

**CITY OF FULSHEAR, TEXAS**

**ANNUAL FINANCIAL REPORT**

**Year Ended September 30, 2013**





**CITY OF FULSHEAR, TEXAS**  
***PRINCIPAL OFFICIALS***

**Governing Body**

Honorable Tommy Kuykendall	Mayor
Stephen Gill	Mayor Pro-Tem and Alderman
Larry Beusting	Alderman
J.B. Collins Jr.	Alderman
Laverne Patterson	Alderman
Jeff Roberts	Alderman

**Other Principal Official**

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



**CITY OF FULSHEAR, TEXAS**  
**TABLE OF CONTENTS**

	<u>Page</u>
Report of Independent Auditors	1
Management's Discussion and Analysis	3
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet - Governmental Funds	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Governmental Activities Statement of Activities	19
Proprietary Funds:	
Statement of Net Position - Proprietary Fund - Internal Service Fund	20
Statement of Revenues, Expenses, and Changes in Fund Net Position	21
Statement of Cash Flows	22
Notes to the Financial Statements	23
<b>Required Supplementary Information:</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	42
Texas Municipal Retirement System Schedule of Funding Progress - Last Three Fiscal Years	43



## **Introductory Section**





## **REPORT OF INDEPENDENT AUDITORS**

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining funds of the City of Fulshear, Texas (the "City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

### **Emphasis of Matters**

As discussed in Note 14 to the financial statements, the beginning net position of the City's governmental and business type activities has been restated by approximately \$16.0 and \$9.9 million, respectively to report infrastructure assets previously contributed by developers.

As discussed in Note 15 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities* as of September 30, 2013.

Our opinions are not modified with respect to these matters.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 budgetary comparison information on pages 42 and pension system supplementary information on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas  
April 15, 2014

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

As management of the City of Fulshear (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2013.

**Overview of the Financial Statements**

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

**Government-wide Financial Statements**

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

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

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

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

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

The government-wide financial statements can be found on pages 16 through 19 of this report.

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

**Fund Financial Statements**

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

**Governmental Funds**

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

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

The City maintains four (4) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the each of the four (4) funds with the General Fund and the Capital Projects Fund considered to be major funds.

The governmental funds financial statements can be found on pages 20 through 23 of this report.

**Proprietary Funds**

The City maintains one type of proprietary fund. Proprietary funds are used to report the same functions presented as the business-type activities in the government-wide financial statements. The City uses two enterprise funds to account for its water distribution, wastewater collection/treatment, and solid waste operations.

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

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

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 40 of this report.

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

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* -- Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual for the General Fund and information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 42 through 43 of this report.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City of Fulshear, assets exceeded liabilities by \$47.1 million as of September 30, 2013.

By far the largest portion of the City's net position, 89% percent reflects its net investment in capital assets (e.g., land, construction in progress, buildings, improvements other than buildings, machinery and equipment, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide services to citizens; consequently these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CONDENSED SCHEDULE OF NET POSITION**

*September 30, 2013 and 2012*

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012*	2013	2012*	2013	2012
Current and other assets	\$ 4,129,182	\$ 3,062,649	\$ 1,883,340	\$ 1,240,645	\$ 6,012,522	\$ 4,303,294
Capital assets	18,268,678	16,849,844	23,563,837	20,482,583	41,832,515	37,332,427
<b>Total Assets</b>	<u>22,397,860</u>	<u>19,912,493</u>	<u>25,447,177</u>	<u>21,723,228</u>	<u>47,845,037</u>	<u>41,635,721</u>
Current and other liabilities	212,517	218,555	479,702	487,557	692,219	706,112
Long-term liabilities	35,388	50,469	-	-	35,388	50,469
<b>Total Liabilities</b>	<u>247,905</u>	<u>269,024</u>	<u>479,702</u>	<u>487,557</u>	<u>727,607</u>	<u>756,581</u>
<b>Net position:</b>						
Net investment in capital assets	18,260,633	16,822,559	23,563,837	20,482,583	41,824,470	37,305,142
Restricted	709,984	369,611	326,961	389,861	1,036,945	759,472
Unrestricted	3,179,338	2,451,299	1,076,677	363,227	4,256,015	2,814,526
<b>Total Net Position</b>	<u>\$ 22,149,955</u>	<u>\$ 19,643,469</u>	<u>\$ 24,967,475</u>	<u>\$ 21,235,671</u>	<u>\$ 47,117,430</u>	<u>\$ 40,879,140</u>

\* as restated

An additional 2% percent portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$4.3 million may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2013, the City is able to report positive balances in all three categories of net position.

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

The following table provides a summary of the City's operations for the year ended September 30, 2013:

**CONDENSED SCHEDULE OF CHANGES IN NET POSITION**

*September 30, 2013 and 2012*

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2013</u>	<u>2012*</u>	<u>2013</u>	<u>2012*</u>	<u>2013</u>	<u>2012</u>
<b>Revenues</b>						
Program revenue:						
Charges for services	\$ 2,253,899	\$ 1,468,047	\$ 2,242,322	\$ 1,432,910	\$ 4,496,221	\$ 2,900,957
Operating grants and contributions	5,000				5,000	
Capital grants and contributions	1,745,415	3,952,533	3,741,326	4,158,909	5,486,741	8,111,442
General revenues:						
Property taxes	732,475	572,879			732,475	572,879
Sales taxes	404,418	333,383	897		405,315	333,383
Franchise taxes	173,011	128,454			173,011	128,454
Investment earnings	7,112	9,838	1,334	2,543	8,446	12,381
Other revenues	41,914	178,746		2,179	41,914	180,925
<b>Total Revenues</b>	<u>5,363,244</u>	<u>6,643,880</u>	<u>5,985,879</u>	<u>5,596,541</u>	<u>11,349,123</u>	<u>12,240,421</u>
<b>Expenses:</b>						
General government	550,662	591,143			550,662	591,143
Permits and inspections	187,965	200,643			187,965	200,643
Public safety	672,355	479,595			672,355	479,595
Public works	1,444,102	1,019,653			1,444,102	1,019,653
Interest on long-term debt	1,674	1,789			1,674	1,789
Water and sewer			2,254,075	1,748,694	2,254,075	1,748,694
<b>Total Expenses</b>	<u>2,856,758</u>	<u>2,292,823</u>	<u>2,254,075</u>	<u>1,748,694</u>	<u>5,110,833</u>	<u>4,041,517</u>
Increase in net position before transfers	2,506,486	4,351,057	3,731,804	3,847,847	6,238,290	8,198,904
Transfers		(585,456)		585,456		
Change in net position	2,506,486	3,765,601	3,731,804	4,433,303	6,238,290	8,198,904
<b>Net Position - beginning, as restated</b>	<u>19,643,469</u>	<u>15,877,868</u>	<u>21,235,671</u>	<u>16,802,368</u>	<u>40,879,140</u>	<u>32,680,236</u>
<b>Net Position - ending</b>	<u>\$ 22,149,955</u>	<u>\$ 19,643,469</u>	<u>\$ 24,967,475</u>	<u>\$ 21,235,671</u>	<u>\$ 47,117,430</u>	<u>\$ 40,879,140</u>

\* as restated

**Governmental activities**

For the year ended September 30, 2013, revenues from governmental activities totaled \$5.4 million. Overall, governmental revenues decreased by 19% from the prior year due to a decrease in capital assets contributed by developers. Charges for services, which are the City's largest revenue source, increased by 54% due to an increase in permit and inspection revenues related to an increase in new development.

For the year ended September 30, 2013, expenses for governmental activities totaled \$2.9 million, which represents an increase of \$563,935 from the previous year. Public works expenses had the largest increase of \$424,449. The increase is a result of increased activity due to growth in the area.

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

**Governmental activities (cont.)**

Charges for services for business-type activities increased or from the previous year due to an increase in water and sewer taps and the activity in the Cross Creek Ranch facility, which was contributed to the City in August 2008 as part of the development agreement for Cross Creek Ranch. There was an overall decrease in revenues of the business-type activities due to capital contributions received in fiscal year 2012 for the FM 1093 line extension project, which was not received in the current year. Water and sewer expenses have increased by \$505,381. The increase is primarily due to increases in water pumpage and tapping fees as well as repair and maintenance related to the expansion of Cross Creek Ranch.

**Financial Analysis of the City's Funds**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

*Governmental Funds* - The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's governmental funds reflect a combined fund balance of \$3.9 million. Of this amount, \$709,984 is restricted for the City's regional park, \$33,084 is committed to capital projects, and \$3.1 million is unassigned. There was an increase in the combined fund balance of \$1.1 million from the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$3.1 million. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 140% of total general fund expenditures. The general fund demonstrated an overall increase of \$897,741 primarily due to an increase in the license and permits, property taxes, and charges for services.

The capital projects fund balance totaled \$33,084 as of year-end, a decrease of \$50,640 from the previous year. The decrease is primarily the result of planned capital project expenditures during the year.

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

**General Fund Budgetary Highlights**

There had been a planned increase in budgeted fund balance in the amount of \$124,886 in the general fund. However, actual fund balance increased by \$897,741 resulting in a positive variance of \$772,855 from budgeted as amended to actual.

Actual general fund revenues were above amended budgeted revenues by \$498,879 for 2013. This net positive variance includes positive variances of \$249,757 for licenses and permits and \$142,410 for charges for services.

Actual expenditures were less than budgeted amounts by \$1,026,571 for the fiscal year. The greatest positive variance was in general government.

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

**Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013, amounted to \$18.3 million and \$23.6 million (net of accumulated depreciation), respectively. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

The following table shows the balances at September 30, 2012 and 2013:

	<u>2012*</u>	<u>2013</u>
<b>Governmental Activities</b>		
Capital assets, not being depreciated:		
Land	\$ 343,890	\$ 343,890
Capital assets net of depreciation		
Buildings and improvements	448,741	421,389
Machinery and equipment	218,865	340,587
Infrastructure	<u>15,838,348</u>	<u>17,162,812</u>
Total capital assets - net of depreciation	<u>\$ 16,849,844</u>	<u>\$ 18,268,678</u>
<b>Business-Type Activities</b>		
Capital assets, not being depreciated:		
Land	\$ 526,082	\$ 526,082
Capital assets net of depreciation		
Buildings and improvements	43,796	41,037
Machinery and equipment	23,205	15,469
Infrastructure	<u>19,889,500</u>	<u>22,981,250</u>
Total capital assets - net of depreciation	<u>\$ 20,482,583</u>	<u>\$ 23,563,838</u>

\* as restated

**Long-term liabilities**

At the end of the current year, the City had total capital lease obligations outstanding of \$8,045.

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



## **CITY OF FULSHEAR, TEXAS**

### ***MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)***

#### **Economic Factors and Next Year's Budgets and Rates**

The City Council has adopted the City's 2014 budget. The approval of the budget provides funding for the City's operating and capital costs for the 2014 fiscal year. The City anticipates an 8 percent increase in expected total revenues and a 24 percent increase in expected total expenditures. The City's water, sewer, and garbage rates are reviewed by the City Council and adjusted based on current operating costs, customer demand and usage, and other pertinent factors affecting operations.

The dynamic growth in within the City and local area provides the City with distinct challenges in regards to prognosticating revenues and expenditures on an annual basis leading the City to make adjustments in the course of the year as dictated by the operational needs of the City. That flexibility while utilitarian also may lead to confusion by the public, Council and staff when it comes to budget process and implementation. It is the goal of the City to reduce the number of adjustments and focus on making such adjustments proactively. Furthermore, as it gains more experience the City hopes to more accurately project its incoming resources and outgoing needs in the future.

#### **Request for Information**

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

*(this page intentionally left blank)*

## **BASIC FINANCIAL STATEMENTS**

**CITY OF FULSHEAR, TX**  
**STATEMENT OF NET POSITION**  
September 30, 2013

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 3,479,899	\$ 1,556,401	\$ 5,036,300
Investments	270,282		270,282
Receivables, net	121,696	257,183	378,879
Internal balances	257,205	(257,205)	
Prepaid costs	100		100
Restricted:			
Cash and cash equivalents		326,961	326,961
<b>Total Current assets</b>	<b>4,129,182</b>	<b>1,883,340</b>	<b>6,012,522</b>
<b>Capital assets:</b>			
Non-depreciable capital assets	343,890	526,082	869,972
Depreciable capital assets, net	17,924,788	23,037,755	40,962,543
<b>Total Noncurrent assets</b>	<b>18,268,678</b>	<b>23,563,837</b>	<b>41,832,515</b>
<b>Total Assets</b>	<b>22,397,860</b>	<b>25,447,177</b>	<b>47,845,037</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	209,845	415,833	625,678
Customer deposits	2,672	63,869	66,541
<b>Total current liabilities</b>	<b>212,517</b>	<b>479,702</b>	<b>692,219</b>
<b>Long-term liabilities:</b>			
Due within one year	27,341		27,341
Due in more than one year	8,047		8,047
<b>Total long-term liabilities</b>	<b>35,388</b>		<b>35,388</b>
<b>Total Liabilities</b>	<b>247,905</b>	<b>479,702</b>	<b>727,607</b>
<b>Net Position</b>			
Net investment in capital assets	18,260,633	23,563,837	41,824,470
Restricted for:			
Regional park	709,984		709,984
Water and sewer construction		326,961	326,961
Unrestricted	3,179,338	1,076,677	4,256,015
<b>Total Net Position</b>	<b>\$ 22,149,955</b>	<b>\$ 24,967,475</b>	<b>\$ 47,117,430</b>

*See Notes To Basic Financial Statements.*

**Component Units**

<b>City of Fulshear Development Corporation</b>	<b>Fulshear Development Corporation</b>
\$ 527,393	\$ 353,472
52,351	52,351
579,744	405,823
579,744	85,414
579,744	85,414
579,744	491,237
79	450
79	450
25,202	
378,962	
404,164	
404,243	450
175,501	490,787
\$ 175,501	\$ 490,787

**CITY OF FULSHEAR, TX**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2013*

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenue</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary government</b>				
<b>Governmental Activities:</b>				
General government	\$ 550,662	\$	\$	\$ 249,841
Permits and Inspections	187,965	2,088,983		
Public safety	672,355	124,058	5,000	
Public works	1,444,102	40,858		1,495,574
Interest on long-term debt	1,674			
<b>Total governmental activities</b>	<b>2,856,758</b>	<b>2,253,899</b>	<b>5,000</b>	<b>1,745,415</b>
<b>Business-Type Activities:</b>				
Water and Sewer Operations	2,254,075	2,242,322		3,741,326
<b>Total Primary Government</b>	<b>\$ 5,110,833</b>	<b>\$ 4,496,221</b>	<b>\$ 5,000</b>	<b>\$ 5,486,741</b>
<b>Component Units</b>				
City of Fulshear Development Corporation	\$ 34,097	\$	\$	\$
Fulshear Development Corporation	88,505			
<b>Total component units</b>	<b>\$ 122,602</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**General revenues:**

Taxes:

Property taxes

Sales tax

Franchise taxes

Investment earnings

Other revenues

**Total general revenues**

Change in net position

**Net Position - beginning, as restated**

**Net Position - ending**

*See Notes to Basic Financial Statements.*

<b>Net Revenue (Expense) and Changes in Net Position</b>				
<b>Primary Government</b>			<b>Component Units</b>	
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>City of Fulshear Development Corporation</b>	<b>Fulshear Development Corporation</b>
\$ (300,821)		\$ (300,821)		
1,901,018		1,901,018		
(543,297)		(543,297)		
92,330		92,330		
(1,674)		(1,674)		
<u>1,147,556</u>		<u>1,147,556</u>		
	<u>3,729,573</u>	<u>3,729,573</u>		
<u>1,147,556</u>	<u>3,729,573</u>	<u>4,877,129</u>		
			\$ (34,097)	\$ (88,505)
			<u>(34,097)</u>	<u>(88,505)</u>
732,475		732,475		
404,418	897	405,315	192,188	193,859
173,011		173,011		
7,112	1,334	8,446	930	655
41,914		41,914		
<u>1,358,930</u>	<u>2,231</u>	<u>1,361,161</u>	<u>193,118</u>	<u>194,514</u>
2,506,486	3,731,804		159,021	106,009
19,643,469	21,235,671	40,879,140	16,480	384,778
<u>\$ 22,149,955</u>	<u>\$ 24,967,475</u>	<u>\$ 40,879,140</u>	<u>\$ 175,501</u>	<u>\$ 490,787</u>

**CITY OF FULSHEAR, TX**

*BALANCE SHEET*

*GOVERNMENTAL FUNDS*

*September 30, 2013*

	General Fund	Capital Projects Fund	Nonmajor		Total Funds
			Regional Park	Municipal Court	
<b>Assets</b>					
Cash and cash equivalents	\$ 2,946,531	\$ 10,290	\$ 490,412	\$ 32,666	\$ 3,479,899
Investments	158,948		111,334		270,282
Receivables, net	121,696				121,696
Due from other funds	297,612	100,370			397,982
Prepaid items	100				100
<b>Total Assets</b>	<u>\$ 3,524,887</u>	<u>\$ 110,660</u>	<u>\$ 601,746</u>	<u>\$ 32,666</u>	<u>\$ 4,269,959</u>
<b>Liabilities</b>					
Accounts payable	\$ 131,919	\$ 77,576	\$	\$	\$ 209,495
Due to other funds	117,282		23,495		140,777
Customer deposits	2,672				2,672
<b>Total Liabilities</b>	<u>251,873</u>	<u>77,576</u>	<u>23,495</u>		<u>352,944</u>
<b>Deferred Inflows of Resources</b>					
Unavailable property taxes	46,631				46,631
<b>Total Deferred Inflows of Resources</b>	<u>46,631</u>				<u>46,631</u>
<b>Fund balances</b>					
Nonspendable	100				100
Restricted for:					
Regional Park	131,733		578,251		709,984
Committed		33,084			33,084
Unassigned	3,094,550			32,666	3,127,216
<b>Total Fund Balances</b>	<u>3,226,383</u>	<u>33,084</u>	<u>578,251</u>	<u>32,666</u>	<u>3,870,384</u>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>					
	<u>\$ 3,524,887</u>	<u>\$ 110,660</u>	<u>\$ 601,746</u>	<u>\$ 32,666</u>	<u>\$ 4,269,959</u>

*See Notes to Basic Financial Statements.*



**CITY OF FULSHEAR, TX**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION  
September 30, 2013**

Total fund balance, governmental funds \$ 3,870,384

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 18,268,678

Uncollected fines and forfeitures and other long-term receivables are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position. 46,631

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

Capital leases (8,045)  
Accrued long-term interest (350)  
Accrued compensated absences (27,343)

Net Position of Governmental Activities in the Statement of Net Position \$ 22,149,955

*See Notes to Basic Financial Statements.*

**CITY OF FULSHEAR, TX**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
*For the Year Ended September 30, 2013*

	General Fund	Capital Projects Fund	Nonmajor		Total Funds
			Regional Park	Municipal Court	
<b>Revenues</b>					
Taxes:					
Property	\$ 747,961	\$	\$	\$	\$ 747,961
Sales	404,418				404,418
Franchise taxes	173,011				173,011
Public improvement fees	181,628				181,628
Licenses and permits	1,503,252				1,503,252
Charges for services	461,282				461,282
Fines and forfeitures	114,989			14,119	129,108
Investment earnings	5,370	141	1,565	36	7,112
Other revenues	46,734		228,650		275,384
<b>Total Revenues</b>	<u>3,638,645</u>	<u>141</u>	<u>230,215</u>	<u>14,155</u>	<u>3,883,156</u>
<b>Expenditures</b>					
Current:					
General administration	970,264	49	1,990		972,303
Permits and Inspections	185,015				185,015
Public safety	638,443			1,074	639,517
Public works	198,683				198,683
Capital Outlay	202,565	576,102			778,667
Debt Service:					
Principal	19,240				19,240
Interest	1,324				1,324
<b>Total Expenditures</b>	<u>2,215,534</u>	<u>576,151</u>	<u>1,990</u>	<u>1,074</u>	<u>2,794,749</u>
Revenues over (under) expenditures	<u>1,423,111</u>	<u>(576,010)</u>	<u>228,225</u>	<u>13,081</u>	<u>1,088,407</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in		525,370			525,370
Transfers out	(525,370)				(525,370)
<b>Total other financing sources (uses)</b>	<u>(525,370)</u>	<u>525,370</u>			
Net Changes in Fund Balances	897,741	(50,640)	228,225	13,081	1,088,407
<b>year</b>	<u>2,328,642</u>	<u>83,724</u>	<u>350,026</u>	<u>19,585</u>	<u>2,781,977</u>
<b>Fund Balances - end of year</b>	<u>\$ 3,226,383</u>	<u>\$ 33,084</u>	<u>\$ 578,251</u>	<u>\$ 32,666</u>	<u>\$ 3,870,384</u>

See Notes to Basic Financial Statements.

**CITY OF FULSHEAR, TX**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2013*

Net change in fund balances - total governmental funds: \$ 1,088,407

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

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

This is the amount by which capital outlay of \$707,713 was exceeded by depreciation of \$756,113 in the current period. (48,400)

Governmental activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the book value of the asset sold. (28,340)

Contributions of capital assets by developers are not reported in the governmental fund financial statements as they do not represent a flow of current resources. 1,495,574

Governmental funds do not present revenues (property taxes) that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. (15,486)

Governmental funds report repayment of bond principal and capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of payments made on long-term debt. 19,240

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

Accrued interest not reflected in Governmental funds (350)  
 Compensated absences (4,159)

Change in net position of governmental activities \$ 2,506,486

*See Notes to Basic Financial Statements.*

**CITY OF FULSHEAR, TX****STATEMENT OF REVENUES, EXPENSES AND CHANGES****IN FUND NET POSITION****PROPRIETARY FUNDS***For the Year Ended September 30, 2013*

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Fulshear Facility</b>	<b>CCR Facility</b>	<b>Total Funds</b>
<b>Operating Revenues</b>			
Charges for sales and services	\$ 342,895	\$ 1,861,417	\$ 2,204,312
Other revenue	5,023	29,267	34,290
<b>Total Operating Revenues</b>	<u>347,918</u>	<u>1,890,684</u>	<u>2,238,602</u>
<b>Operating Expenses</b>			
Contractual services	134,117	234,166	368,283
Other operating	164,222	918,248	1,082,470
Utilities	24,037	102,722	126,759
Bad debt expense	5,323	7,449	12,772
Depreciation	107,311	552,760	660,071
	<u>435,010</u>	<u>1,815,345</u>	<u>2,250,355</u>
<b>Operating income (loss)</b>	<u>(87,092)</u>	<u>75,339</u>	<u>(11,753)</u>
<b>Non-Operating Revenues</b>			
Investment earnings	897	1,334	2,231
<b>Total Non-Operating Revenues</b>	<u>897</u>	<u>1,334</u>	<u>2,231</u>
Income (loss) before capital contributions	(86,195)	76,673	(9,522)
<b>Capital contributions</b>		<u>3,741,326</u>	<u>3,741,326</u>
Change in Net Position	(86,195)	3,817,999	3,731,804
<b>Total Net Position - beginning of year, as restated</b>	<u>2,352,125</u>	<u>18,883,546</u>	<u>21,235,671</u>
<b>Total Net Position - end of year</b>	<u>\$ 2,265,930</u>	<u>\$ 22,701,545</u>	<u>\$ 24,967,475</u>

*See Notes to Basic Financial Statements.*

**CITY OF FULSHEAR, TX**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES**

**IN FUND NET POSITION**

**PROPRIETARY FUNDS**

*For the Year Ended September 30, 2013*

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Fulshear Facility</b>	<b>CCR Facility</b>	<b>Total Funds</b>
<b>Operating Revenues</b>			
Charges for sales and services	\$ 342,895	\$ 1,861,417	\$ 2,204,312
Other revenue	5,023	29,267	34,290
<b>Total Operating Revenues</b>	<u>347,918</u>	<u>1,890,684</u>	<u>2,238,602</u>
<b>Operating Expenses</b>			
Contractual services	134,117	234,166	368,283
Other operating	164,222	918,248	1,082,470
Utilities	24,037	102,722	126,759
Bad debt expense	5,323	7,449	12,772
Depreciation	107,311	552,760	660,071
	<u>435,010</u>	<u>1,815,345</u>	<u>2,250,355</u>
<b>Operating income (loss)</b>	<u>(87,092)</u>	<u>75,339</u>	<u>(11,753)</u>
<b>Non-Operating Revenues</b>			
Investment earnings	897	1,334	2,231
<b>Total Non-Operating Revenues</b>	<u>897</u>	<u>1,334</u>	<u>2,231</u>
Income (loss) before capital contributions	(86,195)	76,673	(9,522)
<b>Capital contributions</b>		<u>3,741,326</u>	<u>3,741,326</u>
Change in Net Position	(86,195)	3,817,999	3,731,804
<b>Total Net Position - beginning of year, as restated</b>	<u>2,352,125</u>	<u>18,883,546</u>	<u>21,235,671</u>
<b>Total Net Position - end of year</b>	<u>\$ 2,265,930</u>	<u>\$ 22,701,545</u>	<u>\$ 24,967,475</u>

*See Notes to Basic Financial Statements.*

**CITY OF FULSHEAR, TX**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
*For the Year Ended September 30, 2013*

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Fulshear Facility</b>	<b>CCR Facility</b>	<b>Total Funds</b>
<b>Cash Flows From Operating Activities</b>			
Receipts from customers and users	\$ 400,135	\$ 2,021,986	\$ 2,422,121
Payments to suppliers	(340,677)	(1,295,979)	(1,636,656)
<b>Net cash provided by operating activities</b>	<u>59,458</u>	<u>726,007</u>	<u>785,465</u>
<b>Cash Flows From Investing Activities</b>			
Investment earnings	897	1,334	2,231
<b>Net cash used by investing activities</b>	<u>897</u>	<u>1,334</u>	<u>2,231</u>
Net increase (decrease) in cash and cash equivalents	60,355	727,341	787,696
<b>Cash and cash equivalents - beginning of year</b>	<u>436,047</u>	<u>659,618</u>	<u>1,095,665</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 496,402</u>	<u>\$ 1,386,959</u>	<u>\$ 1,883,361</u>
Unrestricted cash and cash equivalents	\$ 169,440	\$ 1,386,961	\$ 1,556,401
Restricted cash and cash equivalents	326,961		326,961
<b>Total cash and cash equivalents</b>	<u>\$ 496,401</u>	<u>\$ 1,386,961</u>	<u>\$ 1,883,362</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating Income	\$ (87,092)	\$ 75,339	\$ (11,753)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	107,311	552,760	660,071
(Increase) decrease in accounts receivable	19,336	129,923	149,259
(Increase) decrease in due from other funds	32,627	(3,487)	29,140
Increase (decrease) in accounts payable	(8,364)	(4,611)	(12,975)
Increase (decrease) in customer deposits	254	4,866	5,120
Increase (decrease) in due to other funds	(4,614)	(28,783)	(33,397)
<b>Net cash provided by operating activities</b>	<u>\$ 59,458</u>	<u>\$ 726,007</u>	<u>\$ 785,465</u>
<b>Noncash investing, capital, and financing activities:</b>			
Contributions of capital assets		<u>\$ 3,741,326</u>	<u>\$ 3,741,326</u>

*See Notes to Basic Financial Statements.*

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

**Note 1 - Organization**

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

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

**Note 2 - Summary of Significant Accounting Policies**

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

**A. Reporting Entity**

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

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

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

**Discretely Presented Component Units**

**City of Fulshear Development Corporation**

After voter approval on August 29, 2007, the City formed the City of Fulshear Development Corporation (CDC), a 4A development corporation. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for budgets and bonded debt issuances. The CDC was created to manage and supervise the programs and activities with revenues from their portion (one half percent) of the sales tax increase of one percent, allowed by State of Texas law and approved by voters on August 29, 2007. The revenues are limited to manufacturing and industrial development.

**Note 2 - Summary of Significant Accounting Policies (continued)**

**Fulshear Development Corporation**

After voter approval on August 29, 2007, the City formed the Fulshear Development Corporation (FDC), a 4B development corporation. The Board of Directors are appointed by and serve at the discretion of the City Council. City Council approval is required for budgets and bonded debt issuances. The FDC was created to manage and supervise the programs and activities with revenues from their portion (one half percent) of the sales tax increase of one percent, allowed by State of Texas law and approved by voters on August 29, 2007. The revenues are limited to quality of life improvements, including economic development that will attract and retain primary employers.

The component units are reported in separate columns to emphasize that they are legally separate from the City. In the event of dissolution, net position of the CDC and the FDC shall be conveyed back to the City. The operations of these component units are presented as governmental fund types and cover the year ended September 30, 2013.

**B. Government-wide and Fund Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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



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

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

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

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

Sales taxes, franchise fees, licenses, municipal court revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

The *capital project fund* is used to account for the expenditures of resources accumulated for capital improvement projects. The capital project fund is considered a major fund for reporting purposes.

**Proprietary Fund Types**

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the City's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

The proprietary fund types used by the City include the following:

**Enterprise Funds**

The enterprise funds are used to account for the operations that provide water and wastewater collection, wastewater treatment operations and solid waste collection and disposal. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The Fulshear facility fund is utilized to supply the City and surrounding developments with water, sewer, and sanitation services. The Cross Creek Ranch facility fund is utilized to supply the Cross Creek Ranch development with water, sewer, and sanitation services. The Fulshear facility and Cross Creek Ranch facility funds are considered major funds for reporting purposes.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide Statements of Net Position and Statements of Activities and all proprietary funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Government-wide and proprietary fund equity consists of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, franchise taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time. Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

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

**Note 2 - Summary of Significant Accounting Policies (continued)**

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

Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which they are incurred.

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

**D. Cash and Cash Equivalents**

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

**E. Investments**

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

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

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

**F. Due to and from Other Funds**

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

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

**Note 2 - Summary of Significant Accounting Policies (continued)**

**G. Capital Assets**

Capital assets, which include land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress, are reported in the applicable governmental type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

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

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

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

**H. Compensated Absences**

It is the City's policy to permit employees to accumulate earned vacation, sick, and personal time. Vacation, sick, and personal time earned during the year is to be used in the following year. Unused vacation, sick leave, and personal time will expire within one year of the accrual. However, the Mayor has the authority to approve unused vacation time for compensation.

**I. Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet.

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

**Note 2 - Summary of Significant Accounting Policies (continued)**

**J. Use of Estimates**

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

**K. Long-Term Obligations**

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

**L. Fund Equity**

As of September 30, 2013, fund balances of the governmental funds are classified as follows:

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

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

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

*Unassigned* - all other spendable amounts.

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

**M. Net Position**

Net position represents the differences between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**Note 3 - Deposits and Investments**

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

At September 30, 2013, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturities (Days)
Certificates of deposit	\$ 270,282	180
Texas CLASS public funds investment pool *	<u>2,583,273</u>	57
Total Fair Value	<u>\$ 2,853,555</u>	69

\* Credit rating of AAAM by Standard & Poors

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

*Custodial credit risk - deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. At September 30, 2013, the carrying amount of the City's cash, savings, and time deposits were fully collateralized. The deposits of the CDC and FDC were under collateralized by \$277,393 and \$68,124, respectively.

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

The Texas Cooperative Liquid Assets Securities System Trust - Texas (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended (the "Act"). CLASS is created under an Amended and Restated Trust Agreement, dated as of December 14, 2011 (the "Agreement"), among certain Texas governmental entities investing in the pool (the "Participants"), Cutwater Investor Services Corporation as Program Administrator, and Wells Fargo Bank Texas, NA as Custodian. CLASS is not SEC registered and is not subject to regulation by the State of Texas. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for Texas CLASS may be obtained from CLASS' website at [www.texasclass.com](http://www.texasclass.com).

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

**Note 4 - Receivables**

Receivables are evaluated and an allowance for uncollectible accounts is set up when the collections are doubtful. Receivables as of September 30, 2013, are as follows:

	<u>General Fund</u>	<u>Fulshear Facility</u>	<u>CCR Facility</u>	<u>Total</u>
Property taxes	\$ 81,585	\$	\$	\$ 81,585
Other taxes	73,862			73,862
Accounts		52,590	209,236	261,826
Other	1,202			1,202
	<u>156,649</u>	<u>52,590</u>	<u>209,236</u>	<u>418,475</u>
Less: allowance for uncollectibles	<u>34,953</u>	<u>4,643</u>		<u>39,596</u>
	<u>\$ 121,696</u>	<u>\$ 47,947</u>	<u>\$ 209,236</u>	<u>\$ 378,879</u>

**Note 5 - Interfund Balances and Transfers**

Interfund balances at September 30, 2013, were as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>			<u>Totals</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>CCR Facility Fund</u>	
General Fund	\$	\$ 100,370	\$ 16,912	\$ 117,282
Regional Park Fund	23,495			23,495
Fulshear Facility	271,198		4,893	276,091
CCR Facility	2,919			2,919
	<u>\$ 297,612</u>	<u>\$ 100,370</u>	<u>\$ 21,805</u>	<u>\$ 419,787</u>

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

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

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amounts</u>
General fund	Capital projects fund	<u>\$ 525,370</u>

The general fund made transfers to the capital projects fund to provide financing for the FM 1093 road resurfacing project.

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

**Note 6 - Capital Assets**

Capital asset activity for the year ended September 30, 2013, was as follows:

	<b>Balance *</b> <b>9/30/2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance</b> <b>9/30/2013</b>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 343,890	\$	\$	\$ 343,890
<b>Total capital assets, not being depreciated</b>	<u>343,890</u>			<u>343,890</u>
Other capital assets:				
Buildings and improvements	828,807		(17,585)	811,222
Machinery and equipment	566,904	208,769	(113,902)	661,771
Infrastructure	17,619,151	1,994,518	(36,872)	19,576,797
<b>Total other capital assets</b>	<u>19,014,862</u>	<u>2,203,287</u>	<u>(168,359)</u>	<u>21,049,790</u>
Less accumulated depreciation for:				
Buildings and improvements	(380,066)	(27,352)	17,585	(389,833)
Machinery and equipment	(348,039)	(80,830)	107,685	(321,184)
Infrastructure	(1,780,803)	(647,931)	14,749	(2,413,985)
<b>Total accumulated depreciation</b>	<u>(2,508,908)</u>	<u>(756,113)</u>	<u>140,019</u>	<u>(3,125,002)</u>
<b>Total other capital assets , net</b>	<u>16,505,954</u>	<u>1,447,174</u>	<u>(28,340)</u>	<u>17,924,788</u>
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 16,849,844</u>	<u>\$ 1,447,174</u>	<u>\$ (28,340)</u>	<u>\$ 18,268,678</u>

\* as restated

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

<b>Governmental Activities</b>	
General government	\$ 47,577
Public safety	37,656
Permits	1,563
Public works	669,317
<b>Total depreciation expense - governmental activities</b>	<u>\$ 756,113</u>



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

**Note 6 - Capital Assets (continued)**

A summary of changes in capital assets for business-type activities as of September 30, 2013, is as follows:

	<b>Balance*</b> <b>9/30/2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance</b> <b>9/30/2013</b>
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 526,082	\$	\$	\$ 526,082
<b>Total capital assets, not being depreciated</b>	<b>526,082</b>			<b>526,082</b>
Other capital assets:				
Buildings	115,092		(4,720)	110,372
Machinery and equipment	126,074		(48,718)	77,356
Water and sewer system	22,708,263	3,741,326	(3,798)	26,445,791
<b>Total other capital assets</b>	<b>22,949,429</b>	<b>3,741,326</b>	<b>(57,236)</b>	<b>26,633,519</b>
Less accumulated depreciation for:				
Buildings	(71,296)	(2,759)	4,720	(69,335)
Machinery and equipment	(102,869)	(7,736)	48,718	(61,887)
Water and sewer system	(2,818,763)	(649,576)	3,798	(3,464,541)
<b>Total accumulated depreciation</b>	<b>(2,992,928)</b>	<b>(660,071)</b>	<b>57,236</b>	<b>(3,595,763)</b>
<b>Total other capital assets, net</b>	<b>19,956,501</b>	<b>3,081,255</b>		<b>23,037,756</b>
<b>Total business-type activities</b>	<b>\$ 20,482,583</b>	<b>\$ 3,081,255</b>	<b>\$</b>	<b>\$ 23,563,838</b>

\*as restated

Depreciation was charged to business-type functions as follows:

<b>Business-Type Activities</b>	
Fulshear facility fund	\$ 107,311
Cross Creek Ranch facility fund	552,760
<b>Total business-type activities</b>	<b>660,071</b>
<b>depreciation expense</b>	<b>\$ 660,071</b>

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

**Note 6 - Capital Assets (continued)**

A summary of changes in capital assets for component units as of September 30, 2013, is as follows:

	<b>Balance 9/30/2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2013</b>
<b>Component Units</b>				
Capital assets, being depreciated:				
Improvements	\$ 100,027	\$	\$	\$ 100,027
<b>Total capital assets, being depreciated</b>	<u>100,027</u>			<u>100,027</u>
Less accumulated depreciation for:				
Improvements	(9,789)	(4,824)		(14,613)
<b>Total accumulated depreciation</b>	<u>(9,789)</u>	<u>(4,824)</u>		<u>(14,613)</u>
<b>Total other capital assets , net</b>	<u>90,238</u>	<u>(4,824)</u>		<u>85,414</u>
<b>Total component units</b>	<u>\$ 90,238</u>	<u>\$ (4,824)</u>	<u>\$</u>	<u>\$ 85,414</u>

**Note 7 - Long-Term Debt**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental Activities:</b>					
Capital leases	\$ 27,285	\$	\$ 19,240	\$ 8,045	8,045
<b>Other Liabilities:</b>					
Compensated absences	23,184	20,520	16,361	27,343	19,296
<b>Governmental Activities</b>	<u>\$ 50,469</u>	<u>\$ 20,520</u>	<u>\$ 35,601</u>	<u>\$ 35,388</u>	<u>\$ 27,341</u>

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

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

**Note 7 - Long-Term Debt (continued)**

Long-term debt at September 30, 2013, was comprised of the following:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
<b>Governmental Activities</b>		
<b>Capital Leases</b>		
Government Capital Corporation 2012	0.66%	\$ 8,045

**Capital Leases**

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

<u>Year Ending</u> <u>September 30,</u>	<u>Governmental Activity</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	8,045	642	8,687
	\$ 8,045	\$ 642	\$ 8,687

The assets acquired through capital leases are as follows:

	<u>Governmental</u> <u>Activities</u>
<b>Assets:</b>	
Machinery and equipment	\$ 24,478
Less: accumulated depreciation	(14,687)
<b>Total</b>	<u>\$ 9,791</u>

**Component Units**

The component unit, City of Fulshear Development Corporation, obtained a loan in 2011 for \$450,000 with an interest rate of 3.25 percent from the Office of the Governor, Economic Development and Tourism Division.

Long-term debt for the year ended September 30, 2013 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Loan payable	\$ 428,561	\$	\$ 24,397	\$ 404,164	\$ 25,202
<b>Governmental Activities</b>	<u>\$ 428,561</u>	<u>\$</u>	<u>\$ 24,397</u>	<u>\$ 404,164</u>	<u>\$ 25,202</u>

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

**Note 7 - Long-Term Debt (continued)**

**Component Units (continued)**

Future debt requirements on the outstanding loan are as follows:

<b>Year Ending September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 25,202	\$ 12,762	\$ 37,964
2015	26,034	11,931	37,965
2016	26,892	11,072	37,964
2017	27,780	10,185	37,965
2018-2022	153,264	36,558	189,822
2023-2027	144,992	10,030	155,022
Total	<u>\$ 404,164</u>	<u>\$ 92,538</u>	<u>\$ 496,702</u>

**Note 8 - Employee Retirement System**

**Plan Description**

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for TMRS. The report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. The report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<b>Plan Year 2012</b>	<b>Plan Year 2013</b>
Employee deposit rate	5%	5%
Matching ratio (City to employee)	1 to 1	1 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	0%	0%
Annuity Increase (to retirees)	0% of CPI	0% of CPI

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

**Note 8 - Employee Retirement System (continued)**

**Contributions**

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to TMRS at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

Trend information for the annual pension cost (APC) is as follows:

<b>Three-Year Trend Information</b>					
<b>Fiscal Year</b>	<b>Annual</b>	<b>Actual</b>	<b>% of APC</b>	<b>Net</b>	
<b>Ending</b>	<b>Pension</b>	<b>Contribution</b>	<b>Contributed</b>	<b>Pension</b>	
	<b>Cost (APC)</b>	<b>Made</b>		<b>Obligation</b>	
2011	\$ 22,882	\$ 22,882	100.0%	\$ -	
2012	11,801	11,801	100.0%	-	
2013	8,826	8,826	100.0%	-	

**Funding Policy**

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2011, actuarial valuation. Additional information as of the latest actuarial valuation, December 31, 2012, as follows:

	December 31, 2010	December 31, 2011	December 31, 2012
Valuation date	December 31, 2010	December 31, 2011	December 31, 2012
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	25.0 years; closed period	23.0 years; closed period	22.0 years; closed period
Amortization period for new gains/losses	18 years	21 years	22 years
Asset valuation method	10 year Smoothed Market	10 year Smoothed Market	10 year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	7.0%	7.0%	7.0%
Projected salary increases	varies by age and service	varies by age and service	varies by age and service
Inflation	3.0%	3.0%	3.0%
Cost-of-living adjustments	0.0%	0.0%	0.0%

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

**Note 8- Employee Retirement System (continued)**

The funded status of the plan as of December 31, 2012, the most recent actuarial valuation date, is as follows:

Actuarial valuation date	December 31, 2012
Actuarial value of assets	\$111,079
Actuarial accrued liability (AAL)	183,036
Funded Ratio	60.7%
Unfunded Actuarial Accrued Liability (UAAL)	\$71,957
Covered payroll	703,095
UAAL as a percentage of covered payroll	10.2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**Note 9 - Other Post Employment Benefit**

**TMRS Supplemental Death Benefits Funds**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB. As of September 30, 2013, the City offered supplemental death benefits to both active and retired employees.

**Contributions**

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

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

**Note 10 - Risk Management**

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

**Note 11 - Regional Park Fund**

During 2004, the City entered into an agreement with Firethorne LTD, (the "Developer") whereby the Developer would pay a regional park fee for every lot per plat the Developer finalized. The terms of the agreement state that the regional park fees, plus interest earned, must be utilized in the development of a regional park within five years from the date the fees are paid to the City.

Otherwise, the funds must be returned to the lot owner of record at the five year anniversary date. Similar agreements were signed with TMI, Inc., Fulshear Land Investment Partners, LTD., and Taman-on Lakes, L.P., excluding the five year utilization clause. During the year ended September 30, 2013, the City received \$228,650 in regional park fees. Since the inception of the agreements, the City has received \$668,983. During the year ended September 30, 2013, the City expended \$1,990 of regional park contributions received on park maintenance and beautification. As of September 30, 2013, the City has restricted net position of \$578,251 related to regional park fees.

**Note 12 - Fulshear Creek Crossing Developer Contributions**

During the year ended September 30, 2008, the City received \$314,880 under an agreement with the Fulshear Creek Crossing (FCC) developer whereby the City would receive \$2,560 per final platted lot. The contributions and interest earned are restricted for improvements to the City's water and sewer system as necessary to provide adequate water and sewer services to the FCC development. The contributions are recorded in the City's Fulshear facility enterprise fund. At September 30, 2013, the Fulshear enterprise fund had restricted net position of \$326,961 from these contributions.

**Note 13 - Contingent Liabilities**

A former utility services provider has made demands for payment totaling approximately \$250,000 for amounts it claims are due and owed under a utility services contract. The City disputes the amounts due and owed under the contract. No amounts have been recorded in these financial statements at year end.

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

**Note 14 – Restated Net Position**

The City has restated beginning net position of the Governmental Activities, Business-type Activities, and CCR Facility Enterprise Fund to record infrastructure and rights of way conveyed to the City in a prior year but not recognized in the financial statements. The effect of this restatement of beginning net position is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>CCR Facility</u>
Net Position as of September 30, 2012	\$ 3,657,889	\$ 11,551,700	\$ 9,199,575
Record additions to land (rights of way)	278,620		
Record additions to infrastructure	17,443,040	10,218,258	10,218,258
Record additions to accumulated depreciation	(1,736,080)	(534,287)	(534,287)
Net Position as of September 30, 2012, as restated	<u>\$ 19,643,469</u>	<u>\$ 21,235,671</u>	<u>\$ 18,883,546</u>

**Note 15 – Implementation of New GASB Statements**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The City has implemented GASB No. 63 in this annual report.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement will improve financial reporting by reclassifying certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or as outflows or inflows of resources. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2012. The City has implemented GASB No. 65 in this annual report.



**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF FULSHEAR, TX**

**GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET AND ACTUAL**

*For the Year Ended September 30, 2013*

	<b>Original Budget Amounts</b>	<b>Final Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance Positive (Negative)</b>
<b>Revenues</b>				
Taxes:				
Property	\$ 585,150	\$ 746,001	747,961	\$ 1,960
Sales	413,478	415,137	404,418	(10,719)
Franchise	122,500	123,026	173,011	49,985
Public improvement fees	85,000	133,242	181,628	48,386
Licenses and permits	1,074,215	1,253,495	1,503,252	249,757
Charges for services	318,372	318,872	461,282	142,410
Fines and forfeitures	61,510	91,942	114,989	23,047
Investment earnings	5,300	5,300	5,370	70
Other revenues	35,362	52,751	46,734	(6,017)
<b>Total Revenues</b>	<u>2,700,887</u>	<u>3,139,766</u>	<u>3,638,645</u>	<u>498,879</u>
<b>Expenditures</b>				
Current:				
General government	1,578,614	1,685,881	970,264	715,617
Permits and inspections	239,793	234,228	185,015	49,213
Public works	236,919	241,040	198,683	42,357
Public safety	628,821	648,079	638,443	9,636
Capital Outlay	219,188	408,100	202,565	205,535
Debt Service:				
Principal	20,000	20,000	19,240	760
Interest and fiscal agent fees	4,777	4,777	1,324	3,453
<b>Total Expenditures</b>	<u>2,928,112</u>	<u>3,242,105</u>	<u>2,215,534</u>	<u>1,026,571</u>
<b>Revenues over (under) expenditures</b>	(227,225)	(102,339)	1,423,111	1,525,450
<b>Other Financing Sources (Uses)</b>				
Transfers in	226,550	226,550		(226,550)
Transfers out			(525,370)	(525,370)
Sale of capital assets	675	675		(675)
<b>Total other financing sources (uses)</b>	<u>227,225</u>	<u>227,225</u>	<u>(525,370)</u>	<u>(752,595)</u>
Changes in fund balance		124,886	897,741	772,855
<b>Fund Balance - Beginning of Year</b>	<u>2,328,642</u>	<u>2,328,642</u>	<u>2,328,642</u>	
<b>Fund Balance - End of Year</b>	<u>\$ 2,328,642</u>	<u>\$ 2,453,528</u>	<u>\$ 3,226,383</u>	<u>\$ 772,855</u>

**CITY OF FULSHEAR, TX**  
**REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)**  
*For the Year Ended September 30, 2013*

<b>Actuarial Valuation Date December 31,</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Annual Covered Payroll (c)</b>	<b>(UAAL) as a Percentage of Covered Payroll ((b-a)/c)</b>
2010	\$ 7,947	\$ 98,165	\$ 90,218	8.1%	\$ 85,673	105.3%
2011	63,431	135,947	72,516	46.7%	583,368	12.4%
2012	111,079	183,036	71,957	60.7%	703,095	10.2%