49,400
-	82,416
-	82,490
8,999	48,311
<u>8,999</u>	<u>2,984,623</u>
-	1,504,521
-	509,922
-	306,266
-	387,242
121	121
50,000	50,000
1,438	1,438
<u>51,559</u>	<u>2,759,510</u>
<u>(42,560)</u>	<u>225,113</u>
221,291	458,343
-	(237,052)
<u>221,291</u>	<u>221,291</u>
178,731	446,404
117,863	2,972,564
<u>\$ 296,594</u>	<u>\$ 3,418,968</u>

VILLAGE OF BEE CAVE
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

Total Net Change in Fund Balances - Governmental Funds	\$	446,404
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the Fiscal Year 2005 capital outlays and debt principal payments is to increase net assets.		626,035
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(99,297)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to decrease net assets.		(475)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>972,667</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF BEE CAVE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts		Actual Amounts	Variance With
	Original	Final	(GAAP BASIS)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
Property Taxes	\$ 222,575	\$ 222,575	\$ 220,403	\$ (2,172)
General Sales and Use Taxes	2,250,000	2,250,000	1,766,483	(483,517)
Selective Sales and Use Tax for Mixed Drinks	25,000	25,000	-	(25,000)
Franchise Tax	40,000	40,000	44,713	4,713
Penalty and Interest on Taxes	-	-	970	970
Licenses and Permits	913,000	914,000	380,630	(533,370)
Intergovernmental Revenue and Grants	-	-	17,477	17,477
Charges for Services	6,000	5,000	49,400	44,400
Investment Earnings	20,000	20,000	82,490	62,490
Other Revenue	5,000	5,000	39,312	34,312
Total Revenues	3,481,575	3,481,575	2,601,878	(879,697)
EXPENDITURES:				
Current:				
General Government	1,583,616	1,583,616	1,475,494	108,122
Public Safety	710,193	710,193	509,922	200,271
Library and Parks	457,600	457,600	387,242	70,358
Total Expenditures	2,751,409	2,751,409	2,372,658	378,751
Excess (Deficiency) of Revenues Over (Under) Expenditures	730,166	730,166	229,220	(500,946)
OTHER FINANCING SOURCES (USES):				
Transfers In	-	-	221,291	221,291
Transfers Out (Use)	(563,220)	(563,220)	(15,761)	547,459
Total Other Financing Sources (Uses)	(563,220)	(563,220)	205,530	768,750
Net Change	166,946	166,946	434,750	267,804
Fund Balance - October 1 (Beginning)	2,384,683	2,384,683	2,384,683	-
Fund Balance - September 30 (Ending)	\$ 2,551,629	\$ 2,551,629	\$ 2,819,433	\$ 267,804

The accompanying notes are an integral part of this statement.

**VILLAGE OF BEE CAVE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Village of Bee Cave, Texas (the "Village") is a municipal corporation incorporated as a Type A General Law government. The Village operates under a Mayor and Board of Aldermen ("Board") 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 Village and its inhabitants. The Village prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Council and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas's uniform accounting requirements and the requirements of contracts and grants of agencies from which it receives funds.

The Mayor and Board of Aldermen are elected by the public and they have the authority to make decisions, appoint administrators and managers, and significantly influence operations. They also have the primary accountability for fiscal matters. Therefore, the Village is a financial reporting entity as defined by the Governmental Accounting Standards Council ("GASB") in its Statement No. 14, "The Financial Reporting Entity." In addition, component units which may be included are organizations for which the nature and the significance of their operational or financial relationship with the Village is such that the exclusion would cause the Village's financial statements to be misleading or incomplete.

Based upon the foregoing criteria, the following entity has been included in this report:

4B Economic Community Development Corporation (EDC) – Although the EDC is a legally separate entity from the Village, the EDC is reported as if it were part of the primary government because the Village serves in an administrative capacity for the EDC, and the EDC provides services almost exclusively for the benefit of the primary government. The EDC is authorized to act on behalf of the Village in order to encourage the promotion and development of community, commercial, industrial and manufacturing enterprises within the area. The EDC is funded primarily through a ¼ cent sales tax approved by the voters of the City. EDC financial statements are presented on the full accrual basis of accounting. Copies of their financial information may be obtained by contacting the Village of Bee Cave, 13333-A, Hwy. 71 West, Bee Cave, Texas 78734. The EDC is discretely presented as a component unit. It is reported in a separate column to emphasize that it is legally separate from the primary government. The EDC was reported as a special revenue fund in prior years' financial statements. A prior period adjustment has been made to remove the EDC's fund balance of \$337,407 from beginning net assets.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Village of Bee Cave and 4B Developmental Fund activities with the interfund activities removed. Governmental activities include programs supported primarily by taxes and permit, licenses and donations.

**VILLAGE OF BEE CAVE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005**

D. FUND ACCOUNTING

Basis of Accounting

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

The Village reports the following major governmental funds:

1. **The General Fund** - The General Fund is the Village's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Road Maintenance Fund** - The Village accounts for resources which are restricted for the purpose of road maintenance expenditures.
3. **Municipal Court Fund** - The Village accounts for resources from court fees and fines in this special revenue fund.

Additionally, the Village reports the following non-major fund types:

Governmental Funds:

1. **Special Revenue Funds** - The Village accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a special revenue fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Fund** - The Village accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a Debt Service fund.

VILLAGE OF BEE CAVE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

I. FIXED ASSETS

Fixed assets, which include land, buildings and improvements, furniture and equipment, and infrastructure, are reported in the government-wide financial statements. Fixed assets are recorded at cost where historical records are available and at estimated original cost where no historical records exist. Furniture and equipment purchased in excess of \$1,000 that have a useful life of one year or more are capitalized. Buildings and improvements and infrastructure are capitalized if the cost is in excess of \$10,000. The cost of normal maintenance and repairs that do not add to the value of the assets lives are not capitalized.

Major capital outlay for fixed assets and improvements are capitalized as projects are constructed. For debt-financed fixed assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed, net of interest earned on the invested proceeds over the same period. Fixed assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Contributed capital assets are valued at their estimated fair market value at the date of contribution.

Fixed assets used in operations are depreciation over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each fixed assets class is as follows:

Building and improvements	25 years
Furniture and fixtures	7-10 years
Computers and equipment	3-5 years
Vehicles	3-5 years
Infrastructure (streets, sidewalks, etc.)	10-50 years

J. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

VILLAGE OF BEE CAVE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Changes in Net Assets of Governmental Activities as reported on the government-wide Statement of Activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
<u>Current Year Capital Outlay</u>			
Furniture, Equipment and Vehicles	\$ 305,383		
Construction in Progress	270,652		
Total Capital Outlay	576,035	\$ 576,035	\$ 576,035
<u>Debt Principal Payments</u>			
Tax Notes	50,000	50,000	50,000
Total Adjustments to Net Assets		\$ 626,035	\$ 626,035

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 1,101	\$ (1,101)	\$
Uncollected taxes (assumed collectible) from Current Year Levy	626	626	626
Uncollected Taxes (assumed collectible) from Prior Year Levy	13,637		13,637
		\$ (475)	\$ 14,263

**VILLAGE OF BEE CAVE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005**

A. DEPOSITS AND INVESTMENTS, continued

The Village's temporary investments in investment pools at September 30, 2005, which are included in cash and temporary investments on the combined balance sheet, are as follows:

	Carrying Amount	Fair Value
Logic	\$ 1,070,898	\$ 1,070,898
MBIA	1,065,183	1,065,183
TexPool	1,070,817	1,070,817
	\$ 3,206,898	\$ 3,206,898

The Village's investments in pools are reported at an amount determined by their fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. LOGIC and TexPool are not SEC registered. TexPool regulatory oversight is provided by the Texas State Comptroller's office, TexPool, MBIA and LOGIC operate under the guidelines of the Texas Public Funds Investment Act. The fair value of the position in these pools is the same as the value of pool shares.

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the Village has adopted a deposit and investment policy. That policy does address the following risks:

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the Village's deposits may not be returned to it. The Village was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2005 were covered by depository insurance or by pledged collateral held by the Village's agent bank in the Village's name.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, investment policies of the Village's investment pools allow the portfolio's investment manager to only invest in obligations of the U.S. Government, its agencies; repurchase agreements; and no-load AAAM money market mutual funds registered with the SEC. As of September 30, 2005, TexPool's investments credit quality rating was AAAM (Standard & Poor's). LOGIC's investments had a rating of Aaa/MRI+ by Moodys, and the MBIA Texas CLASS was rated AAA by Fitch.

**VILLAGE OF BEE CAVE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005**

E. FIXED ASSETS

Capital asset activity for the Village for the year ended September 30, 2005, was as follows:

	Balance 9/30/04	Additions	Deletions	Balance 9/30/05
Land	\$ 162,500	\$	\$	\$ 162,500
Buildings and improvements	738,098			738,098
Furniture, equipment and vehicles	133,281	305,383		438,664
Construction in progress	143,497	270,652		414,149
Totals at historical cost	<u>1,177,376</u>	<u>576,035</u>		<u>1,753,411</u>
Less Accumulated Depreciation:				
Buildings	102,910	18,453		121,363
Furniture, equipment and vehicles	74,422	80,844		155,266
Total accumulated depreciation	<u>177,332</u>	<u>99,297</u>		<u>276,629</u>
Governmental Activities Capital Assets Net	<u>\$ 1,000,044</u>	<u>\$ 476,738</u>	<u>\$</u>	<u>\$ 1,476,782</u>

Depreciation expense was charged to general government.

F. OPERATING LEASES

The Village of Bee Cave has leased a modular building for the Police Department and the Library effective October 1, 2005. This agreement is treated as an operating lease, and the future minimum rental payments for these leases as of September 30, 2005 are:

<u>Year Ending September 30</u>	
2006	\$ 36,792
2007	36,792
2008	36,792
Total Minimum Rentals	<u>\$ 110,376</u>

G. TAX NOTE PAYABLE

The Village has a tax note payable at 5.75% interest, payable semi-annually, and secured by tax revenue. This note was paid in full during the current fiscal year. The following is a summary of debt service fund transactions of the Village for the year ended September 30, 2005.

	Beginning Balance	Increase	Payments	Ending Balance
Tax Note, 1998	\$ 50,000	\$	\$ 50,000	\$ -

**VILLAGE OF BEE CAVE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005**

I. TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN DESCRIPTION, continued

Contributions

Under the state law governing TMRS, the actuary annually determines the Village contribution rate. This rate consists of the normal costs contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year-to-year. The normal cost contribution rate finances the currently accruing monetary credits due to the Village matching percent, which are the obligation of the Village as of an employee's retirement date, not at the time the employee's contributions are made.

The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the Village to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's twenty-five year amortization period. The unit credit actuarial cost method is used for determining the Village's contribution rate. Both the employees and the Village make contributions monthly. Since the Village needs to know its contribution rate in advance for budget 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 (i.e. December 31, 2004 valuation is effective for rates beginning January 2006).

Actuarial Valuation Date	December 31, 2004
Actuarial value of assets	\$ 279,953
Actuarial accrued liability	\$ 308,435
Percentage funded	90.8%
Unfunded (Over funded) Actuarial Accrued Liability (UAAL)	\$ 28,482
Annual covered payroll	\$ 430,133
UAAL as a % of covered payroll	6.6%
 Net Pension Obligation (NPO) at the beginning of period	 \$ -
Annual Pension Cost:	
Plus Annual Required Contribution (ARC)	33,105
	<hr style="width: 100%;"/>
	33,105
Less Contributions Made:	33,105
	<hr style="width: 100%;"/>
Net Pension Obligation (NPO) at end of period	\$ -

ANNUAL FINANCIAL REPORT

The Village is one of 794 municipalities having their retirement benefit plan administered by TMRS. Each of the 794 municipalities have an annual, individual actuarial valuation performed. All assumptions for the December 31, 2004 valuations are contained in the 2004 TMRS Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

**VILLAGE OF BEE CAVE, TEXAS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005**

K. CONTINGENCIES

Baldwin Lawsuit

On May 22, 2000 the Village was sued by Robert B. Baldwin, III, Independent Co-Executor of the Estate of Dorothy Geiselman Baldwin, Deceased, concerning a 117-acre tract of land adjoining Highway 71 West between RR 620 and Bee Caves Road. The lawsuit has been abated pursuant to a tri-party agreement involving the Village, the Baldwin interests, and Christopher Milam. Mr. Milam is a developer who seeks to develop a project on the Baldwin property. The project is popularly known as the Hill Country Galleria. If Mr. Milam is not successful in developing the Hill Country Galleria, the agreement between Mr. Baldwin and the Village provides that the Village and Baldwin will go back to the same legal position they were in before the agreement between Mr. Milam and the Village. If the lawsuit resumes, there is considerable risk the Village could lose the Baldwin litigation. As part of his requested relief, Mr. Baldwin seeks award of attorneys' fees. These fees would probably total several hundred thousand dollars.

Save Our Springs Lawsuit

This case involves a challenge by the Plaintiffs to an economic development agreement between the Village and a private developer. The Plaintiffs claim that the agreement is unconstitutional and an unlawful exercise of the Village's authority as a governmental entity. The case was dismissed by the trial court for lack of jurisdiction. The Plaintiffs have appealed the dismissal. The Plaintiffs are not seeking a damages award. However, if the Plaintiffs are successful on appeal and the case proceeds to trial, the Village could be potentially liable for attorney's fees that could exceed \$10,000.

L. PRIOR PERIOD ADJUSTMENT

Prior period adjustments were made to the government-wide Statement of Activities as follows:

Remove net asset balance of 4B Economic Development Corp. which is presented as component unit	\$ (337,407)
To record property tax revenue earned in prior years	<u>14,738</u>
Net decrease in beginning fund balance	<u>\$ (322,629)</u>

COMBINING SCHEDULES

VILLAGE OF BEE CAVE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005

	210 Economic Development Fund	500 Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and Temporary Investments	\$ 230,169	\$ 66,425	\$ 296,594
Total Assets	<u>\$ 230,169</u>	<u>\$ 66,425</u>	<u>\$ 296,594</u>
Fund Balances:			
Reserved For:			
Debt Service	-	66,425	66,425
Economic Development	230,169	-	230,169
Total Fund Balances	<u>230,169</u>	<u>66,425</u>	<u>296,594</u>
Total Liabilities and Fund Balances	<u>\$ 230,169</u>	<u>\$ 66,425</u>	<u>\$ 296,594</u>

VILLAGE OF BEE CAVE
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	210 Economic Development Fund	500 Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:			
Other Revenue	\$ 8,999	\$ -	\$ 8,999
Total Revenues	<u>8,999</u>	<u>-</u>	<u>8,999</u>
EXPENDITURES:			
Current:			
Conservation and Development:			
Economic Development	121	-	121
Debt Service:			
Debt Principal	-	50,000	50,000
Interest Payments	-	1,438	1,438
Total Expenditures	<u>121</u>	<u>51,438</u>	<u>51,559</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>8,878</u>	<u>(51,438)</u>	<u>(42,560)</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	<u>221,291</u>	-	<u>221,291</u>
Total Other Financing Sources (Uses)	<u>221,291</u>	<u>-</u>	<u>221,291</u>
Net Change in Fund Balance	230,169	(51,438)	178,731
Fund Balance - October 1 (Beginning)	<u>-</u>	<u>117,863</u>	<u>117,863</u>
Fund Balance - September 30 (Ending)	<u>\$ 230,169</u>	<u>\$ 66,425</u>	<u>\$ 296,594</u>

OTHER INFORMATION REQUIRED BY GAO



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

Independent Auditor's Report

1300 S. University Dr.
Suite 308
Fort Worth, Texas
76107-5737

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Mayor and Aldermen
Village of Bee Cave, Texas
13333-A Highway 71 W
Bee Cave, Texas 78738

Members of the Council:

We have audited the financial statements of Village of Bee Cave as of and for the year ended September 30, 2005, and have issued our report thereon dated December 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Bee Cave's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Bee Cave's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the administration of the Village of Bee Cave, in a letter dated December 12, 2005.

This report is intended for the information of the Village's trustees, the audit committee, the administration, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP
Fort Worth, Texas
December 12, 2005