

ANNUAL FINANCIAL REPORT

of the

CITY OF FULSHEAR, TEXAS

**For the Year Ended
September 30, 2009**

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CITY OF FULSHEAR, TEXAS

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CITY OF FULSHEAR, TEXAS

PRINCIPAL OFFICIALS

September 30, 2009

GOVERNING BODY

Honorable James W. "Jamie" Roberts, Mayor

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

Dennis Clack, Alderman

Stephen Gill, Alderman

Laverne Patterson, Alderman

Derek Einkauf, Alderman

OTHER PRINCIPAL OFFICIALS

D. Gordon Offord, City Secretary

Kristina J Brashear, City Treasurer

David Frishman, City Attorney

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the remaining fund information of the City of Fulshear, Texas (the "City") as of and for the year ended September 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the discretely presented component units, each major fund, and the remaining fund information of the City as of September 30, 2009, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and supplementary schedules are presented for purposes of additional analysis and are not required part of the basic financial statements. The supplementary information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*B*ELT *H*ARRIS & *A*SSOCIATES, LLLP

Belt Harris & Associates, LLLP
Certified Public Accountants
Houston, Texas
January 29, 2010

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For The Year Ended September 30, 2009

indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

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

1. Governmental Activities - Most of the City's basic services are reported here including police and fire protection, municipal court, streets, drainage, leisure services, community development and general administrative services. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines and permit fees finance most of these activities.
2. Business-type Activities - Services involving a fee for those services are reported here. These services include the City's water and sewer services as well as solid waste collection.

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

FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

The City maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and regional park fund. The City adopts an annual appropriated budget for its general fund and regional park fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
For The Year Ended September 30, 2009

Proprietary Funds

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

Notes to Financial Statements

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$11,833,723 as of September 30, 2009. As required by GASB Statement No. 34, a comparative analysis of government-wide data has been presented as a component of the MD&A for the year ending September 30, 2009. The largest portion of the City's net assets, 87 percent, reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For The Year Ended September 30, 2009

Statement of Net Assets:

The following table reflects the condensed statement of net assets:

SUMMARY OF STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
	\$	\$	\$	\$	\$	\$
Current and other assets	1,547,732	1,622,373	147,829	157,000	1,695,561	1,779,373
Capital assets, net	870,769	815,595	9,508,220	9,772,337	10,378,989	10,587,932
Total Assets	2,418,501	2,437,968	9,656,049	9,929,337	12,074,550	12,367,305
Long-term liabilities	69,925	130,452	-	50,374	69,925	180,826
Other liabilities	39,009	64,849	131,893	-	170,902	64,849
Total Liabilities	108,934	195,301	131,893	50,374	240,827	245,675
Net Assets:						
Invested in capital assets, net of related debt	803,982	715,795	9,508,220	10,302,260	10,312,202	11,018,055
Restricted	158,811	228,590	317,823	329,048	476,634	557,638
Unrestricted	1,346,774	1,298,282	(301,887)	(752,345)	1,044,887	545,937
Total Net Assets	\$ 2,309,567	\$ 2,242,667	\$ 9,524,156	\$ 9,878,963	\$ 11,833,723	\$ 12,121,630

A portion of the City's net assets, \$476,634 or four percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$1,044,887 or nine percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net assets decreased by \$287,907 during the current fiscal year, a decrease of two percent in comparison to the prior nine months ended September 30, 2008. This decrease is largely the result of an increase in general and public safety operating expenditures.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For The Year Ended September 30, 2009

Statement of Activities:

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

CHANGES IN NET ASSETS

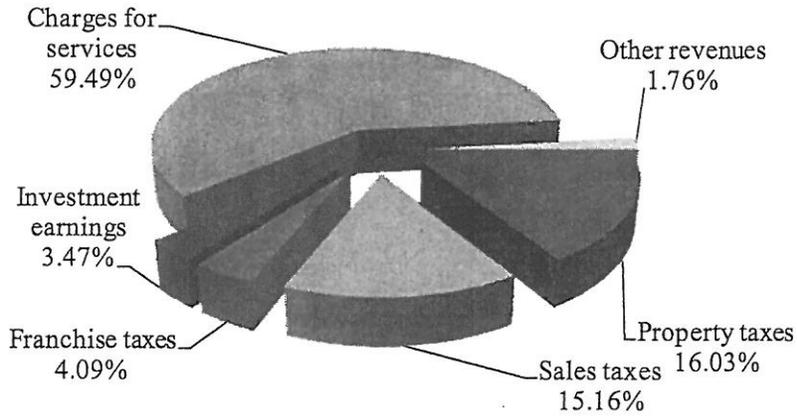
	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	\$ 724,091	\$ 385,080	\$ 459,722	\$ 188,841	\$ 1,183,813	\$ 573,921
Capital grants and contributions	-	281,000	-	8,929,077	-	9,210,077
General revenues:						
Property taxes	195,137	30,946	-	-	195,137	30,946
Sales taxes	184,579	129,711	-	-	184,579	129,711
Franchise taxes	49,721	35,987	-	-	49,721	35,987
Investment earnings	42,252	39,135	4,132	3,131	46,384	42,266
Other revenues	21,366	40,990	-	-	21,366	40,990
Total Revenues	1,217,146	942,849	463,854	9,121,049	1,681,000	10,063,898
Expenses						
General government	492,318	363,287	-	-	492,318	363,287
Public safety	501,560	288,277	-	-	501,560	288,277
Public works	129,797	126,243	-	-	129,797	126,243
Interest on long-term debt	3,171	-	-	-	3,171	-
Water and sewer	-	-	842,061	257,678	842,061	257,678
Total Expenses	1,126,846	777,807	842,061	257,678	1,968,907	1,035,485
Increase (Decrease) in Net Assets Before Transfers	90,300	165,042	(378,207)	8,863,371	(287,907)	9,028,413
Insurance proceeds, net of capital asset losses	-	8,040	-	-	-	8,040
Transfers	(23,400)	(245,141)	23,400	245,141	-	-
Change in Net Assets	66,900	(72,059)	(354,807)	9,108,512	(287,907)	9,036,453
Beginning Net Assets	2,242,667	2,314,726	9,878,963	770,451	12,121,630	3,085,177
Ending Net Assets	\$ 2,309,567	\$ 2,242,667	\$ 9,524,156	\$ 9,878,963	\$ 11,833,723	\$ 12,121,630

In April 2008, the City Council changed the City's fiscal year end from December 31 to September 30. Accordingly the table above and following discussion is for the twelve months ended September 30, 2009 as compared to the nine months ended September 30, 2008.

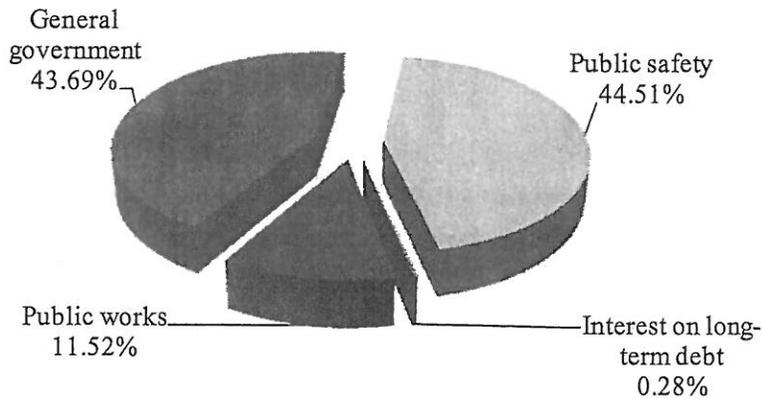
CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For The Year Ended September 30, 2009

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

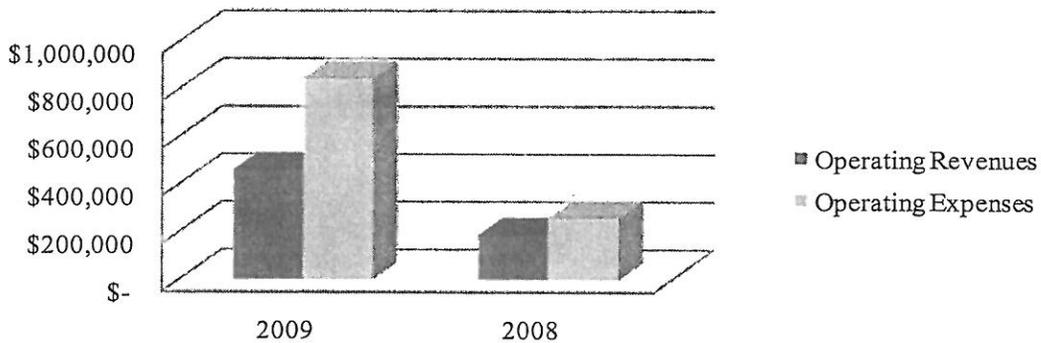
Governmental Revenues



Governmental Expenses



Business-type Activities



CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
For The Year Ended September 30, 2009

For the year ended September 30, 2009, revenues from governmental activities totaled \$1,217,146. Overall, governmental revenues increased by 29 percent. Service revenues, which are the City's largest revenue source, increased by 88 percent because of an increase in the permit and inspection fees compared to the prior year. The City's investment earnings increased 8 percent. The City is continuing to heavily invest in certificates of deposit.

For the year ended September 30, 2009, expenses for governmental activities totaled \$1,126,846, which represents an increase of \$349,039 from the previous 9 months. Public safety expenses had the largest increase of \$213,283. This increase was due to additional salaries and benefits for new officers.

Charges for services for business-type activities increased \$270,881 or 143 percent from the previous nine months due to higher water consumption levels and the activity in the cross creek ranch facility, contributed to the City in August 2008 as part of the development agreement for Cross Creek Ranch.

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, unreserved 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 \$1,472,994. There was an increase in the combined fund balance of \$586 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unreserved and undesignated fund balance of the general fund was \$1,316,033. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 119 percent of total general fund expenditures. The general fund demonstrated an overall increase of \$74,811 primarily due to an increase in the permit and inspection fees.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned increase in budgeted fund balance in the amount of \$101,513 in the general fund. However, the net change in fund balance increased by \$74,811 resulting in a negative variance of \$26,702 from budgeted as amended over actual.

Actual general fund revenues were below original and amended budgeted revenues by \$7,903 during 2009. This variance includes the negative variances of \$13,278 for sales tax revenues and \$25,363 for other revenues as well as a positive variance of \$39,151 for charges for services.

Actual expenditures were greater than budgeted amounts by \$18,799 for the fiscal year. The majority of this variance was in general administrative expenses.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For The Year Ended September 30, 2009

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds had invested \$870,769 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$55,174. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34 with an increase in depreciation expense of \$88,208.

Major capital asset events during the current year include the following:

- Purchase of a John Deere tractor for \$21,208
- Purchase of a police car with accessories in the amount of \$39,814
- Stern Park project in the amount of \$82,360

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

LONG-TERM DEBT

At the end of the current year, the City had total capital lease obligation outstanding of \$66,787.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council has adopted the City's 2010 budget. The approval of the budget provides funding for the City's operating and capital costs for the 2010 fiscal year. The City expects revenues from all sources to remain consistent with the 2009 fiscal year and expects positive growth in net assets during 2010 for both governmental activities and business-type activities. The City's water, sewer, and garbage rates are reviewed by the City Council and adjusted based on current operating costs, customer demand and usage, and other pertinent factors affecting operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF FULSHEAR, TEXAS

STATEMENT OF NET ASSETS

September 30, 2009

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 207,890	\$ 162,046	\$ 369,936
Investments	983,034	200,000	1,183,034
Receivables, net	71,525	71,066	142,591
Internal balances	285,283	(285,283)	-
Total Current Assets	1,547,732	147,829	1,695,561
Capital assets:			
Non-depreciable capital assets	44,290	129,182	173,472
Depreciable capital assets, net	826,479	9,379,038	10,205,517
Total Noncurrent Assets	870,769	9,508,220	10,378,989
Total Assets	2,418,501	9,656,049	12,074,550
Liabilities			
Accounts payable and accrued liabilities	36,415	109,394	145,809
Customer deposits	2,594	22,499	25,093
Total Current Liabilities	39,009	131,893	170,902
Noncurrent liabilities:			
Due within one year	24,300	-	24,300
Due in more than one year	45,625	-	45,625
Total Noncurrent Liabilities	69,925	-	69,925
Total Liabilities	108,934	131,893	240,827
Net Assets			
Invested in capital assets, net of related debt	803,982	9,508,220	10,312,202
Restricted for:			
Court technology	2,379	-	2,379
Child safety	1,850	-	1,850
Building security	1,711	-	1,711
Regional park	152,871	-	152,871
Water and sewer system construction	-	317,823	317,823
Unrestricted	1,346,774	(301,887)	1,044,887
Total Net Assets	\$ 2,309,567	\$ 9,524,156	\$ 11,833,723

See Notes to Financial Statements.

Component Units

<u>City of Fulshear Development Corporation</u>	<u>Fulshear Development Corporation</u>
\$ 58,355	\$ 71,746
86,955	30,701
16,835	16,835
-	-
162,145	119,282
-	-
-	29,242
-	29,242
162,145	148,524
2,811	-
-	-
2,811	-
-	-
-	-
-	-
-	-
2,811	-
-	29,242
-	-
-	-
-	-
-	-
159,334	119,282
\$ 159,334	\$ 148,524

CITY OF FULSHEAR, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2009

Functions/Programs	Expenses	Program Revenues	Net Revenue (Expense) and Changes in Net Assets	
		Charges for Services	Primary Government	
			Governmental Activities	Business-type Activities
Primary Government				
Governmental Activities				
General government	\$ 492,318	\$ -	\$ (492,318)	\$ -
Public safety	501,560	375,355	(126,205)	-
Public works	129,797	348,736	218,939	-
Interest on long-term debt	3,171	-	(3,171)	-
Total Governmental Activities	1,126,846	724,091	(402,755)	-
Business-type Activities				
Utilities	842,061	459,722	-	(382,339)
Total Business-Type Activities	842,061	459,722	-	(382,339)
Total Primary Government	\$ 1,968,907	\$ 1,183,813	(402,755)	(382,339)
Component Units				
City of Fulshear Development Corp.	\$ 20,124	\$ -	\$ -	\$ -
Fulshear Development Corp.	29,699	-	-	-
Total Component Units	\$ 49,823	\$ -	\$ -	\$ -
General Revenues:				
Property taxes			195,137	-
Sales taxes			184,579	-
Franchise taxes			49,721	-
Investment earnings			42,252	4,132
Other revenues			21,366	-
Transfers			(23,400)	23,400
Total General Revenues and Transfers			469,655	27,532
Change in Net Assets			66,900	(354,807)
Beginning Net Assets			2,242,667	9,878,963
Ending Net Assets			\$ 2,309,567	\$ 9,524,156

See Notes to Financial Statements.

	Component Units	
	City of Fulshear Development Corporation	Fulshear Development Corporation
Total		
\$ (492,318)	\$ -	\$ -
(126,205)	-	-
218,939	-	-
(3,171)	-	-
<u>(402,755)</u>	<u>-</u>	<u>-</u>
<u>(382,339)</u>	<u>-</u>	<u>-</u>
<u>(382,339)</u>	<u>-</u>	<u>-</u>
<u>(785,094)</u>	<u>-</u>	<u>-</u>
\$ -	\$ (20,124)	\$ -
<u>-</u>	<u>-</u>	<u>(29,699)</u>
<u>\$ -</u>	<u>\$ (20,124)</u>	<u>\$ (29,699)</u>
195,137	-	-
184,579	89,431	89,431
49,721	-	-
46,384	2,473	2,756
21,366	-	-
-	-	-
<u>497,187</u>	<u>91,904</u>	<u>92,187</u>
(287,907)	71,780	62,488
<u>12,121,630</u>	<u>87,554</u>	<u>86,036</u>
<u>\$ 11,833,723</u>	<u>\$ 159,334</u>	<u>\$ 148,524</u>

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CITY OF FULSHEAR, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2009

	General	Nonmajor Regional Park Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 162,412	\$ 45,478	\$ 207,890
Investments	877,455	105,579	983,034
Receivables, net	71,525	-	71,525
Due from other funds	289,597	1,712	291,309
	Total Assets	\$ 152,769	\$ 1,553,758
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 36,415	\$ -	\$ 36,415
Due to other funds	4,278	1,748	6,026
Deferred revenue	35,729	-	35,729
Customer deposits	2,594	-	2,594
	Total Liabilities	1,748	80,764
Fund Balances:			
Reserved for:			
Court technology	2,379	-	2,379
Child safety	1,850	-	1,850
Building security	1,711	-	1,711
Unreserved, undesignated reported in:			
General fund	1,316,033	-	1,316,033
Special revenue fund	-	151,021	151,021
	Total Fund Balances	151,021	1,472,994
	Total Liabilities and Fund Balances	\$ 152,769	\$ 2,309,567

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	Capital assets, non-depreciable	44,290
	Capital assets, net depreciable	826,479
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		35,729
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	Non-current liabilities due in one year	(24,300)
	Non-current liabilities due in more than one year	(45,625)
	Net Assets of Governmental Activities	\$ 2,309,567

See Notes to Financial Statements.

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CITY OF FULSHEAR, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2009

	General	Nonmajor Regional Park Fund	Total
<u>Revenues</u>			
Taxes:			
Property	\$ 178,921	\$ -	\$ 178,921
Sales	184,579	-	184,579
Franchise	49,721	-	49,721
Public improvement fees	44,036	-	44,036
Licenses and permits	320,403	-	320,403
Charges for services	304,700	-	304,700
Fines and forfeitures	54,952	-	54,952
Investment earnings	37,648	4,604	42,252
Other revenues	10,066	11,300	21,366
	Total Revenues	15,904	1,200,930
<u>Expenditures</u>			
Current:			
General government	457,405	-	457,405
Public safety	474,234	-	474,234
Public works	99,316	-	99,316
Capital outlay	37,619	90,129	127,748
Debt service:			
Principal	15,070	-	15,070
Interest	3,171	-	3,171
	Total Expenditures	90,129	1,176,944
	Excess (Deficiency) of Revenues Over (Under) Expenditures	(74,225)	23,986
	98,211	(74,225)	23,986
<u>Other Financing (Uses)</u>			
Transfers (out)	(23,400)	-	(23,400)
	Total Other Financing (Uses)	-	(23,400)
	Net Change in Fund Balances	(74,225)	586
	74,811	(74,225)	586
Beginning Fund Balances	1,247,162	225,246	1,472,408
	Ending Fund Balances	151,021	1,472,994
	\$ 1,321,973	\$ 151,021	\$ 1,472,994

See Notes to Financial Statements.

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CITY OF FULSHEAR, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2009

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

Net changes in fund balances - total governmental funds	\$	586
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital asset expenditures		143,382
Depreciation expense		(88,208)
<p>Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.</p>		
		16,216
<p>The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.</p>		
Capital lease financing		<u>(5,076)</u>
Change in Net Assets of Governmental Activities	\$	<u>66,900</u>

See Notes to Financial Statements.

CITY OF FULSHEAR, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2009

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility Fund	CCR Facility Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 128,567	\$ 33,479	\$ 162,046
Investments	200,000	-	200,000
Accounts receivable, net	28,198	42,868	71,066
Due from other funds	21,562	9,130	30,692
Total Current Assets	378,327	85,477	463,804
Noncurrent assets:			
Capital assets:			
Nondepreciable	60,292	68,890	129,182
Depreciable, net	1,216,661	8,162,377	9,379,038
Total Capital Assets (Net)	1,276,953	8,231,267	9,508,220
Total Noncurrent Assets	1,276,953	8,231,267	9,508,220
Total Assets	\$ 1,655,280	\$ 8,316,744	\$ 9,972,024
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 32,674	\$ 76,720	\$ 109,394
Customer deposits	9,244	13,255	22,499
Due to other funds	279,413	36,562	315,975
Total Liabilities	321,331	126,537	447,868
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,276,953	8,231,267	9,508,220
Restricted for:			
Water and sewer system construction	317,823	-	317,823
Unrestricted	(260,827)	(41,060)	(301,887)
Total Net Assets	\$ 1,333,949	\$ 8,190,207	\$ 9,524,156

See Notes to Financial Statements.

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

For the Year Ended September 30, 2009

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Fulshear Facility Fund</u>	<u>CCR Facility Fund</u>	<u>Total</u>
<u>Operating Revenues</u>			
Charges for sales and services	\$ 190,204	\$ 269,518	\$ 459,722
Total Operating Revenues	<u>190,204</u>	<u>269,518</u>	<u>459,722</u>
<u>Operating Expenses</u>			
Costs of sales and services	233,365	344,580	577,945
Depreciation	74,462	189,654	264,116
Total Operating Expenses	<u>307,827</u>	<u>534,234</u>	<u>842,061</u>
Operating Income (Loss)	<u>(117,623)</u>	<u>(264,716)</u>	<u>(382,339)</u>
<u>Nonoperating Revenues (Expenses)</u>			
Investment earnings	3,842	290	4,132
Total Nonoperating Revenues (Expenses)	<u>3,842</u>	<u>290</u>	<u>4,132</u>
Income (Loss) Before Transfers	(113,781)	(264,426)	(378,207)
Transfers in	8,400	15,000	23,400
Change in Net Assets	(105,381)	(249,426)	(354,807)
Beginning Net Assets	1,439,330	8,439,633	9,878,963
Ending Net Assets	<u>\$ 1,333,949</u>	<u>\$ 8,190,207</u>	<u>\$ 9,524,156</u>

See Notes to Financial Statements.

CITY OF FULSHEAR, TEXAS

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2009

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Fulshear Facility Fund</u>	<u>CCR Facility Fund</u>	<u>Total</u>
<u>Cash Flows from Operating Activities</u>			
Receipts from customers and users	\$ 171,547	\$ 220,600	\$ 392,147
Payments to suppliers	141,301	(269,929)	(128,628)
Net Cash Provided (Used) by Operating Activities	312,848	(49,329)	263,519
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers from other funds	8,400	15,000	23,400
Net Cash Provided by Noncapital and Related Financing Activities	8,400	15,000	23,400
<u>Cash Flows from Investing Activities</u>			
Purchase of investments	(200,000)	-	-
Investment earnings	3,842	290	4,132
Net Cash Provided by Investing Activities	(196,158)	290	4,132
Net Increase (Decrease) in Cash and Cash Equivalents	125,090	(34,039)	291,051
Cash and Cash Equivalents, Beginning of Year	3,477	67,518	70,995
Ending Cash and Cash Equivalents	\$ 128,567	\$ 33,479	\$ 362,046

See Notes to Financial Statements.

CITY OF FULSHEAR, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2009

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility Fund	CCR Facility Fund	Total
Reconciliation of Operating Income (Loss)			
to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (117,623)	\$ (264,716)	\$ (382,339)
Adjustments to reconcile operating income (loss)			
to net cash provided (used) by operating activities:			
Depreciation	74,462	189,654	264,116
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in Current Assets:			
Accounts receivable	(19,217)	(39,788)	(59,005)
Due from other funds	560	(9,130)	(8,570)
Increase (Decrease) in Current Liabilities:			
Accounts payable and accrued liabilities	12,064	46,956	59,020
Customer deposits	9,244	13,255	22,499
Due to other funds	353,358	14,440	367,798
Net Cash Provided (Used) by Operating Activities	\$ 312,848	\$ (49,329)	\$ 263,519

See Notes to Financial Statements.

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CITY OF FULSHEAR, TEXAS

NOTES TO FINANCIAL STATEMENTS

For The Year Ended September 30, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

Discretely Presented Component Units

City of Fulshear Development Corporation

The City formed, after voter approval on August 29, 2007, the City of Fulshear Development Corporation, a 4A 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 Corporation 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

The City formed, after voter approval on August 29, 2007, the Fulshear Development Corporation, 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

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

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

The component units are reported in separate columns to emphasize that they are legally separate from the City. In the event of dissolution, net assets of the corporations 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, 2009.

B. Financial Statement Presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain requirements in the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the City’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City’s activities.
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** - This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

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

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

1. Governmental Funds

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

General Fund

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

Special Revenue Fund

The special revenue fund is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue fund includes the regional park fund, used to account for resources obtained and used in development of regional parks. This special revenue fund is considered a nonmajor fund for reporting purposes.

2. Proprietary Fund Types

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

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

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 of Fulshear and surrounding developments with water, sewer, and sanitation services. The Cross Creek Ranch (CCR) 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.

D. Measurement Focus and Basis of Accounting

The government-wide Statements of Net Assets and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net assets. Proprietary fund type 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 and component units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type and component units. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. 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 period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

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

The Statements of Net Assets, Statements of Activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

1. Deposits and Investments

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

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

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 Governmental Code. In summary, the City is authorized to invest in the following:

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

2. Receivables

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

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

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

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

Property taxes

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

3. Capital Assets

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

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

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

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

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

4. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. The estimated amount of compensation for services provided that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. The long-term debt consists primarily of capital leases.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

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

6. Fund Equity

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

7. Estimates

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

A. Excess of Expenditures Over Appropriations

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

General Fund:	
General government	\$18,533
Permits and inspections	\$50
Public works	\$216
Interest and fiscal agent fees	\$3,171

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 904,300	0.85
External investment pools	278,734	0.00
Total fair value	<u>\$ 1,183,034</u>	
Portfolio weighted average maturity		0.85

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2009, market values of pledged securities exceeded bank balances with a collective market value of at least 102 percent.

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.

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Fulshear Facility Fund</u>	<u>CCR Facility Fund</u>
Property taxes	\$ 45,145	\$ -	\$ -
Other taxes	35,313	-	-
Accounts	-	34,495	42,868
Other	482	-	-
Less allowance	(9,416)	(6,297)	-
	<u>\$ 71,525</u>	<u>\$ 28,198</u>	<u>\$ 42,868</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

C. Capital Assets

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 44,290	\$ -	\$ -	\$ 44,290
Total capital assets not being depreciated	44,290	-	-	44,290
Other capital assets:				
Buildings and improvements	718,273	82,360	-	800,633
Machinery and equipment	318,727	61,022	-	379,749
Infrastructure	108,824	-	-	108,824
Total other capital assets	1,145,824	143,382	-	1,289,206
Less accumulated depreciation for:				
Buildings and improvements	(268,181) *	(28,451)	-	(296,632)
Machinery and equipment	(88,201) *	(56,130)	-	(144,331)
Infrastructure	(18,137)	(3,627)	-	(21,764)
Total accumulated depreciation	(374,519)	(88,208)	-	(462,727)
Other capital assets, net	771,305	55,174	-	826,479
Totals	\$ 815,595	\$ 55,174	\$ -	870,769
			Less associated debt	(66,787)
			Invested in Capital Assets, Net of Related Debt	\$ 803,982

* Beginning balances have been restated.

Depreciation was charged to governmental functions as follows:

General government	\$ 33,438
Public safety	26,444
Public works	28,326
Total Governmental Activities Depreciation Expense	\$ 88,208

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

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

	<u>Beginning Balance</u>	<u>In creases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 129,182	\$ -	\$ -	\$ 129,182
Total capital assets not being depreciated	<u>129,182</u>	<u>-</u>	<u>-</u>	<u>129,182</u>
Other capital assets:				
Buildings	115,092	-	-	115,092
Water and sewer system	10,721,287	-	-	10,721,287
Machinery and equipment	126,074	-	-	126,074
Total other capital assets	<u>10,962,453</u>	<u>-</u>	<u>-</u>	<u>10,962,453</u>
Less accumulated depreciation for:				
Buildings	(58,844) *	(3,231)	-	(62,075)
Water and sewer system	(1,188,530) *	(253,149)	-	(1,441,679)
Machinery and equipment	(71,925) *	(7,736)	-	(79,661)
Total accumulated depreciation	<u>(1,319,299)</u>	<u>(264,116)</u>	<u>-</u>	<u>(1,583,415)</u>
Other capital assets, net	<u>9,643,154</u>	<u>(264,116)</u>	<u>-</u>	<u>9,379,038</u>
Totals	<u>\$ 9,772,336</u>	<u>\$ (264,116)</u>	<u>\$ -</u>	<u>\$ 9,508,220</u>

* Beginning balances have been restated.

Depreciation was charged to business-type functions as follows:

City of Fulshear enterprise fund	\$ 74,462
Cross Creek Ranch enterprise fund	<u>189,654</u>
Total Business-type Activities Depreciation Expense	<u>\$ 264,116</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Component Units:				
Capital assets being depreciated:				
Improvements	\$ -	\$ 30,250	\$ -	\$ 30,250
Total other capital assets	-	30,250	-	30,250
Less accumulated depreciation for:				
Improvements	-	(1,008)	-	(1,008)
Total accumulated depreciation	-	(1,008)	-	(1,008)
Other capital assets, net	-	29,242	-	29,242
Totals	\$ -	\$ 29,242	\$ -	\$ 29,242

D. 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>Amounts Due within One Year</u>
Governmental Activities:					
Capital leases	\$ 64,849	\$ 17,008	\$ 15,070	\$ 66,787 *	\$ 21,476
Other liabilities:					
Compensated absences	-	8,448	5,310	3,138	2,824
Total Governmental Activities	\$ 64,849	\$ 25,456	\$ 20,380	\$ 69,925	\$ 24,300
Long-term debt due in more than one year				\$ 45,625	

* Debt associated with governmental activity capital assets

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

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

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

Description	Interest Rates	Balance
<u>Governmental Activities</u>		
Capital Leases		
Agricredit lease	4.89%	49,779
John Deere lease	0.00%	17,008
	Total Capital Leases	<u>66,787</u>
Total Governmental Activities Long-Term Debt		<u><u>\$ 66,787</u></u>

Capital Leases

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

Year Ending Sept. 30	<u>Governmental Activity</u>		Total
	<u>Principal</u>	<u>Interest</u>	
2010	\$ 21,477	\$ 2,434	\$ 23,911
2011	22,249	1,661	23,910
2012	23,061	850	23,911
Total	<u><u>\$ 66,787</u></u>	<u><u>\$ 4,945</u></u>	<u><u>\$ 71,732</u></u>

The assets acquired through capital leases are as follows:

Asset:	<u>Governmental Activities</u>
Machinery and equipment	\$ 104,298
Less: Accumulated depreciation	<u>(12,551)</u>
Total	<u><u>\$ 91,747</u></u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

E. Interfund Transactions

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

<u>Due To</u>	<u>Due From</u>	<u>Amounts</u>
General fund	Park fund	\$ 1,748
General fund	Fulshear facility fund	272,849
General fund	CCR facility fund	15,000
Regional park fund	General fund	1,712
Fulshear facility fund	CCR facility fund	21,562
CCR facility fund	General fund	2,566
CCR facility fund	Fulshear facility fund	6,564
		<u>\$ 322,001</u>

Amounts recorded as “due to/from” are considered to be temporary loans and will be repaid during the following 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	Fulshear facility fund	\$ 8,400
General fund	CCR facility fund	15,000
		<u>\$ 23,400</u>

F. Fund Equity

The City records fund balance reserves on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditure.

The following is a list of fund balances reserved or designated as recognized by the City:

General Fund	
Reserved for court technology	\$ 2,160 *
Reserved for child safety	1,619 *
Reserved for building security	1,863 *
	<u>\$ 5,642</u>

* Restricted by enabling legislation

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,596 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Regional Park Fund

During 2004, the City entered into an agreement with Firethorne LTD., a 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 5 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 5 year anniversary date. Similar agreements were signed with TMI, Inc., Fulshear Land Investment Partners, LTD., and Tamarron Lakes, L.P. excluding the five year utilization clause. During the year ended September 30, 2009, the City received \$11,300 in Regional Park Fees. Since the inception of the agreements, the City has received \$237,516. During the year ended September 30, 2009, the City expended \$7,769 for development of a master plan and \$82,360 for park equipment. As of September 30, 2009, the City has restricted net assets of \$151,021 related to Regional Park fees.

D. FCC Developer Contributions

During the year ended September 30, 2008 the City received \$314,880 under an agreement with the Fulshear Creek Crossing (FCC) developer whereby the City would receive \$2,560 per final platted lot. The contributions, and interest earned, are restricted for improvements to the City's water and sewer system as necessary to provide adequate water and sewer services to the FCC development. The contributions are recorded in the City's Fulshear facility enterprise fund. At September 30, 2009, the Fulshear enterprise fund had restricted net assets of \$317,823 from these contributions.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For The Year Ended September 30, 2009

E. Subsequent Events

On October 13, 2009, an agreement between the City and the Texas Municipal League Intergovernmental Employee Benefits Pool was approved with an effective date of November 1, 2009. This agreement would offer health benefits coverage to City Retirees.

F. Restatement

Beginning fund balance and net assets have been restated as follows.

	Governmental Activities	Business-Type Activities	City of Fulshear Development Corporation	Fulshear Development Corporation	General Fund
Prior year ending, fund balance / net assets as reported	\$ 2,263,953	\$ 10,408,886	\$ 78,736	\$ 77,220	\$ 1,229,455
Restatement for depreciation on capital assets	(38,993)	(529,923)	-	-	-
Restatement for sales tax revenue not previously recorded	17,707	-	8,818	8,816	17,707
Restated beginning fund balance/net assets	<u>\$ 2,242,667</u>	<u>\$ 9,878,963</u>	<u>\$ 87,554</u>	<u>\$ 86,036</u>	<u>\$ 1,247,162</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended September 30, 2009

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes:				
Property	\$ 171,200	\$ 178,921	\$ 178,921	\$ -
Sales	174,000	197,857	184,579	(13,278)
Franchise	45,960	56,275	49,721	(6,554)
Public improvement fees	33,500	44,036	44,036	-
Licenses and permits	472,800	320,403	320,403	-
Charges for services	174,630	265,549	304,700	39,151
Fines and forfeitures	8,240	54,952	54,952	-
Investment earnings	36,660	39,507	37,648	(1,859)
Other revenues	6,000	35,429	10,066	(25,363)
Total Revenues	1,122,990	1,192,929	1,185,026	(7,903)
Expenditures				
Current:				
General government	570,878	438,872	457,405	(18,533) *
Permits and inspections	256,770	266,974	267,024	(50) *
Public safety	284,877	207,210	207,210	-
Public works	184,542	99,100	99,316	(216) *
Capital outlay	45,000	37,619	37,619	-
Debt service:				
Principal	18,241	18,241	15,070	3,171
Interest and fiscal agent fees	-	-	3,171	(3,171) *
Total Expenditures	1,360,308	1,068,016	1,086,815	(18,799)
Excess of Revenues Over (Under) Expenditures	(237,318)	124,913	98,211	(26,702)
Other Financing (Uses)				
Transfers (out)	(100,000)	(23,400)	(23,400)	-
Total Other Financing (Uses)	(100,000)	(23,400)	(23,400)	-
Net Change in Fund Balance	\$ (337,318)	\$ 101,513	74,811	\$ (26,702)
Beginning Fund Balance			1,247,162	
Ending Fund Balance			\$ 1,321,973	

Notes to Required Supplementary Information:

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

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SUPPLEMENTARY INFORMATION

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

For the Year Ended September 30, 2009

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Investment earnings	\$ 4,544	\$ 4,604	\$ 4,604	\$ -
Other revenues	22,900	11,300	11,300	-
Total Revenues	27,444	15,904	15,904	-
<u>Expenditures</u>				
Capital outlay	33,622	90,129	90,129	-
Total Expenditures	33,622	90,129	90,129	-
Net Change in Fund Balance	\$ (6,178)	\$ (74,225)	(74,225)	\$ -
Beginning Fund Balance			225,246	
Ending Fund Balance			\$ 151,021	

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