

CONDENSED WATERWORKS AND SEWER SYSTEM OPERATION STATEMENTS - Table 18

The following statements set forth in condensed form reflect the historical operations of the System. Such summary has been prepared for inclusion herein based upon information obtained from the City's records and audited financial statements and have been compiled using accounting principles customarily employed in the determination of net revenues available for debt service, and in all instances exclude depreciation, transfers to other funds, debt service payments and expenditures identified as capital. Reference is made to such audited financial statements for further and complete information.

	Fiscal Year Ended September 30				
	2012 <sup>(1)</sup>	2011	2010	2009	2008
Revenues <sup>(2)</sup>					
Water & Sewer	\$18,295,770	\$18,869,164	\$15,574,151	\$16,091,073	\$14,822,268
Solid Waste Sales <sup>(3)</sup>	3,622,799	3,483,931	3,299,820	2,855,524	2,387,540
Miscellaneous	<u>299,464</u>	<u>136,009</u>	<u>50,044</u>	<u>196,157</u>	<u>263,275</u>
Total	\$22,218,032	\$22,489,104	\$18,924,015	\$19,142,754	\$17,473,083
Expenses <sup>(3)</sup>	<u>13,751,807</u>	<u>13,751,807</u>	<u>11,930,512</u>	<u>13,328,382</u>	<u>11,371,687</u>
Solid Waste Sales					
Net Revenues and (Net Expenses) <sup>(3)</sup>	\$ (102)	\$ 8,927	\$ 26,514	\$ 39,586	\$ 59,156
Available for Debt Service <sup>(3)</sup>	\$ 8,466,124	\$ 8,737,927	\$ 6,993,503	\$ 5,774,786	\$ 6,042,240
Average Annual Requirement	- (4)	- (4)	- (4)	\$ 637,271	\$ 645,539
Coverage per Rate Covenant <sup>(3)</sup>	- (4)	- (4)	- (4)	9.66x	9.36x
Customer Count					
Water	13,213	12,640	12,514	11,731	11,293
Sewer	14,115	13,567	13,076	12,670	12,220

- (1) Unaudited.
- (2) Excludes certain transferred impact fees that are available to pay a portion of the debt service on the City's revenue bonds, but are not pledged to the repayment of such bonds. See Footnote 1 under "COMPUTATION OF SELF-SUPPORTING DEBT."
- (3) Revenues from Solid Waste Sales are not part of the Net Revenues of the System and are included in the forgoing financial statement for information purposes only. Solid Waste Sales revenues and Solid Waste expenses are not included for purposes of the coverage calculation. For the Fiscal Years ended September 30, 2008 and 2009, net revenues from Solid Waste Sales have been deducted from and net expenses have been added to the amount available for debt service. Therefore, the inclusion of Solid Waste Sales revenues in the forgoing financial statement does not affect the coverage ratios shown.
- (4) The City refunded all its revenue debt in Fiscal Year 2010.

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**REVENUE BOND DEBT SERVICE REQUIREMENTS - Table 19**

The City currently has no outstanding revenue bond indebtedness.

**COMPUTATION OF SELF-SUPPORTING DEBT**

Net Revenue from the Waterworks and Sewer System, Year Ended 9-30-12, unaudited	\$ 8,466,124
Less: Maximum Revenue Bond Debt Service Requirement	<u>-</u>
Balance Available for Other Purposes	\$ 8,466,124
Impact Fees Collected during Fiscal Year Ended 9-30-12, unaudited <sup>(1)</sup>	\$ 1,117,423
PCDC Debt Reimbursement Funds	<u>185,683</u>
Available Balance with Impact Fees and PCDC Debt Reimbursement Funds	\$ 9,769,230
Less: Fiscal Year Ended 2013 Self Supporting Portion of Debt Service Requirements <sup>(2)</sup>	<u>\$ 5,435,916</u>
Balance Available for Other Purposes	\$ 4,333,314
Percentage of System-Supported Combination Tax and Revenue Certificates of Obligation Self-Supporting	100%

- <sup>(1)</sup> Pursuant to state law, impact fees can only be used to pay debt service on debt issued for projects approved as part of the City's capital improvement plan adopted in connection with implementing impact fees. The City's capital improvement plan allows for such impact fees to be used to pay debt service on debt issued to finance the water and wastewater projects contained in such plan. The projects to be financed with the Obligations have not been included in the City's capital improvement plan, and impact fees are not available to pay debt service on the Obligations.
- <sup>(2)</sup> See Footnote 1 under "TAX DEBT INFORMATION - Debt Service Requirements for General Obligation Debt - Table 6."

**ENTERPRISE FUND BALANCES - Table 20**  
(unaudited as of September 30, 2012)<sup>(1)</sup>

Waterworks and Sewer System Impact Fee Fund <sup>(2)</sup>	\$ 6,769,999
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- <sup>(1)</sup> The City currently has no outstanding revenue bond indebtedness.
- <sup>(2)</sup> Pursuant to state law, impact fees can only be used to pay debt service on debt issued for projects approved as part of the capital improvement plan adopted in connection with implementing impact fees. The projects to be financed with the Obligations have not been included in the City's capital improvement plan, and impact fees are not available to pay debt service on the Obligations.

**REVENUE BOND DEBT DATA - Table 21**  
(as of September 30, 2012)

**Revenue Bond Debt Outstanding**

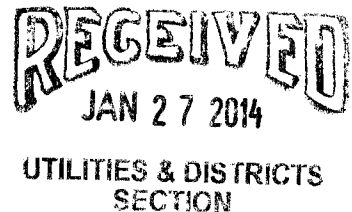
The City currently has no outstanding revenue bond indebtedness.

**Revenue Bonds Authorized But Unissued**

The City has no authorized but unissued revenue bonds.

**Anticipated Issuance of Additional Revenue Debt**

The City has no plans to authorize or issue any additional revenue debt payable from its waterworks and sewer system in the next 12 months.





## **RETIREMENT PLAN**

All permanent, full-time City employees are covered by the Texas Municipal Retirement System (the "TMRS"). The TMRS is a contributory, annuity-purchase type plan which is covered by a State statute and is administered by six trustees appointed by the Governor of the State of Texas. The TMRS operates independently of its member cities. For additional information concerning the TMRS, see the City's 2011 audited financial statements which are attached hereto as APPENDIX B.

### **Other Post-Employment Benefits**

In addition to the pension benefits described above, the City provides certain other post-retirement benefits to retired employees and their dependents that fall within the scope of Governmental Accounting Standards Board's Statement of General Accounting Standards No. 45 ("GASB 45"), Accounting by Employers for Other Post-employment Benefits ("OPEB").

GASB 45, which sets forth standards for the measurement, recognition and display of post-employment benefits other than pensions (such as health and life insurance for current and future retirees), applies to the City and required implementation by the City for the fiscal year that began October 1, 2008. GASB 45 requires the City to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer's future cash flows. The employer's contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in a net OPEB cost, which under GASB 45 must be recorded as a liability in the employer's financial statements.

House Bill No. 2365 ("HB 2365"), which was passed during the Regular Session of the 80th Texas Legislature ("HB 2365"), establishes an alternative, statutorily-based comprehensive basis for Texas governmental entities to account for OPEB obligations. HB 2365 permits political subdivisions to elect whether to report retiree health benefits (i) on a pay-as-you go basis or (ii) per the methodology established by GASB 45. Governmental entities that elect to report on a pay-as-you-go basis pursuant to HB 2365, have the option of reporting the information required by GASB 45 in the footnotes to their financial statements. However, governmental entities that elect to report OPEB liabilities in accordance with HB 2365 (in lieu of GASB 45) may receive qualified and/or adverse opinions from outside auditors and their bond ratings could be adversely affected.

The City implemented GASB 45 in its financial statements beginning in Fiscal Year 2009. Gabriel Roeder Smith & Company has prepared the actuarial valuations to meet GASB 45's requirements (the "GASB 45 Report"). Based on the GASB 45 Report, the Annual Required Contribution ("ARC") for the fiscal year ending September 1, 2011 was determined to be \$86,907 (assuming a pay-as-you-go funding policy and using a discount rate of 4.50%). The GASB 45 Report also indicates that the present value of all benefits expected to be paid to current plan members as of December 31, 2010 is \$614,779 (based on assumptions used to arrive at the ARC and the City's current pay-as-you-go funding policy). See Note 8 in "APPENDIX A- Excerpts from the City of Pflugerville, Texas Annual Financial Report."

## **INVESTMENTS**

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City. Both state law and the City's investment policies are subject to change.



## Investment Authority and Investment Practices of the City

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256 of the Texas Government Code, as amended) (the "PFIA") (i) that are issued by an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) that are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to

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SECTION



provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

#### **Investment Policies**

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, the City's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

#### **Additional Provisions**

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City, (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating,



net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

#### Current Investments - Table 22

As of October 31, 2012, the City was invested in TexPool and Lone Star Investment Pool which both have a book value of 100% of the market value as set out below. No funds of the City are invested in securities such as collateralized mortgage obligations, obligations commonly referred to as "inverse floaters," or structured notes, which are all commonly referred to as derivative securities.

TexPool	\$ 45,912,636.27
Lone Star Investment Pool	\$ 1,137,652.02

#### TAX MATTERS

##### Opinion

On the date of initial delivery of the Obligations, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinions that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Obligations for federal income tax purposes will be excludable from the "gross income" of the owners thereof and (2) the Obligations will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations. See APPENDIX C - "FORMS OF BOND COUNSEL OPINIONS."

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate and (b) covenants of the City contained in the Obligation documents relating to certain matters, including arbitrage and the use of the proceeds of the Obligations and the property financed therewith. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Obligations to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Obligations in order for interest on the Obligations to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Obligations to be included in gross income retroactively to the date of issuance of the Obligations. The opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Obligations.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Obligations.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Obligations or the property financed or refinanced with proceeds of the Obligations. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Obligations, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Obligationholders may

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have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of the Obligations may be less than the principal amount thereof or one or more periods for the payment of interest on the Obligations may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Obligations"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Obligations less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Obligation in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Obligation equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Obligation prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Obligation in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Obligation was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Obligation is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Obligation for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Obligation.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Obligations which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Obligations should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Obligations.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Obligations. This discussion is based on Existing Law, which is subject to change or modification, retroactively.



The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE OBLIGATIONS.

Interest on the Obligations will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

Under section 6012 of the Code, owners of tax-exempt obligations, such as the Obligations, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Obligations, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the owner at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the owner holds the obligation bears to the number of days between the acquisition date and the final maturity date.

#### **State, Local and Foreign Taxes**

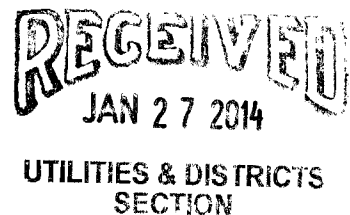
Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Obligations under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

#### **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement while it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and the timely notice of specified material events to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via its Electronic Municipal Market Access system at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Annual Reports**

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant, and must file each audit report with the City Secretary within 120 days after the close of the City's fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours of the City Secretary. Additionally, upon the filing





of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, as amended, Texas Government Code Chapter 552. Thereafter, any person may obtain copies of these documents upon submission of a written request to the Finance Director at City of Pflugerville, Texas, P.O. Box 589, Pflugerville, Texas 78691, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement (Tables 1-6 and 8-22), in "APPENDIX A - GENERAL INFORMATION REGARDING THE CITY" and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time, and will provide audited financial statements when and if an audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B, the Ordinances or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

#### **Notice of Certain Events**

The City will provide notice to the MSRB of any of the following events with respect to the Obligations, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of Obligationholders; (3) Obligation calls; (4) release, substitution, or sale of property securing repayment of the Obligations; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The City will also provide notice to the MSRB of any of the following events with respect to the Obligations without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other events affecting the tax status of the Obligations; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the City (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over



substantially all of the assets or business of the City). Neither the Obligations nor the Ordinances make any provision for debt service reserves, liquidity enhancement or credit enhancement.

The City will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports."

#### **Availability of Information**

The City has agreed to provide the foregoing updated information only to the MSRB. All documents provided by the City to the MSRB described above under "Annual Reports" and "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

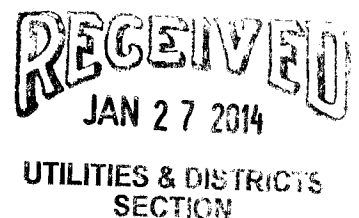
#### **Limitations and Amendments**

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Obligations at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Obligations in the primary offering of the Obligations in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinances that authorizes such an amendment) of the outstanding Obligations consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Obligations. The City may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

#### **Compliance with Prior Agreements**

In 2008, the City did not receive its audited financial statements for fiscal year 2007 from its auditor until after the March 31, 2008 filing date required by its previous continuing disclosure agreements. The City filed its audited financial statements for fiscal year 2007 once they became available from its auditor but did not file any unaudited financial statements in the interim.





Except as stated above, during the last five years, the City has complied in all material respects with its continuing disclosure agreements in accordance with SEC Rule 15c2-12.

#### **RATINGS**

The Obligations and the currently outstanding uninsured ad valorem tax supported debt of the City are rated "AA-" by Standard & Poor's Ratings Services, an S&P Financial Services LLC business ("S&P") and "Aa2" by Moody's Investors Service Inc. ("Moody's"). An explanation of the significance of such ratings may be obtained from S&P and Moody's.

The rating of the Obligations reflects only the view of said companies at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's or S&P, if, in the judgment of S&P and Moody's, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Obligations.

#### **LITIGATION**

It is the opinion of the City Attorney and City Staff that there is no pending or threatened litigation against the City that would have a material adverse financial impact upon the City or its operations.

#### **REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE**

The sale of the Obligations has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

#### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Under the Texas Public Security Procedures Act, Chapter 1201, Texas Government Code, the Obligations (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) are legal and authorized investments for (a) an insurance company, (b) a fiduciary or trustee, or (c) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Obligations are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2236, Texas Government Code, as amended, the Obligations may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. No review has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Obligations for such



purposes. The City has made no review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

## **LEGAL MATTERS**

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Obligations will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code. See "APPENDIX C - FORMS OF BOND COUNSEL OPINIONS." Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Obligations in the Official Statement under the captions "PLAN OF FINANCING (except for the subcaption "Sources and Uses of Proceeds"), "THE OBLIGATIONS" (except for the subcaptions "Book-Entry-Only System" and "Obligationholders' Remedies"), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Agreements"), "REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE" and "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" to determine that the information relating to the Obligations and the Ordinances contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Obligations are contingent on the sale and delivery of the Obligations. Certain legal matters will be passed upon for the Underwriter by its counsel, Andrews Kurth LLP, Austin, Texas. In connection with the issuance of the Obligations, Bond Counsel has been engaged by, and only represents, the City.

The legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

## **FINANCIAL ADVISOR**

Harrison Securities, Inc. is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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## UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Series 2013 Certificates from the City at a price of \$4,603,057.95 (representing the par amount of the Series 2013 Certificates of \$4,600,000, plus a net original issue premium of \$42,006.45 and less an underwriting discount of \$38,948.50), plus interest accrued on the Series 2013 Certificates. The Underwriter will be obligated to purchase all of the Series 2013 Certificates if any Series 2013 Certificates are purchased. The Series 2013 Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Series 2013 Certificates into investment trusts) at prices lower than the public offering prices of such Series 2013 Certificates and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has agreed, subject to certain conditions, to purchase the Series 2013 Bonds from the City at a price of \$2,005,114.22 (representing the par amount of the Series 2013 Bonds of \$2,000,000, plus a net original issue premium of \$22,320.10 and less an underwriting discount of \$17,205.88), plus interest accrued on the Series 2013 Bonds. The Underwriter will be obligated to purchase all of the Series 2013 Bonds if any Series 2013 Bonds are purchased. The Series 2013 Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Series 2013 Bonds into investment trusts) at prices lower than the public offering prices of such Series 2013 Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

## FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

## MISCELLANEOUS

All quotations from, and summaries and explanations of the State laws, the Ordinances and other agreements contained herein do not purport to be complete and reference is made to said laws, documents and agreements for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of this Final Official Statement pertaining to the Obligations will be deposited with the Municipal Securities Rulemaking Board, 1640 King Street, Suite 300, Alexandria, Virginia 22314. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.



The Ordinances authorizing the issuance of the Obligations will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use by the Underwriters in the reoffering and distribution of the Obligations in accordance with the provisions of SEC Rule 15c2-12.

/s/ Jeff Coleman  
Jeff Coleman, Mayor

ATTEST:

/s/ Karen Thompson  
Karen Thompson, City Secretary

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# APPENDIX A

## GENERAL INFORMATION REGARDING THE CITY

### Location

The City of Pflugerville is 15.6 miles northeast of downtown Austin on FM 1825. This location places the City within three hours driving time of ninety percent of the population of the State of Texas, and a number of high-tech industries. The City has recently become the location of the intersection of two toll roads: State Highway 130, which provides a north-south alternative to Interstate Highway 35; and State Highway 45, which provides an east-west connection to Round Rock, Austin, and neighboring communities.

### Population

The City's 2013 population is estimated to be 49,079, over ten times that of the 1990 census and three times that of the 2000 census. That growth has slowed due to the current economic climate, but is expected to accelerate as the recession ends.

<u>Census Report</u>	<u>City of Pflugerville</u>	<u>Travis County</u>
2010	46,936	1,024,266
2000	16,335	812,280
1990	4,444	576,407
1980	745	419,335
1970	549	295,516

Source: U.S. Census Bureau

### Economy

The City's economic base is commercial and industrial work emanating from the Austin and surrounding area. Most of the City's employed residents work in Travis and Williamson Counties, but as the population grows, more and more are working in local enterprises that directly serve their neighbors. With the completion of the toll road project, retail development has increased. Stone Hill Town Center includes Home Depot, Target, Dick's Sporting Goods, 24-Hour Fitness, and the St. David's 24-hour Emergency Center. Additional outlets are planned or currently under construction.

### Region's Largest Employers

<u>Company</u>	<u>Description</u>
<u>Employing 6,000 &amp; over</u>	
Austin Independent School District	Public Education
City of Austin	Government
Dell	Computer equipment mfg./sales (Hdq.)
Federal Government	Government
IBM Corp.	Computer systems, hardware, software & chip R&D
Seton Family of Hospitals	Healthcare (Hdq.)
St. David's Healthcare Partnership	Healthcare (Hdq.)
State of Texas	Government
University of Texas at Austin	Higher education, public
<u>Employing 2,000 - 5,999</u>	
Advanced Micro Devices	Semiconductor chip engineering, marketing & admin.

A-1

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Apple Computer	Computer makers, tech. & admin. support center
Applied Materials	Semiconductor production equipment mfg.
AT&T	Telecommunications (Hdq. of Texas ops.)
Flextronics	Electronics mfg. & integrated supply chain services
Freescall Semiconductor	Semiconductor chip design & mfg., auto, gaming, wireless, digital media
Hays School District	Public Education
Leander School District	Public Education
National Instruments	Virtual instrumentation software & hardware mfg. & R&D (Hdq.)
Lower Colorado River Authority	Electric power distribution (Hdq.)
Hays Consolidated Independent School District	Public education
Leander Independent School District	Public education
National Instruments	Virtual instrumentation software & hardware mfg. (Hdq.)
Pflugerville Independent School District	Public education
Round Rock Independent School District	Public education
Texas State University- San Marcos	Higher education, public
Travis County	Government
U.S. Internal Revenue Service	Government, regional call & processing center

Employing 1,000 - 1,999

3M Corp.	Electronic connectors & test equipment mfg./R&D
Activision Blizzard Entertainment	Game software publisher's call center
Austin Community College	Higher education, public
Austin Energy	Electric utility, municipal
Austin Regional Clinic	Healthcare
Capitol Metro Transportation Authority	Public transit
Farmers Insurance Group	Insurance
Flextronics (formerly Soletron)	Contract electronics mfg. & integrated supply chain services
Girling Health Care	Healthcare (Hdq.)
Harte-Hanks Response Management	Marketing & advertising services, call center
Hospira	Pharmaceutical & drug delivery systems dev. & mfg.
JPMorgan Chase Bank	Banking
Keller Williams Realty	Residential Real Estate (Hdq.)
Lower Colorado River Authority	Electric power distribution (Hdq.)
OneWest Bank Group (formerly Indymac)	Savings & loan, mortgage banker
PPD Development	Biopharm & medical device contract research services
Progressive Insurance Co.	Insurance call center
Samsung Austin Semiconductor	Semiconductor chip mfg. (Hdq.)
Sears Customer Care	Retailer customer service center
State Farm Insurance Co.	Insurance
Time Warner Cable Co.	Media & communications
Trisun Healthcare	Operator of nursing & rehabilitation centers (Hdq.)
Wells Fargo Bank Texas	Banking



Whole Foods Market  
Williamson County

Grocery retailer (Hdq.)  
Government

Employing 500 - 999

ACS State Healthcare	Medicaid program administrator, call center outsourcing
Aditya Birla Minacs	Customer service center (for automotive mfg.)
American Achievement Corp.	Commemorative & scholastic products mfg. (Hdq.)
American Cancer Society	Nonprofit, call center & regional hdq.
Austin American-Statesman	Newspaper publishing
BAE Systems	Defense & aerospace equipment mfg.
Bank of America	Banking (Reg. Hdq.)
Charles Schwab (formerly 401K Co. & Cyber Trader)	Investment trading technology development & services
Cisco Systems	Interconnect devices mfg.
Clinical Pathology Laboratories	Medical laboratory services (Hdq.)
CSC Financial Services Group	IT & software related services (Hdq.)
Dresser Wayne	Gasoline dispenser & control systems mfg. (Hdq.)
Dynamic Systems	HVAC, plumbing contractor (Hdq.)
Electric Reliability Council of Texas	Electric power grid administrator (Hdq.)
Emerson Process Management	Process control software & systems R&D (Hdq.)
Field Asset Services	Property foreclosure services rel. to property preservation, maintenance & repair (Hdq.)
GCA Services	Commercial janitorial & facility maintenance services
Goodwill Industries of Central Texas	Non-profit
H-E-B Distribution Center	Grocery retailer distribution center
Hewlett-Packard	Computer maker's data center & customer support services operations
Home Depot Technology Center	Retailer data center, tech support & customer service center
Hunter Industries	Highway construction & crushed limestone mining (Hdq.)
Image Microsystems	Computer & plastics recycling, refurbishing & mfg. (Hdq.)
Intel	Microprocessor design center
J.C. Evans Construction Co.	Construction (Hdq.)
LegalZoom	On-line legal document preparation service (Reg. Hdq.)
Maximus	Social services program administrator
Oracle	Enterprise software development, data center
Pearson Educational Measurements	Test design, scoring & packaging
Southwestern University	Higher education, private
Spansion	Memory chip mfg.
St. Edward's University	Higher education, private
TeleNetwork	Outsourced tech support & managed services call center (Hdq.)
Texas Guaranteed Student Loan Corp.	Student financial aid program administrator (Hdq.)

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Texas Mutual Insurance Co.  
 United Parcel Services  
 URS Corp.  
 U.S. Department of Veterans Affairs

Insurance, workers compensation (Hdq.)  
 Delivery services  
 Engineering  
 Government (data center & admin. for VA operations)

Source: Greater Austin Chamber of Commerce - Fall 2012

#### Major Employers within the City limits

<u>Employer</u>	<u>Product</u>	<u>Employees</u>
Pflugerville Independent School District	Public education	1,351
Wal-Mart	Retail	325
City of Pflugerville	Government	295
HEB	Grocery	200
Target	Retail	200
Avant Technologies	Computer memory modules manufacturer	154
Flextronics	Electronics manufacturing services provider	150
Austin Foam Plastics	Computer packing material	137
Home Depot	Retail/Home Improvement	125
Advanced Integration Technologies	Gas panel manufacturer	102

Source: Pflugerville Community Development Corporation

#### Fire Protection

Fire protection services in the City are provided by the Travis County Emergency Services District No. 2, which has 68 uniformed firefighters and four stations operating 24 hours a day.

#### Police Protection

The City has 75 full-time police officers and 6 fully-commissioned part-time personnel equipped with up-to-date equipment to serve the City 24 hours a day. The City has a \$9 million dollar Justice Center Building containing a police station, a small jail and a municipal court facility. All felony arrests are transported to the Travis County Jail in Austin.

#### Schools

The Pflugerville Independent School District covers approximately 95 square miles and is the second largest district in Travis County with over 23,000 students. It is also the City's largest employer, with over 2,500 employees. The District has eighteen elementary schools, one primary school, five middle schools, three high schools, one opportunity center for grades 6 through 12, and administrative facilities.

Source: Pflugerville Independent School District.

#### Parks and Library

The City's Parks Department currently has 28 parks over 650 acres of park land. The park facilities include a public recreation center, three swimming pools, a basketball court, children's recreational equipment, as well as picnic tables and restrooms. The City's parks department also maintains over 25 miles of hike and bike trails. Lake Pflugerville (180 acres), completed in 2006, has 3.1 miles of jogging trail around its perimeter. Recently completed North Shore Park is also located along the lake; facilities include restrooms, pavilion, swim beach, and boat ramp (constructed with the help of funds provided by the Lower Colorado River Authority).



The City is served by a library that receives funding from the City and through donations. Currently housed in a City-owned building, the library's collection of nearly 64,000 items is available for free circulation to residents of the City and the school district. An expansion to the library was approved by voters in May 2008 and will be completed in Spring 2013.

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A-5

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**APPENDIX B**

**CITY OF PFLUGERVILLE, TEXAS**

**ANNUAL FINANCIAL REPORT**

For the Year Ended September 30, 2011

The information contained in this Appendix consists of the City of Pflugerville, Texas, Comprehensive Annual Financial Report for the Year Ended September 30, 2011.

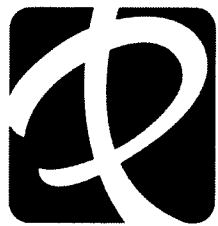
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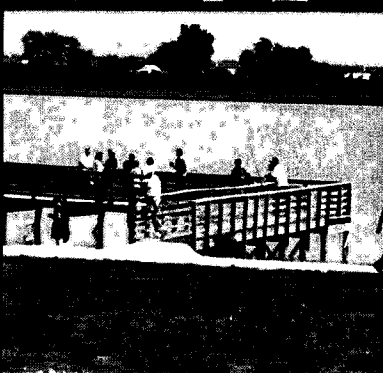


*where quality meets life*

**PFLUGERVILLE**  
**TEXAS**

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011





*On the cover . . .*

A collage of various images that illustrate the services, provided by the City of Pflugerville, as well as the cultural and recreational activities sponsored by the City.

A calendar of all City events and activities can be accessed at [www.pflugervilletx.gov](http://www.pflugervilletx.gov).

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# **CITY OF PFLUGERVILLE, TEXAS**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**For the fiscal year ended**

**September 30, 2011**

Prepared by

Finance Department

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SECTION



**City of Pflugerville, Texas  
Comprehensive Annual Financial Report  
Year Ended September 30, 2011**

**Table of Contents**

	<u>Page #</u>
<b>Introductory Section</b>	
Letter of Transmittal	3
GFOA Certificate of Achievement	7
Organizational Chart	8
Principal City Officials	9
 <b>Financial Section</b>	
Independent Auditor's Report	13
Management's Discussion and Analysis	15
 <u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Statement of Net Assets	27
Statement of Activities	28
 Fund Financial Statements:	
Governmental Funds	
Balance Sheet	30
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	31
Statement of Revenues, Expenditures, and Changes in Fund Balances	32
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	33
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	34
Proprietary Funds	
Statement of Net Assets	35
Statement of Revenues, Expenses and Changes in Fund Net Assets	37
Statement of Cash Flows	39

**RECEIVED**  
37  
JAN 27 2014  
UTILITIES & DISTRICT  
SECTION



**City of Pflugerville, Texas  
Comprehensive Annual Financial Report  
Year Ended September 30, 2011**

**Table of Contents (continued)**

	<u>Page #</u>
<b>Financial Section (continued)</b>	
Notes to Financial Statements	39
Supplemental Information:	
Required Supplemental Information - Texas Municipal Retirement System Trend Data - Last Ten Fiscal Years	61
<b>Statistical Section</b>	
Government-wide Information	
Net Assets by Components	65
Changes in Net Assets	66
Fund Information	
Fund Balances of Governmental Funds	68
Governmental Activities Tax Revenues by Source	69
Changes in Fund Balances of Governmental Funds	70
Assessed and Estimated Actual Value of Taxable Property	72
Property Tax Rates - Direct and Overlapping Governments	73
Water and Wastewater Rates	74
Principal Property Taxpayers	75
Water and Wastewater Customers	76
Property Tax Levies and Collections	77
Water and Wastewater Revenue Collected	78
Ratios of Outstanding Debt by Type	79
General Bonded Debt Outstanding	80
Direct and Overlapping Governmental Activities Debt	81
Legal Debt Margin Information	82
Revenue Bond Coverage	83
Demographic Statistics	84
Principal Employers	85
Water and Wastewater Customers by Type	86
Full Time Equivalent Employees by Function	87
Operating Indicators by Function	88
Capital Assets by Function	90

**RECEIVED**  
JAN 27 2014

UTILITIES & DISTRICTS  
SECTION



## INTRODUCTORY SECTION

**RECEIVED**  
JAN 27 2014  
UTILITIES & DISTRICTS  
SECTION





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March 8, 2012

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, 2011, 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, 2011.

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, 2011. 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 auditors' 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 estimated 50,387 citizens in 2011. 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.

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### ***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, including 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 completion of two major toll roadways, State Highway 130 and State Highway 45, has brought significant commercial growth to the City. A large master planned commercial development at the intersection of these two new roadways began in 2008 and continued in fiscal year 2011 with the opening of a movie theater and a large nationally recognized fitness center.

### ***Long-term financial planning***

At the end of FY 2011, the unassigned fund balance in the general fund was 37.4% of total general fund 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 budget to the City's new general capital reserve. These reserve funds are 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.

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SECTION**



### **Major initiatives**

**Utility Expansions.** During 2011 the City of Pflugerville completed a water transmission line to provide additional service to commercial and residential developments within the City limits. This project was funded with available reserves in the utility fund. In addition, installation began on a 141 kw solar array at the City's Water Treatment plant. This project is funded through grants from the American Recovery and Reinvestment Act (ARRA) through the State Energy Conservation Office (SECO) and ONCOR. An 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.** The expansion of the City of Pflugerville Community Library continued with design of the facility. Construction will begin during fiscal year 2012. This project is financed through General Obligation bonds approved by the voters in 2008.

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 FY 2011 Cinemark and 24 Hour Fitness completed construction on new facilities. A St. David's emergency facility is scheduled to open in 2012 and will feature 12 treatment beds and advanced testing capabilities. This will be the first full-service emergency care center in the City of Pflugerville. In addition, the development is anticipating restaurants for 2012 and plans for multi-family housing on this site is being designed with construction expected to begin during 2012.

Economic development efforts are also focused on job growth. In 2012, the City will become home to one of the six state-wide Texas Department of Public Safety "megacenters" for drivers' license renewals. In addition, groundbreaking is anticipated during 2012 on a multi-phase data center complex.

### **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, 2010. 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 Financial Reporting for its summary financial document for the fiscal year ended September 30, 2010. In order to apply for the Popular Financial Reporting Award, 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, 2010. 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.

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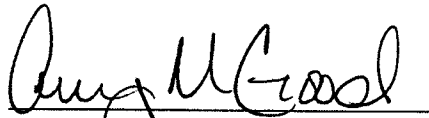
The preparation of this report could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to its presentation. Special acknowledgement goes to Emily Dean 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 Manager, 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

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SECTION



# 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, 2010

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.



*Linda C. Davidson*

President

*Jeffrey R. Emer*

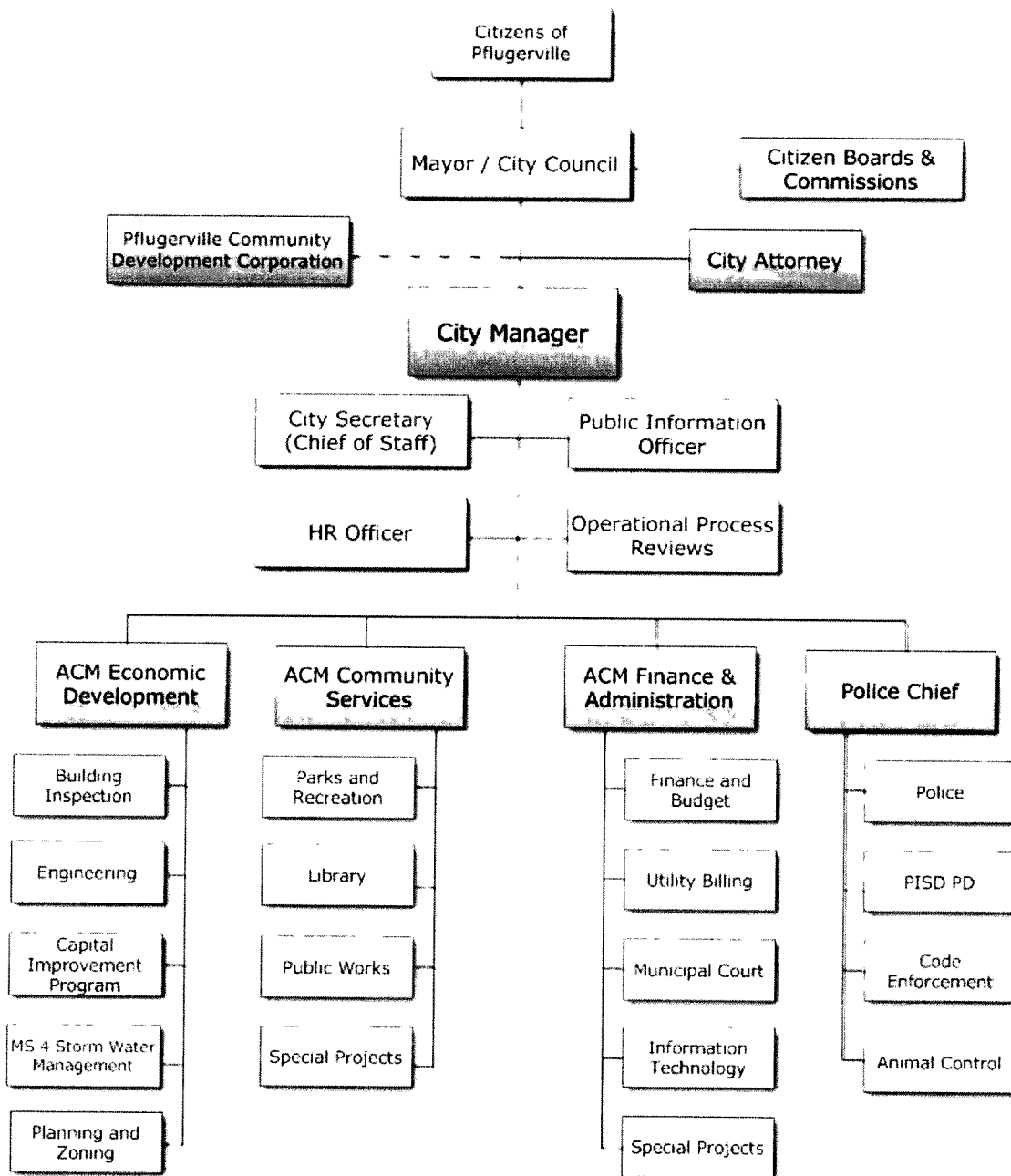
Executive Director

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# City of Pflugerville, Texas Organizational Chart



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SECTION



City of Pflugerville, Texas  
List of Elected and Appointed Officials  
September 30, 2011

**Elected Officials**

**City Council  
Three-Year Terms**

<b><u>Name</u></b>	<b><u>Term Expires</u></b>
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**

<b><u>Position</u></b>	<b><u>Name</u></b>
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

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SECTION



## REPORT OF INDEPENDENT AUDITORS

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, 2011, 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, 2011, 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 February 27, 2012, 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 62 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.

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SECTION



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 and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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.

*Daniel Kinard & Co., PC*  
Certified Public Accountants

Abilene, Texas  
February 27, 2012

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## **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, 2011. 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, 2011, by \$242,360,199 (net assets). Of this amount, \$21,710,644 (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 \$28,615,384 a decrease of \$316,774 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 2010-2011 fiscal year, unassigned fund balance for the general fund was \$6,844,295 or 37.3% 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 2011 that amount was \$4.58 million.
- ❖ The City of Pflugerville's total debt increased by \$3,080,000 (1.9%) during the current fiscal year. The key factor in this increase was the issuance of \$4,130,000 in combination tax and revenue certificates of obligation to fund infrastructure purchases; \$2,000,000 in general obligation bonds to fund the Library expansion; and \$15,780,000 in limited tax refunding bonds to pay off callable, higher 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.

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SECTION



### **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.

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SECTION



**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 40-60.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Pflugerville's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 62.

**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	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 34,347,492	\$ 33,596,271	\$ 25,115,536	\$ 24,454,233	\$ 59,463,028	\$ 58,050,504
Capital assets	205,170,269	205,449,826	143,554,828	140,855,478	348,725,097	346,305,304
Total assets	239,517,761	239,046,097	168,670,364	165,309,711	408,188,125	404,355,808
Long-term liabilities	79,060,829	74,946,659	80,293,287	82,028,421	159,354,116	156,975,080
Other liabilities	3,929,715	3,162,626	2,544,095	2,234,150	6,473,810	5,396,776
Total liabilities	82,990,544	78,109,285	82,837,382	84,262,571	165,827,926	162,371,856
Net assets						
Invested in capital assets, net of related debt	143,269,085	149,792,131	69,065,405	64,632,713	212,334,490	214,424,844
Restricted	1,636,177	1,507,785	6,678,888	7,353,801	8,315,065	8,861,586
Unrestricted	11,621,955	9,636,896	10,088,689	9,060,627	21,710,644	18,697,523
Total net assets	\$ 156,527,217	\$ 160,936,812	\$ 85,832,982	\$ 81,047,141	\$ 242,360,199	\$ 241,989,953

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SECTION



**Statement of Net Assets: (continued)**

- ❖ A portion of the City's net assets, \$8,315,065 (3.4%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$21,710,644, may be used to meet the City's ongoing obligations to citizens and creditors.
- ❖ Long-term liabilities in the governmental funds increased due to the issuance of additional debt during FY 2011. Debt was issued to fund the Library expansion, to purchase infrastructure in Stone Hill Town Center, and to replace previous bond issues with lower rate refunding bonds.
- ❖ Unrestricted net assets in the proprietary fund increased due to the growth in revenue attributed to water sales during the record drought during 2011.
- ❖ 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, 2011.

**City of Pflugerville - Changes in Net Assets**

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 4,173,207	\$ 3,826,036	\$ 22,353,095	\$ 18,873,971	\$ 26,526,302	\$ 22,700,007
Operating grants and contributions	283,405	348,868	-	-	283,405	348,868
Capital grants and contributions	1,910,344	3,275,046	4,183,039	1,183,812	6,093,383	4,458,858
<b>General revenues</b>						
Property taxes	16,939,622	16,261,249	-	-	16,939,622	16,261,249
Other taxes	6,924,709	5,981,331	-	-	6,924,709	5,981,331
Other	579,279	831,702	168,468	110,626	747,747	942,328
<b>Total revenues</b>	<b>30,810,566</b>	<b>30,524,232</b>	<b>26,704,602</b>	<b>20,168,409</b>	<b>57,515,168</b>	<b>50,692,641</b>
<b>Expenses</b>						
General government	6,079,325	4,925,093	-	-	6,079,325	4,925,093
Public safety	10,643,196	10,598,083	-	-	10,643,196	10,598,083
Public works and streets	12,047,486	13,447,395	-	-	12,047,486	13,447,395
Culture and recreation	3,671,548	3,609,824	-	-	3,671,548	3,609,824
Interest on long-term debt	3,519,637	3,537,244	-	-	3,519,637	3,537,244
Water and wastewater	-	-	17,743,757	16,210,845	17,743,757	16,210,845
Solid waste	-	-	3,475,004	3,273,306	3,475,004	3,273,306
<b>Total Expenses</b>	<b>35,961,192</b>	<b>36,117,639</b>	<b>21,218,761</b>	<b>19,484,151</b>	<b>57,179,953</b>	<b>55,601,790</b>
Change in net assets before transfers	(5,150,626)	(5,593,407)	5,485,841	684,258	335,215	(4,909,149)
Transfers	700,000	500,000	(700,000)	(500,000)	-	-
<b>Change in net assets</b>	<b>(4,450,626)</b>	<b>(5,093,407)</b>	<b>4,785,841</b>	<b>184,258</b>	<b>335,215</b>	<b>(4,909,149)</b>
Net assets - October 1, 2010 (as restated)	160,977,843	166,030,219	81,047,141	80,862,883	242,024,984	246,893,102
<b>Net assets - September 30, 2011</b>	<b>\$ 156,527,217</b>	<b>\$ 160,936,812</b>	<b>\$ 85,832,982</b>	<b>\$ 81,047,141</b>	<b>\$ 242,360,199</b>	<b>\$ 241,983,953</b>

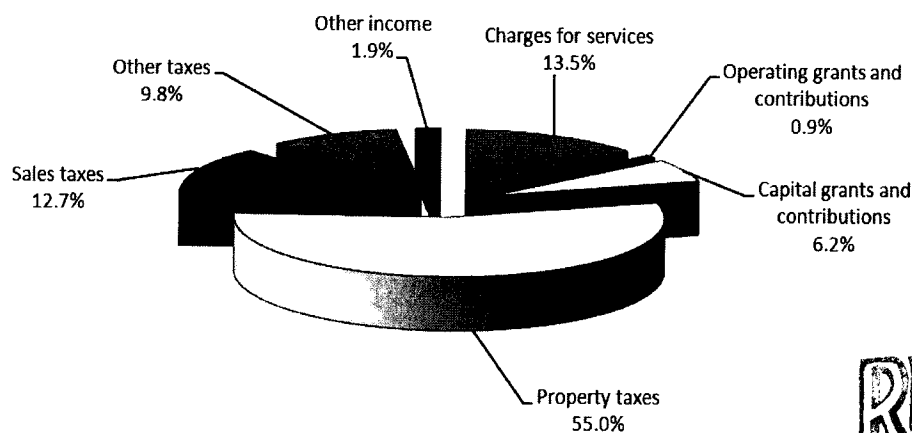
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SECTION



Revenues

- ❖ Property tax revenue including penalties and interest increased by 4.2% (\$678,373) during this fiscal year. This increase is the result of new commercial development and the annexation of property into the City limits.
- ❖ Property tax revenue accounts for 55.0% of total revenues for governmental activities.
- ❖ Assessed valuations increased for the fiscal year by over \$108 million.
- ❖ The ad valorem tax rate for fiscal 2011 was \$0.6040 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 \$3.9 million for fiscal year 2011, an increase of 15.9% over the prior year. Sales tax revenue constitutes 12.7% of the total revenue for governmental activities.
- ❖ Other taxes, which include franchise taxes and mixed beverage taxes, totaled \$3.0 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 \$6.4 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, \$1.7 million, of revenue this fiscal year was infrastructure contributed by developers.
  - **Business-type activities program revenue** totaled \$26.5 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 \$4.2 million of revenue during fiscal year 2011.

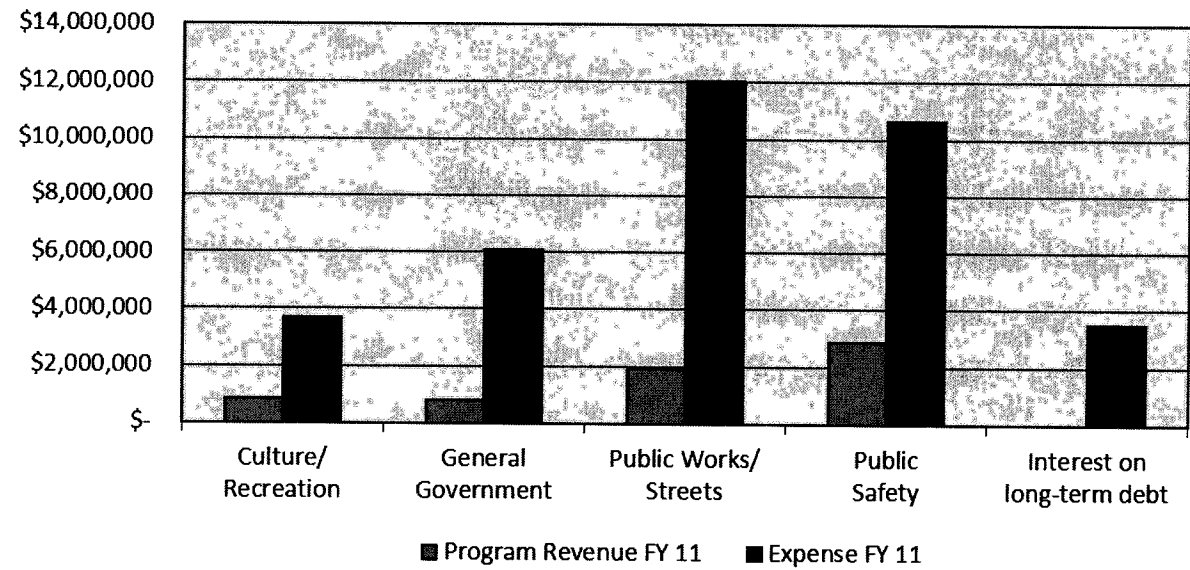
Revenues by Source – Governmental Activities



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Expenses and Program Revenues – Governmental Activities



The expenses in the above graph include depreciation expense through all categories. Depreciation expense totaled \$11,317,675. Removing depreciation expense, the operating expenditures for governmental activities decreased by 1.3% in fiscal year 2011.

**Business-type activities.** Business-type activities increased the City of Pflugerville’s net assets by \$4.8 million. Charges for services for business-type activities increased by 18.4% during fiscal year 2011. This increase can be attributed to increased water usage resulting from an extremely dry Spring and Summer. This was made more dramatic due to the fact that the prior fiscal year charges for services reflected a very cool and wet Fall and Summer.

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 \$28,615,384, a decrease of \$357,805 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 23.9% of this total amount (\$6.84M) 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 committed: 1) to pay for capital projects (\$16,421,439); 2) for debt service purposes (\$2,229,497); or for specific programs in the special revenue fund.

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### Financial Analysis of the City's Funds (continued)

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 \$6,844,295. During fiscal year 2011, the City Council approved a general capital reserve to fund one-time purchases and projects. The initial funding of \$2,765,000 for this purpose was appropriated from excess revenues at year end and fund balance reserves. These funds are committed to that purpose and therefore do not appear as unassigned funds. 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 33.7% of total general fund expenditures.

The fund balance of the City of Pflugerville's general fund increased by \$1,671,477. A prior period adjustment in the amount of \$41,031 was made to reflect revenue received in October 2010 that should be allocated to September 2010. The purchase of \$5.2M of infrastructure in Stone Hill Town Center was funded by \$1.2 million from the general fund fund balance and \$4.0 million from bond proceeds. Sales tax revenue increased 15.9% during FY 2011 to \$3.9M. Development revenue from building permits, plat review fees, site development plans, and construction inspection increased 20.6% from FY 2010. During this fiscal year, construction was completed on a 24-Hour Fitness and a Cinemark movie theater among other projects.

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; and fees for training and technology. A major project using child safety funds during FY 2011 was the installation of bollards along two locations on a school route on Kennemer Drive.

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, 2011, this fund had a total balance of \$2,229,497. 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. As a result of the favorable interest rates available, during FY 2011 Refunding bonds in the amount of approximately \$10M 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. During FY 2011 debt was issued in the amount of \$6,130,000 to fund the Library expansion and infrastructure at Stone Hill Town Center. The decrease in fund balance is due to the use of prior year bond revenue to pay for current projects.

*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 \$10,088,689. The total growth in net assets was \$4,785,841. 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 five sets of general fund budget amendments during fiscal year 2011. These amendments increased the overall budgeted expenditures by \$2,237,281 from the original budget, an 11.3% increase. This increase was offset by revenues received in excess of the original budget, infrastructure fees, insurance claim receipts, grants and contributions, escrowed funds, reductions in budgeted expenses, and a transfer from fund balance. The major component in this increase was the use of \$1.2M from fund balance for the final purchase of Stone Hill Town Center infrastructure.