

CITY OF PFLUGERVILLE, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended

September 30, 2012

Prepared by

Finance Department



**City of Pflugerville, Texas
Comprehensive Annual Financial Report
Year Ended September 30, 2012**

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**City of Pflugerville, Texas
Comprehensive Annual Financial Report
Year Ended September 30, 2012**

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INTRODUCTORY SECTION





March 19, 2013

Honorable Mayor and City Council,
Members of the Finance and Budget Committee,
and Citizens of Pflugerville, Texas:

The Comprehensive Annual Financial Report (CAFR) of the City of Pflugerville, Texas, for the fiscal year ended September 30, 2012, including the independent auditors' report, is hereby submitted. State law requires that every municipality shall have its records and accounts audited annually and shall have an annual financial statement prepared based on the audit. The City of Pflugerville Charter also requires that at the close of each fiscal year, the Council shall call for an independent audit of all City accounts to be conducted by a certified public accountant. This report is published to fulfill those requirements for the fiscal year ended September 30, 2012.

Additionally, this report is published to provide City Council Members, our citizens, City bondholders, representatives of financial institutions, and other interested persons, with detailed information concerning the financial condition of the City government.

The City's Finance Department has prepared this report and assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Davis, Kinard & Co., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Pflugerville's financial statements for the year ended September 30, 2012. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the government

The City of Pflugerville, Texas, incorporated in 1965, is located 15.6 miles northeast of downtown Austin, the State Capital of Texas. This location places the City of Pflugerville within three hours driving time of ninety percent of the population of the State of Texas.

The population of Pflugerville has increased from 16,335 citizens in 2000 to an nearly 50,000 citizens in 2012. Population growth is expected to continue but at a slower pace. The City of Pflugerville is empowered to levy a property tax on real property located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

Profile of the government (continued)

The City of Pflugerville became a home rule city in 1993 and operates under the council-manager form of government. Policy-making and legislative authority is vested in a governing council (Council) consisting of the mayor and five other members, all elected on a non-partisan, at-large basis. The Council appoints the City Manager, who in turn appoints the managers of the various departments. Council members including the mayor serve three-year terms, with two members elected each year.

The City of Pflugerville provides a range of services: police protection; the construction and maintenance of streets and other infrastructure; recreational and cultural activities; water and wastewater service; and contractual solid waste service. Economic development activities are provided through a legally separate corporation, Pflugerville Community Development Corporation, reported separately within the City of Pflugerville's financial statements. Additional information on this legally separate entity can be found in the notes to the financial statements (See Note 1).

The Council is required to adopt a balanced budget by no later than September 30 for the fiscal year beginning on October 1. This annual budget serves as the foundation for the City of Pflugerville's financial planning and control. The budget is prepared by fund and department.

Local economy

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Pflugerville operates. The City of Pflugerville was originally a farming community and has developed into a bedroom community. Its proximity to major employers such as Dell, Samsung, The University of Texas, and the State of Texas has allowed for rapid growth in the housing market. The City has had to rely heavily on residential property tax for general fund operating and debt service expenditures.

Through residential growth and annexation, the population has increased enough to support more businesses within the City limits. The Pflugerville Community Development Corporation (PCDC) is actively recruiting those businesses. The intersection of two major toll roadways, State Highway 130 and State Highway 45, is completely within the City and has brought significant commercial growth. A large master planned commercial development at this intersection began in 2008 and has continued developing into fiscal year 2012.

Long-term financial planning

At the end of FY 2012, the unassigned fund balance in the general fund was 45.6% of total general fund operating expenditures for the year. This percentage falls within the policy guidelines set by the Council for budgetary and planning purposes (i.e., at least 25% of total general fund expenditures). Through the use of a five-year budget planning cycle, the development of the general fund pro forma for the next five years includes the reduction of the fund balance to the 25% level. The reduction of this balance will be enhanced with the migration of general fund revenues in excess of budgeted revenue to the City's new general capital reserve fund. This reserve funds is committed for one-time expenditures, separately approved by the City Council.

In 2010 the City Council approved an update of the City's Comprehensive Plan. The Comprehensive Plan is the principal guide for use in the daily planning decisions regarding growth, development, and regulation of current and future development within the city limits of the City and its extra-territorial jurisdiction (ETJ). The plan is anticipated to guide the City's development through the next 20 years.

Major initiatives

Utility Expansions. During 2012 the City of Pflugerville completed installation of a 141 kw solar array at the City's Water Treatment plant. This project was funded with grants from the American Recovery and Reinvestment Act (ARRA) through the State Energy Conservation Office (SECO) and ONCOR. Analysis of the 2010 utility rate review indicated no change will be necessary to utility rates through 2015; however, an annual review of the rates will be conducted to allow for changes in debt levels and customer base.

General Fund Projects. Construction began on the expansion and renovation of the City of Pflugerville Community Library. This project is financed through General Obligation bonds approved by the voters in 2008 and construction is anticipated to be complete in 2013. Roads and street infrastructure continued to be an important improvement in fiscal year 2012, with the completion of Becker Farm Road and Pflugerville Parkway East Widening, Phase II.

Economic development continues to be a major focus of the efforts that are being made by City staff. Economic development efforts include partnering with developers to build commercial and retail projects, and establishing formal marketing/public relations processes. Commercial outlets in the Stone Hill Town Center development (at the intersection of State Highway 130 and State Highway 45) continue to increase. During fiscal year 2012 a St. David's emergency facility opened featuring 12 treatment beds and advanced testing capabilities; the first full-service emergency care center in the City. In addition, development continues at this site with additional restaurants, retail locations, and an apartment complex anticipated in 2013.

Economic development efforts are also focused on job growth. In October 2012, the City became home to the first of six state-wide Texas Department of Public Safety Mega Centers for drivers' license renewals. In addition, groundbreaking is anticipated during 2013 on two corporate headquarters facilities.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Pflugerville for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2011. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for its summary financial document for the fiscal year ended September 30, 2011. In order to apply for the PAFR, the government must first have received the Certificate Achievement for Excellence in Financial Reporting.

The government also received the GFOA Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning October 1, 2011. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to its presentation. Special acknowledgement goes to Lauren Vander Laan for her assistance in preparing this report. Additionally, we would like to express our appreciation to the staff at Davis Kinard & Co. for their assistance and input into the preparation of this document.

We would also like to thank the City Manager, Assistant City Managers, Mayor, City Council, and members of the Finance and Budget Committee for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Pflugerville's finances. The preparation of this report would not be possible without their leadership and support.

Respectfully submitted,



Beth C. Davis
Finance Director



Amy M. Good, CPA, CGFO
Assistant Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Pflugerville
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



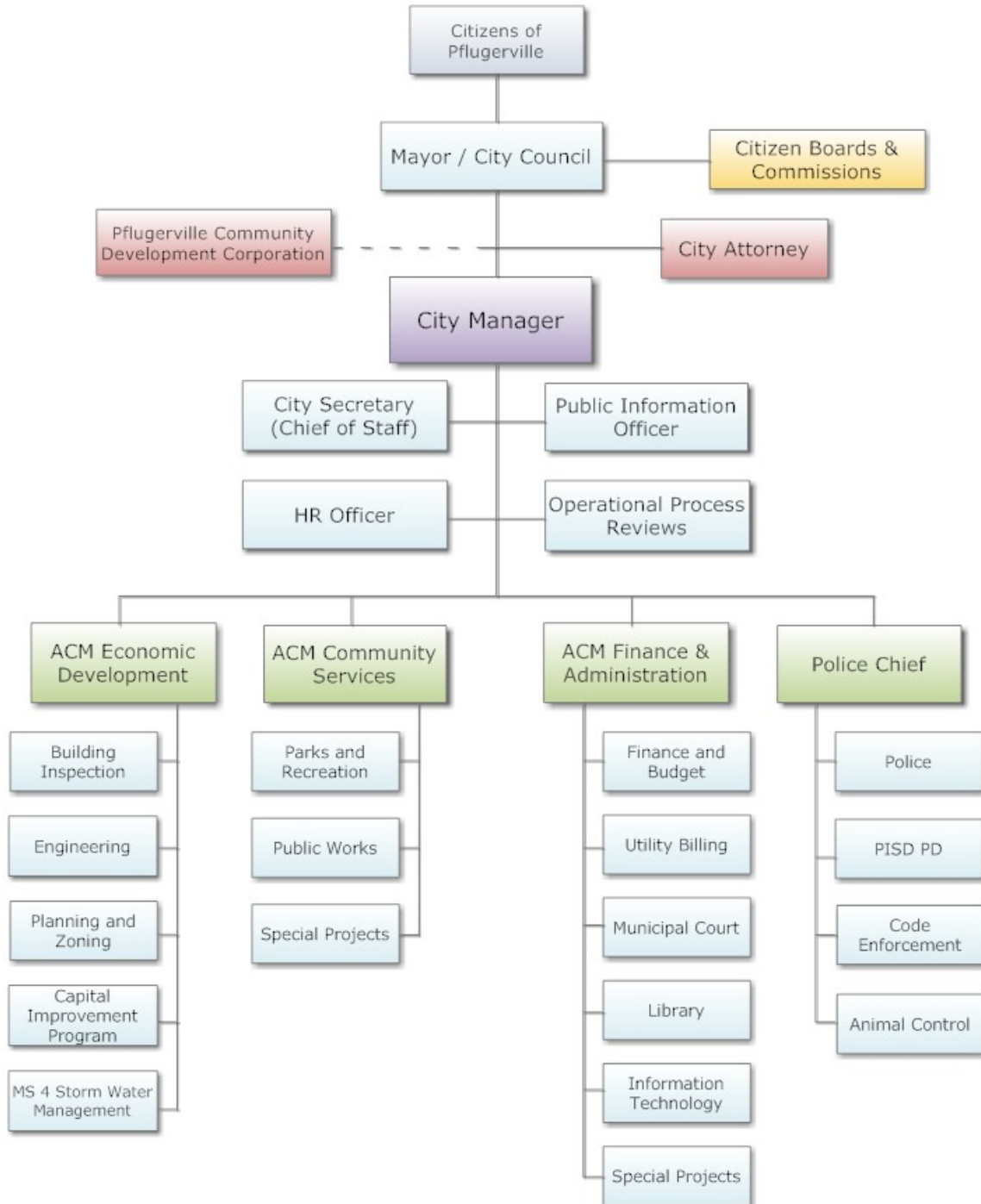
Christopher P. Moirill

President

Jeffrey R. Emer

Executive Director

City of Pflugerville, Texas Organizational Chart



City of Pflugerville, Texas
List of Elected and Appointed Officials
as of September 30, 2012

Elected Officials

**City Council
Three-Year Terms**

<u>Name</u>	<u>Term Expires</u>
Jeff Coleman, Mayor	November 2013
Victor Gonzales, Mayor Pro Tem, Place 5	November 2012
Wayne Cooper, Place 1	November 2013
Brad Marshall, Place 2	November 2014
Darelle White, Place 3	November 2012
Starlet Sattler, Place 4	November 2014

City Staff

<u>Position</u>	<u>Name</u>
City Manager	Brandon Wade
Assistant City Manager	Lauri Gillam
Assistant City Manager	Trey Fletcher
Assistant City Manager	Tom Word
Police Chief	Chuck Hooker
City Secretary	Karen Thompson
Public Information Officer	Terri Waggoner
Human Resources Officer	Dennis O'Neill



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Pflugerville, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Pflugerville, Texas (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the City of Pflugerville, Texas, as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information on pages 15 through 24 and 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pflugerville, Texas' basic financial statements as a whole. The introductory section, statistical section and combining schedules for the general fund are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules for the general fund are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules for the general fund are fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Dennis Kinard & Co., PC
Certified Public Accountants

Abilene, Texas
March 18, 2013

City of Pflugerville, Texas Management's Discussion and Analysis

As management of the City of Pflugerville, Texas, we offer readers of the City of Pflugerville's financial statements this narrative overview and analysis of the financial activities of the City of Pflugerville for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3 - 6 of this report.

Financial Highlights

- ❖ The assets of the City of Pflugerville exceeded its liabilities as of September 30, 2012, by \$236,211,388 (net assets). Of this amount, \$24,929,941 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- ❖ As of the close of the current fiscal year, the City of Pflugerville's governmental funds reported combined ending fund balances of \$23,466,430 a decrease of \$5,148,954 in comparison with the prior year. The major factor in the reduction of fund balance is the expenditure of bond funds for capital projects.
- ❖ At the end of the 2011-2012 fiscal year, unassigned fund balance for the general fund was \$8,961,413 or 45.6% of general fund operating expenditures. The City of Pflugerville Charter requires a fund balance equivalent to 25% of operating expenditures each fiscal year. For fiscal year 2012 that amount was \$4.92 million.
- ❖ The City of Pflugerville's total debt decreased by \$7,970,000 (5.0%) during the current fiscal year. The largest portion of this decrease was the refunding of \$66,205,000 of combination tax and revenue certificates of obligation with lower interest rate bonds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Pflugerville's basic financial statements. The City of Pflugerville's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements report information about the City as a whole, using accounting methods similar to those used by private-sector companies.

The *statement of net assets* presents information on all of the City of Pflugerville's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Pflugerville is improving or deteriorating. To assess the overall health of the City, one needs to consider other non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure.

Government-wide Financial Statements (continued)

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Pflugerville that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Pflugerville include general government, public safety, public works and streets, and culture and recreation. The business-type activities of the City of Pflugerville include water, wastewater and solid waste services. Fees charged to customers fund the costs of providing these services.

The government-wide financial statements can be found on pages 27-29 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Pflugerville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Pflugerville can be divided into two categories: governmental funds and proprietary funds. The fund financial statements provide more detailed information about the City's most significant funds and will be more familiar to traditional users of government financial statements. The focus is now on major funds rather than fund types.

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 fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The governmental funds statements provide a short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided with the governmental fund financial statements that explain the reconciliation between the fund statements and the government-wide statements.

The City of Pflugerville maintains four 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, the special revenue fund, the debt service fund, and the capital projects fund, which are considered to be major funds.

The City of Pflugerville adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 30-34 of this report.

Fund Financial Statements (continued)

Proprietary Funds – Services for which the City charges fees and rates that intend to fully recover the cost of providing the service are reported in proprietary funds. Two types of proprietary funds are allowed in governmental accounting: enterprise funds and internal service funds. These funds, like the government-wide statements, provide both long-term and short-term financial information. The City of Pflugerville has only one proprietary fund (the utility fund) and no internal service funds.

The City's enterprise fund is substantially the same as its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flows. The City utilizes the enterprise fund to account for its water, wastewater and solid waste services.

The basic proprietary fund financial statements can be found on pages 35-38 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-62.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain information concerning the City of Pflugerville. Required supplementary information such as progress in funding the City obligation to provide pension benefits to its employees can be found on page 64. Combining schedules for the general fund can be found on pages 66-67.

Financial Analysis of the City as a Whole

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

City of Pflugerville - Net Assets

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 29,379,540	\$ 34,347,492	\$ 27,525,001	\$ 25,115,536	\$ 56,904,541	\$ 59,463,028
Capital assets	198,552,231	205,170,269	142,053,168	143,554,828	340,605,399	348,725,097
Total assets	227,931,771	239,517,761	169,578,169	168,670,364	397,509,940	408,188,125
Long-term liabilities	76,739,281	79,060,829	77,999,625	80,293,287	154,738,906	159,354,116
Other liabilities	4,095,734	3,929,715	2,463,912	2,544,095	6,559,646	6,473,810
Total liabilities	80,835,015	82,990,544	80,463,537	82,837,382	161,298,552	165,827,926
Net assets:						
Invested in capital assets, net of related debt	132,427,872	143,269,085	69,870,338	69,065,405	202,298,210	212,334,490
Restricted	2,414,134	1,636,177	6,569,103	6,678,888	8,983,237	8,315,065
Unrestricted	12,254,750	11,621,955	12,675,191	10,088,689	24,929,941	21,710,644
Total net assets	\$ 147,096,756	\$ 156,527,217	\$ 89,114,632	\$ 85,832,982	\$ 236,211,388	\$ 242,360,199

Statement of Net Assets: (continued)

- ❖ A portion of the City's net assets, \$8,983,237 (3.8%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$24,929,941, may be used to meet the City's ongoing obligations to citizens and creditors.
- ❖ Long-term liabilities in both the governmental and proprietary funds decreased due to the issuance of refunding debt during FY 2012. This new, lower interest rate debt was issued to replace previous bond issues that carried higher rates of interest.
- ❖ Unrestricted net assets in the proprietary fund increased due to the growth in revenue attributed to water sales during the drought that continued into 2012.
- ❖ At the end of the current fiscal year, the City of Pflugerville is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. This status was also true for the prior fiscal year.

The following table provides a summary of the City's operations for the year ended September 30, 2012.

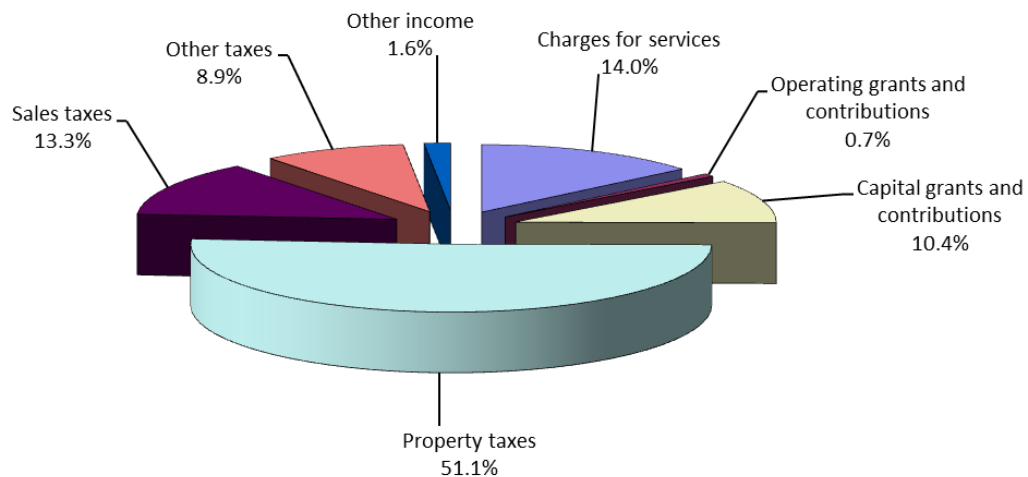
City of Pflugerville - Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 4,655,119	\$ 4,173,207	\$ 21,573,193	\$ 22,353,095	\$ 26,228,312	\$ 26,526,302
Operating grants and contributions	244,309	283,405	-	-	244,309	283,405
Capital grants and contributions	3,474,907	1,910,344	3,006,529	4,183,039	6,481,436	6,093,383
General revenues:						
Property taxes	17,005,330	16,939,622	-	-	17,005,330	16,939,622
Other taxes	7,373,629	6,924,709	-	-	7,373,629	6,924,709
Other	544,631	579,279	84,723	168,468	629,354	747,747
Total revenues	33,297,925	30,810,566	24,664,445	26,704,602	57,962,370	57,515,168
Expenses:						
General government	7,014,943	6,079,325	-	-	7,014,943	6,079,325
Public safety	11,061,484	10,643,196	-	-	11,061,484	10,643,196
Public works and streets	13,533,601	12,047,486	-	-	13,533,601	12,047,486
Culture and recreation	3,873,516	3,671,548	-	-	3,873,516	3,671,548
Interest on long-term debt	3,342,842	3,519,637	-	-	3,342,842	3,519,637
Water and wastewater			17,009,996	17,743,757	17,009,996	17,743,757
Solid waste			3,622,799	3,475,004	3,622,799	3,475,004
Total Expenses	38,826,386	35,961,192	20,632,795	21,218,761	59,459,181	57,179,953
Change in net assets before transfers	(5,528,461)	(5,150,626)	4,031,650	5,485,841	(1,496,811)	335,215
Transfers	750,000	700,000	(750,000)	(700,000)	-	-
Change in net assets	(4,778,461)	(4,450,626)	3,281,650	4,785,841	(1,496,811)	335,215
Net assets - October 1, 2011 (as restated)	151,875,217	160,977,843	85,832,982	81,047,141	237,708,199	242,024,984
Net assets - September 30, 2012	\$ 147,096,756	\$ 156,527,217	\$ 89,114,632	\$ 85,832,982	\$ 236,211,388	\$ 242,360,199

Revenues

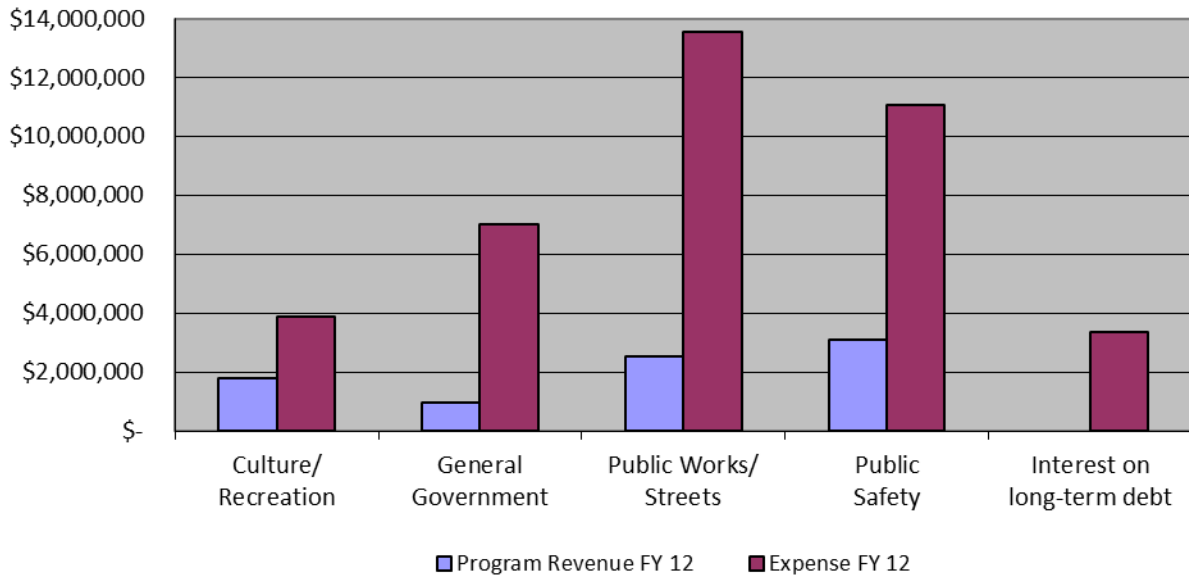
- ❖ Property tax revenue including penalties and interest increased less than 1% (\$65,708) during this fiscal year. This slight increase is due to new commercial development in the City limits.
- ❖ Property tax revenue accounts for 51.1% of total revenues for governmental activities.
- ❖ Assessed valuations increased for the fiscal year by over \$22 million.
- ❖ The ad valorem tax rate for fiscal 2012 was \$0.5990 per \$100 of assessed valuation. This was a decrease of \$0.005 or a little less than 1% of the prior year rate.
- ❖ Sales tax revenue was \$4.4 million for fiscal year 2012, an increase of 13.4% over the prior year. Sales tax revenue constitutes 13.3% of the total revenue for governmental activities.
- ❖ Other taxes, which include franchise taxes and mixed beverage taxes, totaled \$3 million.
- ❖ Program revenue is derived from the program itself and reduces the cost of the function to the City. Total program revenue for both governmental and business-type activities is described below.
 - **Governmental activities program revenue** was \$8.3 million. Charges for services such as receipts primarily from development and building inspection fees, parks and pool fees, and court fines are the largest components of this revenue category. A significant portion, \$3.4 million, of revenue this fiscal year was infrastructure contributed by developers and others.
 - **Business-type activities program revenue** totaled \$24.6 million. A portion of these revenues is reported in the category Charges for Services, which represents receipts from utility customers for water, wastewater and solid waste services. Capital contributions which include infrastructure contributed by developers and impact fees accounted for \$3.0 million of revenue during fiscal year 2012.

Revenues by Source – Governmental Activities



Expenses and Program Revenues – Governmental Activities

The expenses in the chart below include depreciation expense through all categories. Depreciation expense totaled \$11,662,966. Removing depreciation expense, the operating expenditures for governmental activities increased by 10% in fiscal year 2012. The primary reason for this increase is additional one-time, non-capital expenditures from the general capital reserve.



Business-type activities. Business-type activities increased the City of Pflugerville’s net assets by \$3.3 million. Charges for services for business-type activities decreased 3.5% during fiscal year 2012. This small decrease can be attributed to lowered water usage during a slightly less dry spring and summer than 2011. The decrease in water demand consequently reduced the 2012 expenses used to produce water.

Financial Analysis of the City’s Funds

As noted earlier, the City of Pflugerville, Texas, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Pflugerville’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 of Pflugerville’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Pflugerville’s governmental funds reported a combined ending fund balance of \$23,466,430, a decrease of \$5,148,954 in comparison with the fiscal year beginning fund balance. This decrease in fund balance is directly related to the funding of capital projects out of bond funds that were received in prior years. Approximately 38.2% of this total amount (\$8.96 million) constitutes unassigned fund balance, which is available for spending at the government’s discretion. The remainder of fund balance is restricted, committed or assigned to indicate that it is not available for new spending because it has already been designated for a specific purpose. Funds have been restricted, by law or outside sources, to

Financial Analysis of the City's Funds (continued)

pay for capital projects (\$9,822,115); debt service (\$2,487,714); and specific programs in the special revenue fund (\$477,832). In addition, funds have been committed, by the City Council, to pay for general capital reserve projects (\$1,591,833) and specific programs in the special revenue fund (\$115,797). Funds have been assigned, by management, for special revenue programs (\$9,726).

The general fund is the chief operating fund of the City of Pflugerville. At the end of the current fiscal year, unassigned fund balance in the general fund was \$8,961,413. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 41.5% of total general fund expenditures. During fiscal year 2011, the City Council approved a general capital reserve to fund one-time purchases and projects. These funds are committed to that purpose and therefore do not appear as unassigned funds. The first spending from these funds occurred in fiscal year 2012; the Combining Schedules for the general and general capital reserve funds provide additional details and can be found on pages 66-67.

The fund balance of the City of Pflugerville's general fund increased by \$943,951 during fiscal year 2012. Sales tax revenue increased 13.4% during FY 2012 to \$4.4 million. Development revenue from building permits, plat review fees, site development plans, and construction inspection increased 43.2% from FY 2011. Some of the activities contributing to this sizable increase include: construction began on a large apartment complex, several subdivisions submitted plans for new phases of construction, and residential permits increased 14% over the prior year.

The special revenue fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. These include funds received from the U. S. Department of Justice, and the Justice Department of the State of Texas for the City's equitable share of proceeds from seized and forfeited property; fees for child safety; fees for training and technology; and fees for police services provided to the Pflugerville Independent School District. The largest portion of both the revenues and expenditures from this fund are related to providing police services to the local school district. However, funds were also spent on equipment for the police department and school crossing guard services.

The debt service fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal and interest. On September 30, 2012, this fund had a total balance of \$2,487,714. The increase in this fund balance was due to additional property tax revenue collected for the debt service related to the issuance of bonds during fiscal year 2011, for which the first full payment was due in fiscal year 2012. As a result of the favorable interest rates available, during fiscal year 2012 refunding bonds were issued to defease higher interest rate debt thereby lowering debt service requirements for outstanding bonds.

The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by the proprietary funds. The decrease in fund balance is due to the use of prior year bond funds to pay for construction related to projects such as: Pflugerville Parkway East, Phase II; Becker Farm Road; and the on-going expansion and renovation at the City's Library.

Proprietary funds. The City of Pflugerville's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Utility Fund at the end of the year amounted to \$12,675,191. The total growth in net assets was \$3,281,650. This increase was composed of operating revenue and capital contributions.

General Fund Budgetary Highlights

The following is a brief review of the budgetary changes from the original to the final budget.

The City approved three sets of general fund budget amendments during fiscal year 2012. These amendments increased the overall budgeted expenditures by \$298,786 from the original budget, a 1.5% increase. This increase was offset by revenues received in excess of the original budget, including: development fees, grants and contributions, citation revenue, and a transfer from fund balance.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2012, amounts to \$340,605,399, net of depreciation. This investment in capital assets includes land, buildings, machinery and equipment, park facilities, streets, water and wastewater facilities, and infrastructure.

Major capital asset events during the current fiscal year included the following.

- ❖ Construction began on the expansion and renovation project of the Pflugerville Community Library.
- ❖ Installation of solar panels at the water treatment plant was completed.
- ❖ Becker Farm Road improvements were completed.
- ❖ Construction was completed on East Pflugerville Parkway from SH 685 to SH 130.
- ❖ Design for the widening of Heatherwilde Boulevard North continued.
- ❖ Design and ROW acquisition continued for the Kelly Lane project.
- ❖ Design began on the Kelly Lane water transmission line.

City of Pflugerville's Capital Assets

(net of depreciation)

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 6,651,772	\$ 6,362,079	\$ 6,738,869	\$ 6,738,869	\$ 13,390,641	\$ 13,100,948
Buildings and improvements	38,934,766	41,984,121	10,013,504	10,454,645	48,948,270	52,438,766
Machinery and equipment	3,093,646	2,765,602	881,383	920,162	3,975,029	3,685,764
Infrastructure	141,563,232	140,602,759	122,403,110	120,687,461	263,966,342	261,290,220
Construction in progress	8,308,815	13,455,708	2,016,302	4,753,691	10,325,117	18,209,399
Total	\$ 198,552,231	\$ 205,170,269	\$ 142,053,168	\$ 143,554,828	\$ 340,605,399	\$ 348,725,097

The City's financial policies mandate maintenance and repair of the City's capital assets and infrastructure. The City budgets for on-going street maintenance projects in addition to staff costs and other maintenance costs of the street department. Utility infrastructure maintenance is budgeted within the Utility Fund.

Additional information on the City of Pflugerville's capital assets can be found in Note 6 to the financial statements.

Long-term Debt. At September 30, 2012, the City had total bonded debt outstanding of \$151,080,000. Of this amount, \$5,780,000 represents General Obligation debt approved by a vote of the citizens. The remainder of the City of Pflugerville's debt represents bonds secured by the full faith and credit of the government.

Capital Asset and Debt Administration (continued)

City of Pflugerville's Outstanding Debt at Year-End

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 5,780,000	\$ 17,505,000	\$ -	\$ -	\$ 5,780,000	\$ 17,505,000
Revenue bonds	-	-	-	-	-	-
Limited tax refunding bonds	26,556,000	12,213,000	54,549,000	7,692,000	81,105,000	19,905,000
Certificates of obligation	43,535,385	49,167,410	20,659,615	72,472,590	64,195,000	121,640,000
Total	\$ 75,871,385	\$ 78,885,410	\$ 75,208,615	\$ 80,164,590	\$ 151,080,000	\$ 159,050,000

The City of Pflugerville's total debt outstanding decreased by \$7,970,000 (5%) during the current fiscal year. The key factor in this decrease was the issuance of \$62,425,000 of limited tax refunding debt, which replaced \$66,205,000 of existing debt. The refunding bonds defeased or partially defeased debt issued in 1999, 2001, 2002, and 2003 that carried higher interest rates.

The State of Texas limits the legal amount of tax levy available for general obligation debt service to \$1.50 per \$100 valuation. The City of Pflugerville's 2012 debt levy equaled \$0.2053 per \$100 assessed valuation, or 13.7% of the maximum allowed.

Additional information about the City's long-term debt is presented in Note 6 to the financial statements.

Economic Factors and Next Year's Budget and Rates

The population of the City of Pflugerville continued a recent pattern of slow growth. The developer of the Stone Hill Town Center, NewQuest Properties, continues construction on this mixed-use development at the intersection of State Highway 130 and State Highway 45. During fiscal year 2012 several establishments were completed, including a credit union, a free-standing emergency room center, and several restaurants. Construction began on an apartment complex within the development and completion is anticipated during 2013. Also in 2012, construction began on the Austin-Pflugerville Texas Department of Public Safety (DPS) Driver's License Mega Center, one of six state-wide. The facility is expected to open in October 2012 and bring additional jobs to the City. The Pflugerville Community Development Corporation continues to make concerted marketing efforts to attract more commercial development in the areas fronting SH 130 and SH 145. All of these factors were considered in preparing the City of Pflugerville's budget for the 2013 fiscal year. The City has increased its water and wastewater capacities to serve the areas in this growth corridor. During FY 2012 water customers grew by 4.5% and wastewater customers grew by 4.0%.

Water and wastewater rates were not adjusted in 2012. A comprehensive rate study is scheduled to be conducted in FY 2013. Previous rate study results forecast no rate increase necessary until at least FY 2015. An annual review of the rates will be conducted. There is no adjustment of water or wastewater rates anticipated in fiscal year 2012-2013.

The fiscal year 2013 budget will be balanced without requiring a transfer from fund balance. The budgeting process focused on lean government operations. The prevailing economic environment significantly affected the planned expenditures and anticipated revenues during the coming year.

Contacting the City's Financial Management

This report is designed to provide City Council, citizens, customers, bond rating agencies, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional financial information, contact:

Finance Department
City of Pflugerville
100 East Main, Suite 100
Pflugerville, TX 78660
(512) 990-6100

www.pflugervilletx.gov

BASIC FINANCIAL STATEMENTS



CITY OF PFLUGERVILLE, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Pflugerville Community Development Corporation
ASSETS				
Cash and investments	\$ 12,226,663	\$ 9,954,542	\$ 22,181,205	\$ 787,882
Receivables (net of allowance)	2,039,659	3,169,175	5,208,834	423,358
Interfund balances	307,181	(307,181)	-	-
Due from component unit	22,502	-	22,502	-
Deferred charges	1,646,996	1,353,756	3,000,752	-
Restricted assets:				
Restricted cash and investments	13,136,539	13,354,709	26,491,248	-
Capital assets, not being depreciated:				
Land	6,651,772	6,738,869	13,390,641	10,757,279
Construction in progress	8,308,815	2,016,302	10,325,117	-
Capital assets, net of depreciation:				
Buildings and improvements	38,934,766	10,013,504	48,948,270	1,500
Machinery and equipment	3,093,646	881,383	3,975,029	17,639
Infrastructure and system	141,563,232	122,403,110	263,966,342	3,190,889
Total assets	227,931,771	169,578,169	397,509,940	15,178,547
LIABILITIES				
Accounts payable	1,913,504	1,336,675	3,250,179	145,526
Wages payable	507,008	66,039	573,047	-
Customer deposits and escrow payable	1,123,810	508,680	1,632,490	-
Accrued interest payable	551,412	552,518	1,103,930	33,646
Noncurrent liabilities:				
Due within one year	2,526,564	1,975,761	4,502,325	-
Due in more than one year	74,212,717	76,023,864	150,236,581	8,500,000
Total liabilities	80,835,015	80,463,537	161,298,552	8,679,172
NET ASSETS				
Invested in capital assets, net of related debt	132,427,872	69,870,338	202,298,210	5,467,307
Restricted for capital projects	-	6,569,103	6,569,103	-
Restricted for specific programs	477,832	-	477,832	-
Restricted for debt service	1,936,302	-	1,936,302	-
Restricted for economic development	-	-	-	1,032,068
Unrestricted	12,254,750	12,675,191	24,929,941	-
Total net assets	\$ 147,096,756	\$ 89,114,632	\$ 236,211,388	\$ 6,499,375

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

**CITY OF PFLUGERVILLE, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 7,014,943	\$ 927,777	\$ 48,050	\$ -
Public safety	11,061,484	2,942,793	140,005	-
Public works and streets	13,533,601	-	-	2,532,419
Culture and recreation	3,873,516	784,549	56,254	942,488
Interest and fiscal charges	3,342,842	-	-	-
Total governmental activities	<u>38,826,386</u>	<u>4,655,119</u>	<u>244,309</u>	<u>3,474,907</u>
Business-type activities:				
Water and wastewater	17,009,996	17,951,483	-	3,006,529
Solid waste	3,622,799	3,621,710	-	-
Total business-type activities	<u>20,632,795</u>	<u>21,573,193</u>	<u>-</u>	<u>3,006,529</u>
Total primary government	<u>\$ 59,459,181</u>	<u>\$ 26,228,312</u>	<u>\$ 244,309</u>	<u>\$ 6,481,436</u>
Component unit				
Pflugerville Community Development Corporation	<u>\$ 1,800,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,691,605</u>

General revenues:

Taxes:

 Property taxes

 Sales taxes

 Franchise taxes

 Mixed beverage taxes

Investment income

Other income

Gain on sale of capital assets

Transfers

 Total general revenues and transfers

 Change in net assets

Net assets - beginning, as restated

Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Pflugerville Community Development Corporation
\$ (6,039,116)	\$ -	\$ (6,039,116)	
(7,978,686)	-	(7,978,686)	
(11,001,182)	-	(11,001,182)	
(2,090,225)	-	(2,090,225)	
<u>(3,342,842)</u>	<u>-</u>	<u>(3,342,842)</u>	
<u>(30,452,051)</u>	<u>-</u>	<u>(30,452,051)</u>	
-	3,948,016	3,948,016	
-	(1,089)	(1,089)	
<u>-</u>	<u>3,946,927</u>	<u>3,946,927</u>	
(30,452,051)	3,946,927	(26,505,124)	
			\$ <u>(109,318)</u>
17,005,330	-	17,005,330	-
4,418,653	-	4,418,653	2,206,127
2,930,906	-	2,930,906	-
24,070	-	24,070	-
37,590	25,410	63,000	9,768
488,063	50,175	538,238	-
18,978	9,138	28,116	-
750,000	(750,000)	-	-
<u>25,673,590</u>	<u>(665,277)</u>	<u>25,008,313</u>	<u>2,215,895</u>
(4,778,461)	3,281,650	(1,496,811)	2,106,577
<u>151,875,217</u>	<u>85,832,982</u>	<u>237,708,199</u>	<u>4,392,798</u>
\$ <u><u>147,096,756</u></u>	\$ <u><u>89,114,632</u></u>	\$ <u><u>236,211,388</u></u>	\$ <u><u>6,499,375</u></u>

**CITY OF PFLUGERVILLE, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2012**

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental
ASSETS					
Cash and investments	\$ 10,713,807	\$ 389,044	\$ -	\$ 1,123,812	\$ 12,226,663
Taxes receivable	1,208,856	-	135,085	-	1,343,941
Other receivables	444,990	248,256	-	2,472	695,718
Due from other funds	308,899	11,806	8,327	-	329,032
Due from component unit	22,502	-	-	-	22,502
Restricted investments	-	-	2,480,581	10,655,958	13,136,539
Total assets	\$ 12,699,054	\$ 649,106	\$ 2,623,993	\$ 11,782,242	\$ 27,754,395
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,072,923	\$ 3,070	\$ 1,194	\$ 836,317	\$ 1,913,504
Wages payable	466,045	40,963	-	-	507,008
Due to other funds	20,133	1,718	-	-	21,851
Escrow payable	-	-	-	1,123,810	1,123,810
Deferred revenue	586,707	-	135,085	-	721,792
Total liabilities	2,145,808	45,751	136,279	1,960,127	4,287,965
Fund balances:					
Restricted for:					
Debt service	-	-	2,487,714	-	2,487,714
Capital projects	-	-	-	9,822,115	9,822,115
Specific programs	-	477,832	-	-	477,832
Committed for:					
General capital reserve	1,591,833	-	-	-	1,591,833
Specific programs	-	115,797	-	-	115,797
Assigned for:					
Specific programs	-	9,726	-	-	9,726
Unassigned	8,961,413	-	-	-	8,961,413
Total fund balances	10,553,246	603,355	2,487,714	9,822,115	23,466,430
Total liabilities and fund balances	\$ 12,699,054	\$ 649,106	\$ 2,623,993	\$ 11,782,242	\$ 27,754,395

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

**CITY OF PFLUGERVILLE, TEXAS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2012**

Fund balances of governmental funds	\$	23,466,430
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		198,552,231
Bonds payable will not be liquidated with current financial resources and therefore have not been included in the fund financial statements.		(75,871,385)
The net OPEB obligation will not be liquidated with current financial resources and therefore has not been included in the fund financial statements.		(341,159)
Accrued liabilities for compensated absences will not be liquidated with current financial resources and therefore have not been included in the fund financial statements.		(451,648)
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due.		(551,412)
Bond issuance costs are recorded as expenditures when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements.		1,646,996
Premiums (\$2,634,684) and discounts (\$259,604) on bond issuances and deferred amount on bond refunding (\$2,299,991) are recorded as other financing sources and uses when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements over the life of the bonds.		(75,089)
Receivables from property taxes (\$331,360) and fines (\$390,431) are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.		<u>721,792</u>
Net assets of governmental activities	\$	<u><u>147,096,756</u></u>

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

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

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental
REVENUES					
Taxes:					
Property	\$ 11,213,831	\$ -	\$ 5,806,008	\$ -	\$ 17,019,839
Sales	4,418,653	-	-	-	4,418,653
Franchise	2,930,906	-	-	-	2,930,906
Mixed beverage	24,070	-	-	-	24,070
Licenses and permits	954,563	54,023	-	-	1,008,586
Intergovernmental	277,865	1,519,911	185,683	-	1,983,459
Fines and forfeitures	1,105,977	210,478	-	-	1,316,455
Investment income	15,583	290	4,465	17,252	37,590
Charges for services	581,002	-	-	-	581,002
Deutschen Pfest income	-	132,675	-	-	132,675
Other income	180,188	17,710	-	140,544	338,442
Total revenues	<u>21,702,638</u>	<u>1,935,087</u>	<u>5,996,156</u>	<u>157,796</u>	<u>29,791,677</u>
EXPENDITURES					
Current:					
General government	4,789,135	-	-	-	4,789,135
Public safety	9,012,407	1,311,140	-	-	10,323,547
Public works and streets	2,722,241	-	-	-	2,722,241
Culture and recreation	3,148,254	90,870	-	-	3,239,124
Debt service:					
Agent fees/issuance costs	-	-	77,864	-	77,864
Interest	-	-	3,265,720	-	3,265,720
Principal retirement	-	-	2,344,400	-	2,344,400
Capital outlay	1,931,138	237,817	-	6,757,120	8,926,075
Total expenditures	<u>21,603,175</u>	<u>1,639,827</u>	<u>5,687,984</u>	<u>6,757,120</u>	<u>35,688,106</u>
EXCESS (DEFICIENCY) OF OVER (UNDER) EXPENDITURES	99,463	295,260	308,172	(6,599,324)	(5,896,429)
OTHER FINANCING SOURCES					
Transfers out	-	(48,808)	-	-	(48,808)
Transfers in	798,808	-	-	-	798,808
Proceeds from sale of capital assets	18,978	-	-	-	18,978
Payment to bond refunding escrow agent	-	-	(17,160,040)	-	(17,160,040)
Premium on issuance of bonds	-	-	2,128,085	-	2,128,085
Issuance of bonds	-	-	14,982,000	-	14,982,000
Insurance recoveries	26,702	1,750	-	-	28,452
Total other financing sources and uses	<u>844,488</u>	<u>(47,058)</u>	<u>(49,955)</u>	<u>-</u>	<u>747,475</u>
NET CHANGE IN FUND BALANCES	943,951	248,202	258,217	(6,599,324)	(5,148,954)
FUND BALANCES, BEGINNING	<u>9,609,295</u>	<u>355,153</u>	<u>2,229,497</u>	<u>16,421,439</u>	<u>28,615,384</u>
FUND BALANCES, ENDING	<u>\$ 10,553,246</u>	<u>\$ 603,355</u>	<u>\$ 2,487,714</u>	<u>\$ 9,822,115</u>	<u>\$ 23,466,430</u>

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

**CITY OF PFLUGERVILLE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - total governmental funds	\$ (5,148,954)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Current year capital outlays are expenditures in the fund statements but are shown as increases in capital assets in the government-wide financial statements. The effect of removing capital outlays is to increase net assets.	6,234,145
The City received street infrastructure contributed by developers. Other capital assets were donated to the City as well. These contributions increase net assets.	3,462,783
Depreciation is not recognized as an expenditure in governmental funds since it does not require the use of current financial resources. The effect of recording current year depreciation is to decrease net assets.	(11,662,966)
The issuance of bonds payable is reported as other financing sources in the fund financial statements but is shown as increases in long-term debt in the government-wide financial statements.	(14,982,000)
Long-term debt principal payments are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	17,996,025
Decreases to liabilities for compensated absences are not shown in the fund financial statements. The net effect of the current year's decrease is to increase net assets.	6,433
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The decrease in interest accrual increases net assets.	41,908
Increases to liabilities for OPEB are not shown in the fund financial statements. The net effect of the current year's increase is to decrease net assets.	(61,034)
Bond issuance costs are expended in the fund financial statements when paid but are capitalized and amortized in the government-wide financial statements.	(22,960)
Discounts and premiums on bond issuances are recorded as an other financing source or use when received in the fund financial statements but are deferred and amortized in the government-wide financial statements.	(2,079,964)
Deferred amount on bond refunding of \$1,503,590 is capitalized in the government-wide financial statements and amortized over the life of the debt. Amortization of deferred amount on bond refunding of \$61,502 was recorded. The net effect is to increase net assets.	1,442,088
Revenues from property taxes and fines are deferred in the fund financial statements until they are considered available to fund current expenditures, but such revenues are recognized in the government-wide statements.	<u>(3,965)</u>
Change in net assets of governmental activities	\$ <u><u>(4,778,461)</u></u>

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

CITY OF PFLUGERVILLE, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts		Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes:				
Property	\$ 11,054,701	\$ 11,054,701	\$ 11,213,831	\$ 159,130
Sales	3,816,000	3,816,000	4,418,653	602,653
Franchise	2,726,627	2,726,627	2,930,906	204,279
Mixed beverage	25,000	25,000	24,070	(930)
Licenses and permits	645,000	695,000	954,563	259,563
Intergovernmental/grants	17,834	62,850	229,815	166,965
Fines and forfeitures	982,646	1,092,646	1,105,977	13,331
Interest income	20,000	20,000	15,583	(4,417)
Charges for services	612,830	612,830	581,002	(31,828)
Other income	69,850	87,474	180,188	92,714
Fund balance transfer	-	12,946	12,946	-
Total revenues	19,970,488	20,206,074	21,667,534	1,461,460
EXPENDITURES				
Current:				
General government	4,957,212	4,788,516	4,789,135	(619)
Public safety	8,886,629	9,107,824	9,012,407	95,417
Public works and streets	2,701,658	2,778,089	2,722,241	55,848
Culture and recreation	3,366,421	3,405,691	3,148,254	257,437
Capital outlay	671,797	802,383	764,921	37,462
Total expenditures	20,583,717	20,882,503	20,436,958	445,545
EXCESS OF REVENUES OVER EXPENDITURES	(613,229)	(676,429)	1,230,576	1,907,005
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(2,710,000)	(2,710,000)
Transfers in	829,057	942,257	798,808	(143,449)
Proceeds from sale of capital assets	500	500	18,978	18,478
Insurance recoveries	-	-	26,702	26,702
Total other financing sources and uses	829,557	942,757	(1,865,512)	(2,808,269)
NET CHANGE IN FUND BALANCES	216,328	266,328	(634,936)	(901,264)
FUND BALANCE, BEGINNING	9,609,295	9,609,295	9,609,295	-
FUND BALANCE, ENDING, BUDGETARY BASIS	\$ 9,825,623	\$ 9,875,623	8,974,359	\$ (901,264)
Reconciliation to generally accepted accounting principles (GAAP):				
Remove fund balance transfer			(12,946)	
Fund balance, ending, GAAP basis			\$ 8,961,413	

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

**CITY OF PFLUGERVILLE, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2012**

	Enterprise Fund <u>Utility</u>
ASSETS	
Current assets:	
Cash and investments	\$ 9,954,542
Restricted cash and investments	829,984
Accounts receivable, net	<u>3,169,175</u>
Total current assets	<u>13,953,701</u>
Non-current assets:	
Restricted cash and investments:	
Revenue bond covenant accounts	6,163,504
Impact fees	6,361,221
Bond issuance costs, net	1,353,756
Capital assets:	
Land	6,738,869
Buildings and improvements	13,244,221
Equipment	3,350,680
Infrastructure and system	156,888,290
Construction in progress	2,016,302
Less accumulated depreciation	<u>(40,185,194)</u>
Total capital assets, net of accumulated depreciation	<u>142,053,168</u>
Total non-current assets	<u>155,931,649</u>
Total assets	169,885,350
LIABILITIES	
Current liabilities:	
Accounts payable	1,336,675
Wages payable	66,039
Due to other funds	307,181
Compensated absences payable	7,895
Customer deposits	508,680
Accrued interest payable	552,518
Tax and revenue bonds payable - current	<u>1,967,866</u>
Total current liabilities	<u>4,746,854</u>
Non-current liabilities:	
Tax and revenue bonds payable	75,936,745
Compensated absences payable	31,581
Net OPEB obligation	<u>55,538</u>
Total non-current liabilities	<u>76,023,864</u>
Total liabilities	80,770,718
NET ASSETS	
Invested in capital assets, net of related debt	69,870,338
Restricted for capital projects	6,569,103
Unrestricted	<u>12,675,191</u>
Total net assets	<u>\$ 89,114,632</u>

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

**CITY OF PFLUGERVILLE, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	Enterprise Fund <u>Utility</u>
OPERATING REVENUES	
Charges for sales and services:	
Water sales	\$ 12,216,367
Wastewater sales	5,735,116
Solid waste sales	3,621,710
Other income	50,175
Total operating revenues	<u>21,623,368</u>
OPERATING EXPENSES	
Utility administration	3,028,405
Water operations	5,984,070
Wastewater operations	1,493,842
Solid waste operations	3,622,799
Depreciation and amortization	3,775,808
Total operating expenses	<u>17,904,924</u>
OPERATING INCOME	3,718,444
NONOPERATING REVENUES (EXPENSES)	
Investment income	25,410
Interest expense and fees	(2,727,871)
Gain (loss) on sale of capital assets	9,138
Total nonoperating revenues (expenses)	<u>(2,693,323)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	1,025,121
Capital contributions	3,006,529
Transfers out	<u>(750,000)</u>
CHANGE IN NET ASSETS	3,281,650
TOTAL NET ASSETS, BEGINNING	<u>85,832,982</u>
TOTAL NET ASSETS, ENDING	<u>\$ 89,114,632</u>

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

**CITY OF PFLUGERVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

		Enterprise Fund Utility
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$	22,371,701
Payments to or on behalf of employees		(2,065,674)
Payments to suppliers		(12,020,275)
Net cash provided by operating activities		8,285,752
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to other funds		(750,000)
Payments from other funds		134,411
Net cash used by noncapital financing activities		(615,589)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of revenue bonds		53,344,617
Capital contributions		1,399,323
Acquisition of capital assets		(613,594)
Principal paid on bonds		(1,850,025)
Payment to bond refunding escrow agent		(54,340,125)
Interest paid on bonds		(2,808,153)
Gain (loss) on sale of capital assets		9,138
Net cash used by capital and related financing activities		(4,858,819)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in short-term investments		(2,717,121)
Interest received		25,410
Net cash used by investing activities		(2,691,711)
NET INCREASE IN CASH AND CASH EQUIVALENTS		119,633
CASH AND CASH EQUIVALENTS, BEGINNING		478,140
CASH AND CASH EQUIVALENTS, ENDING	\$	597,773
RECONCILIATION TO STATEMENT OF NET ASSETS		
Cash and cash equivalents	\$	597,773
Investments		22,711,478
Total cash and investments	\$	23,309,251
REPORTED AS:		
Cash and investments	\$	9,954,542
Restricted cash and investments		13,354,709
Total cash and investments	\$	23,309,251

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

**CITY OF PFLUGERVILLE, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

		Enterprise Fund <u>Utility</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income	\$	3,718,444
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		3,775,808
Decrease in accounts receivable		781,649
Increase in accounts payable		33,767
(Decrease) in customer deposits		(33,315)
Increase in accrued liabilities		<u>9,399</u>
Net cash provided by operating activities	\$	<u><u>8,285,752</u></u>
 NONCASH INVESTING AND FINANCING ACTIVITIES		
Infrastructure contributed by developers	\$	1,607,206

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

NOTES TO FINANCIAL STATEMENTS



CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 1: REPORTING ENTITY

The City of Pflugerville, Texas (the City) was incorporated in 1965, under the provisions of the State of Texas. The City operates under a Council-Manager form of government and provides the following services: public safety (police and building inspection), streets, public improvements, general administrative services, culture and recreation, and water, wastewater, and solid waste services.

The financial statements of the City have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

The City also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the City to determine if its omission from the reporting entity would result in the financial statements which are misleading or incomplete. GASB Statement No. 39 requires inclusion of such an organization as a component unit when: 1) the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the City, its component units or its constituents; and 2) the City or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) such economic resources are significant to the City.

Based on the criteria above, the City has the following discretely presented component unit:

The Pflugerville Community Development Corporation (PCDC). The City adopted (through the election process) an optional ½ cent sales tax for economic development purposes. The Corporation is a nonprofit corporation specifically governed by Section 4B of the Development Corporation Act of 1979, as amended. The purpose of the PCDC is to promote economic development within the City of Pflugerville. The seven-member Board of Directors is appointed by the City Council. The Board is regularly accountable to the City Council for all activities undertaken by them or on their behalf and the City has the ability to impose its will on the Board. Complete financial statements for the PCDC may be obtained at the entity's administrative offices.

CITY OF PFLUGERVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 2: GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements, except for interfund services provided and used. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Note 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are 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 fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if collected 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 service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, certain charges for services 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The **Special Revenue Fund** is used to account for the proceeds of specific revenue sources (other than major capital projects) that are restricted, committed or assigned to expenditures for specified purposes, such as the Deutschen Pfest, Pflugerville Independent School District Police Department, drug seizure funds, and grant monies.

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

CITY OF PFLUGERVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 3: MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (continued)

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by the proprietary fund types. Such resources are derived from proceeds of general obligation bonds or other sources of revenue specifically set aside for capital projects.

The City reports the following major proprietary fund type:

The Utility Fund accounts for the City's water, wastewater, and solid waste utilities, including operations, maintenance of the infrastructure and expansion of the system within the City's service territory.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Utility Fund are charges to customers for sales and services. Operating expenses include cost of services and depreciation expense on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 4: ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

For purposes of the statement of cash flows for the proprietary fund types, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are reported at fair value, and the changes in the fair value of investments are recognized as investment revenue.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown net of an allowance for uncollectibles.

Restricted Assets and Payables from Restricted Assets

Certain resources have been set aside for the repayment of proprietary fund type revenue bonds. The assets and related payables are classified as restricted because their use is limited by applicable bond covenants. Also included in restricted assets are capital recovery fees (impact fees) that are, by law, restricted for future capital improvements; and assets set aside for construction of future debt funded capital improvements.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 4: ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at their historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are recorded at estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. Improvements which extend asset lives are capitalized and depreciated over the useful lives of the related assets, as applicable. Capital assets are capitalized if they have an expected useful life of over two years and an original cost of \$5,000 or more for equipment or \$25,000 for infrastructure, buildings and improvements other than buildings. When property or equipment is retired from service or otherwise disposed of, the cost and related accumulated depreciation are removed and any resulting gain or loss is reported in the statement of activities or in the proprietary fund financial statements.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. No interest expense was capitalized in the enterprise fund during the 2012 fiscal year.

Infrastructure capital assets, such as streets, sidewalks, curbs and gutters, sewers and drainage systems, built and/or acquired since fiscal year 1960 are included.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

Assets	Years
Buildings	30
Utility distribution system	20-50
Streets and public domain infrastructure	15-50
Improvements	15
Equipment	10

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets.

Bond Issuance Costs

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period in the fund financial statements. Bond proceeds and premiums are reported as an "other financing source." Bond discounts are reported as an "other financing use". Bond issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. For proprietary fund types and in the government-wide financial statements, premiums and discounts, as well as issuance costs, are reported as deferred charges and amortized over the life of the related debt. Bonds payable are reported net of the applicable bond premium or discount.

Compensated Absences

Accumulated earned but unused vacation is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 4: ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)

Use of Estimates

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

Property Taxes

Property is appraised and a lien on such property becomes enforceable as of January 1st of each year. Taxes are levied on and payable the following October 1. Taxes become delinquent February 1 of the following year and are subject to interest and penalty charges. The City is permitted by the State of Texas to levy taxes up to \$2.50 per \$100 of assessed valuation for general government services and for the payment of principal and interest on general long-term debt. The combined current tax rate to finance general government services, including debt service for the fiscal year ended September 30, 2012, was \$.599 per \$100 of assessed valuation.

Fund Balance

The City classifies governmental fund balance in accordance with Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions:

Nonspendable fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. At September 30, 2012, the City had no nonspendable fund balances.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Debt service fund balance restricted for the retirement of funded indebtedness totaled \$2,487,714 as of September 30, 2012. Fund balance restricted for capital projects totaled \$9,822,115 as of September 30, 2012. Special revenue fund balance restricted for specific programs included seizure funds, child safety fees, LEOSE training funds, municipal court funds, bike rodeo, Blue Santa, and TIRZ #1 and totaled \$136,471, \$102,183, \$10,450, \$202,403, \$1,499, \$13,508, and \$11,318 respectively, as of September 30, 2012.

Committed fund balance is established and modified by a resolution from City Council and can be used only for the specified purposes determined by the Council's resolution. Special revenue fund balance committed for specific programs consisted of fund balance committed to the Deutschen Pfest and totaled \$115,797 as of September 30, 2012. General fund balance of \$1,591,833 was committed to a general capital reserve as of September 30, 2012.

Assigned fund balance is intended to be used by the City for specific purposes but does not meet the criteria to be classified as restricted or committed. The Council has delegated the authority to assign fund balance to the City Manager. Special revenue fund balance assigned included animal shelter, firing range, CERT, and Pflugerville Independent School District Police Department and totaled \$10,717, \$(1,472), \$3,477, and \$(2,996), respectively, as of September 30, 2012.

Unassigned fund balance is the residual classification for the City's general fund and includes all spendable amounts not contained in the other classifications, as well as negative unassigned fund balance in other governmental funds.

The City Charter requires that the fund balance of the general fund be at least sufficient to cover three months of the City's budgeted general fund operation and maintenance expenses, except in the event of an emergency. Fund balance may be used for emergency appropriations in accordance with Section 9.04(b) of the City's Charter.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 4: ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)

The City uses restricted amounts first when both restricted and unrestricted fund balance are available. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when the expenditures are made.

Note 5: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The City Council follows these procedures in establishing the budgets reflected in the financial statements:

Ninety days prior to the beginning of each fiscal year, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1. The operating budget includes proposed expenditures and the means of financing them. Work sessions are conducted to obtain Council Members' comments, and public hearings are conducted to obtain citizens' comments. The budget is legally enacted by the City Council through the adoption of an ordinance prior to the beginning of the fiscal year. The City Manager is authorized to transfer budgeted amounts of operation and maintenance line items between departments within a fund. Any revisions that alter the total expenditures or the capital outlays of any fund must be approved by the City Council. A legally approved budget is not adopted for the Capital Projects Fund because expenditures in this fund are limited to the funds available from long-term debt issuances.

Formal budget integration is employed as a management control device during the year for the General Fund. The General Capital Reserve Fund is a subset of the General Fund, for which formal budgetary integration is not employed. Funded from prior year revenues received in excess of budget, the General Capital Reserve Fund is used to fund one-time and small capital related projects. Each year, typically in January, the City Council reviews a list of proposed projects which are individually approved or declined for funding from this separate fund.

Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture. The budget for the General Fund is adopted on a budgetary basis. The budgetary comparison schedule presented in this report is also on a budgetary basis. The primary adjustment to generally accepted accounting principles (GAAP) is removal of budgeted fund balance transfers. A legally approved budget is not adopted for the Special Revenue Funds. The Special Revenue Funds are expended at the discretion of the appropriate department manager.

Note 6: DETAILED NOTES ON ALL FUNDS

Cash and Investments

Custodial Credit Risk. Deposits (cash and certificates of deposit) in financial institutions are carried at cost which approximates fair values. The City's cash deposits at September 30, 2012, were entirely covered by FDIC insurance and pledged collateral held by the City's agent bank.

State statutes authorize the City to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) Texas local government investment pools; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or (b) secured by obligations that are described by (1) – (4); (6) and reverse repurchase agreements not to exceed 90 days to stated maturity.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

Following are the City's cash and investments at September 30, 2012:

	Carrying/ Fair Value	Weighted Average Maturity (Days)
Petty cash	\$ 1,900	N/A
Deposits with financial institutions	1,510,358	N/A
Lone Star Investment Pool - liquidity fund	1,137,650	49
TexPool	46,022,552	41
Total Cash and Investments	\$ 48,672,460	41

The Lone Star Investment Pool Government Overnight Fund (the Funds) state investments at amortized cost, which approximates market value, to report net assets for purposes of computing share prices. Accordingly, the fair values of the positions in the pools are essentially the same as the value of the shares in each pool.

The Lone Star Investment Pool (the Pool) is a public funds investment pool established in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. The Pool is administered by First Public, LLC, a wholly owned subsidiary of the Texas Association of School Boards, Inc. and is governed by an eleven member Board of Trustees (Board) made up of active participants in the Pool. The Board has the responsibility of adopting and monitoring compliance with the investment policy, appointing investment officers, overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. Audited financial statements of the Pool are available at First Public, 12007 Research Blvd., Austin, Texas 78759.

The Board is also responsible for monitoring performance of the pool. The Funds provide participants with daily access to funds and the net asset value of each participant's pro rata interest in each of the Funds is designed to remain constant at one dollar and fifty cents per unit, respectively. The Funds' portfolios are marked-to-market daily. If the Funds' amortized costs are above or below the market value by more than one-half of one percent, the investment officer will take such action as is deemed appropriate to maintain the aforementioned per unit net asset values. Independent auditors audit the Fund annually.

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool. The reported value of the pool is the same as the fair value of the pool shares. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. Audited financial statements of the Pool are available at TexPool Participant Services, C/O Federated Investors Inc, 1001 Texas Avenue, Suite 1400, Houston, Texas 77002. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair market values by limiting 20% of the weighted average maturity of the City's investment portfolio for a period of greater than one year. The maximum allowable stated maturity of any individual investment owned by the City shall not exceed two years from the time of purchase. However, the maximum dollar-weighted maturity of local government investment pools may not exceed 90 days.

Credit Risk. State law and City policy limit investments in local government investment pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2012, the City's investments in Lone Star and TexPool were both rated AAAM by Standard & Poor's.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

Capital Assets

A summary of changes in capital assets follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 6,362,079	\$ 289,693	\$ -	\$ 6,651,772
Construction in progress	6,956,805	5,057,938	3,705,928	8,308,815
Total assets not being depreciated	<u>13,318,884</u>	<u>5,347,631</u>	<u>3,705,928</u>	<u>14,960,587</u>
Capital assets, being depreciated:				
Buildings and improvements	58,769,830	225,024	-	58,994,854
Machinery and equipment	7,475,288	913,418	162,444	8,226,262
Infrastructure	267,441,090	6,916,783	-	274,357,873
Total capital assets being depreciated	<u>333,686,208</u>	<u>8,055,225</u>	<u>162,444</u>	<u>341,578,989</u>
Less accumulated depreciation:				
Buildings and improvements	16,785,709	3,274,379	-	20,060,088
Machinery and equipment	4,709,686	585,374	162,444	5,132,616
Infrastructure	124,991,428	7,803,213	-	132,794,641
Total accumulated depreciation	<u>146,486,823</u>	<u>11,662,966</u>	<u>162,444</u>	<u>157,987,345</u>
Total capital assets being depreciated, net	<u>187,199,385</u>	<u>(3,607,741)</u>	<u>-</u>	<u>183,591,644</u>
Governmental activities capital assets, net	<u>\$ 200,518,269</u>	<u>\$ 1,739,890</u>	<u>\$ 3,705,928</u>	<u>\$ 198,552,231</u>

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 6,738,869	\$ -	\$ -	\$ 6,738,869
Construction in progress	<u>2,997,362</u>	<u>491,368</u>	<u>1,472,428</u>	<u>2,016,302</u>
Total assets not being depreciated	9,736,231	491,368	1,472,428	8,755,171
Capital assets, being depreciated:				
Buildings and improvements	13,244,221		-	13,244,221
Machinery and equipment	3,429,257	122,224	200,801	3,350,680
Infrastructure	<u>153,808,655</u>	<u>3,079,635</u>	<u>-</u>	<u>156,888,290</u>
Total capital assets being depreciated	170,482,133	3,201,859	200,801	173,483,191
Less accumulated depreciation:				
Buildings and improvements	2,789,576	441,141	-	3,230,717
Machinery and equipment	2,509,095	161,003	200,801	2,469,297
Infrastructure	<u>31,364,865</u>	<u>3,120,315</u>	<u>-</u>	<u>34,485,180</u>
Total accumulated depreciation	36,663,536	3,722,459	200,801	40,185,194
Total capital assets being depreciated, net	<u>133,818,597</u>	<u>(520,600)</u>	<u>-</u>	<u>133,297,997</u>
Business-type activities capital assets, net	<u>\$ 143,554,828</u>	<u>\$ (29,232)</u>	<u>\$ 1,472,428</u>	<u>\$ 142,053,168</u>
Discretely presented component unit:				
Capital assets, not being depreciated:				
Land	\$ 10,757,279	\$ -	\$ -	\$ 10,757,279
Construction in progress	<u>238,107</u>	<u>2,959,444</u>	<u>3,197,551</u>	<u>-</u>
Total assets not being depreciated	10,995,386	2,959,444	3,197,551	10,757,279
Capital assets, being depreciated:				
Leasehold improvements	5,000			5,000
Furniture and equipment	44,161	6,186		50,347
Infrastructure	<u>-</u>	<u>3,197,551</u>	<u>-</u>	<u>3,197,551</u>
Total capital assets being depreciated	49,161	3,203,737	-	3,252,898
Less accumulated depreciation:				
Leasehold improvements	2,500	1,000		3,500
Furniture and equipment	24,718	7,990		32,708
Infrastructure	<u>-</u>	<u>6,662</u>	<u>-</u>	<u>6,662</u>
Total accumulated depreciation	27,218	15,652	-	42,870
Total capital assets being depreciated, net	<u>21,943</u>	<u>3,188,085</u>	<u>-</u>	<u>3,210,028</u>
Discretely presented component unit activities capital assets, net	<u>\$ 11,017,329</u>	<u>\$ 6,147,529</u>	<u>\$ 3,197,551</u>	<u>\$ 13,967,307</u>

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	\$	267,648
Public safety		592,222
Public works		10,412,916
Culture/recreation		390,180
Total depreciation expense - governmental activities	\$	<u>11,662,966</u>
Business-type activities		
Water and sewer	\$	3,722,459
Total depreciation expense - business-type activities	\$	<u>3,722,459</u>

Interfund Receivables/Payables and Transfers

The composition of interfund receivables/payables and transfers in/out as of September 30, 2012, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Debt service	General	\$ 8,327	Transfer property taxes
Special revenue	General	11,806	Transfer for payables
General	Utility	307,181	Transfer for franchise fees
General	Special revenue	1,718	Transfer for payables
<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
General	Utility	\$ 750,000	Management fee
General	Special revenue	48,808	Contribution to General fund

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

Long-term Debt

The following is a summary of long-term debt transactions of the City for the fiscal year ended September 30, 2012:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental activities					
General obligation bonds	\$ 78,885,410	\$ 14,982,000	\$ (17,996,025)	\$ 75,871,385	\$ 2,436,234
Premium on bond issuance	568,372	2,128,085	(61,773)	2,634,684	-
Discount on bonds	(273,256)	-	13,652	(259,604)	-
Deferred amount on bond refunding	(857,903)	(1,503,590)	61,502	(2,299,991)	-
Compensated absences	458,081	85,183	(91,616)	451,648	90,330
Net OPEB obligation	280,125	61,034	-	341,159	-
Governmental activities long-term liabilities	\$ 79,060,829	\$ 15,752,712	\$ (18,074,260)	\$ 76,739,281	\$ 2,526,564
Business-type activities					
Utility bonds	\$ 80,164,590	\$ 47,443,000	\$ (52,398,975)	\$ 75,208,615	\$ 1,967,866
Premium on bond issuance	489,512	6,738,936	(126,035)	7,102,413	-
Discount on bonds	(57,514)	-	2,413	(55,101)	-
Deferred amount on bond refunding	(390,976)	(4,038,227)	77,887	(4,351,316)	-
Compensated absences	41,858	5,990	(8,372)	39,476	7,895
Net OPEB obligation	45,817	9,721	-	55,538	-
Business-type activities long-term liabilities	\$ 80,293,287	\$ 50,159,420	\$ (52,453,082)	\$ 77,999,625	\$ 1,975,761
Total long-term debt	<u>\$ 159,354,116</u>	<u>\$ 65,912,132</u>	<u>\$ (70,527,342)</u>	<u>\$ 154,738,906</u>	<u>\$ 4,502,325</u>
Discretely presented component unit					
Notes payable	\$ 8,500,000	\$ -	\$ -	\$ 8,500,000	\$ -
	<u>\$ 8,500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,500,000</u>	<u>\$ -</u>

For the governmental activities, the Debt Service Fund generally has been used to liquidate the general obligation bonds and the General Fund has liquidated compensated absences and the OPEB obligation.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

General Obligation Debt

The annual requirements to retire general long-term debt, including interest, as of September 30, 2012, are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2013	\$ 2,436,234	\$ 4,146,607	\$ 6,582,841
2014	2,374,390	3,989,553	6,363,943
2015	1,995,281	3,307,245	5,302,526
2016	2,057,808	3,237,667	5,295,475
2017	2,109,778	3,169,968	5,279,747
2018-2022	11,676,929	13,984,860	25,661,789
2023-2027	18,012,252	10,957,183	28,969,435
2028-2032	21,069,989	6,627,907	27,697,896
2033-2035	14,138,723	1,443,067	15,581,790
Total	<u>\$ 75,871,385</u>	<u>\$ 50,864,057</u>	<u>\$ 126,735,442</u>

A summary of tax-supported general obligation debt outstanding at September 30, 2012, follows:

	\$	Purpose
\$13,450,000 Series 1999 General Obligation Bonds, due in annual installments of \$25,000 to \$1,500,000 through August 1, 2024; interest at 4.75% to 6.75%.	1,000,000	Street, road, and park improvements, Justice Center
\$9,994,200 Series 2002 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$170,500 to \$632,500 through August 1, 2018; interest at 4.5% to 5%.	250,250	Street projects, Northeast Metro Park
\$713,200 Series 2003 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$14,400 to \$46,200 through August 1, 2033; interest at 3% to 5.5%.	35,800	Radio equipment
\$3,000,000 Series 2004 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$43,677 to \$787,136 through August 1, 2034; interest at 2.5% to 5.25%.	419,500	Drainage projects, street projects, hike and bike trail
\$3,350,000 Series 2005 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$30,740 to \$1,044,100 through August 1, 2035; interest at 4% to 5.25%.	3,037,480	Street improvements
\$4,785,000 Series 2006 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$25,000 to \$2,180,000 through August 1, 2025; interest at 4%.	4,660,000	Street projects
\$10,315,000 Series 2007 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$210,000 to \$1,085,000 through August 1, 2033; interest at 4% to 5%.	9,475,000	Street projects
\$11,500,000 Series 2009 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$220,000 to \$2,655,000 through August 1, 2035; interest at 3% to 5.375%.	10,840,000	Streets, construction and drainage

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

\$3,000,000 Series 2009 Limited Tax Bonds, due in annual installments of \$60,000 to \$700,000 through August 1, 2031; interest at 3.0% to 5.3%.	\$ 2,820,000	Expansion of Library
\$11,247,600 Series 2009A Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$233,850 to \$869,075 through August 1, 2035; interest at 2% to 5%.	10,772,355	Infrastructure improvements
\$2,941,470 Series 2009 Limited Tax Refunding Bonds, due in annual installments of \$60,030 to \$608,130 through August 1, 2016 and interest at 2% to 3.125%.	1,679,600	Refunding of prior issues 1996, 1996A, and 1997
\$2,000,000 Series 2010 Limited Tax Bonds, due in annual installments of \$40,000 to \$170,000 through August 1, 2035 and interest at 2 to 4.2%.	1,960,000	Library expansion
\$4,130,000 Series 2010 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$85,000 to \$350,000 through August 1, 2035 and interest at 2 to 4.2%.	4,045,000	Infrastructure improvements
\$10,099,200 Series 2010 Limited Tax Refunding Bonds, due in annual installments of \$38,400 to \$713,600 through August 1, 2032 and interest at 2 to 4%.	9,894,400	Partial refunding of prior issues 2001 and 2002
\$14,982,000 Series 2012 Limited Tax Refunding Bonds, due in annual installments of \$21,600 to \$926,400 through August 1, 2034 and interest at 2 to 5%.	14,982,000	Partial refunding of prior issues 1999, 2002, 2003, and 2004
Total general obligation debt	\$ <u><u>75,871,385</u></u>	

The ordinances authorizing the issuance of general obligation bonds created an interest and sinking fund (Debt Service Fund.) The ordinances require the City to ascertain a rate of ad valorem tax which will be sufficient to pay the principal and interest as they become due.

In June 2012, the City issued refunding bonds, \$62,425,000 Limited Tax Refunding Bonds, Series 2012, for the purpose of advance refunding \$66,205,000 of various bond series of the City, in order to lower the overall debt service requirements of the City and to pay costs associated with the issuance of the bonds. The City used the net proceeds along with other resources to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for debt service on the refunded bonds until such time they are redeemed. As a result, that portion of the bonds is considered defeased, and the City has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$63,590,000 at September 30, 2012. As a result of this refunding, the City recognized an economic gain of \$7,236,797 and cash flow savings (difference between debt service requirements of the old debt versus the new debt) of \$10,375,924.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

Utility Debt

A summary of utility debt outstanding at September 30, 2012, follows:

\$8,255,800 Series 2002 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$139,500 to \$517,500 through August 1, 2018; interest at 4.5% to 5%.	\$ 204,750	Colorado River Supply Project, other water supply projects
\$17,116,800 Series 2003 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$345,600 to \$1,108,800 through August 1, 2033; interest at 3% to 5.5%.	859,200	Supply Project, Kennemar Lane Wastewater Plant, Wastewater System Interconnect
\$26,645,000 Series 2003-A Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$50,000 to \$3,085,000 through August 1, 2033; interest at 3% to 5%.	360,000	Colorado River Project, Wastewater System Interconnect
\$12,800,000 Series 2004 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$186,530 to \$3,361,595 through August 1, 2034; interest at 2.5% to 5.25%.	1,790,500	Wastewater Treatment Facility, Colorado River Project (Lake Pflugerville)
\$12,529,200 Series 2005 Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$114,260 to \$3,880,900 through August 1, 2035; interest at 4% to 5.25%.	11,152,520	Purchase of Wastewater companies (Kelly Lane and Wilke Lane)
\$7,738,650 Series 2009A Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$132,600 to \$521,000 through August 1, 2035; interest at 2% to 5%.	6,292,645	Wastewater infrastructure improvements
\$2,693,530 Series 2009 Limited Tax Refunding Bonds, due in annual installments of \$54,970 to \$556,870 through August 1, 2016; interest at 2% to 3.125%.	1,540,400	Refunding of prior issues - 1993, 1999, and 2000
\$5,680,800 Series 2010 Limited Tax Refunding Bonds, due in annual installments of \$60,000 to \$1,110,000 through August 1, 2032 and interest at 2% to 4%.	5,565,600	Partial refunding of prior issues 2001 and 2002
\$47,443,000 Series 2012 Limited Tax Refunding Bonds, due in annual installments of \$68,400 to \$2,933,600 through August 1, 2034 and interest at 2 to 5%.	47,443,000	Partial refunding of prior issues 2002, 2003, 2003A and 2004
Total utility debt	\$ <u><u>75,208,615</u></u>	

The utility bonds are payable from a pledge of the surplus revenues derived from the operation of the City's combined Waterworks and Sewer system, after payment of all operation and maintenance expenses.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 6: DETAILED NOTES ON ALL FUNDS (continued)

The annual requirements to retire all Utility Fund bonds, including interest, as of September 30, 2012, are as follows:

Fiscal Year	Principal	Interest	Total Requirements
2013	\$ 1,967,866	\$ 5,845,012	\$ 7,812,878
2014	2,175,610	5,723,925	7,899,535
2015	2,679,719	4,945,579	7,625,298
2016	2,762,192	3,557,411	6,319,603
2017	3,715,222	3,478,176	7,193,397
2018-2022	16,833,071	12,932,323	29,765,394
2023-2027	14,827,748	9,297,805	24,125,553
2028-2032	17,650,011	5,661,405	23,311,416
2033-2035	12,597,177	1,230,588	13,827,765
Total	<u>\$ 75,208,615</u>	<u>\$ 52,672,224</u>	<u>\$ 127,880,839</u>

Discretely Presented Component Unit Debt

PCDC's note agreements to purchase land are collateralized by the property and sales and use taxes. The notes require interest-only monthly payments at prime plus 25 basis points; however, the rate will not be more than 6.75% or less than 4.75%. The notes for \$4,800,000 and \$3,700,000 are payable in full on November 20, 2012 and January 20, 2014, respectively. Subsequent to year end, the \$4.8M note was renewed at 3.5% with a maturity date of January 20, 2014.

Note 7: RETIREMENT PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the City Council within the options available in the state statutes governing TMRS. Plan provisions for the City for Plan years 2011 and 2012 were as follows:

Employee deposit rate	7.0%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated service credit	100% repeating, transfers
Annuity increase to retirees	70% of CPI, repeating

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 7: RETIREMENT PLAN (continued)

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation are as follows:

Three Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contributions Made	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 1,596,475	1,596,475	100%	-
2011	1,621,601	1,621,601	100%	-
2012	1,628,823	1,628,823	100%	-

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

Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.3 years; closed period	27.2 years; closed period	26.2 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial assumptions:			
Investment Rate of Return *	7.5%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.00% 2.1%	3.00% 2.1%	3.00% 2.1%

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 7: RETIREMENT PLAN (continued)

Funding Status and Funding Progress

The funded status at December 31, 2011 is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1)/(2)	(2) - (1)		(4)/(5)
12/31/2011	\$ 23,168,480	\$ 31,572,922	73.4%	\$ 8,404,442	\$ 12,574,897	66.8%

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Supplemental Death Benefits Plan

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefit Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. Audited financial statements of the SDBF may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended September 30, 2012, 2011 and 2010 were \$16,577, \$18,674, and \$18,336, respectively, which equaled the required contributions each year.

CITY OF PFLUGERVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 8: POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description

The City provides certain health care benefits through a single-employer defined benefit OPEB plan. Regular, full-time employees are eligible to participate in the City's health care plan as a retiree at their own expense. The retiree pays 100% of the premiums for the insurance. Members are eligible at any age with 20 years of service or at age 60 with 5 years of service. Spouses and dependents of retirees are also eligible. As of the date of the latest actuarial valuation, the City has 251 active employees and 12 retirees eligible to participate in the plan.

When a regular, full-time employee retires, they are eligible to continue to participate in the City's group health insurance plan. Members who terminate employment prior to retirement are not eligible for retiree health care benefits. Retirees who decide to opt-out of the health care plan are not eligible to opt back in when coverage from another entity ceases.

Retirees are eligible for health care until they become Medicare eligible. The retiree pays full Medicare premiums. The City's coverage ceases when the retiree becomes eligible for Medicare coverage.

The City offers life insurance coverage for retirees at a \$10,000 limit at the retiree's expense. The retiree pays 100% of the premium. Life insurance coverage continues when the retiree becomes eligible for Medicare coverage.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's annual OPEB cost for the fiscal year ending September 30, 2012 is as follows:

Annual Required Contribution (ARC)	\$	88,653
Interest on OPEB Obligation		14,667
Adjustment to the ARC		<u>(13,589)</u>
Annual OPEB Cost		89,731
Net estimated employer contributions		<u>(18,976)</u>
Increase (Decrease) in Net OPEB Obligation		70,755
Net OPEB Obligation, beginning of year		<u>325,942</u>
Net OPEB Obligation, end of year	\$	<u><u>396,697</u></u>

Expenses for post-retirement health care benefits are funded on a pay-as-you-go basis.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year (4.5% discount rate, and level percent of pay amortization) are as follows:

Fiscal Year Ended	Trend Information					
	Net Employer Contributions	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation	Annual Required Contribution	Percentage of ARC Contributed
9/30/2010	\$ 8,774	\$ 135,029	6.5%	\$ 252,897	\$ 134,610	6.5%
9/30/2011	13,862	86,907	16.0%	325,942	86,071	16.1%
9/30/2012	18,976	89,731	21.1%	396,697	88,653	21.4%

CITY OF PFLUGERVILLE, TEXAS

NOTES TO FINANCIAL STATEMENTS

Note 8: POSTEMPLOYMENT HEALTH CARE BENEFITS (continued)

Funding Status and Funding Progress

The funded status of the City's retiree health care plan, under GASB Statement No. 54 as of December 31, 2010 is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (AAL) (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2008	\$ -	\$ 747,146	\$ 747,146	0%	\$ 10,814,036	6.9%
12/31/2010	-	614,779	614,779	0%	12,898,447	4.8%

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial liability exceeding actuarial assets by \$614,779 at December 31, 2010.

Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

<u>Actuarial Valuation Date</u>	<u>12/31/2010</u>
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level as a percentage of payroll
Amortization Period	30 years, open period
Asset Valuation Method	Market Value
 Actuarial Assumptions:	
Investment Rate of Return	4.5%, net of expenses
Payroll Growth Rate	3%
Projected salary increases	5.5% to 12%
General Inflation Rate	3%
Healthcare Cost Trend Rate	9% in 2012 decreasing by 0.5% in 9 years to an ultimate rate of 4.5%
 The number of active members is assumed to remain constant in the future	

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about future employment, mortality, and the health care cost trends. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The City selects a firm to conduct an independent actuarial valuation of its employer financed health benefits every two years as required by GASB 45. The most recent valuation was performed by the consultant and actuarial firm Gabriel Roeder Smith & Company. A copy of this report can be obtained by writing to the City of Pflugerville, P.O. Box 589, Pflugerville, TX 78691 or by calling 512-990-6100.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining workers compensation and property and liability insurance through Texas Municipal League (TML) Intergovernmental Risk Pool, a public entity risk pool for the benefit of governmental units located within the state. TML Intergovernmental Risk Pool ("Pool") is considered a self-sustaining risk pool that provides coverage for its members. The City's contributions to the Pool are limited to the amount of premiums as calculated at the beginning of each fund year. Premiums reflect the claims experience to date of the City. The Pool's liability is limited to the coverage that the City elects as stated in the Pool's Declarations of Coverage for that fund year. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years.

Note 10: COMMITMENTS AND CONTINGENCIES

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Estimated costs to complete significant construction projects in progress at year-end totaled approximately \$4,200,000 for the Capital Projects Fund.

In November 2009, PCDC entered into an agreement with the City to contribute its share of debt service payments to the City for bonds that the City issued on PCDC's behalf. PCDC's share of the debt was determined to be \$2,750,000 and was used for infrastructure improvements to land owned by PCDC. Future payments under the agreement are as follows:

Fiscal Year		
2013	\$	184,182
2014		182,683
2015		185,901
2016		183,701
2017		186,201
2018-2022		918,662
2023-2027		914,418
2028-2032		920,051
2033-2035		549,513
	\$	4,225,312

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 10: COMMITMENTS AND CONTINGENCIES (continued)

On September 28, 2011, the City entered into a lease agreement with the Travis County Emergency Services District No. 2 to lease building space. The lease commenced on October 1, 2011 and runs sixty months. The City has the right to extend the lease for five one-year periods. Rent expense for the year ended September 30, 2012 was \$116,045. Future payments due under the agreement are as follows:

Fiscal Year		
2013	\$	116,045
2014		116,045
2015		123,298
2016		123,298
	\$	<u>478,685</u>

In February 2013, the City issued \$4,600,000 of Combination Tax & Revenue Certificates of Obligation, Series 2013 for general projects including streets, intersections, drainage, sidewalk and other traffic improvements, including Pfluger Farm Lane. The City also issued \$2,000,000 of Limited Tax Bonds, Series 2013 for the expansion and renovation of the Pflugerville Public Library. This issue brings the total of general obligation debt issued for the Library project to \$7,000,000 which is the total approved by voters in 2008.

In September 2012, PCDC entered into an agreement with the City to contribute a share of debt service payments to the City for City bonds issued related to the completion of Pfluger Farm Road. PCDC will reimburse the City for the principal and interest on this debt, until such time as the increase in ad valorem tax recovered by the City for an adjacent property exceeds the amount of debt payments. The City will assume the debt service and reimburse PCDC when the ad valorem taxes received on the property exceeds the principal and interest debt service payments.

Note 11: UPCOMING ACCOUNTING PRONOUNCEMENTS

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and 34*. This Statement modifies the criteria for inclusion of component units in the financial reporting entity. This Statement also clarifies the reporting of equity interests in legally separate organizations. The City will reassess its accounting and financial reporting for potential component units and interests in joint ventures when this Statement is implemented. The provisions of this Statement are effective for periods beginning after June 15, 2012.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows and inflows of resources, which Concepts Statement No. 4 introduced and defined those elements as consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement amends the net assets reporting requirements of Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the required components of residual measure and by renaming that measure as net position, rather than net assets. This Statement will require the City to assess the reporting of deferred inflows and outflows to which this Statement is applicable. The provisions of this Statement are effective for periods beginning after December 15, 2011.

CITY OF PFLUGERVILLE, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 11: UPCOMING ACCOUNTING PRONOUNCEMENTS (continued)

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement reclassifies deferred amounts upon refunding of debt as deferred inflows or outflows and requires debt issuance costs to be expensed as incurred. The provisions of this Statement are effective for periods beginning after December 15, 2012.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement 27*. This Statement requires governments providing defined benefit pension plans to recognize their long-term obligation for pension benefits as a liability on the statement of net position and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement will require the City to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the TMRS plan. This Statement requires the use of the entry age normal method to be used with each period's service cost determined as a level percentage of pay and requires certain other changes to compute the pension liability and expense. This Statement also requires revised and new note disclosures and required supplementary information (RSI) to be reported by employers. The provisions of this Statement are effective for periods beginning after June 15, 2014.

The City will fully analyze the impact of these new Statements prior to the effective dates for the Statements listed above.

Note 12: PRIOR PERIOD ADJUSTMENTS

The City determined that capital assets related to a specific project were improperly recorded in prior years. As a result, net assets of governmental activities were overstated and have been reduced by \$4,652,000 as of October 1, 2011. In addition, construction in progress of \$2,561,170 and \$1,916,533 for governmental and business-type activities, respectively, were reclassified to infrastructure as of October 1, 2011.

Certain liabilities were previously accrued in PCDC's financial statements that were contingently liable and thus should not be accrued until the condition has been met. As a result, a prior period adjustment of \$54,000 was recorded to reverse the business incentive payable and increase net assets of PCDC as of October 1, 2011.

**REQUIRED
SUPPLEMENTAL INFORMATION**

**CITY OF PFLUGERVILLE, TEXAS
REQUIRED SUPPLEMENTAL INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM TREND DATA
LAST TEN FISCAL YEARS**

<u>Fiscal Year (1)</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability AAL (1)</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability UAAL (1)</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2003	\$ 3,798,841	\$ 5,331,598	71.3%	\$ 1,532,757	\$ 5,563,438	27.6%
2004	4,824,132	7,078,470	68.2%	2,254,338	6,112,351	36.9%
2005	5,861,227	8,310,373	70.5%	2,449,146	6,652,912	36.8%
2006	7,404,957	10,204,106	72.6%	2,799,149	7,220,118	38.8%
2007	8,990,058	12,215,701	73.6%	3,225,643	7,627,153	42.3%
2008	10,472,962	16,615,888	63.0%	6,142,926	8,763,918	70.1%
2009	12,549,436	19,436,680	64.6%	6,887,244	10,814,036	63.7%
2010	15,166,551	23,008,572	65.9%	7,842,021	12,168,888	64.4%
2011 (2)	17,687,889	25,606,275	69.1%	7,918,386	12,898,447	61.4%
2011 (3)	20,002,082	28,609,034	69.9%	8,606,952	12,898,447	66.7%
2012	23,168,480	31,572,922	73.4%	8,404,442	12,574,897	66.8%

Source: Texas Municipal Retirement System Annual Report and City payroll reports

(1) Trend data presented is information as of December 31 of the previous year, which is the fiscal year of TMRS.

(2) Actuarial valuation performed under the original fund structure.

(3) Actuarial valuation performed under the new fund structure.

COMBINING SCHEDULES

**CITY OF PFLUGERVILLE, TEXAS
COMBINING BALANCE SCHEDULE
GENERAL FUND - SUBFUNDS
SEPTEMBER 30, 2012**

	General	General Capital Reserve	Totals
ASSETS			
Cash and investments	\$ 9,073,942	\$ 1,639,865	\$ 10,713,807
Taxes receivable	1,208,856	-	1,208,856
Other receivables	444,990	-	444,990
Due from other funds	308,899	-	308,899
Due from component unit	22,502	-	22,502
Total assets	\$ 11,059,189	\$ 1,639,865	\$ 12,699,054
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,024,891	\$ 48,032	\$ 1,072,923
Wages payable	466,045	-	466,045
Due to other funds	20,133	-	20,133
Deferred revenue	586,707	-	586,707
Total liabilities	2,097,776	48,032	2,145,808
 Fund balances:			
Committed for:			
General capital reserve	-	1,591,833	1,591,833
Unassigned	8,961,413	-	8,961,413
Total fund balances	8,961,413	1,591,833	10,553,246
Total liabilities and fund balances	\$ 11,059,189	\$ 1,639,865	\$ 12,699,054

**CITY OF PFLUGERVILLE, TEXAS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 GENERAL FUND - SUBFUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	General	General Capital Reserve	Totals
REVENUES			
Taxes:			
Property	\$ 11,213,831	\$ -	\$ 11,213,831
Sales	4,418,653	-	4,418,653
Franchise	2,930,906	-	2,930,906
Mixed beverage	24,070	-	24,070
Licenses and permits	954,563	-	954,563
Intergovernmental	229,815	48,050	277,865
Fines and forfeitures	1,105,977	-	1,105,977
Investment income	15,583	-	15,583
Charges for services	581,002	-	581,002
Other income	180,188	-	180,188
Total revenues	21,654,588	48,050	21,702,638
EXPENDITURES			
Current:			
General government	4,789,135	-	4,789,135
Public safety	9,012,407	-	9,012,407
Public works and streets	2,722,241	-	2,722,241
Culture and recreation	3,148,254	-	3,148,254
Capital outlay	764,921	1,166,217	1,931,138
Total expenditures	20,436,958	1,166,217	21,603,175
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,217,630	(1,118,167)	99,463
OTHER FINANCING SOURCES (USES)			
Transfers in (out) - intrafund	(2,710,000)	2,710,000	-
Transfers in	798,808	-	798,808
Proceeds from sale of capital assets	18,978	-	18,978
Insurance recoveries	26,702	-	26,702
Total other financing sources and uses	(1,865,512)	2,710,000	844,488
NET CHANGE IN FUND BALANCES	(647,882)	1,591,833	943,951
FUND BALANCES, BEGINNING	9,609,295	-	9,609,295
FUND BALANCES, ENDING	\$ 8,961,413	\$ 1,591,833	\$ 10,553,246

