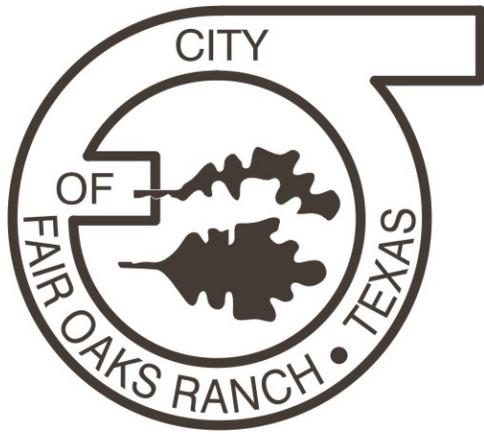


CITY OF FAIR OAKS RANCH, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2014**



CITY OF FAIR OAKS RANCH, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

INTRODUCTORY SCHEDULE

	<u>PAGE</u>
TITLE PAGE	i
TABLE OF CONTENTS	ii
PRINCIPAL OFFICERS	iii

FINANCIAL SECTION

INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	11
STATEMENT OF NET POSITION.....	12
STATEMENT OF ACTIVITIES.....	14
BALANCE SHEET - GOVERNMENTAL FUND.....	16
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION.....	17
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND.....	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES.....	19
STATEMENT OF NET POSITION - PROPRIETARY FUND.....	20
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND.....	22
STATEMENT OF CASH FLOWS - PROPRIETARY FUND	23
NOTES TO BASIC FINANCIAL STATEMENTS	25
REQUIRED SUPPLEMENTARY INFORMATION	43
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL.....	44
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL.....	46
TEXAS MUNICIPAL RETIREMENT SYSTEM SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT LAST FIVE CALENDAR YEARS	47

CITY OF FAIR OAKS RANCH, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS (Continued)

STATISTICAL SECTION

	<u>PAGE</u>
NET POSITION BY COMPONENT	49
CHANGE IN NET POSITION	51
FUND BALANCES, GOVERNMENTAL FUNDS	55
CHANGES IN FUND BALANCE	57
TAX REVENUE BY SOURCE, GOVERNMENTAL FUNDS	59
ASSESSED VALUE AND ACTUAL TAXABLE PROPERTY	60
DIRECT AND OVERLAPPING PROPERTY TAX RATES	61
PRINCIPAL PROPERTY TAX PAYERS	62
PROPERTY TAX LEVIES AND COLLECTIONS	63
RATIOS OF OUTSTANDING DEBT BY TYPE	64
DEMOGRAPHIC AND ECONOMIC STATISTICS	65
PRINCIPAL EMPLOYERS	66

CITY OF FAIR OAKS RANCH, TEXAS

PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR

CHERYL LANDMAN

CITY COUNCIL

MARK ANDERSON

GLENN DAMSTRA

CONRAD FOTHERGILL

MARY ANNE HAVARD

AL SCHMIDT

INTERIM CITY ADMINISTRATOR

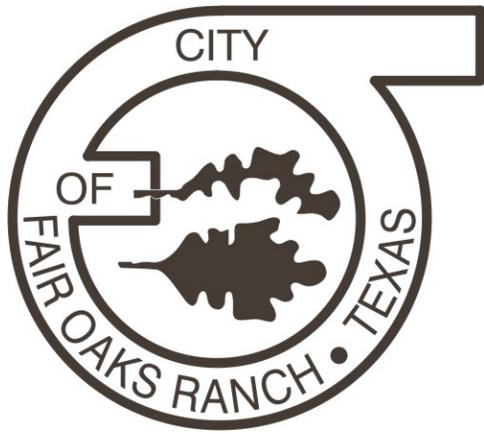
MARCUS JAHNS

ATTORNEY

DENTON, NAVARRO, ROCHA, BERNAL, HYDE & ZECH, P.C.

AUDITOR

ARMSTRONG, VAUGHAN & ASSOCIATES, P.C.



SHAREHOLDERS:
Nancy L. Vaughan, CPA
Deborah F. Fraser, CPA
Phil S. Vaughan, CPA



Armstrong, Vaughan & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Fair Oaks Ranch, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and the major funds of the City of Fair Oaks Ranch, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City of Fair Oaks Ranch management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of Internal Control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and the major funds of the City of Fair Oaks Ranch, as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress – defined benefit as listed in the table of contents 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Fair Oaks Ranch financial statements. The statistical section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The statistical section has 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 it.



Armstrong, Vaughan & Associates, P.C.

February 27, 2015

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the City of Fair Oaks Ranch comprehensive annual financial report presents our discussion and analysis of the City’s financial performance during the fiscal year ended September 30, 2014. Please read it in conjunction with the City’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

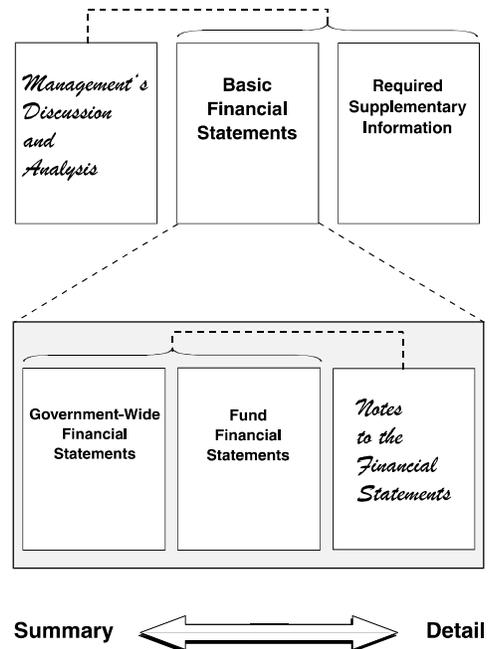
- The City’s total combined net position was \$19,149,795 at September 30, 2014.
- During the year, the City’s expenses were \$83,715 less than the \$4,218,612 generated in taxes and other revenues for governmental activities.
- The total cost of the City’s programs increased by \$441,798 from last year; however, no new programs were added this year.
- The general fund reported a fund balance this year of \$4,855,707.
- The City issued no new bonds in 2014, however, proceeds of \$3,128,356 were received through a capital lease financing arrangement for improvements to the city’s utility system.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Figure A-1, Required Components of the City’s Annual Financial Report



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

Figure A-2 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements			
Fund Statements			
<i>Type of Statements</i>	Government-Wide	Governmental Funds	Proprietary Funds
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component units	The activities of the City that are not proprietary or fiduciary	Activities the City operates similar to private businesses: water and wastewater services
<i>Required financial statements</i>	• Statement of Net Position	• Balance Sheet	• Statement of Net Position
	• Statement of Activities	• Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Revenues, Expenses & Changes in Net Position • Statement of Cash Flows
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

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

The two government-wide statements report the City’s net position and how they have changed. Net position—the difference between the City’s assets, deferred outflows of resources, and liabilities—is one way to measure the City’s financial health or *position*.

- Over time, increases or decreases in the City’s net position is an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, public safety, public works, building codes, public health/emergency, and culture and recreation. Property taxes, franchise fees and charges for services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you 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, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$19,149,795 at September 30, 2014 (See Table A-1).

The \$7,347,069 of unrestricted net position, represent resources available to fund the programs of the City next year.

Changes in net position. The combined activities total revenues were \$8,330,530. The revenue from property taxes was \$2,634,353 or 32% (See Table A-2), 49% comes from utility, while only 8% relates to charges for services (Court, Public Works, Building Codes, Etc.).

The total cost of all programs and services was \$7,377,704, 44% of these costs are Business-Type Activities (See Table A-2).

Governmental Activities

- Property tax rate was \$.2663 per \$100 assessed value.
- The City did not sell capital bonds this fiscal year.

Table A-1
City of Fair Oaks Ranch Net Position
(In thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2014-2013
	2014	2013	2014	2013	2014	2013	
<i>Current Assets:</i>							
Cash and Cash Equivalents	\$ 4,935	\$ 3,972	\$ 3,633	\$ 3,327	\$ 8,568	\$ 7,299	17.4%
Receivables	265	235	379	524	644	759	-15.2%
Inventories & Prepaids	24	26	115	105	139	131	6.1%
<i>Restricted Assets:</i>							
Cash and Investments	-	-	2,069	48	2,069	48	4210.4%
<i>Total Current Assets:</i>	<u>5,224</u>	<u>4,233</u>	<u>6,196</u>	<u>4,004</u>	<u>11,420</u>	<u>8,237</u>	<u>38.6%</u>
<i>Noncurrent Assets:</i>							
Land and Improvements	100	100	54	54	154	154	0.0%
Building and Improvements	1,735	2,479	-	-	1,735	2,479	-30.0%
Utility Plant and Easements	-	-	12,027	11,498	12,027	11,498	4.6%
Vehicles and Equipment	988	903	580	550	1,568	1,453	7.9%
Infrastructure	3,023	3,023	-	-	3,023	3,023	0.0%
Construction in Progress	-	-	2,676	486	2,676	486	450.6%
Less Accumulated							
Depreciation	(1,959)	(1,846)	(5,260)	(4,818)	(7,219)	(6,664)	8.3%
<i>Total Noncurrent Assets</i>	<u>3,887</u>	<u>4,659</u>	<u>10,077</u>	<u>7,770</u>	<u>13,964</u>	<u>12,429</u>	<u>12.4%</u>
<i>Total Assets</i>	<u>9,111</u>	<u>8,892</u>	<u>16,273</u>	<u>11,773</u>	<u>25,384</u>	<u>20,666</u>	<u>22.8%</u>
<i>Deferred Outflows of Resources:</i>							
Deferred Charge on Refunding	-	-	15	21	15	21	-28.6%
<i>Total Deferred Outflows</i>	<u>-</u>	<u>-</u>	<u>15</u>	<u>21</u>	<u>15</u>	<u>21</u>	<u>-28.6%</u>
<i>Current Liabilities:</i>							
Accounts Payable	315	198	1,147	235	1,462	433	237.6%
Accrued Compensated Absences	102	84	19	20	121	104	16.3%
Unearned Revenue	-	-	347	430	347	430	-19.3%
Current Portion of Long-Term Debt	-	-	370	355	370	355	4.2%
Accrued Interest	-	-	32	9	32	9	255.6%
<i>Total Current Liabilities</i>	<u>417</u>	<u>282</u>	<u>1,915</u>	<u>1,050</u>	<u>2,332</u>	<u>1,331</u>	<u>75.2%</u>
<i>Non-Current Liabilities</i>							
Due in more than One Year	-	-	3,918	1,160	3,918	1,160	237.8%
<i>Total Liabilities</i>	<u>417</u>	<u>282</u>	<u>5,833</u>	<u>2,210</u>	<u>6,250</u>	<u>2,491</u>	<u>150.9%</u>
<i>Net Position:</i>							
Net Investment in Capital Assets	3,887	4,658	7,848	6,255	11,735	10,913	7.5%
Restricted	68	65	-	-	68	65	4.6%
Unrestricted	4,739	3,887	2,607	3,331	7,346	7,218	1.8%
<i>Total Net Position</i>	<u>\$ 8,694</u>	<u>\$ 8,610</u>	<u>\$ 10,455</u>	<u>\$ 9,586</u>	<u>\$ 19,149</u>	<u>\$ 18,196</u>	<u>5.2%</u>

Table A-2
Changes in City of Fair Oaks Ranch Net Position
(In thousands dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2014-2013
	2014	2013	2014	2013	2014	2013	
Charges for Services	\$ 653	\$ 616	\$ 4,108	\$ 3,745	\$ 4,761	\$ 4,361	9.2%
Operating Grants and Contributions	2	-	-	-	2	-	100.0%
Capital Grants and Contributions	-	-	-	-	-	-	N/A
General Revenues							
Property Taxes	2,634	2,561	-	-	2,634	2,561	2.9%
Non-Property Taxes	904	751	-	-	904	751	20.4%
Investment Earnings	2	7	4	6	6	13	-53.8%
Miscellaneous	24	225	-	-	24	225	-89.3%
Total Revenues	4,219	4,160	4,112	3,751	8,331	7,912	5.3%
City Administration	921	638	-	-	921	638	44.4%
Municipal Court	82	80	-	-	82	80	2.5%
Public Safety	1,588	1,521	-	-	1,588	1,521	4.4%
Public Health/Emergency	287	282	-	-	287	282	1.8%
Building Codes	119	98	-	-	119	98	21.4%
Public Works	1,074	934	-	-	1,074	934	15.0%
Culture/Recreation/Other	64	140	-	-	64	140	-54.3%
Utility	-	-	3,243	3,014	3,243	3,014	7.6%
Total Expenses	\$ 4,135	\$ 3,693	\$ 3,243	\$ 3,014	\$ 7,378	\$ 6,707	10.0%
Transfers	-	(34)	-	34	-	-	-100.0%
Increase (Decrease) in Net Position	\$ 84	\$ 433	\$ 869	\$ 771	\$ 953	\$ 1,205	-20.9%

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$4,134,897.
- The amount that our taxpayers paid for these activities through property taxes was \$2,634,353.
- Some of the cost, \$653,219 or 16% was paid by those who directly benefited from the programs and activities.

Table A-3
 Net Cost of Selected City Functions
(In thousands dollars)

	Total Cost of Services			% Change	Net Cost of Services		
	2014	2013			2014	2013	% Change
City Administration	\$ 921	\$ 638	44.4%	\$ 722	\$ 389	85.6%	
Municipal Court	82	80	2.5%	(77)	(77)	0.0%	
Public Safety	1,588	1,521	4.4%	1,578	1,514	4.2%	
Public Health/Emergency	287	282	1.8%	282	275	2.5%	
Building Codes	119	98	21.4%	(162)	(98)	65.3%	
Public Works	1,074	934	15.0%	1,074	934	15.0%	
Culture/Recreation/Other	64	140	-54.3%	64	140	-54.3%	
Water and Sewer	3,243	3,014	7.6%	(865)	(734)	17.8%	

Business-Type Activities

Revenues of the City’s Water & Sewer business-type activities were \$4,107,471 and operating expenses were \$3,242,807 (See Table A-2).

FINANCIAL ANALYSIS OF THE CITY’S FUNDS

Revenues from governmental fund types totaled \$4,773,498 in fiscal year 2014. Revenue from proprietary fund types totaled \$4,107,471 in fiscal year 2014.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget. Actual expenditures were \$87,822 below final budget amounts.

- Sales tax collections were \$61,082 more than expected.
- Franchise tax collections were \$118,554 more than expected.
- Building Permits collections were \$143,028 more than expected.
- Proceeds from sale of assets were \$556,996 more than expected.
- Personnel Expenditures were \$100,284 less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the City had invested \$19,092,773 in a broad range of capital assets, including land, equipment, buildings, vehicles, infrastructure and construction in progress (See Table A-4). This amount less accumulated depreciation totaling \$6,663,842 results in a total Net Capital Asset value of \$12,428,931.

Table A-4
City of Fair Oaks Ranch Capital Assets
(In thousands dollars)

	Governmental		Business-Type		Total		Total Percentage Change 2014-2013
	Activities		Activities				
	2014	2013	2014	2013	2014	2013	
Land and Improvements	\$ 100	\$ 100	\$ 54	\$ 54	\$ 154	\$ 154	0.0%
Buildings and improvements	1,735	2,479	-	-	1,735	2,479	-42.9%
Vehicles and Equipment	988	903	580	550	1,568	1,453	7.3%
Infrastructure	3,023	3,023	-	-	3,023	3,023	0.0%
Construction in Progress	-	-	2,676	486	2,676	486	81.8%
Utility Plant	-	-	12,027	11,498	12,027	11,498	4.4%
Totals at historical cost	5,846	6,505	15,337	12,588	21,183	19,093	9.9%
Total accumulated depreciation	(1,959)	(1,846)	(5,260)	(4,818)	(7,219)	(6,664)	7.7%
Net capital assets	<u>\$ 3,887</u>	<u>\$ 4,659</u>	<u>\$ 10,077</u>	<u>\$ 7,770</u>	<u>\$ 13,964</u>	<u>\$ 12,429</u>	<u>11.0%</u>

More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end the Proprietary Fund had \$1,160,000 in bonds outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5
City of Fair Oaks Ranch Long Term Debt
(In thousands dollars)

	Governmental		Business-type		Total		Total Percentage Change 2014-2013
	Activities		Activities				
	2014	2013	2014	2013	2014	2013	
Bonds Payable	\$ -	\$ -	\$ 1,160	\$ 1,515	\$ 1,160	\$ 1,515	-30.6%
Capital Lease	-	-	3,128	-	3,128	-	100.0%
Total Bonds and Capital Leases	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,160</u>	<u>\$ 1,515</u>	<u>\$ 1,160</u>	<u>\$ 1,515</u>	<u>-30.6%</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Taxable values used for the 2014-15 budget preparation increased \$155,624.

This indicator was taken into account when adopting the general fund budget for 2014-15 by setting the property tax rate at the same rate as the previous year.

Fiscal year 2014-15 expenditures are budgeted at \$5,362,149, which includes a budget amendment of \$810,000 for the Texas Department of Transportation Bridge Project. Additional increases in expenditures are due to employee training, Interim City Manager contract/mileage, City Attorney fees, Police Building design, IT/Communication enhancements, Battle Intense sidewalk, November Bond Election, and Water Study.

If these estimates are realized, the City's budgetary general fund balance will remain the same at the end of fiscal year 2015.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall, 7286 Dietz Elkhorn, Fair Oaks Ranch, Texas 78015 (210-698-0900) or (866-258-2505).

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
 - Governmental funds
 - Proprietary funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Municipal Development District
ASSETS				
Cash and Investments	\$ 4,935,167	\$ 3,633,297	\$ 8,568,464	\$ 239,579
Receivables (net of allowances for uncollectibles)				
Taxes	53,762	-	53,762	-
Accounts	211,400	378,398	589,798	19,798
Accrued Interest Receivable	-	1,244	1,244	-
Inventories	-	105,923	105,923	-
Prepays	24,220	8,857	33,077	-
Utility Deposits	-	2,260	2,260	-
Restricted Assets:				
Cash and Investments	-	2,068,680	2,068,680	-
Capital Assets:				
Land and Improvements	99,798	53,600	153,398	-
Buildings and Improvements	1,734,665	-	1,734,665	-
Utility Plant and Easements	-	12,026,600	12,026,600	-
Vehicles and Equipment	988,051	579,490	1,567,541	-
Infrastructure	3,022,818	-	3,022,818	-
Construction in Progress	-	2,676,037	2,676,037	-
Accumulated Depreciation	(1,958,592)	(5,260,097)	(7,218,689)	-
TOTAL ASSETS	9,111,289	16,274,289	25,385,578	259,377
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge on Refunding	-	14,988	14,988	-
TOTAL DEFERRED OUTFLOWS	\$ -	\$ 14,988	\$ 14,988	\$ -

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Municipal Development District
LIABILITIES				
<i>Current Liabilities:</i>				
Accounts Payable and Other				
Accrued Liabilities	\$ 315,080	\$ 1,147,259	\$ 1,462,339	\$ 12,843
Accrued Compensated Absences	102,093	18,954	121,047	-
Unearned Revenue	-	346,522	346,522	-
Payable from Restricted Assets:				
Current Portion of Long-Term Debt	-	370,000	370,000	-
Accrued Interest Payable	-	32,507	32,507	-
<i>Noncurrent Liabilities:</i>				
Due in more than One Year	-	3,918,356	3,918,356	-
TOTAL LIABILITIES	417,173	5,833,598	6,250,771	12,843
NET POSITION				
Net Investment in Capital Assets	3,886,740	7,847,915	11,734,655	-
Restricted	68,071	-	68,071	-
Unrestricted	4,739,305	2,607,764	7,347,069	246,534
TOTAL NET POSITION	\$ 8,694,116	\$ 10,455,679	\$ 19,149,795	\$ 246,534

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

<u>Functions and Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
City Administration	\$ 921,009	\$ 198,992	\$ -	\$ -
Municipal Court	81,522	158,407	-	-
Public Safety	1,588,137	8,664	1,715	-
Public Health/Emergency	286,999	5,325	-	-
Building Codes	119,338	281,831	-	-
Public Works	1,074,375	-	-	-
Culture/Recreation/Other	63,517	-	-	-
Total Governmental Activities	<u>4,134,897</u>	<u>653,219</u>	<u>1,715</u>	<u>-</u>
Business-Type Activities				
Water/Sewer Utility	3,242,807	4,107,471	-	-
Total Business-Type Activities	<u>3,242,807</u>	<u>4,107,471</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 7,377,704</u>	<u>\$ 4,760,690</u>	<u>\$ 1,715</u>	<u>\$ -</u>
Component Unit				
Municipal Development District	<u>\$ 9,263</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:				
Taxes				
Property Taxes				
Non Property Taxes				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Position				
Net Position at Beginning of Year				
Net Position at End of Year				

See accompanying notes to basic financial statements.

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Municipal Development District
\$ (722,017)	\$ -	\$ (722,017)	
76,885	-	76,885	
(1,577,758)	-	(1,577,758)	
(281,674)	-	(281,674)	
162,493	-	162,493	
(1,074,375)	-	(1,074,375)	
(63,517)	-	(63,517)	
<u>(3,479,963)</u>	<u>-</u>	<u>(3,479,963)</u>	
-	864,664	864,664	
<u>-</u>	<u>864,664</u>	<u>864,664</u>	
<u>(3,479,963)</u>	<u>864,664</u>	<u>(2,615,299)</u>	
			<u>\$ (9,263)</u>
2,634,353	-	2,634,353	-
903,592	-	903,592	112,724
1,633	4,447	6,080	-
24,100	-	24,100	-
<u>3,563,678</u>	<u>4,447</u>	<u>3,568,125</u>	<u>112,724</u>
83,715	869,111	952,826	103,461
<u>8,610,401</u>	<u>9,586,568</u>	<u>18,196,969</u>	<u>143,073</u>
<u>\$ 8,694,116</u>	<u>\$ 10,455,679</u>	<u>\$ 19,149,795</u>	<u>\$ 246,534</u>

CITY OF FAIR OAKS RANCH, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2014

	Major Fund
	General
	Fund
ASSETS	
Cash and Investments	\$ 4,935,167
Receivables (net of allowances for uncollectibles):	
Property Taxes	53,762
Accounts	211,400
Prepaid Items	24,220
TOTAL ASSETS	\$ 5,224,549
 LIABILITIES	
Accounts Payable	\$ 225,785
Accrued Expenditures	89,295
TOTAL LIABILITIES	315,080
 DEFERRED INFLOWS OF RESOURCES	
Unavailable Revenues	53,762
TOTAL DEFERRED INFLOWS OF RESOURCES	53,762
 FUND BALANCE	
Nonspendable:	
Prepaid Items	24,220
Restricted for:	
Court Technology	15,285
Court Security Building	44,420
Court Efficiency and Felony Forfeiture	4,047
PEG Fees	4,319
Committed for:	
Public Safety Communication	30,451
TxDOT Projects	810,000
Partnership Water Study	100,000
Assigned for:	
Capital Projects	720,000
Legal Issues	50,000
Unassigned:	3,052,965
TOTAL FUND BALANCE	4,855,707
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES & FUND BALANCE	 \$ 5,224,549

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 4,855,707
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,886,740
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	53,762
Accrued vacation leave payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(102,093)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	<u><u>\$ 8,694,116</u></u>

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Major Fund
	General
	Fund
REVENUES	
Taxes	\$ 3,537,635
Licenses and Permits	287,156
Fines and Forfeits	158,407
Utility Management Fee	166,093
Interest	1,633
Lease Revenue	32,898
Grant Proceeds	1,715
Miscellaneous	26,765
Gain (Loss) on Sale of Assets	561,196
TOTAL REVENUES	4,773,498
 EXPENDITURES	
Current:	
City Administration	717,511
Municipal Court	80,509
Public Safety	1,463,524
Public Health/Emergency	275,784
Building Codes	119,507
Public Works	962,447
Culture and Recreation	63,517
Capital Projects/Outlay	217,014
TOTAL EXPENDITURES	3,899,813
Net Change in Fund Balance	873,685
 Fund Balance at Beginning of Year	3,982,022
 Fund Balance at End of Year	\$ 4,855,707

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 873,685

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay.

Current Year Additions	179,694	
Current Year Depreciation	<u>(226,747)</u>	(47,053)

Proceeds from capital asset dispositions produces current financial resources in the fund statements, while the net gain (loss) is recognized in the Statement of Activities. This is the net book value of capital assets disposed. (724,705)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Ad Valorem Revenue	310
--------------------	-----

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated Absences	<u>(18,522)</u>
----------------------	-----------------

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 83,715

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUND
SEPTEMBER 30, 2014

	Business-Type Activities <u>Water/Sewer Fund</u>
ASSETS	
<i>Current Assets</i>	
Cash and Investments	\$ 3,633,297
Receivables (net of allowances for uncollectibles):	
Accounts	378,398
Accrued Interest Receivable	1,244
Inventories	105,923
Prepays	8,857
Utility Deposits	2,260
<i>Total Current Assets</i>	<u>4,129,979</u>
 <i>Restricted Assets:</i>	
Cash and Investments	<u>2,068,680</u>
<i>Total Restricted Assets</i>	<u>2,068,680</u>
 <i>Capital Assets</i>	
Land and Improvements	53,600
Utility Plant and Easements	12,026,600
Vehicles & Equipment	579,490
Construction in Progress	2,676,037
Accumulated Depreciation	<u>(5,260,097)</u>
<i>Total Capital Assets, Net of Accumulated Depreciation</i>	<u>10,075,630</u>
 TOTAL ASSETS	 <u>16,274,289</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Charge on Refunding	<u>14,988</u>
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 14,988</u>

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUND (CONTINUED)
SEPTEMBER 30, 2014

	Business-Type Activities <u>Water/Sewer Fund</u>
LIABILITIES	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 1,127,881
Accrued Wages and Compensated Absences	38,332
Unearned Revenue - Water Supply Agreements	346,522
<i>Total Current Liabilities</i>	<u>1,512,735</u>
 <i>Current Liabilities Payable from Restricted Assets:</i>	
Current Portion of Long-term Bonds	370,000
Accrued Interest Payable	32,507
<i>Total Current Liabilities Payable from Restricted Assets</i>	<u>402,507</u>
 <i>Noncurrent Liabilities:</i>	
Bonds Payable	<u>3,918,356</u>
 TOTAL LIABILITIES	<u>5,833,598</u>
 NET POSITION	
Net Investment in Capital Assets	7,847,915
Unrestricted	<u>2,607,764</u>
 TOTAL NET POSITION	<u><u>\$ 10,455,679</u></u>

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business-Type Activities
	Water/Sewer Fund
OPERATING REVENUES	
Charges for Utility Service	\$ 4,107,471
TOTAL OPERATING REVENUES	4,107,471
 OPERATING EXPENSES	
Personnel Services	719,013
Contractual Services	10,562
Maintenance	257,365
Equipment Lease	5,333
Supplies	70,908
Office Supplies	44,660
Postage	16,904
Utilities	204,534
Management Fee	166,093
Professional Fees	117,008
Permits and Licenses	7,489
Water Reservation Fees	953,468
Insurance	17,473
Miscellaneous	117,481
TOTAL OPERATING EXPENSES	2,708,291
 Operating Income (Loss) Before Depreciation	1,399,180
 Depreciation	457,675
OPERATING INCOME (LOSS)	941,505
 NONOPERATING REVENUES (EXPENSES)	
Interest Income	4,447
Interest and Fiscal Charges	(70,639)
Amortization of Deferred Loss on Refunding Issue	(6,202)
TOTAL NONOPERATING REVENUES (EXPENSES)	(72,394)
 CHANGE IN NET POSITION	869,111
 NET POSITION AT BEGINNING OF YEAR	9,586,568
NET POSITION AT END OF YEAR	\$ 10,455,679

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Business-Type Activities <u>Water/Sewer Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 4,167,722
Cash Paid for Employee Wages & Benefits	(716,457)
Cash Paid for Suppliers for Goods & Services	(926,446)
Cash Paid to General Fund for Management Fee	<u>(166,093)</u>
Net Cash Provided (Used) by Operating Activities	<u>2,358,726</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase/Construction of Capital Assets	(2,762,872)
Proceeds from Lease Purchase Agreement	3,128,356
Principal Payments on Long-Term Debt	(355,000)
Interest and Fiscal Charges Paid	<u>(46,777)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(36,293)</u>
Cash Flows From Investing Activities:	
Investment Interest Received	<u>4,447</u>
Net Cash Provided (Used) by Investing Activities	<u>4,447</u>
Net Increase (Decrease) in Cash and Investments	<u>2,326,880</u>
Cash and Investments at Beginning of Year:	
Cash and Investments	3,326,707
Restricted Cash and Investments	<u>48,390</u>
	<u>3,375,097</u>
Cash and Investments at End of Year:	
Cash and Investments	3,633,297
Restricted Cash and Investments	<u>2,068,680</u>
	<u>\$ 5,701,977</u>

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2014

	<u>Business-Type Activities</u> <u>Water/Sewer Fund</u>
Reconciliation of Net Operating Income to Net Cash	
Provided to Net Cash (Used) by Operating Activities:	
Operating Income (Loss)	\$ 941,505
Adjustments to Reconcile Operating Income to Net Cash Provided	
(Used) by Operating Activities:	
Depreciation	457,675
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	144,532
(Increase) Decrease in Inventories	(10,958)
(Increase) Decrease in Prepays	(1,124)
(Increase) Decrease in Utility Deposits	(725)
Increase (Decrease) in Accounts Payable	908,821
Increase (Decrease) in Accrued Liabilities	2,556
Increase (Decrease) in Unearned Revenue	(83,556)
	1,417,221
 Net Cash Provided (Used) by Operating Activities	 \$ 2,358,726

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2014

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

1. REPORTING ENTITY

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; thus, data from these units, if any existed, would be combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government. As of September 30, 2014, the City had one component unit that is discretely presented in these financial statements:

City of Fair Oaks Ranch Municipal Development District

The City of Fair Oaks Ranch Municipal Development District ("MDD") was organized in accordance with Chapter 377 of the Texas Local Government Code for the purpose of developing and financing projects beneficial to the City. The MDD collects a ½ cent sales tax to finance projects that promote the economic growth in the City. The City Council appoints the governing Board of the MDD and approves annual budgets. The MDD meets the criteria of a discretely presented component unit, described as above, and is presented in the government-wide financial statements. Complete financial statements for the Fair Oaks Ranch Municipal Development District may be obtained at City Hall.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-Type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

Separate **fund financial statements** are provided for governmental funds and proprietary funds. The General Fund meets the criteria of a *major governmental fund*. The City does not have any other governmental funds.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement focus is also used for the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Major revenue types, which have been accrued, are revenue from the investments, intergovernmental revenue and charges for services. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants, interest, and miscellaneous income not restricted to specific programs and investment earnings.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as unearned revenue.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental fund:

The General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general administration, public safety, public works, public health, capital acquisition and municipal court.

There are no other governmental funds for the City.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Fund is the Water/Sewer Fund (used to account for the provision of water and sewer services to residents).

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

The Proprietary Fund is accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

4. CASH AND INVESTMENTS

Cash and investments include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (d); or, (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. The City has all its monies in interest bearing checking accounts, savings accounts, money market accounts, certificates of deposit and public funds investment pools. Earnings from these investments are added to each account monthly or quarterly. Investments are carried at fair value in accordance with GASB 31.

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2013 and past due after January 31, 2014. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior year's levy are shown net of an allowance for uncollectible.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. ACCOUNTS RECEIVABLE (Continued)

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unearned revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

7. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

8. INVENTORIES AND PREPAID ITEMS

Inventories of repair and replacement parts for the utility system are valued at cost, which approximates market, using the moving average cost method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

9. RESTRICTED ASSETS

Certain proceeds of Proprietary Fund capital lease financing and bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Funds are segregated to report those proceeds of debt issuances that are restricted for use in construction. Funds are also segregated to provide for debt services as provided under bond indenture agreements.

10. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, infrastructure, and construction in progress assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more. Infrastructure assets include City-owned streets, sidewalks, curbs and bridges. Construction in progress assets include infrastructure assets which are not yet complete and in use. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2014

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. CAPITAL ASSETS (Continued)

The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

ASSETS	YEARS
Land Improvements	5 to 10 years
Buildings and improvements	20 to 40 years
Utility system in service	20 to 40 years
Infrastructure	5 to 40 years
Machinery and equipment	5 to 10 years

11. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category: deferred charge on refunding reported in the government-wide statement of net position, as well as the Proprietary Fund statement of position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet under a modified accrual basis of accounting. Unavailable revenues from property tax are deferred and recognized as an inflow of resource in the period the amounts become available.

12. COMPENSATED ABSENCES

The City allows employees who are eligible for vacation and sick leave (compensated absences) to accumulate and carry over the accumulation to subsequent years within certain limitations. Liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

Sick leave days are not paid when an employee leaves city employment; therefore a liability is not reported for unpaid sick leave.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13. UNEARNED REVENUE

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

14. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts, are amortized over the life of the discount. Bond issuance costs are reported as expenses in the year of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

15. FUND EQUITY

Fund balances in governmental funds are classified as follows:

Nonspendable - Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

Restricted - Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

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

Assigned - Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council and the City Administrator are the only entities that may make assignments at this time.

Unassigned - Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second, assigned third, and unassigned fourth.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. NET POSITION

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

17. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

The City charges the Utility (Proprietary) Fund a management fee for administrative costs associated with the Utility Fund. During the year ended September 30, 2014, management fees totaled \$166,093.

18. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for water and sewer services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

19. USE OF ESTIMATES

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

NOTE B -- CASH AND INVESTMENTS

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2014

NOTE B -- CASH AND INVESTMENTS (CONTINUED)

1. Cash and Cash Equivalents

At September 30, 2014, the carrying amount of the City's cash on hand was \$950 and deposits in the bank (including certificates of deposit) were \$2,169,902 and the bank balance, \$2,188,867. Of the bank balance, \$250,000 was covered by federal deposit insurance and the City's depository had pledged securities having a face value of \$2,256,486 and market value of \$2,379,767 as collateral for the City's deposits. All of the City's cash was fully collateralized.

At September 30, 2014, the carrying amount of the MDD's deposits in the bank was \$239,579 and the bank balance was the same. All of the MDD's cash was fully collateralized by federal deposit insurance coverage.

2. Investments

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City has adhered to the requirements of the Act. Investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) money market mutual funds, and 4) eligible public funds investment pools.

The City's investments at September 30, 2014 were as shown below:

Investment	Reported Value
TexPool	\$ 6,404,235
Money Market Funds	2,062,057
Total Investments	\$ 8,466,292

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE B -- CASH AND INVESTMENTS (CONTINUED)

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

The risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE B -- CASH AND INVESTMENTS (CONTINUED)

4. Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

5. Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares. Texpool is an investment pool that meets these criteria.

NOTE C -- PROPERTY TAX

Taxes were levied on and payable as of January 1. The City has contracted with the Kendall County Tax Assessor-Collector to collect taxes on its behalf. Current year taxes become delinquent February 1. Current year delinquent taxes not paid by July 1 are turned over to attorneys for collection action.

For fiscal year 2014, the assessed tax rate for the City was .2663 per \$100 on an assessed valuation of \$1,003,418,423. Total tax levy for fiscal year 2014 is \$2,672,104. As of September 30, 2014, the delinquent current taxes for 2013 were \$18,968.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE D -- CAPITAL ASSETS

Capital asset activity in the governmental fund for the year ended September 30, 2014, was as follows:

<u>Governmental Activities</u>	Balance 10/1/2013	Additions & Adjustments	Disposals	Balance 9/30/2014
Land and Improvements	\$ 99,798	\$ -	\$ -	\$ 99,798
Buildings and Improvements	2,478,565	51,100	(795,000)	1,734,665
Vehicles & Equipment	903,330	128,594	(43,873)	988,051
Infrastructure	3,022,818	-	-	3,022,818
	<u>6,504,511</u>	<u>179,694</u>	<u>(838,873)</u>	<u>5,845,332</u>
Less Accumulated Depreciation				
Land Improvements	(18,753)	-	-	(18,753)
Buildings and Improvements	(649,942)	(63,928)	72,875	(640,995)
Vehicles & Equipment	(667,067)	(87,249)	41,293	(713,023)
Infrastructure	(510,251)	(75,570)	-	(585,821)
	<u>(1,846,013)</u>	<u>(226,747)</u>	<u>114,168</u>	<u>(1,958,592)</u>
Governmental Capital Assets, Net	<u>\$ 4,658,498</u>	<u>\$ (47,053)</u>	<u>\$ (724,705)</u>	<u>\$ 3,886,740</u>

Capital asset activity in the proprietary fund for the year ended September 30, 2014, was as follows:

<u>Business-Type Activities</u>	Balance 10/1/2013	Additions & Adjustments	Disposals	Balance 9/30/2014
Land	\$ 53,600	\$ -	\$ -	\$ 53,600
Utility Plant and Easements	11,498,438	528,162	-	12,026,600
Vehicles & Equipment	550,268	44,629	(15,407)	579,490
Construction in Progress	485,956	2,718,243	(528,162)	2,676,037
Totals at Historical Cost	<u>12,588,262</u>	<u>3,291,034</u>	<u>(543,569)</u>	<u>15,335,727</u>
Less Accumulated Depreciation				
Utility Plant and Easements	(4,468,925)	(398,728)	-	(4,867,653)
Vehicles & Equipment	(348,904)	(58,947)	15,407	(392,444)
	<u>(4,817,829)</u>	<u>(457,675)</u>	<u>15,407</u>	<u>(5,260,097)</u>
Business-Type Capital Assets, Net	<u>\$ 7,770,433</u>	<u>\$ 2,833,359</u>	<u>\$ (528,162)</u>	<u>\$ 10,075,630</u>

Land and construction in progress are not depreciated.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE D -- CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

Administration	\$	31,286
Public Safety		77,194
Public Health		11,216
Public Works		107,051
Total Depreciation Expense - Governmental Activities	\$	226,747

NOTE E -- UNEARNED REVENUE -- WATER SUPPLY AGREEMENTS

The City has entered into agreements with certain developers to provide water and sewer services to planned future developments. The City has agreed to provide treated water from the City’s water production, storage, and distribution system and to provide sewer service from the City’s wastewater treatment plant, both of which may require expansion or modifications. The developers have agreed to extend utilities from their present locations to the boundaries of the developed properties and to provide for offsets and/or credits toward “Contributions in Aid of Construction”. The City will credit the contributions in aid provided by the developers against impact fees due upon development of the property. Impact fees are collected at the time a building permit is issued for a particular lot. Therefore, the contributions in aid are unearned until such time as the lots are permitted for construction. The City received zero contributions in aid during the year ended September 30, 2014, but earned \$83,556 in current fees. The City has received \$584,128 in contributions in aid to date and has earned a total of \$237,606 in fees. The remaining \$346,522 of contributions are reported as unearned revenue accordingly.

NOTE F -- LONG-TERM DEBT

Primary Government

At September 30, 2014, the City’s long-term debt consisted of the following:

	Range of Interest Rates	Unpaid Principal	Current Maturities	Long-Term Maturities
<u>Business-Type Activities:</u>				
General Obligation Refunding				
Bond, Series 2008	3.5%	\$ 1,160,000	\$ 370,000	\$ 790,000
Capital Lease	3.31%	3,128,356	-	3,128,356
Total Long-Term Debt		\$ 1,160,000	\$ 370,000	\$ 790,000

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE F -- LONG-TERM DEBT (CONTINUED)

Changes in the City's long-term debt during the fiscal year ended September 30, 2014:

	Original Amount	Balance Outstanding Oct. 1, 2013	Current (Retirements) Additions	Balance Outstanding Sept. 30, 2014
Governmental Activities:				
Compensated Absences		\$ 83,571	\$ 18,522	\$ 102,093
Total Governmental Activities		<u>83,571</u>	<u>18,522</u>	<u>102,093</u>
Business-Type Activities:				
2008 Refunding Series	\$ 3,065,000	1,515,000	(355,000)	1,160,000
Capital Lease	3,128,356	-	3,128,356	3,128,356
Compensated Absences		19,887	(933)	18,954
Total Business-Type Activities		<u>1,534,887</u>	<u>2,772,423</u>	<u>4,307,310</u>
Total Changes in Long-Term Debt		<u>\$ 1,618,458</u>	<u>\$ 2,790,945</u>	<u>\$ 4,409,403</u>

The total deferred charge on refunding is \$14,988 as of September 30, 2014 and is shown on the Statement of Net Position as a deferred outflow of resources.

The annual requirements to amortize all long-term bonded debt outstanding as of September 30, 2014, including principal and interest payments, are as follows:

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2015	\$ 370,000	\$ 34,125	\$ 404,125
2016	385,000	20,912	405,912
2017	405,000	7,087	412,087
	<u>\$ 1,160,000</u>	<u>\$ 62,124</u>	<u>\$ 1,222,124</u>

On April 4, 2014, the City entered into a lease purchase agreement with Siemens Public, Inc. for improvements to the City's utility system and infrastructure. The term of the lease is 14 years, with quarterly payments of \$22,500 through January 2018 and quarterly payments of \$88,626 beginning July 2018 through January 2029, which includes interest at 3.31% annually. The lease and the infrastructure are recorded in the Utility Fund.

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2014

NOTE F -- LONG-TERM DEBT (CONTINUED)

Future minimum lease payments are as follows:

Year Ending September 30,	Lease Payments
2015	\$ 45,000
2016	90,000
2017	90,000
2018	222,253
2019	354,506
2020 - 2024	1,772,530
2025 - 2029	1,595,278
	\$ 4,169,567
Less: Interest Amount	(1,041,211)
	\$ 3,128,356

NOTE G -- EMPLOYEES' RETIREMENT SYSTEMS

Texas Municipal Retirement System

Plan Description

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

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

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

	Plan Year	
	2013	2014
Employee deposit rate	7.0%	7.0%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating,	100% Repeating,
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2014

NOTE G -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

Texas Municipal Retirement System (Continued)

Contributions (Continued)

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate for an employee is the contribution rate which, if applied to a members' compensation throughout the period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for the City. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation (asset) are as follows:

<u>Fiscal Year Ending September 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contribution</u>
2011	\$ 195,467	\$ 195,467	100%
2012	203,492	203,492	100%
2013	224,792	224,792	100%
2014	227,649	227,649	100%

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE G -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

Texas Municipal Retirement System (Continued)

The required contribution rates for fiscal year 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

Valuation Date	December 31, 2011	December 31, 2012	December 31, 2013
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	26.5 years;	25.7 years;	30.0 years;
Amortization Period	Closed Period	Closed Period	Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.0%
Projected Salary Increases*	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
*Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress – In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from the Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/13	\$3,630,173	\$4,225,483	85.9%	\$595,310	\$1,903,076	31.3%

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used to include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2014

NOTE G -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

Other Post-Employment Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term-life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The city's contributions to the TMRS SDBF for the years ending September 30, 2014, 2013, and 2012 were \$3,147, \$3,007, and \$2,863, respectively, which equaled the required contributions each year.

NOTE I -- COMMITMENTS AND CONTINGENCIES

Construction Commitments

The City has entered into construction and engineering contracts for the following projects. Estimated future commitments associated with these contracts as of September 30, 2014 are as follows:

<u>Commitment</u>	<u>Estimated Project Cost to City</u>	<u>Expended to Date</u>	<u>Estimated Future Commitment</u>
Energy Conservation Project	\$ 3,758,356	\$ 2,676,037	\$ 1,082,319
	<u>\$ 3,758,356</u>	<u>\$ 2,676,037</u>	<u>\$ 1,082,319</u>

Litigation

No reportable litigation was pending against the City.

NOTE J -- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts. Annual contributions for the year ended September 30, 2014 were \$85,576 for property and casualty and workers compensation coverage.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2014

NOTE K – SUBSEQUENT EVENT

Subsequent to year end, the City approved, by election ordinance, the issuance of bonds not to exceed \$7,000,000 for improvements to streets. The City anticipates issuing the bonds on April 16, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of Funding Progress – Defined Benefit

CITY OF FAIR OAKS RANCH, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Budget Amounts		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Taxes	\$ 3,386,601	\$ 3,386,601	\$ 3,537,635	\$ 151,034
Licenses and Permits	142,028	142,028	287,156	145,128
Fines and Forfeits	147,381	147,381	158,407	11,026
Utility Management Fee	184,497	184,497	166,093	(18,404)
Interest	5,000	5,000	1,633	(3,367)
Lease Revenue	76,400	76,400	32,898	(43,502)
Grant Proceeds	3,000	3,000	1,715	(1,285)
Miscellaneous	38,528	38,528	26,765	(11,763)
Gain (Loss) on Sale of Assets	4,200	4,200	561,196	556,996
TOTAL REVENUES	<u>3,987,635</u>	<u>3,987,635</u>	<u>4,773,498</u>	<u>785,863</u>
EXPENDITURES				
<i>City Administration:</i>				
Personnel	379,648	379,648	336,534	43,114
General	55,476	55,476	49,819	5,657
Maintenance	7,000	7,000	9,768	(2,768)
Contractual	192,298	272,298	315,563	(43,265)
Leases	6,000	6,000	5,827	173
<i>Total City Administration</i>	<u>640,422</u>	<u>720,422</u>	<u>717,511</u>	<u>2,911</u>
<i>Municipal Court:</i>				
Personnel	58,579	58,579	55,917	2,662
General	13,935	4,200	3,331	869
Maintenance	250	250	204	46
Contractual	24,216	24,216	21,057	3,159
<i>Total Municipal Court</i>	<u>96,980</u>	<u>87,245</u>	<u>80,509</u>	<u>6,736</u>
<i>Public Safety:</i>				
Personnel	1,226,078	1,211,078	1,179,820	31,258
General	115,724	106,683	91,580	15,103
Maintenance	20,328	20,328	14,034	6,294
Contractual	178,295	178,295	174,728	3,567
Leases	2,500	3,011	3,362	(351)
<i>Total Public Safety</i>	<u>1,542,925</u>	<u>1,519,395</u>	<u>1,463,524</u>	<u>55,871</u>
<i>Public Health/Emergency:</i>				
General	5,340	5,340	5,689	(349)
Maintenance	1,500	1,500	1,249	251
Contractual	267,621	268,946	268,846	100
<i>Total Public Health/Emergency</i>	<u>\$ 274,461</u>	<u>\$ 275,786</u>	<u>\$ 275,784</u>	<u>\$ 2</u>

CITY OF FAIR OAKS RANCH, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
 BUDGET AND ACTUAL (CONTINUED)
 FOR THE YEAR ENDED SEPTEMBER 30, 2014

EXPENDITURES (CONTINUED)	Budget Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
<i>Building Codes:</i>				
Personnel	\$ 100,934	\$ 112,342	\$ 112,339	\$ 3
General	4,975	4,975	5,200	(225)
Maintenance	700	700	474	226
Contractual	1,491	1,491	1,494	(3)
<i>Total Building Codes</i>	108,100	119,508	119,507	1
 <i>Public Works:</i>				
Personnel	365,747	365,747	342,500	23,247
General	27,450	27,450	27,071	379
Maintenance	50,950	50,950	42,776	8,174
Contractual	503,522	518,322	550,100	(31,778)
<i>Total Public Works</i>	947,669	962,469	962,447	22
 <i>Culture/Recreation/Other:</i>				
General	115,778	76,321	63,517	12,804
<i>Total Culture/Recreation/Other</i>	115,778	76,321	63,517	12,804
 <i>Capital Outlay:</i>				
Personal Property	197,300	173,897	164,161	9,736
Land Improvements	-	1,420	1,753	(333)
Building Improvements	64,000	51,172	51,100	72
<i>Total Capital Outlay</i>	261,300	226,489	217,014	9,475
 TOTAL EXPENDITURES	3,987,635	3,987,635	3,899,813	87,822
 Net Change in Fund Balance	-	-	873,685	873,685
 Fund Balance - Beginning of Year	3,982,022	3,982,022	3,982,022	-
 Fund Balance - End of Year	\$ 3,982,022	\$ 3,982,022	\$ 4,855,707	\$ 873,685



CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
SEPTEMBER 30, 2014

Budgetary Information – The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provision embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The General Fund maintains a legally adopted budget.

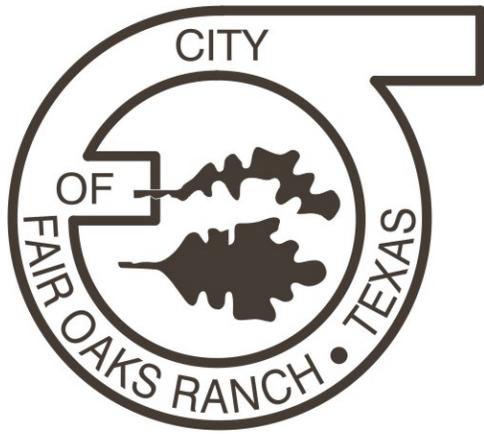
Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year.



CITY OF FAIR OAKS RANCH, TEXAS
 REQUIRED SUPPLEMENTARY INFORMATION
 TEXAS MUNICIPAL RETIREMENT SYSTEM
 SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT
 LAST FIVE CALENDAR YEARS

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	FUNDING RATIO (1)/(2)	UNFUNDED ACTUARIAL ACCRUED LIABILITY	ANNUAL COVERED PAYROLL	UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
12/31/09	\$ 1,813,855	\$ 2,274,199	79.8%	\$ 460,344	\$ 1,511,957	30.4%
12/31/10	2,380,136	2,871,310	82.9%	491,174	1,651,597	29.7%
12/31/11	2,804,927	3,287,146	85.3%	482,219	1,754,414	27.5%
12/31/12	3,258,713	3,606,847	90.3%	348,134	1,841,590	18.9%
12/31/13	3,630,173	4,225,483	85.9%	595,310	1,903,076	31.3%



STATISTICAL SECTION

The following unaudited Statistical Tables reflect social and economic data, financial trends and fiscal capacity of the City.

This part of the City of Fair Oaks Ranch's annual financial report represents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about Fair Oaks Ranch's overall financial health.

Contents

Financial Trends – Tables 1 through 5

These schedules contain trend information to help the reader understand how the City of Fair Oaks Ranch's financial performance and well-being have changed over time.

Revenue Capacity – Tables 6 through 9

These schedules contain information to help the reader assess the City of Fair Oaks Ranch's most significant local revenue source, the property tax.

Debt Capacity – Table 10

This schedules present information to help the reader assess the affordability of the City of Fair Oaks Ranch's current levels of outstanding debt, and our ability to issue additional debt.

Demographic and Economic Information – Tables 11 and 12

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City of Fair Oaks Ranch's financial activities take place.

CITY OF FAIR OAKS RANCH, TEXAS
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

	Fiscal Year			
	2005	2006	2007	2008
Governmental Activities				
Net Investment in Capital Assets	\$2,045,892	\$ 2,941,068	\$ 3,398,697	\$ 3,316,645
Restricted	-	-	-	-
Unrestricted	1,812,076	2,380,942	2,615,572	2,746,778
Total Governmental Activities				
Net Position	<u>\$3,857,968</u>	<u>\$ 5,322,010</u>	<u>\$ 6,014,269</u>	<u>\$ 6,063,423</u>
Business-Type Activities				
Net Investment in Capital Assets	\$3,007,944	\$ 4,368,759	\$ 4,823,656	\$ 4,935,977
Unrestricted	1,539,909	1,785,943	1,958,878	2,037,141
Total Business-Type Activities				
Net Position	<u>\$4,547,853</u>	<u>\$ 6,154,702</u>	<u>\$ 6,782,534</u>	<u>\$ 6,973,118</u>
Primary Government				
Net Investment in Capital Assets	\$5,053,836	\$ 7,309,827	\$ 8,222,353	\$ 8,252,622
Restricted	-	-	-	-
Unrestricted	3,351,985	4,166,885	4,574,450	4,783,919
Total Primary Government				
Net Position	<u>\$8,405,821</u>	<u>\$11,476,712</u>	<u>\$12,796,803</u>	<u>\$13,036,541</u>

TABLE 1

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 3,216,848	\$ 4,940,584	\$ 4,802,338	\$ 4,675,461	\$ 4,658,498	\$ 3,886,740
-	39,266	46,229	48,355	64,787	68,071
3,149,374	2,483,604	3,002,828	3,452,484	3,887,116	4,739,305
<u>\$ 6,366,222</u>	<u>\$ 7,463,454</u>	<u>\$ 7,851,395</u>	<u>\$ 8,176,300</u>	<u>\$ 8,610,401</u>	<u>\$ 8,694,116</u>
\$ 5,003,477	\$ 5,767,825	\$ 5,733,694	\$ 5,842,767	\$ 6,255,433	\$ 7,847,915
2,424,188	2,004,430	2,603,460	2,972,799	3,331,135	2,607,764
<u>\$ 7,427,665</u>	<u>\$ 7,772,255</u>	<u>\$ 8,337,154</u>	<u>\$ 8,815,566</u>	<u>\$ 9,586,568</u>	<u>\$ 10,455,679</u>
\$ 8,220,325	\$ 10,708,409	\$ 10,536,032	\$ 10,518,228	\$ 10,913,931	\$ 11,734,655
-	39,266	46,229	48,355	64,787	68,071
5,573,562	4,488,034	5,606,288	6,425,283	7,218,251	7,347,069
<u>\$ 13,793,887</u>	<u>\$ 15,235,709</u>	<u>\$ 16,188,549</u>	<u>\$ 16,991,866</u>	<u>\$ 18,196,969</u>	<u>\$ 19,149,795</u>

CITY OF FAIR OAKS RANCH, TEXAS
CHANGE IN NET POSITION
LAST TEN FISCAL YEARS

Expenses	Fiscal Year			
	2005	2006	2007	2008
Governmental Activities:				
City Administration	\$ 338,838	\$ 405,798	\$ 592,778	\$ 462,165
Municipal Court	59,773	63,331	66,621	71,893
Public Safety	638,523	726,671	893,991	1,020,014
Public Health/Emergency	187,703	194,881	195,440	285,994
Building Codes	75,732	74,314	80,165	84,258
Public Works	579,262	417,385	509,670	727,013
Culture/Recreational/Other	48,834	41,872	108,076	88,634
Interest on Long-Term Debt	-	-	4,413	8,579
Total Governmental Activities Expenses	<u>1,928,665</u>	<u>1,924,252</u>	<u>2,451,154</u>	<u>2,748,550</u>
Business-Type Activities:				
Water/Sewer Utility	1,659,266	2,138,239	2,164,092	2,551,516
Total Business-Type Activities	<u>1,659,266</u>	<u>2,138,239</u>	<u>2,164,092</u>	<u>2,551,516</u>
Total Primary Government Expenses	<u>\$ 3,587,931</u>	<u>\$ 4,062,491</u>	<u>\$ 4,615,246</u>	<u>\$ 5,300,066</u>
 Program Revenues				
Governmental Activities:				
Charges for Service:				
City Administration	\$ 103,894	\$ 126,018	\$ 97,667	\$ 131,693
Municipal Court	72,821	100,497	100,699	114,122
Public Safety	-	-	-	-
Public Health/Emergency	6,606	5,830	5,785	4,920
Building Codes	129,067	139,204	156,557	119,542
Operating Grants and Contributions	8,555	6,634	4,592	5,141
Capital Grants and Contributions	-	921,981	559,423	-
Total Governmental Activities Program Revenues	<u>320,943</u>	<u>1,300,164</u>	<u>924,723</u>	<u>375,418</u>
Business-Type Activities:				
Charges for Service:				
Water/Sewer Utility	2,260,663	2,707,263	2,149,163	2,695,394
Capital Grants and Contributions	-	985,396	562,740	-
Total Primary Government Program Revenues	<u>\$ 2,581,606</u>	<u>\$ 4,992,823</u>	<u>\$ 3,636,626</u>	<u>\$ 3,070,812</u>

TABLE 2

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 535,765	\$ 692,233	\$ 578,516	\$ 588,562	\$ 638,151	\$ 921,009
74,356	70,340	79,208	77,131	79,538	81,522
1,113,684	1,232,747	1,295,748	1,342,773	1,521,426	1,588,137
220,713	319,465	231,337	255,789	282,238	286,999
89,412	84,319	86,316	88,521	98,196	119,338
765,066	727,527	776,437	815,467	933,879	1,074,375
58,273	32,352	47,335	125,537	139,671	63,517
2,548	4,225	1,200	-	-	-
<u>2,859,817</u>	<u>3,163,208</u>	<u>3,096,097</u>	<u>3,293,780</u>	<u>3,693,099</u>	<u>4,134,897</u>
<u>2,720,050</u>	<u>2,879,504</u>	<u>2,785,881</u>	<u>2,954,021</u>	<u>3,013,859</u>	<u>3,242,807</u>
<u>2,720,050</u>	<u>2,879,504</u>	<u>2,785,881</u>	<u>2,954,021</u>	<u>3,013,859</u>	<u>3,242,807</u>
<u>\$ 5,579,867</u>	<u>\$ 6,042,712</u>	<u>\$ 5,881,978</u>	<u>\$ 6,247,801</u>	<u>\$ 6,706,958</u>	<u>\$ 7,377,704</u>
\$ 147,729	\$ 126,612	\$ 237,810	\$ 241,201	\$ 249,506	\$ 198,992
72,771	114,981	131,279	126,633	156,452	158,407
5,733	5,960	7,736	6,824	7,079	8,664
6,795	7,521	6,720	6,580	7,245	5,325
77,293	85,493	73,595	127,522	196,062	281,831
-	3,855	-	-	605	1,715
-	998,250	-	-	-	-
<u>310,321</u>	<u>1,342,672</u>	<u>457,140</u>	<u>508,760</u>	<u>616,949</u>	<u>654,934</u>
3,167,197	2,434,913	3,352,080	3,427,533	3,744,856	4,107,471
-	796,054	-	-	-	-
<u>\$ 3,477,518</u>	<u>\$ 4,573,639</u>	<u>\$ 3,809,220</u>	<u>\$ 3,936,293</u>	<u>\$ 4,361,805</u>	<u>\$ 4,762,405</u>

CITY OF FAIR OAKS RANCH, TEXAS
CHANGE IN NET POSITION (CONTINUED)
LAST TEN FISCAL YEARS

	Fiscal Year			
	2005	2006	2007	2008
Net (Expenses) Revenue				
Governmental Activities	\$(1,607,722)	\$ (624,088)	\$(1,526,431)	\$(2,373,132)
Business-Type Activities	601,397	1,554,420	547,811	143,878
Total Primary Government				
Net Expenses	<u>\$(1,006,325)</u>	<u>\$ 930,332</u>	<u>\$ (978,620)</u>	<u>\$(2,229,254)</u>
Governmental Revenues and Other Changes in Net Position				
Governmental Activities:				
Taxes:				
Property Taxes	\$ 1,581,327	\$ 1,646,403	\$ 1,778,179	\$ 2,000,492
Non-Property Taxes	220,486	253,214	249,186	283,543
Interest and Investment Earnings	60,555	114,243	165,411	110,430
Miscellaneous	9,948	21,368	25,914	22,518
Transfers	-	-	-	5,303
Total Governmental Activities	<u>1,872,316</u>	<u>2,035,228</u>	<u>2,218,690</u>	<u>2,422,286</u>
Business-Type Activities:				
Interest and Investment Earnings	37,243	52,429	80,021	52,009
Transfers	-	-	-	(5,303)
Total Business-Type Activities	<u>37,243</u>	<u>52,429</u>	<u>80,021</u>	<u>46,706</u>
Total Primary Government	<u>\$ 1,909,559</u>	<u>\$ 2,087,657</u>	<u>\$ 2,298,711</u>	<u>\$ 2,468,992</u>
Changes In Net Position				
Government Activities	\$ 264,594	\$ 1,411,140	\$ 692,259	\$ 49,154
Business-Type Activities	638,640	1,606,849	627,832	190,584
Total Primary Government	<u>\$ 903,234</u>	<u>\$ 3,017,989</u>	<u>\$ 1,320,091</u>	<u>\$ 239,738</u>

TABLE 2 (Continued)

Fiscal Year					
2009	2010	2011	2012	2013	2014
<u>\$(2,549,496)</u>	<u>\$(1,820,536)</u>	<u>\$(2,638,957)</u>	<u>\$(2,785,020)</u>	<u>\$(3,076,150)</u>	<u>\$(3,479,963)</u>
<u>447,147</u>	<u>351,463</u>	<u>566,199</u>	<u>473,512</u>	<u>730,997</u>	<u>864,664</u>
<u><u>\$(2,102,349)</u></u>	<u><u>\$(1,469,073)</u></u>	<u><u>\$(2,072,758)</u></u>	<u><u>\$(2,311,508)</u></u>	<u><u>\$(2,345,153)</u></u>	<u><u>\$(2,615,299)</u></u>
\$ 2,230,070	\$ 2,322,501	\$ 2,327,361	\$ 2,345,006	\$ 2,561,039	\$ 2,634,353
555,500	598,699	634,021	662,271	750,966	903,592
29,017	10,691	7,324	7,213	7,094	1,633
27,102	14,537	13,623	95,435	225,123	24,100
10,606	10,606	5,303	-	(33,971)	-
<u>2,852,295</u>	<u>2,957,034</u>	<u>2,987,632</u>	<u>3,109,925</u>	<u>3,510,251</u>	<u>3,563,678</u>
18,006	3,733	4,003	4,900	6,034	4,447
<u>(10,606)</u>	<u>(10,606)</u>	<u>(5,303)</u>	<u>-</u>	<u>33,971</u>	<u>-</u>
<u>7,400</u>	<u>(6,873)</u>	<u>(1,300)</u>	<u>4,900</u>	<u>40,005</u>	<u>4,447</u>
<u><u>\$ 2,859,695</u></u>	<u><u>\$ 2,950,161</u></u>	<u><u>\$ 2,986,332</u></u>	<u><u>\$ 3,114,825</u></u>	<u><u>\$ 3,550,256</u></u>	<u><u>\$ 3,568,125</u></u>
\$ 302,799	\$ 1,136,498	\$ 348,675	\$ 324,905	\$ 434,101	\$ 83,715
<u>454,547</u>	<u>344,590</u>	<u>564,899</u>	<u>478,412</u>	<u>771,002</u>	<u>869,111</u>
<u><u>\$ 757,346</u></u>	<u><u>\$ 1,481,088</u></u>	<u><u>\$ 913,574</u></u>	<u><u>\$ 803,317</u></u>	<u><u>\$ 1,205,103</u></u>	<u><u>\$ 952,826</u></u>

CITY OF FAIR OAKS RANCH, TEXAS
 FUND BALANCES, GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS

	Fiscal Year			
	2005	2006	2007	2008
Nonspendable Fund Balance:				
Prepaid Items	\$ 17,042	\$ 18,099	\$ 43,468	\$ 17,761
Restricted Fund Balance:				
Court Technology	14,587	16,243	21,850	1,740
Court Security	15,117	17,420	21,769	25,398
Court Efficiency	66	64	36	10
Felony Forfeiture	-	-	-	-
PEG Fees	-	-	-	-
Total Restricted Fund Balance	<u>29,770</u>	<u>33,727</u>	<u>43,655</u>	<u>27,148</u>
Committed Fund Balance:				
Public Safety Committee	-	-	-	-
Wildlife Research Study	-	-	-	-
TxDOT Projects	-	-	-	-
Partnership Water Study	-	-	-	-
Total Committed Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Assigned Fund Balance:				
Capital Projects	-	-	-	-
Legal Issues	-	-	-	-
Total Assigned Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	<u>1,765,106</u>	<u>2,320,416</u>	<u>2,524,777</u>	<u>2,702,746</u>
<i>Total Governmental Funds</i>	<u>\$ 1,811,918</u>	<u>\$ 2,372,242</u>	<u>\$ 2,611,900</u>	<u>\$ 2,747,655</u>

TABLE 3

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 25,339	\$ 23,524	\$ 24,628	\$ 24,104	\$ 25,631	\$ 24,220
2,171	7,298	10,177	9,477	15,845	15,285
27,728	31,574	35,640	38,436	41,497	44,420
5	16	34	64	16	110
-	378	378	378	3,937	3,937
-	-	-	-	3,492	4,319
29,904	39,266	46,229	48,355	64,787	68,071
-	-	-	250,000	30,451	30,451
-	-	-	45,779	16,928	-
-	-	-	-	-	810,000
-	-	-	-	-	100,000
-	-	-	295,779	47,379	940,451
-	-	-	-	1,000,000	720,000
-	-	-	-	50,000	50,000
-	-	-	-	1,050,000	770,000
3,077,462	2,514,179	3,008,608	3,158,573	2,794,225	3,052,965
\$ 3,132,705	\$ 2,576,969	\$ 3,079,465	\$ 3,526,811	\$ 3,982,022	\$ 4,855,707

CITY OF FAIR OAKS RANCH, TEXAS
CHANGES IN FUND BALANCE
LAST TEN FISCAL YEARS

	Fiscal Year			
	2005	2006	2007	2008
REVENUES				
Taxes	\$ 1,794,960	\$ 1,889,989	\$ 2,025,748	\$ 2,277,623
Licenses and Permits	136,025	145,146	164,827	125,162
Fines and Forfeits	77,167	105,001	105,291	119,263
Utility Management Fee	103,894	126,018	97,667	130,993
Interest	60,555	114,243	165,411	110,430
Miscellaneous	13,801	23,385	38,122	22,518
TOTAL REVENUES	<u>2,186,402</u>	<u>2,403,782</u>	<u>2,597,066</u>	<u>2,785,989</u>
EXPENDITURES				
Current:				
City Administration	320,695	387,656	575,105	452,963
Municipal Court	59,773	63,331	66,621	71,893
Public Safety	629,496	714,975	847,545	962,543
Public Health/Emergency	175,339	182,517	180,657	267,360
Building Codes	75,732	74,314	80,166	84,258
Public Works	547,288	362,983	432,025	644,430
Culture and Recreation	48,834	41,872	108,073	88,634
Capital Projects/Outlay	9,065	16,287	71,845	163,070
Debt Service:				
Capital Lease Payments	-	-	67,825	65,237
Capital Lease Interest	-	-	-	8,579
TOTAL EXPENDITURES	<u>1,866,222</u>	<u>1,843,935</u>	<u>2,429,862</u>	<u>2,808,967</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>320,180</u>	<u>559,847</u>	<u>167,204</u>	<u>(22,978)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of Capital Lease Financing	-	-	71,845	153,430
Transfer from Other Funds	-	-	-	5,303
Proceeds from Disposal of Equipment	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>71,845</u>	<u>158,733</u>
Net Change in Fund Balance	<u>\$ 320,180</u>	<u>\$ 559,847</u>	<u>\$ 239,049</u>	<u>\$ 135,755</u>
Debt Service as a Percentage of Noncapital Expenditures	-	-	2.9%	2.8%

TABLE 4

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$2,766,918	\$2,951,739	\$2,968,775	\$2,988,981	\$3,306,451	\$3,537,635
86,388	94,654	82,070	135,992	203,307	287,156
78,503	120,941	131,279	126,633	156,452	158,407
145,430	113,889	159,071	159,435	169,357	166,093
29,017	10,691	7,324	7,213	7,094	1,633
27,102	36,847	100,284	182,135	316,504	622,574
<u>3,133,358</u>	<u>3,328,761</u>	<u>3,448,803</u>	<u>3,600,389</u>	<u>4,159,165</u>	<u>4,773,498</u>
463,894	632,220	533,332	548,635	609,674	717,511
74,356	70,340	77,203	75,754	83,854	80,509
1,058,030	1,184,137	1,250,707	1,282,550	1,402,730	1,463,524
205,765	304,614	216,613	242,174	271,023	275,784
89,412	84,319	86,864	88,663	95,948	119,507
667,404	605,504	658,761	700,305	747,165	962,447
58,273	32,352	47,335	125,537	139,671	63,517
92,434	900,732	48,399	89,425	319,918	217,014
90,312	76,660	48,181	-	-	-
2,548	4,225	1,200	-	-	-
<u>2,802,428</u>	<u>3,895,103</u>	<u>2,968,595</u>	<u>3,153,043</u>	<u>3,669,983</u>	<u>3,899,813</u>
<u>330,930</u>	<u>(566,342)</u>	<u>480,208</u>	<u>447,346</u>	<u>489,182</u>	<u>873,685</u>
43,514	-	-	-	-	-
10,606	10,606	5,303	-	(33,971)	-
-	-	16,985	-	-	-
<u>54,120</u>	<u>10,606</u>	<u>22,288</u>	<u>-</u>	<u>(33,971)</u>	<u>-</u>
<u>\$ 385,050</u>	<u>\$ (555,736)</u>	<u>\$ 502,496</u>	<u>\$ 447,346</u>	<u>\$ 455,211</u>	<u>\$ 873,685</u>
3.4%	2.7%	1.7%	0.0%	0.0%	0.0%

CITY OF FAIR OAKS RANCH, TEXAS
TAX REVENUE BY SOURCE, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS

TABLE 5

Fiscal Year	Property	Sales	Franchise	Mixed Beverage	Total
2005	\$ 1,574,474	\$ -	\$ 214,964	\$ 5,522	\$ 1,794,960
2006	1,636,775	-	247,354	5,860	1,889,989
2007	1,776,563	-	242,754	6,431	2,025,748
2008	1,994,080	-	276,560	6,983	2,277,623
2009	2,211,418	247,950	279,395	28,155	2,766,918
2010	2,353,040	282,708	295,603	20,386	2,951,737
2011	2,334,754	305,028	312,645	16,348	2,968,775
2012	2,326,710	325,128	323,308	13,835	2,988,981
2013	2,555,485	389,722	346,066	15,178	3,306,451
2014	2,634,043	431,575	453,279	18,738	3,537,635

CITY OF FAIR OAKS RANCH, TEXAS
 ASSESSED VALUE AND ACTUAL TAXABLE PROPERTY
 LAST TEN FISCAL YEARS

TABLE 6

Fiscal Year Ended September 30,	Residential Property	Commercial Property	Less: Tax-Exempt Property	Total Taxable Assessed Value*	Total Direct Tax Rate
2005	\$ 612,492,315	\$ 38,699,766	\$ 25,043,453	\$ 626,148,628	0.2570
2006	661,015,200	38,667,325	25,133,269	674,549,256	0.2440
2007	710,191,865	51,277,590	38,626,811	722,842,644	0.2415
2008	838,453,794	65,125,001	69,342,898	834,235,897	0.2415
2009	938,067,890	95,346,777	97,894,497	935,520,170	0.2415
2010	1,006,529,595	44,577,989	82,136,984	968,970,600	0.2461
2011	992,927,327	40,159,647	54,767,903	978,319,071	0.2415
2012	937,057,120	86,472,850	54,659,715	968,870,255	0.2461
2013	943,904,242	92,123,352	57,650,996	978,376,598	0.2663
2014	958,417,836	105,566,114	60,565,527	1,003,418,423	0.2663

Source: Bexar, Comal, and Kendall County Appraisal Districts.

* Total Taxable Assessed Value and Total Estimated Actual Value of taxable property is the same.

CITY OF FAIR OAKS RANCH, TEXAS
 DIRECT AND OVERLAPPING PROPERTY TAX RATES
 LAST TEN FISCAL YEARS

TABLE 7

Fiscal Period	City	Boerne School District	Bexar County	Kendall County	Comal County	Total
2005	0.25700	1.740	0.331190	0.37000	0.353747	3.051937
2006	0.25000	1.620	0.331190	0.37000	0.315201	2.886391
2007	0.25000	1.620	0.314147	0.37000	0.315201	2.869348
2008	0.24400	1.330	0.295104	0.37000	0.317993	2.557097
2009	0.24150	1.330	0.289399	0.37000	0.308023	2.538922
2010	0.24150	1.330	0.296187	0.37000	0.312955	2.550642
2011	0.24150	1.314	0.296187	0.37000	0.334000	2.555687
2012	0.24610	1.314	0.296187	0.37000	0.350421	2.576708
2013	0.26630	1.294	0.296187	0.39500	0.305221	2.556708
2014	0.26630	1.294	0.296187	0.39400	0.278221	2.528708

Note: Overlapping governments are those that coincide, at least in part, within the geographic boundaries of the City. This schedule estimates the portion of outstanding debt of those overlapping governments that is borne by the residents and businesses on the City of Fair Oaks Ranch, Texas. This process recognizes that, when considering the City of Fair Oaks Ranch's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

CITY OF FAIR OAKS RANCH, TEXAS
 PRINCIPAL PROPERTY TAX PAYERS
 CURRENT AND TEN YEARS AGO

TABLE 8

Taxpayer	2014			2004		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Fair Oaks Club Corp	\$ 6,775,600	1	0.68%	\$ 8,009,261	1	1.23%
Fair Oaks Village II LTD	4,250,000	2	0.42%			0.00%
Greenland Ventures	3,105,510	3	0.31%			0.00%
Ashton San Antonio	2,873,380	4	0.29%			0.00%
Frost National Bank	2,589,010	5	0.26%			0.00%
Meritage Homes	2,299,230	6	0.23%			0.00%
SA Front Gate LLC	2,113,030	8	0.21%			0.00%
B&M Fair Oaks	2,069,865	7	0.21%			0.00%
Weekly Homes	1,818,870	9	0.18%			0.00%
Guadalupe Valley Tele	1,749,185	10	0.17%			0.00%
Armstrong Family Trust				2,249,610	2	0.35%
P. Steldt				2,138,820	3	0.33%
Fair Ralph E., Inc.				1,701,420	4	0.26%
Time Warner Cable				1,419,360	5	0.22%
Fountains Development Group				1,248,890	6	0.19%
P. Bilbrey				1,181,380	7	0.18%
G. Rapier				997,860	8	0.15%
G. Frashier				907,350	9	0.14%
G. Nagel				741,940	10	0.11%
Total	<u>\$ 29,643,680</u>		<u>2.95%</u>	<u>\$ 20,595,891</u>		<u>3.16%</u>

CITY OF FAIR OAKS RANCH, TEXAS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

TABLE 9

Fiscal Year Ended September 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections In Subsequent Years	Total Collections to Date	
		Amount*	Percentage of Levy		Amount	Percentage of Levy
2005	\$ 1,608,861	\$ 1,595,209	99.15%	\$ 13,652	\$ 1,608,861	100.00%
2006	1,684,559	1,619,222	96.12%	64,611	1,683,833	99.96%
2007	1,807,107	1,789,693	99.04%	16,653	1,806,346	99.96%
2008	2,035,536	2,015,608	99.02%	17,431	2,033,039	99.88%
2009	2,259,896	2,226,351	98.52%	30,779	2,257,130	99.88%
2010	2,340,064	2,318,698	99.09%	17,867	2,336,565	99.85%
2011	2,357,767	2,340,869	99.28%	13,564	2,354,433	99.86%
2012	2,381,119	2,357,934	99.03%	14,201	2,372,135	99.62%
2013	2,604,255	2,577,855	98.99%	14,176	2,592,031	99.53%
2014	2,672,104	2,653,136	99.29%	-	2,653,136	99.29%

Source: Kendall County Appraisal District

* Includes discounts allowed for early payments. Discounts taken for the fiscal year ended September 30, 2014 were \$60,311.

CITY OF FAIR OAKS RANCH, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

TABLE 10

Fiscal Year	Governmental Activities Capital Leases	Business-Type Activities Capital Leases	Business-Type Activities Certificates of Obligation	Total Government	Per Capita*
2005	\$ -	\$ -	\$ 3,750,000	\$ 3,750,000	668
2006	75,015	-	3,525,000	3,600,015	620
2007	83,446	-	3,290,000	3,373,446	565
2008	171,639	-	3,065,000	3,236,639	549
2009	124,841	-	2,780,000	2,904,841	456
2010	48,181	-	2,485,000	2,533,181	456
2011	-	-	2,175,000	2,175,000	358
2012	-	-	1,855,000	1,855,000	305
2013	-	-	1,515,000	1,515,000	239
2014	-	3,128,356	1,160,000	4,288,356	653

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

*See Population figures on page 65.

CITY OF FAIR OAKS RANCH, TEXAS
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS

TABLE 11

Year	Population	Per Capita Personal Income	Median Age	School Enrollment	San Antonio Unemployment Rate
2005	5563	\$ 45,293	45.5	761	3.4%
2006	5694	45,293	45.9	797	3.4%
2007	5825	45,293	45.9	693	4.1%
2008	5895	45,293	45.9	658	5.0%
2009	5966	45,293	45.9	660	7.1%
2010	5986	58,576	50.9	678	7.6%
2011	6068	58,576	50.9	683	6.8%
2012	6084	60,195	50.9	776	6.1%
2013	6326	57,945	50.9	697	5.7%
2014	6569	57,306	50.9	650	5.1%

Sources: Population, Per Capita Income, and Median Age provided by the United States Census Bureau/American FactFinders. Fair Oaks Ranch Elementary School enrollment information was provided by the Boerne Independent School District. Unemployment rate information was provided by the United States Bureau of Labor.

CITY OF FAIR OAKS RANCH, TEXAS
 PRINCIPAL EMPLOYERS
 CURRENT YEAR AND NINE YEARS AGO

TABLE 12

Employer	2014		2005	
	Employees	Rank	Employees	Rank
Lackland Air Force Base	37,097	1	N/A	N/A
Fort Sam Houston	32,000	2	N/A	N/A
HEB Food Stores	20,000	3	N/A	N/A
USAA	16,000	4	N/A	N/A
Northside I.S.D.	12,751	5	N/A	N/A
Randolph Air Force Base	11,068	6	N/A	N/A
North East I.S.D.	10,052	7	N/A	N/A
City of San Antonio	9,145	8	N/A	N/A
Methodist Healthcare System	8,118	9	N/A	N/A
Baptist Health System	7,205	10	N/A	N/A
Total	<u>163,436</u>		<u>-</u>	

The City of Fair Oaks Ranch is located near the City of San Antonio and data is not available for the employers in Fair Oaks Ranch, Texas. The above data is for the City of San Antonio.

Source: San Antonio Economic Development Corporation

