

AVERY RANCH ROAD DISTRICT #1

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2009

AVERY RANCH ROAD DISTRICT #1

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Avery Ranch Road District #1

We have audited the accompanying financial statements of the governmental activities and each major fund of Avery Ranch Road District #1 (the "District"), component unit of Williamson County, Texas, as of and for the year ended September 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these basic 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 and major funds of the District as of September 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Pattillo, Brown & Hill, L.L.P.

March 12, 2010

Management's Discussion and Analysis

As management of the Avery Ranch Road District No. 1 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2009. We encourage readers to consider the information presented here in conjunction with the basic financial statements which follow this section.

Overview of the District:

The District is a political subdivision of the State of Texas created by order of the Williamson County Commissioners' Court on February 27, 2001, and confirmed at an election held within the District on May 5, 2001, and operates pursuant to Article III, Section 52 of the Texas Constitution, Chapter 257 of the Texas Transportation Code and Section 1471 of the Texas Government Code. The District was created for the main purpose of constructing or reimbursing the developers, Continental Homes of Texas, L.P., a Texas limited partnership, Avery Ranch, Ltd., a Texas limited partnership, and Rathgeber Investment Company, Ltd., a Texas limited partnership, for the costs of constructing, acquiring by purchase, maintaining and operating a four-lane divided road within the District, known as Avery Ranch Boulevard. The District is located in the City of Austin and in the extraterritorial jurisdiction of the City of Austin, all within Williamson County, Texas.

Financial Highlights:

- The liabilities of the Avery Ranch Road District #1 exceeded its assets as of September 30, 2009, by \$13,006,042 (i.e. Net assets).
- The District's total net assets increased by \$612,386 during the year.
- Cash and investments equaled \$930,409 of which \$886,159 is held for debt service and \$44,250 in the General Fund.
- Annual expenses consist of debt service payments, related debt service fees such as paying agent/registrar fees, and reimbursing the developers.

Overview of the Financial Statements:

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: (1) Management's Discussion and Analysis (this section); (2) government-wide financial statements, which include the fund financial statements, and (3) notes to the financial statements.

The financial statements include the Statement of Net Assets and Governmental Fund Balance Sheet and Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance that present information for the District as a whole and provide an indication of the District's financial health.

The Statement of Net Assets presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes).

The District's taxable assessed value as of January 1, 2009, was about \$923,795,246 compared to \$768,739,527 as of January 1, 2008. The tax rate is set after reviewing operating and debt service requirements. The District's primary revenue source is property taxes.

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District's funds are Governmental funds. Governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The financial statements can be found on pages 5 through 6 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 7 through 12 of this report.

Financial Analysis:

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. As of September 30, 2009, the District's liabilities exceeded assets by \$13,006,042.

Avery Ranch Road District Net Assets

	<u>2009</u>	<u>2008</u>
Assets	\$ 1,392,650	\$ 1,410,103
Long-term liabilities	14,315,529	14,941,629
Other liabilities	<u>83,163</u>	<u>86,902</u>
Total liabilities	14,398,692	15,028,531
Net assets:		
Restricted	804,971	778,596
Nonrestricted	<u>(13,811,013)</u>	<u>(14,397,024)</u>
Total net assets	<u><u>\$ (13,006,042)</u></u>	<u><u>\$ (13,618,428)</u></u>

Overall, the District had an increase in net assets of \$612,386. This increase is primarily related to the District paying down the principal balance of bonded debt and the increase in property tax base.

Avery Ranch Road District's Change in Net Assets

	<u>2009</u>	<u>2008</u>
Revenues:		
General revenues:		
Assessment	\$ 1,380,548	\$ 1,362,517
Interest	<u>5,686</u>	<u>41,836</u>
Total general revenues	<u>1,386,234</u>	<u>1,404,353</u>
Expenses:		
General government	5,000	10,089
Interest and fiscal charges	<u>768,848</u>	<u>793,614</u>
Total expenses	<u>773,848</u>	<u>803,703</u>
CHANGE IN NET ASSETS	612,386	600,650
NET ASSETS, BEGINNING	<u>(13,618,428)</u>	<u>(14,219,078)</u>
NET ASSETS, ENDING	<u><u>\$ (13,006,042)</u></u>	<u><u>\$ (13,618,428)</u></u>

Daily operating expenses are paid out of the General Fund. The Debt Service Fund remitted bond principal payments of \$665,000 and fiscal and interest charges of \$698,209.

Long-term Debt

	<u>Bonds Payable</u>
Series 2002	\$ 1,900,000
Series 2003	3,875,000
Series 2005	5,360,000
Series 2007	<u>3,415,000</u>
Total	<u><u>\$ 14,550,000</u></u>

The District owes \$14,550,000 to bond holders. During the year, the principal balance was reduced by \$665,000. More detailed information about the District's long-term debt is presented in the notes to the financial statements.

Discussion of Currently Known Facts, Decision or Condition in Fiscal Year 2009:

The property tax base as of January 1, 2009, is \$923,795,246. The tax rate is \$0.144670 on each \$100 of taxable value. Approximately 100% of the property tax will be set aside for debt service.

Requests for Information:

This financial report is designed to provide our citizens with a general overview of the District's finances. If you have any questions about this report or need any additional information, please contact the Williamson County Auditor's Office at (512) 943-1500; 710 Main Street, Suite 301, Georgetown, Texas 78626.

AVERY RANCH ROAD DISTRICT #1

STATEMENT OF NET ASSETS
AND GOVERNMENTAL FUND BALANCE SHEET

SEPTEMBER 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS					
Cash and investments	\$ 44,250	\$ 886,159	\$ 930,409	\$ -	\$ 930,409
Property taxes receivable	-	1,975	1,975	-	1,975
Deferred charges	-	-	-	460,266	460,266
Total assets	<u>44,250</u>	<u>888,134</u>	<u>932,384</u>	<u>460,266</u>	<u>1,392,650</u>
LIABILITIES					
Interest payable	-	-	-	83,163	83,163
Deferred revenue	-	1,581	1,581	(1,581)	-
Non-current liabilities:					
Due within one year	-	-	-	676,100	676,100
Due in more than one year	-	-	-	13,639,429	13,639,429
Total liabilities	<u>-</u>	<u>1,581</u>	<u>1,581</u>	<u>14,397,111</u>	<u>14,398,692</u>
FUND BALANCE/NET ASSETS					
Fund balance:					
Unreserved, undesignated	<u>44,250</u>	<u>886,553</u>	<u>930,803</u>	(930,803)	
Total fund balance	<u>44,250</u>	<u>886,553</u>	<u>930,803</u>	(930,803)	
Total liabilities and fund balance	<u>\$ 44,250</u>	<u>\$ 888,134</u>	<u>\$ 932,384</u>		
Net assets:					
Restricted for debt service				804,971	804,971
Unrestricted				<u>(13,811,013)</u>	<u>(13,811,013)</u>
Total net assets				<u>\$(13,006,042)</u>	<u>\$(13,006,042)</u>

The accompanying notes are an integral part of these financial statements.

AVERY RANCH ROAD DISTRICT #1

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Totals</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses:					
Current:					
General government	\$ 5,000	\$ -	\$ 5,000	\$ -	\$ 5,000
Debt service:					
Principal	-	665,000	665,000	(665,000)	-
Interest and fiscal charges	-	698,209	698,209	70,639	768,848
Total expenditures/expenses	<u>5,000</u>	<u>1,363,209</u>	<u>1,368,209</u>	<u>(594,361)</u>	<u>773,848</u>
General revenues:					
Assessment	-	1,380,159	1,380,159	389	1,380,548
Interest	<u>389</u>	<u>5,297</u>	<u>5,686</u>	<u>-</u>	<u>5,686</u>
Total general revenues	<u>389</u>	<u>1,385,456</u>	<u>1,385,845</u>	<u>389</u>	<u>1,386,234</u>
Change in fund balance/net assets	(4,611)	22,247	17,636	594,750	612,386
Fund balance/net assets:					
Beginning	<u>48,861</u>	<u>864,306</u>	<u>913,167</u>	<u>(14,531,595)</u>	<u>(13,618,428)</u>
Ending	\$ <u>44,250</u>	\$ <u>886,553</u>	\$ <u>930,803</u>	\$ <u>(13,936,845)</u>	\$ <u>(13,006,042)</u>

The accompanying notes are an integral part of these financial statements.

AVERY RANCH ROAD DISTRICT #1

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Chapter 257 of the Texas Transportation Code and Chapter 1471, Texas Government Code allow a commissioners' court of a county to establish one or more road districts in the county. A road district created pursuant to the Act is a political subdivision and a body corporate of the State of Texas. The Avery Ranch Road District No. 1 (the "District") was created by order of the Williamson County Commissioners' Court on February 27, 2001, in accordance with the Texas Government Code and Article III, Section 52 of the Texas Constitution.

The District is governed by the Williamson County Commissioners' Court and is considered to be a component unit of Williamson County.

On May 11, 2001, the District's voters authorized the issuance of unlimited tax bonds for the purpose of reimbursing the developer for the construction costs of developing roads within the District. The District issues unlimited tax bonds to reimburse developers after each construction project is completed. The bonds are payable from property taxes.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the government. *Governmental activities* are supported by property taxes and investment revenue.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenue* includes 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. Property taxes and other items not properly included among program revenue are reported instead as *general revenue*.

The government-wide and fund financial statements are provided for the governmental fund of the District with a column for adjustments between the two statements.

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*. Revenue is 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 revenue in the year for which they are levied.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

The District reports the following major governmental funds:

The **General Fund** is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Debt Service Fund** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Assets, Liabilities and Net Assets or Equity

Cash and Investments

Investments for the District are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables

Property taxes are levied on October 1 and attach as an enforceable lien on property as of January 1. Statements are mailed on October 1, or as soon thereafter as possible, and are due upon receipt. All unpaid taxes become delinquent if not paid before February 1 of the following year.

(continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Receivables and Payables (Continued)

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or 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.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As of September 30, 2009, the District does not have reservations or designations of fund balance.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors or laws or regulations of other governments.

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 disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

2. STEWARDSHIP AND ACCOUNTABILITY

Budgetary Information

The District does not have a legally adopted budget.

Deficit Net Assets

A net asset deficit of \$13,618,428 exists in governmental activities as of September 30, 2009. This deficit is the result of the District issuing bonds to finance the construction of roads contributed to the City of Austin. As of September 30, 2009, the amount of bonds outstanding that were used to finance construction of assets transferred to the City of Austin was \$13,006,042.

3. DETAILED NOTES ON ALL FUNDS

Investments

As of September 30, 2009, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 44,250	43
Dreyfus	<u>886,159</u>	42
Total fair value	<u>\$ 930,409</u>	

The District's investment pool is 2a7-like pool. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Interest Rate Risk. In accordance with its investment policy, the District manages its exposure to declines in fair market values by limiting the average dollar weighted maturity of its investment portfolios to a maximum of 180 days.

Credit Risk. It is the District's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The District's investment pool was rated AAAm by Standard & Poor's Investors Service and the Dreyfus Funds were rated AAAm by Standard & Poor's Investors Service.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt

Unlimited Tax Road and Refunding Bonds

In September of 2002, the District issued \$6,425,000 in Unlimited Tax Road Bonds. The bonds constitute direct obligations of the District payable from ad valorem taxes levied upon all taxable property located within the Road District. Interest at rates ranging from 4.9% to 5.75% is payable at February 15 and August 15 of each year.

In August of 2003, the District issued \$4,620,000 in Unlimited Tax Road Bonds. The bonds constitute direct obligations of the District payable from ad valorem taxes levied upon all taxable property located within the Road District. Interest at rates ranging from 3.5% to 5.0% is payable at February 15 and August 15 of each year.

In August of 2005, the District issued \$5,955,000 in Unlimited Tax Road Bonds. The bonds constituted direct obligations of the District payable from ad valorem taxes levied upon all taxable property located within the Road District. Interest at rates ranging from 4.0% to 4.8% is payable at February 15 and August 15 of each year.

In July of 2007, the District issued \$3,535,000 in Unlimited Tax Refunding Bonds to purchase U. S. Government State and Local Government Series Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,534,378 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$352,490. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to decrease the total debt service payments over the next 9 years by \$157,216, and resulted in an economic gain of \$115,294. The bonds constitute direct obligations of the District payable from ad valorem taxes levied upon all taxable property located within the Road District. Interest at rates ranging from 3.9% to 5.5% is payable at February 15 and August 15 of each year.

Long-term liability activity for the year ended September 30, 2009, was as follow:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities:</u>					
Unlimited tax	\$ 11,775,000	\$ -	\$ 640,000	\$ 11,135,000	\$ 690,000
Refunding bonds	3,440,000	-	25,000	3,415,000	25,000
Deferred loss on refunding of bonds	(274,158)	-	(39,166)	(234,992)	(39,166)
Premium on issuance of bonds	24,213	-	1,730	22,483	1,730
Discount on issuance of bonds	(23,426)	-	(1,464)	(21,962)	(1,464)
Governmental activities long-term liabilities	<u>\$ 14,941,629</u>	<u>\$ -</u>	<u>\$ 626,100</u>	<u>\$ 14,315,529</u>	<u>\$ 676,100</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

Long-term Debt

Unlimited Tax Road and Refunding Bonds

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending September 30,	Governmental Activities		Total
	Principal	Interest	
2010	\$ 715,000	\$ 665,305	\$ 1,380,305
2011	725,000	633,205	1,358,205
2012	755,000	601,013	1,356,013
2013	795,000	566,688	1,361,688
2014	830,000	530,893	1,360,893
2015-2019	4,760,000	2,036,599	6,796,599
2020-2024	5,170,000	881,713	6,051,713
2025-2028	<u>800,000</u>	<u>38,400</u>	<u>838,400</u>
Total	\$ <u>14,550,000</u>	\$ <u>5,953,816</u>	\$ <u>20,503,816</u>