

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2023

abip

CPAs | ADVISORS

CLIENT **FOCUSED.** RELATIONSHIP **DRIVEN.**

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

TABLE OF CONTENTS

September 30, 2023

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3-4
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	6
Statement of Activities	7
Balance Sheet	8
Statement of Revenues, Expenditures, and Changes in Fund Balance	9
Notes to Financial Statements	10-13
REQUIRED SUPPLEMENTARY INFORMATION:	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	15
Notes to Required Supplementary Information	16

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
City of Fair Oaks Ranch Municipal Development District
Fair Oaks Ranch, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the City of Fair Oaks Ranch Municipal Development District (the "District"), a component unit of the City of Fair Oaks Ranch, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District, as of September 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

ABIP, PC

San Antonio, Texas
January 10, 2024

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the City of Fair Oaks Ranch Municipal Development District (the “District”), a component unit of the City of Fair Oaks Ranch, Texas (the “City”), provides an overview of the District’s financial activity for the fiscal year ended September 30, 2023. It should be read in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS

- The District’s assets exceeded its liabilities by \$2,701,087 (net position) at September 30, 2023.
- The District’s total revenues were \$563,347 while total expenses were \$38,195, thereby increasing the District’s net position by \$525,152.
- The District reported an ending fund balance of \$2,701,087, an increase of \$525,152.

DISTRICT’S HIGHLIGHTS

The City of Fair Oaks Ranch Municipal Development District was formed on May 7, 2011 as a political subdivision of the State of Texas and the City of Fair Oaks Ranch in accordance with Chapter 377 of the Texas Local Government Code. It receives all of the proceeds from a 1/2 cent sales tax approved by a vote of the citizens in 2011 for economic development in the City of Fair Oaks Ranch and the Bexar County and Kendall County ETJ.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of three parts: management’s discussion and analysis, basic financial statements, and required supplementary information. The statement of net position and activities provide information on the District as a whole. The District’s net position, the difference between assets and liabilities, provides one way to measure financial health or financial position of the District.

Statement of Net Position

Table 1 shows all assets and liabilities of the District and is presented on the accrual basis of accounting. The total net position is \$2,701,087 as of September 30, 2023.

TABLE 1
CITY OF FAIR OAKS MUNICIPAL DEVELOPMENT DISTRICT
STATEMENT OF NET POSITION
SEPTEMBER 30,

	<u>2023</u>	<u>2022</u>
Cash and investments	\$ 2,623,523	\$ 2,106,718
Accounts receivable	77,739	69,254
Total assets	<u>2,701,262</u>	<u>2,175,972</u>
Accounts payable	<u>175</u>	<u>37</u>
Unrestricted net position	<u>\$ 2,701,087</u>	<u>\$ 2,175,935</u>

Statement of Activities

Table 2 shows summarized expenses and revenues of the District and is also presented on the accrual basis of accounting. General revenues consist primarily of the 1/2 cent sales tax the District collects from retail sales within the City of Fair Oaks Ranch.

TABLE 2
CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT
CHANGE IN NET POSITION
SEPTEMBER 30,

	2023	2022
General revenues	\$ 453,885	\$ 421,183
Investment income	109,462	13,855
Total revenues	563,347	435,038
Administrative expenses	470	-
Management service fee to the City of Fair Oaks Ranch, Texas	30,150	30,150
Professional services	7,525	10,335
Insurance	50	50
Total expenses	38,195	40,535
Changes in net position	\$ 525,152	\$ 394,503

BUDGET ANALYSIS

The District adopted a budget for the 2023 fiscal year with \$418,000 in revenues and \$42,050 in expenditures. Actual revenue exceeded the budget by \$145,347, and actual expenditures were \$3,855 less than the budget.

ANALYSIS OF THE DISTRICT’S FUNDS

There are currently no differences between the government-wide financial statements and the fund statements of the District.

Description of Current and Expected Conditions – The District has budgeted \$533,000 in revenues and \$42,050 in expenditures for the 2024 fiscal year, with \$490,950 going to reserves for future capital projects.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances and to show the District’s accountability to its taxpayers. The District is a component unit of the City of Fair Oaks Ranch, Texas and therefore is presented with the City’s finances. If you have any questions about this report, need additional financial information, or information on the City of Fair Oaks Ranch, Texas finances, contact the City of Fair Oaks Ranch Municipal Development District at 7286 Dietz Elkhorn, Fair Oaks Ranch, Texas 78015.

BASIC FINANCIAL STATEMENTS

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

STATEMENT OF NET POSITION

September 30, 2023

ASSETS

Cash and cash equivalents	\$ 2,623,523
Accounts receivable	<u>77,739</u>
Total assets	<u>2,701,262</u>

LIABILITIES

Accounts payable	<u>175</u>
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NET POSITION

Unrestricted	<u><u>\$ 2,701,087</u></u>
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The accompanying notes are an integral part of these statements.

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

STATEMENT OF ACTIVITIES

For the year ended September 30, 2023

EXPENSES

General government	
Administrative expenses	\$ 470
Management service fee to the City of Fair Oaks Ranch, Texas	30,150
Professional services	7,525
Insurance	<u>50</u>
Total general government expenses	<u>38,195</u>

GENERAL REVENUES

Sales taxes	453,885
Investment income	<u>109,462</u>
Total general revenues	<u>563,347</u>

CHANGE IN NET POSITION 525,152

NET POSITION - BEGINNING 2,175,935

NET POSITION - ENDING \$ 2,701,087

The accompanying notes are an integral part of these statements.

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

BALANCE SHEET

September 30, 2023

ASSETS

Cash and cash equivalents	\$ 2,623,523
Accounts receivable	<u>77,739</u>
Total assets	<u>\$ 2,701,262</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$ 175

FUND BALANCE

Committed for:	
Infrastructure improvements	1,200,000
Assigned for:	
Infrastructure improvements	1,451,087
Unassigned fund balance	<u>50,000</u>
Total fund balances	<u>2,701,087</u>

Total liabilities and fund balance	<u>\$ 2,701,262</u>
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RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION:

TOTAL FUND BALANCE	<u>\$ 2,701,087</u>
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TOTAL NET POSITION	<u>\$ 2,701,087</u>
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The accompanying notes are an integral part of these statements.

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE**

For the year ended September 30, 2023

REVENUES	
Sales taxes	\$ 453,885
Investment income	<u>109,462</u>
Total revenues	<u>563,347</u>
EXPENDITURES	
General government	
Administrative expenditures	470
Management service fee to the City of Fair Oaks Ranch, Texas	30,150
Professional services	7,525
Insurance	<u>50</u>
Total general government expenditures	<u>38,195</u>
Net change in fund balance	<u>525,152</u>
BEGINNING FUND BALANCE	<u>2,175,935</u>
ENDING FUND BALANCE	<u>\$ 2,701,087</u>
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES:	
NET CHANGE IN FUND BALANCE	<u>\$ 525,152</u>
CHANGE IN NET POSITION	<u>\$ 525,152</u>

The accompanying notes are an integral part of these statements.

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2023

(1) Summary of significant accounting policies

Financial reporting entity

The City of Fair Oaks Ranch Municipal Development District (the “District”) is a political subdivision of the State of Texas and the City of Fair Oaks Ranch in accordance with Chapter 377 of the Texas Local Government Code. The District was created May 7, 2011 to act on behalf of the City for promotion, development and enhancement of economic development within the City of Fair Oaks Ranch. As a separate legal entity whose Board of Directors is appointed by, and whose budget must be approved by the City Council of the City of Fair Oaks Ranch, the District is considered a component unit of the City of Fair Oaks Ranch.

The financial statements of the District 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 government accounting and financial reporting principles. The financial statements present the financial position and results of operations of the District only.

Basis of presentation

The government-wide financial statements are presented in accordance with GASB 34, which mandates government-wide financial statements of net position and activities, and are presented on the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of the related cash flows. It also requires that fixed assets be recorded at cost less accumulated depreciation.

Governmental funds use the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable (flow of current financial resources measurement focus). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Budgets

The District adopts annual operating, and, if necessary, capital budgets which are approved by the City of Fair Oaks Ranch, Texas’s City Council. Formal budgetary accounting is employed as a management control. The budgets can be amended by the Board of Directors, subject to City Council approval. Actual expenditures cannot legally exceed budgeted appropriations at the fund level. All budgeted appropriations lapse at the end of each fiscal year.

Cash and cash equivalents

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

Sales tax revenue

In 2011, the citizens of the City of Fair Oaks Ranch approved by a vote an additional one-half of one percent (1/2 cent or \$0.005) local sales and use tax to be used by the District for economic development within the City of Fair Oaks Ranch and the Bexar County and Kendall County ETJ.

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2023

(1) Summary of significant accounting policies (continued)

Fund balance

Committed – represents amounts that can only be used for the specific purpose imposed by formal action of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of formal action it employed to previously commit those amounts.

Assigned – represents amounts which the District intends to use for a specific purpose but do not meet the criteria of restricted or committed.

Unassigned – represents the residual balance that may be spent on any other purpose of the District.

When an expenditure is incurred for a purpose in which multiple classifications are available, the District considers committed or assigned balances spent first before unassigned.

Net position

Net position represents the difference between assets and liabilities.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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.

Implementation of new accounting principles

The District adopted the provisions of GASB Statement No. 96, *Subscription Based Information Technology Arrangements (SBITAs)*. The Statement is based on the principle that SBITAs are financings of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). It establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability.

(2) Deposits and investments

Deposits

Custodial credit risk – at September 30, 2023, the carrying amount of the District's deposits in the bank was \$98,830 and the bank balance was the same. The bank balance was fully covered by federal deposit insurance as of September 30, 2023.

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2023

(2) Deposits and investments (continued)

Investments

The District 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) allowance 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 statement disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District has adhered to the requirements of the Act. Investment practices of the District were in accordance with local policies. The Act determines the types of investments which are allowable for the District. 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 District’s investments at September 30, 2023 were as shown below:

	<u>Rating</u>	<u>Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool (valued at amortized cost)	AAAm	\$ 460,407	28
Texas Class (valued at NAV)	AAAm	<u>2,064,285</u>	49
Total		<u>\$ 2,524,692</u>	
Weighted average maturity			45

Custodial credit risk

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. All of the District’s investments are held by its agents in the District’s name.

Interest rate risk

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its operating investment portfolio to less than 13 months. The District’s investment policy limits the final stated maturity of any security to no more than two years. As a matter of policy, the District holds all investments to maturity.

Credit risk

The District’s investment policy states that investments in local government pools will be no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service.

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2023

(2) Deposits and investments (continued)

Investment accounting policy

The District'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.

Public funds investment pools

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

TexPool is an investment pool in which the Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company (the Trust Company), which is authorized to operate the pool. Federated Investors, Inc. manages the assets under an agreement with the Comptroller, acting on behalf of the Trust Company. TexPool is reported at amortized cost and does not have any limitations or restrictions on participants' withdrawals.

The City is invested in Texas Cooperative Liquid Assets Securities System (Texas CLASS) Trust. Texas CLASS was created as an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code, or other laws of the State of Texas governing the investment of funds of a participant or funds under its control. Texas CLASS is administered by Public Trust Advisors, LLC with Wells Fargo Bank Texas, NA as the Custodian and is supervised by a Board of Trustees who are elected by the participants. The District does not have any unfunded commitments related to the pool. Each investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity. The fair value of the investments in each pool have been determined using the NAV per share of investments. The redemption frequency is daily and there is not a redemption notice period for the pool.

(3) Litigation

Management of the District is not aware of any pending litigation.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

For the year ended September 30, 2023

	Budgeted Amounts		Actual Amounts 2023	Variance with Final Budget Positive (Negative)	Actual Amounts 2022
	Original	Final			
REVENUES					
Sales taxes	\$ 410,000	\$ 410,000	\$ 453,885	\$ 43,885	\$ 421,183
Investment income	8,000	8,000	109,462	101,462	13,855
Total revenues	<u>418,000</u>	<u>418,000</u>	<u>563,347</u>	<u>145,347</u>	<u>435,038</u>
EXPENDITURES					
Administrative expenditures	750	750	470	280	-
Management service fee - COFOR	30,150	30,150	30,150	-	30,150
Professional services	11,100	11,100	7,525	3,575	10,335
Insurance	<u>50</u>	<u>50</u>	<u>50</u>	<u>-</u>	<u>50</u>
Total expenditures	<u>42,050</u>	<u>42,050</u>	<u>38,195</u>	<u>3,855</u>	<u>40,535</u>
Excess (deficiency) of revenues over (under) expenditures	375,950	375,950	525,152	149,202	394,503
FUND BALANCE - BEGINNING	<u>2,175,935</u>	<u>2,175,935</u>	<u>2,175,935</u>	<u>-</u>	<u>1,781,432</u>
FUND BALANCE - ENDING	<u>\$ 2,551,885</u>	<u>\$ 2,551,885</u>	<u>\$ 2,701,087</u>	<u>\$ 149,202</u>	<u>\$ 2,175,935</u>

CITY OF FAIR OAKS RANCH MUNICIPAL DEVELOPMENT DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

September 30, 2023

Budgetary information

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

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

The District does not use encumbrances.