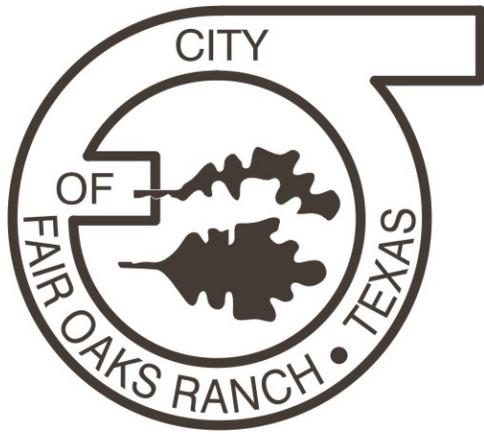


CITY OF FAIR OAKS RANCH, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2013**



CITY OF FAIR OAKS RANCH, TEXAS
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

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 | 42 |
| SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL | 43 |
| NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL | 45 |
| TEXAS MUNICIPAL RETIREMENT SYSTEM SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT LAST FOUR CALENDAR YEARS | 46 |

CITY OF FAIR OAKS RANCH, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS (Continued)

STATISTICAL SECTION

| | <u>PAGE</u> |
|--|-------------|
| NET POSITION BY COMPONENT | 48 |
| CHANGE IN NET POSITION | 50 |
| FUND BALANCES, GOVERNMENTAL FUNDS | 54 |
| CHANGES IN FUND BALANCE | 56 |
| TAX REVENUE BY SOURCE, GOVERNMENTAL FUNDS | 58 |
| ASSESSED VALUE AND ACTUAL TAXABLE PROPERTY | 59 |
| DIRECT AND OVERLAPPING PROPERTY TAX RATES | 60 |
| PRINCIPAL PROPERTY TAX PAYERS | 61 |
| PROPERTY TAX LEVIES AND COLLECTIONS | 62 |
| RATIOS OF OUTSTANDING DEBT BY TYPE | 63 |
| DEMOGRAPHIC AND ECONOMIC STATISTICS | 64 |
| PRINCIPAL EMPLOYERS | 65 |

CITY OF FAIR OAKS RANCH, TEXAS

PRINCIPAL OFFICERS

CITY OFFICIALS

MAYOR

CHERYL LANDMAN

CITY COUNCIL

MARK ANDERSON

GLENN DAMSTRA

CONRAD FOTHERGILL

FRED JONES

AL SCHMIDT

CITY ADMINISTRATOR

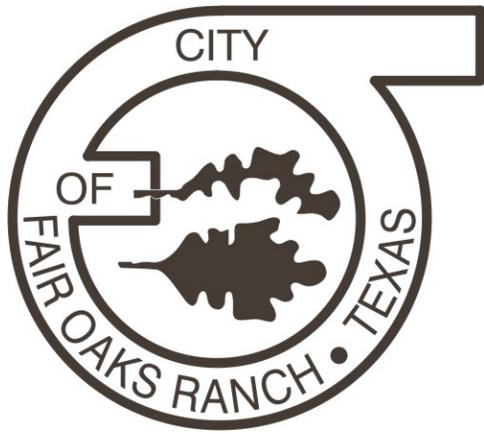
JOHN HOBSON

ATTORNEY

JACOBSON LAW FIRM

AUDITOR

ARMSTRONG, VAUGHAN & ASSOCIATES, P.C.





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, 2013, 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's 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, 2013, 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 28, 2014

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, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

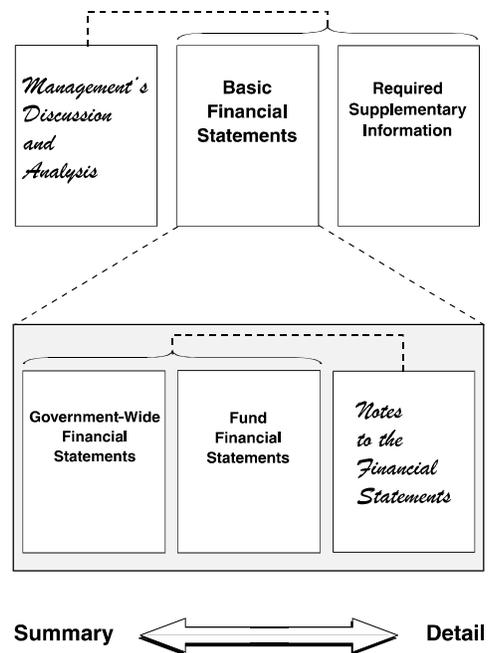
- The City's total combined net position was \$18,196,969 at September 30, 2013.
- During the year, the City's expenses were \$434,101 less than the \$4,161,171 generated in taxes and other revenues for governmental activities and after transferring \$33,971 to Business-Type Activities.
- The total cost of the City's programs increased by \$399,319 from last year; however, no new programs were added this year.
- The general fund reported a fund balance this year of \$3,982,022.
- The City issued no new bonds in 2013.

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 \$18,196,969 at September 30, 2013 (See Table A-1).

The \$7,218,251 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 \$7,912,061. The revenue from property taxes was \$2,561,039 or 32% (See Table A-2), 47% 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 \$6,706,958, 45% 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 | | Business-Type | | Total | | Total Percentage Change 2013-2012 |
|--|-----------------|-----------------|-----------------|-----------------|------------------|------------------|--|
| | Activities | | Activities | | | | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | |
| <i>Current Assets:</i> | | | | | | | |
| Cash and Cash Equivalents | \$ 3,972 | \$ 3,515 | \$ 3,327 | \$ 2,936 | \$ 7,299 | \$ 6,451 | 13.1% |
| Receivables | 235 | 205 | 524 | 494 | 759 | 699 | 8.6% |
| Inventories & Prepaids | 26 | 24 | 105 | 79 | 131 | 103 | 27.2% |
| Unamortized Bond Costs | - | - | - | 18 | - | 18 | -100.0% |
| <i>Restricted Assets:</i> | | | | | | | |
| Cash and Investments | - | - | 48 | 189 | 48 | 189 | -74.6% |
| <i>Total Current Assets:</i> | <u>4,233</u> | <u>3,744</u> | <u>4,004</u> | <u>3,716</u> | <u>8,237</u> | <u>7,460</u> | <u>10.4%</u> |
| <i>Noncurrent Assets:</i> | | | | | | | |
| Land and Improvements | 100 | 100 | 54 | 54 | 154 | 154 | 0.0% |
| Building and Improvements | 2,479 | 2,415 | - | - | 2,479 | 2,415 | 2.7% |
| Utility Plant and Easements | - | - | 11,498 | 11,498 | 11,498 | 11,498 | 0.0% |
| Vehicles and Equipment | 903 | 849 | 550 | 440 | 1,453 | 1,289 | 12.7% |
| Infrastructure | 3,023 | 3,023 | - | - | 3,023 | 3,023 | 0.0% |
| Construction in Progress | - | - | 486 | 84 | 486 | 84 | 478.6% |
| Less Accumulated | | | | | | | |
| Depreciation | (1,846) | (1,711) | (4,818) | (4,406) | (6,664) | (6,117) | 8.9% |
| <i>Total Noncurrent Assets</i> | <u>4,659</u> | <u>4,676</u> | <u>7,770</u> | <u>7,670</u> | <u>12,429</u> | <u>12,346</u> | <u>0.7%</u> |
| <i>Total Assets</i> | <u>8,892</u> | <u>8,420</u> | <u>11,774</u> | <u>11,385</u> | <u>20,666</u> | <u>19,806</u> | <u>4.3%</u> |
| <i>Deferred Outflows of Resources:</i> | | | | | | | |
| Deferred Charge on Refunding | - | - | 21 | 27 | 21 | 27 | -22.2% |
| <i>Total Deferred Outflows</i> | <u>-</u> | <u>-</u> | <u>21</u> | <u>27</u> | <u>21</u> | <u>27</u> | <u>-22.2%</u> |
| <i>Current Liabilities:</i> | | | | | | | |
| Accounts Payable | 198 | 171 | 665 | 711 | 863 | 882 | -2.2% |
| Accrued Compensated Absences | 84 | 74 | 20 | 18 | 104 | 92 | 13.0% |
| Current Portion of Long-Term Debt | - | - | 355 | 340 | 355 | 340 | 4.4% |
| Accrued Interest | - | - | 9 | 11 | 9 | 11 | -18.2% |
| <i>Total Current Liabilities</i> | <u>282</u> | <u>245</u> | <u>1,049</u> | <u>1,081</u> | <u>1,331</u> | <u>1,325</u> | <u>0.5%</u> |
| <i>Non-Current Liabilities</i> | | | | | | | |
| Due in more than One Year | - | - | 1,160 | 1,515 | 1,160 | 1,515 | -23.4% |
| <i>Total Liabilities</i> | <u>282</u> | <u>245</u> | <u>2,209</u> | <u>2,596</u> | <u>2,491</u> | <u>2,840</u> | <u>-12.3%</u> |
| <i>Net Position:</i> | | | | | | | |
| Net Investment in Capital Assets | 4,658 | 4,675 | 6,255 | 5,843 | 10,913 | 10,518 | 3.8% |
| Restricted | 65 | 48 | - | - | 65 | 48 | 35.4% |
| Unrestricted | 3,887 | 3,452 | 3,331 | 2,973 | 7,218 | 6,425 | 12.3% |
| <i>Total Net Position</i> | <u>\$ 8,610</u> | <u>\$ 8,175</u> | <u>\$ 9,586</u> | <u>\$ 8,816</u> | <u>\$ 18,196</u> | <u>\$ 16,991</u> | <u>7.1%</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 2013-2012 |
|--|----------------------------|-----------------|-----------------------------|-----------------|-----------------|-----------------|--|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | |
| Charges for Services | \$ 616 | \$ 509 | \$ 3,745 | \$ 3,428 | \$ 4,361 | \$ 3,937 | 10.8% |
| Operating Grants and Contributions | - | - | - | - | - | - | N/A |
| Capital Grants and Contributions | - | - | - | - | - | - | N/A |
| General Revenues | | | | | | | |
| Property Taxes | 2,561 | 2,345 | - | - | 2,561 | 2,345 | 9.2% |
| Non-Property Taxes | 751 | 662 | - | - | 751 | 662 | 13.4% |
| Investment Earnings | 7 | 7 | 6 | 5 | 13 | 12 | 8.3% |
| Miscellaneous | 225 | 95 | - | - | 225 | 95 | 136.8% |
| Total Revenues | 4,160 | 3,618 | 3,751 | 3,433 | 7,911 | 7,052 | 12.2% |
| City Administration | 638 | 589 | - | - | 638 | 589 | 8.3% |
| Municipal Court | 80 | 77 | - | - | 80 | 77 | 3.9% |
| Public Safety | 1,521 | 1,343 | - | - | 1,521 | 1,343 | 13.3% |
| Public Health/Emergency | 282 | 256 | - | - | 282 | 256 | 10.2% |
| Building Codes | 98 | 89 | - | - | 98 | 89 | 10.1% |
| Public Works | 934 | 815 | - | - | 934 | 815 | 14.6% |
| Culture/Recreation/Other | 140 | 126 | - | - | 140 | 126 | 11.1% |
| Utility | - | - | 3,014 | 2,954 | 3,014 | 2,954 | 2.0% |
| Total Expenses | \$ 3,693 | \$ 3,295 | \$ 3,014 | \$ 2,954 | \$ 6,707 | \$ 6,249 | 7.3% |
| Transfers | (34) | - | 34 | - | - | - | N/A |
| Increase (Decrease) in Net Position | \$ 434 | \$ 323 | \$ 771 | \$ 479 | \$ 1,204 | \$ 803 | 49.9% |

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 \$3,693,099.
- The amount that our taxpayers paid for these activities through property taxes was only \$2,561,039.
- Some of the cost, \$616,344 or 17% 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 | | |
|--------------------------|------------------------|--------|-------|----------|----------------------|--------|----------|
| | 2013 | 2012 | | | 2013 | 2012 | % Change |
| City Administration | \$ 638 | \$ 589 | 8.3% | \$ 389 | \$ 347 | 12.1% | |
| Municipal Court | 80 | 77 | 3.9% | (77) | (50) | 54.0% | |
| Public Safety | 1,521 | 1,343 | 13.3% | 1,514 | 1,336 | 13.3% | |
| Public Health/Emergency | 282 | 256 | 10.2% | 275 | 249 | 10.4% | |
| Building Codes | 98 | 89 | 10.1% | (98) | (39) | 151.3% | |
| Public Works | 934 | 815 | 14.6% | 934 | 815 | 14.6% | |
| Culture/Recreation/Other | 140 | 126 | 11.1% | 140 | 126 | 11.1% | |
| Water and Sewer | 3,014 | 2,954 | 2.0% | (734) | (474) | 54.9% | |

Business-Type Activities

Revenues of the City's Water & Sewer business-type activities were \$3,744,856 and operating expenses were \$3,013,859 (See Table A-2).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$4,159,165 in fiscal year 2013. Revenue from proprietary fund types totaled \$3,744,856 in fiscal year 2013.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget. Actual expenditures were \$239,544 below final budget amounts.

- Sales tax collections were \$98,722 more than expected.
- Building Permit and Contractor Registration Permits were \$95,407 more than expected.
- Revenues from Franchise Contracts and Municipal Court Fees were \$57,063 more than expected.
- Personnel Expenditures were \$95,881 less than budgeted.
- General Cultural and Recreation Expenditures were \$69,396 less than budgeted.
- Capital Outlay was \$60,894 less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, 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 2013-2012 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|--|
| | Activities | | Activities | | | | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | |
| Land and Improvements | \$ 100 | \$ 100 | \$ 54 | \$ 54 | \$ 154 | \$ 154 | 0.0% |
| Buildings and improvements | 2,479 | 2,415 | - | - | 2,479 | 2,415 | 2.6% |
| Vehicles and Equipment | 903 | 849 | 550 | 440 | 1,453 | 1,289 | 11.3% |
| Infrastructure | 3,023 | 3,023 | - | - | 3,023 | 3,023 | 0.0% |
| Construction in Progress | - | - | 486 | 84 | 486 | 84 | 82.7% |
| Utility Plant | - | - | 11,498 | 11,498 | 11,498 | 11,498 | 0.0% |
| Totals at historical cost | 6,505 | 6,387 | 12,588 | 12,076 | 19,093 | 18,463 | 3.3% |
| Total accumulated depreciation | (1,846) | (1,711) | (4,818) | (4,406) | (6,664) | (6,117) | 8.2% |
| Net capital assets | <u>\$ 4,659</u> | <u>\$ 4,676</u> | <u>\$ 7,770</u> | <u>\$ 7,670</u> | <u>\$ 12,429</u> | <u>\$ 12,346</u> | <u>0.7%</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 \$1,515,000 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 2013-2012 |
|--------------------------------|--------------|-------------|-----------------|-----------------|-----------------|-----------------|--|
| | Activities | | Activities | | | | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | |
| Bonds Payable | \$ - | \$ - | \$ 1,515 | \$ 1,855 | \$ 1,515 | \$ 1,855 | -22.4% |
| Total Bonds and Capital Leases | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,515</u> | <u>\$ 1,855</u> | <u>\$ 1,515</u> | <u>\$ 1,855</u> | <u>-22.4%</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Taxable values used for the 2013-14 budget preparation increased \$104,800.

This indicator was taken into account when adopting the general fund budget for 2013-14 by setting the property tax rate at the same rate as the previous year.

Fiscal year 2013-14 expenditures are budgeted at \$3,987,635. The increases in expenditures are due to personnel additions, health insurance, and dispatching contractual service expenditures.

If these estimates are realized, the City's budgetary general fund balance will remain the same at the end of fiscal year 2014.

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).

CITY OF FAIR OAKS RANCH
ANNUAL FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2013

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, 2013

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|-------------------|--------------------------------------|
| | Governmental Activities | Business-Type Activities | Total | Municipal Development District |
| ASSETS | | | | |
| Cash and Investments | \$ 3,972,290 | \$ 3,326,707 | \$ 7,298,997 | \$ 120,421 |
| Receivables (net of allowances for uncollectibles) | | | | |
| Taxes | 53,452 | - | 53,452 | - |
| Accounts | 181,851 | 522,930 | 704,781 | 22,652 |
| Accrued Interest Receivable | - | 1,244 | 1,244 | - |
| Inventories | - | 94,965 | 94,965 | - |
| Prepays | 25,631 | 7,733 | 33,364 | - |
| Utility Deposits | - | 1,535 | 1,535 | - |
| Restricted Assets: | | | | |
| Cash and Investments | - | 48,390 | 48,390 | - |
| Capital Assets: | | | | |
| Land and Improvements | 99,798 | 53,600 | 153,398 | - |
| Buildings and Improvements | 2,478,565 | - | 2,478,565 | - |
| Utility Plant and Easements | - | 11,498,438 | 11,498,438 | - |
| Vehicles and Equipment | 903,330 | 550,268 | 1,453,598 | - |
| Infrastructure | 3,022,818 | - | 3,022,818 | - |
| Construction in Progress | - | 485,956 | 485,956 | - |
| Accumulated Depreciation | (1,846,013) | (4,817,829) | (6,663,842) | - |
| TOTAL ASSETS | 8,891,722 | 11,773,937 | 20,665,659 | 143,073 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Charge on Refunding | - | 21,190 | 21,190 | - |
| TOTAL DEFERRED OUTFLOWS | \$ - | \$ 21,190 | \$ 21,190 | \$ - |

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2013

| | Primary Government | | | Component Unit |
|--------------------------------------|----------------------------|-----------------------------|---------------|--------------------------------------|
| | Governmental Activities | Business-Type Activities | Total | Municipal Development District |
| LIABILITIES | | | | |
| <i>Current Liabilities:</i> | | | | |
| Accounts Payable and Other | | | | |
| Accrued Liabilities | \$ 197,750 | \$ 234,949 | \$ 432,699 | \$ - |
| Accrued Compensated Absences | 83,571 | 19,887 | 103,458 | - |
| Unearned Revenue | - | 430,078 | 430,078 | - |
| Payable from Restricted Assets: | | | | |
| Current Portion of Long-Term Debt | - | 355,000 | 355,000 | - |
| Accrued Interest Payable | - | 8,645 | 8,645 | - |
| <i>Noncurrent Liabilities:</i> | | | | |
| Due in more than One Year | - | 1,160,000 | 1,160,000 | - |
| TOTAL LIABILITIES | 281,321 | 2,208,559 | 2,489,880 | - |
| NET POSITION | | | | |
| Net Investment in Capital Assets | 4,658,498 | 6,255,433 | 10,913,931 | - |
| Restricted | 64,787 | - | 64,787 | - |
| Unrestricted | 3,887,116 | 3,331,135 | 7,218,251 | 143,073 |
| TOTAL NET POSITION | \$ 8,610,401 | \$ 9,586,568 | \$ 18,196,969 | \$ 143,073 |

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

| <u>Functions and Programs</u> | <u>Expenses</u> | Program Revenues | | |
|--|-----------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| City Administration | \$ 638,151 | \$ 249,506 | \$ - | \$ - |
| Municipal Court | 79,538 | 156,452 | - | - |
| Public Safety | 1,521,426 | 7,079 | 605 | - |
| Public Health/Emergency | 282,238 | 7,245 | - | - |
| Building Codes | 98,196 | 196,062 | - | - |
| Public Works | 933,879 | - | - | - |
| Culture/Recreation/Other | 139,671 | - | - | - |
| Total Governmental Activities | 3,693,099 | 616,344 | 605 | - |
| Business-Type Activities | | | | |
| Water/Sewer Utility | 3,013,859 | 3,744,856 | - | - |
| Total Business-Type Activities | 3,013,859 | 3,744,856 | - | - |
| Total Primary Government | \$ 6,706,958 | \$ 4,361,200 | \$ 605 | \$ - |
| Component Unit | | | | |
| Municipal Development District | \$ 6,239 | \$ - | \$ - | \$ - |
| General Revenues: | | | | |
| Taxes | | | | |
| Property Taxes | | | | |
| Non Property Taxes | | | | |
| Interest and Investment Earnings | | | | |
| Miscellaneous | | | | |
| Total General Revenues | | | | |
| Transfers | | | | |
| 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 |
| \$ (388,645) | \$ - | \$ (388,645) | |
| 76,914 | - | 76,914 | |
| (1,513,742) | - | (1,513,742) | |
| (274,993) | - | (274,993) | |
| 97,866 | - | 97,866 | |
| (933,879) | - | (933,879) | |
| (139,671) | - | (139,671) | |
| <u>(3,076,150)</u> | <u>-</u> | <u>(3,076,150)</u> | |
| - | 730,997 | 730,997 | |
| <u>-</u> | <u>730,997</u> | <u>730,997</u> | |
| <u>(3,076,150)</u> | <u>730,997</u> | <u>(2,345,153)</u> | |
| | | | <u>\$ (6,239)</u> |
| 2,561,039 | - | 2,561,039 | - |
| 750,966 | - | 750,966 | 112,503 |
| 7,094 | 6,034 | 13,128 | - |
| 225,123 | - | 225,123 | - |
| <u>3,544,222</u> | <u>6,034</u> | <u>3,550,256</u> | <u>112,503</u> |
| <u>(33,971)</u> | <u>33,971</u> | <u>-</u> | <u>-</u> |
| 434,101 | 771,002 | 1,205,103 | 106,264 |
| <u>8,176,300</u> | <u>8,815,566</u> | <u>16,991,866</u> | <u>36,809</u> |
| <u>\$ 8,610,401</u> | <u>\$ 9,586,568</u> | <u>\$ 18,196,969</u> | <u>\$ 143,073</u> |

CITY OF FAIR OAKS RANCH, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2013

| | Major Fund |
|---|---------------------|
| | General Fund |
| ASSETS | |
| Cash and Investments | \$ 3,972,290 |
| Receivables (net of allowances for uncollectibles): | |
| Property Taxes | 53,452 |
| Accounts | 181,851 |
| Prepaid Items | 25,631 |
| TOTAL ASSETS | \$ 4,233,224 |
| LIABILITIES | |
| Accounts Payable | \$ 142,262 |
| Accrued Expenditures | 55,488 |
| TOTAL LIABILITIES | 197,750 |
| DEFERRED INFLOWS OF RESOURCES | |
| Unavailable Revenues | 53,452 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 53,452 |
| FUND BALANCE | |
| Nonspendable: | |
| Prepaid Items | 25,631 |
| Restricted for: | |
| Public Safety Communication | 61,295 |
| PEG Fees | 3,492 |
| Committed for: | |
| Public Safety Communication | 30,451 |
| Wildlife Research Study | 16,928 |
| Assigned for: | |
| Capital Projects | 1,000,000 |
| Legal Issues | 50,000 |
| Unassigned: | 2,794,225 |
| TOTAL FUND BALANCE | 3,982,022 |
| TOTAL LIABILITIES, DEFERRED INFLOWS & FUND BALANCE | \$ 4,233,224 |

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, 2013

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 3,982,022

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. 4,658,498

Other long-term assets are not available to pay for current period expenditures
and, therefore, are deferred in the funds 53,452

Accrued vacation leave payable is not due and payable in the current period
and, therefore, is not reported in the funds. (83,571)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 8,610,401

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2013

| | Major Fund |
|--|---------------------|
| | General |
| | Fund |
| REVENUES | |
| Taxes | \$ 3,306,451 |
| Licenses and Permits | 203,307 |
| Fines and Forfeits | 156,452 |
| Utility Management Fee | 169,357 |
| Interest | 7,094 |
| Lease Revenue | 80,149 |
| Grant Proceeds | 605 |
| Miscellaneous | 235,750 |
| TOTAL REVENUES | 4,159,165 |
| EXPENDITURES | |
| Current: | |
| City Administration | 609,674 |
| Municipal Court | 83,854 |
| Public Safety | 1,402,730 |
| Public Health/Emergency | 271,023 |
| Building Codes | 95,948 |
| Public Works | 747,165 |
| Culture and Recreation | 139,671 |
| Capital Projects/Outlay | 319,918 |
| TOTAL EXPENDITURES | 3,669,983 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 489,182 |
| OTHER FINANCING SOURCES (USES) | |
| Transfer Out | (33,971) |
| TOTAL OTHER FINANCING SOURCES (USES) | (33,971) |
| Net Change in Fund Balance | 455,211 |
| Fund Balance at Beginning of Year | 3,526,811 |
| Fund Balance at End of Year | \$ 3,982,022 |

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, 2013

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 455,211

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 | 200,903 | |
| Current Year Depreciation | <u>(214,318)</u> | (13,415) |

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. (3,548)

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

Ad Valorem Revenue 5,554

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 (9,701)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 434,101

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUND
SEPTEMBER 30, 2013

| | Business-Type Activities <u>Water/Sewer Fund</u> |
|--|--|
| ASSETS | |
| <i>Current Assets</i> | |
| Cash and Investments | \$ 3,326,707 |
| Receivables (net of allowances for uncollectibles): | |
| Accounts | 353,068 |
| Developers | 169,862 |
| Accrued Interest Receivable | 1,244 |
| Inventories | 94,965 |
| Prepays | 7,733 |
| Utility Deposits | 1,535 |
| <i>Total Current Assets</i> | <u>3,955,114</u> |
| <i>Restricted Assets:</i> | |
| Cash and Investments | 48,390 |
| <i>Total Restricted Assets</i> | <u>48,390</u> |
| <i>Capital Assets</i> | |
| Land and Improvements | 53,600 |
| Utility Plant and Easements | 11,498,438 |
| Vehicles & Equipment | 550,268 |
| Construction in Progress | 485,956 |
| Accumulated Depreciation | (4,817,829) |
| <i>Total Capital Assets, Net of Accumulated Depreciation</i> | <u>7,770,433</u> |
| TOTAL ASSETS | <u>11,773,937</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred Charge on Refunding | <u>21,190</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 21,190</u> |

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUND (CONTINUED)
SEPTEMBER 30, 2013

| | Business-Type Activities <u>Water/Sewer Fund</u> |
|---|--|
| LIABILITIES | |
| <i>Current Liabilities:</i> | |
| Accounts Payable | \$ 219,060 |
| Accrued Wages and Compensated Absences | 35,776 |
| Unearned Revenue - Water Supply Agreements | 430,078 |
| <i>Total Current Liabilities</i> | <u>684,914</u> |
| <i>Current Liabilities Payable from Restricted Assets:</i> | |
| Current Portion of Long-term Bonds | 355,000 |
| Accrued Interest Payable | 8,645 |
| <i>Total Current Liabilities Payable from Restricted Assets</i> | <u>363,645</u> |
| <i>Noncurrent Liabilities:</i> | |
| Bonds Payable | <u>1,160,000</u> |
| TOTAL LIABILITIES | <u>2,208,559</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 6,255,433 |
| Unrestricted | <u>3,331,135</u> |
| TOTAL NET POSITION | <u><u>\$ 9,586,568</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, 2013

| | Business-Type Activities |
|---|-----------------------------|
| | Water/Sewer Fund |
| OPERATING REVENUES | |
| Charges for Utility Service | \$ 3,744,856 |
| TOTAL OPERATING REVENUES | 3,744,856 |
| OPERATING EXPENSES | |
| Personnel Services | 668,371 |
| Contractual Services | 10,298 |
| Maintenance | 206,630 |
| Equipment Lease | 2,045 |
| Supplies | 64,613 |
| Office Supplies | 37,048 |
| Postage | 12,639 |
| Utilities | 195,266 |
| Management Fee | 169,357 |
| Professional Fees | 48,046 |
| Permits and Licenses | 7,378 |
| Water Reservation Fees | 986,822 |
| Insurance | 13,772 |
| Miscellaneous | 79,984 |
| TOTAL OPERATING EXPENSES | 2,502,269 |
| Operating Income (Loss) Before Depreciation | 1,242,587 |
| Depreciation | 430,098 |
| OPERATING INCOME (LOSS) | 812,489 |
| NONOPERATING REVENUES (EXPENSES) | |
| Interest Income | 6,034 |
| Interest and Fiscal Charges | (57,134) |
| Amortization of Bond Issue Costs and Deferred Loss on Refunding Issue | (24,358) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (75,458) |
| NET INCOME (LOSS) BEFORE TRANSFERS | 737,031 |
| Transfers In | 33,971 |
| CHANGE IN NET POSITION | 771,002 |
| NET POSITION AT BEGINNING OF YEAR | 8,815,566 |
| NET POSITION AT END OF YEAR | \$ 9,586,568 |

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, 2013

| | Business-Type Activities <u>Water/Sewer Fund</u> |
|---|--|
| Cash Flows From Operating Activities: | |
| Cash Received From Customers | \$ 3,649,022 |
| Cash Paid for Employee Wages & Benefits | (662,074) |
| Cash Paid for Suppliers for Goods & Services | (1,677,004) |
| Cash Paid to General Fund for Management Fee | <u>(169,357)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>1,140,587</u> |
| Cash Flows From Capital and Related Financing Activities: | |
| Purchase/Construction of Capital Assets | (530,156) |
| Principal Payments on Long-Term Debt | (340,000) |
| Interest and Fiscal Charges Paid | (59,075) |
| Transfer from General Fund in Support of Capital Purchases | <u>33,971</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(895,260)</u> |
| Cash Flows From Investing Activities: | |
| Investment Interest Received | <u>4,790</u> |
| Net Cash Provided (Used) by Investing Activities | <u>4,790</u> |
| Net Increase (Decrease) in Cash and Investments | <u>250,117</u> |
| Cash and Investments at Beginning of Year: | |
| Cash and Investments | 2,935,811 |
| Restricted Cash and Investments | <u>189,169</u> |
| | <u>3,124,980</u> |
| Cash and Investments at End of Year: | |
| Cash and Investments | 3,326,707 |
| Restricted Cash and Investments | <u>48,390</u> |
| | <u>\$ 3,375,097</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, 2013

| | Business-Type Activities |
|--|-----------------------------|
| | Water/Sewer Fund |
| Reconciliation of Net Operating Income to Net Cash Provided to Net Cash (Used) by Operating Activities: | |
| Operating Income (Loss) | \$ 812,489 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | |
| Depreciation | 430,098 |
| Change in Assets and Liabilities: | |
| (Increase) Decrease in Accounts Receivable | (28,974) |
| (Increase) Decrease in Inventories | (24,599) |
| (Increase) Decrease in Prepays | (149) |
| (Increase) Decrease in Utility Deposits | (1,350) |
| Increase (Decrease) in Accounts Payable | 12,285 |
| Increase (Decrease) in Accrued Liabilities | 6,297 |
| Increase (Decrease) in Unearned Revenue | (65,510) |
| | 328,098 |
| Net Cash Provided (Used) by Operating Activities | \$ 1,140,587 |

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

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, 2013, 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, 2013

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, 2013

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, 2012 and past due after January 31, 2013. 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, 2013

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 revenue 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 revenue bond 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, 2013

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:

| <u>ASSETS</u> | <u>YEARS</u> |
|----------------------------|----------------|
| 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, 2013

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 because of a highest form formal action by the City Council (ordinance). Committed amounts cannot be used for any other purpose unless the City Council removes those constraints through the same formal action.

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, 2013

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, 2013, management fees totaled \$169,357.

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.

20. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For the year ended September 30, 2013, the City implemented the following statements of financial accounting standards issued by the Governmental Accounting Standards Board:

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

GASB Statements No. 63 and 65 established standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a financial statement position and related disclosures as well as reclassify certain items that were previously reported as assets and liabilities

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

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

20. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES (Continued)

to deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows or inflows of resources.

As a result of recognizing certain items as outflows of resources or inflows of resources that were previously recognized as assets and liabilities, the City has recognized all remaining unamortized bond issue costs in the current year. As this did not materially misstate the financial statements, there has not been any restatement of previously reported amounts.

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.

1. Cash and Cash Equivalents

At September 30, 2013, the carrying amount of the City's cash on hand was \$65,022 and deposits in the bank (including certificates of deposit) were \$1,632,816 and the bank balance, \$1,681,401. 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 \$1,814,691 and market value of \$1,975,787 as collateral for the City's deposits. All of the City's cash was fully collateralized.

At September 30, 2013, the carrying amount of the MDD's deposits in the bank was \$120,421 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.

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2013

NOTE B -- CASH AND INVESTMENTS (CONTINUED)

2. Investments (Continued)

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, 2013 were as shown below:

| Investment | Reported Value |
|-------------------|----------------|
| TexPool | \$ 5,649,549 |
| Total Investments | \$ 5,649,549 |

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.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

NOTE B -- CASH AND INVESTMENTS (CONTINUED)

3. Analysis of Specific Deposit and Investment Risks

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.

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 2013, the assessed tax rate for the City was .2663 per \$100 on an assessed valuation of \$978,376,598. Total tax levy for fiscal year 2013 is \$2,604,255. As of September 30, 2013, the delinquent current taxes for 2012 were \$26,400.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

NOTE D -- CAPITAL ASSETS

Capital asset activity in the governmental fund for the year ended September 30, 2013, was as follows:

| <u>Governmental Activities</u> | Balance 10/1/2012 | Additions & Adjustments | Disposals | Balance 9/30/2013 |
|----------------------------------|----------------------|----------------------------|-------------------|----------------------|
| Land and Improvements | \$ 99,798 | \$ - | \$ - | \$ 99,798 |
| Buildings and Improvements | 2,415,234 | 63,331 | - | 2,478,565 |
| Vehicles & Equipment | 848,856 | 137,572 | (83,098) | 903,330 |
| Infrastructure | 3,022,818 | - | - | 3,022,818 |
| | <u>6,386,706</u> | <u>200,903</u> | <u>(83,098)</u> | <u>6,504,511</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (18,146) | (607) | - | (18,753) |
| Buildings and Improvements | (584,980) | (64,962) | - | (649,942) |
| Vehicles & Equipment | (668,972) | (77,645) | 79,550 | (667,067) |
| Infrastructure | (439,147) | (71,104) | - | (510,251) |
| | <u>(1,711,245)</u> | <u>(214,318)</u> | <u>79,550</u> | <u>(1,846,013)</u> |
| Governmental Capital Assets, Net | <u>\$ 4,675,461</u> | <u>\$ (13,415)</u> | <u>\$ (3,548)</u> | <u>\$ 4,658,498</u> |

Capital asset activity in the proprietary fund for the year ended September 30, 2013, was as follows:

| <u>Business-Type Activities</u> | Balance 10/1/2012 | Additions & Adjustments | Disposals | Balance 9/30/2013 |
|-----------------------------------|----------------------|----------------------------|-----------------|----------------------|
| Land | \$ 53,600 | \$ - | \$ - | \$ 53,600 |
| Utility Plant and Easements | 11,498,438 | - | - | 11,498,438 |
| Vehicles & Equipment | 440,103 | 128,607 | (18,442) | 550,268 |
| Construction in Progress | 84,407 | 401,549 | - | 485,956 |
| Totals at Historical Cost | <u>12,076,548</u> | <u>530,156</u> | <u>(18,442)</u> | <u>12,588,262</u> |
| Less Accumulated Depreciation | | | | |
| Utility Plant and Easements | (4,085,644) | (383,281) | - | (4,468,925) |
| Vehicles & Equipment | (320,529) | (46,817) | 18,442 | (348,904) |
| | <u>(4,406,173)</u> | <u>(430,098)</u> | <u>18,442</u> | <u>(4,817,829)</u> |
| Business-Type Capital Assets, Net | <u>\$ 7,670,375</u> | <u>\$ 100,058</u> | <u>\$ -</u> | <u>\$ 7,770,433</u> |

Land and construction in progress are not depreciated.

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2013

NOTE D -- CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the governmental functions as follows:

| | | |
|---|----|-------------------|
| Administration | \$ | 36,134 |
| Public Safety | | 63,937 |
| Public Health | | 11,216 |
| Public Works | | <u>103,031</u> |
| Total Depreciation Expense - Governmental Activities | | <u>\$ 214,318</u> |

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, 2013, but earned \$65,510 in current fees. The City has received \$584,128 in contributions in aid to date and has earned a total of \$154,050 in fees. The remaining \$430,078 of contributions are reported as unearned revenue accordingly.

NOTE F -- LONG-TERM DEBT

Primary Government

At September 30, 2013, the City's long-term debt consisted of the following:

| Business-Type Activities: | Range of Interest Rates | Unpaid Principal | Current Maturities | Long-Term Maturities |
|------------------------------|-------------------------------|----------------------------|--------------------------|----------------------------|
| General Obligation Refunding | | | | |
| Bond, Series 2008 | 3.5% | <u>\$ 1,515,000</u> | <u>\$ 355,000</u> | <u>\$ 1,160,000</u> |
| Total Long-Term Debt | | <u><u>\$ 1,515,000</u></u> | <u><u>\$ 355,000</u></u> | <u><u>\$ 1,160,000</u></u> |

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

NOTE F -- LONG-TERM DEBT (CONTINUED)

Changes in the City's long-term debt during the fiscal year ended September 30, 2013:

| | Original Amount | Balance Outstanding Oct. 1, 2012 | Current (Retirements) Additions | Balance Outstanding Sept. 30, 2013 |
|----------------------------------|--------------------|--|---------------------------------------|--|
| Governmental Activities: | | | | |
| Compensated Absences | | \$ 73,870 | \$ 9,701 | \$ 83,571 |
| Total Governmental Activities | | <u>73,870</u> | <u>9,701</u> | <u>83,571</u> |
| Business-Type Activities: | | | | |
| 2008 Refunding Series | \$ 3,065,000 | 1,855,000 | (340,000) | 1,515,000 |
| Compensated Absences | | 17,806 | 2,081 | 19,887 |
| Total Business-Type Activities | | <u>1,872,806</u> | <u>(337,919)</u> | <u>1,534,887</u> |
| Total Changes in Long-Term Debt | | <u>\$ 1,946,676</u> | <u>\$ (328,218)</u> | <u>\$ 1,618,458</u> |

The total deferred charge on refunding is \$21,190 as of September 30, 2013 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, 2013, including principal and interest payments, are as follows:

| Year Ending September 30, | Business-Type Activities | | |
|------------------------------|--------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2014 | \$ 355,000 | \$ 46,813 | \$ 401,813 |
| 2015 | 370,000 | 34,125 | 404,125 |
| 2016 | 385,000 | 20,912 | 405,912 |
| 2017 | 405,000 | 7,087 | 412,087 |
| | <u>\$ 1,515,000</u> | <u>\$ 108,937</u> | <u>\$ 1,623,937</u> |

NOTE G -- EMPLOYEES' RETIREMENT SYSTEMS

Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide 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 from TMRS' website at www.TMRS.com.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

NOTE G -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

Texas Municipal Retirement System (Continued)

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 | |
|-----------------------------------|----------------------|----------------------|
| | 2012 | 2013 |
| 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 |

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e., December 31, 2008 valuation is effective for rates beginning January 2010).

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

| Fiscal Year Ending September 30, | Annual Pension Cost (APC) | Actual Contribution Made | Percentage of APC Contribution |
|-------------------------------------|---------------------------------|--------------------------------|--------------------------------------|
| 2011 | \$ 195,467 | \$ 195,467 | 100% |
| 2012 | 203,492 | 203,492 | 100% |
| 2013 | 224,792 | 224,792 | 100% |

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2013

NOTE G -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

Texas Municipal Retirement System (Continued)

Contributions (Continued)

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

| Valuation Date | December 31, 2010 | December 31, 2011 | December 31, 2012 |
|---|------------------------------|------------------------------|------------------------------|
| Actuarial Cost Method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll | Level Percent of Payroll |
| GASB 25 Equivalent Single Amortization Period | 27.3 years; Closed Period | 26.5 years; Closed Period | 25.7 years; Closed Period |
| Amortization Period for new Gains/Losses | 30 years | 30 years | 30 years |
| Asset Valuation Method | 10-year Smoothed Market | 10-year Smoothed Market | 10-year Smoothed Market |
| Actuarial Assumptions: | | | |
| Investment Rate of Return* | 7.0% | 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 –

The funded status as of December 31, 2012, 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 |
|-----------------------------|---------------------------------|---|--------------|------------------------|-----------------|---|
| 12/31/12 | \$3,258,713 | \$3,606,847 | 90.3% | \$348,134 | \$1,841,590 | 18.9% |

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, 2013

NOTE G -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

Texas Municipal Retirement System (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, 2013, 2012, and 2011 were \$3,007; \$2,863 and \$3,299, respectively, which equaled the required contributions each year.

NOTE H -- TRANSFERS

Transfers during the year ended September 30, 2013, were as follows:

| <u>Transfer Out</u> | <u>Transfer In</u> | <u>Amount</u> | <u>Purpose</u> |
|---------------------|--------------------|---------------|------------------------------------|
| General Fund | Utility Fund | \$ 33,971 | Contribution toward Truck Purchase |

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, 2013 are as follows:

| <u>Commitment</u> | <u>Estimated Project Cost to City</u> | <u>Expended to Date</u> | <u>Estimated Future Commitment</u> |
|--|---|-----------------------------|--|
| Wastewater Treatment Plant Clarifier No. 1 | \$ 396,815 | \$ 357,134 | \$ 39,681 |
| Well Site Electrical Upgrade | 29,906 | 24,223 | 5,683 |
| Engineering Fees related to Drainage Improvements | 45,000 | 22,219 | 22,781 |
| | <u>\$ 471,721</u> | <u>\$ 403,576</u> | <u>\$ 68,145</u> |

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2013

NOTE I -- COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2013 were \$85,336 for property and casualty and workers compensation coverage.

NOTE K -- SUBSEQUENT EVENT

Subsequent to year end, the City approved several items as follows:

| | |
|--|----------------------------|
| City's Contribution to TxDot Fair Oaks Parkway Bridge Project | \$ 810,000 |
| Improvements to Fair Oaks Parkway and Slumberwood Intersection | 224,110 |
| Professional Services related to Capital Improvement Plan, Land Use Assumptions, and Impact Fees | <u>100,869</u> |
| | <u><u>\$ 1,134,979</u></u> |

The City also approved selling the municipal owned building known as Executive Plaza located at 8000 Fair Oaks Parkway for \$552,614.

Finally, the City approved a Performance Contract subsequent to year end for approximately \$3.7 million dollars. The construction will be performed by Siemens Industry, Inc. and \$3,128,356 of the project will be financed through a tax exempt lease with Siemens Financial Services over a fourteen year term.



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, 2013

| | Budget Amounts | | Actual Amounts | Variance |
|--------------------------------------|-------------------|-------------------|-------------------|----------------------------|
| | Original | Final | | Favorable (Unfavorable) |
| REVENUES | | | | |
| Taxes | \$ 3,189,091 | \$ 3,189,091 | \$ 3,306,451 | \$ 117,360 |
| Licenses and Permits | 107,900 | 107,900 | 203,307 | 95,407 |
| Fines and Forfeits | 123,935 | 123,935 | 156,452 | 32,517 |
| Utility Management Fee | 150,000 | 150,000 | 169,357 | 19,357 |
| Interest | 7,000 | 7,000 | 7,094 | 94 |
| Lease Revenue | 82,000 | 82,000 | 80,149 | (1,851) |
| Grant Proceeds | 3,000 | 3,000 | 605 | (2,395) |
| Miscellaneous | 251,721 | 251,721 | 235,750 | (15,971) |
| TOTAL REVENUES | <u>3,914,647</u> | <u>3,914,647</u> | <u>4,159,165</u> | <u>244,518</u> |
| EXPENDITURES | | | | |
| <i>City Administration:</i> | | | | |
| Personnel | 419,032 | 419,032 | 395,536 | 23,496 |
| General | 58,700 | 58,700 | 40,755 | 17,945 |
| Maintenance | 6,100 | 6,100 | 3,759 | 2,341 |
| Contractual | 149,210 | 153,151 | 163,848 | (10,697) |
| Leases | 6,000 | 6,000 | 5,776 | 224 |
| <i>Total City Administration</i> | <u>639,042</u> | <u>642,983</u> | <u>609,674</u> | <u>33,309</u> |
| <i>Municipal Court:</i> | | | | |
| Personnel | 56,738 | 56,738 | 59,981 | (3,243) |
| General | 5,350 | 5,350 | 3,079 | 2,271 |
| Maintenance | 500 | 500 | 75 | 425 |
| Contractual | 20,756 | 20,756 | 20,719 | 37 |
| <i>Total Municipal Court</i> | <u>83,344</u> | <u>83,344</u> | <u>83,854</u> | <u>(510)</u> |
| <i>Public Safety:</i> | | | | |
| Personnel | 1,147,708 | 1,147,708 | 1,131,290 | 16,418 |
| General | 117,000 | 117,000 | 105,564 | 11,436 |
| Maintenance | 18,950 | 18,950 | 16,160 | 2,790 |
| Contractual | 150,623 | 150,623 | 147,590 | 3,033 |
| Leases | 2,500 | 2,500 | 2,126 | 374 |
| <i>Total Public Safety</i> | <u>1,436,781</u> | <u>1,436,781</u> | <u>1,402,730</u> | <u>34,051</u> |
| <i>Public Health/Emergency:</i> | | | | |
| General | 7,050 | 7,050 | 4,793 | 2,257 |
| Maintenance | 3,000 | 3,000 | 1,599 | 1,401 |
| Contractual | 265,031 | 265,031 | 264,631 | 400 |
| <i>Total Public Health/Emergency</i> | <u>\$ 275,081</u> | <u>\$ 275,081</u> | <u>\$ 271,023</u> | <u>\$ 4,058</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, 2013

| EXPENDITURES (CONTINUED) | Budget Amounts | | Actual Amounts | Variance Favorable (Unfavorable) |
|--|------------------|------------------|-------------------|--|
| | Original | Final | | |
| <i>Building Codes:</i> | | | | |
| Personnel | \$ 82,175 | \$ 82,175 | \$ 83,014 | \$ (839) |
| General | 6,210 | 6,210 | 4,248 | 1,962 |
| Maintenance | 1,150 | 1,150 | 403 | 747 |
| Contractual | 6,672 | 6,672 | 8,283 | (1,611) |
| <i>Total Building Codes</i> | 96,207 | 96,207 | 95,948 | 259 |
| <i>Public Works:</i> | | | | |
| Personnel | 379,713 | 379,713 | 319,664 | 60,049 |
| General | 27,810 | 27,810 | 25,350 | 2,460 |
| Maintenance | 59,700 | 48,494 | 39,507 | 8,987 |
| Contractual | 352,000 | 363,206 | 362,644 | 562 |
| <i>Total Public Works</i> | 819,223 | 819,223 | 747,165 | 72,058 |
| <i>Culture/Recreation/Other:</i> | | | | |
| General | 216,500 | 209,067 | 139,671 | 69,396 |
| <i>Total Culture/Recreation/Other</i> | 216,500 | 209,067 | 139,671 | 69,396 |
| <i>Capital Outlay:</i> | | | | |
| Personal Property | 283,349 | 286,841 | 256,587 | 30,254 |
| Building Improvements | 60,000 | 60,000 | 63,331 | (3,331) |
| <i>Total Capital Outlay</i> | 343,349 | 346,841 | 319,918 | 26,923 |
| TOTAL EXPENDITURES | 3,909,527 | 3,909,527 | 3,669,983 | 239,544 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 5,120 | 5,120 | 489,182 | 484,062 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer Out | (33,971) | (33,971) | (33,971) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (33,971) | (33,971) | (33,971) | - |
| Net Change in Fund Balance | (28,851) | (28,851) | 455,211 | 484,062 |
| Fund Balance - Beginning of Year | 3,526,811 | 3,526,811 | 3,526,811 | - |
| Fund Balance - End of Year | \$ 3,497,960 | \$ 3,497,960 | \$ 3,982,022 | \$ 484,062 |



CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
SEPTEMBER 30, 2013

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.

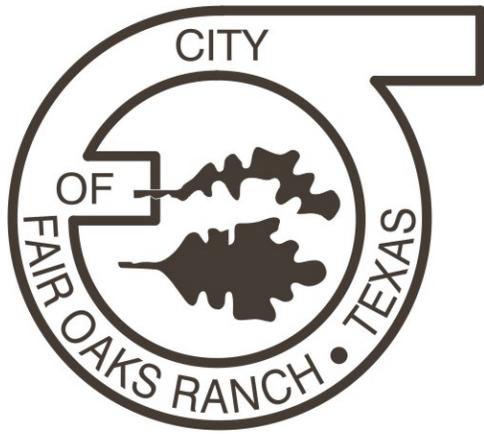
Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

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 FOUR 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% |



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 NINE 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 |
| \$ 3,216,848 | \$ 4,940,584 | \$ 4,802,338 | \$ 4,675,461 | \$ 4,658,498 |
| - | 39,266 | 46,229 | 48,355 | 64,787 |
| 3,149,374 | 2,483,604 | 3,002,828 | 3,452,484 | 3,887,116 |
| <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> |
| \$ 5,003,477 | \$ 5,767,825 | \$ 5,733,694 | \$ 5,842,767 | \$ 6,255,433 |
| 2,424,188 | 2,004,430 | 2,603,460 | 2,972,799 | 3,331,135 |
| <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> |
| \$ 8,220,325 | \$ 10,708,409 | \$ 10,536,032 | \$ 10,518,228 | \$ 10,913,931 |
| - | 39,266 | 46,229 | 48,355 | 64,787 |
| 5,573,562 | 4,488,034 | 5,606,288 | 6,425,283 | 7,218,251 |
| <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> |

CITY OF FAIR OAKS RANCH, TEXAS
CHANGE IN NET POSITION
LAST NINE 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 |
| \$ 535,765 | \$ 692,233 | \$ 578,516 | \$ 588,562 | \$ 638,151 |
| 74,356 | 70,340 | 79,208 | 77,131 | 79,538 |
| 1,113,684 | 1,232,747 | 1,295,748 | 1,342,773 | 1,521,426 |
| 220,713 | 319,465 | 231,337 | 255,789 | 282,238 |
| 89,412 | 84,319 | 86,316 | 88,521 | 98,196 |
| 765,066 | 727,527 | 776,437 | 815,467 | 933,879 |
| 58,273 | 32,352 | 47,335 | 125,537 | 139,671 |
| 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>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>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>\$ 5,579,867</u> | <u>\$ 6,042,712</u> | <u>\$ 5,881,978</u> | <u>\$ 6,247,801</u> | <u>\$ 6,706,958</u> |
| \$ 147,729 | \$ 126,612 | \$ 237,810 | \$ 241,201 | \$ 249,506 |
| 72,771 | 114,981 | 131,279 | 126,633 | 156,452 |
| 5,733 | 5,960 | 7,736 | 6,824 | 7,079 |
| 6,795 | 7,521 | 6,720 | 6,580 | 7,245 |
| 77,293 | 85,493 | 73,595 | 127,522 | 196,062 |
| - | 3,855 | - | - | 605 |
| - | 998,250 | - | - | - |
| <u>310,321</u> | <u>1,342,672</u> | <u>457,140</u> | <u>508,760</u> | <u>616,949</u> |
| 3,167,197 | 2,434,913 | 3,352,080 | 3,427,533 | 3,744,856 |
| - | 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> |

CITY OF FAIR OAKS RANCH, TEXAS
CHANGE IN NET POSITION (CONTINUED)
LAST NINE 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><u>\$(1,006,325)</u></u> | <u><u>\$ 930,332</u></u> | <u><u>\$ (978,620)</u></u> | <u><u>\$(2,229,254)</u></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><u>\$ 1,909,559</u></u> | <u><u>\$ 2,087,657</u></u> | <u><u>\$ 2,298,711</u></u> | <u><u>\$ 2,468,992</u></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><u>\$ 903,234</u></u> | <u><u>\$ 3,017,989</u></u> | <u><u>\$ 1,320,091</u></u> | <u><u>\$ 239,738</u></u> |

TABLE 2 (Continued)

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

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

| | Fiscal Year | | | |
|---------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 2004 | 2005 | 2006 | 2007 |
| Nonspendable Fund Balance: | | | | |
| Prepaid Items | \$ 18,510 | \$ 17,042 | \$ 18,099 | \$ 43,468 |
| Restricted Fund Balance: | | | | |
| Court Technology | 11,185 | 14,587 | 16,243 | 21,850 |
| Court Security | 12,554 | 15,117 | 17,420 | 21,769 |
| Court Efficiency | 17 | 66 | 64 | 36 |
| Felony Forfeiture | - | - | - | - |
| PEG Fees | - | - | - | - |
| Total Restricted Fund Balance | <u>23,756</u> | <u>29,770</u> | <u>33,727</u> | <u>43,655</u> |
| Committed Fund Balance: | | | | |
| Public Safety Committee | - | - | - | - |
| Wildlife Research 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>1,419,489</u> | <u>1,765,106</u> | <u>2,320,416</u> | <u>2,524,777</u> |
| <i>Total Governmental Funds</i> | <u><u>\$ 1,461,755</u></u> | <u><u>\$ 1,811,918</u></u> | <u><u>\$ 2,372,242</u></u> | <u><u>\$ 2,611,900</u></u> |

TABLE 3

| Fiscal Year | | | | | |
|--------------|--------------|--------------|--------------|--------------|--------------|
| 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| \$ 17,761 | \$ 25,339 | \$ 23,524 | \$ 24,628 | \$ 24,104 | \$ 25,631 |
| 1,740 | 2,171 | 7,298 | 10,177 | 9,477 | 15,845 |
| 25,398 | 27,728 | 31,574 | 35,640 | 38,436 | 41,497 |
| 10 | 5 | 16 | 34 | 64 | 16 |
| - | - | 378 | 378 | 378 | 3,937 |
| - | - | - | - | - | 3,492 |
| 27,148 | 29,904 | 39,266 | 46,229 | 48,355 | 64,787 |
| - | - | - | - | 250,000 | 30,451 |
| - | - | - | - | 45,779 | 16,928 |
| - | - | - | - | 295,779 | 47,379 |
| - | - | - | - | - | 1,000,000 |
| - | - | - | - | - | 50,000 |
| - | - | - | - | - | 1,050,000 |
| 2,702,746 | 3,077,462 | 2,514,179 | 3,008,608 | 3,158,573 | 2,794,225 |
| \$ 2,747,655 | \$ 3,132,705 | \$ 2,576,969 | \$ 3,079,465 | \$ 3,526,811 | \$ 3,982,022 |

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

| | Fiscal Year | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2004 | 2005 | 2006 | 2007 |
| REVENUES | | | | |
| Taxes | \$ 1,703,432 | \$ 1,794,960 | \$ 1,889,989 | \$ 2,025,748 |
| Licenses and Permits | 133,773 | 136,025 | 145,146 | 164,827 |
| Fines and Forfeits | 72,764 | 77,167 | 105,001 | 105,291 |
| Utility Management Fee | 77,115 | 103,894 | 126,018 | 97,667 |
| Interest | 18,535 | 60,555 | 114,243 | 165,411 |
| Miscellaneous | 8,367 | 13,801 | 23,385 | 38,122 |
| TOTAL REVENUES | <u>2,013,986</u> | <u>2,186,402</u> | <u>2,403,782</u> | <u>2,597,066</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| City Administration | 316,207 | 320,695 | 387,656 | 575,105 |
| Municipal Court | 59,960 | 59,773 | 63,331 | 66,621 |
| Public Safety | 490,428 | 629,496 | 714,975 | 847,545 |
| Public Health/Emergency | 169,134 | 175,339 | 182,517 | 180,657 |
| Building Codes | 69,061 | 75,732 | 74,314 | 80,166 |
| Public Works | 502,401 | 547,288 | 362,983 | 432,025 |
| Culture and Recreation | 23,553 | 48,834 | 41,872 | 108,073 |
| Capital Projects/Outlay | 23,665 | 9,065 | 16,287 | 71,845 |
| Debt Service: | | | | |
| Capital Lease Payments | - | - | - | 67,825 |
| Capital Lease Interest | - | - | - | - |
| TOTAL EXPENDITURES | <u>1,654,409</u> | <u>1,866,222</u> | <u>1,843,935</u> | <u>2,429,862</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>359,577</u> | <u>320,180</u> | <u>559,847</u> | <u>167,204</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds of Capital Lease Financing | - | - | - | 71,845 |
| Transfer from Other Funds | - | - | - | - |
| Proceeds from Disposal of Equipment | - | - | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>-</u> | <u>-</u> | <u>-</u> | <u>71,845</u> |
| Net Change in Fund Balance | <u>\$ 359,577</u> | <u>\$ 320,180</u> | <u>\$ 559,847</u> | <u>\$ 239,049</u> |
| Debt Service as a Percentage of Noncapital Expenditures | - | - | - | 2.9% |

TABLE 4

| Fiscal Year | | | | | |
|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| \$2,277,623 | \$2,766,918 | \$2,951,739 | \$2,968,775 | \$2,988,981 | \$3,306,451 |
| 125,162 | 86,388 | 94,654 | 82,070 | 135,992 | 203,307 |
| 119,263 | 78,503 | 120,941 | 131,279 | 126,633 | 156,452 |
| 130,993 | 145,430 | 113,889 | 159,071 | 159,435 | 169,357 |
| 110,430 | 29,017 | 10,691 | 7,324 | 7,213 | 7,094 |
| 22,518 | 27,102 | 36,847 | 100,284 | 182,135 | 316,504 |
| <u>2,785,989</u> | <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> |
| 452,963 | 463,894 | 632,220 | 533,332 | 548,635 | 609,674 |
| 71,893 | 74,356 | 70,340 | 77,203 | 75,754 | 83,854 |
| 962,543 | 1,058,030 | 1,184,137 | 1,250,707 | 1,282,550 | 1,402,730 |
| 267,360 | 205,765 | 304,614 | 216,613 | 242,174 | 271,023 |
| 84,258 | 89,412 | 84,319 | 86,864 | 88,663 | 95,948 |
| 644,430 | 667,404 | 605,504 | 658,761 | 700,305 | 747,165 |
| 88,634 | 58,273 | 32,352 | 47,335 | 125,537 | 139,671 |
| 163,070 | 92,434 | 900,732 | 48,399 | 89,425 | 319,918 |
| 65,237 | 90,312 | 76,660 | 48,181 | - | - |
| 8,579 | 2,548 | 4,225 | 1,200 | - | - |
| <u>2,808,967</u> | <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>(22,978)</u> | <u>330,930</u> | <u>(566,342)</u> | <u>480,208</u> | <u>447,346</u> | <u>489,182</u> |
| 153,430 | 43,514 | - | - | - | - |
| 5,303 | 10,606 | 10,606 | 5,303 | - | (33,971) |
| - | - | - | 16,985 | - | - |
| <u>158,733</u> | <u>54,120</u> | <u>10,606</u> | <u>22,288</u> | <u>-</u> | <u>(33,971)</u> |
| <u>\$ 135,755</u> | <u>\$ 385,050</u> | <u>\$ (555,736)</u> | <u>\$ 502,496</u> | <u>\$ 447,346</u> | <u>\$ 455,211</u> |
| 2.8% | 3.4% | 2.7% | 1.7% | 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 |
|----------------|--------------|---------|------------|-------------------|--------------|
| 2004 | \$ 1,493,207 | \$ - | \$ 204,656 | \$ 5,569 | \$ 1,703,432 |
| 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 |

CITY OF FAIR OAKS RANCH, TEXAS
 ASSESSED VALUE AND ACTUAL TAXABLE PROPERTY
 LAST NINE 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 | 0.2500 |
| 2007 | 710,191,865 | 51,277,590 | 38,626,811 | 722,842,644 | 0.2440 |
| 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 | 0.2415 |
| 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 |

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 |
|------------------|---------|------------------------------|-----------------|-------------------|-----------------|----------|
| 2004 | 0.25700 | 1.620 | 0.333671 | 0.37000 | 0.333740 | 2.914411 |
| 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 | 0.350421 | 2.601908 |

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 NINE YEARS AGO

TABLE 8

| <u>Taxpayer</u> | 2013 | | | 2004 | | |
|-----------------------------|-------------------------------|-------------|--|-------------------------------|-------------|--|
| | <u>Taxable Assessed Value</u> | <u>Rank</u> | <u>Percentage of Total City Taxable Assessed Value</u> | <u>Taxable Assessed Value</u> | <u>Rank</u> | <u>Percentage of Total City Taxable Assessed Value</u> |
| Fair Oaks Club Corp | \$ 5,900,000 | 1 | 0.60% | \$ 8,009,261 | 1 | 1.23% |
| Fair Oaks Village II LTD | 4,300,000 | 2 | 0.44% | | | 0.00% |
| Greenland Ventures | 2,562,680 | 3 | 0.26% | | | 0.00% |
| Frost National Bank | 2,478,410 | 4 | 0.25% | | | 0.00% |
| B&M Fair Oaks | 2,069,865 | 5 | 0.21% | | | 0.00% |
| MTC Holdings ltd | 2,034,690 | 6 | 0.21% | | | 0.00% |
| P. Steldt | 1,459,800 | 7 | 0.15% | 2,138,820 | 3 | 0.33% |
| K. Moore | 1,369,660 | 8 | 0.14% | | | 0.00% |
| Guadalupe Valley Telephone | 1,352,350 | 9 | 0.14% | | | 0.00% |
| P. Bilbrey | 1,334,660 | 10 | 0.14% | 1,181,380 | 7 | 0.18% |
| Armstrong Family Trust | | | | 2,249,610 | 2 | 0.35% |
| 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% |
| G. Rapier | | | | 997,860 | 8 | 0.15% |
| G. Frashier | | | | 907,350 | 9 | 0.14% |
| G. Nagel | | | | 741,940 | 10 | 0.11% |
| Total | <u><u>\$ 24,862,115</u></u> | | <u><u>2.54%</u></u> | <u><u>\$ 20,595,891</u></u> | | <u><u>3.16%</u></u> |

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

TABLE 9

| Fiscal Year Ended <u>September 30,</u> | 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 |
| 2004 | \$ 1,520,772 | \$ 1,506,716 | 99.08% | \$ 14,056 | \$ 1,520,772 | 100.00% |
| 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% | 17,565 | 2,336,263 | 99.84% |
| 2011 | 2,357,767 | 2,340,869 | 99.28% | 11,901 | 2,352,770 | 99.79% |
| 2012 | 2,381,119 | 2,357,934 | 99.03% | 11,681 | 2,369,615 | 99.52% |
| 2013 | 2,604,255 | 2,577,855 | 98.99% | - | 2,577,855 | 98.99% |

Source: Kendall County Appraisal District

* Includes discounts allowed for early payments. Discounts taken for the fiscal year ended September 30, 2013 were \$58,364.

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

TABLE 10

| Fiscal Year | Governmental Activities <u>Capital Leases</u> | Business-Type Activities <u>Certificates of Obligation</u> | Total Government | Per Capita* |
|----------------|---|--|---------------------|----------------|
| 2004 | \$ - | \$ 3,960,000 | \$ 3,960,000 | 729 |
| 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 |

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

*See Population figures on page 64.

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 |
|------|------------|----------------------------------|---------------|----------------------|-------------------------------------|
| 2004 | 5432 | \$ 45,293 | 44.5 | 818 | 3.4% |
| 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% |

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 | 2013 | | 2004 | |
|------------------------------|-----------|------|-----------|------|
| | Employees | Rank | Employees | Rank |
| Fair Oaks Ranch Country Club | 180 | 1 | N/A | 1 |
| Fair Oaks Ranch Elementary | 76 | 2 | N/A | 2 |
| City of Fair Oaks Ranch | 40 | 3 | 25 | 3 |
| Total | 296 | | 25 | |

