

**CITY OF FULSHEAR, TEXAS**  
**Annual Financial Report**  
**For the Year Ended December 31, 2006**

**PS Stephenson & Co., P.C.**  
**Certified Public Accountants**  
**Wharton, Texas**

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**Current Elected Governing Body:**

		<u>Term</u>
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
Becky Lyons	City Treasurer
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
2006 State of Texas Sales Tax Rate	7.75%
2006 Property Tax Rate	\$ 0.24226 per \$100 valuation

**FINANCIAL SECTION**



**PS STEPHENSON & CO., P.C.**

Certified Public Accountants  
1609 N. Richmond Road  
Wharton, Texas 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, 2006, 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, 2006, 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 March 9, 2007, 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.

**City of Fulshear, Texas**  
**Management's Discussion and Analysis**  
**December 31, 2006**

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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, 2006. 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.

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Current and other assets	\$ 1,302,886	\$ 42,648	\$1,345,534
Capital assets, net	642,959	1,585,000	2,227,959
Total assets	1,945,845	1,627,648	3,573,493
Current and other liabilities	11,168	188,221	199,389
Long-term debt	-	-	-
Total liabilities	11,168	188,221	199,389
Net assets			
Invested in capital assets, net of related debt	642,959	1,585,000	2,227,959
Restricted	76,774	9,475	86,249
Unrestricted	1,214,944	(155,048)	1,059,896
Total Net Assets	<u>\$ 1,934,677</u>	<u>\$ 1,439,427</u>	<u>\$3,374,104</u>

The largest portion of the City's net assets (66.0%) 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 increased the City's net assets by \$197,534 in fiscal 2006 as compared to a decrease of \$57,474 in fiscal 2005. There was a net decrease of \$44,420 in net assets in fiscal 2006 reported in connection with the City's business-type activities as compared to a net decrease of \$48,255 in net assets in fiscal 2005.

**City of Fulshear, Texas**  
**Management's Discussion and Analysis**  
**December 31, 2006**

A summary of the City's Changes in Net Assets for the year ended December 31, 2006 is presented below.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Program revenues			
Charges for services	\$ 147,805	\$ 109,925	\$ 257,730
Capital grants and contributions	-	77,356	77,356
General revenues			
Property taxes	140,422	-	140,422
Other taxes	163,039	-	163,039
Franchise fees	50,435	-	50,435
Other	65,086	477	65,563
Total revenues	<u>566,787</u>	<u>187,758</u>	<u>754,545</u>
Expenses			
General government	320,632	-	320,632
Municipal court	1,238	-	1,238
Public works	56,383	-	56,383
Water and sewer	-	232,178	232,178
Total expenses	<u>378,253</u>	<u>232,178</u>	<u>610,431</u>
Changes in net assets before transfers and other	188,534	(44,420)	144,114
Gain on disposal of assets	9,000	-	9,000
Change in net assets	197,534	(44,420)	153,114
Beginning net assets	1,737,143	1,483,847	3,220,990
Ending net assets	<u>\$ 1,934,677</u>	<u>\$ 1,439,427</u>	<u>\$3,374,104</u>

Following is a detail of revenue by source for the governmental activities and business-type activities for the year ended December 31, 2006:

<u>Description</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Revenues</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>
Charges for services	\$ 147,805	25.67%	\$ 109,925	58.55%
Capital grants	-	0.00%	77,356	41.20%
Property taxes	140,422	24.39%	-	0.00%
Sales taxes	163,039	28.32%	-	0.00%
Franchise taxes	50,435	8.76%	-	0.00%
Investment earnings	26,508	4.60%	477	0.25%
Miscellaneous	38,578	6.70%	-	0.00%
Gain on asset sales	9,000	1.56%	-	0.00%
Total	<u>\$ 575,787</u>		<u>\$ 187,758</u>	

**City of Fulshear, Texas**  
**Management's Discussion and Analysis**  
**December 31, 2006**

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

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
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	<u>402,896</u>	<u>142,909</u>	<u>547,805</u>
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	<u>460,370</u>	<u>191,164</u>	<u>651,534</u>
Changes in net assets before transfers and other	(57,474)	(48,255)	(103,729)
Gain on disposal of assets	<u>2,000</u>	<u>-</u>	<u>-</u>
Change in net assets	(55,474)	(48,255)	(103,729)
Beginning net assets	<u>1,792,617</u>	<u>1,532,102</u>	<u>3,324,719</u>
Ending net assets	<u>\$ 1,737,143</u>	<u>\$ 1,483,847</u>	<u>\$3,220,990</u>

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

<u>Description</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Revenues</u>	<u>% of Total</u>	<u>Revenues</u>	<u>% of Total</u>
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	<u>\$ 404,896</u>		<u>\$ 142,909</u>	

**City of Fulshear, Texas**  
**Management's Discussion and Analysis**  
**December 31, 2006**

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For the year ended December 31, 2006, the City had total revenues from governmental activities of \$575,787 as compared to total revenues of \$404,896 for the year ended December 31, 2005. The primary revenue growth was from increased permits, licenses and other fee revenues of \$99,314 and increased sales tax revenues of \$55,608 from the prior year. Revenues from business-type activities, excluding the effects of capital grant revenue, increased marginally by \$3,537 from \$106,865 in fiscal 2005 to \$110,402.

Total expenses from governmental activities decreased \$82,117 from \$460,370 in fiscal 2005 to \$378,253 in fiscal 2006. The decrease in expenses in 2006 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 in 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 2006, the City's governmental funds, consisting only of the General Fund, reported an ending fund balance of \$1,130,122, an increase of \$246,843 in comparison with the prior year. Unreserved fund balance is \$1,053,348 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 increased \$246,843 during the current fiscal year. Key factors in this increase were increases in licenses, permits and other fees and sales tax revenues, both which increased significantly from the prior year due to continued positive growth of businesses and housing development in 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 \$44,420. The key factor in this decrease is depreciation expense of \$67,794 and increase maintenance and repair costs of the City's water and sewer system, offset by grant revenues of \$77,356. Excluding these items, the proprietary fund recorded an operating loss of \$54,459 in fiscal 2006.

### **Analysis of Changes in Capital Assets and Long-Term Debt**

#### **Capital Assets**

As of December 31, 2006, the District had total capital assets, net of accumulated depreciation of \$2,227,959 as compared to total capital assets, net of accumulated depreciation of \$2,240,585 at December 31, 2005. This investment in capital assets includes land, machinery and equipment, buildings, infrastructure, and water and sewer distribution systems. During the year ended December 31, 2006, the City acquired \$82,263 in new capital assets. Total depreciation expense for the year ended December 31, 2006 was \$94,889. Additional information of the City's capital assets can be found in Note 4 of this report.

**Long-Term Debt**

As of December 31, 2006 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 2007 budget. The approval of the budget provides funding for the City's operating and capital costs for the 2007 fiscal year. The City expects revenues from all sources to remain consistent with the 2006 fiscal year and expects a positive growth in net assets during 2007 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, 2006**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 433,206	\$ 27,468	\$ 460,674
Restricted cash - Note 5	-	9,475	9,475
Certificates of deposit	572,024	-	572,024
Receivables	-	-	-
Franchise taxes	5,466	-	5,466
Sales taxes	13,964	-	13,964
Delinquent taxes (less allowance of \$7,618)	21,577	-	21,577
Current taxes	90,520	-	90,520
Customers (less allowance of \$1,219)	-	5,705	5,705
Grants	-	-	-
Due from other funds	166,129	-	166,129
Total current assets	<u>1,302,886</u>	<u>42,648</u>	<u>1,345,534</u>
Noncurrent assets			
Capital assets			
Land	44,290	60,292	104,582
Buildings, infrastructure and equipment	861,247	2,175,626	3,036,873
Less accumulated depreciation	<u>(262,578)</u>	<u>(650,918)</u>	<u>(913,496)</u>
Total capital assets	642,959	1,585,000	2,227,959
<b>Total assets</b>	<u><u>\$ 1,945,845</u></u>	<u><u>\$ 1,627,648</u></u>	<u><u>\$ 3,573,493</u></u>
<b>Liabilities and Net Assets</b>			
Liabilities			
Current liabilities			
Accounts payable	\$ 1,168	\$ 12,334	\$ 13,502
Accrued liabilities	10,000	283	10,283
Security deposits	-	9,475	9,475
Deferred revenue - delinquent taxes	-	-	-
Deferred revenue - current taxes	-	-	-
Due to other funds	-	166,129	166,129
Total current liabilities	11,168	188,221	199,389
Net assets			
Invested in capital assets, net of related debt	642,959	1,585,000	2,227,959
Restricted net assets	76,774	9,475	86,249
Unrestricted net assets	<u>1,214,944</u>	<u>(155,048)</u>	<u>1,059,896</u>
<b>Total Net Assets</b>	<u><u>\$ 1,934,677</u></u>	<u><u>\$ 1,439,427</u></u>	<u><u>\$ 3,374,104</u></u>

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

**City of Fulshear, Texas**  
**Statement of Activities**  
**For the Year Ended December 31, 2006**

Function/Program	Expenses	Charges for Services	Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets		
				Governmental Activities	Business-type Activities	Total
<b>Governmental Activities</b>						
General government	\$ 320,632	\$ 147,141	\$ -	\$ (173,491)	\$ -	\$ (173,491)
Municipal Court	1,238	664	-	(574)	-	(574)
Public works	56,383	-	-	(56,383)	-	(56,383)
Total governmental activities	378,253	147,805	-	(230,448)	-	(230,448)
<b>Business-type Activities</b>						
Contractual services	67,914	109,925	77,356	-	119,367	119,367
Repairs	58,100	-	-	-	(58,100)	(58,100)
Supplies	6,141	-	-	-	(6,141)	(6,141)
Utilities	25,899	-	-	-	(25,899)	(25,899)
Other expenses	6,330	-	-	-	(6,330)	(6,330)
Depreciation expense	67,794	-	-	-	(67,794)	(67,794)
Total business-type activities	232,178	109,925	77,356	-	(44,897)	(44,897)
Total	\$ 610,431	\$ 257,730	\$ 77,356	(230,448)	(44,897)	(275,345)
<b>General revenues:</b>						
<b>Taxes</b>						
Property				140,422	-	140,422
Sales and use				163,039	-	163,039
Franchise				50,435	-	50,435
Unrestricted investment earnings				26,508	477	26,985
Miscellaneous				38,578	-	38,578
Transfers				-	-	-
Gain on disposal of capital assets				9,000	-	9,000
Total general revenues and transfers				427,982	477	428,459
Changes in net assets				197,534	(44,420)	153,114
Net assets - beginning				1,737,143	1,483,847	3,220,990
Net assets - ending				\$ 1,934,677	\$ 1,439,427	\$ 3,374,104

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

**City of Fulshear, Texas**  
**Balance Sheet - Governmental Funds**  
**December 31, 2006**

	General Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 433,206
Certificates of deposit	572,024
Receivables	
Franchise taxes	5,466
Sales taxes	13,964
Delinquent taxes (less allowance of \$7,618)	21,577
Current taxes	90,520
Due from other funds	166,129
Total assets	<u>\$ 1,302,886</u>
<b>Liabilities and Fund Balance</b>	
Liabilities	
Accounts payable	\$ 1,168
Accrued liabilities	10,000
Security deposits	-
Deferred revenue - delinquent taxes	21,577
Deferred revenue - current taxes	140,019
Due to other funds	-
Total liabilities	<u>172,764</u>
Fund balance	
Fund balance - reserved	76,774
Fund balance - unreserved	1,053,348
Total fund balance	<u>1,130,122</u>
Total liabilities and fund balance	<u>\$ 1,302,886</u>

**Reconciliation to the Statement of Net Assets of Governmental Activities:**

Total governmental fund balance	\$ 1,130,122
Add capital assets not reported in governmental funds, net of accumulated depreciation of \$262,579	642,959
Less liabilities not reported in governmental funds	-
Deferred revenues for property taxes receivable recognized as revenue in the government-wide statement of net assets	161,596
Net Assets of Governmental Activities	<u>\$ 1,934,677</u>

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, 2006**

<b>Revenues</b>	<b>General</b>
Taxes	
Property	\$ 164,845
Penalties and interest	2,698
Sales and use	163,039
Franchise	50,435
Total taxes	381,017
Fines and forfeitures	664
Licenses, permits and other	147,141
Interest	26,508
Regional park fees	30,900
Rent	7,678
Total revenues	593,908
<b>Expenditures</b>	
General government	298,049
Municipal Court	1,238
Public works	51,871
Capital outlay	4,907
Total expenditures	356,065
Revenues over (under) expenditures	237,843
<b>Other Financial Sources (Uses)</b>	
Operating transfers in	-
Operating transfers out	-
Sale of fixed assets	9,000
State and county grant	-
Total other financial sources (uses)	9,000
Net change in fund balance	246,843
Beginning fund balance	883,279
Ending fund balance	\$ 1,130,122

**Reconciliation to the Statement of Activities**

Total net change in fund balance - governmental funds	\$ 246,843
Increase in property tax revenues on the Statement of Activities not included in the governmental funds statement	(27,121)
Current year capital outlays not included in the Statement of Activities	4,907
Expenses on the Statement of Activities not included in the governmental funds statement - Depreciation expense	(27,095)
Change in net assets of governmental activities	\$ 197,534

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

**City of Fulshear, Texas**  
**Statement of Net Assets - Proprietary Funds**  
**December 31, 2006**

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	Business-type Activities <u>Enterprise Fund</u>
<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 27,468
Restricted cash - Note 5	9,475
Customer receivables, net of allowance of \$1,219	5,705
Grant receivable	-
Total current assets	<u>42,648</u>
<b>Noncurrent assets</b>	
Capital assets	
Land	60,292
Sewer system property, plant and equipment	2,175,626
Less accumulated depreciation	(650,918)
Net capital assets	<u>1,585,000</u>
Total assets	<u>\$ 1,627,648</u>
<b>Liabilities and Fund Equity</b>	
<b>Liabilities</b>	
Accounts payable	\$ 12,334
Accrued liabilities	283
Security deposits	9,475
Due to other funds	166,129
Total liabilities	<u>188,221</u>
<b>Net Assets</b>	
Invested in capital assets	1,585,000
Restricted net assets	9,475
Unrestricted net assets	(155,048)
Total net assets	<u>\$ 1,439,427</u>

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, 2006

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	<u>Business-type Activities Enterprise Fund</u>
Operating revenues	
Charges for services	\$ 109,925
Operating expenses	
Contractual services	67,914
Repairs	58,100
Supplies	6,141
Utilities	25,899
Other expenses	6,330
Depreciation expense	67,794
Total operating expenses	<u>232,178</u>
Operating income (loss)	(122,253)
Non-operating income	
Grant income	77,356
Loss on disposal of assets	-
Transfer in	-
Interest income	477
Total non-operating income	<u>77,833</u>
Changes in net assets	(44,420)
Net assets - beginning of year, as restated	<u>1,483,847</u>
Net assets - end of year	<u><u>\$ 1,439,427</u></u>

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, 2006

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	Business-type Activities <u>Enterprise Fund</u>
Cash Flows Provided (Used) By Operating Activities	
Net income (loss) from operations	\$ (122,253)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities	
Depreciation expense	67,794
(Increase) decrease in accounts receivable	5,184
Increase (decrease) in customer deposits	(3,638)
Increase (decrease) in accounts payable	8,373
Increase (decrease) in accrued liabilities	252
Increase (decrease) in due to other funds	<u>(2,781)</u>
Net cash provided (used) by operating activities	(47,069)
Cash Flows Provided (Used) By Non-capital Financing Activities	
Operating transfers from (to) other funds	<u>-</u>
Net cash provided (used) by non-capital financing activities	-
Cash Flows Provided (Used) By Capital and Related Financing Activities	
Proceeds from grant awards	77,356
Acquisition of capital assets	<u>(77,356)</u>
Net cash provided (used) by capital and related financing activities	-
Cash Flows Provided (Used) By Investing Activities	
Interest earned on investments	<u>477</u>
Net cash provided (used) by investing activities	<u>477</u>
Net increase (decrease) in cash and cash equivalents	(46,592)
Cash and cash equivalents - beginning of year	<u>83,535</u>
Cash and cash equivalents - end of year	<u>\$ 36,943</u>

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 fiscal 2004.

### 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, 2006.

**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, 2006 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.

**City of Fulshear, Texas**  
**Notes to Financial Statements**  
**December 31, 2006**

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**2. Deposits and Investments**

The City's cash and investments at December 31, 2006 are as follows:

Cash and deposit accounts	\$ 460,674
Restricted cash	9,475
Certificates of deposit	<u>572,024</u>
	<u>\$ 1,042,173</u>

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, 2006 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 its 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- Uncollateralized

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, 2006 consist of the following:

	<u>General Fund</u>	<u>Enterprise Fund</u>	<u>Total</u>
Receivable:			
Franchise taxes	\$ 5,466	\$ -	\$ 5,466
Property taxes	119,715	-	119,715
Sales taxes	13,964	-	13,964
Customer accounts	-	<u>6,924</u>	<u>6,924</u>
Total receivables	139,145	6,924	146,069
Less allowance for uncollectibles	<u>(7,618)</u>	<u>(1,219)</u>	<u>(8,837)</u>
Net total receivables	<u>\$ 131,527</u>	<u>\$ 5,705</u>	<u>\$ 137,232</u>

**City of Fulshear, Texas**  
**Notes to Financial Statements**  
**December 31, 2006**

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**4. Fixed Assets**

The following is a summary of the governmental activities capital assets at December 31, 2006.

	<u>Balance</u>			<u>Balance</u>
	<u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Dec. 31, 2006</u>
Land	\$ 44,290	\$ -	\$ -	\$ 44,290
City Hall building	173,922	-	-	173,922
Office equipment	14,195	3,465	-	17,660
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	1,442	-	324,088
Infrastructure	108,824	-	-	108,824
Total capital assets	900,630	4,907	-	905,537
Accumulated depreciation	(235,483)	27,095	-	(262,578)
Capital assets, net	<u>\$ 665,147</u>	<u>\$ (22,188)</u>	<u>\$ -</u>	<u>\$ 642,959</u>

Depreciation expense for the year ended December 31, 2006 was \$27,095, of which \$22,583 was charged to general government programs and \$4,512 was charged to public works programs.

The following is a summary of business-type capital assets at December 31, 2006:

	<u>Balance</u>			<u>Balance</u>
	<u>Jan. 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Dec. 31, 2006</u>
Land	\$ 60,292	\$ -	\$ -	\$ 60,292
Buildings	104,220	-	-	104,220
Sewer and water plant	1,945,332	-	-	1,945,332
Equipment	48,718	77,356	-	122,074
Construction in progress	-	-	-	-
Total capital assets	2,158,562	77,356	-	2,235,918
Accumulated depreciation	(583,124)	(67,794)	-	(650,918)
Capital assets, net	<u>\$ 1,575,438</u>	<u>\$ 9,562</u>	<u>\$ -</u>	<u>\$ 1,585,000</u>

Depreciation expense for the year ended December 31, 2006 was \$67,794.

**5. Restricted Cash**

The Enterprise Fund maintains a cash balance of \$9,475, 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. Regional Park Fund**

During 2004, the City entered into an agreement with a developer whereby the developer would pay a Regional Park Fee for every lot per plat the developer finalized. During 2006, the City received \$30,900 in Regional Park Fees. Since the inception of the agreement, the City has received \$71,100. The terms of the agreement state that the Regional Park Fees must be utilized in the development of a regional park within 5 years from the date the fees are paid to the City. Otherwise, the funds must be returned to the lot owner of record at the 5 year anniversary date. As of December 31, 2006, the City has restricted net assets of \$76,774 reserved for a regional park.

**7. Interfund Receivables and Payables**

Interfund receivables and payables consisted of the following at December 31, 2006:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Enterprise Fund	\$ 166,129	\$ -
Total General Fund	166,129	-
Enterprise Fund:		
General Fund	-	166,129
Total	<u>\$ 166,129</u>	<u>\$ 166,129</u>

**8. 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, 2006 are as follows:

	<u>Amount</u>
Reliant Energy HL&P	\$ 43,859
AT&T	3,799
Other	<u>2,777</u>
Total	<u>\$ 50,435</u>

**9. 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, 2006, the City recorded \$163,039 in sales tax revenues.

**10. Contingencies**

**Litigation**

The City is not a party to any litigation as of December 31, 2006 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, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Taxes			
Property	\$ 153,000	\$ 164,845	\$ 11,845
Penalties and interest	4,000	2,698	(1,302)
Sales and use	90,800	163,039	72,239
Franchise	44,000	50,435	6,435
Total taxes	<u>291,800</u>	<u>381,017</u>	<u>89,217</u>
Fines and forfeitures	2,500	664	(1,836)
Licenses, permits and other	38,910	147,141	108,231
Interest	18,000	26,508	8,508
Regional park fees	-	30,900	30,900
Rent	4,900	7,678	2,778
Total revenues	<u>356,110</u>	<u>593,908</u>	<u>237,798</u>
<b>Expenditures</b>			
Current			
General government	348,306	298,049	50,257
Municipal Court	2,737	1,238	1,499
Public works	231,075	51,871	179,204
Capital outlay	7,000	4,907	2,093
Total expenditures	<u>589,118</u>	<u>356,065</u>	<u>233,053</u>
Revenues over (under) expenditures	(233,008)	237,843	470,851
<b>Other Financial Sources (Uses)</b>			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Sales of fixed assets	-	9,000	9,000
Total other financial sources (uses)	<u>-</u>	<u>9,000</u>	<u>9,000</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ (233,008)</u>	246,843	<u>\$ 479,851</u>
Beginning fund balance		<u>883,279</u>	
Ending fund balance		<u>\$ 1,130,122</u>	

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, 2006**

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	Budget	Actual	Variance Favorable (Unfavorable)
Taxes			
Property	\$ 153,000	\$ 164,845	\$ 11,845
Penalties and interest	4,000	2,698	(1,302)
Sales and use	90,800	163,039	72,239
Franchise	44,000	50,435	6,435
Total taxes	<u>291,800</u>	<u>381,017</u>	<u>89,217</u>
Fines and forfeitures	2,500	664	(1,836)
Licenses, permits and other			
Permit fees	19,250	55,490	36,240
Inspection and platting fees	13,500	67,042	53,542
License fees	5,600	17,143	11,543
Other income	560	7,466	6,906
Total licenses, permits & other	<u>38,910</u>	<u>147,141</u>	<u>108,231</u>
Interest	18,000	26,508	8,508
Regional park fees	-	30,900	30,900
Rent			
Community center rental	2,500	7,678	5,178
Office space rental	2,400	-	(2,400)
Total rent	<u>4,900</u>	<u>7,678</u>	<u>2,778</u>
Total revenues	<u>\$ 356,110</u>	<u>\$ 593,908</u>	<u>\$ 237,798</u>

City of Fulshear, Texas

General Fund

Schedule of Expenditures - Budget (GAAP Basis) and Actual

For the Year Ended December 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
General Government			
Personal services	\$ 157,356	\$ 146,584	\$ 10,772
Building inspector fees	9,000	30,323	(21,323)
Legal, accounting and other professional fees	41,000	19,406	21,594
Insurance and bonds	9,500	9,619	(119)
Telephone and pagers	7,400	6,062	1,338
Expense allowance - Mayor	2,400	2,960	(560)
Dues and subscriptions	3,500	3,302	198
Professional services	70,000	28,813	41,187
Office supplies and printing	9,500	8,834	666
Travel and entertainment	2,150	1,277	873
Postage and box rent	500	686	(186)
Gifts and condolences	200	327	(127)
Public legal notices	1,600	1,504	96
Training and certification	3,600	3,070	530
Utilities	19,800	18,526	1,274
Repairs and supplies	10,000	11,525	(1,525)
Permits and other fees	-	1,613	(1,613)
Other	800	3,618	(2,818)
Total general government	<u>348,306</u>	<u>298,049</u>	<u>50,257</u>
Municipal Court			
Personal services	-	-	-
Judge's fee	1,800	900	900
Other	937	338	599
Total municipal court	<u>2,737</u>	<u>1,238</u>	<u>1,499</u>
Public Works			
Personal services	14,000	13,500	500
Contract services	19,375	18,803	572
Utilities	6,000	8,739	(2,739)
Repairs and maintenance	41,700	10,829	30,871
Street repair	150,000	-	150,000
Total public works	<u>231,075</u>	<u>51,871</u>	<u>179,204</u>
Capital Outlay	<u>7,000</u>	<u>4,907</u>	<u>2,093</u>
Total expenditures	<u>\$ 589,118</u>	<u>\$ 356,065</u>	<u>\$ 233,053</u>

**City of Fulshear, Texas**

**Enterprise Fund**

**Schedule of Operating Expenses - Budget (GAAP Basis) and Actual**

**For the Year Ended December 31, 2006**

	Budget	Actual	Variance Favorable (Unfavorable)
Operating expenses			
Contractual services			
Water and sewer service contract	\$ 25,800	\$ 27,201	\$ (1,401)
Garbage contract	27,510	30,080	(2,570)
Lab testing	-	10,633	(10,633)
Total contractual services	<u>53,310</u>	<u>67,914</u>	<u>(14,604)</u>
Repairs	36,000	58,100	(22,100)
Supplies			
Permits	750	1,068	(318)
Chemicals	15,000	2,356	12,644
Other	-	2,717	(2,717)
Total supplies	<u>15,750</u>	<u>6,141</u>	<u>9,609</u>
Utilities	18,000	25,899	(7,899)
Other expenses			
Sludge hauling	8,500	6,330	2,170
Capital outlays	145,000	-	145,000
Total other expenses	<u>153,500</u>	<u>6,330</u>	<u>147,170</u>
Depreciation expense			
Buildings	-	-	-
Water and sewer plant	-	67,794	(67,794)
Equipment	-	-	-
Total depreciation expense	<u>-</u>	<u>67,794</u>	<u>(67,794)</u>
Total operating expenses	<u>\$ 276,560</u>	<u>\$ 232,178</u>	<u>\$ 44,382</u>

City of Fulshear, Texas  
Schedule of Investments  
December 31, 2006

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Financial Institution	Current Interest Rate	Date		Principal Balance Dec. 31, 2006
		Acquired	Matures	
Commercial State Bank	5.40%	10/2/06	10/2/07	\$ 100,000
Commercial State Bank	5.40%	10/2/06	10/2/07	100,000
Commercial State Bank	5.40%	10/2/06	10/2/07	100,000
Commercial State Bank	5.40%	10/2/06	10/2/07	50,000
Tradition Bank	5.25%	11/20/06	11/20/07	70,000
Tradition Bank	5.25%	11/20/06	11/20/07	100,000
Comerica	4.70%	2/16/06	2/16/07	<u>52,024</u>
Total				<u>\$ 572,024</u>

**OTHER REQUIRED REPORTS**



**PS STEPHENSON & CO., P.C.**

Certified Public Accountants  
1609 N. Richmond Road  
Wharton, Texas 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, 2006 and have issued our report thereon dated March 9, 2007. 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.

*PS Stephenson & Co., P.C.*

Wharton, Texas  
March 9, 2007