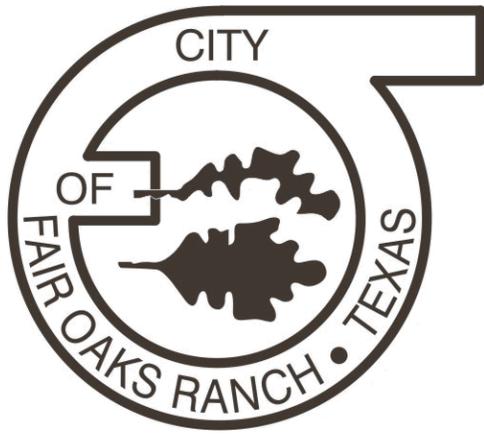


CITY OF FAIR OAKS RANCH, TEXAS

**ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
SEPTEMBER 30, 2012**



CITY OF FAIR OAKS RANCH, TEXAS
 ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2012

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 ASSETS	12
STATEMENT OF ACTIVITIES	14
BALANCE SHEET - GOVERNMENTAL FUND	16
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET ASSETS	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 ASSETS - PROPRIETARY FUND	20
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND	22
STATEMENT OF CASH FLOWS - PROPRIETARY FUND	23
NOTES TO BASIC FINANCIAL STATEMENTS	25
REQUIRED SUPPLEMENTARY INFORMATION	41
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL	42
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL	44
TEXAS MUNICIPAL RETIREMENT SYSTEM SCHEDULE OF FUNDING PROGRESS - DEFINED BENEFIT LAST THREE CALENDAR YEARS	45

CITY OF FAIR OAKS RANCH, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS (Continued)

STATISTICAL SECTION

	<u>PAGE</u>
NET ASSETS BY COMPONENT	47
CHANGE IN NET ASSETS.....	49
FUND BALANCES, GOVERNMENTAL FUNDS	53
CHANGES IN FUND BALANCE	55
TAX REVENUE BY SOURCE, GOVERNMENTAL FUNDS	57
ASSESSED VALUE AND ACTUAL TAXABLE PROPERTY	58
DIRECT AND OVERLAPPING PROPERTY TAX RATES.....	59
PRINCIPAL PROPERTY TAX PAYERS	60
PROPERTY TAX LEVIES AND COLLECTIONS	61
RATIOS OF OUTSTANDING DEBT BY TYPE.....	62
DEMOGRAPHIC AND ECONOMIC STATISTICS	63
PRINCIPAL EMPLOYERS	64

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

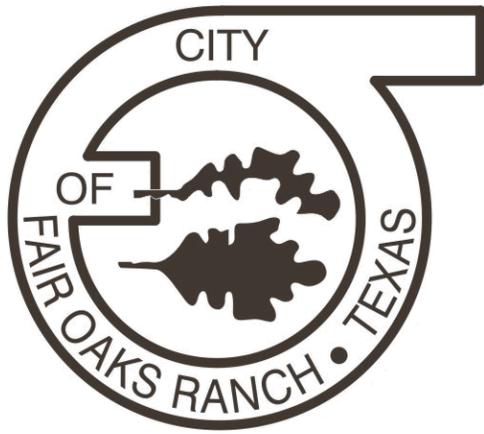
JOHN HOBSON

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

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, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fair Oaks Ranch, Texas', management. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and schedule of funding progress on pages 3 through 10 and 41 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fair Oaks Ranch, Texas' financial statements as a whole. The statistical section is presented for purposes of additional analysis and is not a required part of the 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.

Armstrong, Vaughan & Associates, P.C.

March 01, 2013

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, 2012. Please read it in conjunction with the City’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

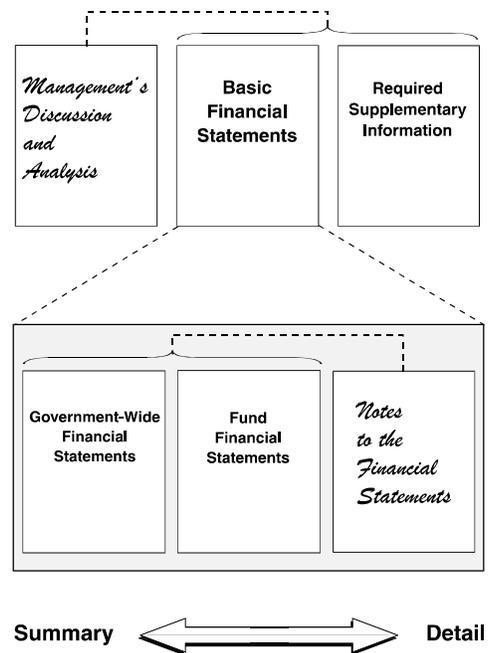
- The City’s total combined net assets were \$16,991,866 at September 30, 2012.
- During the year, the City’s expenses were \$324,905 less than the \$3,618,685 generated in taxes and other revenues for governmental activities.
- The total cost of the City’s programs was virtually unchanged from last year, and no new programs were added this year.
- The general fund reported a fund balance this year of \$3,526,811.
- The City issued no new bonds in 2012.

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 assets	• Balance Sheet	• Statement of net assets
	• Statement of activities	• Statement of revenues, expenditures & changes in fund balances	• Statement of revenues, expenses & changes in fund net assets • 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 assets includes all of the government’s assets 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 assets and how they have changed. Net assets—the difference between the City’s assets and liabilities—is one way to measure the City’s financial health or *position*.

- Over time, increases or decreases in the City’s net assets are 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 assets. The City's combined net assets were \$16,991,866 at September 30, 2012 (See Table A-1).

The \$6,425,283 of unrestricted net assets, represent resources available to fund the programs of the City next year.

Changes in net assets. The combined activities total revenues were \$7,051,118. The revenue from property taxes was \$2,345,000 or 33% (See Table A-2), 49% comes from utility, while only 7% relates to charges for services (Court, Public Works, Building Codes, Etc.).

The total cost of all programs and services was \$6,248,000, 47% of these costs are Business-Type Activities (See Table A-2).

Governmental Activities

- Property tax rate was \$.2461 per \$100 assessed value.
- The City did not sell capital bonds this fiscal year.

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

	Governmental		Business-Type		Total		Total Percentage Change 2012-2011
	Activities		Activities				
	2012	2011	2012	2011	2012	2011	
<i>Current assets:</i>							
Cash and Cash Equivalents	\$ 3,516	\$ 3,052	\$ 2,936	\$ 2,524	\$ 6,451	\$ 5,576	15.7%
Receivables	206	178	494	505	700	683	2.5%
Inventories & Prepaids	24	25	78	80	102	105	-2.6%
Unamortized Bond Costs	-	-	18	23	18	23	-21.1%
<i>Restricted Assets:</i>							
Cash and Investments	-	-	189	122	189	122	55.1%
<i>Total Current Assets:</i>	<u>3,746</u>	<u>3,255</u>	<u>3,715</u>	<u>3,254</u>	<u>7,461</u>	<u>6,509</u>	<u>14.6%</u>
<i>Noncurrent Assets:</i>							
Land and Improvements	100	100	54	54	153	154	-0.4%
Building and Improvements	2,415	2,415	-	-	2,415	2,415	0.0%
Utility Plant and Easements	-	-	11,498	11,498	11,498	11,498	0.0%
Vehicles and Equipment	849	761	440	326	1,289	1,087	18.6%
Infrastructure	3,023	3,023	-	-	3,023	3,023	0.0%
Construction in Progress	-	-	84	-	84	-	N/A
Less Accumulated							
Depreciation	(1,711)	(1,497)	(4,406)	(4,003)	(6,117)	(5,500)	11.2%
<i>Total Noncurrent Assets</i>	<u>4,675</u>	<u>4,802</u>	<u>7,670</u>	<u>7,875</u>	<u>12,346</u>	<u>12,677</u>	<u>-2.6%</u>
Total Assets	<u>\$ 8,422</u>	<u>\$ 8,057</u>	<u>\$ 11,386</u>	<u>\$ 11,128</u>	<u>\$ 19,807</u>	<u>\$ 19,185</u>	<u>3.2%</u>
<i>Current Liabilities:</i>							
Accounts Payable	\$ 171	\$ 146	\$ 732	\$ 637	\$ 903	\$ 783	15.4%
Accrued Compensated Absences	74	60	-	-	74	60	23.1%
Current Portion of Long-Term Debt	-	-	340	320	340	320	6.3%
Accrued Interest	-	-	11	12	11	12	-11.8%
<i>Total Current Liabilities</i>	<u>245</u>	<u>206</u>	<u>1,082</u>	<u>970</u>	<u>1,328</u>	<u>1,176</u>	<u>12.9%</u>
<i>Non-Current Liabilities</i>							
Due in more than One Year	-	-	1,488	1,821	1,488	1,821	-18.3%
Total Liabilities	<u>245</u>	<u>206</u>	<u>2,570</u>	<u>2,791</u>	<u>2,815</u>	<u>2,997</u>	<u>-6.1%</u>
<i>Net Assets:</i>							
Invested in Capital Assets	4,675	4,802	5,843	5,734	10,518	10,536	-0.2%
Restricted	48	46	-	-	48	46	5.1%
Unrestricted	3,452	3,003	2,973	2,603	6,425	5,606	14.6%
<i>Total Net Assets</i>	<u>8,176</u>	<u>7,851</u>	<u>8,816</u>	<u>8,337</u>	<u>16,992</u>	<u>16,188</u>	<u>5.0%</u>
Total Liabilities and Net Assets	<u>\$ 8,422</u>	<u>\$ 8,057</u>	<u>\$ 11,386</u>	<u>\$ 11,128</u>	<u>\$ 19,807</u>	<u>\$ 19,185</u>	<u>3.2%</u>

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2012-2011
	2012	2011	2012	2011	2012	2011	
Charges for Services	\$ 509	\$ 457	\$ 3,428	\$ 3,352	\$ 3,936	\$ 3,809	3.3%
Operating Grants and Contributions	-	-	-	-	-	-	N/A
Capital Grants and Contributions	-	-	-	-	-	-	N/A
General Revenues							
Property Taxes	2,345	2,327	-	-	2,345	2,327	0.8%
Non-Property Taxes	662	634	-	-	662	634	4.5%
Investment Earnings	7	7	5	4	12	11	10.1%
Miscellaneous	95	14	-	-	95	14	581.7%
Total Revenues	3,619	3,439	3,432	3,356	7,051	6,796	3.8%
City Administration	589	579	-	-	589	579	1.7%
Municipal Court	77	79	-	-	77	79	-2.4%
Public Safety	1,343	1,296	-	-	1,343	1,296	3.6%
Public Health/Emergency	256	231	-	-	256	231	10.7%
Building Codes	89	86	-	-	89	86	2.9%
Public Works	815	776	-	-	815	776	5.1%
Culture/Recreation/Other	126	47	-	-	126	47	167.1%
Interest	-	1	-	-	-	1	-100.0%
Capital Outlay	-	-	-	-	-	-	N/A
Utility	-	-	2,954	2,786	2,954	2,786	6.0%
Total Expenses	\$ 3,294	\$ 3,095	\$ 2,954	\$ 2,786	\$ 6,248	\$ 5,882	6.2%
Transfers	-	5	-	(5)	-	-	N/A
Increase (Decrease) in Net Assets	\$ 325	\$ 349	\$ 478	\$ 565	\$ 803	\$ 913	-12.0%

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 \$3,294,000.
- The amount that our taxpayers paid for these activities through property taxes was only \$2,345,000.
- Some of the cost, \$509,000 or 15% 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		
	2012	2011			2012	2011	
City Administration	\$ 589	\$ 579	1.7%	\$ 347	\$ 341	1.9%	
Municipal Court	77	79	-2.4%	(50)	(52)	-4.8%	
Public Safety	1,343	1,296	3.6%	1,336	1,288	3.7%	
Public Health/Emergency	256	231	10.7%	249	225	10.8%	
Building Codes	89	86	2.9%	(39)	13	-400.0%	
Public Works	815	776	5.1%	815	776	5.1%	
Culture/Recreation/Other	126	47	167.1%	126	47	167.1%	
Interest on Long-Term Debt	-	1	-100.0%	-	1	-100.0%	
Water and Sewer	2,954	2,786	6.0%	(474)	(566)	-16.3%	

Business-Type Activities

Revenues of the City's Water & Sewer business-type activities were \$3,428,000 and operating expenses were \$2,954,000 (See Table A-2).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$3,619,000 in fiscal year 2012. Revenue from proprietary fund types totaled \$3,428,000 in fiscal year 2012.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget. Actual expenditures were \$256,318 below final budget amounts.

- Property tax and sales tax collections were \$44,549 less than expected.
- Sales tax collections were \$47,129 more than expected.
- Building Permit and Contractor Registration Permits were \$43,522 more than expected.
- Revenues from Franchise Contracts and Municipal Court Fees were \$48,066 more than expected.
- Miscellaneous Revenue and Outside Sources Revenue were \$77,621 more than expected.
- Professional Services and Contingency expenses were kept at minimum.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the City had invested \$18,465,000 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 \$6,117,000 results in a total Net Capital Asset value of \$12,347,000.

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

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change 2012-2011
	2012	2011	2012	2011	2012	2011	
Land and Improvements	\$ 100	\$ 100	\$ 54	\$ 54	\$ 153	\$ 153	0.3%
Buildings and improvements	2,415	2,415	-	-	2,415	2,415	0.0%
Vehicles and Equipment	849	761	440	326	1,289	1,087	15.7%
Infrastructure	3,023	3,023	-	-	3,023	3,023	0.0%
Construction in Progress	-	-	84	-	84	-	N/A
Utility Plant	-	-	11,498	11,498	11,498	11,498	0.0%
Totals at historical cost	6,387	6,298	12,078	11,879	18,465	18,178	1.6%
Total accumulated depreciation	(1,711)	(1,497)	(4,406)	(4,003)	(6,117)	(5,500)	10.1%
Net capital assets	\$ 4,676	\$ 4,801	\$ 7,672	\$ 7,876	\$ 12,347	\$ 12,678	-2.7%

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 \$1,855,000 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 Activities		Business-type Activities		Total		Total Percentage Change 2012-2011
	2012	2011	2012	2011	2012	2011	
Bonds Payable	\$ -	\$ -	\$ 1,855	\$ 2,175	\$ 1,855	\$ 2,175	-17.2%
Total Bonds and Capital Leases	\$ -	\$ -	\$ 1,855	\$ 2,175	\$ 1,855	\$ 2,175	-17.2%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Taxable values used for the 2012-13 budget preparation dropped \$100,000.

This indicator was taken into account when adopting the general fund budget for 2012-13 by setting the property tax rate at two cents above the effective rate. The collection rate remained the same.

Fiscal year 2012-13 expenditures are budgeted at \$3,943,498. The increases in expenditures are due to fire services contract, one personnel addition, city celebration, and capital expenditures (unfunded federal mandate).

If these estimates are realized, the City's budgetary general fund balance will have a \$28,851 shortfall that will be transferred from the reserve fund.

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, 2012

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 ASSETS
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Municipal Development District
ASSETS				
Cash and Investments	\$ 3,515,673	\$ 2,935,811	\$ 6,451,484	\$ 19,326
Receivables (net of allowances for uncollectibles)				
Taxes	47,898	-	47,898	-
Accounts	158,486	493,956	652,442	17,483
Inventories	-	70,366	70,366	-
Prepays	24,104	7,584	31,688	-
Utility Deposits	-	185	185	-
Restricted Assets:				
Cash and Investments	-	189,169	189,169	-
Unamortized Bond Issue Costs	-	18,156	18,156	-
Capital Assets:				
Land and Improvements	99,798	53,600	153,398	-
Buildings and Improvements	2,415,234	-	2,415,234	-
Utility Plant and Easements	-	11,498,438	11,498,438	-
Vehicles and Equipment	848,856	440,103	1,288,959	-
Infrastructure	3,022,818	-	3,022,818	-
Construction in Progress	-	84,407	84,407	-
Accumulated Depreciation	(1,711,245)	(4,406,173)	(6,117,418)	-
TOTAL ASSETS	\$ 8,421,622	\$ 11,385,602	\$ 19,807,224	\$ 36,809

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET ASSETS (CONTINUED)
SEPTEMBER 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Municipal Development District
LIABILITIES AND NET ASSETS				
<i>Liabilities:</i>				
Accounts Payable and Other				
Accrued Liabilities	\$ 171,452	\$ 218,448	\$ 389,900	\$ -
Accrued Compensated Absences	73,870	17,806	91,676	-
Deferred Revenue	-	495,588	495,588	-
Payable from Restricted Assets:				
Current Portion of Long-Term Debt	-	340,000	340,000	-
Accrued Interest Payable	-	10,586	10,586	-
<i>Noncurrent Liabilities:</i>				
Due in more than One Year	-	1,487,608	1,487,608	-
TOTAL LIABILITIES	245,322	2,570,036	2,815,358	-
<i>Net Assets:</i>				
Invested in Capital Assets, Net of Related Debt	4,675,461	5,842,767	10,518,228	-
Restricted	48,355	-	48,355	-
Unrestricted	3,452,484	2,972,799	6,425,283	36,809
TOTAL NET ASSETS	8,176,300	8,815,566	16,991,866	36,809
TOTAL LIABILITIES AND NET ASSETS	\$ 8,421,622	\$ 11,385,602	\$ 19,807,224	\$ 36,809

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

<u>Functions and Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
City Administration	\$ 588,562	\$ 241,201	\$ -	\$ -
Municipal Court	77,131	126,633	-	-
Public Safety	1,342,773	6,824	-	-
Public Health/Emergency	255,789	6,580	-	-
Building Codes	88,521	127,522	-	-
Public Works	815,467	-	-	-
Culture/Recreation/Other	125,537	-	-	-
Total Governmental Activities	<u>3,293,780</u>	<u>508,760</u>	<u>-</u>	<u>-</u>
Business-Type Activities				
Water/Sewer Utility	<u>2,954,021</u>	<u>3,427,533</u>	<u>-</u>	<u>-</u>
Total Business-Type Activities	<u>2,954,021</u>	<u>3,427,533</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u><u>\$ 6,247,801</u></u>	<u><u>\$ 3,936,293</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Component Unit				
Municipal Development District	<u><u>\$ 6,142</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
General Revenues:				
Taxes				
Property Taxes				
Non Property Taxes				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets at Beginning of Year				
Net Assets at End of Year				

See accompanying notes to basic financial statements.

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Municipal Development District
\$ (347,361)	\$ -	\$ (347,361)	
49,502	-	49,502	
(1,335,949)	-	(1,335,949)	
(249,209)	-	(249,209)	
39,001	-	39,001	
(815,467)	-	(815,467)	
(125,537)	-	(125,537)	
<u>(2,785,020)</u>	<u>-</u>	<u>(2,785,020)</u>	
-	473,512	473,512	
-	<u>473,512</u>	<u>473,512</u>	
<u>(2,785,020)</u>	<u>473,512</u>	<u>(2,311,508)</u>	
			<u>\$ (6,142)</u>
2,345,006	-	2,345,006	-
662,271	-	662,271	42,951
7,213	4,900	12,113	-
95,435	-	95,435	-
<u>3,109,925</u>	<u>4,900</u>	<u>3,114,825</u>	<u>42,951</u>
324,905	478,412	803,317	36,809
<u>7,851,395</u>	<u>8,337,154</u>	<u>16,188,549</u>	<u>-</u>
<u>\$ 8,176,300</u>	<u>\$ 8,815,566</u>	<u>\$ 16,991,866</u>	<u>\$ 36,809</u>

CITY OF FAIR OAKS RANCH, TEXAS
BALANCE SHEET
GOVERNMENTAL FUND
SEPTEMBER 30, 2012

	Major Fund
	General
	Fund
ASSETS	
Cash and Investments	\$ 3,515,673
Receivables (net of allowances for uncollectibles):	
Property Taxes	47,898
Accounts	158,486
Prepaid Items	24,104
TOTAL ASSETS	\$ 3,746,161
LIABILITIES AND FUND BALANCES	
<i>Liabilities:</i>	
Accounts Payable	\$ 127,030
Accrued Expenditures	44,422
Deferred/Unearned Revenues	47,898
TOTAL LIABILITIES	219,350
<i>Fund Balances:</i>	
Nonspendable:	
Prepaid Items	24,104
Restricted for:	
Court Technology	9,477
Court Security Building	38,436
Court Efficiency	64
Felony Forfeiture	378
Committed for:	
Public Safety Communication	250,000
Wildlife Research Study	45,779
Unassigned:	3,158,573
<i>Total Fund Balances</i>	3,526,811
TOTAL LIABILITIES & FUND BALANCES	\$ 3,746,161

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 ASSETS
SEPTEMBER 30, 2012

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$ 3,526,811
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,675,461
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	47,898
Accrued vacation leave payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(73,870)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u><u>\$ 8,176,300</u></u>

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Major Fund
	General
	Fund
REVENUES	
Taxes	\$ 2,988,981
Licenses and Permits	135,992
Fines and Forfeits	126,633
Utility Management Fee	159,435
Interest	7,213
Lease Revenue	79,876
Miscellaneous	102,259
TOTAL REVENUES	3,600,389
 EXPENDITURES	
Current:	
City Administration	548,635
Municipal Court	75,754
Public Safety	1,282,550
Public Health/Emergency	242,174
Building Codes	88,663
Public Works	700,305
Culture and Recreation	125,537
Capital Projects/Outlay	89,425
TOTAL EXPENDITURES	3,153,043
Net Change in Fund Balance	447,346
 Fund Balance at Beginning of Year	3,079,465
 Fund Balance at End of Year	\$ 3,526,811

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, 2012

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 447,346

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	88,158	
Current Year Depreciation	<u>(215,035)</u>	(126,877)

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

Ad Valorem Revenue	18,296
--------------------	--------

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

Compensated Absences	<u>(13,860)</u>
----------------------	-----------------

CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 324,905

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET ASSETS – PROPRIETARY FUND
SEPTEMBER 30, 2012

	Business-Type Activities <u>Water/Sewer Fund</u>
ASSETS	
<i>Current Assets</i>	
Cash and Investments	\$ 2,935,811
Receivables (net of allowances for uncollectibles):	
Accounts	324,094
Developers	169,862
Inventories	70,366
Prepays	7,584
Utility Deposits	185
<i>Total Current Assets</i>	<u>3,507,902</u>
 <i>Restricted Assets:</i>	
Cash and Investments	189,169
<i>Total Restricted Assets</i>	<u>189,169</u>
 Unamortized Bond Issue Costs	 <u>18,156</u>
 Capital Assets:	
Land and Improvements	53,600
Utility Plant and Easements	11,498,438
Vehicles & Equipment	440,103
Construction in Progress	84,407
Accumulated Depreciation	<u>(4,406,173)</u>
 Capital Assets, Net of Accumulated Depreciation	 <u>7,670,375</u>
 TOTAL ASSETS	 <u><u>\$ 11,385,602</u></u>

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF NET ASSETS – PROPRIETARY FUND (CONTINUED)
SEPTEMBER 30, 2012

	Business-Type Activities
	Water/Sewer Fund
LIABILITIES AND NET ASSETS	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 206,775
Accrued Wages and Compensated Absences	29,479
Deferred Revenue - Water Supply Agreements	495,588
<i>Total Current Liabilities</i>	731,842
 <i>Current Liabilities Payable from Restricted Assets:</i>	
Current Portion of Long-term Bonds	340,000
Accrued Interest Payable	10,586
<i>Total Current Liabilities Payable from Restricted Assets</i>	350,586
 <i>Noncurrent Liabilities:</i>	
Bonds Payable (net of unamortized loss on refunding bonds)	1,487,608
 TOTAL LIABILITIES	 2,570,036
 <i>Net Assets:</i>	
Invested in Capital Assets, Net of Related Debt	5,842,767
Unrestricted	2,972,799
 TOTAL NET ASSETS	 8,815,566
 TOTAL LIABILITIES & NET ASSETS	 \$ 11,385,602

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-Type Activities
	Water/Sewer Fund
OPERATING REVENUES	
Charges for Utility Service	\$ 3,427,533
TOTAL OPERATING REVENUES	3,427,533
 OPERATING EXPENSES	
Personnel Services	620,868
Contractual Services	12,063
Maintenance	218,847
Equipment Lease	4,218
Supplies	74,091
Office Supplies	23,929
Postage	16,424
Utilities	205,009
Management Fee	159,435
Professional Fees	117,545
Permits and Licenses	7,047
Water Reservation Fees	955,236
Insurance	12,737
Miscellaneous	44,345
TOTAL OPERATING EXPENSES	2,471,794
 Operating Income (Loss) Before Depreciation	955,739
 Depreciation	402,818
OPERATING INCOME (LOSS)	552,921
 NONOPERATING REVENUES (EXPENSES)	
Interest Income	4,900
Interest and Fiscal Charges	(68,668)
Amortization of Bond Issue Costs and Deferred Loss on Refunding Issue	(10,741)
TOTAL NONOPERATING REVENUES (EXPENSES)	(74,509)
 CHANGE IN NET ASSETS	478,412
 NET ASSETS AT BEGINNING OF YEAR	8,337,154
NET ASSETS AT END OF YEAR	\$ 8,815,566

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, 2012

	Business-Type Activities <u>Water/Sewer Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 3,463,362
Cash Paid for Employee Wages & Benefits	(615,716)
Cash Paid for Suppliers for Goods & Services	(1,626,769)
Cash Paid to General Fund for Management Fee	<u>(159,435)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,061,442</u>
 Cash Flows From Capital and Related Financing Activities:	
Purchase/Construction of Capital Assets	(198,093)
Principal Payments on Long-Term Debt	(320,000)
Interest and Fiscal Charges Paid	<u>(70,494)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(588,587)</u>
 Cash Flows From Investing Activities:	
Investment Interest Received	<u>5,268</u>
Net Cash Provided (Used) by Investing Activities	<u>5,268</u>
 Net Increase (Decrease) in Cash and Investments	<u>478,123</u>
 Cash and Investments at Beginning of Year:	
Cash and Investments	2,524,693
Restricted Cash and Investments	<u>122,164</u>
	<u>2,646,857</u>
 Cash and Investments at End of Year:	
Cash and Investments	2,935,811
Restricted Cash and Investments	<u>189,169</u>
	<u>\$ 3,124,980</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, 2012

	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)	\$ 552,921
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	402,818
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	9,810
(Increase) Decrease in Inventories	2,008
(Increase) Decrease in Prepaids	(596)
Increase (Decrease) in Accounts Payable	63,310
Increase (Decrease) in Deferred Revenue	26,019
Increase (Decrease) in Accrued Liabilities	5,152
	508,521
 Net Cash Provided (Used) by Operating Activities	 \$ 1,061,442

See accompanying notes to basic financial statements.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

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. Proprietary type funds apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and ARB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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, 2012, 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 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 assets 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.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

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

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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.

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 deferred 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.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

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

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

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).

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.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

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

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2011 and past due after January 31, 2012. 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.

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 deferred 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.

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

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

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.

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

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

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

11. 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.

No sick leave days are paid when an employee leaves city employment and no liability is reported for unpaid sick leave.

12. DEFERRED/UNEARNED REVENUE

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue not expected to be available for the current period are reflected as deferred revenue.

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

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

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

13. 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 assets. On new bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

14. 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 formal action by the City Council. 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.

15. NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

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

15. NET ASSETS (Continued)

those assets, and adding back unspent proceeds. Net assets are 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.

16. 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, 2012, management fees totaled \$159,435.

17. 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.

18. USE OF ESTIMATES

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

NOTE B -- CASH AND INVESTMENTS

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

1. Cash and Cash Equivalents

At September 30, 2012, the carrying amount of the City's cash on hand was \$725 and deposits in the bank (including certificates of deposit) were \$1,527,982 and the bank balance, \$1,537,904. Of the bank balance, \$700,760 was covered by federal deposit insurance and the City's depository had pledged securities having a face value of \$1,739,020 and market value of \$1,914,076 as collateral for the City's deposits. All of the City's cash was fully collateralized.

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE B -- CASH AND INVESTMENTS (CONTINUED)

At September 30, 2012, the carrying amount of the MDD's deposits in the bank were \$19,326 and the bank balance, \$19,326. Of the bank balance, \$19,326 was covered by federal deposit insurance. All of the MDD's cash was fully collateralized.

2. Investments

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

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

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

The City's investments at September 30, 2012 were as shown below:

Investment	Reported Value
TexPool	\$ 5,111,946
Total Investments	\$ 5,111,946

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.

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE B -- CASH AND INVESTMENTS (CONTINUED)

3. Analysis of Specific Deposit and Investment Risks (Continued)

b. Custodial Credit Risk

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

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

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE B -- CASH AND INVESTMENTS (CONTINUED)

5. Public Funds Investment Pools (Continued)

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 2012, the assessed tax rate for the City was .2461 per \$100 on an assessed valuation of \$968,870,255. Total tax levy for fiscal year 2012 is \$2,381,119. As of September 30, 2012, the delinquent current taxes for 2011 were \$23,185.

NOTE D -- CAPITAL ASSETS

Capital asset activity in the governmental fund for the year ended September 30, 2012, was as follows:

<u>Governmental Activities</u>	<u>Balance 10/1/2011</u>	<u>Additions & Adjustments</u>	<u>Disposals</u>	<u>Balance 9/30/2012</u>
Land and Improvements	\$ 99,798	\$ -	\$ -	\$ 99,798
Buildings and Improvements	2,415,234	-	-	2,415,234
Vehicles & Equipment	760,698	88,158	-	848,856
Infrastructure	3,022,818	-	-	3,022,818
	<u>6,298,548</u>	<u>88,158</u>	<u>-</u>	<u>6,386,706</u>
Less Accumulated Depreciation				
Land Improvements	(16,932)	(1,214)	-	(18,146)
Buildings and Improvements	(520,539)	(64,441)	-	(584,980)
Vehicles & Equipment	(595,280)	(73,692)	-	(668,972)
Infrastructure	(363,459)	(75,688)	-	(439,147)
	<u>(1,496,210)</u>	<u>(215,035)</u>	<u>-</u>	<u>(1,711,245)</u>
Governmental Capital Assets, Net	<u>\$ 4,802,338</u>	<u>\$ (126,877)</u>	<u>\$ -</u>	<u>\$ 4,675,461</u>

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE D -- CAPITAL ASSETS (CONTINUED)

Capital asset activity in the proprietary fund for the year ended September 30, 2012, was as follows:

<u>Business-Type Activities</u>	Balance 10/1/2011	Additions & Adjustments	Disposals	Balance 9/30/2012
Land	\$ 53,600	\$ -	\$ -	\$ 53,600
Utility Plant and Easements	11,498,438	-	-	11,498,438
Vehicles & Equipment	326,417	113,686	-	440,103
Construction in Progress	-	84,407	-	84,407
Totals at Historical Cost	<u>11,878,455</u>	<u>198,093</u>	<u>-</u>	<u>12,076,548</u>
Less Accumulated Depreciation				
Utility Plant and Easements	(3,710,500)	(375,144)	-	(4,085,644)
Vehicles & Equipment	<u>(292,855)</u>	<u>(27,674)</u>	-	<u>(320,529)</u>
	<u>(4,003,355)</u>	<u>(402,818)</u>	<u>-</u>	<u>(4,406,173)</u>
Business-Type Capital Assets, Net	<u>\$ 7,875,100</u>	<u>\$ (204,725)</u>	<u>\$ -</u>	<u>\$ 7,670,375</u>

Land and construction in progress are not depreciated.

Depreciation expense was charged to the governmental functions as follows:

Administration	\$ 38,622
Public Safety	48,040
Public Health	13,615
Public Works	<u>114,758</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 215,035</u>

NOTE E -- LEASE ARRANGEMENTS

The City purchased an existing commercial property on August 12, 2010 located at 8000 Fair Oaks Parkway. The building was purchased subject to several commercial leases in existence and the City agreed to honor the leases through their scheduled expiration dates. The leases are scheduled to expire on March 31, 2013. The City plans to conduct a best use analysis for the property.

Lease revenue over the remaining term is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Revenue</u>
2013	\$ 41,197
Total Lease Revenue	<u>\$ 41,197</u>

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE F -- DEFERRED 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 deferred until such time as the lots are permitted for construction. The City received \$69,480 contributions in aid during the year ended September 30, 2012, but earned \$43,461 in current fees. The City has received \$584,128 in contributions in aid to date and has earned a total of \$88,540 in fees. The remaining \$495,588 of contributions are reported as deferred revenue accordingly.

NOTE G -- LONG-TERM DEBT

Primary Government

At September 30, 2012, 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%	\$ 1,855,000	\$ 340,000	\$ 1,515,000
Deferred Loss on Refunding		(27,392)	-	(27,392)
Total Long-Term Debt		\$ 1,827,608	\$ 340,000	\$ 1,487,608

Changes in the City's long-term debt during the fiscal year ended September 30, 2012:

Governmental Activities:	Original Amount	Balance Outstanding Oct. 1, 2011	Current (Retirements) Additions	Balance Outstanding Sept. 30, 2012
Compensated Absences		\$ 60,010	\$ 13,860	\$ 73,870
Total Governmental Activities		60,010	13,860	73,870
Business-Type Activities:				
2008 Refunding Series	\$ 3,065,000	2,175,000	(320,000)	1,855,000
Deferred Loss on Refunding	\$ (52,200)	(33,594)	6,202	(27,392)
Compensated Absences		13,116	4,690	17,806
Total Business-Type Activities		2,154,522	(309,108)	1,845,414
Total Changes in Long-Term Debt		\$ 2,214,532	\$ (295,248)	\$ 1,919,284

CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2012

NOTE G -- LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all long-term bonded debt outstanding as of September 30, 2012, including principal and interest payments, are as follows:

Year Ending September 30,	Business-Type Activities	
	Principal	Interest
2013	\$ 340,000	\$ 58,975
2014	355,000	46,813
2015	370,000	34,125
2016	385,000	20,912
2017	405,000	7,087
	\$ 1,855,000	\$ 167,912

NOTE H -- 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.

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	
	2011	2012
Employee deposit rate	7.0%	7.0%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating,	100% Repeating,
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

Texas Municipal Retirement System (Continued)

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial 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:

<u>Fiscal Year Ending September 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contribution</u>
2010	\$ 181,863	\$ 181,863	100%
2011	195,467	195,467	100%
2012	203,492	203,492	100%

CITY OF FAIR OAKS RANCH, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2012

NOTE H -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

Texas Municipal Retirement System (Continued)

Contributions (Continued)

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

Valuation Date	December 31, 2009	December 31, 2010	December 31, 2011
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.3 years; Closed Period	27.3 years; Closed Period	26.5 years; Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.0%
Projected Salary Increases*	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
*Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-Living Adjustments	2.1%	2.1%	2.1%

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/11	\$2,804,927	\$3,287,146	85.3%	\$482,219	\$1,754,414	27.5%

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, 2012

NOTE H -- 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, 2012, 2011, and 2010 were \$2,863; \$3,299 and \$3,106, respectively, which equaled the required contributions each year.

NOTE I -- COMMITMENTS AND CONTINGENCIES

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, 2012 were \$79,781 for property and casualty and workers compensation coverage.

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, 2012

	Budget Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Taxes	\$ 2,956,044	\$ 2,956,044	\$ 2,988,981	\$ 32,937
Licenses and Permits	93,350	93,350	135,992	42,642
Fines and Forfeits	108,925	108,925	126,633	17,708
Utility Management Fee	142,000	142,000	159,435	17,435
Interest	10,000	10,000	7,213	(2,787)
Lease Revenue	70,740	70,740	79,876	9,136
Grant Proceeds	3,000	3,000	-	(3,000)
Miscellaneous	25,300	25,300	102,259	76,959
TOTAL REVENUES	<u>3,409,359</u>	<u>3,409,359</u>	<u>3,600,389</u>	<u>191,030</u>
EXPENDITURES				
<i>City Administration:</i>				
Personnel	361,188	361,188	360,284	904
General	60,300	60,300	43,910	16,390
Maintenance	6,600	6,600	2,402	4,198
Contractual	157,150	157,150	136,648	20,502
Leases	6,000	6,000	5,391	609
<i>Total City Administration</i>	<u>591,238</u>	<u>591,238</u>	<u>548,635</u>	<u>42,603</u>
<i>Municipal Court:</i>				
Personnel	56,189	56,189	54,231	1,958
General	4,650	4,650	3,258	1,392
Maintenance	700	700	-	700
Contractual	21,400	21,400	18,265	3,135
<i>Total Municipal Court</i>	<u>82,939</u>	<u>82,939</u>	<u>75,754</u>	<u>7,185</u>
<i>Public Safety:</i>				
Personnel	1,147,906	1,146,059	1,035,106	110,953
General	88,650	88,650	75,973	12,677
Maintenance	21,950	21,950	21,427	523
Contractual	153,502	153,502	147,834	5,668
Leases	2,500	2,500	2,210	290
<i>Total Public Safety</i>	<u>1,414,508</u>	<u>1,412,661</u>	<u>1,282,550</u>	<u>130,111</u>
<i>Public Health/Emergency:</i>				
General	7,250	7,250	5,019	2,231
Maintenance	3,500	3,500	1,304	2,196
Contractual	233,600	233,600	235,851	(2,251)
<i>Total Public Health/Emergency</i>	<u>\$ 244,350</u>	<u>\$ 244,350</u>	<u>\$ 242,174</u>	<u>\$ 2,176</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, 2012

EXPENDITURES (CONTINUED)	Budget Amounts		Actual Amounts	Variance Favorable (Unfavorable)
	Original	Final		
<i>Building Codes:</i>				
Personnel	\$ 79,305	\$ 79,305	\$ 79,070	\$ 235
General	6,150	6,150	3,234	2,916
Maintenance	1,150	1,150	244	906
Contractual	4,900	4,900	6,115	(1,215)
<i>Total Building Codes</i>	91,505	91,505	88,663	2,842
 <i>Public Works:</i>				
Personnel	328,287	328,014	309,906	18,108
General	25,350	25,350	28,128	(2,778)
Maintenance	68,432	68,432	48,825	19,607
Contractual	363,750	363,750	313,446	50,304
<i>Total Public Works</i>	785,819	785,546	700,305	85,241
 <i>Culture/Recreation/Other:</i>				
General	174,000	174,000	125,537	48,463
<i>Total Culture/Recreation/Other</i>	174,000	174,000	125,537	48,463
 <i>Capital Outlay:</i>				
Personal Property	25,000	27,120	89,425	(62,305)
<i>Total Capital Outlay</i>	25,000	27,120	89,425	(62,305)
 TOTAL EXPENDITURES	 3,409,359	 3,409,359	 3,153,043	 256,316
 Net Change in Fund Balance	 -	 -	 447,346	 447,346
 Fund Balance - Beginning of Year	 3,079,465	 3,079,465	 3,079,465	 -
 Fund Balance - End of Year	 \$ 3,079,465	 \$ 3,079,465	 \$ 3,526,811	 \$ 447,346

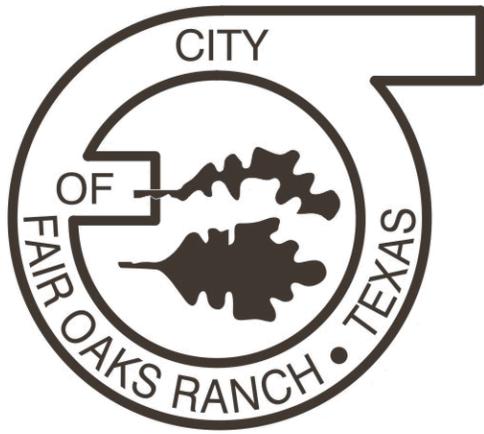


CITY OF FAIR OAKS RANCH, TEXAS
NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
SEPTEMBER 30, 2012

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.

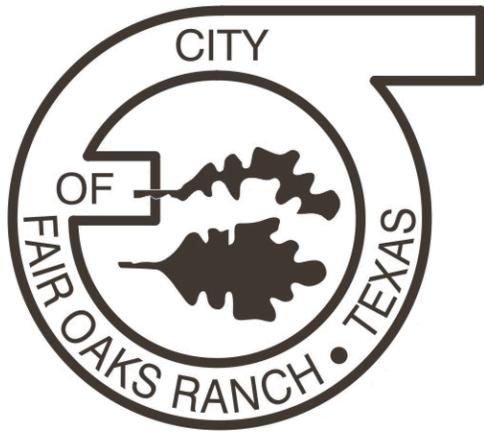
Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level.

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 THREE 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%



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 ASSETS BY COMPONENT
LAST EIGHT FISCAL YEARS

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

TABLE 1

Fiscal Year			
2009	2010	2011	2012
\$ 3,216,848	\$ 4,940,584	\$ 4,802,338	\$ 4,675,461
-	39,266	46,229	48,355
<u>3,149,374</u>	<u>2,483,604</u>	<u>3,002,828</u>	<u>3,452,484</u>
<u>\$ 6,366,222</u>	<u>\$ 7,463,454</u>	<u>\$ 7,851,395</u>	<u>\$ 8,176,300</u>
\$ 5,003,477	\$ 5,767,825	\$ 5,733,694	\$ 5,842,767
2,424,188	2,004,430	2,603,460	2,972,799
<u>\$ 7,427,665</u>	<u>\$ 7,772,255</u>	<u>\$ 8,337,154</u>	<u>\$ 8,815,566</u>
\$ 8,220,325	\$ 10,708,409	\$ 10,536,032	\$ 10,518,228
-	39,266	46,229	48,355
<u>5,573,562</u>	<u>4,488,034</u>	<u>5,606,288</u>	<u>6,425,283</u>
<u>\$ 13,793,887</u>	<u>\$ 15,235,709</u>	<u>\$ 16,188,549</u>	<u>\$ 16,991,866</u>

CITY OF FAIR OAKS RANCH, TEXAS
CHANGE IN NET ASSETS
LAST EIGHT 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
\$ 535,765	\$ 692,233	\$ 578,516	\$ 588,562
74,356	70,340	79,208	77,131
1,113,684	1,232,747	1,295,748	1,342,773
220,713	319,465	231,337	255,789
89,412	84,319	86,316	88,521
765,066	727,527	776,437	815,467
58,273	32,352	47,335	125,537
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>2,720,050</u>	<u>2,879,504</u>	<u>2,785,881</u>	<u>2,954,021</u>
<u>2,720,050</u>	<u>2,879,504</u>	<u>2,785,881</u>	<u>2,954,021</u>
<u>\$ 5,579,867</u>	<u>\$ 6,042,712</u>	<u>\$ 5,881,978</u>	<u>\$ 6,247,801</u>
\$ 147,729	\$ 126,612	\$ 237,810	\$ 241,201
72,771	114,981	131,279	126,633
5,733	5,960	7,736	6,824
6,795	7,521	6,720	6,580
77,293	85,493	73,595	127,522
-	3,855	-	-
-	998,250	-	-
<u>310,321</u>	<u>1,342,672</u>	<u>457,140</u>	<u>508,760</u>
3,167,197	2,434,913	3,352,080	3,427,533
-	796,054	-	-
<u>\$ 3,477,518</u>	<u>\$ 4,573,639</u>	<u>\$ 3,809,220</u>	<u>\$ 3,936,293</u>

CITY OF FAIR OAKS RANCH, TEXAS
CHANGE IN NET ASSETS (CONTINUED)
LAST EIGHT 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 Assets				
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 Assets				
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
<u>\$(2,549,496)</u>	<u>\$(1,820,536)</u>	<u>\$(2,638,957)</u>	<u>\$(2,785,020)</u>
<u>447,147</u>	<u>351,463</u>	<u>566,199</u>	<u>473,512</u>
<u><u>\$(2,102,349)</u></u>	<u><u>\$(1,469,073)</u></u>	<u><u>\$(2,072,758)</u></u>	<u><u>\$(2,311,508)</u></u>
\$ 2,230,070	\$ 2,322,501	\$ 2,327,361	\$ 2,345,006
555,500	598,699	634,021	662,271
29,017	10,691	7,324	7,213
27,102	14,537	13,623	95,435
10,606	10,606	5,303	-
<u>2,852,295</u>	<u>2,957,034</u>	<u>2,987,632</u>	<u>3,109,925</u>
18,006	3,733	4,003	4,900
<u>(10,606)</u>	<u>(10,606)</u>	<u>(5,303)</u>	<u>-</u>
<u>7,400</u>	<u>(6,873)</u>	<u>(1,300)</u>	<u>4,900</u>
<u><u>\$ 2,859,695</u></u>	<u><u>\$ 2,950,161</u></u>	<u><u>\$ 2,986,332</u></u>	<u><u>\$ 3,114,825</u></u>
\$ 302,799	\$ 1,136,498	\$ 348,675	\$ 324,905
<u>454,547</u>	<u>344,590</u>	<u>564,899</u>	<u>478,412</u>
<u><u>\$ 757,346</u></u>	<u><u>\$ 1,481,088</u></u>	<u><u>\$ 913,574</u></u>	<u><u>\$ 803,317</u></u>

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

	Fiscal Year			
	2003	2004	2005	2006
Nonspendable Fund Balance:				
Prepaid Items	\$ 16,345	\$ 18,510	\$ 17,042	\$ 18,099
Restricted Fund Balance:				
Court Technology	8,619	11,185	14,587	16,243
Court Security	10,604	12,554	15,117	17,420
Court Efficiency	-	17	66	64
Felony Forfeiture	-	-	-	-
Total Restricted Fund Balance	<u>19,223</u>	<u>23,756</u>	<u>29,770</u>	<u>33,727</u>
Committed Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	<u>1,097,680</u>	<u>1,419,489</u>	<u>1,765,106</u>	<u>2,320,416</u>
<i>Total Governmental Funds</i>	<u><u>\$ 1,133,248</u></u>	<u><u>\$ 1,461,755</u></u>	<u><u>\$ 1,811,918</u></u>	<u><u>\$ 2,372,242</u></u>

TABLE 3

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$ 43,468	\$ 17,761	\$ 25,339	\$ 23,524	\$ 24,628	\$ 24,104
21,850	1,740	2,171	7,298	10,177	9,477
21,769	25,398	27,728	31,574	35,640	38,436
36	10	5	16	34	64
-	-	-	378	378	378
43,655	27,148	29,904	39,266	46,229	48,355
-	-	-	-	-	295,779
2,524,777	2,702,746	3,077,462	2,514,179	3,008,608	3,158,573
<u>\$ 2,611,900</u>	<u>\$ 2,747,655</u>	<u>\$ 3,132,705</u>	<u>\$ 2,576,969</u>	<u>\$ 3,079,465</u>	<u>\$ 3,526,811</u>

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

	Fiscal Year			
	2003	2004	2005	2006
REVENUES				
Taxes	\$ 1,611,512	\$ 1,703,432	\$ 1,794,960	\$ 1,889,989
Licenses and Permits	121,773	133,773	136,025	145,146
Fines and Forfeits	70,750	72,764	77,167	105,001
Utility Management Fee	80,524	77,115	103,894	126,018
Interest	18,134	18,535	60,555	114,243
Miscellaneous	47,288	8,367	13,801	23,385
TOTAL REVENUES	<u>1,949,981</u>	<u>2,013,986</u>	<u>2,186,402</u>	<u>2,403,782</u>
EXPENDITURES				
Current:				
City Administration	281,759	316,207	320,695	387,656
Municipal Court	56,113	59,960	59,773	63,331
Public Safety	794,179	490,428	629,496	714,975
Public Health/Emergency	-	169,134	175,339	182,517
Building Codes	-	69,061	75,732	74,314
Public Works	460,616	502,401	547,288	362,983
Culture and Recreation	68,978	23,553	48,834	41,872
Capital Projects/Outlay	90,466	23,665	9,065	16,287
Debt Service:				
Capital Lease Payments	-	-	-	-
Capital Lease Interest	-	-	-	-
TOTAL EXPENDITURES	<u>1,752,111</u>	<u>1,654,409</u>	<u>1,866,222</u>	<u>1,843,935</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>197,870</u>	<u>359,577</u>	<u>320,180</u>	<u>559,847</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of Capital Lease Financing	-	-	-	-
Transfer from Other Funds	-	-	-	-
Proceeds from Disposal of Equipment	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net Change in Fund Balance	 <u>\$ 197,870</u>	 <u>\$ 359,577</u>	 <u>\$ 320,180</u>	 <u>\$ 559,847</u>
 Debt Service as a Percentage of Noncapital Expenditures	 -	 -	 -	 -

TABLE 4

Fiscal Year					
2007	2008	2009	2010	2011	2012
\$2,025,748	\$2,277,623	\$2,766,918	\$2,951,739	\$2,968,775	\$2,988,981
164,827	125,162	86,388	94,654	82,070	135,992
105,291	119,263	78,503	120,941	131,279	126,633
97,667	130,993	145,430	113,889	159,071	159,435
165,411	110,430	29,017	10,691	7,324	7,213
38,122	22,518	27,102	36,847	100,284	182,135
<u>2,597,066</u>	<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>
575,105	452,963	463,894	632,220	533,332	548,635
66,621	71,893	74,356	70,340	77,203	75,754
847,545	962,543	1,058,030	1,184,137	1,250,707	1,282,550
180,657	267,360	205,765	304,614	216,613	242,174
80,166	84,258	89,412	84,319	86,864	88,663
432,025	644,430	667,404	605,504	658,761	700,305
108,073	88,634	58,273	32,352	47,335	125,537
71,845	163,070	92,434	900,732	48,399	89,425
67,825	65,237	90,312	76,660	48,181	-
-	8,579	2,548	4,225	1,200	-
<u>2,429,862</u>	<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>167,204</u>	<u>(22,978)</u>	<u>330,930</u>	<u>(566,342)</u>	<u>480,208</u>	<u>447,346</u>
71,845	153,430	43,514	-	-	-
-	5,303	10,606	10,606	5,303	-
-	-	-	-	16,985	-
<u>71,845</u>	<u>158,733</u>	<u>54,120</u>	<u>10,606</u>	<u>22,288</u>	<u>-</u>
<u>\$ 239,049</u>	<u>\$ 135,755</u>	<u>\$ 385,050</u>	<u>\$ (555,736)</u>	<u>\$ 502,496</u>	<u>\$ 447,346</u>
2.9%	2.8%	3.4%	2.7%	1.7%	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
2003	\$ 1,406,858	\$ -	\$ 199,650	\$ 5,004	\$ 1,611,512
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

CITY OF FAIR OAKS RANCH, TEXAS
 ASSESSED VALUE AND ACTUAL TAXABLE PROPERTY
 LAST EIGHT 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	0.2500
2008	838,453,794	65,125,001	69,342,898	834,235,897	0.2440
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	1,013,787,737	22,619,805	67,537,287	968,870,255	0.2461

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
2003	0.26700	1.660	0.333671	0.38000	0.333740	2.974411
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

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>	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Fair Oaks Club Corp	\$ 6,868,779	1	0.71%	\$ 7,264,780	1	1.28%
Fair Oaks Village II LTD	4,216,000	2	0.44%			0.00%
Greenland Ventures	3,360,040	3	0.35%			0.00%
Frost National Bank	2,486,600	4	0.26%			0.00%
B&M Fair Oaks	2,096,668	5	0.22%			0.00%
MTC Holdings ltd	2,067,550	6	0.21%			0.00%
Guadalupe Valley Telephone	1,760,764	7	0.18%	2,051,160	4	0.36%
P. Steldt	1,440,580	8	0.15%			0.00%
K. Moore	1,373,350	9	0.14%			0.00%
Ralph E. Fair, Inc	1,362,670	10	0.14%	3,031,688	2	0.53%
Armstrong Family Trust				2,176,000	3	0.38%
T. Powell				1,247,440	5	0.22%
P. Bilbrey				1,099,800	6	0.19%
G. Frashier				925,130	7	0.16%
G. Rapier				904,230	8	0.16%
C. Hansborough				871,360	9	0.15%
Community Properties				805,680	10	0.14%
Total	\$ 27,033,001		2.79%	\$ 20,377,268		3.57%

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

TABLE 9

Fiscal Year Ended September 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections In Subsequent Years	Total Collections to Date	
		Amount*	Percentage of Levy		Amount	Percentage of Levy
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%	16,547	1,806,240	99.95%
2008	2,035,536	2,015,608	99.02%	17,212	2,032,820	99.87%
2009	2,259,896	2,226,351	98.52%	27,803	2,254,154	99.75%
2010	2,340,064	2,318,698	99.09%	14,674	2,333,372	99.71%
2011	2,357,767	2,340,869	99.28%	8,927	2,349,796	99.66%
2012	2,381,119	2,357,934	99.03%	-	2,357,934	99.03%

Source: Kendall County Appraisal District

* Includes discounts allowed for early payments. Discounts taken for the fiscal year ended September 30, 2012 were \$54,619.

CITY OF FAIR OAKS RANCH, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST NINE 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

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

*See Population figures on page 65.

CITY OF FAIR OAKS RANCH, TEXAS
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST NINE 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%
2011	6084	60,195	50.9	776	6.1%

Sources: Population based City Resolution 2012-01. 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	2012		2003	
	Employees	Rank	Employees	Rank
Fair Oaks Ranch Country Club	159	1	154	1
Fair Oaks Ranch Elementary	71	2	72	2
City of Fair Oaks Ranch	39	3	25	3
Total	269		251	

