CITY OF BEE CAVE, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2018

CITY OF BEE CAVE, TEXAS

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FINANCIAL SECTION

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PATTILLO, BROWN & HILL, L.L.P.
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bee Cave, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Bee Cave, Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Bee Cave, Texas, as of September 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, in fiscal year 2018 the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2019, on our consideration of the City of Bee Cave, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Bee Cave, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Bee Cave, Texas' internal control over financial reporting and compliance.

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

Waco, Texas
February 15, 2019

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bee Cave, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Bee Cave, Texas for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information in the annual financial report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $62,436,628 (net position). Of this amount, $12,788,436 represents unrestricted net position that may be used to meet the City's ongoing obligations to citizens and creditors. Net position also reflects $36,232,466 that is invested in capital assets net of related debt.

- The governmental fund statements report a fund balance at year-end of $26,936,660; of which $12,874,456, or 47.8% represents unassigned fund balances.

- The General Fund unassigned fund balance of $12,820,915 equals 174.9% of total General Fund expenditures.

- The City's total long term liabilities increased by $3,213,821 during the current fiscal year, as a result of the tax note issued and OPEB liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

The City adopts an annual appropriated budget for all funds. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with the General Fund and Economic Development 4-B Sales Tax budget.

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, this report also presents other certain required supplementary information (RSI). These items include a budgetary comparison schedule for the General Fund and the Economic Development 4-B Sales Tax Fund, as well as a schedule of funding progress for the Texas Municipal Retirement System. RSI can be found after the notes to the financial statements within this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred inflows and outflows of resources exceed liabilities by $62,436,628 as of year-end.

The largest portion of the City's net position (58%) reflects its investments in capital assets (e.g., land, city hall, streets, and equipment), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt, if applicable, must be provided from other sources since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

CITY OF BEE CAVE'S
CONDENSED STATEMENT OF NET POSITION

	Governmental Activities	
	2018	2017
Current and other assets	$ 28,831,518	$ 25,932,490
Capital assets, net	47,792,725	41,934,871
Total assets	76,624,243	67,867,361
Deferred outflows of resources	489,036	720,146
Long-term liabilities	12,444,301	9,230,480
Other liabilities	1,868,408	1,723,366
Total liabilities	14,312,709	10,953,846
Deferred inflows of resources	363,942	146,657
Net position:		
Net investment in capital assets	36,232,466	34,005,956
Restricted	13,415,726	11,292,100
Unrestricted	12,788,436	12,188,948
Total net position	$ 62,436,628	$ 57,487,004

A portion of the City's net position (21%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, $12,788,436, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved from the prior year, with an increase in net position of $4,949,624.

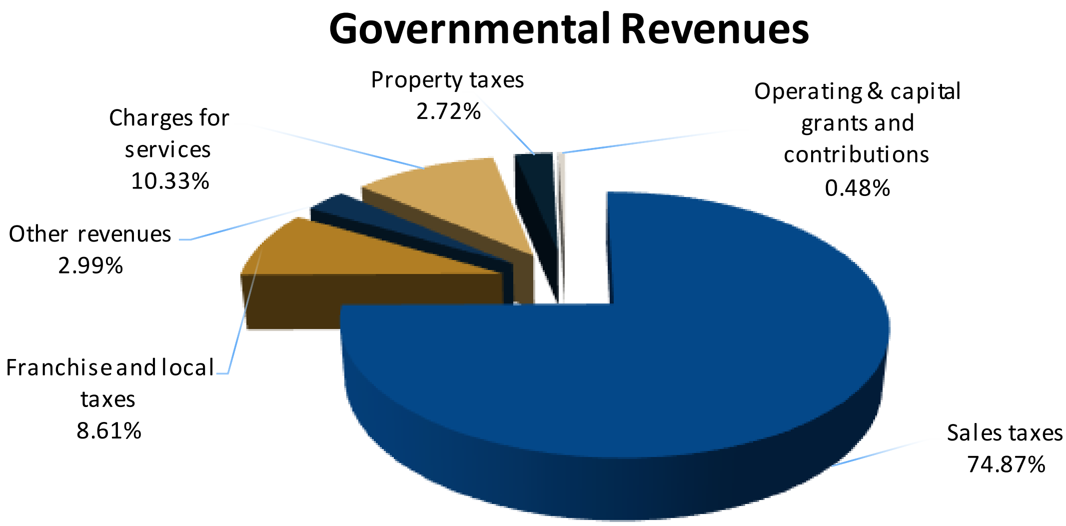
Statement of Activities

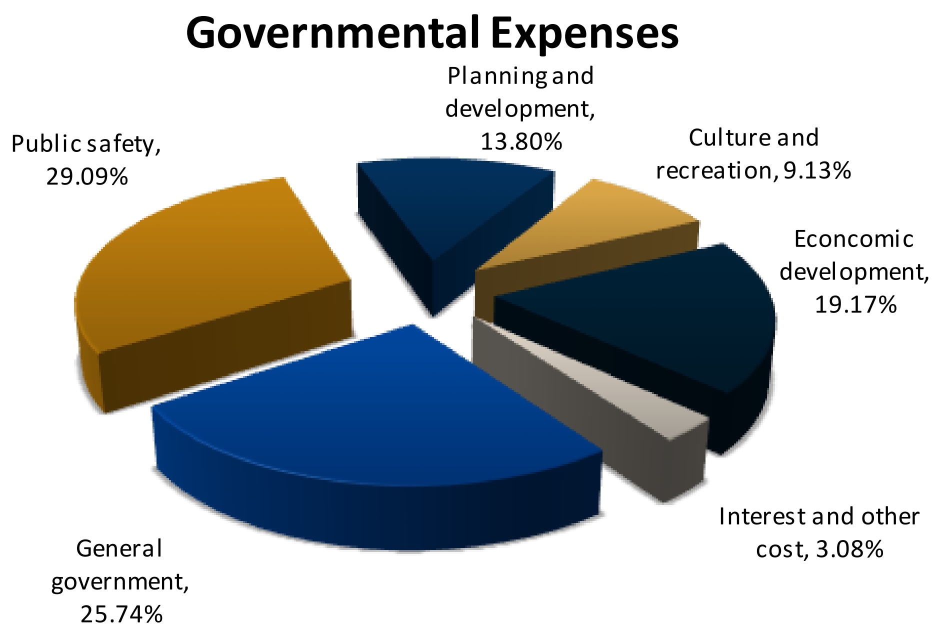
The following table provides a summary of the City's changes in net position:

CITY OF BEE CAVE, TEXAS'
CONDENSED STATEMENT OF ACTIVITIES

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	$ 1,408,800	$ 1,377,113
Operating grants and and contributions	425	49,988
Capital grants and and contributions	65,000	12,832
General revenues:		
Property taxes	370,937	358,230
Sales taxes	10,207,892	9,627,526
Franchise and local taxes	1,174,281	1,239,264
Investment earnings	399,494	185,600
Other	7,838	26,886
Total revenues	13,634,667	12,877,439
Expenses		
General government	2,222,714	2,171,975
Public safety	2,512,132	2,362,448
Planning and development	1,191,557	1,189,047
Culture and recreation	788,735	798,807
Economic development	1,655,899	1,567,044
Interest and other cost	265,740	199,220
Total expenses	8,636,777	8,288,541
Change in net position	4,997,890	4,588,898
Net position, beginning	57,487,004	52,898,106
Prior period adjustment	(48,266)	-
Net position, ending	$ 62,436,628	$ 57,487,004

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





For the year ended September 30, 2018, revenues from governmental activities totaled $13,634,667, an increase of $757,228 (6%) compared to the prior year. The majority of this change is due to an increase in sales taxes.

As of the end of the fiscal year, expenses for governmental activities totaled $8,636,777, which represents a $348,236 increase from 2017. Much of this increase is due to an increase in 380 payments to developers as a result of sales tax revenue increasing. Additionally, payroll and supply cost increased as compared to 2018 due to addition of staff to manage growth and development.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of $26,936,660. Of this, $13,853,125 is restricted for various purposes, $209,079 is assigned for beautification, and $12,820,915 is unassigned in the General Fund. Of the General Fund's unassigned fund balance $5,498,089 is maintained in accordance with the City's fund balance policy. The City's fund balance policy is to maintain unassigned fund balance of up to nine months of General Fund operating expenditures. Additionally, the City has set aside sales and use tax revenue reserves for use, if and only if there is a shortfall of sales tax revenue in a specific year in the amount of $1.5 million.

There was an increase in the combined fund balance of $2,755,688 in comparison to the prior year, which was primarily the result of increased tax revenue across all funds.

The General Fund had revenues which exceeded expenditures by $2,798,220, and after inter-fund transfers the net change in fund balance was an increase of $676,142. The increase resulted from an increase revenues derived from taxes and development.

The Capital Projects Fund had an decrease in fund balance of $6,962 as a result of an increase in capital outlay.

The Road Maintenance Fund had a positive net change in fund balance of $540,408 due to an increase in tax revenue.

The Economic Development 4-B Sales Tax Fund had a positive change in fund balance of $972,111 as a result of an increase in tax revenue.

The Debt Service Fund had a fund balance of $53,541 at year-end.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual General Fund revenues were more than budgeted revenues by $228,923 during the year. This net variance is primarily attributable to franchise fees and local taxes collected being more than forecasted. General Fund expenditures were less than the amended budget by $265,224 and after other financing sources and uses, there was a net positive variance of $494,650 from the amended budget for the year.

Capital Assets

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

Major capital asset events during the year include the purchase of land for $6.4 million.

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

Long-term Debt

At the end of the current year, the City had total long-term debt of $12,444,301. The City issued tax notes in the amount of $6 million to assist with the funding to purchase land.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City of Bee Cave, Brenda Galindo, Administrative Manager, 4000 Galleria Parkway, Bee Cave, Texas, 78738 or by calling 512.767.6600. You may also visit the City's website at www.beecavetexas.com.

BASIC
FINANCIAL STATEMENTS

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CITY OF BEE CAVE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2018

	Governmental Activities
ASSETS	
Cash and investments	$ 26,809,973
Receivables, net	
Taxes	1,973,961
Accounts	47,584
Capital assets:	
Nondepreciable	23,462,023
Depreciable, net	24,330,702
Total capital assets	47,792,725
Total assets	76,624,243
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	205,603
Deferred outflows related to pensions	278,477
Deferred outflows related to other postemployment benefits	4,956
Total deferred outflows of resources	489,036
LIABILITIES	
Accounts payable	830,987
Accrued liabilities	834,947
Unearned revenue	116,805
Interest payable	16,936
Due to other governments	68,733
Noncurrent liabilities:	
Due within one year:	
Long-term debt	2,455,000
Total OPEB liability	268
Due in more than one year:	
Long-term debt	9,771,766
Net pension liability	157,158
Total OPEB liability	60,109
Total liabilities	14,312,709
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow related to pensions	363,942
Total deferred inflows of resources	363,942
NET POSITION	
Net investment in capital assets	36,232,466
Restricted for:	
Court technology	51,316
Court security	68,577
Economic development	5,937,014
Road maintenance	5,550,284
Promotion of tourism and hotel industry	1,796,390
Seized funds	3,012
Public safety	9,133
Unrestricted	12,788,436
Total net position	$ 62,436,628

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

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CITY OF BEE CAVE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:					
General government	$ 2,222,714	$ -	$ -	$ 65,000	$(2,157,714)
Public safety	2,512,132	454,931	-	-	(2,057,201)
Planning and development	1,191,557	949,457	-	-	(242,100)
Culture and recreation	788,735	4,412	425	-	(783,898)
Economic development	1,655,899	-	-	-	(1,655,899)
Interest and other	265,740	-	-	-	(265,740)
Total governmental activities	$ 8,636,777	$ 1,408,800	$ 425	$ 65,000	(7,162,552)
General revenues:					
Taxes:					
Property					370,937
Sales					10,207,892
Franchise fees and local taxes					1,174,281
Investment earnings					399,494
Other					7,838
Total general revenues					12,160,442
Change in net position					4,997,890
Net position, beginning					57,487,004
Prior period adjustment					(48,266)
Net position, beginning, as restated					57,438,738
Net position, ending					$ 62,436,628

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

CITY OF BEE CAVE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	General	Capital Projects	Road Maintenance	Economic Development 4-B Sales Tax
ASSETS				
Cash and investments	$ 13,580,981	$ 437,944	$ 5,459,008	$ 5,619,030
Receivables (net of allowance for uncollectibles):				
Taxes	1,410,714	-	105,995	317,984
Accounts	47,584	-	-	-
Total assets	15,039,279	437,944	5,565,003	5,937,014
LIABILITIES				
Accounts payable	815,723	545	14,719	-
Accrued liabilities	834,947	-	-	-
Unearned revenues	116,805	-	-	-
Due to other governments	68,733	-	-	-
Total liabilities	1,836,208	545	14,719	-
DEFERRED INFLOWS OF RESOURCES				
Unavailable - property taxes	-	-	-	-
Unavailable - court fines	41,039	-	-	-
Total deferred inflows of resources	41,039	-	-	-
FUND BALANCES				
Restricted for:				
Court technology	51,316	-	-	-
Court security	68,577	-	-	-
Economic development	-	-	-	5,937,014
Promotion of tourism and hotel industry	-	-	-	-
Capital projects	-	437,399	-	-
Road maintenance	-	-	5,550,284	-
Seized funds	3,012	-	-	-
Public safety	9,133	-	-	-
Assigned for:				
Beautification	209,079	-	-	-
Unassigned	12,820,915	-	-	-
Total fund balances	13,162,032	437,399	5,550,284	5,937,014
Total liabilities, deferred inflows of of resources, and fund balances	$ 15,039,279	$ 437,944	$ 5,565,003	$ 5,937,014

Adjustments for the statement of net position:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Uncollected revenues are reported as unavailable deferred inflows available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

Long-term liabilities, including bonds payable, tax notes, compensated absences, net pension liability, and total OPEB liability are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet.

Interest payable

Deferred charge on refunding

Net pension liability and related deferred resources

Total OPEB liability and related deferred resources

Bonds and tax notes

Compensated absences

Net position of governmental activities

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

Debt Service	Nonmajor Governmental Hotel Occupancy Tax	Total Governmental Funds
$ 53,541	$ 1,659,469	$ 26,809,973
2,347	136,921	1,973,961
-	-	47,584
55,888	1,796,390	28,831,518
-	-	830,987
-	-	834,947
-	-	116,805
-	-	68,733
-	-	1,851,472
2,347	-	2,347
-	-	41,039
2,347	-	43,386
-	-	51,316
-	-	68,577
-	-	5,937,014
-	1,796,390	1,796,390
-	-	437,399
-	-	5,550,284
-	-	3,012
-	-	9,133
-	-	209,079
53,541	-	12,874,456
53,541	1,796,390	26,936,660
$ 55,888	$ 1,796,390	28,831,518
		47,764,464
		43,386
		(16,936)
		205,603
		(242,623)
		(55,421)
		(12,175,000)
		(23,505)
		$ 62,436,628

CITY OF BEE CAVE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General	Capital Projects	Road Maintenance	Economic Development 4-B Sales Tax
REVENUES				
Property taxes	$ -	$ -	$ -	$ -
Sales taxes	7,655,919	-	637,994	1,913,979
Franchise fees and local taxes	600,292	-	-	-
Licenses and permits	950,597	-	-	-
Charges for services	3,272	-	-	-
Fines and forfeitures	432,638	-	-	-
Investment earnings	399,467	27	-	-
Contributions	65,425	-	-	-
Miscellaneous	21,395	-	-	-
Total revenues	10,129,005	27	637,994	1,913,979
EXPENDITURES				
Current:				
General government	1,801,903	691	97,586	-
Public safety	2,386,756	-	-	-
Planning and development	716,876	-	-	-
Culture and recreation	661,526	-	-	-
Economic development	1,591,102	-	-	64,797
Capital outlay	172,622	6,462,854	-	254,349
Debt service:				
Principal	-	-	-	565,000
Interest and other cost	-	-	-	57,722
Total expenditures	7,330,785	6,463,545	97,586	941,868
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,798,220	(6,463,518)	540,408	972,111
OTHER FINANCING SOURCES (USES)				
Issuance of tax notes	-	6,000,000	-	-
Proceeds from sale of capital assets	1,546	-	-	-
Insurance proceeds	3,057	-	-	-
Transfers in	-	456,556	-	-
Transfers out	(2,126,681)	-	-	-
Total other financing sources (uses)	(2,122,078)	6,456,556	-	-
NET CHANGE IN FUND BALANCES	676,142	(6,962)	540,408	972,111
FUND BALANCES, BEGINNING	12,485,890	444,361	5,009,876	4,964,903
FUND BALANCES, ENDING	$ 13,162,032	$ 437,399	$ 5,550,284	$ 5,937,014

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

Debt Service	Nonmajor Governmental Hotel Occupancy Tax	Total Governmental Funds
$ 370,937	$ -	$ 370,937
-	-	10,207,892
-	573,989	1,174,281
-	-	950,597
-	-	3,272
-	-	432,638
-	-	399,494
-	-	65,425
-	-	21,395
370,937	573,989	13,625,931
-	-	1,900,180
-	-	2,386,756
-	-	716,876
-	-	661,526
-	-	1,655,899
-	-	6,889,825
1,880,000	-	2,445,000
161,062	-	218,784
2,041,062	-	16,874,846
(1,670,125)	573,989	(3,248,915)
-	-	6,000,000
-	-	1,546
-	-	3,057
1,670,125	-	2,126,681
-	-	(2,126,681)
1,670,125	-	6,004,603
-	573,989	2,755,688
53,541	1,222,401	24,180,972
$ 53,541	$ 1,796,390	$ 26,936,660

CITY OF BEE CAVE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Net change in fund balances - total governmental funds	$ 2,755,688
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	6,812,796
Depreciation expense	(983,203)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Fines	4,133
Certain pension and OPEB expenditures are not expended in the government-wide financial statements and recorded as deferred resource outflows. This item relates to contributions made after the measurement date. Additionally, a portion of the City's unrecognized deferred resource outflows and (inflows) related to the net pension liability and total OPEB liability were amortized.	15,804
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Compensated absences	(5,372)
The issuance of long-term debt (e.g., bonds and tax notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds do not report the effect of deferred loss on refunding; whereas, this amount was deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Issuance of tax notes	(6,000,000)
Principal payments	2,445,000
Interest payable	(5,835)
Amortization of deferred charge on refunding	(41,121)
Change in net position of governmental activities	$ 4,997,890

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Bee Cave, Texas (the "City") currently operates as a Home Rule City. In May, 2014, the citizens of the City adopted a Home Rule Charter changing operations to follow a Council-Manager form of government. The Council-Manager form of government provides for leadership of elected officials in the form of a council and managerial experience of an appointed local government manager. Under its Home Rule Charter, the City operates and provides authorized services to advance the welfare, health, morals, comfort, safety, and convenience of the City and its inhabitants. Prior to May, the City operated as a Type-A general law government under a mayor and City Council form providing services authorized by the Texas Local Government Code.

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

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

Blended Component Unit – Bee Cave Economic Development Corporation

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

The City has the following major governmental funds:

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

The ***Capital Projects Fund*** accounts for capital projects within the City.

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

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

The ***Debt Service Fund*** is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest, and related costs.

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

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

D. Assets, Deferred Inflows/Outflows, Liabilities and Net Position or Fund Balance

Deposits and Investments

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

Investments for the City are reported at fair value, except for the position in investment pools. The City's investments in Pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

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

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

Receivables

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

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

Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure acquired subsequent to fiscal year 2003 has been capitalized. Buildings and improvements, infrastructure, furniture and equipment are defined by the City as assets with an initial, individual cost of more than $5,000 and an estimated useful life of one year or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the lives of assets are not capitalized.

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

Vehicles	3 - 5 years
Computers and equipment	3 - 5 years
Furniture and fixtures	7 - 10 years
Infrastructure	30 - 40 years
Buildings and improvements	10 - 40 years

Long-term Obligations

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

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

Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation benefits. Liabilities for compensated absences are normally expected to be liquidated with expendable available financial resources and should be recognized as governmental fund liabilities to the extent that they mature each period. Accrued compensated absences are reported in the government-wide financial statements when earned. Compensated absences are reported in governmental funds only if they have matured.

Pensions

For purposes of measuring the net pension liability, pension deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits

For purposes of measuring the total Texas Municipal Retirement System Supplemental Death Benefit Fund (TMRS SDBF) OPEB liability, related deferred outflows and inflows of resources, and expense, City specific information about its total TMRS SDBF liability and additions to/deductions from the City's total TMRS SDBF liability have been determined on the same basis as they are reported by TMRS. The TMRS SDBF expense and deferred (inflows)/outflows of resources related to TMRS SDBF, primarily result from changes in the components of the total TMRS SDBF liability. Most changes in the total TMRS SDBF liability will be included in TMRS SDBF expense in the period of the change. For example, changes in the total TMRS SDBF liability resulting from current-period service cost, interest on the TOL, and changes of benefit terms are required to be included in TMRS SDBF expense immediately. Changes in the total TMRS SDBF liability that have not been included in TMRS SDBF expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to TMRS SDBF.

Deferred Outflows/Inflows of Resources

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

- Deferred losses on bond refunding – A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Pension and OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.

- Changes in actuarial assumptions related to the pension and OPEB plan – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

- Difference in expected and actual pension economic experience – This difference is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/ or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has the following types of items that qualify for reporting in this category.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

- Difference in expected and actual pension economic experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

- The governmental funds report unavailable revenues from two sources: property taxes and municipal court fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position

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

Net Position Flow Assumption

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

Fund Balance Flow Assumption

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

Fund Balance Policies

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. City Council has delegated the authority to assign fund balance to the City Manager. The City Council and City Manager may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Estimates

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

II. DETAILED NOTES ON ALL FUNDS

Deposits and Investments

As of September 30, 2018, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity (Days)	Credit Rating
External investment pools:			
TexPool	$ 725,406	28	AAAm
TexStar	511,543	43	AAAm
LOGIC	9,823,328	31	AAAm
Texas CLASS	13,662,540	50	AAAm
Total	$ 24,722,817		
Portfolio weighted average maturity		42	

TexPool, TexStar, LOGIC, and Texas CLASS each have a redemption notice period of one day and may redeem daily. The investment pools' authority may only impost restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

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

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

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

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safe keep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the Office of the Comptroller of Public Accounts for review. TexPool has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

The Texas Short-term Reserve Fund ("TexStar") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexStar was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. J. P. Morgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. J. P. Morgan Chase Bank and/or its subsidiary, J. P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services. TexStar has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national or state emergency that affects the pool's liquidity.

Local Government Investment Cooperative ("LOGIC") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The Public Funds Investment Act allows eligible local governments, state agencies, and nonprofit corporations of the State of Texas (each a "Governmental Entity") to jointly invest their funds in permitted investments. LOGIC's governing body is a six-member board of directors comprised of employees, officers or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the co-administrators of LOGIC. LOGIC has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national or state emergency that affects the pool's liquidity.

The Cooperative Liquid Assets Securities System – Texas ("CLASS") is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Chapter 2256, Texas Government Code. CLASS is created under an Amended and Restated Trust Agreement, dated as of May 1, 2001 (the "Agreement") among certain Texas governmental entities investing in the pool (the "Participants"), Municipal Investors Services Corporation ("MBIA-MISC") as program administrator, and Wells Fargo as custodian. CLASS is not SEC-registered and is not subject to regulation by the State of Texas. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with MBIA-MISC to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained by contacting MBIA Asset Management at 815-A Brazos Street, Suite 345, Austin, Texas 78701-9996 or by calling (800) 707-6242. CLASS has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national or state emergency that affects the pool's liquidity.

Receivables

The following comprise receivable balances at year-end:

	General	Road Maintenance	Economic Development 4-B Sales Tax	Debt Service	Other Governmental	Total
Receivables:						
Property taxes	$ 1,929	$ -	$ -	$ 2,422	$ -	$ 4,351
Sales taxes	1,271,941	105,995	317,984	-	-	1,695,920
Mixed beverage taxes	33,133	-	-	-	-	33,133
Hotel occupancy tax	-	-	-	-	136,921	136,921
Franchise fees	103,830	-	-	-	-	103,830
Due from developer	6,545	-	-	-	-	6,545
Fines and fees	1,492,321	-	-	-	-	1,492,321
Gross receivables	2,909,699	105,995	317,984	2,422	136,921	3,473,021
Less: allowance for uncollectibles	(1,451,401)	-	-	(75)	-	(1,451,476)
Net total receivables	$ 1,458,298	$ 105,995	$ 317,984	$ 2,347	$ 136,921	$ 2,021,545

Capital Assets

A summary of changes in capital assets for the year ended September 30, 2018, were as follows:

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 16,779,413	$ 6,400,000	$ -	$ 23,179,413
Construction in progress	-	282,610	-	282,610
Total assets not being depreciated	16,779,413	6,682,610	-	23,462,023
Capital assets, being depreciated:				
Infrastructure	18,926,470	-	-	18,926,470
Buildings and improvements	14,689,864	-	-	14,689,864
Furniture and equipment	1,867,311	158,447	-	2,025,758
Total capital assets being depreciated	35,483,645	158,447	-	35,642,092
Less accumulated depreciation:				
Infrastructure	(3,857,703)	(474,425)	-	(4,332,128)
Buildings and improvements	(4,794,042)	(371,473)	-	(5,165,515)
Furniture and equipment	(1,676,442)	(137,305)	-	(1,813,747)
Total accumulated depreciation	(10,328,187)	(983,203)	-	(11,311,390)
Total capital assets being depreciated, net	25,155,458	(824,756)	-	24,330,702
Governmental activities capital assets, net	$ 41,934,871	$ 5,857,854	$ -	$ 47,792,725

Depreciation was charged to governmental functions as follows:

General government	$ 255,937
Public safety	125,376
Planning and development	474,681
Culture and recreation	127,209
	$ 983,203

Long-term Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	$ 2,065,000	$ -	$ 335,000	$ 1,730,000	$ 335,000
Tax revenue refunding bonds	2,945,000	-	565,000	2,380,000	575,000
Tax notes	3,610,000	6,000,000	1,545,000	8,065,000	1,545,000
Retainage payable	-	28,261	-	28,261	-
Compensated absences	18,133	97,147	91,775	23,505	-
Total governmental activities	$ 8,638,133	$ 6,125,408	$ 2,536,775	$ 12,226,766	$ 2,455,000

General Obligation Bonds

In 2015, the City issued $3,020,000 of general obligation refunding bonds series 2015 to refund all of the outstanding maturities of the City's General Obligation Bond, Series 2008, restructure and level the combined debt service and pay costs of insurance related to the bonds.

The new debt was deposited into an irrevocable trust with an escrow agent to provide funds for payment on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $35,000. This refunding was undertaken to decrease total debt service payments over 8 years by $269,323 and resulted in an economic gain of $250,076.

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

General Obligation Refunding Bonds, Series 2015		
Year Ending September 30,	Principal	Interest
2019	$ 335,000	$ 27,822
2020	340,000	23,779
2021	345,000	19,009
2022	355,000	13,444
2023	355,000	6,901
Total	$ 1,730,000	$ 90,955

Tax Revenue Refunding Bonds

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

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

The Sales Tax Refunding bonds, Series 2014 bear an interest rate of 1.96% and payable from a lien on and pledge of revenues which includes the proceeds of three-eighths of one percent sales tax.

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

Sales Tax Revenue Refunding Bonds, Series 2013		
Year Ending September 30,	Principal	Interest
2019	$ 575,000	$ 46,648
2020	590,000	35,378
2021	600,000	23,814
2022	615,000	12,054
Total	$ 2,380,000	$ 117,894

Tax Notes

In December 2015, the City issued $5,000,000 of tax notes, series 2015.

Annual debt service to maturity for these tax notes is as follows:

Tax Notes, Series 2015		
Year Ending September 30,	Principal	Interest
2019	$ 715,000	$ 42,332
2020	720,000	33,537
2021	730,000	23,601
2022	740,000	12,432
Total	$ 2,905,000	$ 111,902

In December 2017, the City issued $6,000,000 of tax notes, series 2017.

Annual debt service to maturity for these tax notes is as follows:

Tax Notes, Series 2017		
Year Ending September 30,	Principal	Interest
2019	$ 830,000	$ 94,602
2020	840,000	81,530
2021	855,000	67,350
2022	865,000	52,234
2023	880,000	36,008
2024	890,000	18,566
Total	$ 5,160,000	$ 350,290

Fund Balance

The City's fund balance policy is to maintain unassigned fund balance of up to nine months of General Fund operating expenditures. Nine months of General Fund operating expenditures for fiscal year 2018 is $5,508,554. If it is determined that the City is below this minimum established fund balance level, the City Council will be informed of this condition and take necessary budgetary steps to increase fund balance.

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

Interfund Transfers

Interfund transfers for the year were as follows:

Transfers out	Transfers in	Amounts	Purpose
General Fund	Capital Projects	$ 456,556	To fund capital project
General Fund	Debt Service	1,670,125	To fund debt service
		$ 2,126,681	

III. OTHER INFORMATION

Risk Management

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

Contingent Liabilities

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

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

Chapter 380 Economic Development Agreement

Chapter 380, *Miscellaneous Provisions Relating to Municipal Planning and Development,* of the Texas Local Government Code provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs, including programs for making loans and grants of public money and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality. In August of 2004, the City adopted by ordinance, a comprehensive economic development policy and program for economic development activities.
In July 2005, the City approved a Chapter 380 Economic Development Agreement with the Hill Country Galleria (the "HCG") whereby a 156-acre, mixed use development consisting of approximately one million square feet of retail, office, and restaurant space would be constructed within the City boundaries.

In addition to the economic benefits that the City received from increased economic activity within the City, the HCG developers also provided capital improvements to the City estimated at $62 million. In exchange for these economic benefits and capital improvements, the City is obligated to pay to the HCG development manager a total of 55% of the sales taxes collected each year in the new development for the first four years and then 50 percent thereafter.

These payments will continue for 15 years, or until total payments have reached $21 million, whichever occurs first. For purposes of calculating the reduction in the payment cap of $21 million, payments made to HCG are calculated on the current value basis. For purposes of calculating the current value basis, the amount of a payment applied to the payment cap is to be discounted at a rate of 10 percent per annum from the initial payment date.

HCG subsequently filed for bankruptcy and entered into default status under the 380 agreement with the City. In January of 2010 an agreement was reached between HCG, the City, and REIT Management and Research Trust ("RMR") in which the default status was cured and RMR assumed the 380 agreement with the City. In September of 2015, the Hill County Galleria was assigned, transferred, conveyed and delivered to the CSHV HCG Retail, L.L.C. At this time, the Chapter 380 Agreement was transferred to and assumed by CSHV HCG Retail, L.L.C. For fiscal year 2018, the City expended $767,366 of sales taxes collected to CSHV HCG Retail, L.L.C.

The City has a similar agreement in regard to another development within the City called the Shops at the Galleria whereby approximately 88 acres of land is developed for retail and related uses. In this agreement, the City pays 45 percent of the sales taxes collected within that development to the development manager, Lincoln Management. These payments are to continue until a payment cap, calculated on the current value basis of $4,950,000 is reached or a period of 15 years has elapsed, whichever is sooner. However, if the payment cap has not been reached by the end of 15 years, the agreement will automatically extend up to five years. For purposes of calculating the current value basis, the amount of a payment applied to the payment cap is to be discounted at a rate of 10 percent per annum from the initial payment date. In addition to the economic benefits that the City receives from the increased economic activity within this development, the City also received the benefit of highway improvements to portions of State Highway 71 located within the City, which were paid for by the developer. For fiscal year 2018, the City expended $837,691 of sales taxes collected to the Shops at the Galleria.

The City has a 380 agreement in regard to another development within the City called the Backyard at Bee Cave, whereby approximately 44 acres of land is developed for retail and related uses. In this agreement, the City pays a percentage of the sales taxes collected from the on-line ticket operation for 20 years to Backyard at Bee Cave, the developer. As of year-end on-line ticket operations have not begun.

Texas Municipal Retirement System – Defined Benefit Pension

Plan Descriptions. The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.org.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided. TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The City grants monetary credits for service rendered of a theoretical amount equal to two times what would have been contributed by the employee, with interest. Monetary credits, also known as the matching ratio, are 200% of the employee's accumulated contributions and are only payable in the form of an annuity.

Beginning in 2001, the City granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity.

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	25 years to any age, 5 years at age 60 and above
Updated service credit	100% Repeating

Employees covered by benefit terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees of beneficiaries currently receiving benefits	8
Inactive employees entitles to but not yet receiving benefits	35
Active employees	42
	85

Contributions. The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings, and the city matching percentages are with 100%, 150% or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contributions rate for each city is determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contributions rates for the City were 10.06% and 9.61% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018, were $260,975, and were equal to the required contributions.

Net Pension Liability. The City's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates are multiplied by a factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in the statue. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	$ 4,813,219	$ 4,220,872	$ 592,347
Changes for the year:			
Service cost	388,537	-	388,537
Interest	332,076	-	332,076
Difference between expected and actual experience	(144,650)	-	(144,650)
Contributions - employer	-	253,317	(253,317)
Contributions - employee	-	176,264	(176,264)
Net investment income	-	584,755	(584,755)
Benefit payments, including refunds of employee contributions	(175,691)	(175,691)	-
Administrative expense	-	(3,032)	3,032
Other changes	-	(152)	152
Net changes	400,272	835,461	(435,189)
Balance at 12/31/2017	$ 5,213,491	$ 5,056,333	$ 157,158

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) of 1-percentage-point-higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 1,032,486	$ 157,158	$(546,059)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Interest at *www.tmrs.com.*

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. For the year ended September 30, 2018, the City recognized pension expense of $238,017. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual economic experience	$	29,013	$	220,621
Changes in actuarial assumptions		59,348		-
Difference between projected and actual investment earnings		-		143,321
Contributions subsequent to the measurement date		190,116		-
Total	$	278,477	$	363,942

$190,116 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expenses as follows:

For the Year Ended September 30,		
2019	$(	24,610)
2020	(	51,001)
2021	(	110,609)
2022	(	88,784)
2023	(	577)

Defined Other Post-Employment Benefit Plans

TMRS Supplemental Death Benefits Fund

Plan Description. The City voluntarily participates in a single-employer other postemployment benefit (OPEB) plan administered by TMRS. The plan is a group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). The Plan is established and administered in accordance with the TMRS Act identically to the City's pension plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided. The SDBF provides group-term life insurance to City employees who are active members in TMRS, including or not including retirees. The City Council opted into this program via an ordinance, and may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

Payments from this fund are similar to group-term life insurance benefits, and are paid to the designated beneficiaries upon the receipt of an approved application for payment. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death). The death benefit for retirees is considered an other employment benefit and is a fixed amount of $7,500.

The number of employees currently covered by the benefit terms is as follows:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	7
Active employees	42
Total	55

Contributions. The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation, which was 0.15% for 2018 and 0.14% for 2017, of which 0.01% and 0.01%, respectively, represented the retiree-only portion for each year, as a percentage of annual covered-employee payroll. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. The City's contributions to the SDBF for the years ended September 30, 2018 and 2017 were $268 and $251, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Actuarial Assumptions. The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation rate	2.50% per annum
Discount rate	3.31%
Projected salary increases	3.50% to 10.5% including inflation

Administrative expenses for the SDBF are paid through the TMRS Pension Trust Fund and are wholly accounted for under the provisions of GASB Statement No. 68.

Salary increases were based on a service-related table.

Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who became disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Discount Rate. The SDBF program is treated as an unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. As such, a single discount rate of 3.31% was used to measure the total OPEB liability. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of December 31, 2017.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the total OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.31%) in measuring the total OPEB liability.

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	$ 75,459	$ 60,377	$ 49,506

OPEB Liability, Expense, and Deferred Outflows of Resources Related to OPEB. The City's total OPEB liability of $60,377 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date. For the year ended September 30, 2018, the City recognized OPEB expense of $7,424. There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2016	$ 48,447
Changes for the year:	
Service cost	4,784
Interest	1,917
Changes of assumptions and other inputs	5,481
Benefit payments	(252)
Net changes	11,930
Balance at 12/31/2017	$ 60,377

Changes in assumptions and other inputs reflect a change in the discount rate from 3.78% to 3.31%

At September 30, 2018, the City reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources
Changes in actuarial assumptions	$ 4,758
Contributions subsequent to the measurement date	198
Totals	$ 4,956

$198 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2019. Other amounts of the reported as deferred outflows related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended September 30,	
2019	$ 723
2020	723
2021	723
2022	723
2023	723
Thereafter	1,143

Prior Period Adjustment – Change in Accounting Principles

During fiscal year 2018, the City adopted GASB Statement No. 75, *Accounting and Reporting for Post-Employment Benefits Other Than Pensions*. With GASB 75, the City must assume its total OPEB liability in connection with the TMRS SDBF. Adoption of GASB 75 required a prior period adjustment to report the effect of the standard retroactively. As such, beginning net position was restated by $48,266.

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF BEE CAVE, TEXAS

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

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Sales taxes	$ 6,750,000	$ 7,605,563	$ 7,655,919	$ 50,356
Franchise fees and local taxes	681,100	503,377	600,292	96,915
Licenses and permits	508,500	974,967	950,597	(24,370)
Charges for services	4,000	3,585	3,272	(313)
Fines and forfeitures	417,850	352,992	432,638	79,646
Investment earnings	175,000	369,013	399,467	30,454
Contributions	10,000	65,425	65,425	-
Miscellaneous	22,000	25,160	21,395	(3,765)
Total revenues	8,568,450	9,900,082	10,129,005	228,923
EXPENDITURES				
Current:				
General government	1,926,767	1,915,960	1,801,903	114,057
Public safety	2,372,597	2,409,677	2,386,756	22,921
Planning and development	744,625	744,608	716,876	27,732
Culture and recreation	688,142	691,252	661,526	29,726
Economic development	1,578,000	1,650,500	1,591,102	59,398
Capital outlay	146,500	184,012	172,622	11,390
Total expenditures	7,456,631	7,596,009	7,330,785	265,224
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	1,111,819	2,304,073	2,798,220	494,147
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	1,546	1,546	-
Insurance proceeds	-	3,057	3,057	-
Transfers out	(1,006,856)	(2,127,184)	(2,126,681)	503
Total other financing sources (uses)	(1,006,856)	(2,122,581)	(2,122,078)	503
NET CHANGE IN FUND BALANCES	104,963	181,492	676,142	494,650
FUND BALANCES, BEGINNING	12,485,890	12,485,890	12,485,890	-
FUND BALANCES, ENDING	$ 12,590,853	$ 12,667,382	$ 13,162,032	$ 494,650

CITY OF BEE CAVE, TEXAS

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

ECONOMIC DEVELOPMENT 4-B SALES TAX

FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Budgeted Amounts			Variance with Final Budget -
	Original	Final	Actual Amounts	Positive (Negative)
REVENUES				
Sales taxes	$ 1,687,500	$ 1,687,500	$ 1,913,979	$ 226,479
Total revenues	1,687,500	1,687,500	1,913,979	226,479
EXPENDITURES				
Current:				
Economic development	89,000	89,000	64,797	24,203
Capital outlay	975,000	954,000	254,349	699,651
Debt service:				
Principal	565,000	565,000	565,000	-
Interest and other cost	57,722	57,722	57,722	-
Total expenditures	1,686,722	1,665,722	941,868	723,854
NET CHANGE IN FUND BALANCES	778	21,778	972,111	950,333
FUND BALANCES, BEGINNING	4,964,903	4,964,903	4,964,903	-
FUND BALANCES, ENDING	$ 4,965,681	$ 4,986,681	$ 5,937,014	$ 950,333

BUDGETARY POLICIES

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the General Fund and the Economic Development 4-B Sales Tax Fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the function. The City may amend the budget throughout the year. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

CITY OF BEE CAVE, TEXAS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Measurement Date December 31,	2014	2015	2016	2017
A. Total pension liability				
Service Cost	$ 368,894	$ 375,333	$ 396,240	$ 388,537
Interest (on the Total Pension Liability)	221,278	267,296	301,115	332,076
Difference between expected and actual experience	124,493	(96,124)	(111,785)	(144,650)
Change of assumptions	-	150,188	-	-
Benefit payments, including refunds of employee contributions	(61,992)	(58,990)	(70,390)	(175,691)
Net change in total pension liability	652,673	637,703	515,180	400,272
Total pension liability - beginning	3,007,663	3,660,336	4,298,039	4,813,219
Total pension liability - ending (a)	$ 3,660,336	$ 4,298,039	$ 4,813,219	$ 5,213,491
B. Plan fiduciary net position				
Contributions - Employer	$ 152,564	$ 260,917	$ 234,463	$ 253,317
Contributions - Employee	177,096	174,111	176,668	176,264
Net Investment Income	162,077	4,806	245,569	584,755
Benefit payments, including refunds of employee contributions	(61,992)	(58,990)	(70,390)	(175,691)
Administrative Expenses	(1,691)	(2,930)	(2,776)	(3,032)
Other	(139)	(144)	(150)	(152)
Net change in plan fiduciary net position	427,915	377,770	583,384	835,461
Plan fiduciary net position - beginning	2,831,803	3,259,718	3,637,488	4,220,872
Plan fiduciary net position - ending (b)	$ 3,259,718	$ 3,637,488	$ 4,220,872	$ 5,056,333
C. Net pension liability - ending (a) - (b)	$ 400,618	$ 660,551	$ 592,347	$ 157,158
D. Plan fiduciary net position as a percentage of total pension liability	89.06%	84.63%	87.69%	96.99%
E. Covered employee payroll	$ 2,529,937	$ 2,487,297	$ 2,523,822	$ 2,518,064
F. Net position liability as a percentage of covered employee payroll	15.84%	26.56%	23.47%	6.24%

Note: this schedule is required to have 10 years of information, but the information prior to 2014 is not available.

CITY OF BEE CAVE, TEXAS

SCHEDULE OF PENSION CONTRIBUTIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Fiscal Year Ended September 30,	2014	2015	2016	2017	2018
Actuarial determined contribution	$ 145,720	$ 229,385	$ 241,849	$ 246,892	$ 260,975
Contributions in relation to the actuarially determined contribution	145,720	229,385	241,849	246,892	260,975
Contribution deficiency (excess)	-	-	-	-	-
Covered employee payroll	2,389,468	2,470,761	2,514,891	2,507,281	2,682,678
Contributions as a percentage of covered employee payroll	6.10%	9.28%	9.62%	9.85%	9.73%

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	26 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information There were no benefit changes during the year.

This schedule is required to have 10 years of information, but the information prior to 2014 is not available.

CITY OF BEE CAVE, TEXAS

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

Measurement Date December 31,	2017
A. Total OPEB liability	
Service Cost	$ 4,784
Interest (on the Total OPEB Liability)	1,917
Change of assumptions	5,481
Benefit payments	(252)
Net change in Total OPEB liability	11,930
Total OPEB liability - beginning	48,447
Total OPEB liability - ending	$ 60,377
B. Covered payroll	$ 2,518,064
C. Total OPEB liability as a percentage of covered payroll	2.40%

Notes to Schedule:

- No assets are accumulated in a trust for the SDB plan to pay related benefits that meet the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*
- Included in the changes of assumptions was a reduction to the discount rate from 3.78% to 3.31%.
- This schedule is required to have 10 years of information, but the information prior to 2017 is not available.

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Bee Cave, Texas, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise City of Bee Cave, Texas' basic financial statements, and have issued our report thereon dated February 15, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Waco, Texas
February 15, 2019