

ANNUAL FINANCIAL REPORT

of the

CITY OF FULSHEAR, TEXAS

For the Year Ended
September 30, 2012

(This page intentionally left blank.)

CITY OF FULSHEAR, TEXAS

TABLE OF CONTENTS

September 30, 2012

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Principal Officials	3
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	7
Management's Discussion and Analysis (Required Supplementary Information)	11
<u>BASIC FINANCIAL STATEMENTS</u>	
Government-Wide Financial Statements	
Statement of Net Assets	20
Statement of Activities	22
Fund Financial Statements	
 Governmental Funds Financial Statements	
Balance Sheet – Governmental Funds	24
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29
 Proprietary Funds Financial Statements	
Statement of Net Assets	31
Statement of Revenues, Expenses, and Changes in Fund Net Assets	33
Statement of Cash Flows	34
Notes to Financial Statements	37
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	57
Schedule of Funding Progress – Texas Municipal Retirement System	59

(This page intentionally left blank.)

INTRODUCTORY SECTION

(This page intentionally left blank.)

CITY OF FULSHEAR, TEXAS

PRINCIPAL OFFICIALS

September 30, 2012

GOVERNING BODY

Honorable Tommy Kuykendall, Mayor

Stephen Gill, Mayor Pro-Tem and Alderman

Larry Beustring, Alderman

J.B. Collins Jr., 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

(This page intentionally left blank.)

FINANCIAL SECTION

(This page intentionally left blank.)



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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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, 2012, 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
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

6100 Windy Hill Lane
Bellville, TX 77418
979.865.3169

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



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
March 12, 2013

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

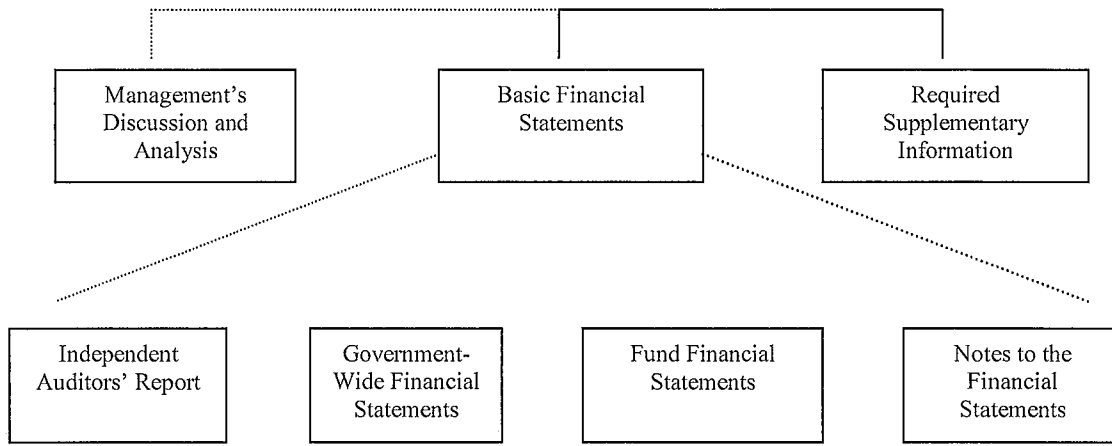
(This page intentionally left blank.)

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2012

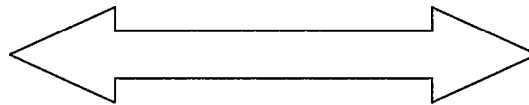
The purpose of the Management's Discussion and Analysis ("MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the City of Fulshear, Texas (the "City") for the year ending September 30, 2012. The analysis is based on currently known facts, decisions, 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. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



Summary



Detail

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. 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 infrastructure 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.

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.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal 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 itself is the primary government. The Fulshear Development Corporation (FDC) and City of Fulshear 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. 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*.

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.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

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 Required Supplementary Information (RSI). The RSI 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 \$15,209,589 as of September 30, 2012.

The largest portion of the City's net assets, 77 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, 2012

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 3,062,649	\$ 2,557,903	\$ 1,240,645	\$ 654,283	\$ 4,303,294	\$ 3,212,186
Capital assets, net	864,264	814,314	10,798,612	10,165,535	11,662,876	10,979,849
Total Assets	3,926,913	3,372,217	12,039,257	10,819,818	15,966,170	14,192,035
Long-term liabilities	50,469	64,007	-	-	50,469	64,007
Other liabilities	218,555	96,339	487,557	156,668	706,112	253,007
Total Liabilities	269,024	160,346	487,557	156,668	756,581	317,014
Net assets:						
Invested in capital assets, net of related debt	836,979	768,821	10,798,612	10,165,535	11,635,591	10,934,356
Restricted	369,611	228,005	389,861	326,991	759,472	554,996
Unrestricted	2,451,299	2,215,045	363,227	170,624	2,814,526	2,385,669
Total Net Assets	\$ 3,657,889	\$ 3,211,871	\$ 11,551,700	\$ 10,663,150	\$ 15,209,589	\$ 13,875,021

A portion of the City's net assets, \$759,472 or five percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$2,814,526 or 18 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net assets increased by \$1,334,568 during the current fiscal year, an increase of ten percent in comparison to the prior year. This increase is largely the result of an increase in property taxes and 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, 2012

Statement of Activities:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 1,468,047	\$ 1,110,279	\$ 1,432,910	\$ 1,268,549	\$ 2,900,957	\$ 2,378,828
Capital grants and contributions	51,514	21,711	358,700	636,760	410,214	658,471
General revenues:						
Property taxes	572,879	434,664	-	-	572,879	434,664
Sales taxes	333,383	242,167	-	-	333,383	242,167
Franchise taxes	128,454	123,906	-	-	128,454	123,906
Investment earnings	9,838	12,858	2,543	3,077	12,381	15,935
Other revenues	178,746	71,953	2,179	379,488	180,925	451,441
Total Revenues	<u>2,742,861</u>	<u>2,017,538</u>	<u>1,796,332</u>	<u>2,287,874</u>	<u>4,539,193</u>	<u>4,305,412</u>
Expenses						
General government	791,786	791,173	-	-	791,786	791,173
Public safety	479,595	390,100	-	-	479,595	390,100
Public works	438,217	425,457	-	-	438,217	425,457
Interest on long-term debt	1,789	3,127	-	-	1,789	3,127
Water and sewer	-	-	1,493,238	1,165,997	1,493,238	1,165,997
Total Expenses	<u>1,711,387</u>	<u>1,609,857</u>	<u>1,493,238</u>	<u>1,165,997</u>	<u>3,204,625</u>	<u>2,775,854</u>
Increase in Net Assets						
Before Transfers	1,031,474	407,681	303,094	1,121,877	1,334,568	1,529,558
Transfers in (out)	(585,456)	376,871	585,456	(376,871)	-	-
Change in Net Assets	446,018	784,552	888,550	745,006	1,334,568	1,529,558
Beginning net assets	3,211,871	2,427,319	10,663,150	9,918,144	13,875,021	12,345,463
Ending Net Assets	<u>\$ 3,657,889</u>	<u>\$ 3,211,871</u>	<u>\$ 11,551,700</u>	<u>\$ 10,663,150</u>	<u>\$ 15,209,589</u>	<u>\$ 13,875,021</u>

For the year ended September 30, 2012, revenues from governmental activities totaled \$2,742,861. Overall, governmental revenues increased by 36 percent. Service revenues, which are the City's largest revenue source, increased by 32 percent due to an increase in permit and inspection revenues related to an increase in new development.

For the year ended September 30, 2012, expenses for governmental activities totaled \$1,711,387, which represents an increase of \$101,530 from the previous year. Public safety expenses had the largest increase of \$89,495. The increase is a result of increased activity due to growth in the area.

Charges for services for business-type activities increased \$164,361 or 13 percent from the previous year due to an increase in water and sewer taps 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. There was a significant reduction in other revenue due to the City receiving revenue in the prior year to fund the FM 1093 line extension project in the current year. Water and sewer expenses have increased by 28 percent. The increase is primarily due to increases in water pumpage and tapping fees as well as repair and maintenance related to the expansion of Cross Creek Ranch.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

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 \$2,781,977. Of this, \$19,585 is restricted for enabling legislation, \$350,026 is restricted for regional park, \$83,724 is assigned to capital projects, and \$2,328,542 is unassigned. There was an increase in the combined fund balance of \$391,132 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 \$2,328,542. 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 134 percent of total general fund expenditures. The general fund demonstrated an overall increase of \$542,877 primarily due to an increase in the license and permits, property taxes, and charges for services.

The capital projects fund balance totaled \$83,724 as of year end, a decrease of \$293,351 from the previous year. The decrease is primarily the result of planned capital project expenditures during the year.

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 increase in budgeted fund balance in the amount of \$211,233 in the general fund. However, the net change in fund balance increased by \$542,877 resulting in a positive variance of \$331,644 from budgeted as amended to actual.

Actual general fund revenues were above amended budgeted revenues by \$63,082 for 2012. This net positive variance includes positive variances of \$20,833 for sales taxes and \$19,583 for fines and forfeitures.

Actual expenditures were less than budgeted amounts by \$179,490 for the fiscal year. The greatest positive variance was in general government.

CAPITAL ASSETS

At September 30, 2012, the City's governmental activities funds had invested \$864,264 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$49,950. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34 with an increase in accumulated depreciation of \$114,032.

Business-type activities had \$10,798,612 invested in capital assets and infrastructure (net of accumulated depreciation) as of year end. This is a net increase of \$633,077 from the prior year. There was also an increase of \$311,081 in accumulated depreciation.

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

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2012

LONG-TERM DEBT

At the end of the current year, the City had total capital lease obligations outstanding of \$27,285.

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 2013 budget. The approval of the budget provides funding for the City's operating and capital costs for the 2013 fiscal year. The City anticipates a 52 percent increase in expected total revenues (despite a reduction in the property tax rate) and a 29 percent increase in expected total expenditures. 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.

(This page intentionally left blank.)

BASIC FINANCIAL STATEMENTS

CITY OF FULSHEAR, TEXAS

STATEMENT OF NET ASSETS

September 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,279,829	\$ 705,804	\$ 2,985,633
Investments	370,069	-	370,069
Receivables, net	151,189	406,442	557,631
Internal balances	261,462	(261,462)	-
Prepaid costs	100	-	100
Restricted:			
Cash and investments	-	389,861	389,861
Total Current Assets	3,062,649	1,240,645	4,303,294
Capital assets:			
Non-depreciable capital assets	65,270	526,082	591,352
Depreciable capital assets, net	798,994	10,272,530	11,071,524
Total Noncurrent Assets	864,264	10,798,612	11,662,876
Total Assets	3,926,913	12,039,257	15,966,170
Liabilities			
Accounts payable and accrued liabilities	213,913	428,808	642,721
Customer deposits	4,642	58,749	63,391
Total Current Liabilities	218,555	487,557	706,112
Noncurrent liabilities:			
Due within one year	40,105	-	40,105
Due in more than one year	10,364	-	10,364
Total Noncurrent Liabilities	50,469	-	50,469
Total Liabilities	269,024	487,557	756,581
Net Assets			
Invested in capital assets, net of related debt	836,979	10,798,612	11,635,591
Restricted for:			
Enabling legislation	19,585	-	19,585
Regional park	350,026	-	350,026
Water and sewer system construction	-	389,861	389,861
Unrestricted	2,451,299	363,227	2,814,526
Total Net Assets	\$ 3,657,889	\$ 11,551,700	\$ 15,209,589

See Notes to Financial Statements.

Component Units

<u>City of Fulshear Development Corporation</u>	<u>Fulshear Development Corporation</u>
\$ 413,950	\$ 263,115
-	-
31,650	31,650
-	-
-	-
-	-
<u>445,600</u>	<u>294,765</u>
-	-
-	90,238
-	90,238
<u>445,600</u>	<u>385,003</u>
559	225
-	-
<u>559</u>	<u>225</u>
24,397	-
404,164	-
428,561	-
<u>429,120</u>	<u>225</u>
-	90,238
-	-
-	-
-	-
<u>16,480</u>	<u>294,540</u>
<u>\$ 16,480</u>	<u>\$ 384,778</u>

CITY OF FULSHEAR, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 791,786	\$ -	\$ 51,514
Public safety	479,595	760,037	-
Public works	438,217	708,010	-
Interest on long-term debt	1,789	-	-
Total Governmental Activities	1,711,387	1,468,047	51,514
Business-Type Activities			
Water and sewer	1,493,238	1,432,910	358,700
Total Business-Type Activities	1,493,238	1,432,910	358,700
Total Primary Government	\$ 3,204,625	\$ 2,900,957	\$ 410,214
Component Units			
City of Fulshear Development Corp.	\$ 501,658	\$ -	\$ -
Fulshear Development Corp.	88,862	-	-
Total Component Units	\$ 590,520	\$ -	\$ -

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
\$ (740,272)	\$ -	\$ (740,272)	\$ -	\$ -
280,442	-	280,442	-	-
269,793	-	269,793	-	-
(1,789)	-	(1,789)	-	-
(191,826)	-	(191,826)	-	-
-	298,372	298,372	-	-
-	298,372	298,372	-	-
(191,826)	298,372	106,546	-	-
-	-	-	(501,658)	-
-	-	-	-	(88,862)
-	-	-	(501,658)	(88,862)
572,879	-	572,879	-	-
333,383	-	333,383	160,916	160,916
128,454	-	128,454	-	-
9,838	2,543	12,381	1,805	872
178,746	2,179	180,925	27,942	2,324
(585,456)	585,456	-	-	-
637,844	590,178	1,228,022	190,663	164,112
446,018	888,550	1,334,568	(310,995)	75,250
3,211,871	10,663,150	13,875,021	327,475	309,528
\$ 3,657,889	\$ 11,551,700	\$ 15,209,589	\$ 16,480	\$ 384,778

CITY OF FULSHEAR, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2012

			Nonmajor	
	General	Capital Projects	Regional Park	Municipal Court
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,812,505	\$ 172,211	\$ 274,300	\$ 20,813
Investments	259,703	-	110,366	-
Receivables, net	151,189	-	-	-
Due from other funds	316,026	-	-	-
Prepaid costs	100	-	-	-
	Total Assets	\$ 172,211	\$ 384,666	\$ 20,813
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 129,311	84,602	\$ -	-
Due to other funds	14,811	3,885	34,640	1,228
Deferred revenue	62,117	-	-	-
Customer deposits	4,642	-	-	-
	Total Liabilities	88,487	34,640	1,228
Fund Balances:				
Nonspendable	100	-	-	-
Restricted for:				
Regional park	-	-	350,026	-
Enabling legislation	-	-	-	19,585
Assigned to:				
Capital projects	-	83,724	-	-
Unassigned	2,328,542	-	-	-
	Total Fund Balances	83,724	350,026	19,585
	Total Liabilities and Fund Balances	\$ 172,211	\$ 384,666	\$ 20,813

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.

Capital assets, non-depreciable
Capital assets, net depreciable

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

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Non-current liabilities due in one year
Non-current liabilities due in more than one year

Net Assets of Governmental Activities

See Notes to Financial Statements.

**Total
Funds**

\$ 2,279,829
370,069
151,189
316,026
100
\$ 3,117,213

\$ 213,913
54,564
62,117
4,642

335,236

100

350,026
19,585

83,724
2,328,542

2,781,977

65,270
798,994

62,117

(40,105)
(10,364)

\$ 3,657,889

CITY OF FULSHEAR, TEXAS

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

For the Year Ended September 30, 2012

	Nonmajor			
	General	Capital Projects	Regional Park	Municipal Court
Revenues				
Taxes:				
Property	\$ 581,481	\$ -	\$ -	\$ -
Sales	333,383	-	-	-
Franchise	128,454	-	-	-
Public improvement fees	74,263	-	-	-
Licenses and permits	661,739	-	-	-
Charges for services	633,747	-	-	-
Fines and forfeitures	87,653	-	-	10,645
Investment earnings	7,652	724	1,423	39
Capital grants and contributions	21,000	-	-	-
Other revenues	7,431	16,540	154,400	-
	Total Revenues	17,264	155,823	10,684
Expenditures				
Current:				
General government	769,258	159	19,012	-
Public safety	470,323	-	-	5,889
Public works	399,239	-	-	-
Capital outlay	60,484	585,456	-	-
Debt service:				
Principal	42,686	-	-	-
Interest	1,789	-	-	-
	Total Expenditures	585,615	19,012	5,889
	Excess (Deficiency) of Revenues Over (Under) Expenditures	(568,351)	136,811	4,795
Other Financing Sources (Uses)				
Transfers in	-	275,000	-	-
Transfers (out)	(275,000)	-	-	-
Capital leases	24,478	-	-	-
Sale of capital assets	375	-	-	-
	Total Other Financing Sources (Uses)	275,000	-	-
	Net Change in Fund Balances	(293,351)	136,811	4,795
Beginning fund balances	1,785,765	377,075	213,215	14,790
	Ending Fund Balances	\$ 83,724	\$ 350,026	\$ 19,585

See Notes to Financial Statements.

**Total
Funds**

\$ 581,481
333,383
128,454
74,263
661,739
633,747
98,298
9,838
21,000
178,371

2,720,574

788,429
476,212
399,239
645,940

42,686
1,789

2,354,295

366,279

275,000
(275,000)
24,478
375

24,853

391,132

2,390,845

\$ 2,781,977

(This page intentionally left blank.)

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, 2012

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

Net changes in fund balances - total governmental funds	\$	391,132
---	----	---------

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.

Capital outlay		133,468
Contribution of capital asset		30,514
Depreciation expense		(114,032)

Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.		(8,602)
---	--	---------

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.

Capital lease		(24,478)
Principal retirement		42,686
Compensated absences		(4,670)

Change in Net Assets of Governmental Activities	\$	446,018
--	-----------	----------------

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF FULSHEAR, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2012

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility	CCR Facility	Total Funds
Assets			
Cash and cash equivalents	\$ 46,186	\$ 659,618	\$ 705,804
Accounts receivable, net	67,283	339,159	406,442
Due from other funds	32,627	18,318	50,945
Restricted assets:			
Cash and equivalents	389,861	-	389,861
Total Current Assets	535,957	1,017,095	1,553,052
Noncurrent assets:			
Capital assets:			
Nondepreciable	60,292	465,790	526,082
Depreciable, net	2,151,583	8,120,947	10,272,530
Total Capital Assets (Net)	2,211,875	8,586,737	10,798,612
Total Noncurrent Assets	2,211,875	8,586,737	10,798,612
Total Assets	\$ 2,747,832	\$ 9,603,832	\$ 12,351,664
Liabilities			
Accounts payable and accrued liabilities	\$ 103,829	\$ 324,979	\$ 428,808
Customer deposits	11,173	47,576	58,749
Due to other funds	280,705	31,702	312,407
Total Liabilities	395,707	404,257	799,964
Net Assets			
Invested in capital assets, net of related debt	2,211,875	8,586,737	10,798,612
Restricted for:			
Water and sewer construction	389,861	-	389,861
Unrestricted	(249,611)	612,838	363,227
Total Net Assets	\$ 2,352,125	\$ 9,199,575	\$ 11,551,700

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF FULSHEAR, TEXAS

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

For the Year Ended September 30, 2012

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility	CCR Facility	Total Funds
<u>Operating Revenues</u>			
Charges for sales and services	\$ 277,377	\$ 1,155,533	\$ 1,432,910
Other revenue	120	2,059	2,179
Total Operating Revenues	277,497	1,157,592	1,435,089
<u>Operating Expenses</u>			
Costs of sales and services	256,248	925,909	1,182,157
Depreciation	107,311	203,770	311,081
Total Operating Expenses	363,559	1,129,679	1,493,238
Operating Income (Loss)	(86,062)	27,913	(58,149)
<u>Nonoperating Revenues</u>			
Investment earnings	1,439	1,104	2,543
Total Nonoperating Revenues	1,439	1,104	2,543
Income (Loss) Before Capital Contributions	(84,623)	29,017	(55,606)
Capital contributions	944,156	-	944,156
Change in Net Assets	859,533	29,017	888,550
Beginning net assets	1,492,592	9,170,558	10,663,150
Ending Net Assets	\$ 2,352,125	\$ 9,199,575	\$ 11,551,700

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, 2012

Business-Type Activities - Enterprise Funds

	<u>Fulshear Facility</u>	<u>CCR Facility</u>	<u>Total Funds</u>
<u>Cash Flows from Operating Activities</u>			
Receipts from customers and users	\$ 249,659	\$ 1,002,098	\$ 1,240,594
Payments to suppliers	(185,079)	(690,382)	(864,298)
Net Cash Provided by Operating Activities	<u>64,580</u>	<u>311,716</u>	<u>376,296</u>
<u>Cash Flows from Investing Activities</u>			
Investment earnings	1,439	1,104	2,543
Net Cash Provided by Investing Activities	<u>1,439</u>	<u>1,104</u>	<u>2,543</u>
Net Increase in Cash and Cash Equivalents	66,019	312,820	378,839
Beginning cash and cash equivalents	<u>370,028</u>	<u>346,798</u>	<u>716,826</u>
Ending Cash and Cash Equivalents	<u>\$ 436,047</u>	<u>\$ 659,618</u>	<u>\$ 1,095,665</u>
Unrestricted cash and cash equivalents	\$ 46,186	\$ 659,618	\$ 705,804
Restricted cash and cash equivalents	389,861	-	389,861
Total Cash and Cash Equivalents	<u>\$ 436,047</u>	<u>\$ 659,618</u>	<u>\$ 1,095,665</u>

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, 2012

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility	CCR Facility	Total Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating income (Loss)	\$ (86,062)	\$ 27,913	\$ (58,149)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	107,311	203,770	311,081
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in Current Assets:			
Accounts receivable	(17,862)	(147,810)	(165,672)
Due from other funds	(10,505)	(18,318)	(28,823)
Increase (Decrease) in Current Liabilities:			
Accounts payable and accrued liabilities	77,425	242,299	319,724
Customer deposits	529	10,634	11,163
Due to other funds	(6,256)	(6,772)	(13,028)
Net Cash Provided by Operating Activities	\$ 64,580	\$ 311,716	\$ 376,296
Noncash Investing, Capital, and Financing Activities:			
Contributions of capital assets	\$ 944,156	\$ -	\$ 944,156

See Notes to Financial Statements.

(This page intentionally left blank.)

CITY OF FULSHEAR, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2012

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. The 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, 2012

discretion of the City Council. City Council approval is required for budgets and bonded debt issuances. The 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 the 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, 2012.

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

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

government, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

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 funds include 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 nonmajor.

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 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 generally accepted accounting principles 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 and the accrual basis

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally 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 fiscal period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal 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.

Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which they are incurred.

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, 2012

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, 2012

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 vacation, sick, and personal time. Vacation, sick, and personal time earned during the year is to be used in the following year. Unused vacation, sick leave, and personal time will expire within one year of the accrual. 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, 2012

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 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, 2012

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2012, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Certificates of deposit	\$ 370,069	0.42
External investment pools	1,997,991	0.00
Total Fair Value	\$ 2,368,060	0.16

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, 2012, the City’s deposits were fully collateralized. The component unit’s deposits were under collateralized by \$180,029, as of yearend.

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.

The Texas Cooperative Liquid Assets Securities System Trust – Texas (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended (the “Act”). CLASS is created under an Amended and Restated Trust Agreement, dated as of December 14, 2011 (the “Agreement”), among certain Texas governmental entities investing in the pool (the “Participants”), Cutwater Investor Services Corporation as Program Administrator, and Wells Fargo Bank Texas, NA as Custodian. CLASS is not SEC registered and is not subject to regulation by the State of Texas. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the “Board”), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for Texas CLASS may be obtained from CLASS’ website at www.texasclass.com.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Fulshear Facility</u>	<u>CCR Facility</u>
Property taxes	\$ 71,532	\$ -	\$ -
Other taxes	87,661	-	-
Accounts	-	71,927	339,159
Other	1,411	-	-
Less allowance	(9,415)	(4,644)	-
	<u>\$ 151,189</u>	<u>\$ 67,283</u>	<u>\$ 339,159</u>

C. Capital Assets

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

	<u>Primary Government</u>			
	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	
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	443,926	133,567	(10,589)	566,904
Infrastructure	145,696	30,415	-	176,111
Total other capital assets	<u>1,418,429</u>	<u>163,982</u>	<u>(10,589)</u>	<u>1,571,822</u>
Less accumulated depreciation for:				
Buildings and improvements	(352,714)	(27,352)	-	(380,066)
Machinery and equipment	(280,277)	(78,351)	10,589	(348,039)
Infrastructure	(36,394)	(8,329)	-	(44,723)
Total accumulated depreciation	<u>(669,385)</u>	<u>(114,032)</u>	<u>10,589</u>	<u>(772,828)</u>
Other capital assets, net	<u>749,044</u>	<u>49,950</u>	<u>-</u>	<u>798,994</u>
Totals	<u>\$ 814,314</u>	<u>\$ 49,950</u>	<u>\$ -</u>	<u>864,264</u>
			Less associated debt	<u>(27,285)</u>
			Invested in Capital Assets, Net of Related Debt	<u>\$ 836,979</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

Depreciation was charged to governmental functions as follows:

General government	\$ 43,042
Public safety	27,762
Public works	43,228
Total Governmental Activities Depreciation Expense	<u><u>\$ 114,032</u></u>

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 526,082 *	\$ -	\$ -	\$ 526,082
Total capital assets not being depreciated	526,082	-	-	526,082
Other capital assets:				
Buildings	115,092	-	-	115,092
Water and sewer system	11,545,847	944,158	-	12,490,005
Machinery and equipment	126,074	-	-	126,074
Total other capital assets	11,787,013	944,158	-	12,731,171
Less accumulated depreciation for:				
Buildings	(68,537)	(2,759)	-	(71,296)
Water and sewer system	(1,983,890)	(300,586)	-	(2,284,476)
Machinery and equipment	(95,133)	(7,736)	-	(102,869)
Total accumulated depreciation	(2,147,560)	(311,081)	-	(2,458,641)
Other capital assets, net	9,639,453	633,077	-	10,272,530
Totals	<u>\$ 10,165,535</u>	<u>\$ 633,077</u>	<u>\$ -</u>	<u>\$ 10,798,612</u>

* Beginning balance has been restated.

Depreciation was charged to business-type functions as follows:

Fulshear facility fund	\$ 107,311
Cross Creek Ranch facility fund	203,770
Total Business-Type Activities Depreciation Expense	<u><u>\$ 311,081</u></u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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	\$ 68,500	\$ 31,527	\$ -	\$ 100,027
Total other capital assets	<u>68,500</u>	<u>31,527</u>	<u>-</u>	<u>100,027</u>
Less accumulated depreciation for:				
Improvements	(4,966)	(4,823)	-	(9,789)
Total accumulated depreciation	<u>(4,966)</u>	<u>(4,823)</u>	<u>-</u>	<u>(9,789)</u>
Other capital assets, net	<u>63,534</u>	<u>26,704</u>	<u>-</u>	<u>90,238</u>
Totals	<u>\$ 63,534</u>	<u>\$ 26,704</u>	<u>\$ -</u>	<u>\$ 90,238</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	\$ 45,493	\$ 24,478	\$ 42,686	\$ 27,285	* \$ 19,239
Other Liabilities:					
Compensated absences	18,514 **	23,184	18,514	23,184	20,866
Total Governmental Activities	<u>\$ 64,007</u>	<u>\$ 47,662</u>	<u>\$ 61,200</u>	<u>\$ 50,469</u>	<u>\$ 40,105</u>
Long-Term Debt Due In More Than One Year					<u>\$ 10,364</u>
* Debt Associated With Governmental Activity Capital Assets					<u>\$ 27,285</u>

** Beginning balance has been restated

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, 2012

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

Description	Interest Rates	Balance
Governmental Activities		
Capital Leases		
John Deere lease 2010	4.95%	\$ 11,494
Government Capital Corporation 2012	0.66%	15,791
Total Capital Leases		27,285
Total Governmental Activities Long-Term Debt		\$ 27,285

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
2013	\$ 19,239	\$ 1,326	\$ 20,565
2014	8,046	642	8,688
Total	\$ 27,285	\$ 1,968	\$ 29,253

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities
Machinery and equipment	\$ 172,951
Less: accumulated depreciation	(89,912)
Total	\$ 83,039

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, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Loan Payable	\$ 450,000	\$ -	\$ 21,439	\$ 428,561	\$ 24,397
Total Component Unit Activity	\$ 450,000	\$ -	\$ 21,439	\$ 428,561	\$ 24,397
Long-Term Debt Due In More Than One Year				\$ 404,164	

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

Future debt requirements on the outstanding loan are as follows:

Year Ended Sep. 30	Principal	Interest	Total
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	27,780	10,185	37,965
2018-2022	153,264	36,558	189,822
2023-2027	144,992	10,030	155,022
Total	\$ 428,561	\$ 106,104	\$ 534,665

E. Interfund Balances

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

Due To	Due From	Amounts
General fund	Regional park fund	\$ 34,640
General fund	Fulshear facility fund	277,198
General fund	Municipal court fund	1,228
General fund	CCR facility fund	2,960
Fulshear facility fund	CCR facility fund	28,742
Fulshear facility fund	Capital projects fund	3,885
CCR facility fund	General fund	14,811
CCR facility fund	Fulshear facility fund	3,507
		\$ 366,971

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
General fund	Capital projects fund	\$ 275,000

The general 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, 2012

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 land received in 2010 in the CCR facility fund. The City has also restated beginning net assets for governmental activities in order to increase prior year compensated absences.

	Business-Type Activities Net Assets	CCR Facility Fund	Governmental Activities Net Assets
Prior year ending net assets as reported	\$ 10,266,250	\$ 8,773,658	\$ 3,227,807
Increase in capital assets	396,900	396,900	-
Increase in compensated absences	-	-	(15,936)
Restated Beginning Net Assets	\$ 10,663,150	\$ 9,170,558	\$ 3,211,871

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.

The City is a defendant in several lawsuits arising in the normal course of business. To the extent the outcome of such litigation has been determined to result in probable loss to the City; such loss has been accrued in the accompanying financial statements.

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 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.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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, 2012, the City received \$154,400 in regional park fees. Since the inception of the agreements, the City has received \$440,333. During the year ended September 30, 2012, the City expended \$19,012 of regional park contributions received on park maintenance and beautification. As of September 30, 2012, the City has restricted net assets of \$350,026 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, 2012, the Fulshear enterprise fund had restricted net assets of \$389,861 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.

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:

	<u>2012</u>	<u>2011</u>
Employee deposit rate	5%	5%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/year of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	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

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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 TMRS 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%	\$ -
2012	\$ 11,801	\$ 11,801	100.00%	\$ -

*The City began participating in TMRS in fiscal year 2011, and accordingly, no data is presented for 2010.

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

	<u>2012</u>	<u>2011</u>
Valuation Date	12/31/2011	12/31/2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	23.0 years, Closed Period	25.0 years, Closed Period
Amortization Period for New Gains/Losses	21 years	18 years
Asset Valuation Method	10-year Smoothed Market	10- year Smoothed Market
Investment Rate of Return	7.0%	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%

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

Funded Status and Funding Progress

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

	2012
Actuarial Valuation Date	12/31/2011
Actuarial Value of Assets	\$ 63,431
Actuarial Accrued Liability (AAL)	\$ 135,947
Funded Ratio	46.7%
Unfunded Actuarial Accrued Liability (UAAL)	\$ 72,516
Covered Payroll	\$ 583,368
UAAL as a Percentage of Covered Payroll	12.4%

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 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, 2012, the City offered supplemental death benefits to both active and retired employees.

Contributions

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

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2012

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 years ended 2012 and 2011 was \$900 and \$1,030, respectively. The City began participation in the SDBF effective November 2010. No contributions were made for fiscal year 2010.

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank.)

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

For the Year Ended September 30, 2012

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes:				
Property	\$ 529,566	\$ 569,566	\$ 581,481	\$ 11,915
Sales	252,550	312,550	333,383	20,833
Franchise	70,000	127,800	128,454	654
Public improvement fees	71,700	71,700	74,263	2,563
Licenses and permits	468,650	654,670	661,739	7,069
Charges for services	470,815	635,665	633,747	(1,918)
Fines and forfeitures	57,370	68,070	87,653	19,583
Investment earnings	6,300	4,300	7,652	3,352
Capital grants and contributions	36,000	21,000	21,000	-
Other revenues	11,600	8,400	7,431	(969)
Total Revenues	1,974,551	2,473,721	2,536,803	63,082
Expenditures				
Current:				
General government	885,361	866,443	769,258	97,185
Permits and inspections	178,571	185,562	172,401	13,161
Public safety	487,588	513,508	470,323	43,185
Public works	244,184	245,764	226,838	18,926
Capital outlay	72,616	60,792	60,484	308
Debt service:				
Principal	48,000	48,000	42,686	5,314
Interest and fiscal agent fees	-	3,200	1,789	1,411
Total Expenditures	1,916,320	1,923,269	1,743,779	179,490
Excess of Revenues Over Expenditures	58,231	550,452	793,024	242,572
Other Financing Sources (Uses)				
Transfers (out)	(65,719)	(340,719)	(275,000)	65,719
Sale of capital assets	1,500	1,500	375	(1,125)
Capital leases	-	-	24,478	24,478
Total Other Financing Sources (Uses)	(64,219)	(339,219)	(250,147)	89,072
Net Change in Fund Balance	\$ (5,988)	\$ 211,233	542,877	\$ 331,644
Beginning fund balance			1,785,765	
Ending Fund Balance			\$ 2,328,642	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF FULSHEAR, TEXAS
SCHEDULE OF FUNDING PROGRESS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2012

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	2012	2011*
Actuarial Valuation Date	12/31/2011	12/31/2010
Actuarial Value of Assets	\$ 63,431	\$ 7,947
Actuarial Accrued Liability (AAL)	\$ 135,947	\$ 98,165
Funded Ratio	46.7%	8.1%
Unfunded AAL (UAAL)	\$ 72,516	\$ 90,218
Covered Payroll	\$ 583,368	\$ 85,673
UAAL as a Percentage of Covered Payroll	12.4%	105.3%
Net Pension Obligation (NPO) at the Beginning of the Period	\$ -	\$ -
Annual Req. Contrib. (ARC)	11,801	22,882
Contributions Made	11,801	22,882
NPO at the End of the Period	\$ -	\$ -

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

(This page intentionally left blank.)