

CITY OF FULSHEAR, TEXAS

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2015



CITY OF FULSHEAR, TEXAS

PRINCIPAL OFFICIALS

September 30, 2015

Governing Body

Jeff Roberts	Mayor
Erin Tristan	Mayor Pro-Tem and Council Member
Tricia Krenek	Council Member
Ramona Ridge	Council Member
Stephen Gill	Council Member
James Murdoch	Council Member

Other Principal Official

C.J. Snipes	City Administrator
D. Gordon Offord	City Secretary
Kristina J. Brashear	City Finance Director
J. Grady Randle	City Attorney

CITY OF FULSHEAR, TEXAS
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REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fulshear, Texas (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Emphasis of Matter

As discussed in Note 2 and Note 8 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* for the year ending September 30, 2015. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, budgetary comparison information on pages 46 and 47, and pension system supplementary information on pages 48 and 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and the discretely presented component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the discretely presented component unit fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Houston, Texas
June 30, 2016

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As management of the City of Fulshear (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources and liabilities, with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event to the change occurs, *regardless of timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. municipal court fines).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, permits and inspections, public safety, and public works. The business-type activities of the City include water distribution, wastewater collection/treatment, and solid waste operating funds.

The government-wide financial statements include not only the City itself (known as *the primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's two discretely presented component units consist of the following: Fulshear Development Corporation and The City of Fulshear Development Corporation.

The government-wide financial statements can be found on pages 12 through 15 of this report.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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 fiscal year. Such information may be useful in evaluating a government'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 government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds 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 (4) 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 each of the four (4) funds with the General Fund considered to be a major fund.

The governmental funds financial statements can be found on pages 16 through 19 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as the 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.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Fulshear Facility Fund and CCR Facility Fund that are considered to be major funds of the City.

The basic enterprise fund financial statements can be found on pages 20 through 22 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 43 of this report.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* -- Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual for the General Fund and information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 46 through 49 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City of Fulshear, assets and deferred outflows exceeded liabilities by \$70.8 million as of September 30, 2015.

By far the largest portion of the City's net position, 83% reflects its net investment in capital assets (e.g., land, construction in progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses 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 capital assets themselves cannot be used to liquidate these liabilities.

CONDENSED SCHEDULE OF NET POSITION

September 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014*	2015	2014	2015	2014*
Current and other assets	\$ 8,437,974	\$ 5,995,345	\$ 5,559,524	\$ 4,735,971	\$ 13,997,498	\$ 10,731,316
Capital assets	25,705,433	23,797,616	32,998,255	30,581,919	58,703,688	54,379,535
Total Assets	34,143,407	29,792,961	38,557,779	35,317,890	72,701,186	65,110,851
Deferred Outflows of Resources						
Pension related	97,486	35,675			97,486	35,675
Current and other liabilities	1,310,658	240,827	427,446	288,911	1,738,104	529,738
Long-term liabilities	74,584	37,203			74,584	37,203
Net pension liability	159,525	124,513			159,525	124,513
Total Liabilities	1,544,767	402,543	427,446	288,911	1,972,213	691,454
Net position:						
Net investment in capital assets	25,705,433	23,797,616	32,998,255	30,581,919	58,703,688	54,379,535
Restricted	1,515,599	1,156,792	1,223,225	1,755,008	2,738,824	2,911,800
Unrestricted	5,475,094	4,471,685	3,908,853	2,692,052	9,383,947	7,163,737
Total Net Position	\$ 32,696,126	\$ 29,426,093	\$ 38,130,333	\$ 35,028,979	\$ 70,826,459	\$ 64,455,072

*During the fiscal year ended September 30, 2015, the City implemented GASB Statement No. 68 relating to the recognition of the net pension liability relating to City's employee retirement plan administered by the Texas Municipal Retirement System. Prior year liabilities have been presented in this schedule for comparative purposes.

An additional 4% portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$9.4 million may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

As of September 30, 2015, the City is able to report positive balances in all three categories of net position. The following table provides a summary of the City's operations for the year ended September 30, 2015:

CONDENSED SCHEDULE OF CHANGES IN NET POSITION

September 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014**	2015	2014	2015	2014**
Revenues						
Program revenue:						
Charges for services	\$ 3,135,489	\$ 2,639,713	\$ 3,395,191	\$ 3,271,568	\$ 6,530,680	\$ 5,911,281
Operating grants and contributions	29,246	30,259			29,246	30,259
Capital grants and contributions	2,798,155	6,595,732	2,806,881	9,085,540	5,605,036	15,681,272
General revenues:						
Property taxes	1,273,932	943,721			1,273,932	943,721
Sales taxes	665,127	522,563			665,127	522,563
Franchise taxes	380,718	197,620			380,718	197,620
Investment earnings	9,527	7,993	5,682	3,044	15,209	11,037
Other revenues	222,988	184,860		16,970	222,988	201,830
Total Revenues	8,515,182	11,122,461	6,207,754	12,377,122	14,722,936	23,499,583
Expenses:						
General government	2,039,436	1,256,952			2,039,436	1,256,952
Permits and inspections	528,461	376,897			528,461	376,897
Public safety	1,427,578	941,346			1,427,578	941,346
Public works	1,249,674	1,001,930			1,249,674	1,001,930
Interest on long-term debt		292				292
Water and sewer			3,106,400	2,573,262	3,106,400	2,573,262
Total Expenses	5,245,149	3,577,417	3,106,400	2,573,262	8,351,549	6,150,679
Increase in net position before transfers	3,270,033	7,545,044	3,101,354	9,803,860	6,371,387	17,348,904
Transfers		(257,644)		257,644		
Change in net position	3,270,033	7,287,400	3,101,354	10,061,504	6,371,387	17,348,904
Net Position - as originally reported	29,514,931	22,227,531	35,028,979	24,967,475	64,543,910	47,195,006
Change in accounting principles	(88,838)	(88,838)			(88,838)	(88,838)
Net Position - ending	\$ 32,696,126	\$ 29,426,093	\$ 38,130,333	\$ 35,028,979	\$ 70,826,459	\$ 64,455,072

**During the fiscal year ended September 30, 2015, the City implemented GASB Statement No. 68 relating to the recognition of the net pension liability relating to City's employee retirement plan administered by the Texas Municipal Retirement System. Prior year liabilities have been added to the ending Net Position balance but pension related activities have not been presented in this schedule as the information is not available. See Note 13 for more information.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental activities

For the year ended September 30, 2015, revenues from governmental activities totaled \$8.5 million. Overall, governmental revenues decrease by 23% from the prior year due to a reduction in capital assets contributed by developers. Charges for services, which are the City's largest revenue source, increased by 19% due to an increase in permit and inspection revenues related to an increase in new development.

For the year ended September 30, 2015, expenses for governmental activities totaled \$5.2 million, which represents an increase of \$1,667,732 from the previous year. Public works expenses increased the most over the prior year, primarily due to construction costs incurred for business-type activities projects. General government expenses increased \$782,484. The increase is a result of increased activity due to growth in the area. Public safety increased by \$486,232 due to increased salaries and wages.

Business-type activities

Charges for services for business-type activities increased \$123,623 or 4% from the previous year due to an increase in water and sewer taps and the activity due to new development. Water and sewer expenses have increased by \$533,138. The increase is primarily due to increases in water pumpage and tapping fees as well as repair and maintenance related to the expansion of the City's water system.

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 \$7.1 million. Of this amount, \$1,453,900 is restricted for the City's regional park, \$271,113 is committed to capital projects, and \$5.3 million is unassigned. There was an increase in the combined fund balance of \$1.4 million 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 \$5.3 million. 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 114% of total general fund expenditures. The general fund demonstrated an overall increase of \$1.00 million primarily due to an increase in the license and permits, 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.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

General Fund Budgetary Highlights

There had been a planned decrease in budgeted fund balance in the amount of \$1.8 million in the general fund. However, actual fund balance increased by \$1,004,125 resulting in a positive variance of \$2,834,022 from budgeted as amended to actual.

Actual general fund revenues were above amended budgeted revenues by \$606,174 for 2015. This net positive variance includes positive variances of \$294,530 for property taxes and \$500,486 for licenses and permits along with negative variances for public improvement fees and charges for services.

Actual expenditures were less than budgeted amounts by \$525,717 for the fiscal year. The greatest positive variance was in general government.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2015, amounted to \$25.7 million and \$33.0 million (net of accumulated depreciation), respectively. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

The following table shows the balances at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Governmental Activities		
Capital assets, not being depreciated:		
Land	\$ 920,650	\$ 711,640
Capital assets net of depreciation		
Buildings and improvements	529,729	561,431
Machinery and equipment	624,710	337,475
Infrastructure	<u>23,630,344</u>	<u>22,187,070</u>
Total capital assets - net of depreciation	<u>\$ 25,705,433</u>	<u>\$ 23,797,616</u>
Business-Type Activities		
Capital assets, not being depreciated:		
Land	\$ 526,082	\$ 526,082
Construction in progress	701,350	-
Capital assets net of depreciation		
Buildings and improvements	35,519	38,278
Machinery and equipment	36,174	18,690
Infrastructure	<u>31,699,130</u>	<u>29,998,869</u>
Total capital assets - net of depreciation	<u>\$ 32,998,255</u>	<u>\$ 30,581,919</u>

Long-term liabilities

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

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Next Year's Budgets and Rates

The City Council has adopted the City's 2016 budget. The approval of the budget provides funding for the City's operating and capital costs for the 2016 fiscal year. The City anticipates a 1 percent increase in expected total revenues and a 31 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. Expenditures were increased as a direct result of the city's continuous growth and need for capital infrastructure improvements associated with streets and the expansion of its water systems.

The City of Fulshear is one of the most rapidly growing communities in the greater Houston area. As noted in a recent Wall Street Journal article, Fulshear has benefited greatly from the strong growth in the Energy Sector in recent months and has become one of the most sought housing markets in the Houston area. In 2014/2015 the City successfully negotiated three new development agreements for master planned communities within its city limits and extra territorial jurisdiction adding to the four that currently exist. This growth has sparked the recent increase in commercial development in Fulshear which the city anticipates will stem the local economy. In 2015 the City entered into a Chapter 380 agreement for Use Tax collection with Highland Homes. Under this agreement Highland and the City split the use tax collected on all materials used in the construction of homes in Fulshear.

Request for Information

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 POSITION

September 30, 2015

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 8,225,544	\$ 3,564,946	\$ 11,790,490
Receivables, net	212,430	771,353	983,783
Restricted:			
Cash and cash equivalents		1,223,225	1,223,225
Total Current assets	<u>8,437,974</u>	<u>5,559,524</u>	<u>13,997,498</u>
Capital assets:			
Non-depreciable capital assets	920,650	1,227,432	2,148,082
Depreciable capital assets, net	24,784,783	31,770,823	56,555,606
Total Noncurrent assets	<u>25,705,433</u>	<u>32,998,255</u>	<u>58,703,688</u>
Total Assets	<u>34,143,407</u>	<u>38,557,779</u>	<u>72,701,186</u>
Deferred Outflows of Resources			
Deferred outflows - pension related	97,486		97,486
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	1,292,169	312,177	1,604,346
Customer deposits	18,489	115,269	133,758
Total current liabilities	<u>1,310,658</u>	<u>427,446</u>	<u>1,738,104</u>
Long-term liabilities:			
Due within one year	25,000		25,000
Due in more than one year	49,584		49,584
Net pension liability	159,525		159,525
Total long-term liabilities	<u>234,109</u>		<u>234,109</u>
Total Liabilities	<u>1,544,767</u>	<u>427,446</u>	<u>1,972,213</u>
Net Position			
Investment in capital assets	25,705,433	32,998,255	58,703,688
Restricted for:			
Regional park	1,515,599		1,515,599
Water and sewer construction		1,223,225	1,223,225
Unrestricted	5,475,094	3,908,853	9,383,947
Total Net Position	<u>\$ 32,696,126</u>	<u>\$ 38,130,333</u>	<u>\$ 70,826,459</u>

See Notes To Basic Financial Statements.

<u>Component Units</u>	
<u>Fulshear Development Corporation</u>	<u>City of Fulshear Development Corporation</u>
\$ 698,213	\$ 528,639
60,358	60,358
<u>758,571</u>	<u>588,997</u>
<u>758,571</u>	<u>588,997</u>
	11,493
	<u>11,493</u>
	<u>11,493</u>
<u>758,571</u>	<u>577,504</u>
<u>\$ 758,571</u>	<u>\$ 577,504</u>

CITY OF FULSHEAR, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental Activities:				
General government	\$ 2,039,436	\$	\$	\$ 347,250
Permits and Inspections	528,461	2,570,046		
Public safety	1,427,578	193,757	29,246	
Public works	1,249,674	371,686		2,450,905
Total governmental activities	5,245,149	3,135,489	29,246	2,798,155
Business-Type Activities:				
Water and Sewer Operations	3,106,400	3,395,191		2,806,881
Total Primary Government	\$ 8,351,549	\$ 6,530,680	\$ 29,246	\$ 5,605,036
Component Units				
City of Fulshear Development Corporation	\$ 99,703	\$	\$	\$
Fulshear Development Corporation	94,946			
Total component units	\$ 194,649	\$	\$	\$

General revenues:

Taxes:

Property taxes

Sales tax

Franchise taxes

Investment earnings

Other revenues

Total general revenues

Change in net position

Net Position - beginning, as restated

Net Position - ending

See Notes to Basic Financial Statements.

Net Revenue (Expense) and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Fulshear Development Corporation	City of Fulshear Development Corporation
\$ (1,692,186)		\$ (1,692,186)		
2,041,585		2,041,585		
(1,204,575)		(1,204,575)		
1,572,917		1,572,917		
<u>717,741</u>		<u>717,741</u>		
	<u>3,095,672</u>	<u>3,095,672</u>		
<u>717,741</u>	<u>3,095,672</u>	<u>3,813,413</u>		
			\$ (99,703)	\$ (94,946)
			<u>(99,703)</u>	<u>(94,946)</u>
1,273,932		1,273,932		
665,127		665,127	320,544	320,550
380,718		380,718		
9,527	5,682	15,209	819	1,343
222,988		222,988	450	
<u>2,552,292</u>	<u>5,682</u>	<u>2,557,974</u>	<u>321,813</u>	<u>321,893</u>
3,270,033	3,101,354	6,371,387	222,110	226,947
29,426,093	35,028,979	64,455,072	536,461	350,557
<u>\$ 32,696,126</u>	<u>\$ 38,130,333</u>	<u>\$ 70,826,459</u>	<u>\$ 758,571</u>	<u>\$ 577,504</u>

CITY OF FULSHEAR, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2015

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Funds</u>	<u>Total Funds</u>
Assets				
Cash and cash equivalents	\$ 5,807,082	\$ 923,640	\$ 1,272,427	\$ 8,003,149
Investments	108,927		113,468	222,395
Receivables, net	212,430			212,430
Due from other funds			994	994
Total Assets	<u>\$ 6,128,439</u>	<u>\$ 923,640</u>	<u>\$ 1,386,889</u>	<u>\$ 8,438,968</u>
Liabilities				
Accounts payable	\$ 636,619	\$ 652,527	\$ 3,023	\$ 1,292,169
Due to other funds	994			994
Customer deposits	18,489			18,489
Total Liabilities	<u>656,102</u>	<u>652,527</u>	<u>3,023</u>	<u>1,311,652</u>
Deferred Inflows of Resources				
Unavailable property taxes	<u>33,394</u>			<u>33,394</u>
Fund balances				
Restricted for:				
Regional Park	131,733		1,322,167	1,453,900
Municipal Court			61,699	61,699
Committed		271,113		271,113
Unassigned	<u>5,307,210</u>			<u>5,307,210</u>
Total Fund Balances	<u>5,438,943</u>	<u>271,113</u>	<u>1,383,866</u>	<u>7,093,922</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 6,128,439</u>	<u>\$ 923,640</u>	<u>\$ 1,386,889</u>	<u>\$ 8,438,968</u>

See Notes to Basic Financial Statements.

CITY OF FULSHEAR, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
September 30, 2015**

Total fund balance, governmental funds \$ 7,093,922

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 25,705,433

Uncollected long-term receivables are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. 33,394

Outflows of resources relating to pension plan activity are recognized as expenditures in the governmental fund financial statements when payments are made but are reported as deferred in the governmental activities of the statement of net position. 97,486

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.

Accrued compensated absences (74,584)
Net pension liability (159,525)

Net Position of Governmental Activities in the Statement of Net Position \$ 32,696,126

See Notes to Basic Financial Statements.

CITY OF FULSHEAR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Funds</u>	<u>Total Funds</u>
Revenues				
Taxes:				
Property	\$ 1,264,271	\$	\$	\$ 1,264,271
Sales	665,127			665,127
Franchise taxes	380,718			380,718
Public improvement fees	345,803			345,803
Licenses and permits	1,872,346			1,872,346
Charges for services	744,125			744,125
Fines and forfeitures	180,656		13,301	193,957
Investment earnings	7,030	227	2,272	9,529
Other revenues	222,635		356,105	578,740
Total Revenues	<u>5,682,711</u>	<u>227</u>	<u>371,678</u>	<u>6,054,616</u>
Expenditures				
Current:				
General administration	2,009,032	23	5,594	2,014,649
Permits and Inspections	517,507			517,507
Public safety	1,375,631		7,277	1,382,908
Public works	466,294			466,294
Capital Outlay	267,472	42,649		310,121
Total Expenditures	<u>4,635,936</u>	<u>42,672</u>	<u>12,871</u>	<u>4,691,479</u>
Revenues over (under) expenditures	<u>1,046,775</u>	<u>(42,445)</u>	<u>358,807</u>	<u>1,363,137</u>
Other Financing Sources (Uses)				
Transfers in		42,650		42,650
Transfers out	(42,650)			(42,650)
Total other financing sources (uses)	<u>(42,650)</u>	<u>42,650</u>		
Net Changes in Fund Balances	1,004,125	205	358,807	1,363,137
Fund Balances - beginning of year	<u>4,434,818</u>	<u>270,908</u>	<u>1,025,059</u>	<u>5,730,785</u>
Fund Balances - end of year	<u>\$ 5,438,943</u>	<u>\$ 271,113</u>	<u>\$ 1,383,866</u>	<u>\$ 7,093,922</u>

See Notes to Basic Financial Statements.

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, 2015

Net change in fund balances - total governmental funds: \$ 1,363,137

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The capital asset expenditures are allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlay of \$432,483 was exceeded by depreciation of \$962,183 in the current period. (529,700)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Governmental activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the book value of the asset sold. -

Contributions of capital assets by developers are not reported in the governmental fund financial statements as they do not represent a flow of current resources. 2,450,905

Governmental funds do not present revenues (property taxes) that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 9,661

Governmental funds report the payment of pension contributions as an expenditure. In contrast, the statement of activities treats such payments as a reduction in net pension liability. 69,687

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Compensated absences (37,381)
Pension expense (42,888)

Change in net position of governmental activities \$ 3,283,421

See Notes to Basic Financial Statements.

CITY OF FULSHEAR, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2015

	Enterprise Funds		Total Enterprise Funds
	Fulshear Facility	CCR Facility	
Assets			
Current assets:			
Cash and cash equivalents	\$ 294,309	\$ 3,270,637	\$ 3,564,946
Accounts receivable, net	96,884	674,469	771,353
Restricted assets:			
Cash and cash equivalents	1,223,225		1,223,225
Total current assets	1,614,418	3,945,106	5,559,524
Noncurrent assets:			
Capital assets:			
Land	60,292	465,790	526,082
Construction in progress	701,350		701,350
Infrastructure	2,878,053	29,887,484	32,765,537
Buildings	612,278	3,385,775	3,998,053
Equipment	81,617	25,276	106,893
Less accumulated depreciation	(2,821,260)	(2,278,400)	(5,099,660)
Total noncurrent assets	1,512,330	31,485,925	32,998,255
Total Assets	\$ 3,126,748	\$ 35,431,031	\$ 38,557,779
Liabilities			
Accounts payable and accrued liabilities	\$ 61,461	\$ 250,716	\$ 312,177
Customer deposits	18,276	96,993	115,269
Total Liabilities	79,737	347,709	427,446
Net Position			
Investment in capital assets	1,512,330	31,485,925	32,998,255
Restricted for:			
Water and sewer construction	1,223,225		1,223,225
Unrestricted	311,456	3,597,397	3,908,853
Total Net Position	\$ 3,047,011	\$ 35,083,322	\$ 38,130,333

See Notes to Basic Financial Statements.

CITY OF FULSHEAR, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended September 30, 2015

	Enterprise Funds		Total Enterprise Funds
	Fulshear Facility	CCR Facility	
Operating Revenues			
Charges for sales and services	\$ 535,099	\$ 2,860,092	\$ 3,395,191
Operating Expenses			
Contractual services	152,970	383,492	536,462
Other operating	302,657	1,293,262	1,595,919
Utilities	30,167	99,168	129,335
Depreciation	745,087	99,597	844,684
	<u>1,230,881</u>	<u>1,875,519</u>	<u>3,106,400</u>
Operating income (loss)	<u>(695,782)</u>	<u>984,573</u>	<u>288,791</u>
Non-Operating Revenues			
Investment earnings	<u>2,622</u>	<u>3,060</u>	<u>5,682</u>
Total Non-Operating Revenues	<u>2,622</u>	<u>3,060</u>	<u>5,682</u>
Income (loss) before transfers and capital contributions	(693,160)	987,633	294,473
Capital contributions	<u>265,793</u>	<u>2,541,088</u>	<u>2,806,881</u>
Change in Net Position	(427,367)	3,528,721	3,101,354
Total Net Position - beginning of year	<u>3,474,378</u>	<u>31,554,601</u>	<u>35,028,979</u>
Total Net Position - end of year	<u>\$ 3,047,011</u>	<u>\$ 35,083,322</u>	<u>\$ 38,130,333</u>

See Notes to Basic Financial Statements.

CITY OF FULSHEAR, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2015

	Enterprise Funds		
	Fulshear Facility	CCR Facility	Total Enterprise Funds
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 521,331	\$ 2,699,190	\$ 3,220,521
Payments to suppliers	(465,510)	(1,687,563)	(2,153,073)
Net cash provided by operating activities	<u>55,821</u>	<u>1,011,627</u>	<u>1,067,448</u>
 Cash Flows from Capital and Related Financing Activities			
Capital grants	265,793		265,793
Acquisition of and construction of capital assets	(701,327)	(18,580)	(719,907)
Net cash used by capital and related financing activities	<u>(435,534)</u>	<u>(18,580)</u>	<u>(454,114)</u>
 Cash Flows From Investing Activities			
Investment earnings	2,599	3,058	5,657
Net cash used by investing activities	<u>2,599</u>	<u>3,058</u>	<u>5,657</u>
 Net increase (decrease) in cash and cash equivalents	(377,114)	996,105	618,991
Cash and cash equivalents - beginning of year	<u>1,894,648</u>	<u>2,274,532</u>	<u>4,169,180</u>
Cash and cash equivalents - end of year	<u>\$ 1,517,534</u>	<u>\$ 3,270,637</u>	<u>\$ 4,788,171</u>
 Unrestricted cash and cash equivalents	\$ 294,309	\$ 3,270,637	\$ 3,564,946
Restricted cash and cash equivalents	1,223,225		1,223,225
Total cash and cash equivalents	<u>\$ 1,517,534</u>	<u>\$ 3,270,637</u>	<u>\$ 4,788,171</u>
 Reconciliation of operating income to net cash provided by operating activities			
Operating Income	\$ (695,782)	\$ 984,573	\$ 288,791
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	745,087	99,597	844,684
(Increase) decrease in accounts receivable	(17,268)	(187,294)	(204,562)
Increase (decrease) in accounts payable	20,284	88,359	108,643
Increase (decrease) in customer deposits	3,500	26,392	29,892
Net cash provided by operating activities	<u>\$ 55,821</u>	<u>\$ 1,011,627</u>	<u>\$ 1,067,448</u>
 Noncash investing, capital, and financing activities:			
Contributions of capital assets	<u>\$ -</u>	<u>\$ 2,541,088</u>	<u>\$ 2,541,088</u>

See Notes to Basic Financial Statements.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 1 - Organization

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.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

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.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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 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 position 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, 2015.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of net position and the Statement of Changes in Net Position) report information on all of the nonfiduciary activities of the primary government. 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 demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the internal service fund 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, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are reported using the economic resources measurement focus, as are the proprietary fund financial statements. The government-wide statements and proprietary fund statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes and franchise fees are recognized as revenues in the year that gives rise to the transaction. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as needed.

Sales taxes, franchise fees, licenses, municipal court revenues 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. All other revenue items are considered measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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.

The *capital projects fund* is used to account for amounts set aside by council for construction projects benefitting both the governmental and business-type activities,

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.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

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 Position and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and the 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 position. 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, current liabilities and deferred inflows of resources 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.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

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

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

D. Cash and Cash Equivalents

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.

E. Investments

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.

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

F. Due to and from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Position and are recorded as "due from other funds" or "due to other funds" in the fund financial statements.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

G. Capital Assets

Capital assets, which include land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress, are reported in the applicable governmental type activities columns in the government-wide financial statements. 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 one year. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of governmental-type activities is not included as part of the capitalized value of the assets constructed.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Asset Description</u>	
Buildings	20 to 50 Years
Improvements other than buildings	5 to 50 Years
Machinery and equipment	5 to 10 Years
Water and sewer system	20 to 50 Years
Infrastructure	40 to 50 Years

H. Compensated 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.

Note 2 - Summary of Significant Accounting Policies (continued)

I. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category:

- Deferred outflows of resources for pension – Reported for the City in the government-wide financial statement of net position. This deferred outflow results from pension plan contributions made after the measurement date of the net pension liability, the results of differences between expected and actual actuarial experiences and the differences between projected and actual earnings on pension plan investments. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently 8.6198 years for the City plan. Differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period.

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The city has one item that qualifies for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

I. Use of Estimates

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

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

L. Fund Equity

As of September 30, 2015, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts constrained for specific purposes as determined by the City itself, using the highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. City council will approve obligations of funds, such as multi-year contracts, prior to the end of the fiscal year.

Unassigned - all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

M. Net Position

Net position represents the differences between assets, deferred outflows and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is first to apply restricted net position.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Deposits and Investments

The City classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more.

At September 30, 2015, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturities (Days)
Certificates of deposit	\$ 222,395	180
Texas CLASS public funds investment pool *	2,629,149	60
Total Fair Value	<u>\$ 2,851,544</u>	69

* Credit rating of AAAM by Standard & Poors

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. At September 30, 2015, cash deposits of the City and the Fulshear Development Corporation were entirely covered by FDIC insurance and collateralizing securities. A portion of the deposits of the City of Fulshear Development Corporation (\$278,639) is uncollateralized by FDIC insurance or collateralizing securities.

Management does not expect any losses as a result of the under collateralization of deposits in the name of the development corporations.

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.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Deposits and Investments (continued)

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.

Note 4 - Receivables

Receivables are evaluated and an allowance for uncollectible accounts is set up when the collections are doubtful. Receivables as of September 30, 2015, are as follows:

	<u>General Fund</u>	<u>Fulshear Facility</u>	<u>CCR Facility</u>	<u>Total</u>
Property taxes	\$ 50,864	\$	\$	\$ 50,864
Other taxes	167,723			167,723
Accounts		101,527	674,469	775,996
Other	11,312			11,312
	<u>229,899</u>	<u>101,527</u>	<u>674,469</u>	<u>1,005,895</u>
Less: allowance for uncollectibles	<u>(17,469)</u>	<u>(4,643)</u>		<u>(22,112)</u>
	<u>\$ 212,430</u>	<u>\$ 96,884</u>	<u>\$ 674,469</u>	<u>\$ 983,783</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 5 - Interfund Balances and Transfers

Interfund balances at September 30, 2015, were as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>
	<u>General Fund</u>
Municipal Court	\$ 994
	<u>\$ 994</u>

Amounts reported as “due to/from” are considered to be temporary loans and will be repaid during the following fiscal year.

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

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
General fund	Capital Projects	\$ 42,650
		<u>\$ 42,650</u>

The general fund made transfers to the regional park funds to reimburse the funds for amounts deposited into the general fund in previous years.

Transfers to the Fulshear facility enterprise fund have been made to recognize previous advances to the fund which are not likely to be paid back in the near future.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Capital Assets

Capital asset activity for the year ended September 30, 2015, was as follows:

	Balance 9/30/2014	Additions	Deletions	Balance 9/30/2015
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 711,640	\$ 209,010	\$	\$ 920,650
Total capital assets, not being depreciated	711,640	209,010		920,650
Other capital assets:				
Buildings and improvements	983,616			983,616
Machinery and equipment	747,144	389,317	(13,388)	1,123,073
Infrastructure	25,253,614	2,285,061		27,538,675
Total other capital assets	26,984,374	2,674,378	(13,388)	29,645,364
Less accumulated depreciation for:				
Buildings and improvements	(422,185)	(31,702)		(453,887)
Machinery and equipment	(409,669)	(88,694)		(498,363)
Infrastructure	(3,066,544)	(841,787)		(3,908,331)
Total accumulated depreciation	(3,898,398)	(962,183)		(4,860,581)
Total other capital assets , net	23,085,976	1,712,195	(13,388)	24,784,783
Governmental Activities				
Capital Assets, Net	\$ 23,797,616	\$ 1,921,205	\$ (13,388.00)	\$ 25,705,433

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	\$ 63,060
Public safety	45,899
Permits	3,128
Total depreciation expense - governmental activities	\$ 112,087

Additions to the governmental activities capital assets for the 2015 fiscal year include approximately \$2.5 million of streets and other infrastructure relating to developer contributions.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Capital Assets (continued)

A summary of changes in capital assets for business-type activities as of September 30, 2015, is as follows:

	Balance 9/30/2014	Additions	Deletions	Balance 9/30/2015
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 526,082	\$	\$	\$ 526,082
Construction in progress		701,350		701,350
Total capital assets, not being depreciated	526,082	701,350		1,227,432
Other capital assets:				
Buildings	110,372			110,372
Machinery and equipment	88,313	18,580		106,893
Water and sewer system	34,112,130	2,541,088		36,653,218
Total other capital assets	34,310,815	2,559,668		36,870,483
Less accumulated depreciation for:				
Buildings	(72,094)	(2,759)		(74,853)
Machinery and equipment	(69,623)	(1,096)		(70,719)
Water and sewer system	(4,113,261)	(840,827)		(4,954,088)
Total accumulated depreciation	(4,254,978)	(844,682)		(5,099,660)
Total other capital assets, net	30,055,837	1,714,986		31,770,823
Total business-type activities	\$ 30,581,919	\$ 2,416,336	\$	\$ 32,998,255

Depreciation was charged to business-type functions as follows:

Business-Type Activities	
Fulshear facility fund	\$ 745,087
Cross Creek Ranch facility fund	99,597
Total business-type activities	
depreciation expense	\$ 844,684

Construction in progress for various projects as of September 30, 2015, is as follows:

Project Description	Authorized Contracts	Total in Progress	remaining Commitment
Water plant No. 1 extension	\$ 846,050	\$ 701,350	\$ 144,700

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Long-Term Debt

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>Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 37,203	\$ 62,300	\$ (24,919)	\$ 74,584	\$ 25,000
Governmental Activities	<u>\$ 37,203</u>	<u>\$ 62,300</u>	<u>\$ (24,919)</u>	<u>\$ 74,584</u>	<u>\$ 25,000</u>

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.

Component Units

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. The loan was paid off in advance in June 2015.

Long-term debt activity for the year ended September 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Loan payable	378,961	\$	\$ (378,961)	\$ -
Governmental Activities	<u>\$ 378,961</u>	<u>\$</u>	<u>\$ (378,961)</u>	<u>\$</u>

Note 8 - Employee Retirement System

Texas Municipal Retirement System

Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

Beginning in 2014, the City granted an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity.

A summary of plan provisions for the City are as follows:

Employee deposit rate	5%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating
Annuity Increase to retirees	Ad hoc

Employees covered by benefit terms –

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>31</u>
	<u>36</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Employee Retirement System (continued)

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. For fiscal year 2015, the City made contributions of 3.76% for the months in 2014 and 4.70% for the months in 2015.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Overall payroll growth	3.50% to 12.00% including inflation
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. This experience study was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Employee Retirement System (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Sensitivity of the net pension liability to changes in the discount rate –

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	<u>1% Decrease 6.00%</u>	<u>Current Single Rate Assumption 7.00%</u>	<u>1% Increase 8.00%</u>
Total Pension Liability	\$ 536,108	\$ 454,539	\$ 387,823
Plan Fiduciary Net Position	295,014	295,014	295,014
Net Pension Liability	<u>\$ 241,094</u>	<u>\$ 159,525</u>	<u>\$ 92,809</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Employee Retirement System (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Beginning Balance	\$ 292,846	\$ 168,333	* \$ 124,513
Service Cost	93,711		93,711
Interest (on the Total Pension Liability)	23,662		23,662
Difference between expected and actual experience	47,654		47,654
Contributions – employer		51,713	(51,713)
Contributions – employee		68,767	(68,767)
Net investment income		9,644	(9,644)
Administrative Expense		(101)	101
Other		(8)	8
Benefit payments, including refunds of employee contributions	(3,334)	(3,334)	
Ending Balance	<u>\$ 454,539</u>	<u>\$ 295,014</u>	<u>\$ 159,525</u>

* In prior year report the Actuarial Value of Plan Assets under GASB 27 was reported at \$163,162. This figure represented investments valued using a 10 year smoothed market method for determining the future funding of the plan. That calculation differs from the Fiduciary Net Position amount shown above which presents plan investments at market value for reporting purposes under GASB 68.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Employee Retirement System (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the City recognized pension expense of \$42,888.

At September 30, 2015, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 42,125
Difference between projected and actual earnings	1,712
Pension contributions made after measurement date	<u>53,649</u>
	<u>\$ 97,486</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of December 31, 2014 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2015 (i.e. recognized in the city's financial statements September 30, 2016). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u>	<u>Net Deferred Outflows of Resources</u>
2016	\$ (5,956)
2017	(5,956)
2018	(5,956)
2019	(5,958)
2020	(5,528)
2021	(5,528)
2022	(5,528)
2023	<u>(3,427)</u>
	<u>\$ (43,837)</u>

Subsequent Event

Pursuant to TMRS policy of conducting experience studies every four years, the TMRS Board at their July 31, 2015 meeting determined that they would be changing certain actuarial assumptions including reducing the long term expected rate of return from the current 7% to 6.75% and changing the inflation assumption from 3% to 2.5%. Reduction of expected investment return and related discount rate will increase projected pension liabilities. Reducing the inflation assumption reduces liabilities as future annuity levels and future cost of living adjustments are not projected to be a large as originally projected. While the actual impact on the City's valuation for December 31, 2015 is not known the City does expect some downward pressure on its funded status and upward pressure on its 2017 actuarially determined contribution (ADC) due to this change.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 9 – Supplemental Death Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (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 postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the year ended 2015 was \$2,309 which equaled the required contribution amount.

Note 10 - 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.

Note 11 - 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 Taman-on Lakes, L.P., excluding the five year utilization clause. During the year ended September 30, 2015, the City received \$347,250 in regional park fees. Since the inception of the agreements, the City has received \$1,431,983. During the year ended September 30, 2015, the City expended \$5,594 of regional park contributions received on park maintenance and beautification. As of September 30, 2015, the City has restricted net position of \$1,322,167 related to regional park fees.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 12 - Developer Contributions Business-type Activities

The City receives funds under an agreement with the Fulshear Creek Crossing (FCC) developer whereby \$2,560 per final platted lot is remitted to the City. 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.

Additionally, Lamar Consolidated Independent School District contributed \$920,000 for additional capacity needed at city facilities due to pending school construction.

At September 30, 2015, the Fulshear enterprise fund had restricted net position of \$1,223,225 from these contributions.

Note 13 – Prior Period Adjustment

Implementation of New Accounting Standards

The City has implemented the GASB Statement No. 68 *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ending September 30, 2015. As a result the beginning net position of the City's governmental activities has been restated on the Statement of Activities to reflect the net pension liability and deferred outflows of resources relating to pension contributions made after the prior measurement date of the plan.

Summary

The following is a summary of the prior period adjustment to the net position of the governmental activities:

	Governmental Activities
Net Position as originally presented	\$ 29,514,931
Change in accounting principles	
Net pension liability at December 31, 2013	(124,513)
City contributions to the plan after measurement date	35,675
Prior period adjustment	(88,838)
Net Position as of September 30, 2014, as restated	<u>\$ 29,426,093</u>

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF FULSHEAR, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

For the Year Ended September 30, 2015

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget
Revenues				
Taxes:				
Property	\$ 969,741	\$ 969,741	\$ 1,264,271	\$ 294,530
Sales	618,400	618,400	665,127	46,727
Franchise	348,564	348,564	380,718	32,154
Public improvement fees	550,000	550,000	345,803	(204,197)
Licenses and permits	1,371,860	1,371,860	1,872,346	500,486
Charges for services	871,495	871,495	744,125	(127,370)
Fines and forfeitures	104,300	104,300	180,656	76,356
Investment earnings	4,500	4,500	7,030	2,530
Other revenues	<u>237,677</u>	<u>237,677</u>	<u>222,635</u>	<u>(15,042)</u>
Total Revenues	<u>5,076,537</u>	<u>5,076,537</u>	<u>5,682,711</u>	<u>606,174</u>
Expenditures				
Current:				
General government	2,435,554	2,435,554	2,009,032	(426,522)
Permits and inspections	538,094	538,094	517,507	(20,587)
Public works	483,984	483,984	466,294	(17,690)
Public safety	1,436,548	1,436,548	1,375,631	(60,917)
Capital Outlay	<u>267,473</u>	<u>267,473</u>	<u>267,472</u>	<u>(1)</u>
Total Expenditures	<u>5,161,653</u>	<u>5,161,653</u>	<u>4,635,936</u>	<u>(525,717)</u>
Revenues over (under) expenditures	(85,116)	(85,116)	1,046,775	1,131,891
Other Financing Sources (Uses)				
Transfers out	<u>(1,744,781)</u>	<u>(1,744,781)</u>	<u>(42,650)</u>	<u>1,702,131</u>
Total other financing sources (uses)	<u>(1,744,781)</u>	<u>(1,744,781)</u>	<u>(42,650)</u>	<u>1,702,131</u>
Changes in fund balance	(1,829,897)	(1,829,897)	1,004,125	2,834,022
Fund Balance - Beginning of Year	<u>4,434,818</u>	<u>4,434,818</u>	<u>4,434,818</u>	
Fund Balance - End of Year	<u>\$ 2,604,921</u>	<u>\$ 2,604,921</u>	<u>\$ 5,438,943</u>	<u>\$ 2,834,022</u>

CITY OF FULSHEAR, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended September 30, 2015

Annual budgets are adopted on a modified accrual basis of accounting for all of the City's funds. Annual appropriations lapse at fiscal year-end.

The Finance department is responsible for producing, monitoring, and reporting the City's annual operating budget. The City of Fulshear operates a fiscal year beginning October 1 through September 30 annually.

Each spring, the staff begins the annual process to determine the needs of the city. The requests are based on the programs and priorities that the city council has discussed or committed to in the past. A recommended budget is formed based on the projected revenue and submitted to the citizens and the city council. After input from the public and the staff the council has the opportunity to revise the budget to conform to its objectives.

Public hearings regarding the budget and tax rate are held in August/September and are open to the public. The city budget contains several different funds with the largest being the general fund which is used for general government services that do not need to be accounted for separately. Examples of general government services include public safety, street maintenance, and administrative activities.

Once adopted, the budget takes effect on the first of the fiscal year (October 1) and any major changes must be approved by the city council.

CITY OF FULSHEAR, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Measurement Year

Total pension liability	2014
Service Cost	\$ 93,711
Interest (on the Total Pension Liability)	23,662
Difference between expected and actual experience	47,654
Benefit payments, including refunds of employee contributions	<u>(3,334)</u>
Net change in total pension liability	161,693
Total pension liability – beginning	<u>292,846</u>
Total pension liability – ending	<u><u>\$ 454,539</u></u>
Plan fiduciary net position	
Contributions – employer	\$ 51,713
Contributions – employee	68,767
Net investment income	9,644
Benefit payments, including refunds of employee contributions	(3,334)
Administrative Expense	(101)
Other	<u>(8)</u>
Net change in plan fiduciary net position	126,681
Plan fiduciary net position – beginning	<u>168,333</u>
Plan fiduciary net position – ending	<u><u>\$ 295,014</u></u>
Net pension Liability	\$ 159,525
Net plan fiduciary net position as a percentage of total pension liability	65%
Total covered employee payroll	\$ 1,375,366
Net pension liability as a percentage of total covered employee payroll	12%

CITY OF FULSHEAR, TEXAS
REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)

Last Five Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarial determined contribution	\$ 69,687	\$ 39,619	\$ 8,826	\$ 11,801	\$ 22,882
Contribution in relation to the actuarial determined contribution	<u>69,687</u>	<u>39,619</u>	<u>8,826</u>	<u>11,801</u>	<u>22,882</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll (fiscal year)	\$ 1,568,017	\$ 870,232	\$ 703,095	\$ 583,368	\$ 85,673
Contributions as a percentage of covered employee payroll	4.44%	4.55%	1.26%	2.02%	26.71%

The City began participating in TMRS in fiscal year 2011, therefore no information is available prior to that date.

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OTHER SUPPLEMENTAL INFORMATION

CITY OF FULSHEAR, TEXAS
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
September 30, 2015

	Regional Park	Municipal Court	Total Nonmajor Funds
Assets			
Cash and cash equivalents	\$ 1,211,083	\$ 61,344	\$ 1,272,427
Investments	113,468		113,468
Due from other funds		994	994
Total Assets	<u>\$ 1,324,551</u>	<u>\$ 62,338</u>	<u>\$ 1,386,889</u>
Liabilities			
Accounts payable	\$ 2,384	\$ 639	\$ 3,023
Total Liabilities	<u>2,384</u>	<u>639</u>	<u>3,023</u>
Fund balances			
Restricted for:			
Regional Park	1,322,167		1,322,167
Municipal Court		61,699	61,699
Total Fund Balances	<u>1,322,167</u>	<u>61,699</u>	<u>1,383,866</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,324,551</u>	<u>\$ 62,338</u>	<u>\$ 1,386,889</u>

CITY OF FULSHEAR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2015

	Regional Park	Municipal Court	Total Nonmajor Funds
Revenues			
Fines and forfeitures	\$	\$ 13,301	\$ 13,301
Investment earnings	2,200	72	2,272
Other revenues	347,250	8,855	356,105
Total Revenues	<u>349,450</u>	<u>22,228</u>	<u>371,678</u>
Expenditures			
Current:			
General administration	5,594		5,594
Public safety		7,277	7,277
Total Expenditures	<u>5,594</u>	<u>7,277</u>	<u>12,871</u>
Revenues over (under) expenditures	<u>343,856</u>	<u>14,951</u>	<u>358,807</u>
Net Changes in Fund Balances	343,856	14,951	358,807
Fund Balances - beginning of year	978,311	46,748	1,025,059
Fund Balances - end of year	<u>\$ 1,322,167</u>	<u>\$ 61,699</u>	<u>\$ 1,383,866</u>

CITY OF FULSHEAR, TEXAS
BALANCE SHEET AND STATEMENT OF NET POSITION
DISCRETELY PRESETNED COMPONENT UNITS
September 30, 2015

	<u>Fulshear Development Corporation</u>	<u>City of Fulshear Development Corporation</u>
Assets		
Cash and cash equivalents	\$ 698,213	\$ 528,639
Receivables, net	60,358	60,358
Total Assets	<u>\$ 758,571</u>	<u>\$ 588,997</u>
Liabilities		
Accounts payable	\$ -	\$ 11,493
Total Liabilities	<u> </u>	<u>11,493</u>
Fund balances		
Restricted for:		
Economic Development	<u>758,571</u>	<u>577,504</u>
Total Fund Balances	<u>758,571</u>	<u>577,504</u>
Total Liabilities and Fund Balances	<u>\$ 758,571</u>	<u>\$ 588,997</u>
Net position of component units	<u>\$ 758,571</u>	<u>\$ 577,504</u>

CITY OF FULSHEAR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES AND NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
For the Year Ended September 30, 2015

	Fulshear Development Corporation	City of Fulshear Development Corporation
Revenues		
Taxes:		
Sales	\$ 320,544	\$ 320,544
Investment earnings	819	1,349
Other revenues	450	
Total Revenues	<u>321,813</u>	<u>321,893</u>
Expenditures		
Current:		
General administration	99,703	85,291
Debt Service:		
Principal		378,961
Interest		9,655
Total Expenditures	<u>99,703</u>	<u>473,907</u>
Net Changes in Fund Balances	222,110	(152,014)
Fund Balances - beginning of year	<u>536,461</u>	<u>729,518</u>
Fund Balances - end of year	<u>\$ 758,571</u>	<u>\$ 577,504</u>
Net Change in Fund Balances - component units	\$ 222,110	\$ (152,014)
Amounts reported for the component unit in the Statement of Activities are different because:		
The component unit fund reports repayment of bond principal as an expenditures. In contrast, the Statement of Net Position shows this as a reduction of long-term liabilities.		
Repayment of principal on long-term debt		378,961
Changes in Net Position of Component Units	<u>\$ 222,110</u>	<u>\$ 226,947</u>