

ANNUAL FINANCIAL REPORT

of the

CITY OF FULSHEAR, TEXAS

For the Year Ended
September 30, 2010

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CITY OF FULSHEAR, TEXAS

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INTRODUCTORY SECTION

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CITY OF FULSHEAR, TEXAS

PRINCIPAL OFFICIALS

September 30, 2010

GOVERNING BODY

Honorable Tommy Kuykendall, Mayor

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

Larry Beustring, Alderman

Stephen Gill, Alderman

Laverne Patterson, Alderman

Jeff Roberts, Alderman

OTHER PRINCIPAL OFFICIALS

D. Gordon Offord, City Secretary

Kristina J Brashear, City Finance Director

J. Grady Randle, City Attorney

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the remaining fund information of the City of Fulshear, Texas (the "City") as of and for the year ended September 30, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis 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. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 23, 2011

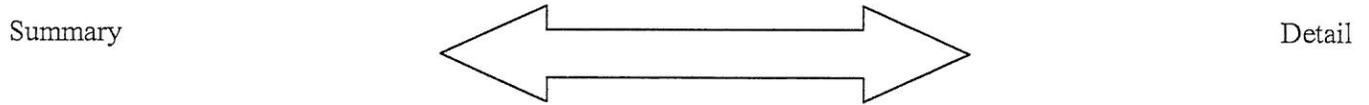
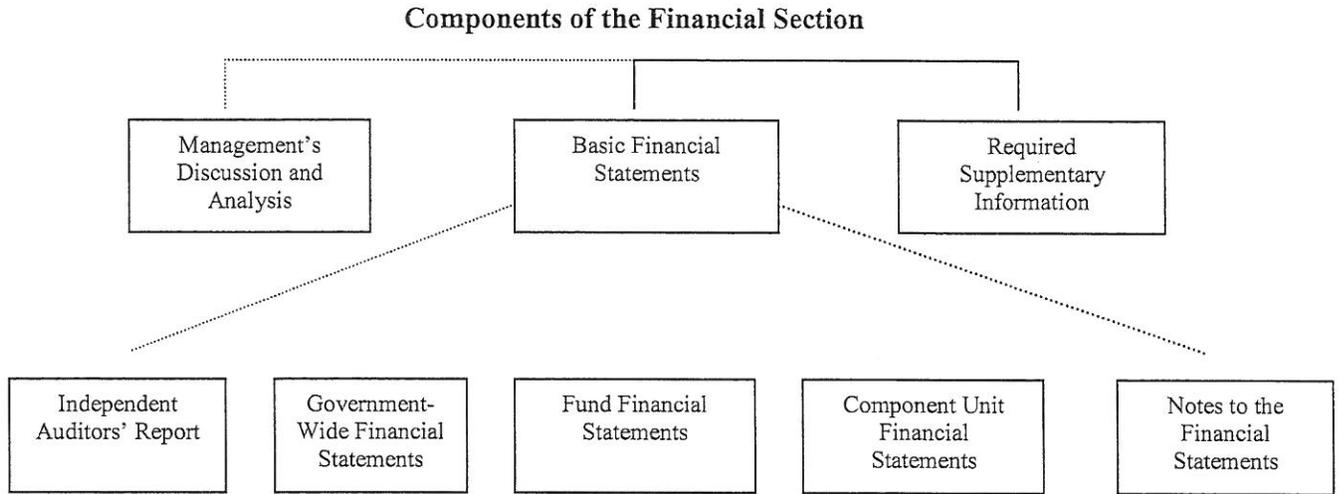
*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended September 30, 2010

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Fulshear, Texas (the "City") for the year ending September 30, 2010. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



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

Government-Wide Statements

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

The Statement of Net Assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2010

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, 2010

Proprietary Funds

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

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain RSI. The RSI that GASB Statement No. 34 requires includes budgetary comparison schedules for the general fund and regional park fund. 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 \$12,029,558 as of September 30, 2010. 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, 2010. The largest portion of the City's net assets, 86 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, 2010

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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 1,691,083	\$ 1,547,732	\$ 240,166	\$ 147,829	\$ 1,931,249	\$ 1,695,561
Capital assets, net	916,553	870,769	9,497,601	9,508,220	10,414,154	10,378,989
Total Assets	2,607,636	2,418,501	9,737,767	9,656,049	12,345,403	12,074,550
Long-term liabilities	82,897	69,925	-	-	82,897	69,925
Other liabilities	97,420	39,009	135,528	131,893	232,948	170,902
Total Liabilities	180,317	108,934	135,528	131,893	315,845	240,827
Net Assets:						
Invested in capital assets, net of related debt	838,399	803,982	9,497,601	9,508,220	10,336,000	10,312,202
Restricted	151,929	158,811	324,919	317,823	476,848	476,634
Unrestricted	1,436,991	1,346,774	(220,281)	(301,887)	1,216,710	1,044,887
Total Net Assets	\$ 2,427,319	\$ 2,309,567	\$ 9,602,239	\$ 9,524,156	\$ 12,029,558	\$ 11,833,723

A portion of the City's net assets, \$476,848 or four percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$1,216,710 or ten percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net assets increased by \$195,835 during the current fiscal year, an increase of one percent in comparison to the prior year ended September 30, 2009. This increase is largely the result of capital contribution in the business-type activities.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2010

Statement of Activities:

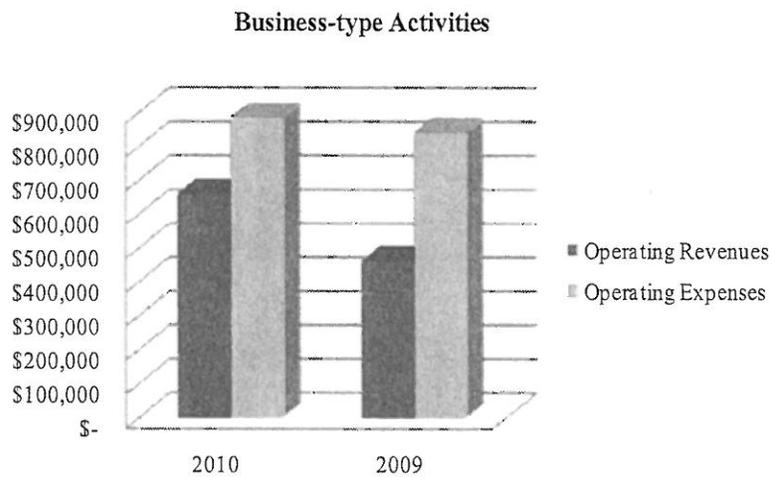
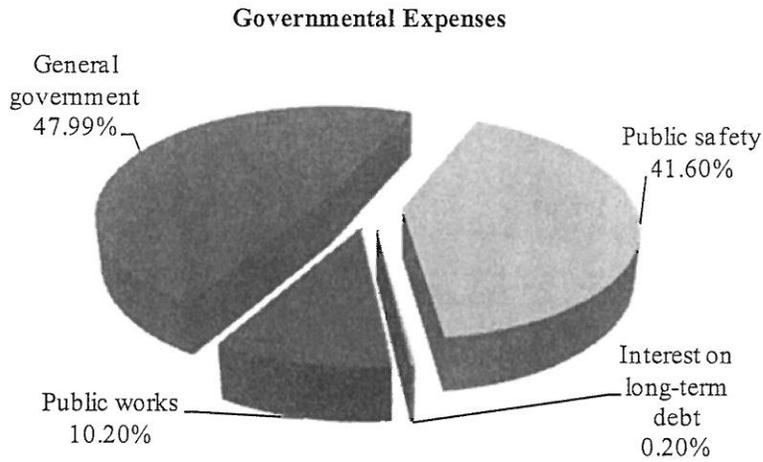
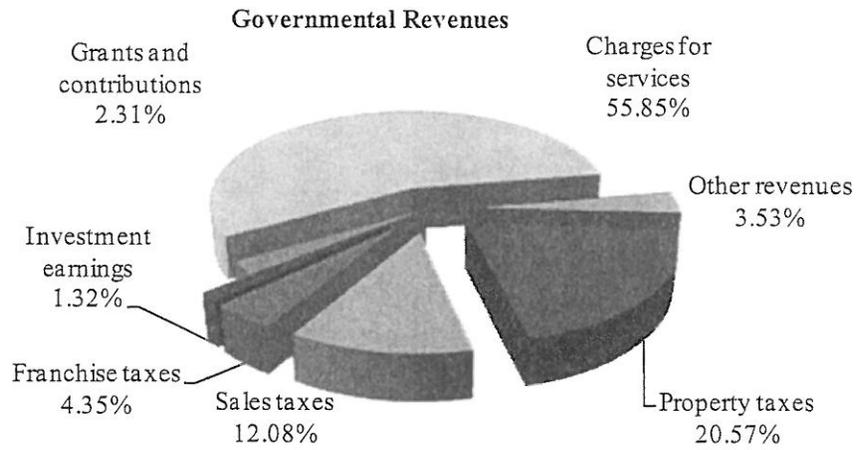
The following table provides a summary of the City's changes in net assets:

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	\$ 894,449	\$ 724,091	\$ 663,596	\$ 459,722	\$ 1,558,045	\$ 1,183,813
Operating grants and contributions	36,822	-	-	-	36,822	-
Capital grants and contributions	20,980	-	260,000	-	280,980	-
General revenues:						
Property taxes	329,368	195,137	-	-	329,368	195,137
Sales taxes	193,461	184,579	-	-	193,461	184,579
Franchise taxes	69,672	49,721	-	-	69,672	49,721
Investment earnings	21,197	42,252	4,223	4,132	25,420	46,384
Other revenues	56,552	21,366	-	-	56,552	21,366
Total Revenues	<u>1,622,501</u>	<u>1,217,146</u>	<u>927,819</u>	<u>463,854</u>	<u>2,550,320</u>	<u>1,681,000</u>
Expenses						
General government	704,426	492,318	-	-	704,426	492,318
Public safety	610,587	501,560	-	-	610,587	501,560
Public works	149,765	129,797	-	-	149,765	129,797
Interest on long-term debt	2,971	3,171	-	-	2,971	3,171
Water and sewer	-	-	886,736	842,061	886,736	842,061
Total Expenses	<u>1,467,749</u>	<u>1,126,846</u>	<u>886,736</u>	<u>842,061</u>	<u>2,354,485</u>	<u>1,968,907</u>
Increase (Decrease) in Net Assets Before Transfers	154,752	90,300	41,083	(378,207)	195,835	(287,907)
Transfers	(37,000)	(23,400)	37,000	23,400	-	-
Change in Net Assets	117,752	66,900	78,083	(354,807)	195,835	(287,907)
Beginning Net Assets	<u>2,309,567</u>	<u>2,242,667</u>	<u>9,524,156</u>	<u>9,878,963</u>	<u>11,833,723</u>	<u>12,121,630</u>
Ending Net Assets	<u>\$ 2,427,319</u>	<u>\$ 2,309,567</u>	<u>\$ 9,602,239</u>	<u>\$ 9,524,156</u>	<u>\$ 12,029,558</u>	<u>\$ 11,833,723</u>

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 For the Year Ended September 30, 2010

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



CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended September 30, 2010

For the year ended September 30, 2010, revenues from governmental activities totaled \$1,622,501. Overall, governmental revenues increased by 33 percent. Service revenues, which are the City's largest revenue source, increased by 24 percent because of an increase in the permit and inspection fees compared to the prior year. The City's investment earnings decreased 50 percent due to declining interest rates. The City is continuing to heavily invest in certificates of deposit.

For the year ended September 30, 2010, expenses for governmental activities totaled \$1,467,749, which represents an increase of \$340,903 from the previous year. General government expenses had the largest increase of \$212,108. This increase was due to additional professional legal services used during the year.

Charges for services for business-type activities increased \$203,874 or 44 percent from the previous year due to higher water consumption levels and the activity in the Cross Creek Ranch facility, which was contributed to the City in August 2008 as part of the development agreement for Cross Creek Ranch.

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 \$1,542,268. There was an increase in the combined fund balance of \$69,274 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 \$1,390,339. 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 92 percent of total general fund expenditures. The general fund demonstrated an overall increase of \$74,306 primarily due to an increase in the permit and inspection fees.

At the end of the current year, the regional park fund had \$145,989 in unreserved and undesignated fund balance. The regional park fund had a decrease in fund balance of \$5,032 due to a decrease in regional park fund contributions during the year.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned decrease in budgeted fund balance in the amount of \$213,212 in the general fund. However, the net change in fund balance increased by \$74,306 resulting in a positive variance of \$287,518 from budgeted as amended over actual.

Actual general fund revenues were above original and amended budgeted revenues by \$150,265 during 2010. This variance includes the positive variances of \$124,536 for charges for services, \$36,822 for operating grants and contributions, and \$33,977 for other revenues.

CITY OF FULSHEAR, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*
For the Year Ended September 30, 2010

Actual expenditures were less than budgeted amounts by \$97,602 for the fiscal year. This net positive variance can be attributed to the positive variances in permits and inspections, public safety, and public works

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds had invested \$916,553 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$45,784. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34 with an increase in depreciation expense of \$106,570.

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

- Purchase of a John Deere tractor for \$44,175
- Purchase of eight street signs totaling \$36,872
- Purchase of a new roof in the amount of \$28,174
- Capital contribution of land in the amount of \$20,980

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 \$78,154.

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 2011 budget. The approval of the budget provides funding for the City's operating and capital costs for the 2011 fiscal year. The City expects revenues from all sources to remain consistent with the 2010 fiscal year and expects positive growth in net assets during 2011 for both governmental activities and business-type activities. The City's water, sewer, and garbage rates are reviewed by the City Council and adjusted based on current operating costs, customer demand and usage, and other pertinent factors affecting operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CITY OF FULSHEAR, TEXAS

STATEMENT OF NET ASSETS

September 30, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current Unrestricted:			
Cash and cash equivalents	\$ 406,207	\$ 89,219	\$ 495,426
Investments	897,209	-	897,209
Receivables, net	95,545	118,150	213,695
Internal balances	292,122	(292,122)	-
Current Restricted:			
Cash and investments	-	324,919	324,919
Total Current Assets	1,691,083	240,166	1,931,249
Capital assets:			
Non-depreciable capital assets	65,270	129,182	194,452
Depreciable capital assets, net	851,283	9,368,419	10,219,702
Total Noncurrent Assets	916,553	9,497,601	10,414,154
Total Assets	2,607,636	9,737,767	12,345,403
Liabilities			
Accounts payable and accrued liabilities	93,088	100,876	193,964
Customer deposits	4,332	34,652	38,984
Total Current Liabilities	97,420	135,528	232,948
Noncurrent liabilities:			
Due within one year	36,930	-	36,930
Due in more than one year	45,967	-	45,967
Total Noncurrent Liabilities	82,897	-	82,897
Total Liabilities	180,317	135,528	315,845
Net Assets			
Invested in capital assets, net of related debt	838,399	9,497,601	10,336,000
Restricted for:			
Court technology	2,379	-	2,379
Child safety	1,850	-	1,850
Building security	1,711	-	1,711
Regional park	145,989	-	145,989
Water and sewer system construction	-	324,919	324,919
Unrestricted	1,436,991	(220,281)	1,216,710
Total Net Assets	\$ 2,427,319	\$ 9,602,239	\$ 12,029,558

See Notes to Financial Statements.

Component Units

City of Fulshear Development Corporation	Fulshear Development Corporation
\$ 164,260	\$ 146,945
62,458	10,000
17,526	17,526
-	-
-	-
244,244	174,471
-	-
-	47,567
-	47,567
244,244	222,038
685	-
-	-
685	-
-	-
-	-
-	-
685	-
-	47,567
-	-
-	-
-	-
-	-
243,559	174,471
\$ 243,559	\$ 222,038

CITY OF FULSHEAR, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General government	\$ 704,426	\$ -	\$ 36,822	\$ 20,980
Public safety	610,587	443,256	-	-
Public works	149,765	451,193	-	-
Interest on long-term debt	2,971	-	-	-
Total Governmental Activities	1,467,749	894,449	36,822	20,980
Business-Type Activities				
Utilities	886,736	663,596	-	260,000
Total Business-Type Activities	886,736	663,596	-	260,000
Total Primary Government	\$ 2,354,485	\$ 1,558,045	\$ 36,822	\$ 280,980
Component Units				
City of Fulshear Development Corp.	\$ 12,061	\$ -	\$ -	\$ -
Fulshear Development Corp.	21,832	-	-	-
Total Component Units	\$ 33,893	\$ -	\$ -	\$ -

General Revenues:
 Property taxes
 Sales taxes
 Franchise taxes
 Investment earnings
 Other revenues
 Transfers

Total General Revenues and Transfers

Change in Net Assets

Beginning Net Assets

Ending Net Assets

See Notes to Financial Statements.

Net Revenue (Expense) and Changes in Net Assets			Component Units	
Primary Government			City of Fulshear	Fulshear
Governmental	Business-type	Total	Development	Development
Activities	Activities		Corporation	Corporation
\$ (646,624)	\$ -	\$ (646,624)	\$ -	\$ -
(167,331)	-	(167,331)	-	-
301,428	-	301,428	-	-
(2,971)	-	(2,971)	-	-
(515,498)	-	(515,498)	-	-
-	36,860	36,860	-	-
-	36,860	36,860	-	-
(515,498)	36,860	(478,638)	-	-
-	-	-	(12,061)	-
-	-	-	-	(21,832)
-	-	-	(12,061)	(21,832)
329,368	-	329,368	-	-
193,461	-	193,461	93,545	93,545
69,672	-	69,672	-	-
21,197	4,223	25,420	2,741	1,801
56,552	-	56,552	-	-
(37,000)	37,000	-	-	-
633,250	41,223	674,473	96,286	95,346
117,752	78,083	195,835	84,225	73,514
2,309,567	9,524,156	11,833,723	159,334	148,524
\$ 2,427,319	\$ 9,602,239	\$ 12,029,558	\$ 243,559	\$ 222,038

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CITY OF FULSHEAR, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2010

	General	Regional Park Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 309,978	\$ 96,229	\$ 406,207
Investments	789,372	107,837	897,209
Receivables, net	95,545	-	95,545
Due from other funds	407,734	29,010	436,744
	Total Assets	\$ 233,076	\$ 1,835,705
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 93,088	\$ -	\$ 93,088
Due to other funds	57,535	87,087	144,622
Deferred revenue	51,395	-	51,395
Customer deposits	4,332	-	4,332
	Total Liabilities	87,087	293,437
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	1,390,339	-	1,390,339
Special revenue fund	-	145,989	145,989
	Total Fund Balances	145,989	1,542,268
	Total Liabilities and Fund Balances	\$ 233,076	

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	65,270
	Capital assets, net depreciable	851,283

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		51,395
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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	(36,930)
	Non-current liabilities due in more than one year	(45,967)

	Net Assets of Governmental Activities	\$ 2,427,319
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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, 2010

	General	Regional Park Fund	Total
Revenues			
Taxes:			
Property	\$ 313,702	\$ -	\$ 313,702
Sales	193,461	-	193,461
Franchise	69,672	-	69,672
Public improvement fees	78,082	-	78,082
Licenses and permits	384,107	-	384,107
Charges for services	373,111	-	373,111
Fines and forfeitures	59,149	-	59,149
Investment earnings	18,792	2,405	21,197
Operating grants and contributions	36,822	-	36,822
Other revenues	52,052	4,500	56,552
	Total Revenues	6,905	1,585,855
Expenditures			
Current:			
General government	664,149	-	664,149
Public safety	583,838	-	583,838
Public works	147,046	-	147,046
Capital outlay	81,007	11,937	92,944
Debt service:			
Principal	32,818	-	32,818
Interest	2,971	-	2,971
	Total Expenditures	11,937	1,523,766
Excess (Deficiency) of Revenues Over (Under) Expenditures	67,121	(5,032)	62,089
Other Financing Sources (Uses)			
Transfers (out)	(37,000)	-	(37,000)
Capital leases	44,185	-	44,185
	Total Other Financing Sources (Uses)	-	7,185
Net Change in Fund Balances	74,306	(5,032)	69,274
Beginning Fund Balances	1,321,973	151,021	1,472,994
Ending Fund Balances	\$ 1,396,279	\$ 145,989	\$ 1,542,268

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, 2010

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

Net changes in fund balances - total governmental funds	\$	69,274
<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 contributions		20,980
Capital asset expenditures		131,374
Depreciation expense		(106,570)
<p>Revenue in the Statement of Activities that does not provide current financial resources is not reported as revenue in the funds.</p>		
		15,666
<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		(44,185)
Principal retirement		32,818
Compensated absences		(1,605)
Change in Net Assets of Governmental Activities	\$	<u>117,752</u>

See Notes to Financial Statements.

CITY OF FULSHEAR, TEXAS

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

September 30, 2010

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility Fund	CCR Facility Fund	Total
<u>Assets</u>			
Current Unrestricted Assets:			
Cash and cash equivalents	\$ 10,760	\$ 78,459	\$ 89,219
Accounts receivable, net	28,786	89,364	118,150
Due from other funds	23,838	35,678	59,516
Current Restricted Assets:			
Cash and investments	324,919	-	324,919
Total Current Assets	388,303	203,501	591,804
Noncurrent assets:			
Capital assets:			
Nondepreciable	60,292	68,890	129,182
Depreciable, net	1,395,699	7,972,720	9,368,419
Total Capital Assets (Net)	1,455,991	8,041,610	9,497,601
Total Noncurrent Assets	1,455,991	8,041,610	9,497,601
Total Assets	\$ 1,844,294	\$ 8,245,111	\$ 10,089,405
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 19,099	\$ 81,777	\$ 100,876
Customer deposits	9,613	25,039	34,652
Due to other funds	285,405	66,233	351,638
Total Liabilities	314,117	173,049	487,166
<u>Net Assets</u>			
Invested in capital assets, net of related debt	1,455,991	8,041,610	9,497,601
Restricted for:			
Investments	324,919	-	324,919
Unrestricted	(250,733)	30,452	(220,281)
Total Net Assets	\$ 1,530,177	\$ 8,072,062	\$ 9,602,239

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, 2010

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility Fund	CCR Facility Fund	Total
<u>Operating Revenues</u>			
Charges for sales and services	\$ 184,499	\$ 477,433	\$ 661,932
Other revenue	771	893	1,664
Total Operating Revenues	185,270	478,326	663,596
<u>Operating Expenses</u>			
Costs of sales and services	209,160	404,667	613,827
Miscellaneous expense	-	2,290	2,290
Depreciation	80,962	189,657	270,619
Total Operating Expenses	290,122	596,614	886,736
Operating (Loss)	(104,852)	(118,288)	(223,140)
<u>Nonoperating Revenues (Expenses)</u>			
Investment earnings	4,080	143	4,223
Total Nonoperating Revenues (Expenses)	4,080	143	4,223
Income (Loss) Before Capital Contributions and Transfers	(100,772)	(118,145)	(218,917)
Transfers in	37,000	-	37,000
Capital Contributions	260,000	-	260,000
Change in Net Assets	196,228	(118,145)	78,083
Beginning Net Assets	1,333,949	8,190,207	9,524,156
Ending Net Assets	\$ 1,530,177	\$ 8,072,062	\$ 9,602,239

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, 2010

	Business-Type Activities - Enterprise Funds		
	Fulshear Facility Fund	CCR Facility Fund	Total
<u>Cash Flows from Operating Activities</u>			
Receipts from customers and users	\$ 182,406	\$ 405,282	\$ 587,688
Payments to suppliers	(216,374)	(360,445)	(576,819)
Net Cash Provided (Used) by Operating Activities	(33,968)	44,837	10,869
<u>Cash Flows from Noncapital Financing Activities</u>			
Transfers from other funds	37,000	-	37,000
Net Cash Provided by Noncapital and Related Financing Activities	37,000	-	37,000
<u>Cash Flows from Investing Activities</u>			
Purchase of investments	(202,237)	-	(202,237)
Sale of investments	200,000	-	200,000
Investment earnings	4,080	143	4,223
Net Cash Provided (Used) by Investing Activities	1,843	143	1,986
Net Increase (Decrease) in Cash and Cash Equivalents	4,875	44,980	49,855
Beginning cash and cash equivalents	128,567	33,479	162,046
Ending cash and cash equivalents	\$ 133,442	\$ 78,459	\$ 211,901
Unrestricted cash and cash equivalents	\$ 10,760	\$ 78,459	\$ 89,219
Restricted cash and cash equivalents	122,682	-	122,682
Total cash and cash equivalents	\$ 133,442	\$ 78,459	\$ 211,901

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, 2010

	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 (loss)	\$ (104,852)	\$ (118,288)	\$ (223,140)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:			
Depreciation	80,962	189,657	270,619
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in Current Assets:			
Accounts receivable	(588)	(46,496)	(47,084)
Due from other funds	(2,276)	(26,548)	(28,824)
Increase (Decrease) in Current Liabilities:			
Accounts payable and accrued liabilities	(13,575)	5,057	(8,518)
Customer deposits	369	11,784	12,153
Due to other funds	5,992	29,671	35,663
	\$ (33,968)	\$ 44,837	\$ 10,869
Net Cash Provided (Used) by Operating Activities	\$ (33,968)	\$ 44,837	\$ 10,869

See Notes to Financial Statements.

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CITY OF FULSHEAR, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

Discretely Presented Component Units

City of Fulshear Development Corporation

After voter approval on August 29, 2007 the City formed the City of Fulshear Development Corporation, 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 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

After voter approval on August 29, 2007 the City formed 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 issuances.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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, 2010.

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, 2010

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 major fund for reporting purposes.

2. Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the 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, 2010

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 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, 2010

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, 2010

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, 2010

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	\$45,426
Capital outlay	\$48,284
Principal	\$12,011
Interest and fiscal agent fees	\$537
Transfers out	\$1,534
Regional Park Fund:	
Capital outlay	\$10,937

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2010, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 1,099,447	0.38
External investment pools	251,761	0.00
Total fair value	<u>\$ 1,351,208</u>	
Portfolio weighted average maturity		0.38

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, 2010, 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.

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

B. Receivables

The following comprise receivable balances at year end:

	<u>General</u>	<u>Fulshear Facility</u>	<u>CCR Facility</u>
Property taxes	\$ 60,811	\$ -	\$ -
Other taxes	43,222	-	-
Accounts	-	33,429	89,364
Other	928	-	-
Less allowance	(9,416)	(4,643)	-
	<u>\$ 95,545</u>	<u>\$ 28,786</u>	<u>\$ 89,364</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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	\$ 20,980	\$ -	\$ 65,270
Total capital assets not being depreciated	<u>44,290</u>	<u>20,980</u>	<u>-</u>	<u>65,270</u>
Other capital assets:				
Buildings and improvements	800,633	28,174	-	828,807
Machinery and equipment	379,749	66,328	-	446,077
Infrastructure	108,824	36,872	-	145,696
Total other capital assets	<u>1,289,206</u>	<u>131,374</u>	<u>-</u>	<u>1,420,580</u>
Less accumulated depreciation for:				
Buildings and improvements	(296,632)	(29,860)	-	(326,492)
Machinery and equipment	(144,331)	(69,395)	-	(213,726)
Infrastructure	(21,764)	(7,315)	-	(29,079)
Total accumulated depreciation	<u>(462,727)</u>	<u>(106,570)</u>	<u>-</u>	<u>(569,297)</u>
Other capital assets, net	<u>826,479</u>	<u>24,804</u>	<u>-</u>	<u>851,283</u>
Totals	<u>\$ 870,769</u>	<u>\$ 45,784</u>	<u>\$ -</u>	<u>916,553</u>
			Less associated debt	<u>(78,154)</u>
			Invested in Capital Assets, Net of Related Debt	<u>\$ 838,399</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 39,277
Public safety	26,444
Public works	<u>40,849</u>
Total Governmental Activities Depreciation Expense	<u>\$ 106,570</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 129,182	\$ -	\$ -	\$ 129,182
Total capital assets not being depreciated	<u>129,182</u>	<u>-</u>	<u>-</u>	<u>129,182</u>
Other capital assets:				
Buildings	115,092	-	-	115,092
Water and sewer system	10,721,287	260,000	-	10,981,287
Machinery and equipment	126,074	-	-	126,074
Total other capital assets	<u>10,962,453</u>	<u>260,000</u>	<u>-</u>	<u>11,222,453</u>
Less accumulated depreciation for:				
Buildings	(62,075)	(3,232)	-	(65,307)
Water and sewer system	(1,441,679)	(259,651)	-	(1,701,330)
Machinery and equipment	<u>(79,661)</u>	<u>(7,736)</u>	<u>-</u>	<u>(87,397)</u>
Total accumulated depreciation	<u>(1,583,415)</u>	<u>(270,619)</u>	<u>-</u>	<u>(1,854,034)</u>
Other capital assets, net	<u>9,379,038</u>	<u>(10,619)</u>	<u>-</u>	<u>9,368,419</u>
Totals	<u>\$ 9,508,220</u>	<u>\$ (10,619)</u>	<u>\$ -</u>	<u>\$ 9,497,601</u>

Depreciation was charged to business-type functions as follows:

City of Fulshear enterprise fund	\$ 80,962
Cross Creek Ranch enterprise fund	<u>189,657</u>
Total Business-type Activities Depreciation Expense	<u>\$ 270,619</u>

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Component Units:				
Capital assets being depreciated:				
Improvements	\$ 30,250	\$ 20,000	\$ -	\$ 50,250
Total other capital assets	30,250	20,000	-	50,250
Less accumulated depreciation for:				
Improvements	(1,008)	(1,675)	-	(2,683)
Total accumulated depreciation	(1,008)	(1,675)	-	(2,683)
Other capital assets, net	29,242	18,325	-	47,567
Totals	\$ 29,242	\$ 18,325	\$ -	\$ 47,567

D. Long-Term Obligations

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

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Capital leases	\$ 66,787	\$ 44,185	\$ 32,818	\$ 78,154 *	\$ 32,661
Other liabilities:					
Compensated absences	3,138	6,773	5,168	4,743	4,269
Total Governmental Activities	\$ 69,925	\$ 50,958	\$ 37,986	\$ 82,897	\$ 36,930
Long-term debt due in more than one year				\$ 45,967	

* 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, 2010

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%	33,971
John Deere lease 2009	0.00%	11,339
John Deere lease 2010	4.95%	32,844
	Total Capital Leases	78,154
Total Governmental Activities Long-Term Debt		\$ 78,154

Capital Leases

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

Year	Governmental Activity			
Ending			Total	
Sept. 30	Principal	Interest		
2011	\$ 32,661	\$ 3,127	\$ 35,788	
2012	33,999	1,789	35,788	
2013	11,494	384	11,878	
Total	\$ 78,154	\$ 5,300	\$ 83,454	

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and equipment	\$ 148,473
Less: Accumulated depreciation	(42,245)
Total	\$ 106,228

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

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	Regional park fund	\$ 87,087
- General fund	Fulshear facility fund	278,252
- General fund	CCR facility fund	42,395
Regional park fund	General fund	29,010
CCR facility fund	Fulshear facility fund	7,153
CCR facility fund	General fund	28,525
Fulshear facility fund	CCR facility fund	23,838
		<u>\$ 496,260</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	<u>\$ 37,000</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	\$ 2,379 *
Reserved for child safety	1,850 *
Reserved for building security	1,711 *
	<u>\$ 5,940</u>

* Restricted by enabling legislation

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

IV. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

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

C. Regional Park Fund

During 2004, the City entered into an agreement with Firethorne LTD, (the "Developer") whereby the Developer would pay a regional park fee for every lot per plat the Developer finalized. The terms of the agreement state that the regional park fees, plus interest earned, must be utilized in the development of a regional park within five years from the date the fees are paid to the City. Otherwise, the funds must be returned to the lot owner of record at the five year anniversary date. Similar agreements were signed with TMI, Inc., Fulshear Land Investment Partners, LTD., and Tamarron Lakes, L.P., excluding the five year utilization clause. During the year ended September 30, 2010, the City received \$4,500 in regional park fees. Since the inception of the agreements, the City has received \$249,333. During the year ended September 30, 2010, the City expended \$11,937 for regional park contributions. As of September 30, 2010, the City has restricted net assets of \$145,989 related to regional park fees.

D. Fulshear Creek Crossing Developer Contributions

During the year ended September 30, 2008, the City received \$314,880 under an agreement with the Fulshear Creek Crossing (FCC) developer whereby the City would receive \$2,560 per final platted lot. The contributions, and interest earned, are restricted for improvements to the City's water and sewer system as necessary to provide adequate water and sewer services to the FCC development. The contributions are recorded in the City's Fulshear facility enterprise fund. At September 30, 2010, the Fulshear enterprise fund had restricted net assets of \$324,919 from these contributions.

CITY OF FULSHEAR, TEXAS
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended September 30, 2010

E. Other Post-Employee Benefits

Postemployment Healthcare Plan

Plan Description

As of September 30, 2010 the City administered a single-employer defined benefit Other Post-Employment Benefits (OPEB) plan known as the City of Fulshear Retiree Healthcare Plan (the "Plan"). The Plan offered medical benefits for eligible retirees and their dependents. The coverage levels for retirees is the same as coverage provided to active employees.

Employees are eligible for retiree health benefits if they are currently enrolled in the health care policy and are also eligible for a pension from TMRS. Retirees are responsible for 150 percent of the active employee rate for medical coverage. As a result of this required contribution level, there is no long-term liability as of year end. Subsequent to September 30, 2010, the City has repealed the ordinance providing for post employment health care benefits.

F. Subsequent Event

On October 13, 2010, the City approved Ordinance No. 2010-1019 providing for the participation in the Texas Municipal Retirement System (TMRS) and Supplemental Death Benefits Fund, one of 837 administered by TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and Required Supplementary Information (RSI) for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677. In addition, the report is available on TMRS' website at www.TMRS.com.

The City will make current service and prior service contributions to the City's account in the municipal accumulations fund of TMRS at the actuarially determined rate of total employee compensation.

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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, 2010

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Taxes:				
Property	\$ 291,635	\$ 291,635	\$ 313,702	\$ 22,067
Sales	235,000	235,000	193,461	(41,539)
Franchise	62,000	62,000	69,672	7,672
Public improvement fees	50,000	50,000	78,082	28,082
Licenses and permits	457,650	457,650	384,107	(73,543)
Charges for services	248,575	248,575	373,111	124,536
Fines and forfeitures	51,420	51,420	59,149	7,729
Investment earnings	14,330	14,330	18,792	4,462
Operating grants and contributions	-	-	36,822	36,822
Other revenues	18,075	18,075	52,052	33,977
Total Revenues	1,428,685	1,428,685	1,578,950	150,265
Expenditures				
Current:				
General government	648,217	618,723	664,149	(45,426) *
Permits and inspections	293,570	344,110	288,921	55,189
Public safety	345,959	346,424	294,917	51,507
Public works	243,521	223,230	147,046	76,184
Capital outlay	20,000	53,703	81,007	(27,304) *
Debt service:				
Principal	20,807	20,807	32,818	(12,011) *
Interest and fiscal agent fees	2,434	2,434	2,971	(537) *
Total Expenditures	1,574,508	1,609,431	1,511,829	97,602
Excess of Revenues Over (Under) Expenditures	(145,823)	(180,746)	67,121	247,867
Other Financing Sources (Uses)				
Transfers (out)	(35,466)	(35,466)	(37,000)	(1,534) *
Sale of capital assets	3,000	3,000	-	(3,000)
Capital leases	-	-	44,185	44,185
Contributed capital	-	-	-	-
Total Other Financing Sources (Uses)	(32,466)	(32,466)	7,185	39,651
Net Change in Fund Balance	\$ (178,289)	\$ (213,212)	74,306	\$ 287,518
Beginning Fund Balance			1,321,973	
Ending Fund Balance			\$ 1,396,279	

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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Management Letter

March 23, 2011

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

The American Institute of Certified Public Accountants issued a new auditing standard that must be followed when communicating certain internal control related matters as part of an audit of financial statements effective for audit periods ending on or after December 15, 2009. The new standard (Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, "SAS 115") provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body. Although it replaces a similar standard, it revises certain terminology, as defined below. Auditors are also required to report on issues identified in previous years even if it is not feasible to cost effectively address the matter.

It is important to note when reviewing findings reported within this letter that classification of the findings is based on the definitions required by SAS 115 as further discussed below. Please note that these classifications are based on the potential impact to the financial statements, not necessarily the likelihood of actual loss to the City. Accordingly, the City's assessment of the "significance" or ranking of severity will likely be substantially different based on a number of factors including, but not limited to, its assessment of risk and the cost benefit of making the change.

In planning and performing our audit of the financial statements of the City of Fulshear, Texas (the "City") as of and for the year ended September 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurances that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected, and corrected on a timely basis.

Providing Governmental & Nonprofit Audits Sealed with Excellence

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our findings and additional comments are as follows:

CURRENT YEAR MATTERS

Other Matters:

2010-1 NEW FUND BALANCE REPORTING REQUIREMENTS

Background

The Governmental Accounting Standards Board (“GASB”) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which provides for clearer fund balance classifications that can be more consistently applied. Specifically, this statement replaces the current categories of reserved, designated, and unreserved with the new categories of nonspendable, restricted, committed, assigned, and unassigned. In addition, this statement clarified definitions of governmental fund types. The City will be required to comply with Statement No. 54 for the fiscal year ending 2011.

The statement also encourages the implementation of a fund balance policy. While a policy is not required in order to comply with the statement, it is required if the City wants to assign or commit fund balances in the future. Also, any commitments must occur before the end of any given fiscal year in order for them to be presented in that year’s financial report.

Recommendation

The City should evaluate its current fund balance policies, if any, and modify for the new standard by the conclusion of the 2010-2011 fiscal year. More information on GASB 54, including a sample fund balance policy, can be found on our website, www.texasauditors.com. We have also included a fact sheet with frequently asked questions about GASB 54 as published by GASB for your reference.

MATTERS PREVIOUSLY REPORTED

Material Weaknesses:

2009-4 CAPITAL ASSET REPORTING

Finding

The City does not currently have a formal policy for the reporting of assets that are used in operations and that have initial lives extending beyond a single reporting period, otherwise known as capital assets. As a result, the City has capitalized assets that fall below the Government Finance Officers’ Association’s (GFOA) recommended threshold of \$5,000 for capitalization in previous years.

Recommendation

The City should establish guidelines for capitalization thresholds.

Other Matters:

2009-7 LEGAL SEGREGATION AND REPORTING OF FUNDS

Finding

State law requires that some monies received by the City be accounted for separately. The City has not made the appropriate entries during the year to properly adjust the balances of these accounts.

Recommendation

The City should consider completing the process of accounting for the court technology, building security fee, and child safety monies separately. The City currently has separate checking accounts for the security fees and child safety money. Some restricted funds are automatically deposited into these accounts. The City should ensure that all restricted funds are deposited and that the checking account balance is reduced when the restricted funds are expended.

2009-8 EXPENDITURES IN EXCESS OF APPROPRIATIONS

Finding

As disclosed in the notes to the financial statements, expenditures exceeded appropriations in the general fund and park fund.

Recommendation

The City should monitor expenditures throughout the year and ensure that budget amendments are properly approved by City Council and recorded in the accounting system prior to the expenditure of funds.

2009-9 ACCOUNTS PAYABLE / DISBURSEMENTS

Finding

As a part of the audit sampling work for accounts payable, we noted that there was no purchase order or check request system in place for the City.

Recommendation

The City should consider developing a formal accounts payable process which may include a check request or a purchase order system. This may aid in ensuring that disbursements are authorized and that proper documentation is retained.

2009-10 PUBLIC FUNDS INVESTMENT ACT

Background

The Public Funds Investment Act (the "Act") requires that all investment officers shall attend at least one ten-hour training session relating to the officer's responsibility under the Act within twelve months after assuming duties, and attend an investment training session not less than once every two years, receiving an additional ten hours of training.

Also, the Act requires that both investment officers sign each quarterly investment report, as well as be approved by City Council.

Finding

We noted that not all of the designated investment officers had received required training as of September 30, 2010. Also, only one of the investment officers had signed the quarterly investment reports. The investment reports were not approved by City Council.

Recommendation

All designated investment officers should obtain public funds investment training as well as sign each quarterly investment report as required by the Act. We also recommend that the City Council approve each quarterly investment report.

We would like to thank City Council and the City's employees for their cooperation during the course of our audit. Please feel free to contact us at your convenience to discuss this report or any other concerns that you may have.

This report is intended solely for the information and use of City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties. Though restricted in use, reports issued to a local government are a matter of public record and its distribution is, accordingly, not limited.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



Fact Sheet about Fund Balance Reporting and Governmental Fund Type Definitions

1. Why has the GASB issued new standards for reporting fund balance?

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to address issues related to how fund balance was being reported. The GASB's original intention was to clear up confusion regarding the relationship between reserved fund balance and restricted net assets. However, the GASB's research revealed that the existing standards guiding fund balance reporting were being interpreted inconsistently by different governments. Consequently, the fund balance information reported by many governments also was inconsistent. It also became clear that the understandability of fund balance information was affected and that financial statement users were unable to readily interpret reported fund balance information.

2. Why did the GASB decide not to just clarify the existing fund balance classifications (reserved, designated, unreserved)?

The GASB considered pursuing a solely educational approach to these issues. However, it became apparent based on interviews and survey results that, even if all governments interpreted the requirements consistently, the resulting information would not meet the needs of people who use fund balance information to identify available resources and assess liquidity and financial flexibility.

3. How will governments report fund balance in the future?

Fund balance will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- *Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation
- *Committed fund balance*—amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint
- *Assigned fund balance*—amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority

- *Unassigned fund balance*—amounts that are available for any purpose; these amounts are reported only in the general fund.

4. Why is unassigned fund balance reported only in the general fund?

When a government transfers resources from the general fund to another governmental fund, it is communicating that, at a minimum, it intends to use those resources for the purpose of the fund receiving them. This expression of intent meets the requirements for classification as assigned fund balance. Because unassigned fund balance represents amounts that are not constrained in any way, not even by an intention to use them for a specific purpose, the general fund is the only appropriate place to report this classification of fund balance.

In the other governmental funds, however, if a government spends more on a specific purpose than the resources available for that purpose in the fund, then it may need to report a negative amount as unassigned fund balance. If a government cannot cover the deficit with amounts assigned to other purposes in that fund, then the remaining deficit should be reported on the unassigned fund balance line.

5. How will rainy-day amounts be reported under Statement 54?

Statement 54 treats stabilization arrangements as a specific purpose, allowing governments to report these amounts in the general fund as restricted or committed, if they meet the applicable definitions and criteria. Stabilization amounts that do not qualify to be reported as restricted or committed should be included in unassigned fund balance. Governments may report stabilization amounts in a special revenue fund only if they derive from specific revenue sources that are restricted or committed to stabilization.

Regardless of where stabilization amounts are reported, governments also will disclose key information about their stabilization arrangements in the notes to the financial statements, including the authority by which the arrangements were established, the conditions under which additions to the stabilization amounts are required, and the circumstances under which amounts may be used.

6. How has Statement 54 changed the way encumbrances are reported?

The new standards clarify that an encumbrance is not a specific purpose and therefore should not be reported as a separate line on the face of the balance sheet. Encumbering amounts that are restricted or committed does not further limit the purposes for which they can be used. If the encumbering process meets the definition and criteria for committed fund balance, then encumbering an assigned or unassigned amount could result in the amount being reported as committed; however, it would be reported with other amounts committed to the same or similar purposes, *not* as “committed for encumbrances.” If a government has significant encumbrances, it should disclose them under the standards for significant commitments.

7. What did the GASB find out about the reporting of governmental funds?

In practice, many governments have interpreted in different ways the prior standards on reporting governmental funds contained in National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*. This is particularly true for special revenue funds.

8. How does Statement 54 clarify the special revenue fund type definition?

Statement 54 makes clear that, for financial reporting purposes, a special revenue fund may only be established around one or more revenue sources that are restricted or committed to purposes other than capital projects or debt service. For example, a school district might report state and federal aid for elementary and secondary education in a special fund if those revenue sources represent a substantial portion of the fund's total inflows.

9. How does Statement 54 clarify the definitions of debt service and capital projects fund types?

Statement 54 revises the definitions of the debt service and capital projects fund types so that consistent language and structure are used across all of the governmental fund type definitions. Although the existing definition of a capital project fund specifies that they should be used to account for "the acquisition or construction of major capital facilities," many governments have used them to report on capital assets that are not facilities or major or either. Based on constituent feedback, the GASB broadened the definition to encompass capital outlays in general.

10. How will Statement 54 impact the reporting of governmental funds?

The most significant changes are likely to occur in the reporting of special revenue funds, because that is where there has been the most variation in how the prior standards were interpreted. Some governments may not be able to continue to report some of their special revenue funds under the clarified definition. The Statement 54 definition is considered by some to be more permissive than the NCGA Statement 1 definition. However, practice has varied so much that the Statement 54 definition may appear more restrictive to some governments.

11. Does Statement 54 affect how governments use funds for internal accounting purposes or for special reporting?

No. Statement 54 affects only the *reporting* of governmental funds in general purpose external financial reports in conformity with generally accepted accounting principles (GAAP). Governments may continue to use any funds they choose or are required to for their internal accounting or for special purpose reporting.

12. What if a state law requires local governments to report a particular type of fund or to report using the current classifications of fund balance?

For general purpose external financial reporting under GAAP, governments are required to follow Statement 54. If a law conflicts with Statement 54 or any other part of GAAP, the legal requirements can be met by presenting supplemental schedules. Governments will still be able to comply with such state laws in their general purpose external financial report, but outside of the basic financial statements, notes to the basic financial statements, and required supplementary information.

13. What other note disclosures does Statement 54 require?

In addition to the disclosures already mentioned, Statement 54 requires governments to disclose:

- Additional detail regarding the purposes of restrictions, commitments, and assignments, if the required level of detail is not met through display on the face of the balance sheet
- The decision-making authority and formal action, if any, that results in commitments of fund balance
- The bodies or persons with the authority to express intended uses of resources that result in assigned fund balance
- The order in which a government assumes restricted, committed, assigned, and unassigned amounts are spent when amounts in more than one classification are available for a particular purpose
- Information about minimum fund balance policies, if a government has one
- The purpose for each major special revenue fund, identifying which revenues and other resources are reported in each of those funds.

14. When should Statement 54 be implemented?

Governments should implement Statement 54 no later than the first fiscal year beginning after June 15, 2010 (for example, the fiscal year starting on July 1, 2010 and ending on June 30, 2011). Governments are encouraged to implement the standards earlier.



Required Auditor Disclosure Letter

March 23, 2011

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

We have audited the financial statements of the governmental activities, 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, 2010, and have issued our report thereon dated March 23, 2011. Professional standards require that we provide the City Council, (the "governing body"), with the following information related to our audit.

I. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 10, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with its oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the governing body or management of its responsibilities.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the governing body in our meeting about planning matters on July 26, 2010.

III. Significant Audit Findings

I. *Qualitative Aspects of Accounting Practices*

- A. Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.
 - i. The significant accounting policies used by the City are described in Note I to the financial statements.
 - ii. No new accounting policies were adopted and the application of existing policies were not changed during the year.
 - iii. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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- B. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of capital assets as based on industry standards relating to capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

- C. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the City's long-term debt.

2. Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes both material and immaterial misstatements detected as a result of our audit procedures.

4. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 23, 2011.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

Client: *City of Fulshear, Texas*
 Engagement: *4.1 - Fulshear 9/30/10*
 Period Ending: *9/30/2010*
 Trial Balance: *2.2.01 - TB*
 Workpaper: *2.5.09 - Adjusting Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		C.01		
To adjust property tax receivable. Client should post as of 9/30/10 and not reverse.				
100-1105-000	Property Tax Current-AR		7,557.25	
100-1105-001	Property Tax Delinquent-AR		8,108.65	
100-2222-001	Def Rev - Current Prop Taxes			7,557.25
100-2222-002	Def Rev - Delq Prop Taxes			8,108.65
Total			<u><u>15,665.90</u></u>	<u><u>15,665.90</u></u>
Adjusting Journal Entries JE # 2		C.05		
To adjust due from General Fund in the Park Fund. Client should post as of 9/30/10 and not reverse.				
200-5-000-5369-00	Equip - Light/Repair/Supplies		100.00	
200-2208-001	Due To Govt General Fund			100.00
Total			<u><u>100.00</u></u>	<u><u>100.00</u></u>
Adjusting Journal Entries JE # 3		C.03		
To accrue sales tax revenue at year end and adjust due to CDC and FDC. Client should post as of 9/30/10 and reverse as of 10/01/10.				
100-1115-002	Sales Tax Receivable		2,763.27	
100-41301	Sales & Use Tax		690.81	
100-41301	Sales & Use Tax		690.81	
100-2202-002	Sales Tax - Eco Dev Corp A			690.81
100-2202-003	Sales Tax - Eco Dev Corp B			690.81
100-41301	Sales & Use Tax			2,763.27
Total			<u><u>4,144.89</u></u>	<u><u>4,144.89</u></u>
Adjusting Journal Entries JE # 4		H.01		
To capitalize sign purchase in the FDC and record depreciation expense and accumulated depreciation for the current year. Client should post as of 9/30/10 and not reverse.				
600-12000	Inventory		20,000.00	
600-63000	Depreciation Expense		1,675.00	
600-12500	Accumulated Depreciation			1,675.00
600-66100	ComDev - Gateways (signs)			20,000.00
Total			<u><u>21,675.00</u></u>	<u><u>21,675.00</u></u>
Adjusting Journal Entries JE # 5		H.01		
To record depreciation expense and update accumulated depreciation for the current year. Client should post as of 9/30/10 and not reverse.				
500-5-000-5561-00	Depreciation Expense		74,461.77	
550-5-000-5561-00	Depreciation Expense		189,656.68	
500-1145-000	Accumulated Depreciation			74,461.77
550-1145-000	Accumulated Depreciation			189,656.68
Total			<u><u>264,118.45</u></u>	<u><u>264,118.45</u></u>

Client: *City of Fulshear, Texas*
 Engagement: *4.1 - Fulshear 9/30/10*
 Period Ending: *9/30/2010*
 Trial Balance: *2.2.01 - TB*
 Workpaper: *2.5.09 - Adjusting Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 6		I.01		
To reclassify lease payments into correct accounts and separate principal and interest payments. Client should post as of 9/30/10 and not reverse.				
100-5-700-5710-01	Equip Lease/Purch Copier		11,877.49	
100-5-700-5710-03	Lease Equipment - Interest		536.38	
100-5-700-5710-03	Lease Equipment - Interest		2,434.16	
100-5-510-5650-00	Equipment - Public Works			11,877.49
100-5-700-5710-01	Equip Lease/Purch Copier			536.38
100-5-700-5710-01	Equip Lease/Purch Copier			2,434.16
Total			14,848.03	14,848.03
Adjusting Journal Entries JE # 7				
To zero out prepaid expenses. Client should post as of 9/30/10 and not reverse.				
100-1110-002	Prepaid Expenses		100.00	
100-5-190-5311-00	Supplies			100.00
Total			100.00	100.00
Adjusting Journal Entries JE # 8		D.02d		
To record unbilled water and sewer revenue at year end. Client should post as of 9/30/10 and reverse on 10/01/10.				
500-1115-004	Other Receivables		14,857.26	
550-1115-004	Other Receivables		31,315.99	
500-44100	Sales-Water & Sewer			14,857.26
550-44100	Sales - Water & Sewer			31,315.99
Total			46,173.25	46,173.25
Adjusting Journal Entries JE # 9		D.02c		
To reverse prior year water and sewer accrual. Client should post as of 9/30/10 and not reverse.				
500-44100	Sales-Water & Sewer		10,349.69	
550-44100	Sales - Water & Sewer		15,095.89	
500-1115-004	Other Receivables			10,349.69
550-1115-004	Other Receivables			15,095.89
Total			25,445.58	25,445.58
Adjusting Journal Entries JE # 10		D.02c		
To adjust allowance for doubtful accounts. Client should post as of 9/30/10 and not reverse.				
500-1117-001	Allowance-Doubtful Accounts		1,653.94	
500-44100	Sales-Water & Sewer			1,653.94
Total			1,653.94	1,653.94
Adjusting Journal Entries JE # 11				
To adjust Bike for Mike account.				
100-1101-006	Community Development		19,994.74	
100-5-180-5318-00	Bike For Mike Expenses		19,994.74	
100-1101-006	Community Development			19,994.74
100-2202-019	Bike for Mike Payable			19,994.74
Total			39,989.48	39,989.48

Client: *City of Fulshear, Texas*
 Engagement: *4.1 - Fulshear 9/30/10*
 Period Ending: *9/30/2010*
 Trial Balance: *2.2.01 - TB*
 Workpaper: *2.5.09 - Adjusting Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 12		E.01d		
To adjust accounts payable at year end. Client should post at 9/30/2010 and reverse as of 10/1/2010.				
700-20000	Accounts Payable		2,126.04	
700-61700	Admin - Prof Services: Admin			2,126.04
Total			2,126.04	2,126.04
Adjusting Journal Entries JE # 13				
To reverse prior year franchise fee receivable accrual. client should post as of 9/30/2010 and not reverse.				
100-41503	Franchise - Telecomm		206.19	
100-41504	Franchise - Cable TV		1,437.01	
100-1115-001	Franchise Taxes Receivable			1,643.20
Total			1,643.20	1,643.20
Adjusting Journal Entries JE # 14				
To adjust cd interest not recorded during the year.				
100-1103-026	Icon Bank CD #57034		539.92	
100-1103-053	Wallis Bank CD #33127		385.88	
100-1103-053	Wallis Bank CD #33127		387.33	
200-1103-016	Wallis Bank #33128 Reg Park		401.97	
200-1103-016	Wallis Bank #33128 Reg Park		403.48	
100-46010	Interest - CDs			385.88
100-46010	Interest - CDs			387.33
100-46010	Interest - CDs			539.92
200-46010	Interest Income - CDs			401.97
200-46010	Interest Income - CDs			403.48
Total			2,118.58	2,118.58
Adjusting Journal Entries JE # 15		D.02		
To record franchise fee receivable. Client should post as of 9/30/2010 and reverse at 10/1/2010.				
100-1115-001	Franchise Taxes Receivable		8,169.40	
100-41501	Franchise - Electrical			5,076.11
100-41503	Franchise - Telecomm			3,093.29
Total			8,169.40	8,169.40
Adjusting Journal Entries JE # 16		2.3.2		
To make client provided entry. *Client has already made the entry.*				
100-1101-002	Govt Market		7,316.50	
200-49221	Regional Park Contributions		7,316.50	
100-44010	Engr - Plat Review			3,716.50
100-44011	Engr - Plan Review			3,600.00
200-1103-052	MBIA Regional Park Fund			7,316.50
Total			14,633.00	14,633.00
Adjusting Journal Entries JE # 17		PF 8.03		
To record lease proceeds in the current year. Client should post as of 9/30/2010 and not reverse.				
100-5-000-5600-00	Capital Outlay		44,185.00	
100-60000	Proceeds from capital lease			44,185.00
Total			44,185.00	44,185.00

Client: *City of Fulshear, Texas*
 Engagement: *4.1 - Fulshear 9/30/10*
 Period Ending: *9/30/2010*
 Trial Balance: *2.2.01 - TB*
 Workpaper: *2.5.09 - Adjusting Journal Entries Report*

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 18		H.01		
To record lift station contributed to the City. client should post as of 9/30/2010 and not reverse.				
500-1140-003	Sewer & Water System		260,000.00	
500-5-000-5561-00	Depreciation Expense		6,500.00	
500-1145-000	Accumulated Depreciation			6,500.00
500-60000	Capital Contribution			260,000.00
Total			<u><u>266,500.00</u></u>	<u><u>266,500.00</u></u>

