

City of Bee Cave, Texas

**Independent Auditors' Report
and Financial Statements**

**For the Year Ended
September 30, 2007**

**Preston Singleton, CPA, PC
Certified Public Accountant**

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**CITY OF BEE CAVE, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

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Independent Auditors' Report

Honorable Mayor and City Council Members
City of Bee Cave, Texas
4000 Galleria Pkwy.
Bee Cave, Texas 78738

Honorable Mayor and City Council Members:

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, (the "City") as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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, 2007, 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 3-8 of this report is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. 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 January 21, 2008, on our consideration of the City'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 *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Although the combining fund financial statements 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.

Preston Singleton, CPA, P.C.

Preston Singleton, CPA, P.C.
Cedar Park, Texas

January 21, 2008

CITY OF BEE CAVE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Bee Cave's annual financial report presents our discussion and analysis of the financial performance during the fiscal year ended September 30, 2007. Please read it in conjunction with the City of Bee Cave's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the year ended September 30, 2007, the General Fund of the City of Bee Cave experienced a fund balance decrease of approximately \$1.15 million, to end at just over \$2.2 million.
- Total governmental-type funds (the General Fund plus all Special Revenue Funds, the Debt Service Fund, and the Capital Projects Fund) of the City of Bee Cave reported an overall fund balance decrease of approximately \$636 thousand, to end at just over \$4.0 million.
- The total cost of the City of Bee Cave's activities was approximately \$3.4 million. This amount is inclusive of depreciation expense recorded on the capital assets of the City.

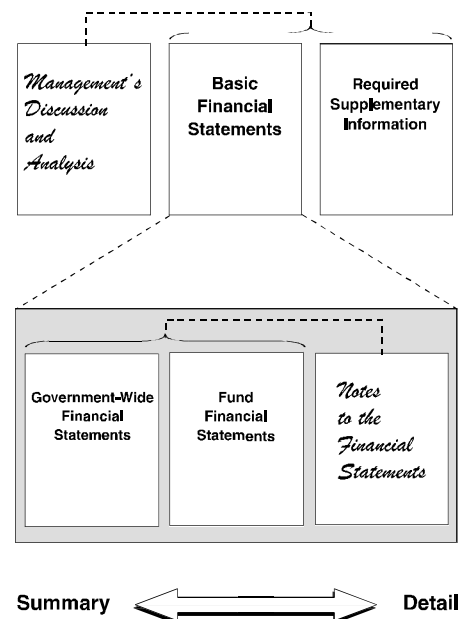
OVERVIEW OF THE FINANCIAL STATEMENTS

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 City of Bee Cave:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City of Bee Cave's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City 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 City's Annual Financial Report



Government-Wide Statements

The government-wide statements report information about the City 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 City of Bee Cave's net assets and how they have changed. Net assets - the difference between the City of Bee Cave's assets and liabilities - is one way to measure the City of Bee Cave's financial health or position. Over time, increases or decreases in the City 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 City of Bee Cave include the *governmental activities*. Most of the City of Bee Cave's basic services are included here, such as building inspection and development, code enforcement, public safety, municipal court and general administration. Sales and property taxes finance most of these activities.

FINANCIAL ANALYSIS OF THE CITY OF BEE CAVE AS A WHOLE

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

Table I
Net Assets
(in thousands of dollars)

	Governmental Activities		
	2007	2006	Change
Assets			
Current and Other Assets	\$ 7,469	\$ 6,177	\$ 1,292
Capital Assets	<u>24,597</u>	<u>10,659</u>	<u>13,938</u>
Total Assets	<u>32,066</u>	<u>16,836</u>	<u>15,230</u>
Liabilities			
Current liabilities	3,452	1,494	1,958
Long-term Liabilities	<u>275</u>	<u>300</u>	<u>(25)</u>
Total Liabilities	<u>3,727</u>	<u>1,794</u>	<u>1,933</u>
Net Assets			
Invested in Capital Assets, Net of Debt	24,325	10,659	13,666
Restricted	2,042	1,496	546
Unrestricted	<u>1,973</u>	<u>2,887</u>	<u>(914)</u>
Total Net Assets	<u>\$ 28,339</u>	<u>\$ 15,042</u>	<u>\$ 13,297</u>

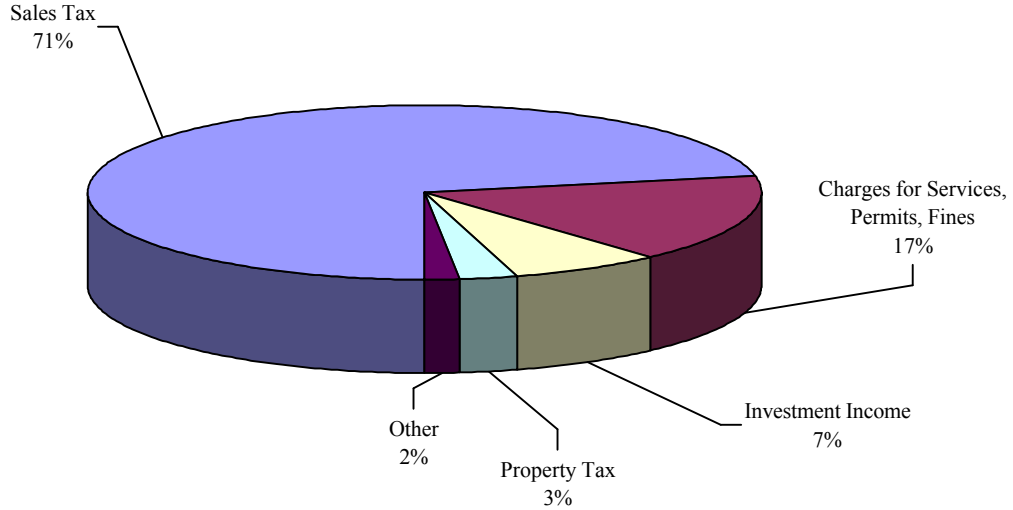
Table II
Changes in Net Assets
(in thousands of dollars)

	Governmental Activities	
	2007	2006
Revenues		
Program Revenues:		
Charges for services	\$ 707	\$ 1,633
General Revenues:		
Sales tax	3,005	3,076
Property tax	113	65
Grants and contributions	12,500	8,000
Investment earnings	319	240
Other	77	28
Total Revenues	16,720	13,041
Expenses		
General government	1,207	981
Public safety	1,071	639
Highways and streets	-	8
Community services	743	980
Parks and recreation	261	298
Interest payments	13	-
Debt issuance costs	3	3
Capital outlay dept. - other	125	-
Total Expenses	3,423	2,909
Change in Net Assets	13,297	10,132
Beginning Net Assets	15,042	4,910
Ending Net Assets	\$ 28,339	\$ 15,042

Governmental Activities

As indicated by the chart on the following page, the City of Bee Cave's primary revenue source is sales taxes, representing approximately 71% of the total revenue for FY 2006-07. For purposes of this revenue analysis, revenue recorded in the amount of \$12,500,000 for land and infrastructure donated to the City during the year as part of the Hill Country Galleria 380 Agreement has been excluded. Other significant revenues were derived from Charges for Services such as Building & Development Fees, Inspections, and Contractor Registrations. The City of Bee Cave's fiscal year 2006-07 property tax rate was \$0.02 per \$100 property valuation.

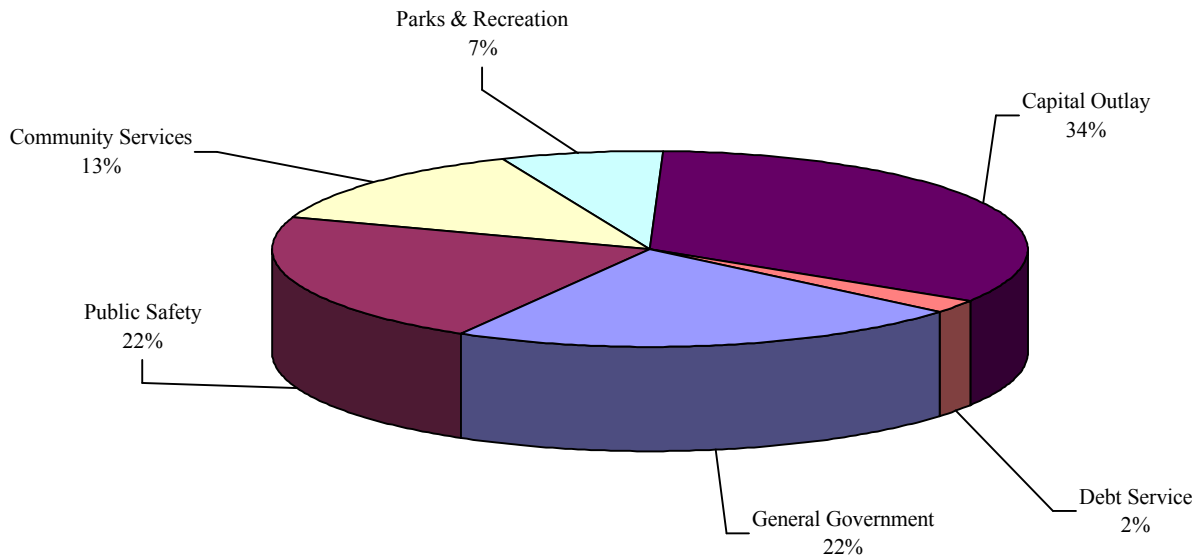
FY 2006-07 Revenue Percentages



Departmental Expenditures

The City of Bee Cave's various departmental expenditures totaled \$4.9 million for the year ended September 30, 2007. For purposes of this expenditure analysis the \$12.5 expenditure recorded in relation to the donated land and infrastructure has been excluded. The percentage distribution by department is illustrated in the table below.

FY 2006-07 Expenditures



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At year end, the City of Bee Cave had invested \$24.6 million in a broad range of capital assets, including land, infrastructure, buildings, and equipment (see table below). This amount is net of accumulated depreciation and represents an increase of \$13.9 million over the prior year. The majority of the increase over the previous year is due to a donation of land and infrastructure received during the year in relation to the Hill Country Galleria 380 Agreement with an estimated value of \$12.5 million. Given the organizational growth on our immediate horizon, we will continue to see a substantial increase in capital assets.

Table III
City of Bee Cave, Texas
Summary of Capital Assets

	Governmental Activities 2007	Governmental Activities 2006	Change
Land	\$ 10,552,044	\$ 9,576,752	\$ 975,292
Infrastructure	9,190,174	-	9,190,174
Buildings and improvements	830,258	745,114	85,144
Machinery and equipment	668,600	446,470	222,130
Construction in Progress	4,061,310	217,882	3,843,428
Totals at historical cost	<u>25,302,386</u>	<u>10,986,218</u>	<u>14,316,168</u>
Less accumulated depreciation	<u>(705,831)</u>	<u>(327,311)</u>	<u>(378,520)</u>
Capital assets, net of depreciation	<u>\$ 24,596,555</u>	<u>\$ 10,658,907</u>	<u>\$ 13,937,648</u>

Long Term Debt

Table IV
City of Bee Cave, Texas
Summary of Long-Term Debt

	Governmental Activities 2007	Governmental Activities 2006	Change
Maintenance Tax Notes	<u>\$ 200,000</u>	<u>\$ 300,000</u>	<u>\$ (100,000)</u>
Totals	<u>\$ 200,000</u>	<u>\$ 300,000</u>	<u>\$ (100,000)</u>

CONTACTING THE CITY 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 City of Bee Cave's finances and to demonstrate the City of Bee Cave's accountability for the money it receives. If you have questions about this report or need additional financial information contact the City of Bee Cave's Assistant Administrator, Travis Askey @ 512-767-6612. Please also visit the City of Bee Cave's website at www.beecavetexas.com.

CITY OF BEE CAVE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

EXHIBIT A-1

Data Control Codes	<u>Primary Government</u>	<u>Component Unit 4B Economic Dev. Corporation</u>
ASSETS		
1010 Cash and Cash Equivalents	\$ 1,818,716	\$ 587,255
1030 Investments - Current	5,359,608	-
1150 Receivables (net of allowance for uncollectibles)	346,104	48,863
1300 Internal Balances	(78,947)	-
1330 Due from Primary Government	-	78,946
1430 Prepaid Items	20,555	-
1520 Capitalized Debt Issuance Costs	3,166	-
Capital Assets:		
1710 Land	10,552,044	-
1720 Infrastructure, net	8,960,420	-
1730 Buildings, net	669,511	-
1750 Machinery and Equipment, net	353,270	-
1780 Construction in Progress	4,061,310	-
1000 Total Assets	<u>32,065,757</u>	<u>715,064</u>
LIABILITIES		
2020 Accounts Payable and other current liabilities	2,296,952	333
2070 Intergovernmental Payable	274,408	-
2270 Other Current Liabilities	880,112	-
Noncurrent Liabilities		
2501 Due Within One Year	120,555	-
2502 Due in More Than One Year	154,338	-
2000 Total Liabilities	<u>3,726,365</u>	<u>333</u>
NET ASSETS		
3200 Invested in Capital Assets, Net of Related Debt	24,324,828	-
Restricted for:		
3810 Restricted for Debt Service	51,349	-
3820 Restricted for Road Maintenance	1,141,168	-
3840 Restricted for Capital Projects	239,393	-
3850 Restricted for Economic Development	230,169	-
3890 Restricted for Other Purposes	379,787	714,731
3900 Unrestricted Net Assets	1,972,698	-
3000 Total Net Assets	<u>\$ 28,339,392</u>	<u>\$ 714,731</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF BEE CAVE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Data Control Codes	Expenses	<u>Program Revenues</u> Charges for Services
Primary Government:		
GOVERNMENTAL ACTIVITIES:		
10 General Government	\$ 1,206,792	\$ 586,995
20 Public Safety	1,071,126	112,922
41 Community Services	742,838	-
50 Parks and Recreation	260,715	6,712
73 Long-Term Debt Interest	13,465	-
76 Debt Issuance Costs	3,167	-
81 Capital Outlay Department - Other Expenses	124,866	-
TOTAL PRIMARY GOVERNMENT:	\$ 3,422,968	\$ 706,629
Component Unit:		
¹⁹⁹¹ 4B Economic Development Corporation	\$ 513,052	\$ -
TOTAL COMPONENT UNIT:	\$ 513,052	\$ -

Data Control Codes	General Revenues:
	Taxes:
5010	Property Taxes, Levied for General Purposes
5011	Property Taxes, Levied for Debt Service
5120	Sales Taxes
5170	Franchise Taxes
5190	Penalty and Interest
5600	Grants and Contributions Not Restricted
5700	Miscellaneous Revenue
5800	Investment Earnings
	Total General Revenues
	Change in Net Assets
	Net Assets--Beginning
	Net Assets--Ending

The notes to the Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary	Government	Component Unit
		4B
	Governmental Activities	Economic Dev. Corporation
\$	(619,797)	\$ -
	(958,204)	-
	(742,838)	-
	(254,003)	-
	(13,465)	-
	(3,167)	-
	(124,866)	-
	<u>(2,716,339)</u>	<u>-</u>
	-	(513,052)
	<u>-</u>	<u>(513,052)</u>
	11,602	-
	99,960	-
	3,004,556	550,902
	57,539	-
	1,524	-
	12,500,000	-
	19,804	-
	318,630	-
	<u>16,013,615</u>	<u>550,902</u>
	13,297,275	37,850
	15,042,116	676,881
	<u>28,339,392</u>	<u>714,731</u>

CITY OF BEE CAVE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007

Data Control Codes	General Fund	Road Maintenance	Capital Projects
ASSETS			
1010 Cash and Cash Equivalents	\$ -	\$ 995,211	\$ 312,142
1030 Investments - Current	5,359,608	-	-
1050 Taxes Receivable	2,625	-	-
1051 Allowance for Uncollectible Taxes (credit)	(131)	-	-
1150 Receivables (net of allowance for uncollectibles)	293,177	48,862	-
1300 Due from Other Funds	63,249	97,095	-
1430 Prepaid Items	-	-	20,555
1000 Total Assets	<u>\$ 5,718,528</u>	<u>\$ 1,141,168</u>	<u>\$ 332,697</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2010 Accounts Payable	\$ 2,188,515	\$ -	\$ 20,555
2020 Wages and Salaries Payable	36,272	-	-
2070 Intergovernmental Payable	241,653	-	-
2080 Due to Other Funds	176,042	-	72,749
2220 Deferred Revenues	2,493	-	-
2270 Other Current Liabilities	853,592	-	-
2000 Total Liabilities	<u>3,498,567</u>	<u>-</u>	<u>93,304</u>
Fund Balances:			
Reserved For:			
3410 Debt Service	-	-	-
3420 Road Maintenance	-	1,141,168	-
3430 Capital Projects	-	-	239,393
3440 Contingencies	35,000	-	-
3450 Beautification	188,611	-	-
3460 Municipal Court	-	-	-
3470 Economic Development	-	-	-
Unreserved and Undesignated:			
3600 Reported in the General Fund	<u>1,996,350</u>	<u>-</u>	<u>-</u>
3000 Total Fund Balances	<u>2,219,961</u>	<u>1,141,168</u>	<u>239,393</u>
4000 Total Liabilities and Fund Balances	<u>\$ 5,718,528</u>	<u>\$ 1,141,168</u>	<u>\$ 332,697</u>

The notes to the Financial Statements are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 511,363	\$ 1,818,716
-	5,359,608
1,654	4,279
(83)	(214)
-	342,039
9,500	169,844
-	20,555
<u>\$ 522,434</u>	<u>\$ 7,714,827</u>
\$ 22,469	\$ 2,231,539
1,425	37,697
32,755	274,408
-	248,791
1,571	4,064
26,520	880,112
<u>84,740</u>	<u>3,676,611</u>
51,349	51,349
-	1,141,168
-	239,393
-	35,000
-	188,611
156,176	156,176
230,169	230,169
-	1,996,350
<u>437,694</u>	<u>4,038,216</u>
<u>\$ 522,434</u>	<u>\$ 7,714,827</u>

CITY OF BEE CAVE, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2007

Total Fund Balances - Governmental Funds	\$	4,038,216
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 \$10,986,218 and the accumulated depreciation was \$327,311. 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 (decrease) net assets.		10,358,907
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 2007 capital outlays and debt principal payments is to increase (decrease) net assets.		14,344,441
The 2007 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(378,520)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(23,652)
Net Assets of Governmental Activities	<u>\$</u>	<u>28,339,392</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF BEE CAVE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Data Control Codes	General Fund	Road Maintenance	Capital Projects
REVENUES:			
Taxes:			
5110 Property Taxes	\$ 11,583	\$ -	\$ -
5120 General Sales and Use Taxes	2,453,654	550,902	-
5170 Franchise Tax	57,539	-	-
5190 Penalty and Interest on Taxes	1,524	-	-
5200 Licenses and Permits	456,164	-	-
5400 Charges for Services	101,242	-	-
5510 Fines	-	-	-
5610 Investment Earnings	306,881	-	11,749
5640 Contributions & Donations from Private Sources	12,500,000	-	-
5700 Other Revenue	20,000	-	-
5020 Total Revenues	<u>15,908,587</u>	<u>550,902</u>	<u>11,749</u>
EXPENDITURES:			
Current:			
0010 General Government	972,271	-	-
0020 Public Safety	1,078,665	-	-
0040 Community Services	661,017	-	-
0050 Culture and Recreation	348,906	-	-
Debt Service:			
0071 Debt Principal	-	-	-
0073 Debt Interest	-	-	-
Capital Outlay:			
0081 Capital Outlay	14,070,983	-	63,249
6030 Total Expenditures	<u>17,131,842</u>	<u>-</u>	<u>63,249</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,223,255)</u>	<u>550,902</u>	<u>(51,500)</u>
OTHER FINANCING SOURCES (USES):			
7913 Proceeds from Capital Leases	74,893	-	-
7080 Total Other Financing Sources (Uses)	<u>74,893</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	(1,148,362)	550,902	(51,500)
0100 Fund Balance - October 1 (Beginning)	<u>3,368,323</u>	<u>590,266</u>	<u>290,893</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 2,219,961</u>	<u>\$ 1,141,168</u>	<u>\$ 239,393</u>

The notes to the Financial Statements are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 98,389	\$ 109,972
-	3,004,556
-	57,539
-	1,524
-	456,164
36,301	137,543
112,922	112,922
-	318,630
-	12,500,000
(196)	19,804
247,416	16,718,654
121,177	1,093,448
-	1,078,665
-	661,017
-	348,906
100,000	100,000
13,465	13,465
-	14,134,232
234,642	17,429,733
12,774	(711,079)
-	74,893
-	74,893
12,774	(636,186)
424,920	4,674,402
\$ 437,694	\$ 4,038,216

CITY OF BEE CAVE, TEXAS
 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, 2007

Total Net Change in Fund Balances - Governmental Funds	\$	(636,186)
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 2007 capital outlays and debt principal payments is to increase (decrease) net assets.		14,338,108
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.		(378,520)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		(26,127)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>13,297,275</u>

The notes to the Financial Statements are an integral part of this statement.

CITY OF BEE CAVE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
Taxes:					
5110	Property Taxes	\$ 198,800	\$ 198,800	\$ 11,583	\$ (187,217)
5120	General Sales and Use Taxes	4,900,000	4,900,000	2,453,654	(2,446,346)
5170	Franchise Tax	50,000	50,000	57,539	7,539
5190	Penalty and Interest on Taxes	-	-	1,524	1,524
5200	Licenses and Permits	34,100	34,100	456,164	422,064
5400	Charges for Services	-	-	101,242	101,242
5610	Investment Earnings	260,000	260,000	306,881	46,881
5630	Escheats	900,000	900,000	-	(900,000)
5640	Contributions & Donations from Private Sources	-	-	12,500,000	12,500,000
5700	Other Revenue	15,000	15,000	20,000	5,000
5020	Total Revenues	6,357,900	6,357,900	15,908,587	9,550,687
EXPENDITURES:					
Current:					
0010	General Government	1,019,889	1,019,889	972,271	47,618
Public Safety:					
0021	Police	948,205	948,205	1,078,665	(130,460)
0040	Community Services	688,805	688,805	661,017	27,788
Culture and Recreation:					
0052	Parks	41,134	41,134	162,158	(121,024)
0055	Libraries	181,048	181,048	186,748	(5,700)
Debt Service:					
0071	Debt Principal	363,465	363,465	-	363,465
Capital Outlay:					
0081	Capital Outlay	1,590,000	1,590,000	14,070,983	(12,480,983)
6030	Total Expenditures	4,832,546	4,832,546	17,131,842	(12,299,296)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	1,525,354	1,525,354	(1,223,255)	(2,748,609)
OTHER FINANCING SOURCES (USES):					
7913	Proceeds from Capital Leases	-	-	74,893	74,893
7080	Total Other Financing Sources (Uses)	-	-	74,893	74,893
1200	Net Change	1,525,354	1,525,354	(1,148,362)	(2,673,716)
0100	Fund Balance - October 1 (Beginning)	3,368,323	3,368,323	3,368,323	-
3000	Fund Balance - September 30 (Ending)	\$ 4,893,677	\$ 4,893,677	\$ 2,219,961	\$ (2,673,716)

The accompanying notes are an integral part of this statement.

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The City of Bee Cave, Texas (the “City”) is a municipal corporation incorporated as a Type-A General Law government. The City operates under a Mayor and City Council (“Council”) form of government and provides such services as are authorized by the Texas Local Government Code to advance the welfare, health, morals, comfort, safety and convenience of the City and its inhabitants. The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board 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 City Council 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 City is a financial reporting entity as defined by the Governmental Accounting Standards Board (“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 City is such that the exclusion would cause the City’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 reported as if it were part of the primary government because the City 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 City 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 City of Bee Cave, 4000 Galleria Pkwy., Bee Cave, Texas 78738. 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.

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 City 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.

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

The Statement of Activities demonstrates how other people or entities that participate in programs have shared in the payment of the direct costs. The “charges for services” column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the City. The “grants and contributions” columns include amounts paid by organizations outside the City to help meet the operational or capital requirements of a given function. If a revenue is not a program revenue, it is a general revenue used to support all of the City’s functions. Taxes are always general revenues.

All interfund transactions between governmental funds are eliminated on the government-wide statements. The fund statements provide reports on the financial condition and results of operations for governmental funds. The City considers some governmental funds major and reports their financial condition and results of operations in a separate column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

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

Property and sales tax revenues are recognized when both measurable and available. Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues (except earnings and investments) are recorded as revenues when received in cash, because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are measurable and available.

D. FUND ACCOUNTING

Basis of Accounting

The accounts of the City 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.

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

The City reports the following major governmental funds:

1. **General Fund** – The General Fund is the primary operating fund of the City. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Road Maintenance Fund** – The City accounts for resources which are restricted for the purpose of road maintenance expenditures in the Road Maintenance Fund.
3. **Capital Projects Fund** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

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

Governmental Funds:

1. **Special Revenue Funds** – The City accounts for resources restricted to, or designated for, specific purposes by the City or outside grantors in a special revenue fund in order to have more transparent accountability.
2. **Debt Service Fund** - The City accounts for resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds in a debt service fund.

E. ACCRUED ABSENCES

The City has recorded the value of earned but unused compensated absences (vacation) by employees as an accrued liability in Statement of Net Assets. The annual budgets of the operating funds provide funding for these benefits as they become payable and costs are expensed as the liability is liquidated. There was a balance of \$27,716 in accrued compensated absences at September 30, 2007.

F. PROPERTY TAX

Property taxes are considered available when collected within the current period or expected to be collected soon. Property taxes are considered available when collected within the current period or expected to be soon enough thereafter to be used to pay liabilities of the current period. The City levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll of January 1, 2006, upon which the levy for the 2006-2007 fiscal year was based, was \$494,788,400. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2007, to finance General Fund operations and Interest and Sinking requirements were \$0.00 and \$0.02, respectively, per \$100 valuation. Total tax collections, including collections of prior year delinquent balances, for the year ended September 30, 2007, were 111% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. The City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

G. 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 has a useful life of one year or more are capitalized. Buildings and improvements and infrastructure are capitalized if the cost is in excess of \$5,000. 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 depreciated 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:

Buildings and improvements	40 years
Furniture and fixtures	7-10 years
Computers and equipment	3-5 years
Vehicles	3-5 years
Infrastructure (streets, sidewalks, etc.)	10-40 years

H. 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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGET

The City of Bee Cave City Council follows these procedures in establishing the budgets reflected in the financial statements. Thirty to sixty days prior to the beginning of each fiscal year, the Administrator submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operation budget includes proposed expenditures and the means of financing them. Public hearings are conducted at which all interested persons' comments concerning the budget are heard. The budget is legally enacted by the City Board through passage of an ordinance prior to the beginning of the fiscal year. Any revisions that alter the budget appropriations of any fund must be approved by the City Board. The level of control (level at which expenditures may not exceed budget) is the function, or department, level. Appropriations lapse at year-end and do not carry forward to future periods.

**CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

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

At September 30, 2007, the carrying amount of the City’s deposits (cash, certificates of deposit, money market, and interest-bearing savings accounts included in temporary investments) was -\$102,958 and the bank balance was \$347,904.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the City to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies. The City’s investments were in temporary investment pools at September 30, 2007, which are included in the Investments-Current line on the combined balance sheet, are as follows:

<u>Investment</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Logic	\$1,588,486	\$1,588,486
MBIA	1,260,392	1,260,392
TexPool	1,329,949	1,329,949
TexStar	<u>1,180,781</u>	<u>1,180,781</u>
	<u>\$5,359,608</u>	<u>\$5,359,608</u>

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

The City'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 Investments Act**, the City has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City was not exposed to custodial credit risk since its deposits at year-end and during the year ended September 30, 2007 were covered by depository insurance or by pledged collateral held by the City's agent bank in the City's name.

Custodial Credit Risk – Investments: This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. 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 City'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 AAA money market mutual funds registered with the SEC. As of September 30, 2007, TexPool's investments credit quality rating was AAAM (Standard & Poor's). LOGIC's investments had a rating of Aaa/MRI+ by Moody's, and the MBIA Texas CLASS was rated AAA by Fitch.

B. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

C. INTERFUND BALANCES AND TRANSFERS

Short-term advances between funds are recorded a receivable (Due From) and payable (Due To) between the funds involved in the transaction. As of September 30, 2007, the Due From and Due To balances were as follows:

	Due From	Due To
General Fund		
Due from Capital Projects Fund	\$ 63,249	\$ -
Due To Road Maintenance Fund	-	97,095
Total General Fund	63,249	97,095
Road Maintenance Fund		
Due from General Fund	97,095	-
Total Road Maintenance Fund	97,095	-
Debt Service Fund		
Due from Capital Projects Fund	9,500	-
Total Debt Service Fund	9,500	-
Capital Projects Fund		
Due to General Fund	-	63,249
Due to Debt Service Fund	-	9,500
Total Capital Projects Fund	-	72,749
Grand Totals	\$ 169,844	\$ 169,844

Operating transfers are transactions of cash or other assets between funds that are intended to be permanent and not repaid. During the year there were no interfund transfers required.

D. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at September 30, 2007, were as follows:

	Property Taxes (net)	Sales Tax	Due From Other Funds	Total
Governmental Activities:				
General Fund	\$ 2,494	\$ 293,177	\$ 63,249	\$ 358,920
Road Maintenance Fund	-	48,862	97,095	145,957
Capital Projects Fund	-	-	-	-
Non-Major Governmental Funds	1,571	-	9,500	11,071
Total Governmental Activities	\$ 4,065	\$ 342,039	\$ 169,844	\$ 515,948

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Payables at September 30, 2007 were as follows:

	<u>Accounts Payable</u>	<u>Wages and Salaries Payable</u>	<u>Due To Other Funds</u>	<u>Other Current Liabilities</u>	<u>Total</u>
Governmental Activities:					
General Fund	\$2,188,515	\$ 36,273	\$ 176,042	\$ 853,592	\$3,254,422
Road Maintenance Fund	-	-	-	-	-
Capital Projects Fund	20,555	-	72,749	-	93,304
Non-Major Governmental Funds	<u>22,469</u>	<u>1,425</u>	<u>-</u>	<u>26,520</u>	<u>50,414</u>
Total Governmental Activities	<u>\$2,231,539</u>	<u>\$ 37,698</u>	<u>\$ 248,791</u>	<u>\$ 880,112</u>	<u>\$3,398,140</u>

E. FIXED ASSETS

Capital asset activity for the City of Bee Cave for the year ended September 30, 2007, was as follows:

<u>Description</u>	<u>Balance 9/30/2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 9/30/2007</u>
Land	\$ 9,576,752	\$ 975,292	\$ -	\$10,552,044
Buildings & Improvements	745,114	85,144	-	830,258
Infrastructure	-	9,190,174	-	9,190,174
Furniture & Equipment	446,470	222,130	-	668,600
Construction In Progress - Infrastructure	<u>217,882</u>	<u>3,843,428</u>	<u>-</u>	<u>4,061,310</u>
Total Historical Costs	<u>10,986,218</u>	<u>14,316,168</u>	<u>-</u>	<u>25,302,386</u>
Less Accumulated Depreciation:				
Buildings & Improvements	(139,991)	(20,756)	-	(160,747)
Infrastructure	-	(229,754)	-	(229,754)
Furniture & Equipment	<u>(187,320)</u>	<u>(128,010)</u>	<u>-</u>	<u>(315,330)</u>
Total Accum. Depreciation	<u>(327,311)</u>	<u>(378,520)</u>	<u>-</u>	<u>(705,831)</u>
Governmental Activities Capital Assets, net	<u>\$10,658,907</u>	<u>\$ 13,937,648</u>	<u>\$ -</u>	<u>\$24,596,555</u>

Depreciation expense was charged to general government departments as follows:

Depreciation expense was allocated to the governmental functions as follows:

<u>Function</u>	<u>Allocated Depreciation</u>
General Government	\$ 130,071
Public Safety	128,313
Community Services	78,631
Culture and Recreation	<u>41,505</u>
Total	<u>\$ 378,520</u>

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

F. OPERATING LEASES

The City of Bee Cave has leased a modular building for the Police Department and the Library effective October 1, 2006. This agreement is treated as an operating lease, and the future minimum rental payments for these leases as of September 30, 2007 are as follows:

<u>Year Ending September 30,</u>	
2008	\$ <u>36,792</u>
Total Minimum Rental Payments	\$ <u>36,792</u>

G. MAINTENANCE TAX NOTE AND CAPITAL LEASE PAYABLE

During Fiscal Year 2005/2006, the City issued City of Bee Cave, Texas Tax Notes, Series 2006, in the amount of \$300,000. The purpose of the notes is for site improvements in the City Hall Complex. The notes bear an interest rate of 4.67% annually with maturities in increments of \$100,000 payable in fiscal years 2007, 2008, and 2009. As of September 30, 2007, the outstanding principal balance of the notes was \$200,000. A summary of future principal and interest payments for the Maintenance Tax Note is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 100,000	\$ 9,340	\$ 109,340
2009	<u>100,000</u>	<u>4,670</u>	<u>104,670</u>
Total	<u>\$ 200,000</u>	<u>\$ 14,010</u>	<u>\$ 214,010</u>

During Fiscal Year 2006/2007, the City entered into a capital lease agreement to finance the purchase of police vehicles. A summary of future principal and interest payments for the capital lease payable is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 20,555	\$ -	\$ 20,555
2009	16,968	3,586	20,554
2010	18,088	2,466	20,554
2011	<u>19,282</u>	<u>1,273</u>	<u>20,555</u>
Total	<u>\$ 74,893</u>	<u>\$ 7,325</u>	<u>\$ 82,218</u>

H. BONDS

At an election on May 6, 2000 voters authorized the issuance of \$1,850,000 in bonds for the purchase of 54 acres of land and park improvements, and \$1,150,000 in bonds for the purchase of 15 acres of land, building improvements, new construction and historic preservation. These bonds have not been issued.

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

I. TEXAS MUNICIPAL RETIREMENT SYSTEM PLAN DESCRIPTION

Plan Description

The City provides pension benefits for all of its full time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide, Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated, with interest, if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the status statues governing TMRS. Plan provisions for the City were as follows:

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after:	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City (expressed as years of service/age) are: 5 years/age 60, 25years/any age.

Contributions

Under the state law governing TMRS, the actuary annually determines the City 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 City matching percent, which are the obligation of the City's 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 City 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 25-year amortization period. The unit credit actuarial cost method is used for determining the City's contribution rate. Both the employees and the City make contributions monthly. Since the City 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, 2006 valuation is effective for rates beginning January 2007).

**CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

**City of Bee Cave
Schedule of Funding Progress**

Actuarial Valuation Date		12/31/06
Actuarial Value of Assets	(A)	\$ 468,196
Actuarial Accrued Liability	(B)	\$ 508,632
Unfunded (over funded) Actuarial Accrued Liability (UAAL)	(C) = (B) - (A)	\$ 40,436
Funded Ratio	(D) = (A) / (B)	92.1%
Annual Covered Payroll	(E)	\$ 923,313
UAAL as a Percentage of Covered Payroll	(C) / (E)	4.38%

Trend Information

Fiscal Year Ending	(F)	9/30/06
Annual Pension Cost	(F)	\$ 73,003
Percent of APC Contribution		100%
Net Pension Obligation	(G)	\$ -

General System-wide Actuarial Assumptions

Actuarial Cost Method	Unit Credit
Amortization Method	Level % of Payroll
Remaining Amortization Period	25 Years - Open Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation At	3.50%
Cost-of-Living Adjustments	None

City of Bee Cave is one of 821 municipalities having their benefit plan administered by TMRS. Each of the 821 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006, valuations are contained in the 2006 TMRS Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153.

J. 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; injuries to employees; and natural disasters. The City has joined with other cities/political subdivisions in the State to participate in the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool, consisting of approximately 1,448 member city/political subdivisions located throughout the State of Texas. The City pays premiums to the risk pool for its general liabilities, property, auto physical damage, auto liability, mobile equipment, law enforcement, errors and omissions, workers' compensation and employee health and life insurance coverage.

Commercial insurance is carried for employee fidelity. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years, and there was no significant reduction of insurance coverage from the prior year.

CITY OF BEE CAVE, TEXAS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Texas Municipal League Intergovernmental Risk Pool operates under the terms of interlocal agreements with the member entities and is a public entity risk pool operating as a common risk management and insurance program. The pool has a workers' compensation fund, a property fund, and a liability fund. Members may choose to participate in one or more of the funds. The City's risk is limited to the amount of premiums paid unless the pool should fail, in which case, the City would be liable for its ratable share of the pool deficit.

The funds of the public entity risk pool are intended to be self-sustaining through member contributions. The City pays an annual premium to the risk pool for its insurance coverage's. The pool carries, as required by the interlocal agreements, insurance or reinsurance through commercial insurance companies that is believed, by the management of the pool, to be adequate to protect the financial stability of the existence of the pool. It is anticipated that such coverages will continue to vary in the future as the pool reserves the right to adjust the insurance/reinsurance coverage.

The Worker's Compensation fund excess loss coverage provides for losses in excess of \$1,000,000, with a \$10,000,000 per occurrence limit of liability. The property fund excess loss coverage provides for losses in excess of fund retention limits of \$250,000 per occurrence subject to an annual aggregate of \$5,000,000. The fund's auto physical damage excess loss coverage provides for losses in excess of fund retention limits of \$25,000 per vehicle and \$250,000 per occurrence. The City's Coverage limits for auto physical damage was \$122,426 with a \$250 per vehicle deductible. Coverage limits for mobile equipment was \$88,000, with a \$250 deductible. The liability fund excess loss coverage provides for losses in excess of \$1,000,000 with a \$10,000,000 per occurrence limit of liability.

The City's coverage limits for general liability, law enforcement and errors and omissions were \$300,000 per occurrence subject to an annual aggregate of \$600,000. The City's coverage limits for automobile liability was \$300,000 per occurrence.

K. COMMITMENTS AND CONTINGENCIES

In July of 2005, the City approved a Chapter 380 Economic Development Agreement with The Hill Country Galleria (HCG) whereby a 156-acre, mixed use development consisting of approximately 1 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 will receive from increased economic activity within the City, the HCG developers will also provide capital improvements to the City of Bee Cave estimated to approximate \$62 million. In exchange for these economic benefits and capital improvements, the City will pay to the HCG development manager a total of 55% of the sales taxes collected each year in the new development. These payments will continue for 20 years, or until total payments have reached \$15,000,000, whichever occurs first.

The City has a similar agreement in regards to another development within the City called the "Shops at the Galleria". In this agreement, the City pays 45% of the sales taxes collected within that development to the development manager, Lincoln Management. 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 parts SH71 located within the City paid for by the developer.

CITY OF BEE CAVE, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2007

Data Control Codes	200 Economic Development Fund	201 Municipal Court	Total Nonmajor Special Revenue Fund
ASSETS			
1010 Cash and Cash Equivalents	\$ 230,169	\$ 239,345	\$ 469,514
1050 Taxes Receivable	-	-	-
1051 Allowance for Uncollectible Taxes (credit)	-	-	-
1300 Due from Other Funds	-	-	-
1000 Total Assets	<u>\$ 230,169</u>	<u>\$ 239,345</u>	<u>\$ 469,514</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2010 Accounts Payable	\$ -	\$ 22,469	\$ 22,469
2020 Wages and Salaries Payable	-	1,425	1,425
2070 Intergovernmental Payable	-	32,755	32,755
2220 Deferred Revenues	-	-	-
2270 Other Current Liabilities	-	26,520	26,520
2000 Total Liabilities	<u>-</u>	<u>83,169</u>	<u>83,169</u>
Fund Balances:			
Reserved For:			
3410 Debt Service	-	-	-
3460 Municipal Court	-	156,176	156,176
3470 Economic Development	230,169	-	230,169
3000 Total Fund Balances	<u>230,169</u>	<u>156,176</u>	<u>386,345</u>
4000 Total Liabilities and Fund Balances	<u>\$ 230,169</u>	<u>\$ 239,345</u>	<u>\$ 469,514</u>

The notes to the Financial Statements are an integral part of this statement.

500 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 41,849	\$ 511,363
1,654	1,654
(83)	(83)
9,500	9,500
<u>\$ 52,920</u>	<u>\$ 522,434</u>
\$ -	\$ 22,469
-	1,425
-	32,755
1,571	1,571
-	26,520
<u>1,571</u>	<u>84,740</u>
51,349	51,349
-	156,176
-	230,169
<u>51,349</u>	<u>437,694</u>
<u>\$ 52,920</u>	<u>\$ 522,434</u>

CITY OF BEE CAVE, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

Data Control Codes	200 Economic Development Fund	201 Municipal Court	Total Nonmajor Special Revenue Fund
REVENUES:			
Taxes:			
5110 Property Taxes	\$ -	\$ -	\$ -
5400 Charges for Services	-	36,301	36,301
5510 Fines	-	112,922	112,922
5700 Other Revenue	-	(196)	(196)
5020 Total Revenues	<u>-</u>	<u>149,027</u>	<u>149,027</u>
EXPENDITURES:			
Current:			
0010 General Government	-	121,177	121,177
Debt Service:			
0071 Debt Principal	-	-	-
0073 Debt Interest	-	-	-
6030 Total Expenditures	<u>-</u>	<u>121,177</u>	<u>121,177</u>
1200 Net Change in Fund Balance	-	27,850	27,850
0100 Fund Balance - October 1 (Beginning)	<u>230,169</u>	<u>128,326</u>	<u>358,495</u>
3000 Fund Balance - September 30 (Ending)	<u>\$ 230,169</u>	<u>\$ 156,176</u>	<u>\$ 386,345</u>

The notes to the Financial Statements are an integral part of this statement.

500 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 98,389	\$ 98,389
-	36,301
-	112,922
-	(196)
<u>98,389</u>	<u>247,416</u>
-	121,177
100,000	100,000
13,465	13,465
<u>113,465</u>	<u>234,642</u>
(15,076)	12,774
<u>66,425</u>	<u>424,920</u>
<u>\$ 51,349</u>	<u>\$ 437,694</u>

PRESTON SINGLETON, CPA, P.C.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

Honorable Mayor and City Council Members
City of Bee Cave, Texas
4000 Galleria Pkwy.
Bee Cave, Texas 78738

Honorable Mayor and City Council Members:

We have audited the financial statements of the City of Bee Cave, Texas, (the "City") as of and for the year ended September 30, 2007, and have issued our report thereon dated January 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the City's trustees, the audit committee, and the administration and is not intended to be used and should not be used by anyone other than these specified parties.

Preston Singleton, CPA, P.C.

Preston Singleton, CPA, P.C.
Cedar Park, Texas

January 21, 2008

PRESTON SINGLETON, CPA, P.C.
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Phone (512) 310-5600 Fax (512) 310-5689

January 21, 2008

Honorable Mayor and City Council
City of Bee Cave, Texas
4000 Galleria Pkwy.
Bee Cave, Texas 78738

To the Mayor and City Council:

We have audited the financial statements of the City of Bee Cave, Texas, (the "City") for the year ended September 30, 2007, and have issued our report thereon dated January 21, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, some of the adjustments we proposed, all of which were recorded by management, indicate matters that could have had a significant effect on the City's financial reporting process if not detected during the audit.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing our audit.

Communication of Additional Matters

The following additional items are reported as advisory comments to the Mayor and City Council:

Internal Controls – Financial Closing

We have recommend during the audit process several adjusting journal entries to the accounts that are more accurately described as *closing entries* to the books rather than audit adjusting entries. This has traditionally been a common procedure for auditors in audits of most small governmental entities. New auditing standards going into effect for your FY2008 audit will now require auditors to treat those *closing entries* determined by the auditor as potential indicators of deficiencies in the financial reporting internal control system of the audited organization. The rationale for this new requirement is that the audited organization's financial staff is responsible for the financial statements and the *closing of the books* process at year end is a standard financial control required for accurate financial reporting. As a result, in future audits we will now be required to evaluate and possibly report significant closing entries as well as significant adjusting entries as significant deficiencies in your financial reporting internal control system.

Compliance

As shown on Exhibit C-5 (page 18) of the financial statements, expenditures exceeded appropriations at year end in the Police, Parks, Library, and Capital Outlay departments. Due to the appropriations budget being a legally adopted document, the budget should be closely monitored during the year and amended as needed to ensure compliance with approved expenditure amounts.

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

Very truly yours,



Preston Singleton, CPA, P.C.

Cedar Park, Texas