

ANNUAL FINANCIAL REPORT

of the

CITY OF FULSHEAR, TEXAS

For the Year Ended
September 30, 2011

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CITY OF FULSHEAR, TEXAS

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INTRODUCTORY SECTION

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CITY OF FULSHEAR, TEXAS

PRINCIPAL OFFICIALS

September 30, 2011

GOVERNING BODY

Honorable Tommy Kuykendall, Mayor

J.B. Collins Jr., Mayor Pro-Tem and Alderman

Larry Beusting, Alderman

Stephen Gill, Alderman

Laverne Patterson, Alderman

Jeff Roberts, Alderman

OTHER PRINCIPAL OFFICIALS

C.J. Snipes, City Administrator

D. Gordon Offord, City Secretary

Kristina J Brashear, City Finance Director

J. Grady Randle, City Attorney

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Fulshear, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the remaining fund information of the City of Fulshear, Texas (the "City") as of and for the year ended September 30, 2011, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 units, each major fund, and the remaining fund information of the City as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information, and schedule of funding progress, identified as Required Supplementary Information on the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the City's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
July 20, 2012

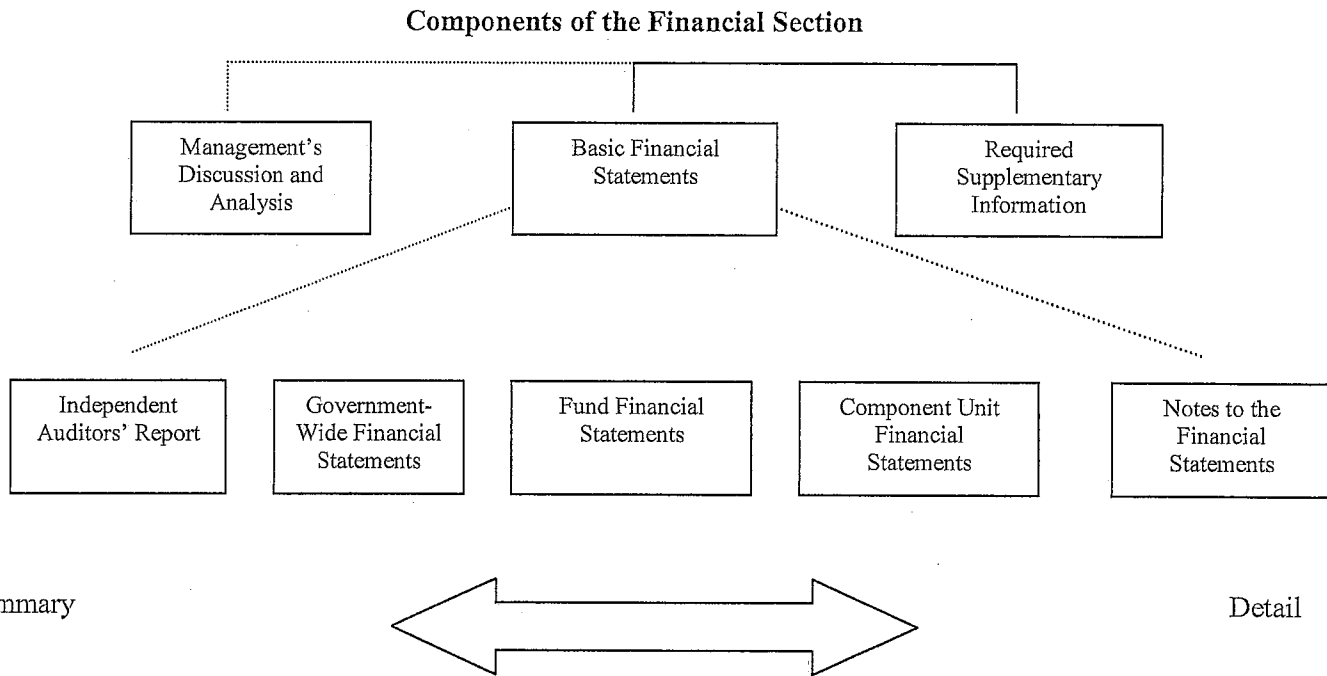
*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2011

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Fulshear, Texas (the "City") for the year ending September 30, 2011. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. GASB Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2011

The Statement of Net Assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows -- the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities divide the City into three classes of activities:

1. Governmental Activities -- Most of the City's basic services are reported here including general government, public safety, and public works. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-type Activities -- Services involving a fee for those services are reported here. These services include the City's water and sewer services, as well as solid waste collection.
3. Component Units -- The City of Fulshear itself is the primary government. The Fulshear Development Corporation (FDC) and City Development Corporation (CDC) are established as separate legal entities. The City maintains financial accountability, thus the FDC and CDC are reported as *component units*, separate from the financial transactions of the City.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City of Fulshear. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2011

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, capital projects, regional park, and municipal court funds.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with the budget.

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses two enterprise funds to account for its water distribution, wastewater collection/treatment, and solid waste operations. The proprietary fund financial statements provide separate information for the Fulshear facility and the Cross Creek Ranch facility funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain RSI. The RSI that GASB Statement No. 34 requires includes a budgetary comparison schedule for the general fund as well as a schedule of funding progress for the Texas Municipal Retirement System. The RSI can be found after the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$13,494,057 as of September 30, 2011. As required by GASB Statement No. 34, a comparative analysis of government-wide data has been presented as a component of the MD&A for the year ending September 30, 2011.

The largest portion of the City's net assets, 78 percent, reflects its investments in capital assets (e.g., land, building, equipment, improvements, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2011

Statement of Net Assets:

The following table reflects the condensed statement of net assets:

SUMMARY OF STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 2,557,903	\$ 1,691,083	\$ 654,283	\$ 240,166	\$ 3,212,186	\$ 1,931,249
Capital assets, net	814,314	916,553	9,768,635	9,813,506	10,582,949	10,730,059
Total Assets	3,372,217	2,607,636	10,422,918	10,053,672	13,795,135	12,661,308
Long-term liabilities	48,071	82,897	-	-	48,071	82,897
Other liabilities	96,339	97,420	156,668	135,528	253,007	232,948
Total Liabilities	144,410	180,317	156,668	135,528	301,078	315,845
Net assets:						
Invested in capital assets, net of related debt	768,821	838,399	9,768,635	9,813,506	10,537,456	10,651,905
Restricted	228,005	151,929	326,991	324,919	554,996	476,848
Unrestricted	2,230,981	1,436,991	170,624	(220,281)	2,401,605	1,216,710
Total Net Assets	\$ 3,227,807	\$ 2,427,319	\$ 10,266,250	\$ 9,918,144	\$ 13,494,057	\$ 12,345,463

A portion of the City's net assets, \$554,996 or four percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$2,401,605 or eighteen percent may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net assets increased by \$1,148,594 during the current fiscal year, an increase of nine percent in comparison to the prior year ended September 30, 2010. This increase is largely the result of an increase in charges for services in both governmental and business-type activities.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2011

Statement of Activities:

The following table provides a summary of the City's changes in net assets:

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues:						
Charges for services	\$ 1,110,279	\$ 894,449	\$ 1,268,549	\$ 663,596	\$ 2,378,828	\$ 1,558,045
Operating grants and contributions	-	36,822	-	-	-	36,822
Capital grants and contributions	21,711	20,980	239,860	584,700	261,571	605,680
General revenues:						
Property taxes	434,664	329,368	-	-	434,664	329,368
Sales taxes	242,167	193,461	-	-	242,167	193,461
Franchise taxes	123,906	69,672	-	-	123,906	69,672
Investment earnings	12,858	21,197	3,077	4,223	15,935	25,420
Other revenues	71,953	56,552	379,488	-	451,441	56,552
Total Revenues	<u>2,017,538</u>	<u>1,622,501</u>	<u>1,890,974</u>	<u>1,252,519</u>	<u>3,908,512</u>	<u>2,875,020</u>
Expenses						
General government	775,237	704,426	-	-	775,237	704,426
Public safety	577,650	610,587	-	-	577,650	610,587
Public works	237,907	149,765	-	-	237,907	149,765
Interest on long-term debt	3,127	2,971	-	-	3,127	2,971
Water and sewer	-	-	1,165,997	895,531	1,165,997	895,531
Total Expenses	<u>1,593,921</u>	<u>1,467,749</u>	<u>1,165,997</u>	<u>895,531</u>	<u>2,759,918</u>	<u>2,363,280</u>
Increase (Decrease) in Net Assets Before Transfers	423,617	154,752	724,977	356,988	1,148,594	511,740
Transfers	376,871	(37,000)	(376,871)	37,000	-	-
Change in Net Assets	800,488	117,752	348,106	393,988	1,148,594	511,740
Beginning Net Assets	2,427,319	2,309,567	9,918,144	9,524,156	12,345,463	11,833,723
Ending Net Assets	<u>\$ 3,227,807</u>	<u>\$ 2,427,319</u>	<u>\$ 10,266,250</u>	<u>\$ 9,918,144</u>	<u>\$ 13,494,057</u>	<u>\$ 12,345,463</u>

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2011

For the year ended September 30, 2011, revenues from governmental activities totaled \$2,017,538. Overall, governmental revenues increased by 24 percent. Service revenues, which are the City's largest revenue source, increased by 24 percent due to an increase in the permit and inspection fees compared to the prior year. A major increase in new development has caused these fees to increase.

For the year ended September 30, 2011, expenses for governmental activities totaled \$1,593,921, which represents an increase of \$126,172 from the previous year. Public works expenses had the largest increase of \$88,142. The increase is a result of increased activity due to growth in the area.

Charges for services for business-type activities increased \$604,953 or 91 percent from the previous year due to higher water consumption levels and the activity in the Cross Creek Ranch facility, which was contributed to the City in August 2008 as part of the development agreement for Cross Creek Ranch. As a result, water and sewer expenses have also increased by 30 percent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$2,390,845. Of this, \$14,790 is restricted for enabling legislation, \$213,215 is restricted for regional park, \$377,075 is assigned to capital projects, and \$1,785,765 is unassigned. There was an increase in the combined fund balance of \$848,577 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$1,785,765. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 117 percent of total general fund expenditures. The general fund demonstrated an overall increase of \$426,413 primarily due to an increase in the permit and inspection fees, property taxes, and charges for services.

Proprietary Funds – The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned decrease in budgeted fund balance in the amount of \$72,037 in the general fund. However, the net change in fund balance increased by \$426,413 resulting in a positive variance of \$498,450 from budgeted as amended over actual.

Actual general fund revenues were above amended budgeted revenues by \$420,704 for 2011. This net positive variance includes positive variances of \$71,740 for property taxes and \$246,744 for charges for services.

Actual expenditures were less than budgeted amounts by \$75,918 for the fiscal year. This net positive variance can be attributed to the positive variances in permits and inspections and public safety.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2011

CAPITAL ASSETS

At September 30, 2011, the City's governmental activities funds had invested \$814,314 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net decrease of \$102,239. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34 with an increase in depreciation expense of \$102,239.

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

LONG-TERM DEBT

At the end of the current year, the City had total capital lease obligations outstanding of \$45,493.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council has adopted the City's 2012 budget. The approval of the budget provides funding for the City's operating and capital costs for the 2012 fiscal year. The City expects revenues from all sources to remain consistent with the 2011 fiscal year and expects positive growth in net assets during 2012 for both governmental activities and business-type activities. The City's water, sewer, and garbage rates are reviewed by the City Council and adjusted based on current operating costs, customer demand and usage, and other pertinent factors affecting operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Kristina Brashear, City Finance Director, 30603 FM 1093, Fulshear, TX, 77441, telephone 281-346-1796, or for general City information, visit the City's website at www.fulsheartexas.gov.

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BASIC FINANCIAL STATEMENTS

CITY OF FULSHEAR, TEXAS

STATEMENT OF NET ASSETS

September 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 1,679,807	\$ 389,835	\$ 2,069,642
Investments	436,992	-	436,992
Receivables, net	137,691	240,770	378,461
Internal balances	303,313	(303,313)	-
Prepaid Costs	100	-	100
Restricted:			
Cash and investments	-	326,991	326,991
Total Current Assets	2,557,903	654,283	3,212,186
Capital assets:			
Non-depreciable capital assets	65,270	129,182	194,452
Depreciable capital assets, net	749,044	9,639,453	10,388,497
Total Noncurrent Assets	814,314	9,768,635	10,582,949
Total Assets	3,372,217	10,422,918	13,795,135
<u>Liabilities</u>			
Accounts payable and accrued liabilities	91,675	109,082	200,757
Customer deposits	4,664	47,586	52,250
Total Current Liabilities	96,339	156,668	253,007
Noncurrent liabilities:			
Due within one year	36,319	-	36,319
Due in more than one year	11,752	-	11,752
Total Noncurrent Liabilities	48,071	-	48,071
Total Liabilities	144,410	156,668	301,078
<u>Net Assets</u>			
Invested in capital assets, net of related debt	768,821	9,768,635	10,537,456
Restricted for:			
Enabling legislation	14,790	-	14,790
Regional park	213,215	-	213,215
Water and sewer system construction	-	326,991	326,991
Unrestricted	2,230,981	170,624	2,401,605
Total Net Assets	\$ 3,227,807	\$ 10,266,250	\$ 13,494,057

See Notes to Financial Statements.

Component Units

City of Fulshear Development Corporation	Fulshear Development Corporation
\$ 752,892	\$ 221,541
-	-
25,271	25,269
-	-
-	-
-	-
778,163	246,810
-	-
-	63,534
-	63,534
778,163	310,344
688	816
-	-
688	816
21,439	-
428,561	-
450,000	-
450,688	816
-	63,534
-	-
-	-
-	-
327,475	245,994
\$ 327,475	\$ 309,528

CITY OF FULSHEAR, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2011

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 775,237	\$ -	\$ 21,711
Public safety	577,650	553,044	-
Public works	237,907	557,235	-
Interest on long-term debt	3,127	-	-
Total Governmental Activities	1,593,921	1,110,279	21,711
Business-Type Activities			
Water and sewer	1,165,997	1,268,549	239,860
Total Business-Type Activities	1,165,997	1,268,549	239,860
Total Primary Government	\$ 2,759,918	\$ 2,378,828	\$ 261,571
Component Units			
City of Fulshear Development Corp.	\$ 35,791	\$ -	\$ -
Fulshear Development Corp.	31,519	-	-
Total Component Units	\$ 67,310	\$ -	\$ -

General Revenues:

- Property taxes
- Sales taxes
- Franchise taxes
- Investment earnings
- Other revenues
- Transfers

Total General Revenues

Change in Net Assets

Beginning Net Assets

Ending Net Assets

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Assets			Component Units	
Primary Government			City of Fulshear	Fulshear
Governmental	Business-Type	Total	Development	Development
Activities	Activities		Corporation	Corporation
\$ (753,526)	\$ -	\$ (753,526)	\$ -	\$ -
(24,606)	-	(24,606)	-	-
319,328	-	319,328	-	-
(3,127)	-	(3,127)	-	-
(461,931)	-	(461,931)	-	-
-	342,412	342,412	-	-
-	342,412	342,412	-	-
(461,931)	342,412	(119,519)	-	-
-	-	-	(35,791)	-
-	-	-	-	(31,519)
-	-	-	(35,791)	(31,519)
434,664	-	434,664	-	-
242,167	-	242,167	118,002	118,002
123,906	-	123,906	-	-
12,858	3,077	15,935	1,705	1,007
71,953	379,488	451,441	-	-
376,871	(376,871)	-	-	-
1,262,419	5,694	1,268,113	119,707	119,009
800,488	348,106	1,148,594	83,916	87,490
2,427,319	9,918,144	12,345,463	243,559	222,038
\$ 3,227,807	\$ 10,266,250	\$ 13,494,057	\$ 327,475	\$ 309,528

Total
Funds

\$ 1,679,807
436,992
137,691
336,275
100
\$ 2,590,865

\$ 91,675
32,962
70,719
4,664

200,020

213,215
14,790

377,075
1,785,765

2,390,845

65,270
749,044

70,719

(36,319)
(11,752)

\$ 3,227,807

CITY OF FULSHEAR, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2011

	Nonmajor			
	General	Regional Park	Capital Projects	Municipal Court
Revenues				
Taxes:				
Property	\$ 415,340	\$ -	\$ -	\$ -
Sales	242,167	-	-	-
Franchise	123,906	-	-	-
Public improvement fees	78,362	-	-	-
Licenses and permits	482,847	-	-	-
Charges for services	478,873	-	-	-
Fines and forfeitures	63,350	-	-	6,847
Investment earnings	11,012	1,626	204	16
Capital grants and contributions	21,711	-	-	-
Other revenues	30,525	36,600	-	-
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Total Revenues	1,948,093	38,226	204	6,863
Expenditures				
Current:				
General government	741,775	-	-	-
Public safety	551,206	-	-	-
Public works	197,739	-	-	-
Debt service:				
Principal	32,661	-	-	-
Interest	3,127	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	1,526,508	-	-	-
Excess of Revenues Over Expenditures	<hr/>	<hr/>	<hr/>	<hr/>
	421,585	38,226	204	6,863
Other Financing Sources				
Transfers in	-	-	376,871	-
Sale of capital assets	4,828	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Sources	4,828	-	376,871	-
Net Change in Fund Balances	<hr/>	<hr/>	<hr/>	<hr/>
	426,413	38,226	377,075	6,863
Beginning Fund Balances	1,359,352	174,989	-	7,927
	<hr/>	<hr/>	<hr/>	<hr/>
Ending Fund Balances	\$ 1,785,765	\$ 213,215	\$ 377,075	\$ 14,790

See Notes to Financial Statements.

**Total
Funds**

\$ 415,340
242,167
123,906
78,362
482,847
478,873
70,197
12,858
21,711
67,125

1,993,386

741,775
551,206
197,739

32,661
3,127

1,526,508

466,878

376,871
4,828

381,699

848,577

1,542,268

\$ 2,390,845

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CITY OF FULSHEAR, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2011

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

Net changes in fund balances - total governmental funds	\$	848,577
<p>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.</p>		
Depreciation expense		(102,239)
<p>Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.</p>		
		19,324
<p>The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.</p>		
Principal retirement		32,661
Compensated absences		2,165
		800,488
Change in Net Assets of Governmental Activities	\$	800,488

See Notes to Financial Statements.

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CITY OF FULSHEAR, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2011

Business-Type Activities - Enterprise Funds

	Fulshear Facility	CCR Facility	Total Funds
<u>Assets</u>			
Cash and cash equivalents	\$ 43,037	\$ 346,798	\$ 389,835
Accounts receivable, net	49,421	191,349	240,770
Due from other funds	22,122	-	22,122
Restricted assets:			
Cash and equivalents	326,991	-	326,991
Total Current Assets	441,571	538,147	979,718
Noncurrent assets:			
Capital assets:			
Nondepreciable	60,292	68,890	129,182
Depreciable, net	1,314,738	8,324,715	9,639,453
Total Capital Assets (Net)	1,375,030	8,393,605	9,768,635
Total Noncurrent Assets	1,375,030	8,393,605	9,768,635
Total Assets	\$ 1,816,601	\$ 8,931,752	\$ 10,748,353
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 26,404	\$ 82,678	\$ 109,082
Customer deposits	10,644	36,942	47,586
Due to other funds	286,961	38,474	325,435
Total Liabilities	324,009	158,094	482,103
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,375,030	8,393,605	9,768,635
Restricted for:			
Water and sewer construction	326,991	-	326,991
Unrestricted	(209,429)	380,053	170,624
Total Net Assets	\$ 1,492,592	\$ 8,773,658	\$ 10,266,250

See Notes to Financial Statements.

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CITY OF FULSHEAR, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

For the Year Ended September 30, 2011

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility	CCR Facility	Total Funds
<u>Operating Revenues</u>			
Charges for sales and services	\$ 308,230	\$ 960,319	\$ 1,268,549
Other revenue	378,329	1,159	379,488
Total Operating Revenues	686,559	961,478	1,648,037
<u>Operating Expenses</u>			
Costs of sales and services	268,691	612,575	881,266
Depreciation	80,962	203,769	284,731
Total Operating Expenses	349,653	816,344	1,165,997
Operating Income	336,906	145,134	482,040
<u>Nonoperating Revenues</u>			
Investment earnings	2,380	697	3,077
Total Nonoperating Revenues	2,380	697	3,077
Income Before Capital Contributions and Transfers	339,286	145,831	485,117
Transfers out	(376,871)	-	(376,871)
Capital contributions	-	239,860	239,860
Change in Net Assets	(37,585)	385,691	348,106
Beginning Net Assets	1,530,177	8,387,967	9,918,144
Ending Net Assets	\$ 1,492,592	\$ 8,773,658	\$ 10,266,250

See Notes to Financial Statements.

CITY OF FULSHEAR, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2) For the Year Ended September 30, 2011

Business-Type Activities - Enterprise Funds

	Fulshear Facility	CCR Facility	Total Funds
<u>Cash Flows from Operating Activities</u>			
Receipts from customers and users	\$ 660,488	\$ 859,493	\$ 1,519,981
Payments to suppliers	(251,645)	(591,851)	(843,496)
Net Cash Provided by Operating Activities	408,843	267,642	676,485
<u>Cash Flows from Capital and Related Financing Activities</u>			
Transfers to other funds	(376,871)	-	(376,871)
Net Cash (Used) by Capital and Related Financing Activities	(376,871)	-	(376,871)
<u>Cash Flows from Investing Activities</u>			
Sale of investments	202,234	-	202,234
Investment earnings	2,380	697	3,077
Net Cash Provided by Investing Activities	204,614	697	205,311
Net Increase in Cash and Cash Equivalents	236,586	268,339	504,925
Beginning cash and cash equivalents	133,442	78,459	211,901
Ending Cash and Cash equivalents	\$ 370,028	\$ 346,798	\$ 716,826
Unrestricted cash and cash equivalents	\$ 43,037	\$ 346,798	\$ 389,835
Restricted cash and cash equivalents	326,991	-	326,991
Total Cash and Cash equivalents	\$ 370,028	\$ 346,798	\$ 716,826

See Notes to Financial Statements.

CITY OF FULSHEAR, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2011

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility	CCR Facility	Total Funds
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 336,906	\$ 145,134	\$ 482,040
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	80,962	203,769	284,731
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in Current Assets:			
Accounts receivable	(20,635)	(101,984)	(122,619)
Due from other funds	(5,436)	-	(5,436)
Increase (Decrease) in Current Liabilities:			
Accounts payable and accrued liabilities	7,305	901	8,206
Customer deposits	1,031	11,903	12,934
Due to other funds	8,710	7,919	16,629
	\$ 408,843	\$ 267,642	\$ 676,485
Net Cash Provided by Operating Activities	\$ 408,843	\$ 267,642	\$ 676,485
Noncash investing, capital, and financing activities:			
Contributions of capital assets from developer	\$ -	\$ 239,860	\$ 239,860

See Notes to Financial Statements.

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CITY OF FULSHEAR, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Fulshear, Texas (the "City") was incorporated in 1977. The City Council is the principal legislative body of the City and is composed of five council members who serve two year terms. The mayor presides at the Council meetings. All powers of the City are vested in the City Council.

The City provides the following services: public safety to include police services, municipal court, streets, drainage, water and sewer services, solid waste collection and disposal, community development, and general administration.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The City of Fulshear Development Corporation and the Fulshear Development Corporation, although legally separate, are considered discretely presented component units and are part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate; and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Units

City of Fulshear Development Corporation

After voter approval on August 29, 2007 the City formed the City of Fulshear Development Corporation (CDC), a 4A development corporation. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for budgets and bonded debt issuances. CDC was created to manage and supervise the programs and activities with revenues from their portion (one half percent) of the sales tax increase of one percent, allowed by State of Texas law and approved by voters on August 29, 2007. The revenues are limited to manufacturing and industrial development.

Fulshear Development Corporation

After voter approval on August 29, 2007, the City formed the Fulshear Development Corporation (FDC), a 4B development corporation. The Board of Directors are appointed by and serve at the

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

discretion of the City Council. City Council approval is required for budgets and bonded debt issuances. FDC was created to manage and supervise the programs and activities with revenues from their portion (one half percent) of the sales tax increase of one percent, allowed by State of Texas law and approved by voters on August 29, 2007. The revenues are limited to quality of life improvements, including economic development that will attract and retain primary employers.

The component units are reported in separate columns to emphasize that they are legally separate from the City. In the event of dissolution, net assets of the CDC and FDC shall be conveyed back to the City. The operations of these component units are presented as governmental fund types and cover the year ended September 30, 2011.

B. 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 about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

1. Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The *General Fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

Special Revenue Fund

The *Special Revenue Funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue fund includes the regional park fund, used to account for resources obtained and used in development of regional parks. The special revenue funds also include the municipal court fund. For reporting purposes, the regional park fund and municipal court fund are considered non major.

Capital Project Fund

The *Capital Project Fund* is used to account for the expenditures of resources accumulated for capital improvement projects. The capital project fund is considered a non major fund for reporting purposes.

2. Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the City's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board's standards issued prior to November 30, 1989. Subsequent to this date, the City accounts for its enterprise funds as presented by GASB.

The proprietary fund types used by the City include the following:

Enterprise Funds

The enterprise funds are used to account for the operations that provide water and wastewater collection, wastewater treatment operations and solid waste collection and disposal. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The Fulshear facility fund is utilized to supply the City and surrounding developments with water, sewer, and sanitation services. The Cross Creek Ranch facility fund is utilized to supply the Cross Creek Ranch development with water, sewer, and sanitation services. The Fulshear facility and Cross Creek Ranch facility funds are considered major funds for reporting purposes.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide Statements of Net Assets and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Government-wide and proprietary fund equity consists of net assets. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a current financial resources measurement focus, modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period.

Property taxes, sales taxes, franchise taxes, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The accrual basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

D. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Direct obligations of the State of Texas
- Collateralized certificates of deposit
- Statewide investment pools
- Repurchase agreements, reverse repurchase agreements, bankers' acceptances, and commercial paper
- Related no-load money market mutual funds

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. If the transactions are between the primary government and its component unit, these receivables and payables are classified as "due to/from component unit/primary government." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds are offset by an assigned fund balance account in applicable governmental funds to indicate they are not available for appropriation and are not expendable, available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

3. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings	20 to 50 years
Improvements	5 to 50 years
Equipment	5 to 10 years
Water and sewer system	20 to 50 years
Infrastructure	40 to 50 years

4. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick leave, and personal time will expire at year end. However, the Mayor has the authority to approve unused vacation time for compensation.

5. 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, business-type activities, or proprietary fund type Statement of Net Assets. The long-term debt consists primarily of capital leases.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payments of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

Long-term debt and other obligations, financed by proprietary funds, are reported as liabilities in the appropriate funds. For proprietary fund types, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

6. Fund Equity

Fund balances of governmental funds are classified as follows:

Nonspendable fund balance – represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

Committed fund balance – represents amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The commitment must be made prior to year end.

Assigned fund balance – represents amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund. Assignments can be made at any time.

Unassigned fund balance represents amounts that are available for any purpose. Positive amounts are reported only in the general fund. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When an expenditure is incurred for which restricted, committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of restricted, then committed, then assigned funds, and finally unassigned funds.

7. 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the object and purpose stated in the approved budget. City Council may amend the budget throughout the year. Appropriations lapse at the end of the year.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

A. Expenditures in Excess of Appropriations

For the year, expenditures exceeded appropriations at the legal level of controls as follows:

General Fund:	
General government	\$13,012

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2011, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 436,992	1.10
External investment pools	315,940	0.00
Total fair value	\$ 752,932	
Portfolio weighted average maturity		1.10

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2011, the City and component unit’s deposits were under collateralized by \$389,410 and \$502,292, respectively.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City’s safekeeping account prior to the release of funds.

Texas CLASS is required by the Public Funds Investment Act to maintain an “AAA” rating. It has an “AAA” rating from Moody’s Investor’s Service and Standard and Poor’s which monitors the fund’s compliance with its rating requirements.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

B. Receivables

The following comprise receivable balances at year end:

	General	Fulshear Facility	CCR Facility
Property taxes	\$ 80,134	\$ -	\$ -
Other taxes	65,726	-	-
Accounts	-	54,065	191,349
Other	1,247	-	-
Less allowance	(9,416)	(4,644)	-
	<u>\$ 137,691</u>	<u>\$ 49,421</u>	<u>\$ 191,349</u>

C. Capital Assets

A summary of changes in capital assets for the year end is as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 65,270	\$ -	\$ -	\$ 65,270
Total capital assets not being depreciated	<u>65,270</u>	<u>-</u>	<u>-</u>	<u>65,270</u>
Other capital assets:				
Buildings and improvements	828,807	-	-	828,807
Machinery and equipment	446,077	-	(2,151)	443,926
Infrastructure	145,696	-	-	145,696
Total other capital assets	<u>1,420,580</u>	<u>-</u>	<u>(2,151)</u>	<u>1,418,429</u>
Less accumulated depreciation for:				
Buildings and improvements	(326,492)	(26,222)	-	(352,714)
Machinery and equipment	(213,726)	(68,702)	2,151	(280,277)
Infrastructure	(29,079)	(7,315)	-	(36,394)
Total accumulated depreciation	<u>(569,297)</u>	<u>(102,239)</u>	<u>2,151</u>	<u>(669,385)</u>
Other capital assets, net	<u>851,283</u>	<u>(102,239)</u>	<u>-</u>	<u>749,044</u>
Totals	<u>\$ 916,553</u>	<u>\$ (102,239)</u>	<u>\$ -</u>	<u>814,314</u>
			Less associated debt	<u>(45,493)</u>
			Invested in Capital Assets, Net of Related Debt	<u>\$ 768,821</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

Depreciation was charged to governmental functions as follows:

General government	\$ 35,627
Public safety	26,444
Public works	40,168
Total Governmental Activities Depreciation Expense	\$ <u>102,239</u>

The following is a summary of changes in capital assets for business-type activities for the year ended:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 129,182	\$ -	\$ -	\$ 129,182
Total capital assets not being depreciated	<u>129,182</u>	<u>-</u>	<u>-</u>	<u>129,182</u>
Other capital assets:				
Buildings	115,092	-	-	115,092
Water and sewer system	11,305,987	239,860	-	11,545,847
Machinery and equipment	126,074	-	-	126,074
Total other capital assets	<u>11,547,153</u>	<u>239,860</u>	<u>-</u>	<u>11,787,013</u>
Less accumulated depreciation for:				
Buildings	(65,307)	(3,230)	-	(68,537)
Water and sewer system	(1,710,125)	(273,765)	-	(1,983,890)
Machinery and equipment	(87,397)	(7,736)	-	(95,133)
Total accumulated depreciation	<u>(1,862,829)</u>	<u>(284,731)</u>	<u>-</u>	<u>(2,147,560)</u>
Other capital assets, net	<u>9,684,324</u>	<u>(44,871)</u>	<u>-</u>	<u>9,639,453</u>
Totals	\$ <u>9,813,506</u>	\$ <u>(44,871)</u>	\$ <u>-</u>	\$ <u>9,768,635</u>

Depreciation was charged to business-type functions as follows:

Fulshear facility fund	\$ 80,962
Cross Creek Ranch facility fund	203,769
Total Business-type Activities Depreciation Expense	\$ <u>284,731</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

The following is a summary of changes in capital assets for the component units for the year ended:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Component Units:				
Capital assets being depreciated:				
Improvements	\$ 50,250	\$ 18,250	\$ -	\$ 68,500
Total other capital assets	<u>50,250</u>	<u>18,250</u>	<u>-</u>	<u>68,500</u>
Less accumulated depreciation for:				
Improvements	(2,683)	(2,283)	-	(4,966)
Total accumulated depreciation	<u>(2,683)</u>	<u>(2,283)</u>	<u>-</u>	<u>(4,966)</u>
Other capital assets, net	<u>47,567</u>	<u>15,967</u>	<u>-</u>	<u>63,534</u>
Totals	<u>\$ 47,567</u>	<u>\$ 15,967</u>	<u>\$ -</u>	<u>\$ 63,534</u>

D. Long-Term Obligations

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended. The City uses the general fund to liquidate governmental long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Capital leases	\$ 78,154	\$ -	\$ 32,661	\$ 45,493	* \$ 33,999
Other liabilities:					
Compensated absences	<u>4,743</u>	<u>7,321</u>	<u>9,486</u>	<u>2,578</u>	<u>2,320</u>
Total Governmental Activities	<u>\$ 82,897</u>	<u>\$ 7,321</u>	<u>\$ 42,147</u>	<u>\$ 48,071</u>	<u>\$ 36,319</u>

Long-term debt due in more than one year \$ 11,752

* Debt associated with governmental activity capital assets

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences are liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

Long-term debt at year end was comprised of the following:

Description	Interest Rates	Balance
Governmental Activities		
Capital Leases		
Agricredit lease	4.89%	17,391
John Deere lease 2009	0.00%	5,669
John Deere lease 2010	4.95%	22,433
Total Capital Leases		45,493
Total Governmental Activities Long-Term Debt		\$ 45,493

Capital Leases

The annual requirements to amortize capital leases outstanding at year end were as follows:

Year Ending Sept. 30	Governmental Activity		
	Principal	Interest	Total
2012	\$ 33,999	\$ 1,789	\$ 35,788
2013	11,494	385	11,879
Total	\$ 45,493	\$ 2,174	\$ 47,667

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Machinery and equipment	\$ 148,473
Less: accumulated depreciation	(63,631)
Total	\$ 84,842

The component unit, City of Fulshear Development Corporation, obtained a loan in 2011 for \$450,000 with an interest rate of 3.25 percent from the Office of the Governor, Economic Development and Tourism Division.

Long-term debt for the year ended September 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Loan Payable	\$ -	\$ 450,000	\$ -	\$ 450,000	\$ 21,439
Total Component Unit Activity	\$ -	\$ 450,000	\$ -	\$ 450,000	\$ 21,439
Long-term debt due in more than one year				\$ 428,561	

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

Future debt requirements on the outstanding loan are as follows:

Year Ended Sep. 30	Principal	Interest	Total
2012	\$ 21,439	\$ 13,362	\$ 34,801
2013	24,397	13,567	37,964
2014	25,202	12,762	37,964
2015	26,034	11,931	37,965
2016	26,892	11,072	37,964
2017-2027	326,036	56,772	382,808
Total	\$ 450,000	\$ 119,466	\$ 569,466

E. Interfund Balances

The composition of interfund balances as of year end was as follows:

Due To	Due From	Amounts
General fund	CCR facility fund	\$ 20,236
General fund	Fulshear facility fund	286,961
General fund	Regional park fund	29,078
Fulshear facility fund	CCR facility fund	18,238
Fulshear facility fund	Capital projects fund	3,884
		\$ 358,397

Amounts recorded as "due to/from" are considered to be temporary loans and will be repaid during the following year.

F. Interfund Transfers

Transfers between the primary government funds during the year were as follows:

Transfer Out	Transfer In	Amounts
Fulshear facility fund	Capital projects fund	\$ 376,871

The Fulshear facility fund made transfers to the capital projects fund to provide financing for the FM 1093 line extension project.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

G. Change in Beginning Net Assets/Fund Balance

The City has restated beginning net assets for business-type activities in order to record an addition of a lift station received in a prior year in the CCR facility fund.

	<u>Business-Type Activities Net Assets</u>	<u>CCR Facility Fund</u>
Prior year ending net assets as reported	\$ 9,602,239	\$ 8,072,062
Increase in capital assets	324,700	324,700
Increase in accumulated depreciation	(8,795)	(8,795)
Restated beginning net assets	<u>\$ 9,918,144</u>	<u>\$ 8,387,967</u>

The City has also restated the beginning fund balance for the General, Regional Park, and Municipal Court funds due to errors when posting due to/due from entries in these funds.

	<u>General Fund</u>	<u>Regional Park Fund</u>	<u>Municipal Court Fund</u>	<u>Governmental Funds Total</u>
Prior year ending fund balance as reported	\$ 1,396,279	\$ 145,989	\$ -	\$ 1,542,268
Increase in revenue	-	29,000	7,927	36,927
Decrease in revenue	(36,927)	-	-	(36,927)
Restated beginning fund balance	<u>\$ 1,359,352</u>	<u>\$ 174,989</u>	<u>\$ 7,927</u>	<u>\$ 1,542,268</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Regional Park Fund

During 2004, the City entered into an agreement with Firethorne LTD, (the "Developer") whereby the Developer would pay a regional park fee for every lot per plat the Developer finalized. The terms of the agreement state that the regional park fees, plus interest earned, must be utilized in the development of a regional park within five years from the date the fees are paid to the City. Otherwise, the funds must be returned to the lot owner of record at the five year anniversary date. Similar agreements were signed with TMI, Inc., Fulshear Land Investment Partners, LTD., and Tamarron Lakes, L.P., excluding the five year utilization clause. During the year ended September 30, 2011, the City received \$36,600 in regional park fees. Since the inception of the agreements, the City has received \$285,933. During the year ended September 30, 2011, the City did not expend any for regional park contributions. As of September 30, 2011, the City has restricted net assets of \$213,215 related to regional park fees.

D. Fulshear Creek Crossing Developer Contributions

During the year ended September 30, 2008, the City received \$314,880 under an agreement with the Fulshear Creek Crossing (FCC) developer whereby the City would receive \$2,560 per final platted lot. The contributions and interest earned, are restricted for improvements to the City's water and sewer system as necessary to provide adequate water and sewer services to the FCC development. The contributions are recorded in the City's Fulshear facility enterprise fund. At September 30, 2011, the Fulshear enterprise fund had restricted net assets of \$326,991 from these contributions.

E. Pension Plans

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 state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. The report may be obtained from TMRS' website at www.TMRS.com.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

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:

	2011
Employee deposit rate	5%
Matching ratio (city to employee)	1 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/year of service)	60/5, 0/20
Updated service credit	0%
Annuity increase (to retirees)	0% of CPI

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 cost 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 liability (asset) over the applicable period. Both the normal cost, and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance 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.

Trend information for the annual pension cost (APC) is as follows:

<u>Fiscal year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011*	\$ 22,882	\$ 22,882	100.00%	\$ -

*The City began participating in TMRS in fiscal year 2011, and accordingly, no data is presented for the two previous years.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

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

Valuation Date	12/31/2010-prior to restructuring	12/31/2010-Restructured
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Rate	24.8 years; closed period	25.0 years; closed period
Amortization Period for new Gains/Losses	25 years	18 years
Asset Valuation Method	10-year Smoothed Market	10- year Smoothed Market
Investment Rate of Return	7.5%	7.0%
Projected Salary Increases	Varies by age and service	Varies by age and service
Inflation	3.0%	3.0%
Cost-of-Living Adjustments	0.0%	0.0%

Funded Status and Funding Progress

In June, 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS City rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report.

The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Fiscal Year	New Fund Structure	Original Fund Structure
Actuarial Valuation Date	12/31/2010	12/31/2010
Actuarial Value of Assets	\$ 7,947	\$ 7,894
Actuarial Accrued Liability (UAAL)	\$ 98,165	\$ 53,366
Funded Ratio	8.10%	14.80%
Unfunded AAL (UAAL)	\$ 90,218	\$ 45,472
Covered Payroll	\$ 85,673	\$ 85,673
UAAL as a Percentage of Covered Payroll	105.30%	53.10%

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 revision 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

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2011

perspective, actuarial methods and assumptions used 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 RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

F. Other Post Employment Benefit

TMRS Supplemental Death Benefits Fund

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. As of September 30, 2011, the City offered supplemental death benefits to both active and retired employees.

Contribution:

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 the employees' entire careers.

The City's contribution to the TMRS SDBF for the year ended September 30, 2011, was \$1,030. The City began participation in the SDBF effective November 2010. No contributions were made for fiscal years 2010 and 2009.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF FULSHEAR, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2011

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes:				
Property	\$ 343,600	\$ 343,600	\$ 415,340	\$ 71,740
Sales	196,000	196,000	242,167	46,167
Franchise	59,000	59,000	123,906	64,906
Public improvement fees	75,000	75,000	78,362	3,362
Licenses and permits	504,500	504,500	482,847	(21,653)
Charges for services	232,129	232,129	478,873	246,744
Fines and forfeitures	58,720	58,720	63,350	4,630
Investment earnings	13,675	13,675	11,012	(2,663)
Capital grants and contributions	-	-	21,711	21,711
Other revenues	44,765	44,765	30,525	(14,240)
Total Revenues	1,527,389	1,527,389	1,948,093	420,704
Expenditures				
Current:				
General government	757,945	728,763	741,775	(13,012) *
Permits and inspections	180,790	215,190	187,550	27,640
Public safety	428,384	421,431	363,656	57,775
Public works	308,742	197,742	197,739	3
Debt service:				
Principal	32,073	36,173	32,661	3,512
Interest and fiscal agent fees	3,127	3,127	3,127	-
Total Expenditures	1,711,061	1,602,426	1,526,508	75,918
Excess (Deficiency) of Revenues Over (Under) Expenditures	(183,672)	(75,037)	421,585	496,622
Other Financing Sources				
Sale of capital assets	3,000	3,000	4,828	1,828
Total Other Financing Sources	3,000	3,000	4,828	1,828
Net Change in Fund Balance	\$ (180,672)	\$ (72,037)	426,413	\$ 498,450
Beginning Fund Balance			1,359,352	
Ending Fund Balance			\$ 1,785,765	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. * Expenditures exceeded appropriations at the legal level of control.

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CITY OF FULSHEAR, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended September 30, 2011

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal Year	2011*	2011*
Actuarial Valuation Date	12/31/2010 ²	12/31/2010 ¹
Actuarial Value of Assets	\$ 7,894	\$ 7,947
Actuarial Accrued Liability (UAAL)	\$ 53,366	\$ 982
Funded Ratio	14.80%	8.10%
Unfunded AAL (UAAL)	\$ 45,472	\$ 90,218
Covered Payroll	\$ 85,673	\$ 85,673
UAAL as a Percentage of Covered Payroll	53.10%	105.30%
Net Pension Obligation (NPO) at the Beginning of the Period	\$ -	\$ -
Annual Req. Contrib. (ARC)	22,882	22,882
Contribution Made	22,882	22,882
NPO at the End of the Period	\$ -	\$ -

(1) Actuarial valuation performed under the new fund structure.

(2) Actuarial valuation performed under the original fund structure.

*The City began participating in TMRS during fiscal year 2011. Therefore, information is not presented for fiscal years 2010 and 2009.

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