CITY OF FULSHEAR, TEXAS

Annual Financial Report

For the Year Ended December 31, 2005

Stephenson & Trlicek, P.C.
Certified Public Accountants
Wharton, Texas

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Current Elected Governing Body:

		Term
James W. Roberts	Mayor	May 1, 2006 to April 30, 2008
Bill Archer	Mayor Pro Tem and Councilman	May 1, 2005 to April 30, 2007
Carl G. Utley	Council member	May 1, 2006 to April 30, 2008
J.B. Collins, Jr.	Council member	May 1, 2005 to April 30, 2007
Laverne Patterson	Council member	May 1, 2006 to April 30, 2008
Dennis Clack	Council member	May 1, 2006 to April 30, 2008

Administrative Officials

D. Gordon Offord	City Secretary
David Frishman	City Attorney

General Information

City Hall, Fulshear, Texas	30603 FM 1093, P.O. Box 279, Fulshear, Texas 77441 Phone Number (281) 346-1796
Date of Incorporation	April 2, 1977
Council Meetings	3rd Tuesday of each month at 7:00 P.M. Meeting place: City Hall, Fulshear, Texas
2005 State of Texas Sales Tax Rate	7.75%
2005 Property Tax Rate	$ 0.30318 per $100 valuation

FINANCIAL SECTION

STEPHENSON & TRLICEK, P.C.
Certified Public Accountants
1609 N. Richmond
Wharton, TX 77488

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Fulshear, Texas (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the index to the financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18 2006, on our consideration of the City's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

(979) 532-5964 • 800-509-5964 • Fax (979) 532-0954

The discussion and analysis of the City of Fulshear's (the "City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's performance.

Overview of the Financial Statements

This annual financial report of the City of Fulshear, Texas (the "City") consists of the following parts: Management's Discussion and Analysis, Basic Financial Statements, Required Supplementary Information and Other Supplementary Information. The financial statements include notes that explain in detail some of the information included in the basic financial statements.

Government-Wide Financial Analysis

The Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets provide an indication of the City's financial condition. The City's net assets reflect the difference between assets and liabilities. The Statements of Revenues, Expenses and Change in Net Assets identify the various revenue and expense items that affect the change in net assets.

A summary of the City's Statements of Net Assets is presented below.

	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 1,087,615	$ 94,424	$1,182,039
Capital assets, net	665,147	1,575,438	2,240,585
Total assets	1,752,762	1,669,862	3,422,624
Current and other liabilities	15,619	186,015	201,634
Long-term debt	-	-	-
Total liabilities	15,619	186,015	201,634
Net assets			
Invested in capital assets, net of related debt	665,147	1,575,438	2,240,585
Restricted	44,720	13,113	57,833
Unrestricted	1,027,276	(104,704)	922,572
Total Net Assets	$ 1,737,143	$ 1,483,847	$3,220,990

The largest portion of the City's net assets (69.6%) reflects its investment in capital assets (e.g., land, buildings, streets and equipment), less any related debt used to acquired those assets. The City uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending.

Governmental activities decreased the City's net assets by $57,474 in fiscal 2005 as compared to an increase of $90,443 in fiscal 2004. There was a net decrease of $48,255 in net assets in fiscal 2005 reported in connection with the City's business-type activities as compared to a net increase of $288,410 in net assets in fiscal 2004.

A summary of the City's Changes in Net Assets for the year ended December 31, 2005 is presented below.

	Governmental Activities	Business-type Activities	Total
Program revenues			
Charges for services	$ 48,491	$ 106,090	$ 154,581
Capital grants and contributions	-	36,044	36,044
General revenues			
Property taxes	161,785	-	161,785
Other taxes	107,431	-	107,431
Franchise fees	47,765	-	47,765
Other	37,424	775	40,199
Total revenues	402,896	142,909	547,805
Expenses			
General government	268,865	-	268,865
Municipal court	1,800	-	1,800
Public works	189,705	-	189,705
Water and sewer	-	191,164	191,164
Total expenses	460,370	191,164	651,534
Changes in net assets before transfers and other	(57,474)	(48,255)	(103,729)
Gain on disposal of assets	2,000	-	-
Change in net assets	(55,474)	(48,255)	(103,729)
Beginning net assets	1,792,617	1,532,102	3,324,719
Ending net assets	$ 1,737,143	$ 1,483,847	$3,220,990

Following is a detail of revenue by source for the governmental activities and business-type activities for the year ended December 31, 2005:

	Governmental Activities		Business-type Activities	
Description	Revenues	% of Total	Revenues	% of Total
Charges for services	$ 48,491	11.98%	$ 106,090	74.24%
Capital grants		0.00%	36,044	25.22%
Property taxes	161,785	39.96%	-	0.00%
Sales taxes	107,431	26.53%	-	0.00%
Franchise taxes	47,765	11.80%	-	0.00%
Investment earnings	18,968	4.68%	775	0.54%
Miscellaneous	18,456	4.56%	-	0.00%
Gain on asset sales	2,000	0.49%	-	0.00%
Total	$ 404,896		$ 142,909	

A summary of the City's Changes in Net Assets for the year ended December 31, 2004 is presented below.

	Governmental Activities	Business-type Activities	Total
Program revenues			
Charges for services	$ 55,225	$ 95,199	$ 150,424
Capital grants and contributions	-	337,632	337,632
General revenues			
Property taxes	150,875	-	150,875
Other taxes	74,001	-	74,001
Franchise fees	45,609	-	45,609
Other	79,960	1,175	81,135
Total revenues	405,670	434,006	839,676
Expenses			
General government	211,423	-	211,423
Municipal court	1,800	-	1,800
Public works	69,567	-	69,567
Water and sewer	-	143,013	143,013
Total expenses	282,790	143,013	425,803
Changes in net assets before transfers and other	122,880	290,993	413,873
Transfers	(32,437)	32,437	-
Loss on disposal of assets	-	(35,020)	(35,020)
Change in net assets	90,443	288,410	378,853
Beginning net assets	1,702,174	1,243,692	2,945,866
Ending net assets	$ 1,792,617	$ 1,532,102	$3,324,719

Following is a detail of revenue by source for the governmental activities and business-type activities for the year ended December 31, 2004:

	Governmental Activities		Business-type Activities	
Description	Revenues	% of Total	Revenues	% of Total
Charges for services	$ 55,225	14.80%	$ 95,199	20.41%
Capital grants	-	0.00%	337,632	72.38%
Property taxes	150,875	40.42%	-	0.00%
Sales taxes	74,001	19.83%	-	0.00%
Franchise taxes	45,609	12.22%	-	0.00%
Investment earnings	16,877	4.52%	1,175	0.25%
Miscellaneous	63,083	16.90%	-	0.00%
Transfers	(32,437)	-8.69%	32,437	6.95%
Total	$ 373,233		$ 466,443	

For the year ended December 31, 2005, the City had total revenues from governmental activities of $404,896 as compared to total revenues of $373,233 for the year ended December 31, 2004. The primary revenue growth was from increased property tax revenues of $10,910 and increased sales tax revenues of $33,430 from the prior year. Revenues from business-type activities, excluding the effects of capital grant revenue, increased marginally by $10,491 from $96,374 in fiscal 2004 to $106,865.

Total expenses from governmental activities increased $177,580 from $282,790 in fiscal 2004 to $460,370 in fiscal 2005. The increase in expenses in 2005 is primarily related to road repairs the City performed in fiscal 2005, which cost $130,246.

Financial Analysis of Government 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 is assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

As of the end of fiscal 2005, the City's governmental funds, consisting only of the General Fund, reported an ending fund balance of $883,279, a decrease of $48,823 in comparison with the prior year. Unreserved fund balance is $838,559 and is available for spending, subject to regulatory, statutory and budgetary restrictions. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to the development of a Regional Park as part of the City's Subdivision Ordinance.

The fund balance of the City's General Fund decreased $48,823 during the current fiscal year. Key factors in this decrease were increase road repair costs aggregating $130,246, which offset an otherwise positive growth year for the City.

Financial Analysis of Proprietary Funds

The City's proprietary fund provides the same type of information found in the government-wide financial statement, but in more detail. The proprietary fund consists of the water, sewer and garbage operations of the City.

Net assets of the proprietary fund decreased $48,255. The key factor in this decrease is depreciation expense of $61,490. Accordingly income before depreciation for the proprietary fund was $13,235.

Analysis of Changes in Capital Assets and Long-Term Debt

Capital Assets
As of December 31, 2005, the District had total capital assets, net of accumulated depreciation of $2,240,585 as compared to total capital assets, net of accumulated depreciation of $2,261,430 at December 31, 2004. This investment in capital assets includes land, machinery and equipment, buildings, infrastructure, and water and sewer distribution systems. During the year ended December 31, 2005, the City acquired $68,019 in new capital assets. Total depreciation expense for the year ended December 31, 2005 was $88,864. Additional information of the City's capital assets can be found in Note 4 of this report.

Long-Term Debt
As of December 31, 2005, the City did not have any debts outstanding.

Economic Factors and Next Year's Budget and Rates

The City Council has adopted the City's 2006 budget. The approval of the budget provides funding for the City's operating and capital costs for the 2006 fiscal year. The City expects revenues from all sources to remain consistent with the 2005 fiscal year and expects a positive growth in net assets during 2006 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.

Additional Financial Information

This financial report is designed to present users with a general overview of the City's financial operations and financial condition and to demonstrate the City's accountability. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the City of Fulshear, P.O. Box 279, Fulshear, Texas 77441.

BASIC FINANCIAL STATEMENTS

City of Fulshear, Texas
Statement of Net Assets
December 31, 2005

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	$ 209,429	$ 70,422	$ 279,851
Restricted cash - Note 5	-	13,113	13,113
Certificates of deposit	570,000	-	570,000
Receivables	-		
Franchise taxes	12,237	-	12,237
Sales taxes	8,481	-	8,481
Delinquent taxes (less allowance of $6,098)	23,425	-	23,425
Current taxes	95,133	-	95,133
Customers (less allowance of $2,394)	-	10,889	10,889
Grants	-	-	-
Due from other funds	168,910	-	168,910
Total current assets	1,087,615	94,424	1,182,039
Noncurrent assets			
Capital assets			
Land	44,290	60,292	104,582
Buildings, infrastructure and equipment	856,340	2,098,270	2,954,610
Less accumulated depreciation	(235,483)	(583,124)	(818,607)
Total capital assets	665,147	1,575,438	2,240,585
Total assets	$ 1,752,762	$ 1,669,862	$ 3,422,624
Liabilities and Net Assets			
Liabilities			
Current liabilities			
Accounts payable	$ 4,079	$ 3,961	$ 8,040
Accrued liabilities	10,000	31	10,031
Security deposits	1,540	13,113	14,653
Deferred revenue - delinquent taxes	-	-	-
Deferred revenue - current taxes	-	-	-
Due to other funds	-	168,910	168,910
Total current liabilities	15,619	186,015	201,634
Net assets			
Invested in capital assets, net of related debt	665,147	1,575,438	2,240,585
Restricted net assets	44,720	13,113	57,833
Unrestricted net assets	1,027,276	(104,704)	922,572
Total Net Assets	$ 1,737,143	$ 1,483,847	$ 3,220,990

The accompanying notes are an integral part of these financial statements.

City of Fulshear, Texas
Statement of Activities
For the Year Ended December 31, 2005

Function/Program	Expenses	Charges for Services	Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets: Governmental Activities	Business-type Activities	Total
Governmental Activities						
General government	$ 268,865	$ 45,772	$ -	$ (223,093)	$ -	$ (223,093)
Municipal Court	1,800	2,719	-	919	-	919
Public works	189,705	-	-	(189,705)	-	(189,705)
Total governmental activities	460,370	48,491	-	(411,879)	-	(411,879)
Business-type Activities						
Contractual services	59,044	106,090	36,044	-	83,090	83,090
Repairs	33,253	-	-	-	(33,253)	(33,253)
Supplies	6,588	-	-	-	(6,588)	(6,588)
Utilities	21,090	-	-	-	(21,090)	(21,090)
Other expenses	9,699	-	-	-	(9,699)	(9,699)
Depreciation expense	61,490	-	-	-	(61,490)	(61,490)
Total business-type activities	191,164	106,090	36,044	-	(49,030)	(49,030)
Total	$ 651,534	$ 154,581	$ 36,044	(411,879)	(49,030)	(460,909)
General revenues:						
Taxes						
Property				161,785	-	161,785
Sales and use				107,431	-	107,431
Franchise				47,765	-	47,765
Unrestricted investment earnings				18,968	775	19,743
Miscellaneous				18,456	-	18,456
Transfers				-	-	
Gain on disposal of capital assets				2,000	-	2,000
Total general revenues and transfers				356,405	775	357,180
Changes in net assets				(55,474)	(48,255)	(103,729)
Net assets - beginning				1,792,617	1,532,102	3,324,719
Net assets - ending				$ 1,737,143	$ 1,483,847	$3,220,990

The accompanying notes are an integral part of these financial statements.

City of Fulshear, Texas
Balance Sheet - Governmental Funds
December 31, 2005

	General Fund
Assets	
Cash and cash equivalents	$ 209,429
Certificates of deposit	570,000
Receivables	
Franchise taxes	12,237
Sales taxes	8,481
Delinquent taxes (less allowance of $6,098)	23,425
Current taxes	95,133
Due from other funds	168,910
Total assets	$ 1,087,615
Liabilities and Fund Balance	
Liabilities	
Accounts payable	$ 4,079
Accrued liabilities	10,000
Security deposits	1,540
Deferred revenue - delinquent taxes	23,425
Deferred revenue - current taxes	165,292
Due to other funds	-
Total liabilities	204,336
Fund balance	
Fund balance - reserved	44,720
Fund balance - unreserved	838,559
Total fund balance	883,279
Total liabilities and fund balance	$ 1,087,615

Reconciliation to the Statement of Net Assets of Governmental Activities:

Total governmental fund balance	$ 883,279
Add capital assets not reported in governmental funds, net of accumulated depreciation of $208,169	695,147
Less liabilities not reported in governmental funds	
Deferred revenues for property taxes receivable recognized as revenue in the government-wide statement of net assets	188,717
Net Assets of Governmental Activities	$ 1,737,143

The accompanying notes are an integral part of these financial statements.

City of Fulshear, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds
For the Year Ended December 31, 2005

	General
Revenues	
Taxes	
Property	$ 137,999
Penalties and interest	3,063
Sales and use	107,431
Franchise	47,765
Total taxes	296,258
Fines and forfeitures	2,719
Licenses, permits and other	45,772
Interest	18,968
Regional park fees	3,500
Rent	14,956
Total revenues	382,173
Expenditures	
General government	242,958
Municipal Court	1,800
Public works	188,238
Capital outlay	-
Total expenditures	432,996
Revenues over (under) expenditures	(50,823)
Other Financial Sources (Uses)	
Operating transfers in	-
Operating transfers out	-
Sale of fixed assets	2,000
State and county grant	-
Total other financial sources (uses)	2,000
Net change in fund balance	(48,823)
Beginning fund balance	932,102
Ending fund balance	$ 883,279

Reconciliation to the Statement of Activities

Total net change in fund balance - governmental funds	$ (48,823)
Increase in property tax revenues on the Statement of Activities not included in the governmental funds statement	20,723
Current year capital outlays not included in the Statement of Activities	-
Expenses on the Statement of Activities not included in the governmental funds statement - Depreciation expense	(27,374)
Change in net assets of governmental activities	$ (55,474)

The accompanying notes are an integral part of these financial statements.

City of Fulshear, Texas
Statement of Net Assets - Proprietary Funds
December 31, 2005

	Business-type Activities Enterprise Fund
Assets	
Current assets	
Cash and cash equivalents	$ 70,422
Restricted cash - Note 5	13,113
Customer receivables, net of allowance of $2,394	10,889
Grant receivable	-
Total current assets	94,424
Noncurrent assets	
Capital assets	
Land	60,292
Sewer system property, plant and equipment	2,098,270
Less accumulated depreciation	(583,124)
Net capital assets	1,575,438
Total assets	$ 1,669,862
Liabilities and Fund Equity	
Liabilities	
Accounts payable	$ 3,961
Accrued liabilities	31
Security deposits	13,113
Due to other funds	168,910
Total liabilities	186,015
Net Assets	
Invested in capital assets	1,575,438
Restricted net assets	13,113
Unrestricted net assets	(104,704)
Total net assets	$ 1,483,847

The accompanying notes are an integral part of these financial statements.

City of Fulshear, Texas

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds

For the Year Ended December 31, 2005

	Business-type Activities Enterprise Fund
Operating revenues	
Charges for services	$ 106,090
Operating expenses	
Contractual services	59,044
Repairs	33,253
Supplies	6,588
Utilities	21,090
Other expenses	9,699
Depreciation expense	61,490
Total operating expenses	191,164
Operating income (loss)	(85,074)
Non-operating income	
Grant income	36,044
Loss on disposal of assets	-
Transfer in	-
Interest income	775
Total non-operating income	36,819
Changes in net assets	(48,255)
Net assets - beginning of year, as restated	1,532,102
Net assets - end of year	$ 1,483,847

The accompanying notes are an integral part of these financial statements.

City of Fulshear, Texas
Statement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2005

	Business-type Activities Enterprise Fund
Cash Flows Provided (Used) By Operating Activities	
Net income (loss) from operations	$ (85,074)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities	
Depreciation expense	61,490
(Increase) decrease in accounts receivable	2,508
Increase (decrease) in customer deposits	(832)
Increase (decrease) in accounts payable	1,339
Increase (decrease) in accrued liabilities	(19,619)
Increase (decrease) in due to other funds	4,091
Net cash provided (used) by operating activities	(36,097)
Cash Flows Provided (Used) By Non-capital Financing Activities	
Operating transfers from (to) other funds	-
Net cash provided (used) by non-capital financing activities	-
Cash Flows Provided (Used) By Capital and Related Financing Activities	
Proceeds from grant awards	36,044
Acquisition of capital assets	(68,019)
Net cash provided (used) by capital and related financing activities	(31,975)
Cash Flows Provided (Used) By Investing Activities	
Interest earned on investments	775
Net cash provided (used) by investing activities	775
Net increase (decrease) in cash and cash equivalents	(67,297)
Cash and cash equivalents - beginning of year	150,832
Cash and cash equivalents - end of year	$ 83,535

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Introduction

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

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In June 1999, the GASB unanimously approved Statement No. 34, Basic Financial Statements -- and Management's Discussion and Analysis – for State and Local Governments. The significant reporting changes required under the provisions of this Statement are:

Financial statements issued by the City will include:

- 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 City's major funds.

The City implemented the provisions of Statement No. 34 in the prior year.

Reporting Entity

In evaluating how to define the City for reporting purposes, management has considered all potential component units. The decision to exclude all potential component units from the reporting entity was made by applying the criteria set forth in GAAP. The City is not included in any other governmental reporting entity as defined by GASB and there are no component units included within the reporting entity.

Basic Financial Statements

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type.

Government-wide financial statements report information about the reporting unit as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Assets and the Statement of Activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or business-type activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or business-type activity. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from services or privileges provided by a given function or business-type activity. Other items not reported as program revenues are reported instead as general revenues.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. The City reports governmental type funds.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. A one-year availability period is used for revenue recognition. Expenditures are recorded when the related fund liability is incurred.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition on the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

The District reports the following funds:

Governmental Fund Types

Governmental funds use the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period. Governmental fund types include the following:

General Fund – is used to account for resources used in general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. All revenues and expenditures not required to be accounted for in other funds are accounted for in this fund.

Capital Projects Fund – is used to account for the revenue and expenditures of resources used for the acquisition and construction of major capital facilities. The principal resources of the Capital Projects Fund are capital grants. The City does not budget for the Capital Projects Fund since budgetary control is maintained on an individual grant basis. Since grant periods may differ from the City's fiscal year, a comparison of budget information would not be meaningful and has not been presented in the accompanying financial statements.

Proprietary Fund Types

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Proprietary fund types include the following:

Enterprise fund – used to account for operations that provide water and sewer service and the construction of related facilities. The fund is financed and operated in a manner similar to private business whereby costs of providing services to customers on a continuing basis is recovered primarily through customer service charges. The construction of the wastewater treatment plant facility required to provide these services was financed by a grant from the State of Texas Department of Commerce.

Budget policy and practice
The Mayor submits an annual budget to the council members in accordance with the City's Charter and the Texas Municipal Budget Act. In September, the council members and the Mayor adopt an annual fiscal year appropriated budget for the general fund and proprietary fund. Once approved, the council members and the Mayor may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Budgetary control
The general fund appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by departments. This constitutes the legal level of control. Expenditures may not exceed appropriations and beginning fund balances. Budget revisions at this level are subject to final review by the council members. Within these above control levels, the mayor may transfer appropriations without council approval.

Budget basis of accounting
The budgets for the general and proprietary funds are prepared on a basis consistent with accounting principles generally accepted in the United States of America. Any unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Encumbrances
Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The City did not have any outstanding encumbrances at December 31, 2005.

Cash and investments
Cash includes amounts in demand deposits, change funds and short-term certificates of deposit with a maturity date within three months of the date acquired by the government. Investments consist of certificate of deposits reported at cost, which approximates fair value.

Due to and from other funds
During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Inventories
Supplies and materials are charged to expense accounts of the affected fund or department when purchased.

Restricted assets
Certain proceeds of funds received in the Enterprise Fund are restricted for specific purposes and are classified as restricted assets on the balance sheet because their use is limited.

Capital assets
Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, drainage systems, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide statement of net assets. The City defines capital assets as assets with initial, individual costs of more than $5,000 and an estimated useful life in excess of one year. 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.

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

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

Property, plant and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	40 years
Water and sewer plant	50 years
Infrastructure	50 years
Equipment	5 - 7 years

Compensated absences and retirement plan
There were no compensated absences at December 31, 2005 for any employee of the City.

Property taxes
Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. An allowance is established for delinquent taxes to the extent that their collectibility is improbable. All property taxes are recognized in compliance with NCGA Interpretation-3 (Revenue Recognition – Property Taxes), which states that such revenue is recorded when it becomes measurable and available. Available means due, or past due, and receivable within the current period and collected no longer than 60 days after the close of the current period.

Statement of cash flows
For the purposes of the statement of cash flows, the Enterprise Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Deposits and Investments

The City's cash and investments at December 31, 2005 is as follows:

Cash and deposit accounts	$ 279,851
Restricted cash	13,113
Certificates of deposit	570,000
	$ 862,964

It is the City's policy for deposits and investments to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance. The City's demand deposits are listed at cost at December 31, 2005 and are entirely covered by federal depository insurance or by pledged collateral held by a financial institution in the City's name.

The City's deposits and investments are categorized to give an indication of the level of risk assumed by the City at fiscal year-end. The categories are described as follows:

Category 1- Insured or collateralized with securities held by the City or by it agent in the City's name.
Category 2- Collateralized with securities held by the pledging financial institution trust department or agent in the City's name.
Category 3- Uncollaterlized

Based on these three levels of risk, all of the City's cash and investments are classified as Category 1.

3. Receivables

Receivables at December 31, 2005 consist of the following:

	General Fund	Enterprise Fund	Total
Receivable:			
Franchise taxes	$ 12,237	$ -	$ 12,237
Property taxes	124,656	-	124,656
Sales taxes	8,481	-	8,841
Customer accounts	-	13,283	13,283
Total receivables	145,374	13,283	158,657
Less allowance for uncollectibles	(6,093)	(2,394)	(8,492)
Net total receivables	$ 139,276	$ 10,889	$150,165

4. Fixed Assets

The following is a summary of the governmental activities capital assets at December 31, 2005.

	Balance Jan. 1, 2005	Additions	Disposals	Balance Dec. 31, 2005
Land	$ 44,290	$ -	$ -	$ 44,290
City Hall building	173,922	-	-	173,922
Office equipment	14,195	-	-	14,195
Public works equipment	16,490	-	-	16,490
Park and ride facility	209,455	-	-	209,455
F. Smart park facility	10,808	-	-	10,808
Community center	322,646	-	-	322,646
Infrastructure	108,824	-	-	108,824
Total capital assets	900,630	-	-	900,630
Accumulated depreciation	(208,109)	27,374	-	(235,483)
Capital assets, net	$ 692,521	$ (27,374)	$ -	$ 665,147

Depreciation expense for the year ended December 31, 2005 was $27,374, of which $25,906 was charged to general government programs and $1,468 was charged to public works programs.

The following is a summary of business-type capital assets at December 31, 2005:

	Balance Jan. 1, 2005	Additions	Disposals	Balance Dec. 31, 2005
Land	$ 60,292	$ -	$ -	$ 60,292
Buildings	104,220	-	-	104,220
Sewer and water plant	1,877,313	68,019	-	1,945,332
Equipment	48,718	-	-	48,718
Construction in progress	-	-	-	-
Total capital assets	2,090,543	68,019	-	2,158,562
Accumulated depreciation	(521,634)	(61,490)	-	(583,124)
Capital assets, net	$ 1,568,909	$ 6,529	$ -	$ 1,575,438

Depreciation expense for the year ended December 31, 2005 was $61,490.

5. Restricted Cash

The Enterprise Fund maintains a cash balance of $13,113, which is classified as restricted cash on the balance sheet as its use is limited by individual customer service contracts. Restricted cash is only available to pay refunds on customer deposits.

6. Interfund Receivables and Payables

Interfund receivables and payables consisted of the following at December 31, 2005:

Fund	Receivable	Payable
General Fund:		
Enterprise Fund	$ 168,910	$ -
Total General Fund	168,910	-
Enterprise Fund:		
General Fund	-	168,910
Total	$ 168,910	$ 168,910

7. Franchise Taxes

The City has entered into agreements with certain utilities companies to pay a franchise fee in-lieu of a sales tax. Revenues earned under these agreements for the year ended December 31, 2005 are as follows:

	Amount
Reliant Energy HL&P	$ 39,365
Southwestern Bell	4,211
Other	4,189
Total	$ 47,765

8. Sales Taxes

The City receives its allocation of sales tax receipts for its incorporated boundaries monthly from the State of Texas. During the year-ended December 31, 2005, the City recorded $107,431 in sales tax revenues.

9. Contingencies

Litigation
The City is not a party to any litigation as of December 31, 2005 that the City believes will have a material adverse effect on the financial condition of the City or would not be covered by insurance.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fulshear, Texas

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (GAAP Basis) and Actual - General Fund
For the Year Ended December 31, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Taxes			
Property	$ 140,056	$ 137,999	$ (2,057)
Penalties and interest	4,000	3,063	(937)
Sales and use	80,700	107,431	26,731
Franchise	43,000	47,765	4,765
Total taxes	267,756	296,258	28,502
Fines and forfeitures	3,000	2,719	(281)
Licenses, permits and other	55,690	45,772	(9,918)
Interest	14,250	18,968	4,718
Regional park fees	-	3,500	3,500
Rent	9,200	14,956	5,756
Total revenues	349,896	382,173	32,277
Expenditures			
Current			
General government	299,177	242,958	56,219
Municipal Court	3,600	1,800	1,800
Public works	191,078	188,238	2,840
Capital outlay	159,227	-	159,227
Total expenditures	653,082	432,996	220,086
Revenues over (under) expenditures	(303,186)	(50,823)	252,363
Other Financial Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Sales of fixed assets	-	2,000	2,000
Total other financial sources (uses)	-	2,000	2,000
Revenues and other sources over (under) expenditures and other uses	$ (303,186)	(48,823)	$ 254,363
Beginning fund balance		932,102	
Ending fund balance		$ 883,279	

The accompanying notes are an integral part of these financial statements.

OTHER SUPPLEMENTARY INFORMATION

City of Fulshear, Texas
General Fund
Schedule of Revenues - Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Taxes			
Property	$ 140,056	$ 137,999	$ (2,057)
Penalties and interest	4,000	3,063	(937)
Sales and use	80,700	107,431	26,731
Franchise	43,000	47,765	4,765
Total taxes	267,756	296,258	28,502
Fines and forfeitures	3,000	2,719	(281)
Licenses, permits and other			
Permit fees	27,500	18,495	(9,005)
Inspection and platting fees	22,000	21,165	(835)
License fees	5,600	5,173	(427)
Other income	590	939	349
Total licenses, permits & other	55,690	45,772	(9,918)
Interest	14,250	18,968	4,718
Regional park fees	-	3,500	3,500
Rent			
Community center rental	5,800	5,606	(194)
Office space rental	3,400	9,350	5,950
Total rent	9,200	14,956	5,756
Total revenues	$ 349,896	$ 382,173	$ 32,277

City of Fulshear, Texas
General Fund
Schedule of Expenditures - Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
General Government			
Personal services	$ 181,227	$ 132,660	$ 48,567
Building inspector fees	13,000	12,894	106
Legal, accounting and other professional fees	23,700	28,323	(4,623)
Insurance and bonds	8,500	10,213	(1,713)
Telephone and pagers	7,400	5,006	2,394
Expense allowance - Mayor	2,400	2,400	-
Dues and subscriptions	3,000	3,450	(450)
Professional services	10,000	5,365	4,635
Office supplies and printing	9,500	5,180	4,320
Travel and entertainment	1,150	184	966
Postage and box rent	500	374	126
Gifts and condolences	200	153	47
Public legal notices	1,800	1,559	241
Training and certification	600	2,704	(2,104)
Utilities	16,500	18,944	(2,444)
Repairs and supplies	17,500	10,783	6,717
Other	2,200	2,766	(566)
Total general government	299,177	242,958	56,219
Municipal Court			
Personal services	-	-	-
Judge's fee	1,800	1,800	-
Other	1,800	-	1,800
Total municipal court	3,600	1,800	1,800
Public Works			
Personal services	12,228	13,525	(1,297)
Contract services	12,550	18,160	(5,610)
Utilities	4,800	5,716	(916)
Repairs and maintenance	31,500	20,591	10,909
Street repair	130,000	130,246	(246)
Total public works	191,078	188,238	2,840
Capital Outlay	159,227	-	159,227
Total expenditures	$ 653,082	$ 432,996	$ 220,086

City of Fulshear, Texas
Enterprise Fund
Schedule of Operating Expenses - Budget (GAAP Basis) and Actual
For the Year Ended December 31, 2005

	Budget	Actual	Variance Favorable (Unfavorable)
Operating expenses			
Contractual services			
Water and sewer service contract	$ 25,596	$ 23,599	$ 1,997
Garbage contract	29,370	27,443	1,927
Lab testing	-	8,002	(8,002)
Total contractual services	54,966	59,044	(4,078)
Repairs	10,000	33,253	(23,253)
Supplies			
Permits	1,200	1,068	132
Chemicals	5,000	3,584	1,416
Other	1,500	1,936	(436)
Total supplies	7,700	6,588	1,112
Utilities	14,000	21,090	(7,090)
Other expenses			
Sludge hauling	7,000	9,699	(2,699)
Other	-	-	-
Total other expenses	7,000	9,699	(2,699)
Depreciation expense			
Buildings	-	-	-
Water and sewer plant	-	61,490	(61,490)
Equipment	-	-	-
Total depreciation expense	-	61,490	(61,490)
Total operating expenses	$ 93,666	$ 191,164	$ (97,498)

City of Fulshear, Texas
Schedule of Investments
December 31, 2005

Financial Institution	Current Interest Rate	Date Acquired	Date Matures	Principal Balance Dec. 31, 2005
Wallis State Bank	4.20%	9/29/05	9/29/06	$ 100,000
Wallis State Bank	4.20%	9/29/05	9/29/06	100,000
Wallis State Bank	4.20%	9/29/05	9/29/06	100,000
Wallis State Bank	4.20%	9/29/05	9/29/06	50,000
Sterling Bank	4.45%	11/20/05	11/20/06	70,000
Sterling Bank	4.45%	11/16/05	11/16/06	100,000
Comerica	4.70%	2/16/06	2/16/07	50,000
Total				$ 570,000

OTHER REQUIRED REPORTS

STEPHENSON & TRLICEK, P.C.
Certified Public Accountants
1609 N. Richmond
Wharton, TX 77488

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

Honorable Mayor and Members of City Council
City of Fulshear, Texas

We have audited the financial statements of the City of Fulshear, Texas (the "City") as of and for the year ended December 31, 2005 and have issued our report thereon dated August 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether the City of Fulshear, Texas' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*

Internal Control over Financial Reporting
In planning and performing our audit, we considered the City of Fulshear, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We also noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, others within the City and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson & Trlicek, P.C.

Wharton, Texas
August 18, 2006

(979) 532-5964 • 800-509-5964 • Fax (979) 532-0954