

CITY OF FRIENDSWOOD, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**YEAR ENDED
SEPTEMBER 30, 2012**

Officials Issuing Report:

**Roger C. Roecker
City Manager**

**Cindy S. Edge
Director of Administrative Services**

**CITY OF FRIENDSWOOD, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED SEPTEMBER 30, 2012**

C O N T E N T S

	Page(s)
INTRODUCTORY SECTION	
Letter of Transmittal	i-iv
Principal Officials	v
GFOA Certificate of Achievement	vi
Organizational Chart	vii
FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis (Unaudited)	3-11
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds	
Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Funds	
Statement of Net Assets	18-19
Statement of Revenues, Expenses and Changes in Fund Net Assets	20
Statement of Cash Flows	21-22
Notes to Basic Financial Statements	23-56
Required Supplementary Information	
Schedule of Funding Progress for Participation in Texas Municipal Retirement System	57
Schedule of Funding Progress – Post Employment Benefits Plan Other Than Pensions	58
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – General Fund	59-65
Notes to Required Supplementary Information	66-68
Combining and Individual Fund Statements and Schedules	
Non-major Governmental Funds	69
Combining Balance Sheet	70
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	71

**CITY OF FRIENDSWOOD, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 YEAR ENDED SEPTEMBER 30, 2012**

C O N T E N T S – C O N T I N U E D

		Page(s)
Combining and Individual Fund Statements and Schedules – Continued		
Schedule of Revenues, Expenditures and Changes in Fund Balance –		
Budget and Actual		
Fire/EMS Donation Fund		72
Debt Service Fund		73
STATISTICAL SECTION (Unaudited)	Table	Page(s)
Financial Trends		
Net Assets by Component	1	74
Changes in Net Assets	2	75-76
Fund Balances, Governmental Funds	3	77
Changes in Fund Balances, Governmental Funds	4	78
Revenue Capacity		
Assessed Value and Taxable Value of Property	5	79
Direct and Overlapping Property Tax Rates	6	80
Principal Property Tax Payers	7	81
Property Tax Levies and Collections	8	82
Debt Capacity		
Ratios of Outstanding Debt by Type	9	83
Ratios of Net General Bonded Debt Outstanding	10	84
Direct and Overlapping Governmental Activities Debt	11	85
Legal Debt Margin Information	12	86
Pledged-Revenue Coverage	13	87
Demographic and Economic Information		
Demographic and Economic Statistics	14	88
Principal Employers	15	89
Operating Information		
Full-Time Equivalent City Government Employees		
by Function/Program	16	90
Operating Indicators by Function/Program	17	91
Capital Asset Statistics by Function/Program	18	92

INTRODUCTORY SECTION



City of Friendswood

February 28, 2013

The Honorable Mayor, Members of the City Council, and the Citizens of Friendswood:

The Comprehensive Annual Financial Report (CAFR) of the City of Friendswood for the fiscal year ended September 30, 2012, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes a list of principal officials, this transmittal letter, and the City's organizational chart. The financial section includes the auditor's report on the financial statements, a Management Discussion and Analysis (MD&A), the basic financial statements, required supplementary information and combining and individual fund financial statements and schedules. The MD&A, found immediately following the report of the independent auditor, is a narrative introduction; overview and analysis required by generally accepted accounting principles (GAAP). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The City Charter requires an annual audit of the financial statements of all of the various funds of the City by independent certified public accountants. The accounting firm of Weaver and Tidwell, L.L.P. has performed such an audit and their opinion has been included in this report.

PROFILE OF THE CITY

Established in 1895 as a Quaker colony, the City of Friendswood is rich in heritage. The City was incorporated in 1960 and chartered a home-rule city under Texas law in 1971. The City operates under a Council-Manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the Mayor and six (6) Council Members. The Mayor and Council are responsible, among other things, for passing ordinances, adopting the budget, appointing board and committee members and hiring the City Manager, City Attorney, Municipal Judge, and City Secretary. The City Manager is responsible for carrying out the policies and ordinances of the City Council and overseeing the day-to-day operations of the City government, and for appointing heads of various departments. The Mayor and Council are elected on an at-large, non-partisan basis. The Mayor and Council are elected to serve no more than four consecutive three-year terms.

The City provides a full range of municipal services including public safety (police, fire and emergency medical), maintenance of streets and infrastructure, sanitation services, maintenance of the treated waste distribution system and both sanitary and storm sewer collection transmission systems, recreational activities and cultural events as well as general administrative services.

FACTORS AFFECTING FINANCIAL CONDITION

Location

Encompassing 21 square miles, Friendswood is located in southeast Texas near the Texas Gulf Coast, between downtown Houston and Galveston, spanning across two counties – northern Galveston County and southern Harris County. The current estimated population is 37,839. Residents and visitors can access Friendswood through FM 2351, FM 518, and FM 528 (NASA Parkway). Hobby Airport and Ellington Airport are located within a 15 minute drive from Friendswood, and Bush Intercontinental Airport is just 45 minutes away. Major sectors of the area's economic base include aerospace, specialty chemicals, health care, retail, and tourism.

Community

Friendswood has been nationally recognized as one of the best places to live in the country. With low tax rates, outstanding public education, and the lowest crime rate in the region, Friendswood is the perfect place to live, work, and play. The city features beautiful parks and lush landscaping, along with a championship golf course. Children academically excel via two superior public school systems – Friendswood ISD and Clear Creek ISD. These attributes perfectly match Friendswood's affluent resident base of well-educated, high-income families. More than 50% of residents work in executive, professional, and managerial positions and generate an average household income of over \$100,000 – one of the highest in the Houston area.

Business

Friendswood is the perfect choice for many types of commercial enterprises. Target markets include professional offices, retail, commercial, and light industrial developments. A key City focus is to encourage redevelopment of the downtown area and development of the City's panhandle area. City leaders have approved special tools and incentives to revitalize downtown to promote mixed-use, multi-story developments with pedestrian streetscapes and other amenities. Additionally, the City recently completed, through an Economic Development Administration grant, the extension of utilities to serve an

area of town ripe for commercial growth (panhandle). The City offers competitive business incentives, including a municipal grant program, tax abatement that includes “green” development, freeport tax exemption, and downtown development fee waivers.

Quality Lifestyle

As with any city, the goal is planning for continued quality growth to create a well-balanced community. Friendswood offers single-family residential housing in pleasant park-like settings, tucked-away from the busy stream of vehicular traffic. Friendswood is committed to attracting more local enterprises that will complement and enhance the unique community environment that has been carefully built over the past 100 years; one that has come to be cherished by residents and business owners alike.

LONG TERM PLANNING

Budgeting Controls

The objective of the City’s budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by Council. The charter requires the City Manager to submit a proposed budget and an accompanying message to the City Council on or before August 1. The council shall review and revise as deemed appropriate prior to general circulation for the public hearing. The Public Notice and Hearing must be posted in the city hall and published in the official newspaper. The budget must be adopted by the 15th of September or as soon thereafter as practical. The City legally adopts annual budgets for the General, Special Revenue and Debt Service Funds. Annual and project budgets are also adopted for the Proprietary and Capital Projects Funds, respectively.

The level of budgetary control; that is, the level at which expenditures cannot legally exceed the appropriated amount, is established by department within a fund. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbrances lapse at fiscal year end, but can be re-appropriated through a budget amendment the following fiscal year. The City Manager is authorized to transfer budgeted amounts between departments within any fund, but revisions that increase the total expenditures of any fund must be approved by Council.

Multi-Year Financial Planning

A Multi-Year financial plan (MYFP) was developed in 2006. Originally staff was directed to develop a plan to forecast the City’s financial condition through 2020, the projected build-out date. The first version of this plan was drafted and later reduced in scope to project out five years.

The MYFP is based on the City’s strategic planning efforts, including the Comprehensive Land Use Plan, Vision 2020 and the Capital Improvements Plan. Departmental operational plans funding requirements to provide programs and services are included in the MYFP as well. Funding needs and available resources, both current and alternative revenue enhancements, are identified. Expenditures are projected based on departmental needs assessments and are organized based on “one-time” and “on-going” expenditures. In collaboration with Council, the plan is updated at least annually and serves as the basis of budget development.

Relevant Financial Policies

As part of the annual budget process, the City adopts Financial Management Policy Statements that establish a framework for fiscal decision making and that ensure that financial resources are available to meet the present and future needs of its citizens. These statements provide guidelines for financial planning and management, addressing every major financial function and process.

Most importantly, the Financial Management Policy requires that the City maintain the General Fund unassigned fund balance at a minimum of 90 days of prior year audited operating expenditures. Any unassigned funds after the fiscal year-end audit will be allowed to accumulate to build this 90-day reserve. After the General Fund has gathered sufficient resources, additional unassigned funds will be allowed to accumulate for future General Fund capital improvements.

The Financial Management Policy also requires the minimum working capital in the Water and Sewer Fund be 90 days of prior year audited operating expenditures. Any unrestricted funds after the fiscal year-end audit will be allowed to accumulate to build this 90-day reserve. After these funds have gathered sufficient resources, additional unrestricted funds will be allowed to accumulate in working capital for future utility /operating fund capital improvements.

Awards

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Friendswood for its comprehensive annual financial report for the fiscal year ended September 30, 2011. This was the twenty-fourth consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the comprehensive annual financial report was made possible by the dedicated service of Rhonda Bloskas and the entire staff of the Administrative Services Department. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

In closing, I also express my thanks to the Mayor, members of the City Council and the City Manager for their leadership, interest and support in conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,



Cindy S. Edge
Director of Administrative Services

**CITY OF FRIENDSWOOD, TEXAS
PRINCIPAL OFFICIALS AS OF
SEPTEMBER 30, 2012**

Elected Officials	Position	Term Expires
Kevin M. Holland	Mayor	May-15
Steve Rockey	Council Member - Position No. 1	May-15
Billy J. Enochs	Council Member - Position No. 2	May-14
Jim Hill	Council Member - Position No. 3	May-15
Patrick J. McGinnis, MD	Council Member - Position No. 4	May-13
John H. Scott	Council Member - Position No. 5	May-14
Deirdre Carey Brown	Council Member - Position No. 6	May-13

Key Staff	Position
Roger C. Roecker	City Manager
Morad Kabiri	Assistant City Manager
Cindy S. Edge	Director of Administrative Services
Terry Byrd	Fire Marshal
Kazem Hamidian	Public Works Director
Melinda Welsh	City Secretary
James Toney	Community Services Director
Robert B. Weiners	Police Chief
Ross, Banks, May, Cron & Cavin, P.C.	City Attorney
James W. Woltz	Judge - Municipal Court

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Friendswood
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



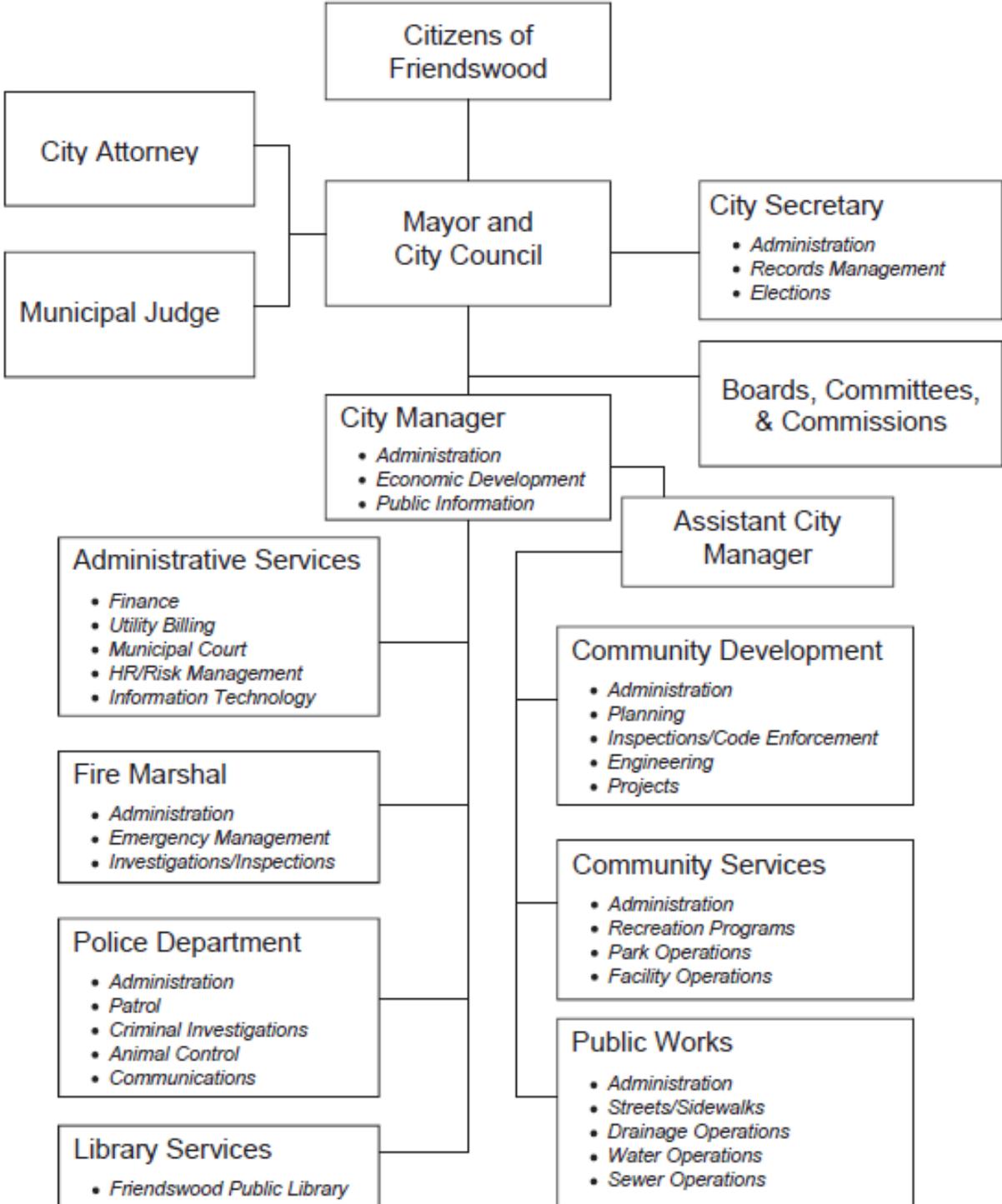
Christopher P. Morrill

President

Jeffrey R. Emor

Executive Director

**CITY OF FRIENDSWOOD
ORGANIZATIONAL CHART**



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor,
City Council and City Manager
City of Friendswood, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Friendswood, Texas (the City) as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the West Ranch Management District, which represents 100 percent of the assets, net assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the West Ranch Management District, is based on the report of the other auditors.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the West Ranch Management District were not audited in accordance with *Governmental Auditing Standards*. 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 and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Honorable Mayor,
City Council and City Manager
City of Friendswood, Texas

Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (on pages 3 through 11), the Schedule of Funding Progress for Participation in Texas Municipal Retirement System (on page 57), the Schedule of Funding Progress – Post Employment Benefits Other Than Pensions (on page 58), and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund (on pages 59 through 65) 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
February 28, 2013

Management's Discussion and Analysis (Unaudited)

As Management of the City of Friendswood, 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, 2012. This information is not intended to be a complete statement of the City's financial condition. We recommend and encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City of Friendswood exceeded its liabilities at the close of the most recent fiscal year by \$114,722,005 (net assets). This number must be viewed in the context that the vast majority of the City's net assets of \$91,201,606 (80%) are capital assets net of related debt and that most capital assets in government do not directly generate revenue nor can they be sold to generate liquid capital. Those net assets restricted for specific purposes totaled \$1,659,469 (1%). The remaining amount \$21,860,930 (19%) are unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- Governmental activities realized a decrease in total net assets of \$446,393 and business-type activities realized an increase in total net assets of \$1,082,154 bringing the net increase in total assets to for the City to \$635,761.
- At the close of the current fiscal year, the City of Friendswood's governmental funds reported combined ending fund balances of \$11,303,101. Of the ending fund balance, \$2,357,870 is restricted under laws external to the City for specific purposes (e.g., capital projects, debt service); \$434,931 is assigned by the City for specific purposes; \$130,901 is nonspendable and \$8,379,399 is unassigned and available to meet the government's ongoing obligations in accordance with the City's fund designation and fiscal policies.
- The City's total capital assets (net of accumulated depreciation) increased by \$995,460 which is primarily attributed the construction of facilities and the acquisition of equipment.
- The City's bonds payable decreased by \$2,370,000, due to the scheduled repayment of principal on outstanding bonded debt combined with refunding bonds issued for the defeasance of certain issues of general obligation bonds.

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 comprise 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 Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm sewer, water distribution and sewer collection lines, etc.), to assess the overall financial condition of the City.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the 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 future fiscal periods (e.g., uncollected taxes and earned but not used compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees (business-type activities).

- Governmental activities include most of the City's basic services, (general government, public safety, community development and public works and community services). Property taxes, sales taxes, and franchise fees primarily finance these activities.
- Business-type activities include the City's water and sewer system. Charges for services covers all or most of the cost for these services.
- Component Unit activities include activities of The West Ranch Management District.

The government-wide financial statements can be found on pages 12-13 of this report.

Fund Financial Statements

A fund is a self-balancing set of 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. The City uses two fund types – governmental and proprietary.

- **Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements with the exclusion of internal service fund activity. However, unlike the government-wide financial statements, governmental funds 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, the reader may better understand the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet, statement of revenue and expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eleven governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Debt Service Fund; these funds are considered to be major funds. The other nine funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements found in this report.

The basic governmental fund financial statements can be found on pages 14-17.

- **Proprietary funds** – The City maintains two types of proprietary funds. The City uses the Enterprise Fund for water and sewer operations. The Enterprise Fund reports the same functions presented as business-type activities in the government-wide financial statement. The second proprietary fund is the Internal Service Fund. This fund is used to account for fleet management services. The Internal Service Fund is included within the governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, with more detail and include the Internal Service Fund type activity.

The basic proprietary fund financial statements can be found on pages 18-22.

Notes to the 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 23-56.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Additionally, schedules comparing budgetary figures and actual results of the General Fund are also located in this section of the report. Required supplementary information can be found on pages 57-68.

The combining and individual fund statements and schedules that further support the information in the financial statements are presented immediately following the notes to the required supplementary information. Combining and individual fund statements and schedules can be found on pages 69-73.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets and especially net assets by category may serve over time as a useful indicator of a government's financial position. The City's net assets exceed liabilities by \$114.7 million as of September 30, 2012. The largest portion of the City's net assets (80%) reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending and with exception of business-type assets, do not generate direct revenue for the City. They do represent, however, an obligation on the part of the City to maintain these assets into the future.

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.

An additional portion of the City's net assets (1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$21,860,930 (19%) may be used to meet the City's ongoing obligations to citizens, creditors and employees.

CITY OF FRIENDSWOOD'S NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 14,265,582	\$ 16,625,116	\$ 20,066,228	\$ 21,479,959	\$ 34,331,810	\$ 38,105,075
Capital assets	<u>87,670,295</u>	<u>87,380,310</u>	<u>54,989,386</u>	<u>54,283,911</u>	<u>142,659,681</u>	<u>141,664,221</u>
Total assets	<u>101,935,877</u>	<u>104,005,426</u>	<u>75,055,614</u>	<u>75,763,870</u>	<u>176,991,491</u>	<u>179,769,296</u>
Long-term liabilities	23,181,645	24,450,283	32,993,350	34,093,976	56,174,995	58,544,259
Other liabilities	<u>3,470,448</u>	<u>3,824,966</u>	<u>2,624,043</u>	<u>3,313,827</u>	<u>6,094,491</u>	<u>7,138,793</u>
Total liabilities	<u>26,652,093</u>	<u>28,275,249</u>	<u>35,617,393</u>	<u>37,407,803</u>	<u>62,269,486</u>	<u>65,683,052</u>
Net assets:						
Invested in capital assets, net of related debt	65,582,783	66,580,049	25,618,823	26,251,346	91,201,606	92,831,395
Restricted	872,869	922,874	786,600	731,410	1,659,469	1,654,284
Unrestricted	<u>8,828,132</u>	<u>8,227,254</u>	<u>13,032,798</u>	<u>11,373,311</u>	<u>21,860,930</u>	<u>19,600,565</u>
Total net assets	<u>\$ 75,283,784</u>	<u>\$ 75,730,177</u>	<u>\$ 39,438,221</u>	<u>\$ 38,356,067</u>	<u>\$ 114,722,005</u>	<u>\$ 114,086,244</u>

Combined governmental and business-type activities increased the City's net assets by \$635,761 in 2012. The following table provides a summary of the City's operations for the year ended September 30, 2012. The Governmental activities decreased the City of Friendswood's net assets by (\$446,393). Revenues decreased \$1.7 million from prior year while expenses increased \$585,456. The decrease in revenues can be attributed primarily to the decrease in grants. The two percent increase in expenditures is primarily a result of increased depreciation

expense (\$294,403) due to the completion of major projects in the current fiscal year (Beamer Road water/sewer project, installation of generators at critical infrastructure and the completion of the new animal control facility). The remaining increase in expenditures was the anticipated increase in operating expenses to maintain services at the same level as in the past. Business-type activities increased the City's net assets by \$1,082,154. This increase is related primarily to the following: charges for services exceeded operating expenses (\$4,355,937) as a result of water consumption exceeding expectations due to drought conditions while expenses remained fairly constant.

CITY OF FRIENDSWOOD'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 2,419,836	\$ 2,311,298	\$ 11,258,216	\$ 12,726,936	\$ 13,678,052	\$ 15,038,234
Operating grants and contributions	648,058	3,150,808	-	-	648,058	3,150,808
Capital grants and contributions	527,288	-	-	-	527,288	-
General revenues:						
Property taxes	14,165,599	13,944,725	-	-	14,165,599	13,944,725
Sales taxes	3,907,577	4,002,740	-	-	3,907,577	4,002,740
Franchise taxes	1,556,556	1,598,407	-	-	1,556,556	1,598,407
Other taxes	23,356	28,883	-	-	23,356	28,883
Investment earnings	137,202	110,863	82,853	55,163	220,055	166,026
Miscellaneous	165,058	150,059	7,000	-	172,058	150,059
Total revenues	<u>23,550,530</u>	<u>25,297,783</u>	<u>11,348,069</u>	<u>12,782,099</u>	<u>34,898,599</u>	<u>38,079,882</u>
Expenses:						
General government	4,737,702	4,876,064	-	-	4,737,702	4,876,064
Public safety	10,736,805	10,548,568	-	-	10,736,805	10,548,568
Public Works	3,738,111	3,517,707	-	-	3,738,111	3,517,707
Community development	1,520,401	1,284,188	-	-	1,520,401	1,284,188
Community services	3,227,731	3,058,313	-	-	3,227,731	3,058,313
Library	1,004,303	979,978	-	-	1,004,303	979,978
Water and sewer	-	-	6,902,279	6,955,505	6,902,279	6,955,505
Interest on long-term debt	757,011	871,790	1,638,495	1,644,074	2,395,506	2,515,864
Total expenses	<u>25,722,064</u>	<u>25,136,608</u>	<u>8,540,774</u>	<u>8,599,579</u>	<u>34,262,838</u>	<u>33,736,187</u>
Increases/(Decrease) in net assets						
before transfers	(2,171,534)	161,175	2,807,295	4,182,520	635,761	4,343,695
Transfers	<u>1,725,141</u>	<u>(5,336,312)</u>	<u>(1,725,141)</u>	<u>5,336,312</u>	<u>-</u>	<u>-</u>
Change in net assets	(446,393)	(5,175,137)	1,082,154	9,518,832	635,761	4,343,695
Net assets, beginning	<u>75,730,177</u>	<u>80,905,314</u>	<u>38,356,067</u>	<u>28,837,235</u>	<u>114,086,244</u>	<u>109,742,549</u>
Net assets, ending	<u>\$ 75,283,784</u>	<u>\$ 75,730,177</u>	<u>\$ 39,438,221</u>	<u>\$ 38,356,067</u>	<u>\$ 114,722,005</u>	<u>\$ 114,086,244</u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,303,101. Approximately 74% of this amount (\$8,379,399) is unassigned fund balance; however, \$5.3 million is set aside for the 90-day operating reserve, as set forth in the City's financial policies. \$2,922,702 is nonspendable, restricted or assigned as follows:

Nonspendable (1%)

- Prepaid items \$98,874
- Permanent fund 31,027

Restricted (21%)

- Authorized construction \$1,290,975
- State and/or federal statutes 382,948
- Fire/EMS Donations 67,203
- City ordinances 197,977
- Debt Service 245,752
- Public education and government channels 173,015

Assigned (4%)

- Encumbrances \$434,931

In the General Fund, the City plans for a balanced budget. Due to a positive variance in overall expenditures, the General Fund ended the year with an increase to fund balance of \$171,815. This increase is a result of positive budget variance (\$733,649) in overall expenditures resulting primarily from staffs' ongoing efforts to search out ways to reduce operating costs while still maintaining service levels as well as postponing capital improvements. In the Debt Service Fund, fund balance decreased by \$62,479. This decrease is primarily related to bond issuance costs associated with the issuance of the 2012 refunding bonds which will ultimately save the City over \$1 million over the life of the bonds.

Proprietary Fund

Unrestricted net assets of the respective proprietary funds are Enterprise, (water and sewer), \$13,032,798 and Internal Service Fund (vehicle replacement fund), \$427,591. The net assets of the water and sewer fund increased \$1,082,154. This is primarily a result of water revenue exceeding expectations due to drought conditions while expenditures remained fairly constant allowing for operating income of \$4,355,937. The net assets of the internal service fund increased by \$39,125 primarily as a result of operating income of \$29,005 and gains recognized on sales of capital assets.

General Fund Budgetary Highlights

The City made revisions to the original appropriations approved by the City Council. Budgeted revenues increased by \$388,780 or 1.9% and expenditures were increased by \$1,647,175 or 7.7%. In addition to the appropriation for prior year encumbrances totaling \$1.0 million, the expenditure budget increased by \$.6 million primarily as a result of fund balance uses for capital improvement projects.

CAPITAL ASSETS

The City of Friendswood's investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of September 30, 2012, is \$142,659,681. The investment in capital assets includes land, buildings and improvements, equipment, infrastructure, water rights and construction in progress.

This year's major capital events during the current fiscal year included the following:

- In fiscal year 2011, the City began construction of a new animal control facility. This project was completed in fiscal year 2012 and the total cost of the project was approximately \$1.1 million.
- The Beamer Road Water and Sewer Project was completed in fiscal year 2012. The total cost of the project was approximately \$1.3 million. This project was funded by a grant received from the Department of Commerce's Economic Development Administration (EDA).
- In fiscal year 2010, the City was awarded a \$2.3 million Community Development Block Grant to purchase and install emergency generators to critical infrastructure. Construction began on this project in fiscal year 2011 and was completed in fiscal year 2012. The total project cost was approximately \$1.7 million.
- The following water and sewer projects are in construction in progress at the end of fiscal year 2012: Water Plant # 2 Rehabilitation (\$1.3 million), Water Plant #7 Rehabilitation (\$81,500), and Water Plant #5 Rehabilitation (\$3.3 million). Construction was complete on Water Plant #6 Rehabilitation in fiscal year 2012. The total project cost was approximately \$1.1 million.

CITY OF FRIENDSWOOD'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Land	\$ 24,007,398	\$ 24,007,398	\$ 716,818	\$ 716,818	\$ 24,724,216	\$ 24,724,216
Buildings and improvements	21,684,276	22,953,911	-	-	21,684,276	22,953,911
Equipment	8,160,545	3,461,722	426,569	356,220	8,587,114	3,817,942
Infrastructure	30,540,783	32,066,832	29,386,863	29,816,407	59,927,646	61,883,239
Water rights	-	-	19,716,695	19,716,695	19,716,695	19,716,695
Construction in progress	<u>3,277,293</u>	<u>4,890,447</u>	<u>4,742,441</u>	<u>3,677,771</u>	<u>8,019,734</u>	<u>8,568,218</u>
Total capital assets	<u>\$ 87,670,295</u>	<u>\$ 87,380,310</u>	<u>\$ 54,989,386</u>	<u>\$ 54,283,911</u>	<u>\$ 142,659,681</u>	<u>\$ 141,664,221</u>

Additional information on the City's capital assets can be found in the notes on pages 38 and 39 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Friendswood had a total bonded debt and capital lease obligation of \$56,695,726.

CITY OF FRIENDSWOOD'S OUTSTANDING DEBT AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General obligations	\$ 21,605,000	\$ 22,885,000	\$ -	\$ -	\$ 21,605,000	\$ 22,885,000
Revenue bonds payable	-	-	34,115,000	35,205,000	34,115,000	35,205,000
Capital leases	<u>975,726</u>	<u>710,023</u>	<u>-</u>	<u>-</u>	<u>975,726</u>	<u>710,023</u>
	<u>\$ 22,580,726</u>	<u>\$ 23,595,023</u>	<u>\$ 34,115,000</u>	<u>\$ 35,205,000</u>	<u>\$ 56,695,726</u>	<u>\$ 58,800,023</u>

The City's General Obligation, Revenue Bonds, and Certificates of Obligation bond ratings are listed below:

	<u>Standard & Poor's</u>
General Obligation Bonds	AA-
Revenue Bonds	AA-

Additional information on the City's outstanding debt can be found on pages 41 through 46 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Friendswood continues to experience moderate growth. The City's current population is estimated to be 37,839. Friendswood is expected to reach build out with an estimated population of 57,000. The City is continuing to focus on Economic Development initiatives, including the revitalization of downtown and a large residential and commercial development called West Ranch. The West Ranch residential development is currently under way, with commercial construction scheduled to follow as the area's residential population grows.

The City's largest single source of revenue in the General Fund continues to be ad valorem taxes. The tax rate was increased .0068 cents from \$.5902 to \$.5970. This rate consists of a maintenance and operations (M&O) tax rate of \$.5307 and an Interest and Sinking (debt service) tax rate of \$.0663. The rate was set based on a net assessed value of \$2,392,531,721. This is an increase of \$29,602,291 in taxable value. This increase is a result of new construction in the City. This additional value results in a total levy increase of \$336,199. The City's financial management policy sets the guideline to maintain the fund balance and retained earnings of the various operating funds at levels sufficient to protect the City's creditworthiness as well as its financial position from unforeseeable emergencies.

The City's second largest source of revenue in the General Fund is Sales Tax. The City anticipates a decrease in this revenue stream from the prior year and has adjusted the budget from \$3,965,020 to \$3,908,684. The franchise fees budget has been decreased from \$1,511,334 to \$1,496,561 and the budget for municipal court fines has been increased from \$952,020 to \$1,013,532. If all projections are accurate, the total General Fund unassigned fund balance net of the 90 day operating requirement (\$5.3 million) is estimated to be approximately \$1.8 million at September 30, 2013.

Water revenues are budgeted at \$5,270,000 which is an increase of \$150,000 in revenues, or 2.9%. Sewer revenues are budgeted at \$3,840,000. Water and sewer retained earnings net of the 90 operating requirement (\$2.4 million) is expected to be \$9.6 million at the end of fiscal year 2013.

Pursuant to the City's financial management policy, funds in excess of the 90-day operating reserve are designated for future capital improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact Administrative Services, P. O. Box 1288, Friendswood, Texas 77549-1288, or call Cindy S. Edge 281-996-3224, or email cedge@friendswood.com.

BASIC FINANCIAL STATEMENTS

**CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 12,398,024	\$ 11,640,112	\$ 24,038,136	\$ 1,676,055
Receivables (net of allowances for uncollectibles)				
Taxes	1,458,613	-	1,458,613	10,584
Customer accounts	199,034	1,975,408	2,174,442	-
Other	232,262	68,544	300,806	2,300
Internal balances	(900,000)	900,000	-	-
Due from other governments	482,683	-	482,683	-
Prepaid items	99,874	33,183	133,057	44,304
Working capital deposit	-	288,862	288,862	-
Deferred charges	295,092	393,660	688,752	487,579
Restricted cash and investments	-	4,766,459	4,766,459	-
Capital assets				
Land	24,007,398	716,818	24,724,216	5,538,985
Buildings and improvements	34,784,890	-	34,784,890	-
Machinery and equipment	15,772,730	3,045,887	18,818,617	-
Infrastructure	67,671,399	-	67,671,399	462,138
Water and sewer system	-	55,015,231	55,015,231	-
Construction in progress	3,277,293	4,742,441	8,019,734	-
Water rights	-	19,716,695	19,716,695	-
Accumulated depreciation	(57,843,415)	(28,247,686)	(86,091,101)	-
Total capital assets, net	<u>87,670,295</u>	<u>54,989,386</u>	<u>142,659,681</u>	<u>6,001,123</u>
Total assets	<u>101,935,877</u>	<u>75,055,614</u>	<u>176,991,491</u>	<u>8,221,945</u>
LIABILITIES				
Accounts payable	623,744	770,278	1,394,022	13,693
Accrued liabilities	1,078,546	272,642	1,351,188	-
Accrued interest	90,848	130,800	221,648	197,796
Customer deposits	-	328,554	328,554	-
Noncurrent liabilities:				
Due within one year	1,677,310	1,121,769	2,799,079	125,000
Due in more than one year	23,181,645	32,993,350	56,174,995	12,751,909
Total liabilities	<u>26,652,093</u>	<u>35,617,393</u>	<u>62,269,486</u>	<u>13,088,398</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	65,582,783	25,618,823	91,201,606	-
Restricted for:				
Debt service	193,714	-	193,714	243,602
Public safety	450,151	-	450,151	-
Community development	229,004	-	229,004	-
Capital improvements	-	786,600	786,600	4,448
Unrestricted	8,828,132	13,032,798	21,860,930	(5,114,503)
Total net assets (deficit)	<u>\$ 75,283,784</u>	<u>\$ 39,438,221</u>	<u>\$ 114,722,005</u>	<u>\$ (4,866,453)</u>

The Notes to the Basic Financial Statements are an integral part of these statements.

**CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012**

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business - Type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 4,737,702	\$ 1,167,619	\$ -	\$ -	\$ (3,570,083)	\$ -	\$ (3,570,083)	\$ -
Public safety	10,736,805	39,661	522,110	527,288	(9,647,746)	-	(9,647,746)	-
Public works	3,738,111	171,890	-	-	(3,566,221)	-	(3,566,221)	-
Community development	1,520,401	730,211	-	-	(790,190)	-	(790,190)	-
Community services	3,227,731	271,912	125,948	-	(2,829,871)	-	(2,829,871)	-
Library	1,004,303	38,543	-	-	(965,760)	-	(965,760)	-
Interest on long-term debt	757,011	-	-	-	(757,011)	-	(757,011)	-
Total governmental activities	25,722,064	2,419,836	648,058	527,288	(22,126,882)	-	(22,126,882)	-
Business-type activities								
Water and sewer	8,540,774	11,258,216	-	-	-	2,717,442	2,717,442	-
Total business-type activities	8,540,774	11,258,216	-	-	-	2,717,442	2,717,442	-
Total primary government	<u>\$ 34,262,838</u>	<u>\$ 13,678,052</u>	<u>\$ 648,058</u>	<u>\$ 527,288</u>	(22,126,882)	2,717,442	(19,409,440)	-
Component unit								
West Ranch Management District	2,152,865	-	-	-	-	-	-	(2,152,865)
	<u>\$ 2,152,865</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-	-	-	(2,152,865)
GENERAL REVENUES								
Taxes:								
Property taxes, levied for general purposes					12,529,305	-	12,529,305	756,403
Property taxes, levied for debt service					1,636,294	-	1,636,294	-
Sales taxes					3,907,577	-	3,907,577	-
Franchise taxes					1,556,556	-	1,556,556	-
Other taxes					23,356	-	23,356	-
Penalties and interest					-	-	-	6,942
Interest on investments					137,202	82,853	220,055	5,624
Gain on sale of capital assets					17,601	7,000	24,601	-
Miscellaneous					147,457	-	147,457	-
TRANSFERS					1,725,141	(1,725,141)	-	-
Total general revenues and transfers					21,680,489	(1,635,288)	20,045,201	768,969
Change in net assets					(446,393)	1,082,154	635,761	(1,383,896)
NET ASSETS, beginning of year					75,730,177	38,356,067	114,086,244	(3,482,557)
NET ASSETS, end of year					<u>\$ 75,283,784</u>	<u>\$ 39,438,221</u>	<u>\$ 114,722,005</u>	<u>\$ (4,866,453)</u>

The Notes to the Basic Financial Statements are an integral part of these statements.

**CITY OF FRIENDSWOOD, TEXAS
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

ASSETS	General Fund	Debt Service	Other Governmental Funds	Total Governmental Funds
Cash and investments	\$ 7,453,024	\$ 245,455	\$ 4,272,382	\$ 11,970,861
Receivables, net of allowance				
Taxes	1,419,793	38,820	-	1,458,613
Customer accounts	168,798	-	30,236	199,034
Other	225,991	297	5,546	231,834
Due from other funds	1,495,557	-	-	1,495,557
Receivable from other governments	62,497	-	420,186	482,683
Prepays and other assets	99,874	-	-	99,874
	<u>\$ 10,925,534</u>	<u>\$ 284,572</u>	<u>\$ 4,728,350</u>	<u>\$ 15,938,456</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 379,290	\$ -	\$ 244,454	\$ 623,744
Accrued liabilities	964,962	-	113,584	1,078,546
Due to other funds	-	-	2,395,557	2,395,557
Deferred revenue	494,063	38,820	4,625	537,508
	<u>1,838,315</u>	<u>38,820</u>	<u>2,758,220</u>	<u>4,635,355</u>
Fund Balances				
Nonspendable				
Prepaid items	99,874	-	-	99,874
Permanent fund	-	-	31,027	31,027
Restricted for				
Public education and government channels	173,015	-	-	173,015
Debt service	-	245,752	-	245,752
Authorized construction	-	-	1,290,975	1,290,975
State and/or federal statute	-	-	382,948	382,948
Fire/EMS donations	-	-	67,203	67,203
City ordinances	-	-	197,977	197,977
Assigned	434,931	-	-	434,931
Unassigned	8,379,399	-	-	8,379,399
	<u>9,087,219</u>	<u>245,752</u>	<u>1,970,130</u>	<u>11,303,101</u>
Total liabilities and fund balances	<u>\$ 10,925,534</u>	<u>\$ 284,572</u>	<u>\$ 4,728,350</u>	<u>\$ 15,938,456</u>

The Notes to the Basic Financial Statements are an integral part of these statements.

**CITY OF FRIENDSWOOD, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Total fund balances - governmental funds		\$ 11,303,101
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		86,838,571
Costs associated with the issuance of governmental long term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements.		295,092
The accruals for net other post employment benefits and net pension obligation do not require the use of current financial resources and are therefore not recorded in the governmental fund financial statements.		(1,249,305)
Interest payable on long term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet.		(90,848)
An internal service fund is used by management to charge the cost of certain activities, such as fleet management, to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.		1,259,315
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.		537,508
Long-term liabilities, including bonds payable, capital leases payable, and compensated absences are not due and payable in the current period and therefore are not reported in the fund financial statements. These long-term liabilities at year end consists of:		
Bonds payable	\$ (21,605,000)	
Deferred loss on refunding	549,210	
Premiums on issuance	(797,761)	
Capital leases payable	(975,726)	
Compensated absences	(780,373)	(23,609,650)
Net assets of governmental activities		<u>\$ 75,283,784</u>

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 12,508,638	\$ 1,634,045	\$ -	\$ 14,142,683
Sales and alcohol taxes	3,930,933	-	-	3,930,933
Franchise taxes	1,556,556	-	-	1,556,556
Fines and forfeitures	998,219	-	39,661	1,037,880
Permits and fees	1,106,913	-	67,100	1,174,013
Intergovernmental	424,654	-	653,236	1,077,890
Investment earnings	121,676	3,714	10,093	135,483
Donations	58,323	-	247,796	306,119
Miscellaneous	41,410	-	-	41,410
Total revenues	<u>20,747,322</u>	<u>1,637,759</u>	<u>1,017,886</u>	<u>23,402,967</u>
Expenditures				
Current				
General government	4,258,974	-	63,657	4,322,631
Public safety	10,030,452	-	170,558	10,201,010
Public works	1,702,119	-	-	1,702,119
Community development	1,520,401	-	-	1,520,401
Community services	2,622,970	-	-	2,622,970
Library	1,004,303	-	-	1,004,303
Capital outlay	1,236,327	-	2,469,295	3,705,622
Debt service				
Principal	-	1,450,897	111,191	1,562,088
Interest and fiscal charges	-	754,565	13,764	768,329
Bond issuance costs and fees	-	131,380	-	131,380
Total expenditures	<u>22,375,546</u>	<u>2,336,842</u>	<u>2,828,465</u>	<u>27,540,853</u>
Excess (deficiency) of revenues over expenditures	(1,628,224)	(699,083)	(1,810,579)	(4,137,886)
Other financing sources (uses)				
Issuance of refunding bonds	-	8,890,000	-	8,890,000
Premium on issuance of bonds	-	563,666	-	563,666
Proceeds from capital lease	464,270	-	-	464,270
Proceeds from sale of capital assets	9,250	-	-	9,250
Insurance recoveries	105,502	-	-	105,502
Transfers in	1,291,680	608,476	70,663	1,970,819
Transfers out	(70,663)	-	(175,015)	(245,678)
Payment to bond refunding escrow agent	-	(9,425,538)	-	(9,425,538)
Total other financing sources (uses)	<u>1,800,039</u>	<u>636,604</u>	<u>(104,352)</u>	<u>2,332,291</u>
Net change in fund balances	171,815	(62,479)	(1,914,931)	(1,805,595)
Fund balances, beginning of year	<u>8,915,404</u>	<u>308,231</u>	<u>3,885,061</u>	<u>13,108,696</u>
Fund balances, end of year	<u>\$ 9,087,219</u>	<u>\$ 245,752</u>	<u>\$ 1,970,130</u>	<u>\$ 11,303,101</u>

The Notes to the Basic Financial Statements are an integral part of these statements.

**CITY OF FRIENDSWOOD, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - total governmental funds \$ (1,805,595)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 3,690,737

Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. (3,446,459)

The issuance of long term debt (e.g. bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. The effect of these differences in the treatment of long term debt and related items was:

Proceeds from issuance of long term debt	\$ (9,917,936)	
Payment to escrow agent for advance refunding	9,425,538	
Long term debt issuance costs	131,380	
Amortization of bond issuance costs	(22,638)	
Amortization of premium on bonds payable	60,470	
Amortization of deferred loss on refunding bonds	(39,229)	
Repayment of long term debt	<u>1,463,567</u>	1,101,152

Current year changes in long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (15,096)

Current year changes in accrued interest payable do not require the use of current financial resources; therefore, it is not reported as an expenditure in the governmental funds. 13,085

Certain unearned revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. 22,741

The accruals for net other post employment benefits and net pension obligation do not require the use of current financial resources and are therefore not recorded in the governmental fund financial statements. (46,083)

An internal service fund is used by management to charge the cost of fleet management to individual funds. The change in net assets of the internal service fund is included in the governmental activities in the statement of net assets. 39,125

Change in net assets of governmental activities \$ (446,393)

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
SEPTEMBER 30, 2012

ASSETS	Business Type	Governmental
	Activities	Activities
	Enterprise Fund	Internal Service
	Water and Sewer	Internal Service
Current assets		
Cash and investments	\$ 11,640,112	\$ 427,163
Accounts receivable, net of allowance		
Customer accounts	1,975,408	-
Other	68,544	428
Due from other funds	900,000	-
Prepays and other assets	33,183	-
Restricted cash and investments	4,766,459	-
Total current assets	19,383,706	427,591
Noncurrent assets		
Working capital deposit	288,862	-
Deferred charges	393,660	-
Capital assets		
Land	716,818	-
Machinery and equipment	3,045,887	2,173,280
Water and sewer system	55,015,231	-
Construction in progress	4,742,441	-
Water rights	19,716,695	-
Accumulated depreciation	(28,247,686)	(1,341,556)
Net capital assets	54,989,386	831,724
Total noncurrent assets	55,671,908	831,724
Total assets	75,055,614	1,259,315

The Notes to the Basic Financial Statements are an integral part of these statements.

**CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
SEPTEMBER 30, 2012
(CONTINUED)**

LIABILITIES	Business Type Activities Enterprise Fund Water and Sewer	Governmental Activities Internal Service
Current liabilities		
Accounts payable	770,278	-
Accrued liabilities	272,642	-
Accrued interest	130,800	-
Deposits	328,554	-
Compensated absences	15,350	-
Bonds and other long-term debt payable	1,106,419	-
Total current liabilities	2,624,043	-
Noncurrent liabilities		
Compensated absences	93,546	-
Bonds and other long-term debt payable	32,899,804	-
Total noncurrent liabilities	32,993,350	-
Total liabilities	35,617,393	-
NET ASSETS		
Invested in capital assets, net of related debt	25,618,823	831,724
Restricted for capital improvements	786,600	-
Unrestricted	13,032,798	427,591
Total net assets	<u>\$ 39,438,221</u>	<u>\$ 1,259,315</u>

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	Business Type Activities	Governmental Activities
	Enterprise Fund Water and Sewer	Internal Service
Operating revenues		
Charges for services	\$ 11,258,216	\$ 318,767
Total operating revenues	11,258,216	318,767
Operating expenses		
Personnel services	1,547,765	-
Sewer operations	1,353,187	-
Water purchases	1,104,860	-
Repairs and maintenance	421,460	-
Supplies	155,534	-
Other services and charges	778,761	-
Depreciation	1,540,712	289,712
Total operating expenses	6,902,279	289,712
Operating income	4,355,937	29,055
Nonoperating revenues (expenses)		
Investment income	82,853	1,719
Gain (loss) on sale of capital assets	7,000	8,351
Interest expense and fiscal charges	(1,638,495)	-
Total nonoperating revenues (expenses)	(1,548,642)	10,070
Income before transfers	2,807,295	39,125
Transfers out	(1,725,141)	-
Change in net assets	1,082,154	39,125
Net assets, beginning of year	38,356,067	1,220,190
Net assets, end of year	\$ 39,438,221	\$ 1,259,315

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service
	Water and Sewer	Internal Service
OPERATING ACTIVITIES		
Cash received from customers	\$ 11,735,052	\$ 318,613
Cash payments to suppliers for goods and services	(4,554,931)	-
Cash payments to employees for services	(1,541,665)	-
Net cash provided by operating activities	<u>5,638,456</u>	<u>318,613</u>
NONCAPITAL FINANCING ACTIVITIES		
Transfer out	(1,725,141)	-
Net cash used in noncapital financing activities	<u>(1,725,141)</u>	<u>-</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of capital assets	7,000	13,410
Acquisition and construction of capital assets	(2,246,187)	(340,478)
Repayment of debt	(1,090,000)	-
Interest paid on debt	(1,607,728)	-
Net cash used in capital and related financing activities	<u>(4,936,915)</u>	<u>(327,068)</u>
INVESTING ACTIVITIES		
Investment income	75,920	1,719
Net cash provided by investing activities	<u>75,920</u>	<u>1,719</u>
Net change in cash and cash equivalents	(947,680)	(6,736)
CASH AND CASH EQUIVALENTS, beginning of year	<u>17,354,251</u>	<u>433,899</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 16,406,571</u>	<u>\$ 427,163</u>

The Notes to the Basic Financial Statements are an integral part of these statements.

**CITY OF FRIENDSWOOD, TEXAS
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2012
(CONTINUED)**

	Business Type Activities Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service
Reconciliation of operating income		
to net cash provided by operating activities		
Operating income	\$ 4,355,937	\$ 29,055
Adjustments to reconcile operating income		
to net cash provided by operating activities		
Depreciation and amortization	1,540,712	289,712
Change in assets and liabilities		
Accounts receivable	446,629	(154)
Prepays and other assets	4,549	-
Working capital deposits	1,292	-
Accounts payable	(794,494)	-
Accrued liabilities	53,624	-
Deposits	30,207	-
	\$ 5,638,456	\$ 318,613
Reconciliation of cash to statement of net assets		
Cash and investments	\$ 11,640,112	\$ 427,163
Restricted cash and investments	4,766,459	-
	\$ 16,406,571	\$ 427,163

The Notes to the Basic Financial Statements are an integral part of these statements.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Friendswood, Texas (the City) was incorporated on October 15, 1960. The City charter provides for a City Council-City Manager form of government. The Mayor and six Council members are elected from the City at large serving three-year terms. Currently, the City charter provides for a Council term limitation of four terms. The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for law enforcement, appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget. The Mayor presides at meetings of the City Council and can vote. The City provides the following services: public safety, streets, parks and recreation, library, water and sewer, sanitation, planning and zoning, building inspection, code enforcement, and general administrative services.

Financial Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected six-member Council and Mayor and is considered a primary government. As required by generally accepted accounting principles, these 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. Based on these considerations, the West Ranch Management District has been included in the City's reporting entity as a discretely presented component unit. 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.

Consideration regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity is 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 financially independent of other state and local governments. Additional prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other 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 FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial Reporting Entity – Continued

The West Ranch Management District (the District), a discretely presented component unit, was created under Section 59, Article XVI of the Texas Constitution added by an Act of the 79th Legislature of the State of Texas, effective June 17, 2005, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 3837, Texas Special District Local Laws Code, Chapters 49 and 54 of the Texas Water Code and Chapter 375 of the Texas Local Government Code, and is subject to the continuing supervision of the Texas Commission on Environmental Quality. The District was created to promote and encourage employment and the public welfare within the District. The affairs of the District are managed by a Board of Directors composed of three directors from a list of persons nominated by the Board and appointed by the City Council and two directors appointed by the City Council. The City is financially accountable for the District because City Council must approve any debt issuances. Complete financial statements from the component may be obtained at the District's administrative office.

Basis of Presentation

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the primary government and its component unit. 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 revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 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 the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus/Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. 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* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if 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.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and, accordingly, have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Debt Service Fund** is used to account for the property taxes levied for payment of principal and interest on all governmental debt of the City.

Other governmental funds is a summarization of all the non-major governmental funds.

The City reports the following major enterprise fund:

The **Water and Sewer Fund** is used to account for the activities of the City's water and wastewater operations.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus/Basis of Accounting – Continued

Additionally, the City reports the following fund type:

The *Internal Service Fund* is used to account for fleet management services provided to other departments of the City on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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. The principal operating revenues of the Water and Sewer enterprise fund and of the City's internal service fund are charges to customers for sales and services. Operating expenses for the enterprise fund and internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Cash and Investments

Cash and investments include cash on hand, deposits with financial institutions, short-term investments in a state-managed public funds investment pool account (TexPool), and two privately managed public funds investment pools (Lone Star and Texas Class). Other investments consist mainly of U. S. government treasury bills, treasury notes and other U. S. government obligations. Restricted cash and investments are assets restricted for specific use. Restricted cash includes cash on deposit with financial institutions and investment pools.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Investments – Continued

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

The City maintains a pooled cash and investments account for all funds of the City. Each fund's positive equity in the pooled cash account is presented as "cash and investments" in the financial statements. Negative equity balances are reclassified and are reflected as interfund accounts payable. Interest income and interest expense are allocated monthly to each respective individual fund based on their representative fund balances.

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.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. Management estimates an allowance for trade accounts receivable based on past experience, historical losses, and other pertinent factors. The property tax receivable allowance is equal to 10 percent of outstanding property taxes at September 30, 2012.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Receivables and Payables – Continued

The City's property taxes are levied annually in October on the basis of the Appraisal District's assessed values as of January 1 of that calendar year. Appraised values are established by the Appraisal District at market value and assessed at 100% of appraised value less exemptions. The City's property taxes are billed and collected by Galveston County. Such taxes are applicable to the fiscal year in which they are levied and become delinquent with an enforceable lien on property on February 1 of the subsequent calendar year.

Property taxes are prorated between operations and debt service based on rates adopted for the year of the levy. For the current year, the City levied property taxes of \$0.5902 per \$100 of assessed valuation that were prorated between operations and debt service in the amounts of \$0.5218 and \$0.0684, respectively. The resulting tax levies were approximately \$12.3 and \$1.6 million for operations and debt service, respectively, based on a total taxable valuation of approximately \$2.4 billion for the 2011 tax year.

At an election held November 8, 2005, voters of the West Ranch Management District, a discretely presented component unit, authorized a maintenance tax not to exceed \$0.65 per \$100 valuation on all property within the District subject to taxation. During the year ended July 31, 2012, the District levied an ad valorem maintenance tax at the rate of \$0.1700 per \$100 of assessed valuation and an ad valorem debt service tax at the rate of \$0.3800 per \$100 of assessed valuation, which resulted in a maintenance tax levy of \$197,858 and a debt service tax levy of \$442,271 on the taxable valuation of \$116,386,954 for the 2011 tax year. The maintenance tax is being used by the District to pay operating expenditures.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The City applies the consumption method in accounting for prepaid items in the governmental funds.

Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contract with West Ranch Management District

The District approved a contract with the City effective August 15, 2005, as amended. Under the terms of the contract, the District is to pay for construction of water distribution, sanitary sewer, drainage, transportation, education and recreation facilities to serve the District.

The District shall be the owner of the system until the system is completed, approved by the City and conveyed to it, at which time ownership will vest in the City. The District will own and operate detention facilities to serve the District. Pursuant to the contract, the District shall have a security interest therein until all bonds issued by the District are retired.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure, and water rights, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost 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 actual historical cost is not available. 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 assets' lives are not capitalized.

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

Buildings and improvements	20 - 50 years
Machinery and equipment	5 - 10 years
Infrastructure	40 - 50 years
Water and sewer system	40 - 50 years

Compensated Absences

The City's employees earn vacation and sick leave, which may either be taken or accumulated, up to certain amounts, until paid upon resignation or retirement. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balances and Net Assets

Government-Wide Financial Statements:

Net assets on the Statement of Net Assets includes the following categories:

Invested in capital assets, net of related debt – the component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, net of premiums and discounts, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted – Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Unrestricted – the difference between the assets and liabilities that is not reported in any of the classifications above.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balances and Net Assets – Continued

Governmental Fund Financial Statements:

The City has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are non-spendable, restricted, committed, assigned, and unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the general fund. The general fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the City classifies governmental fund balances as follows:

Non-spendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes prepaid items and the fund balance of the City's permanent fund.

Restricted – includes fund balance amounts that are constrained for specific purposes which are imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes retirement of long term debt, construction programs, City ordinances, and other federal and state grants.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action in an open meeting of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the City Council. At September 30, 2012, the City had no committed fund balance amounts.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balances and Net Assets – Continued

Governmental Fund Financial Statements – Continued:

Assigned – includes fund balance amounts that are self-imposed by the City to be used for a particular purpose. Fund balance can be assigned by the City Council, the City Manager, or the City Manager's designee pursuant to the City's fund balance policy. At September 30, 2012, the City's assigned fund balance included amounts assigned for encumbrances.

Unassigned – includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications are available.

The City has established a minimum fund balance policy whereby the City's unassigned general fund balance will be maintained at levels sufficient to protect the City's creditworthiness, as well as its financial position, from unforeseeable emergencies. The City will strive to maintain the unassigned general fund balance at a minimum of 90 days of prior year audited operating expenditures.

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 liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statement No. 14 and No. 34* (GASB 61). This statement modifies certain requirements for inclusion of component units in the financial reporting entity, amends criteria for reporting component units as if they were part of the primary government and clarifies the reporting of equity interests in legally separate organizations. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2012. The City will adopt GASB 61 in the fiscal year ending September 30, 2013 and is currently evaluating the impact of this standard on its financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements* (GASB 62). This statement incorporates into GASB authoritative literature, certain accounting and financial reporting guidance issued by the FASB and AICPA on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The City will adopt GASB 62 in the fiscal year ending September 30, 2013 and is currently evaluating the impact of this standard on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This statement amends Statement No. 34 relating to net asset reporting requirements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011. The City will adopt GASB 63 in the fiscal year ending September 30, 2013 and is currently evaluating the impact of this standard on its financial statements.

CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS

Under provisions of state and local statutes, the City's investment policies, and provisions of the City's depository contracts with an area financial institution, the City is authorized to place available deposits and investments in the following:

1. Obligations of the U. S., its agencies and instrumentalities;
2. Certificates of Deposit issued by state and national banks or savings or loan associations domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or collateralized in accordance with Section 2256.010, the Texas Government Code, in face amounts not to exceed \$100,000;
3. No-load money market mutual funds; and
4. TexPool, Lone Star Investment Pool and Texas Class.

The City Council has adopted a written investment policy regarding the investments of its funds as defined by the Public Funds Investment Act of 1995 (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the Council's investment policies. The City did not have any derivative investment products during the current year. All significant legal and contractual provisions for investments were complied with during the year.

Deposits and investments as of September 30, 2012 are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 12,398,024
Business-type Activities	<u>16,406,571</u>
	<u><u>\$ 28,804,595</u></u>

Deposits and investments as of September 30, 2012 consist of the following:

Deposits with financial institutions	\$ 3,165,160
Investments	<u>25,639,435</u>
	<u><u>\$ 28,804,595</u></u>

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

As of September 30, 2012, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Texas Class	\$ 7,453,741	
Lone Star Corporate Overnight Fund	2,087,471	
Tex Pool	2,084,315	
U.S. Agency Securities:		
Federal Farm Credit Bank	7,502,166	865
Federal Home Loan Mortgage Corporation	3,506,527	815
Federal National Mortgage Association	2,005,087	725
Federal Home Loan Bank	<u>1,000,128</u>	965
Total U.S. Agency Securities	<u>14,013,908</u>	
Total portfolio	<u>\$ 25,639,435</u>	

The City's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The City's investments in these pools are the same as the value of the pool shares, which are valued based on quoted market rates.

The City invests in Texas Local Government Investment Pool (TexPool), which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Chapter 791 and the Texas Public Funds Investment Act. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of TexPool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is sole officer, director and shareholder. The advisory board of TexPool is composed of members appointed pursuant to the requirements of the Texas Public Funds Investment Act.

The City invests in Texas Class Investment Pool which was established in 1996 pursuant to the Texas Public Funds Investment Act. The pool is governed by a 7-member board of trustees, who are elected by pool participants. The Cutwater Investor Services Corp. serves as the pools program administrator and Wells Fargo Bank Texas, NA, serves as custodian.

The City invests in Lone Star Investment Pool pursuant to the Texas Public Funds Investment Act. This pool is governed by an 11-member board of trustees all of which are pool participants. The Bank of New York Mellon acts as custodian and provides valuation services.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 2. DEPOSITS AND INVESTMENTS – CONTINUED

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. 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. State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of deposits. As of September 30, 2012, all of the City's \$3,165,160 balance on deposit with financial institutions was collateralized with securities held by the pledging financial institution in the City's name.

Credit Risk. It is the City's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The City's investments as of September 30, 2012, were rated as follows:

Investment Type	Rating	Rating Agency
Texas Class	AAAm	Standard & Poor's
Lone Star Government Overnight Fund	AAAf	Standard & Poor's
TexPool	AAAm	Standard & Poor's
U.S. Agency Securities:		
Federal Farm Credit Bank	Aaa	Moody's Investor Service
Federal Home Loan Mortgage Corporation	Aaa	Moody's Investor Service
Federal National Mortgage Association	Aaa	Moody's Investor Service
Federal Home Loan Bank	Aaa	Moody's Investor Service

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 3. ACCOUNTS RECEIVABLE AND DEFERRED REVENUE

Receivables as of September 30, 2012 for the City's individual major funds, nonmajor funds in the aggregate and the Internal Service Fund including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds			Proprietary Funds		Total
	General	Debt Service	Nonmajor	Water and Sewer	Internal Service	
Receivables:						
Property taxes	\$ 310,402	\$ 43,133	\$ -	\$ -	\$ -	\$ 353,535
Sales taxes	758,120	-	-	-	-	758,120
Franchise taxes	382,311	-	-	-	-	382,311
Customer accounts	170,798	-	30,236	1,985,408	-	2,186,442
Accrued interest	8,420	297	900	14,371	428	24,416
Court fines	482,054	-	4,646	-	-	486,700
Intergovernmental	62,497	-	420,186	-	-	482,683
Other	19,078	-	-	54,173	-	73,251
Gross receivables	2,193,680	43,430	455,968	2,053,952	428	4,747,458
Less: allowance for uncollectibles	316,601	4,313	-	10,000	-	330,914
Net total receivables	<u>\$ 1,877,079</u>	<u>\$ 39,117</u>	<u>\$ 455,968</u>	<u>\$ 2,043,952</u>	<u>\$ 428</u>	<u>\$ 4,416,544</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Deferred Revenue</u>
General Fund	
Delinquent property taxes	\$ 279,362
Court fines	198,612
Miscellaneous	16,089
Total General Fund	<u>494,063</u>
Court Security and Technology Fund	
Court fines	4,625
Total Court Security and Technology Fund	<u>4,625</u>
Debt Service Fund	
Delinquent property taxes	38,820
Total Debt Service Fund	<u>38,820</u>
Total Governmental Funds	<u>\$ 537,508</u>

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Increases	Reclassifications/ Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 24,007,398	\$ -	\$ -	\$ 24,007,398
Construction in progress	4,890,447	2,909,455	(4,522,609)	3,277,293
Total capital assets not being depreciated	28,897,845	2,909,455	(4,522,609)	27,284,691
Capital assets being depreciated				
Buildings and improvements	34,779,590	5,300	-	34,784,890
Machinery and equipment	10,357,862	1,131,343	4,283,525	15,772,730
Infrastructure	67,671,399	-	-	67,671,399
Total capital assets being depreciated	112,808,851	1,136,643	4,283,525	118,229,019
Less accumulated depreciation				
Buildings and improvements	11,825,679	1,274,935	-	13,100,614
Machinery and equipment	6,896,140	935,187	(219,142)	7,612,185
Infrastructure	35,604,567	1,526,049	-	37,130,616
Total accumulated depreciation	54,326,386	3,736,171	(219,142)	57,843,415
Total capital assets being depreciated, net	58,482,465	(2,599,528)	4,502,667	60,385,604
Governmental activities capital assets, net	<u>\$ 87,380,310</u>	<u>\$ 309,927</u>	<u>\$ (19,942)</u>	<u>\$ 87,670,295</u>

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 4. CAPITAL ASSETS – CONTINUED

	Beginning Balance	Increases	Reclassifications/ Decreases	Ending Balance
Business Type Activities				
Capital assets not being depreciated				
Land	\$ 716,818	\$ -	\$ -	\$ 716,818
Water rights	19,716,695	-	-	19,716,695
Construction in progress	3,677,771	2,145,764	(1,081,094)	4,742,441
Total capital assets not being depreciated	24,111,284	2,145,764	(1,081,094)	25,175,954
Capital assets being depreciated				
Machinery and equipment	2,978,193	100,423	(32,729)	3,045,887
Water and sewer system	53,934,137	-	1,081,094	55,015,231
Total capital assets being depreciated	56,912,330	100,423	1,048,365	58,061,118
Less accumulated depreciation:				
Machinery and equipment	2,621,973	30,074	(32,729)	2,619,318
Water and sewer system	24,117,730	1,510,638	-	25,628,368
Total accumulated depreciation	26,739,703	1,540,712	(32,729)	28,247,686
Total capital assets being depreciated, net	30,172,627	(1,440,289)	1,081,094	29,813,432
Business-type activities capital assets, net	<u>\$ 54,283,911</u>	<u>\$ 705,475</u>	<u>\$ -</u>	<u>\$ 54,989,386</u>

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

Governmental activities	
General government	\$ 255,741
Public safety	547,264
Public works	2,038,049
Community services	605,405
Capital assets held by the City's internal service fund are charged to the various functions based on their usage	<u>289,712</u>
Total depreciation expense - governmental activities	<u>\$ 3,736,171</u>
Business-Type activities	
Water and sewer	<u>\$ 1,540,712</u>
Total depreciation expense - business-type activities	<u>\$ 1,540,712</u>

Unexpended commitments for construction projects in progress were \$1,778,182 at September 30, 2012.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 5. INTERFUND BALANCES AND ACTIVITIES

Interfund balances (net) at September 30, 2012 consisted of the following individual fund balances:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	TDRA	\$ 1,495,557	Balance of TDRA fund expenditures funded by the general fund, pending grant reimbursements
Water and sewer	EDA	900,000	Return of excess amount previously transferred, upon decrease in City's obligation under grant award
		<u>\$ 2,395,557</u>	

All amounts due are scheduled to be repaid within one year.

During the year ended September 30, 2012, transfers between funds occurred as described below:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
Debt service	Water and sewer	\$ 608,476	To fund Series 2010B debt service payments
Fire/EMS donation	General	9,250	Funds received from sale of a Fire/EMS vehicle
Park land dedication	General	14,009	Reimbursement of unexpended funds
TDRA	General	47,404	To fund the City's portion of project expenditures
General	Sidewalk installation	15	Transfer of fund balance to close fund
General	Park land dedication	175,000	To fund miscellaneous projects
General	Water and sewer	1,116,665	To fund indirect costs for administrative expenses
		<u>\$ 1,970,819</u>	

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental and business-type activities. These instruments include general obligation bonds, certificates of obligation, revenue bonds, and capital leases. These debt obligations are secured by either future tax revenue, water and sewer system revenue, or liens on property and equipment. Debt obligations that are intended to be repaid from water and sewer system revenue have been recorded as business-type activities. All other long-term obligations of the City are considered to be governmental type activities.

Federal Arbitrage

General obligation bonds, combination tax and revenue bonds, and certificates of obligation are subject to the provisions of the Internal Revenue Code of 1986 related to arbitrage and interest income tax regulations under those provisions.

Bonds Payable and Certificates of Obligation

The following schedule summarizes the terms of the City's general obligation bonds, combination tax and revenue bonds, and certificates of obligation outstanding and their corresponding allocations to the governmental and business-type activities at September 30, 2012:

<u>Series and Original Issue Amount</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
<u>General Obligation Bonds</u>					
2003 Permanent Improvement	\$ 8,700,000	2026	3.65% - 5.5%	\$ 345,000	\$ -
2005 Permanent Improvement and Refunding	9,800,000	2020	2.85% - 4.375%	4,170,000	-
2010A Permanent Improvement	3,460,000	2035	1.0% - 4.75%	3,290,000	-
2010B Permanent Improvement and Refunding	5,460,000	2021	1.0% - 4.0%	4,910,000	-
2012 General Obligation Refunding	8,890,000	2026	2.0% - 3.5%	8,890,000	-
			<u>21,605,000</u>	<u>-</u>	
<u>Revenue Bonds</u>					
2006 Waterworks and Sewer System Revenue and Refunding	24,285,000	2031	4.0% - 5.0%	-	22,610,000
2009 Waterworks and Sewer System	12,120,000	2028	2.0% - 4.8%	-	11,505,000
			<u>-</u>	<u>34,115,000</u>	
Total Bonds and Certificates of Obligation			<u>\$ 21,605,000</u>	<u>\$ 34,115,000</u>	

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

Bonds Payable and Certificates of Obligation – Continued

Annual debt service requirements for the City's bonds and certificates of obligation are as follows:

Year Ending September 30,	Governmental Activities		Business -Type Activities		Total
	Principal	Interest	Principal	Interest	
2013	\$ 1,375,000	\$ 669,923	\$ 1,120,000	\$ 1,548,303	\$ 4,713,226
2014	1,415,000	630,233	1,165,000	1,504,006	4,714,239
2015	1,455,000	592,152	1,205,000	1,457,771	4,709,923
2016	1,505,000	552,992	1,240,000	1,409,734	4,707,726
2017 - 2021	8,200,000	2,135,677	7,020,000	6,208,957	23,564,634
2022 - 2026	6,215,000	933,010	9,715,000	4,253,229	21,116,239
2027 - 2031	730,000	244,027	10,330,000	1,670,865	12,974,892
2032 - 2036	710,000	69,344	2,320,000	177,750	3,277,094
	<u>\$ 21,605,000</u>	<u>\$ 5,827,358</u>	<u>\$ 34,115,000</u>	<u>\$ 18,230,615</u>	<u>\$ 79,777,973</u>

Defeasance of Bonds

On May 1, 2012, the City issued \$8.890 million in Series 2012 General Obligation Refunding Bonds with an average interest rate of 2.919 percent to advance refund \$6.745 million of outstanding Series 2003 Permanent Improvement Bonds and \$2.160 million of outstanding Series 2005 Permanent Improvement and Refunding Bonds (the Refunded Bonds) with average interest rates of 4.254 percent and 4.138 percent, respectively. The net proceeds of \$9.310 million (after payment of \$143,898 in underwriting fees, insurance, and other issuance costs) plus an additional \$118,000 of Refunded Bonds sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Refunded Bonds. As a result, the Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide Statement of Net Assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$588,439. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026 using the effective-interest method. The City completed the advance refunding to reduce its total debt service payments over the next 14 years by \$1,026,111 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$896,521.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. On September 30, 2012, \$19,990,000 of bonds considered defeased are still outstanding.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

Obligations Under Capital Leases

The City has entered into capital lease agreements in order to purchase machinery and equipment for public works, police and fire departments. The assets acquired through these lease agreements are as follows:

Asset:	Governmental
	<u>Activities</u>
Machinery and equipment	\$ 1,597,730
Less: accumulated depreciation	<u>(211,326)</u>
Total	<u>\$ 1,386,404</u>

The following is a summary of future lease payments due on this machinery and equipment:

Year Ending	Lease
<u>September 30,</u>	<u>Obligation</u>
2013	\$ 234,603
2014	234,603
2015	234,603
2016	191,868
2017 - 2019	<u>189,167</u>
Total	1,084,844
Less: interest portion	<u>(109,118)</u>
Obligations under capital leases	<u>\$ 975,726</u>

CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT – CONTINUED

Changes in Long-term Liabilities

Long-term liability activity of the primary government for the year ended September 30, 2012, was as follows:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Governmental type activities					
General obligation bonds	\$ 22,885,000	\$ 8,890,000	\$ (10,170,000)	\$ 21,605,000	\$ 1,375,000
Premium on bond issuance	408,294	563,666	(174,199)	797,761	60,468
Deferred loss on refunding bonds	-	(588,439)	39,229	(549,210)	(39,229)
Capital lease obligations	710,023	464,270	(198,567)	975,726	189,791
Net pension obligation	626,456	1,780,547	(1,773,895)	633,108	-
Net OPEB obligation	576,766	83,150	(43,719)	616,197	-
Compensated absences	765,277	717,872	(702,776)	780,373	91,280
Total governmental type activities	25,971,816	11,911,066	(13,023,927)	24,858,955	1,677,310
Business type activities					
Revenue bonds	35,205,000	-	(1,090,000)	34,115,000	1,120,000
Discount on bond issuance	(57,447)	-	2,498	(54,949)	(2,498)
Premium on bond issuance	310,001	-	(17,073)	292,928	16,274
Deferred loss on refunding bonds	(374,911)	-	28,155	(346,756)	(27,357)
Compensated absences	102,796	61,801	(55,701)	108,896	15,350
Total business type activities	35,185,439	61,801	(1,132,121)	34,115,119	1,121,769
Total primary government activities	<u>\$ 61,157,255</u>	<u>\$ 11,972,867</u>	<u>\$ (14,156,048)</u>	<u>\$ 58,974,074</u>	<u>\$ 2,799,079</u>

The compensated absences liability attributable to the governmental activities will be liquidated primarily by the General Fund. The General Fund has typically been used in prior years to liquidate the net pension obligation and net OPEB obligation.

West Ranch Management District

The following schedule summarizes the terms of the West Ranch Management District's general obligation bonds at July 31, 2012:

	<u>Series 2010</u>	<u>Road Series 2010A</u>
Amounts outstanding, July 31, 2012	\$6,740,000	\$1,815,000
Interest rates	3.25% to 5.25%	3.50% to 5.00%
Maturity dates, serially beginning/ending	September 1, 2012/2040	September 1, 2012/2040
Interest payment dates	September 1/March 1	September 1/March 1
Callable dates*	September 1, 2020	September 1, 2020

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

West Ranch Management District – Continued

Annual debt service requirements for the District’s bonds are as follows:

Year Ending July 31,	Principal	Interest	Total
2013	\$ 125,000	\$ 408,491	\$ 533,491
2014	135,000	403,785	538,785
2015	140,000	398,792	538,792
2016	145,000	393,860	538,860
2017 - 2021	875,000	1,883,939	2,758,939
2022 - 2026	1,145,000	1,677,001	2,822,001
2027 - 2031	1,490,000	1,363,402	2,853,402
2032 - 2036	1,950,000	926,381	2,876,381
2037 - 2041	2,550,000	345,850	2,895,850
	<u>\$ 8,555,000</u>	<u>\$ 7,801,501</u>	<u>\$ 16,356,501</u>

The District’s bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Long-term liability activity of the West Ranch Management District for the year ended July 31, 2012, was as follows:

Component Unit	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
General obligation bonds	\$ 8,555,000	\$ -	\$ -	\$ 8,555,000	\$ 125,000
Discount on bond issuance	(212,305)	-	3,182	(209,123)	-
Bond anticipation note	-	2,665,000	-	2,665,000	-
Developer advances	40,000	-	-	40,000	-
Due to developer	3,266,960	184,048	(1,624,976)	1,826,032	-
Total component unit	<u>\$ 11,649,655</u>	<u>\$ 2,849,048</u>	<u>\$ (1,621,794)</u>	<u>\$ 12,876,909</u>	<u>\$ 125,000</u>

A developer of the West Ranch Management District has advanced \$40,000 to the District for operating expenses. The District has agreed to repay these amounts plus interest to the extent approved by the Texas Commission on Environmental Quality from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities. The District is currently unable to estimate when bonds will be issued to pay this liability.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

West Ranch Management District – Continued

Developers of the West Ranch Management District have constructed underground utilities on behalf of the District. The District has agreed to reimburse the developers for these construction costs and interest to the extent approved by the Texas Commission on Environmental Quality. The District estimates reimbursable costs for completed projects are \$1,826,032. These amounts have been recorded in the financial statements as long-term liabilities.

NOTE 7. RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise fund are as follows:

Cash and investments:	
Customer deposits	\$ 328,554
Construction	785,709
Construction - 2006 bonds	1,848,581
Construction - 2009 bonds	1,269,893
Debt service reserve	<u>533,722</u>
 Total restricted assets	 <u><u>\$ 4,766,459</u></u>

NOTE 8. EMPLOYEE RETIREMENT SYSTEM

Plan Description

The City provides pension benefits for all of its full-time 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 (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Benefits

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit, which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows:

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7.00%	7.00%
Matching ratio (city to employee)	2 to 1	2 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	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	30% of CPI Repeating	50% of CPI Repeating

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

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 for that city. 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 the TMRS Plan 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.

The annual pension cost and net pension obligation are as follows:

Annual Required Contribution (ARC)	\$ 1,773,895
Interest on Net Pension Obligation	44,635
Adjustment to the ARC	<u>(37,983)</u>
Annual Pension Cost (APC)	1,780,547
Contributions made	<u>(1,773,895)</u>
Increase in net pension obligation	6,652
Net Pension Obligation, beginning of year	<u>626,456</u>
 Net Pension Obligation, end of year	 <u><u>\$ 633,108</u></u>

City historical data is as follows:

Fiscal Year	Annual Pension Cost (APC)	Actual Contribution Made	Percentage of APC Contributed	Net Pension Obligation at September 30
2010	\$ 1,950,342	\$ 1,645,318	84.4%	\$ 529,869
2011	1,858,285	1,761,698	94.8%	626,456
2012	1,780,547	1,773,895	99.6%	633,108

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Contributions – Continued

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation date	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
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	28.1 years: closed period	27.8 years: closed period	27.0 years: closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial assumptions:			
Investment rate of return *	7.50%	7.00%	7.00%
Projected salary increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes inflation at	3.00%	3.00%	3.00%
Cost-of-living adjustments	2.10%	0.90%	1.50%

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 8. EMPLOYEE RETIREMENT SYSTEM – CONTINUED

Funded Status and Funding Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2011	\$39,062,666	\$49,224,949	79.4%	\$10,162,283	\$11,521,562	88.2%

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 Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Retiree Insurance Coverage

The City Council has established a single-employer medical, dental, and vision insurance defined benefit plan for retirees. Eligible retirees are provided insurance benefits at a set premium rate equal to the City's employees' rate. Eligible retirees may also cover their dependents. Retirees are responsible for paying the premium cost associated with their coverage. A retiree is defined as a person who is receiving lifetime monthly TMRS pension benefit payments and retired directly from active employment at the City. The City will stop insurance coverage on the retiree and all dependents on the last day of the month the retiree fails to submit the required premium payment or upon death of the employee. The retiree health plan does not issue a publicly available financial report.

Retirement Benefit Eligibility

The retiring employee must be 60 years of age with 5 years of service or have 20 years of service at any age. Employees terminating before normal retirement conditions are met are not eligible for retiree health plans. Retirees are not required to enroll in Medicare Parts A and B once eligible.

Plan Participants

Permanent full-time employees and any dependents covered on the employee's last date of employment are eligible for coverage. Dependents are not eligible for coverage unless the retired employee is covered. Should the retiring employee reject any of the plans, he/she is never eligible to re-enroll in the rejected plans. At the time of coverage election, the retiring employee has the option of cancelling coverage on any dependent with the understanding that that dependent can never be re-enrolled; new dependents cannot be added to the plan.

Medical HMO and/or POS Plan

The retiring employee is eligible to retain whichever medical plan the employee had on the last day of employment. Any dependents covered at that time may remain on the retired employee's plan as long as the retired employee remains active on the plan. The only time the retiree's plan choice can be changed is at open enrollment. All terms and conditions of the plan are the same as active employees.

Dental DMO and/or PPO Plan

The retiring employee is eligible to retain whichever dental plan the employee had on the last day of employment. Any dependents covered at that time may remain on the retired employee's plan as long as the retired employee remains active on the plan. The only time the retiree's plan choice can be changed is at open enrollment. All terms and conditions of the plan are the same as active employees.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Retiree Insurance Coverage – Continued

Vision Plan

The retiring employee is eligible to retain the vision plan the employee had on the last day of employment. Any dependents covered at that time may remain on the retired employee's plan as long as the retired employee remains active on the plan. All terms and conditions of the plan are the same as active employees.

Premiums Paid

All premiums are 100% paid monthly by the retiree. The City does not contribute to any of the plans once an employee retires.

Funding Policy and Annual OPEB Cost

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of expense that, if recognized on an ongoing basis, is projected to cover normal cost each year and to amortize the unfunded actuarial liabilities over a period not to exceed thirty years. The City's annual OPEB cost for the current year is as follows:

Annual required contribution	\$	72,428
Interest on OPEB obligation		25,955
Adjustment to ARC		(15,233)
Annual OPEB cost (expense) end of year		83,150
Net estimated employer contributions		43,719
Increase in net OPEB obligation		39,431
Net OPEB obligation – as of beginning of the year		576,766
Net OPEB obligation – as of end of year	\$	616,197

City historical data is as follows:

Fiscal Year	Annual OPEB Cost	Actual Contribution Made	Percentage of OPEB Cost Contributed	Net OPEB Obligation at September 30
2010	\$ 305,150	\$ 37,508	12%	\$ 540,276
2011	83,000	46,510	56%	576,766
2012	83,150	43,719	53%	616,197

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Retiree Insurance Coverage – Continued

Funding Status and Funding Progress

The funded status of the City’s retiree health care plan, under GASB Statement No. 45 as of December 31, 2010, the most recent valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3) (1) / (2)	(4) (2) - (1)	(5)	(6) (4) / (5)
12/31/2010	\$0	\$610,795	0.00%	\$610,795	\$11,160,286	5.47%

Under the reporting parameters, the City’s retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by \$610,795 at December 31, 2010.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Actuarial Methods and Assumptions

The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City’s retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the City’s employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Retiree Insurance Coverage – Continued

Actuarial Methods and Assumptions – Continued

Significant methods and assumptions were as follows:

Investment rate of return	4.5%, net of expenses
Inflation rate	1.50%
Healthcare cost trend rates	4.5% to 9.0%
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level Percent of Payroll over an open period of 30 years
Payroll Growth Rate	3.00%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Supplemental Death Benefits Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (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 postemployment benefit," or OPEB.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 9. POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

Supplemental Death Benefits Fund – Continued

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 employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended September 30, 2012, 2011 and 2010 were \$21,455, \$25,107, and \$22,282, respectively, which equaled the required contributions each year.

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; injuries to employees; and natural disasters. The City's risk management program encompasses obtaining property and liability insurance through Texas Municipal League (TML), an Intergovernmental Risk Pool. The City has not had any significant reduction in insurance coverage and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in TML is limited to payment of premiums. During the year ended September 30, 2011, the City paid premiums to TML for provisions of various liability, property and casualty insurance. The City has various deductible amounts ranging from \$500 to \$5,000 on various policies. At year-end, the City did not have any significant open claims.

The City also provides workers' compensation insurance on its employees through TML. Workers' compensation is subject to change when audited by TML. At year-end, September 30, 2012, the City believed the amounts paid on workers' compensation would not change significantly from the amounts recorded.

During the year ended September 30, 2012, employees of the City were covered by a health and dental insurance plan. Employees have the option to select either an HMO or a Point of Service (POS) plan. If an individual employee chooses to cover only themselves through an HMO plan, the City pays 90% of the monthly premium. If an individual employee chooses to cover themselves and their dependents through an HMO plan, the City pays 70% of the monthly premium. If an employee chooses insurance coverage through the POS plan for themselves or for themselves and their dependents then the City pays up to 90% or 70%, respectively, of the HMO plan monthly premium.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 11. COMMITMENTS AND CONTINGENCIES

Southeast Water Purification Plant

The City has entered into a contract with the City of Houston for constructing, operating and maintaining a water purification plant known as Southeast Water Purification Plant. The City's pro rata share of the actual pumping construction costs is 1.33 percent.

The City began receiving water from the plant on October 15, 1990. The City is billed on a monthly basis for the actual gallons of water received times the City's pro rata share of actual costs. At the end of each quarter, the City of Houston computes the total operation and maintenance expense for the quarter just ended, recalculates the cost per one thousand gallons, and adjusts previous billings on the next invoice. As of September 30, 2012, the City has purchased water capacity with an indefinite life of \$19,716,695.

The relationship of the parties is of a fiduciary character. No partnership or joint venture is created by this contract.

Federal and State Programs

The City recognizes grant monies received as reimbursement for costs incurred in certain federal and state programs it administers as revenue. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Litigation

The City is a defendant in various lawsuits. The outcome and the impact of these lawsuits is not presently determinable.

**REQUIRED SUPPLEMENTARY
INFORMATION
(Unaudited)**

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION
IN TEXAS MUNICIPAL RETIREMENT SYSTEM
SEPTEMBER 30, 2012**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3) (1) / (2)	<u>Unfunded AAL (UAAL)</u> (4) (2) - (1)	<u>Covered Payroll</u> (5)	<u>UAAL as a Percentage of Covered Payroll</u> (6) (4) / (5)
12/31/2009	\$ 24,941,996	\$ 34,979,418	71.3%	\$ 10,037,422	\$ 11,194,824	89.7%
12/31/2010	35,257,370	46,008,288	76.6	10,750,918	11,160,286	96.3
12/31/2011	39,062,666	49,224,949	79.4	10,162,283	11,521,562	88.2

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF FUNDING PROGRESS
POST EMPLOYMENT BENEFITS PLAN OTHER THAN PENSIONS
SEPTEMBER 30, 2012**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (1)	<u>Actuarial Accrued Liability (AAL)</u> (2)	<u>Funded Ratio</u> (3) (1) / (2)	<u>Unfunded AAL (UAAL)</u> (4) (2) - (1)	<u>Covered Payroll</u> (5)	<u>UAAL as a Percentage of Covered Payroll</u> (6) (4) / (5)
12/31/2009	\$ -	\$ 2,426,788	0.0%	\$ 2,426,788	\$ 10,885,990	22.3%
12/31/2010	-	610,795	0.0	610,795	11,160,286	5.5
12/31/2011	*	610,795	0.0	610,795	11,160,286	5.5

* In accordance with GASB Statement No. 45, the City has an actuarial valuation performed every 2 years, which was performed as of 12/31/10. Therefore data for 2011 is the same as 2010.

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 12,432,608	\$ 12,432,608	\$ 12,508,638	\$ 76,030
Sales and alcohol taxes	3,994,949	3,994,949	3,930,933	(64,016)
Franchise taxes	1,511,334	1,538,971	1,556,556	17,585
Fines and forfeitures	952,020	952,020	998,219	46,199
Permits and fees	1,007,774	1,039,344	1,106,913	67,569
Intergovernmental	220,430	487,691	424,654	(63,037)
Investment earnings	111,212	111,212	121,676	10,464
Donations	38,331	85,923	58,323	(27,600)
Miscellaneous	16,305	31,025	41,410	10,385
Total revenues	20,284,963	20,673,743	20,747,322	73,579
Expenditures				
General government				
Mayor and council				
Personnel services	299	299	-	299
Supplies	3,421	3,505	2,438	1,067
Other services and charges	264,382	271,374	267,107	4,267
Total mayor and council	268,102	275,178	269,545	5,633
City manager				
Personnel services	505,158	461,627	459,586	2,041
Supplies	6,169	6,444	3,820	2,624
Other services and charges	91,762	100,462	80,246	20,216
Total city manager	603,089	568,533	543,652	24,881
City secretary				
Personnel services	366,704	366,704	362,135	4,569
Supplies	12,826	19,757	16,591	3,166
Repairs and maintenance	140	140	-	140
Other services and charges	48,273	47,713	21,567	26,146
Total city secretary	427,943	434,314	400,293	34,021
Administrative services				
Personnel services	701,623	701,578	698,243	3,335
Supplies	6,592	6,890	4,720	2,170
Other services and charges	197,873	203,606	192,392	11,214
Total administrative services	906,088	912,074	895,355	16,719

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(CONTINUED)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Human resources				
Personnel services	322,256	322,231	305,250	16,981
Supplies	13,555	8,468	5,422	3,046
Other services and charges	58,946	54,927	37,453	17,474
Total human resources	<u>394,757</u>	<u>385,626</u>	<u>348,125</u>	<u>37,501</u>
Tax				
Other services and charges	214,478	214,478	199,810	14,668
Total tax	<u>214,478</u>	<u>214,478</u>	<u>199,810</u>	<u>14,668</u>
Economic development				
Personnel services	138,753	138,748	142,060	(3,312)
Supplies	13,325	19,652	10,251	9,401
Other services and charges	101,259	102,649	88,967	13,682
Total economic development	<u>253,337</u>	<u>261,049</u>	<u>241,278</u>	<u>19,771</u>
Municipal court				
Personnel services	556,203	544,104	537,865	6,239
Supplies	24,033	20,500	7,528	12,972
Repairs and maintenance	1,480	1,480	-	1,480
Other services and charges	42,916	42,986	25,040	17,946
Total municipal court	<u>624,632</u>	<u>609,070</u>	<u>570,433</u>	<u>38,637</u>
Computer services				
Personnel services	306,678	309,938	312,627	(2,689)
Supplies	9,230	9,319	12,924	(3,605)
Repairs and maintenance	68,830	68,830	56,115	12,715
Other services and charges	309,928	320,714	300,733	19,981
Capital outlay	21,500	88,271	51,489	36,782
Total computer services	<u>716,166</u>	<u>797,072</u>	<u>733,888</u>	<u>63,184</u>
Risk management				
Personnel services	91,291	101,770	98,063	3,707
Supplies	11,879	6,407	4,526	1,881
Other services and charges	14,100	6,600	5,495	1,105
Total risk management	<u>117,270</u>	<u>114,777</u>	<u>108,084</u>	<u>6,693</u>
Total general government	4,525,862	4,572,171	4,310,463	261,708

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(CONTINUED)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Police services				
Personnel services	5,948,341	5,977,726	5,896,038	81,688
Supplies	357,744	405,032	380,969	24,063
Repairs and maintenance	134,967	156,561	132,824	23,737
Other services and charges	410,154	409,989	403,095	6,894
Capital outlay	31,471	67,953	99,494	(31,541)
Total police services	<u>6,882,677</u>	<u>7,017,261</u>	<u>6,912,420</u>	<u>104,841</u>
Communications				
Personnel services	907,133	907,063	933,485	(26,422)
Supplies	5,722	6,494	5,553	941
Repairs and maintenance	17,764	19,676	19,129	547
Other services and charges	17,995	15,588	14,198	1,390
Total communications	<u>948,614</u>	<u>948,821</u>	<u>972,365</u>	<u>(23,544)</u>
Animal control				
Personnel services	232,762	232,762	249,523	(16,761)
Supplies	18,506	31,071	30,697	374
Repairs and maintenance	2,373	3,373	1,644	1,729
Other services and charges	18,546	47,610	36,598	11,012
Capital outlay	-	8,330	9,573	(1,243)
Total animal control	<u>272,187</u>	<u>323,146</u>	<u>328,035</u>	<u>(4,889)</u>
Fire and EMS				
Personnel services	562,375	567,720	554,649	13,071
Supplies	38,782	87,176	82,539	4,637
Repairs and maintenance	6,694	10,180	8,701	1,479
Other services and charges	1,303,280	1,288,292	1,280,810	7,482
Capital outlay	-	26,787	491,562	(464,775)
Total fire and EMS	<u>1,911,131</u>	<u>1,980,155</u>	<u>2,418,261</u>	<u>(438,106)</u>
Total public safety	10,014,609	10,269,383	10,631,081	(361,698)

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(CONTINUED)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Public works				
Administration				
Personnel services	219,308	252,737	254,328	(1,591)
Supplies	1,621	1,621	841	780
Other services and charges	1,929	1,929	1,026	903
Total administration	<u>222,858</u>	<u>256,287</u>	<u>256,195</u>	<u>92</u>
Streets				
Personnel services	487,567	487,567	506,398	(18,831)
Supplies	69,980	71,980	64,582	7,398
Repairs and maintenance	181,850	231,800	351,529	(119,729)
Other services and charges	452,406	452,456	412,043	40,413
Capital outlay	62,500	145,855	-	145,855
Total streets	<u>1,254,303</u>	<u>1,389,658</u>	<u>1,334,552</u>	<u>55,106</u>
Drainage				
Personnel services	305,520	305,520	299,330	6,190
Supplies	9,435	9,735	11,314	(1,579)
Repairs and maintenance	41,029	38,129	12,565	25,564
Other services and charges	5,850	5,550	4,201	1,349
Capital outlay	35,000	107,428	24,385	83,043
Total drainage	<u>396,834</u>	<u>466,362</u>	<u>351,795</u>	<u>114,567</u>
Sanitation				
Other services and charges	14,200	41,840	41,839	1
Total sanitation	<u>14,200</u>	<u>41,840</u>	<u>41,839</u>	<u>1</u>
Total public works	1,888,195	2,154,147	1,984,381	169,766

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(CONTINUED)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Community development				
Administration				
Personnel services	610,075	552,629	551,902	727
Supplies	8,621	9,321	9,558	(237)
Repairs and maintenance	637	637	220	417
Other services and charges	12,403	12,016	6,546	5,470
Total administration	<u>631,736</u>	<u>574,603</u>	<u>568,226</u>	<u>6,377</u>
Planning and zoning				
Personnel services	148,901	184,796	178,592	6,204
Supplies	1,585	1,855	674	1,181
Other services and charges	11,274	11,661	8,856	2,805
Total planning and zoning	<u>161,760</u>	<u>198,312</u>	<u>188,122</u>	<u>10,190</u>
Engineering				
Personnel services	63,730	61,513	48,531	12,982
Supplies	1,667	1,767	351	1,416
Repairs and maintenance	530	530	19	511
Other services and charges	7,476	7,376	4,902	2,474
Total engineering	<u>73,403</u>	<u>71,186</u>	<u>53,803</u>	<u>17,383</u>
Inspection				
Personnel services	425,096	425,284	424,400	884
Supplies	13,126	14,720	11,840	2,880
Repairs and maintenance	1,167	3,980	2,848	1,132
Other services and charges	42,203	32,687	13,285	19,402
Total inspection	<u>481,592</u>	<u>476,671</u>	<u>452,373</u>	<u>24,298</u>
Total community development	<u>1,348,491</u>	<u>1,320,772</u>	<u>1,262,524</u>	<u>58,248</u>

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(CONTINUED)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Community services				
Administration				
Personnel services	243,237	282,372	281,901	471
Supplies	5,775	4,575	3,366	1,209
Other services and charges	26,105	29,155	26,985	2,170
Total administration	<u>275,117</u>	<u>316,102</u>	<u>312,252</u>	<u>3,850</u>
Parks and recreation				
Personnel services	703,760	703,650	687,848	15,802
Supplies	110,617	125,980	117,091	8,889
Repairs and maintenance	106,935	140,892	134,718	6,174
Other services and charges	591,859	588,810	573,456	15,354
Capital outlay	35,000.00	439,749	162,386	277,363
Total parks and recreation	<u>1,548,171</u>	<u>1,999,081</u>	<u>1,675,499</u>	<u>323,582</u>
Swimming pool				
Personnel services	65,764	65,399	53,319	12,080
Supplies	15,199	14,464	13,616	848
Repairs and maintenance	11,972	3,357	1,915	1,442
Other services and charges	31,153	32,153	29,439	2,714
Total swimming pool	<u>124,088</u>	<u>115,373</u>	<u>98,289</u>	<u>17,084</u>
Building operations				
Supplies	24,409	29,562	25,598	3,964
Repairs and maintenance	118,542	123,662	103,830	19,832
Other services and charges	568,473	617,704	569,888	47,816
Capital outlay	0	542,372	397,438	144,934
Total building operations	<u>711,424</u>	<u>1,313,300</u>	<u>1,096,754</u>	<u>216,546</u>
Total community services	<u>2,658,800</u>	<u>3,743,856</u>	<u>3,182,794</u>	<u>561,062</u>
Library				
Personnel services	841,370	841,370	809,881	31,489
Supplies	156,261	185,257	173,060	12,197
Repairs and maintenance	2,575	1,012	680	332
Other services and charges	25,857	21,227	20,682	545
Total library	<u>1,026,063</u>	<u>1,048,866</u>	<u>1,004,303</u>	<u>44,563</u>
Total expenditures	<u>21,462,020</u>	<u>23,109,195</u>	<u>22,375,546</u>	<u>733,649</u>
Deficiency of revenues over expenditures	(1,177,057)	(2,435,452)	(1,628,224)	807,228

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(CONTINUED)**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources				
Proceeds from sale of capital assets	-	-	9,250	9,250
Proceeds from capital lease	-	-	464,270	464,270
Insurance recoveries	25,392	111,441	105,502	(5,939)
Transfers in	1,151,665	1,291,665	1,291,680	15
Transfers out	-	-	(70,663)	(70,663)
Total other financing sources	<u>1,177,057</u>	<u>1,403,106</u>	<u>1,800,039</u>	<u>396,933</u>
Net change in fund balances	-	(1,032,346)	171,815	1,204,161
Fund balance, beginning of year	<u>8,915,404</u>	<u>8,915,404</u>	<u>8,915,404</u>	<u>-</u>
Fund balance, end of year	<u>\$ 8,915,404</u>	<u>\$ 7,883,058</u>	<u>\$ 9,087,219</u>	<u>\$ 1,204,161</u>

CITY OF FRIENDSWOOD, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1. BUDGETARY CONTROL

The City's Code of Ordinances establishes the following framework for the preparation and format of the City's annual budget:

Content

The budget shall provide a complete financial plan of all City funds and activities and, except as required by law or this Charter, shall be in such form as the City Manager deems desirable or the Council may require. The budget shall begin with a clear general summary of its contents; shall show in detail all estimated income, the proposed property tax levy, and all proposed expenditures for the ensuing fiscal year, including debt service and an itemized estimate of the expense of conducting each Department of the City. The proposed budget expenditures shall not exceed the total of estimated income. It shall also include, in separate sections:

- (1) Tax levies, rates, and collections for the preceding five years.
- (2) The amount required for interest on the City's debts, for sinking fund and for maturing serial bonds.
- (3) The total amount of outstanding City debts, with a schedule of maturities on bond issues.
- (4) Anticipated net surplus or deficit for the ensuing fiscal year of each utility owned or operated by the City and the proposed method of its disposition, subsidiary budgets for each such utility giving detailed income and expenditure information shall be attached as appendices to the budget.
- (5) A capital program, which may be revised and extended each year to indicate capital improvements pending or in process of construction or acquisition, and shall include the following items which shall be attached as appendices to the budget:
 - (a) A summary of proposed programs;
 - (b) A list of all capital improvements which are proposed to be undertaken during the five fiscal years next ensuing, with appropriate supporting information as to the necessity for such improvements;
 - (c) Cost estimates, method of financing and recommended time schedules for each such improvement; and
 - (d) The estimated annual cost of operating and maintaining the facilities to bid constructed or acquired.
- (6) Such other information as may be required by the Council.

Submission

On or before the first day of August of each year, the City Manager shall submit to the Council a proposed budget and an accompanying message. The Council shall review the proposed budget and revise as deemed appropriate prior to general circulation for public hearing.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 1. BUDGETARY CONTROL – CONTINUED

Public Notice and Hearing

The Council shall post in the City Hall and publish in the official newspaper a general summary of their [its] proposed budget and a notice stating:

- (1) The times and places where copies of the message and budget are available for inspection by the public; and
- (2) The time and place, not less than ten nor more than 30 days after such publication, for a public hearing on the budget.

Amendment Before Adoption

After the public hearing, the Council may adopt the budget with or without amendment. In amending the budget, it may add or increase programs or amounts and may delete or decrease any programs or amounts, except expenditures required by law or for debt service or for estimated cash deficit, provided that no amendment to the budget shall increase the authorized expenditures to an amount greater than the total of estimated income plus funds available from prior years.

Adoption

The Council shall adopt its annual budget inclusive of all governmental and proprietary funds by ordinance, on one reading, by the 15th day of September or as soon thereafter as practical. The City legally adopts annual budgets for the general, special revenue and debt service funds. The budgets are adopted on a basis consistent with generally accepted accounting principles.

If the Council fails to adopt an annual budget before the start of the fiscal year to which it applies, appropriations of the last budget adopted shall be considered as adopted for the current fiscal year on a month to month, pro rata basis, until the annual budget is adopted. Adoption of the budget shall require an affirmative vote of at least a majority of all members of the Council. Adoption of the budget shall constitute appropriations of the amounts specified therein as expenditures from the funds indicated.

**CITY OF FRIENDSWOOD, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 1. BUDGETARY CONTROL – CONTINUED

Amendments after Adoption

At any time during the fiscal year, the City Manager may transfer part or all of any unencumbered appropriation balance among programs within a department, division, or office, and, upon written request by the City Manager, the Council may by ordinance transfer part or all of any unencumbered appropriation balance from one department, office, or agency to another.

No appropriation for debt service may be reduced or transferred and no appropriation may be reduced below any amount required by law to be appropriated or by more than the amount of the unencumbered balance thereof. The City Council made supplemental budgetary appropriation changes during the fiscal year. The reported budgetary data has been revised for these amendments legally authorized during the year.

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

NON MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Police Investigation Fund – This fund is used to account for revenues that are restricted to police investigation expenditures.

Fire/EMS Donation Fund – This fund accounts for revenues that are restricted for Fire/EMS capital outlays and debt repayments.

EDA Grant Fund – This fund is used to account for receipts and expenditures related to the U.S. Department of Commerce Economic Development Administration grant awarded to the City in fiscal year 2008-2009.

TDRA Grant Fund – This fund is used to account for receipts and expenditures related to the Texas Community Development Block Grant awarded to the City in fiscal year 2009-2010.

Sidewalk Installation Fund – This fund is used to account for receipts from developers to install sidewalks in neighborhood developments.

Park Land Dedication Fund – This fund is used to account for receipts from developers to build or enhance neighborhood and community parks.

Court Security and Technology Fund – This fund accounts for revenues that are restricted for court technology and building security. In 1999, the state legislature authorized a court technology and court security fee for municipal court fines.

CAPITAL PROJECT FUNDS

Capital project funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Bond Construction Fund – This fund is used to account for the construction of public safety facilities, and park, streets and drainage improvements that are funded by the proceeds from Permanent Improvement Bonds.

PERMANENT FUND

The Permanent Fund is used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the City's programs.

1776 Park Fund – This fund is used to account for assets held by the City in a trustee capacity and the earnings benefit this City Park.

**CITY OF FRIENDSWOOD, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

ASSETS	Special Revenue Funds						Capital Projects	Permanent	Total Nonmajor Governmental Funds	
	Police Investigation	Fire/EMS Donation	EDA Grant	TDRA Grant	Sidewalk Installation	Park Land Dedication	Court Security and Technology	Bond Construction		1776 Park
Cash and investments	\$ 129,130	\$ 76,568	\$ 519,265	\$ 1,476,483	\$ -	\$ 197,628	\$ 274,977	\$ 1,567,339	\$ 30,992	\$ 4,272,382
Receivables, net of allowance										
Customer accounts	-	30,236	-	-	-	-	-	-	-	30,236
Other	151	68	-	-	-	349	4,943	-	35	5,546
Receivable from other governments	-	-	380,735	39,451	-	-	-	-	-	420,186
Total assets	\$ 129,281	\$ 106,872	\$ 900,000	\$ 1,515,934	\$ -	\$ 197,977	\$ 279,920	\$ 1,567,339	\$ 31,027	\$ 4,728,350
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Accounts payable	\$ 21,282	\$ 39,669	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 183,503	\$ -	\$ 244,454
Accrued liabilities	-	-	-	20,377	-	-	346	92,861	-	113,584
Due to other funds	-	-	900,000	1,495,557	-	-	-	-	-	2,395,557
Deferred revenue	-	-	-	-	-	-	4,625	-	-	4,625
Total liabilities	21,282	39,669	900,000	1,515,934	-	-	4,971	276,364	-	2,758,220
FUND BALANCES										
Nonspendable										
Permanent fund	-	-	-	-	-	-	-	-	31,027	31,027
Restricted										
Authorized construction	-	-	-	-	-	-	-	1,290,975	-	1,290,975
State and/or federal statute	107,999	-	-	-	-	-	274,949	-	-	382,948
Fire/EMS donations	-	67,203	-	-	-	-	-	-	-	67,203
City ordinances	-	-	-	-	-	197,977	-	-	-	197,977
Total fund balances	107,999	67,203	-	-	-	197,977	274,949	1,290,975	31,027	1,970,130
Total liabilities and fund balances	\$ 129,281	\$ 106,872	\$ 900,000	\$ 1,515,934	\$ -	\$ 197,977	\$ 279,920	\$ 1,567,339	\$ 31,027	\$ 4,728,350

**CITY OF FRIENDSWOOD, TEXAS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Special Revenue Funds</u>							<u>Capital Projects Funds</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Police Investigation</u>	<u>Fire/EMS Donation</u>	<u>EDA Grant</u>	<u>TDRA Grant</u>	<u>Sidewalk Installation</u>	<u>Park Land Dedication</u>	<u>Court Security and Technology</u>	<u>Bond Construction</u>	<u>1776 Park</u>	
Revenues										
Fines and forfeitures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,661	\$ -	\$ -	\$ 39,661
Permits and fees	-	-	-	-	-	67,100	-	-	-	67,100
Intergovernmental	125,948	-	52,671	474,617	-	-	-	-	-	653,236
Investment earnings	563	138	-	-	-	1,659	1,253	6,322	158	10,093
Donations	-	247,796	-	-	-	-	-	-	-	247,796
Total revenues	126,511	247,934	52,671	474,617	-	68,759	40,914	6,322	158	1,017,886
Expenditures										
Current:										
General government	-	-	-	33,800	-	-	29,857	-	-	63,657
Public safety	45,294	125,264	-	-	-	-	-	-	-	170,558
Capital outlay	10,000	-	52,671	488,221	-	-	-	1,918,403	-	2,469,295
Debt service:										
Principal	-	111,191	-	-	-	-	-	-	-	111,191
Interest and fiscal charges	-	13,764	-	-	-	-	-	-	-	13,764
Total expenditures	55,294	250,219	52,671	522,021	-	-	29,857	1,918,403	-	2,828,465
Other financing sources (uses)										
Proceeds from bond issuance	-	-	-	-	-	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-	-	-	-	-	-
Transfers in	-	9,250	-	47,404	-	14,009	-	-	-	70,663
Transfers out	-	-	-	-	(15)	(175,000)	-	-	-	(175,015)
Total other financing sources (uses)	-	9,250	-	47,404	(15)	(160,991)	-	-	-	(104,352)
Net change in fund balances	71,217	6,965	-	-	(15)	(92,232)	11,057	(1,912,081)	158	(1,914,931)
Fund balances, beginning of year	36,782	60,238	-	-	15	290,209	263,892	3,203,056	30,869	3,885,061
Fund balances, end of year	<u>\$ 107,999</u>	<u>\$ 67,203</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 197,977</u>	<u>\$ 274,949</u>	<u>\$ 1,290,975</u>	<u>\$ 31,027</u>	<u>\$ 1,970,130</u>

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
FIRE/EMS DONATION FUND
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Interest income	\$ -	\$ -	\$ 138	\$ 138
Donations	241,000	241,000	247,796	6,796
Total revenues	241,000	241,000	247,934	6,934
Expenditures				
Current				
Public safety	112,187	112,187	125,264	(13,077)
Debt service				
Principal	111,192	111,192	111,191	1
Interest and fiscal charges	17,621	17,621	13,764	3,857
Total expenditures	241,000	241,000	250,219	(9,219)
Excess (deficiency) of revenues over expenditures	-	-	(2,285)	(2,285)
Other financing sources (uses)				
Transfers in	-	-	9,250	9,250
Net change in fund balance	-	-	6,965	6,965
Fund balance, beginning of year	60,238	60,238	60,238	-
Fund balance, end of year	<u>\$ 60,238</u>	<u>\$ 60,238</u>	<u>\$ 67,203</u>	<u>\$ 6,965</u>

**CITY OF FRIENDSWOOD, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 1,639,607	\$ 1,639,607	\$ 1,634,045	\$ (5,562)
Interest income	7,000	7,000	3,714	(3,286)
Total revenues	1,646,607	1,646,607	1,637,759	(8,848)
Expenditures				
Debt service				
Principal	1,452,667	1,452,667	1,450,897	1,770
Interest and fiscal charges	893,111	896,361	754,565	141,796
Bond issuance costs	-	131,381	131,380	1
Total expenditures	2,345,778	2,480,409	2,336,842	143,567
Excess (deficiency) of revenues over expenditures	(699,171)	(833,802)	(699,083)	134,719
Other financing sources (uses)				
Issuance of refunding bonds	-	134,631	8,890,000	8,755,369
Premium on issuance of bonds	-	-	563,666	563,666
Payments to escrow agent	-	-	(9,425,538)	(9,425,538)
Transfers in	608,475	608,475	608,476	1
Total other financing sources	608,475	743,106	636,604	(106,502)
Net change in fund balance	(90,696)	(90,696)	(62,479)	28,217
Fund balance, beginning of year	308,231	308,231	308,231	-
Fund balance, end of year	\$ 217,535	\$ 217,535	\$ 245,752	\$ 28,217

STATISTICAL SECTION
(Unaudited)

STATISTICAL SECTION

(Unaudited)

This part of the City of Friendswood, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

FINANCIAL TRENDS INFORMATION - information to help the reader understand how the City's financial performance and well-being have changed over time.

- 1 Net assets by component
- 2 Changes in net assets
- 3 Fund balances, governmental funds
- 4 Changes in fund balances, governmental funds

REVENUE CAPACITY INFORMATION - information to help the reader assess the City's most significant local revenue source, the property tax.

- 5 Assessed value and actual value of taxable property
- 6 Direct and overlapping property tax rates
- 7 Principal property tax payers
- 8 Property tax levies and collections

DEBT CAPACITY INFORMATION - information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

- 9 Ratios of outstanding debt by type
- 10 Ratios of general bonded debt outstanding
- 11 Direct and overlapping governmental activities debt
- 12 Legal debt margin information
- 13 Pledged-revenue coverage

DEMOGRAPHIC AND ECONOMIC INFORMATION - information to help the reader understand the environment within which the City's financial activities take place, and to help make comparisons over time and with other governments.

- 14 Demographic and economic statistics
- 15 Principal employers

OPERATING INFORMATION - service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

- 16 Full-time equivalent city government employees by function/program
- 17 Operating indicators by function/program
- 18 Capital asset statistics by function/program

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Table 1
City of Friendswood
Net Assets by Component
Last Ten Fiscal Years
(accrual basis of accounting)
(unaudited)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ 49,742,075	\$ 29,632,831	\$ 32,533,863	\$ 32,849,446	\$ 71,777,140	\$ 70,591,236	\$ 69,313,348	\$ 70,480,334	\$ 66,580,049	\$ 65,582,783
Restricted	585,080	1,271,568	1,576,829	2,034,157	2,391,482	2,773,910	2,461,510	1,977,801	922,874	872,869
Unrestricted	5,468,870	7,125,997	7,527,573	10,391,123	10,785,998	10,548,129	9,892,077	8,447,179	8,227,254	8,828,132
Total governmental activities net assets	<u>\$ 55,796,025</u>	<u>\$ 38,030,396</u>	<u>\$ 41,638,265</u>	<u>\$ 45,274,726</u>	<u>\$ 84,954,620</u>	<u>\$ 83,913,275</u>	<u>\$ 81,666,935</u>	<u>\$ 80,905,314</u>	<u>\$ 75,730,177</u>	<u>\$ 75,283,784</u>
Business-type activities										
Invested in capital assets, net of related debt	\$ 17,656,296	\$ 17,174,525	\$ 16,823,526	\$ 16,815,130	\$ 16,884,376	\$ 20,375,620	\$ 21,122,644	\$ 19,565,756	\$ 26,251,346	\$ 25,618,823
Restricted	305,660	444,548	445,086	41,057	162,218	27,246	93,526	593,597	731,410	786,600
Unrestricted	4,058,223	4,337,137	5,228,802	6,574,920	7,475,597	4,227,253	6,730,812	8,677,882	11,373,311	13,032,798
Total business-type activities net assets	<u>\$ 22,020,179</u>	<u>\$ 21,956,210</u>	<u>\$ 22,497,414</u>	<u>\$ 23,431,107</u>	<u>\$ 24,522,191</u>	<u>\$ 24,630,119</u>	<u>\$ 27,946,982</u>	<u>\$ 28,837,235</u>	<u>\$ 38,356,067</u>	<u>\$ 39,438,221</u>
Primary government										
Invested in capital assets, net of related debt	\$ 67,398,371	\$ 46,807,356	\$ 49,357,389	\$ 49,664,576	\$ 88,661,516	\$ 90,966,856	\$ 90,435,992	\$ 90,046,090	\$ 92,831,395	\$ 91,201,606
Restricted	890,740	1,716,116	2,021,915	2,075,214	2,553,700	2,801,156	2,555,036	2,571,398	1,654,284	1,659,469
Unrestricted	9,527,093	11,463,134	12,756,375	16,966,043	18,261,595	14,775,382	16,622,889	17,125,061	19,600,565	21,860,930
Total primary government net assets	<u>\$ 77,816,204</u>	<u>\$ 59,986,606</u>	<u>\$ 64,135,679</u>	<u>\$ 68,705,833</u>	<u>\$ 109,476,811</u>	<u>\$ 108,543,394</u>	<u>\$ 109,613,917</u>	<u>\$ 109,742,549</u>	<u>\$ 114,086,244</u>	<u>\$ 114,722,005</u>

Table 2
City of Friendswood
Changes in Net Assets
Last Ten Fiscal Years
(accrual basis of accounting)
(unaudited)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
General government	\$ 2,923,552	\$ 3,375,283	\$ 3,438,849	\$ 3,330,439	\$ 4,472,602	\$ 4,339,620	\$ 5,164,623	\$ 5,145,447	\$ 4,876,064	\$ 4,737,702
Public safety	5,760,097	6,026,272	7,318,886	7,060,800	7,565,797	12,652,812	14,929,941	10,175,028	10,548,568	10,736,805
Community development and public works	3,383,229	2,569,356	2,576,447	2,813,857	5,475,447	4,921,298	5,292,000	-	-	-
Public works	-	-	-	-	-	-	-	3,853,685	3,517,707	3,738,111
Community development	-	-	-	-	-	-	-	1,203,204	1,284,188	1,520,401
Community services	2,747,438	3,081,717	3,075,023	3,098,013	3,420,244	3,841,387	4,002,165	3,034,523	3,058,313	3,227,731
Library	-	-	-	-	-	-	-	979,084	979,978	1,004,303
Interest and fiscal charges	128,192	465,770	478,495	857,602	835,511	803,733	678,705	789,652	871,790	757,011
Total governmental activities expenses	14,942,508	15,518,398	16,887,700	17,160,711	21,769,601	26,558,850	30,067,434	25,180,623	25,136,608	25,722,064
Business-type activities:										
Water and sewer	5,457,496	5,614,077	6,251,251	6,078,881	5,711,063	6,523,501	6,640,062	6,663,308	6,955,505	6,902,279
Interest and fiscal charges	1,063,940	999,219	963,355	962,989	1,583,551	1,543,859	1,604,174	2,037,104	1,644,074	1,638,495
Total business-type activities expenses	6,521,436	6,613,296	7,214,606	7,041,870	7,294,614	8,067,360	8,244,236	8,700,412	8,599,579	8,540,774
Total primary government expenses	21,463,944	22,131,694	24,102,306	24,202,581	29,064,215	34,626,210	38,311,670	33,881,035	33,736,187	34,262,838
Program Revenues										
Governmental activities:										
Charges for services										
General government	647,958	958,665	1,176,086	1,238,631	1,353,160	1,178,523	1,327,484	1,072,289	1,158,392	1,167,619
Public safety	9,433	9,141	15,013	54,653	23,267	21,356	46,773	38,438	39,914	39,661
Community development and public works	1,865,086	822,927	758,487	805,710	998,625	838,060	602,265	-	-	-
Public works	-	-	-	-	-	-	-	152,163	158,858	171,890
Community development	-	-	-	-	-	-	-	550,286	643,150	730,211
Community services	66,862	65,850	66,281	112,681	219,944	132,244	411,207	258,030	267,837	271,912
Library	-	-	-	-	-	-	-	44,313	43,147	38,543
Operating grants and contributions	661,568	778,261	1,271,119	771,477	489,707	4,021,908	5,755,038	2,819,418	3,150,808	648,058
Capital grants and contributions	749,772	239,200	235,300	-	-	-	-	-	-	527,288
Total governmental activities program revenues	4,000,679	2,874,044	3,522,286	2,983,152	3,084,703	6,192,091	8,142,767	4,934,937	5,462,106	3,595,182
Business-type activities:										
Charges for services										
Water and sewer	7,275,746	7,203,736	8,390,761	8,392,277	8,021,040	8,624,546	12,028,895	9,854,083	12,726,936	11,258,216
Total business-type activities program revenues	7,275,746	7,203,736	8,390,761	8,392,277	8,021,040	8,624,546	12,028,895	9,854,083	12,726,936	11,258,216
Total primary government program revenues	11,276,425	10,077,780	11,913,047	11,375,429	11,105,743	14,816,637	20,171,662	14,789,020	18,189,042	14,853,398
Net (Expense)/Revenues										
Governmental activities	(10,941,829)	(12,644,354)	(13,365,414)	(14,177,559)	(18,684,898)	(20,366,759)	(21,924,667)	(20,245,686)	(19,674,502)	(22,126,882)
Business-type activities	754,310	590,440	1,176,155	1,350,407	726,426	557,186	3,784,659	1,153,671	4,127,357	2,717,442
Total primary government net expense	<u>\$ (10,187,519)</u>	<u>\$ (12,053,914)</u>	<u>\$ (12,189,259)</u>	<u>\$ (12,827,152)</u>	<u>\$ (17,958,472)</u>	<u>\$ (19,809,573)</u>	<u>\$ (18,140,008)</u>	<u>\$ (19,092,015)</u>	<u>\$ (15,547,145)</u>	<u>\$ (19,409,440)</u>

(Continued)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Revenues and Other Changes in Net Assets										
Governmental activities:										
Taxes										
Property	\$ 9,706,202	\$ 10,931,393	\$ 11,352,598	\$ 11,304,684	\$ 11,876,246	\$ 12,512,950	\$ 13,481,500	\$ 13,664,765	\$ 13,944,725	\$ 14,165,599
Sales	2,875,071	1,119,328	3,199,136	3,658,699	3,904,436	3,767,526	3,871,995	3,853,161	4,002,740	3,907,577
Franchise	1,058,726	2,833,290	1,176,460	1,220,581	1,239,167	1,317,166	1,363,221	1,510,794	1,598,407	1,556,556
Other	79,691	71,028	53,790	11,940	16,186	25,429	28,859	28,859	28,883	23,356
Investment earnings	154,558	219,085	376,435	915,710	1,063,715	648,301	166,492	93,018	110,863	137,202
Gain (loss) on sale of capital assets	-	-	-	-	345,976	-	4,320	33,647	23,831	17,601
Miscellaneous	30,826	-	51,503	21,556	4,152	73,026	214,484	131,545	126,228	147,457
Transfers	664,102	714,278	763,361	680,850	875,616	981,016	547,456	168,276	(5,336,312)	1,725,141
Total governmental activities	14,569,176	15,888,402	16,973,283	17,814,020	19,325,494	19,325,414	19,678,327	19,484,065	14,499,365	21,680,489
Business-type activities:										
Investment earnings	160,629	59,869	114,932	262,761	1,236,092	531,758	128,338	87,056	55,163	82,853
Gain (loss) on sale of capital assets	-	-	-	-	-	-	(48,678)	(182,198)	-	7,000
Miscellaneous	12,777	-	13,478	1,375	4,182	-	-	-	-	-
Extraordinary item	100,000	-	-	-	-	-	-	-	-	-
Transfers	(664,102)	(714,278)	(763,361)	(680,850)	(875,616)	(981,016)	(547,456)	(168,276)	5,336,312	(1,725,141)
Total business-type activities	(390,696)	(654,409)	(634,951)	(416,714)	364,658	(449,258)	(467,796)	(263,418)	5,391,475	(1,635,288)
Total primary government	14,178,480	15,233,993	16,338,332	17,397,306	19,690,152	18,876,156	19,210,531	19,220,647	19,890,840	20,045,201
Change in Net Assets										
Governmental activities	3,627,347	3,244,048	3,607,869	3,636,461	640,596	(1,041,345)	(2,246,340)	(761,621)	(5,175,137)	(446,393)
Business-type activities	363,614	(63,969)	541,204	933,693	1,091,084	107,928	3,316,863	890,253	9,518,832	1,082,154
Total primary government	\$ 3,990,961	\$ 3,180,079	\$ 4,149,073	\$ 4,570,154	\$ 1,731,680	\$ (933,417)	\$ 1,070,523	\$ 128,632	\$ 4,343,695	\$ 635,761

(Concluded)

Note: Community Development and Publics Works were shown as one department from 2003 to 2009. From 2003 to 2009, the Library was included with Community Services.

Table 3
City of Friendswood
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(unaudited)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Reserved	\$ 683,459	\$ 635,182	\$ 511,197	\$ 1,313,829	\$ 601,646	\$ 1,037,279	\$ 686,404	\$ 1,731,056	\$ -	\$ -
Unreserved	5,055,679	5,971,319	7,032,843	8,973,646	9,926,479	9,177,390	9,185,590	7,399,217	-	-
Nonspendable	-	-	-	-	-	-	-	-	220,151	99,874
Restricted	-	-	-	-	-	-	-	-	97,728	173,015
Assigned	-	-	-	-	-	-	-	-	1,085,527	434,931
Unassigned	-	-	-	-	-	-	-	-	7,511,998	8,379,399
Total general fund	<u>5,739,138</u>	<u>6,606,501</u>	<u>7,544,040</u>	<u>10,287,475</u>	<u>10,528,125</u>	<u>10,214,669</u>	<u>9,871,994</u>	<u>9,130,273</u>	<u>8,915,404</u>	<u>\$ 9,087,219</u>
All Other Governmental Funds										
Reserved	\$ 254,568	\$ 829,701	\$ 1,395,767	\$ 4,220,225	\$ 3,575,592	\$ 2,310,481	\$ 1,385,265	\$ 667,682	\$ -	\$ -
Unreserved, reported in:	-	-	-	-	-	-	-	-	-	-
Special revenue funds	263,242	411,229	175,192	404,749	558,653	643,223	1,075,343	1,328,145	-	-
Capital projects funds	7,342,304	5,171,662	8,584,781	3,943,654	1,957,116	323,597	326,600	-	-	-
Permanent fund	25,232	25,587	26,292	27,477	28,901	30,070	30,507	30,720	-	-
Nonspendable	-	-	-	-	-	-	-	-	30,869	31,027
Restricted	-	-	-	-	-	-	-	-	4,162,423	2,184,855
Total all other governmental funds	<u>\$ 7,885,346</u>	<u>\$ 6,438,179</u>	<u>\$ 10,182,032</u>	<u>\$ 8,596,105</u>	<u>\$ 6,120,262</u>	<u>\$ 3,307,371</u>	<u>\$ 2,817,715</u>	<u>\$ 2,026,547</u>	<u>\$ 4,193,292</u>	<u>\$ 2,215,882</u>

Note: In fiscal year 2011, the City implemented GASB 54 which changed the fund balance classifications to nonspendable, restricted, committed, assigned and unassigned. See Note 1 to the Basic Financial Statements.

Table 4
City of Friendswood
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(unaudited)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 13,688,737	\$ 14,843,855	\$ 15,779,126	\$ 16,190,756	\$ 16,961,818	\$ 17,606,273	\$ 18,763,998	\$ 19,104,625	\$ 19,592,092	\$ 19,630,172
Fines and penalties	639,678	879,369	1,112,916	1,163,984	1,288,794	1,161,903	1,143,102	1,043,126	1,012,592	1,037,880
Licenses and permits	856,721	807,041	717,607	769,352	1,017,502	944,756	966,797	960,479	1,069,845	1,174,013
Intergovernmental	526,316	795,325	985,339	535,074	248,702	3,801,013	5,794,303	2,652,037	3,109,645	1,077,890
Investment earnings	153,848	218,419	375,123	906,552	1,054,698	639,402	161,106	90,337	109,272	135,483
Donations	235,749	215,535	213,381	219,353	229,939	265,535	272,911	280,223	276,209	306,119
Other revenues	794,228	152,616	414,923	277,995	279,788	37,876	34,448	81,366	78,243	41,410
Total revenues	<u>16,895,277</u>	<u>17,912,160</u>	<u>19,598,415</u>	<u>20,063,066</u>	<u>21,081,241</u>	<u>24,456,758</u>	<u>27,136,665</u>	<u>24,212,193</u>	<u>25,247,898</u>	<u>23,402,967</u>
Expenditures										
General government	3,042,541	3,249,965	3,420,274	3,315,844	4,605,245	4,114,662	4,178,062	4,224,384	4,397,858	4,322,631
Public safety	5,530,953	5,810,503	7,127,975	6,903,806	7,482,603	12,404,745	14,717,404	9,799,372	10,093,964	10,201,010
Community development and public works	4,987,392	2,511,125	2,436,359	2,579,398	3,600,798	3,045,904	3,406,881	-	-	-
Public works	-	-	-	-	-	-	-	1,956,479	1,637,237	1,702,119
Community development	-	-	-	-	-	-	-	1,208,899	1,284,188	1,520,401
Community services	2,751,993	2,655,315	2,626,329	2,630,094	2,866,388	3,266,250	3,439,475	2,458,422	2,472,015	2,622,970
Library	-	-	-	-	-	-	-	979,084	979,978	1,004,303
Capital outlay	1,442,339	4,033,197	7,040,173	4,292,854	3,711,569	4,339,546	2,489,845	3,799,303	4,254,582	3,705,622
Debt principal payment	468,987	469,930	459,422	608,184	658,073	774,584	787,293	787,590	1,065,865	1,562,088
Interest and fiscal agent charges	213,741	476,207	594,076	757,402	739,487	704,136	691,638	773,744	864,746	768,329
Bond issuance costs and fees	-	-	-	-	-	-	-	-	200,227	131,380
Total expenditures	<u>18,437,946</u>	<u>19,206,242</u>	<u>23,704,608</u>	<u>21,087,582</u>	<u>23,664,163</u>	<u>28,649,827</u>	<u>29,710,598</u>	<u>25,987,277</u>	<u>27,250,660</u>	<u>27,540,853</u>
Excess of revenues under expenditures	(1,542,669)	(1,294,082)	(4,106,193)	(1,024,516)	(2,582,922)	(4,193,069)	(2,573,933)	(1,775,084)	(2,002,762)	(4,137,886)
Other Financing Sources (Uses)										
Sale of capital assets	15,826	-	-	187,345	785,942	22,600	-	23,340	8,992	9,250
Insurance recoveries	-	-	-	-	-	63,106	123,707	50,579	45,334	105,502
Issuance of debt	8,701,495	-	8,024,224	-	-	-	-	-	3,460,000	8,890,000
Capital lease proceeds	-	-	-	-	-	-	1,133,460	-	-	464,270
Refunding bonds issued	-	-	-	-	-	-	-	-	5,460,000	-
Payment to refunding bond escrow agent	-	-	-	-	-	-	-	-	-	(9,425,538)
Premium on issuance of debt	-	-	-	-	-	-	-	-	317,452	563,666
Transfer in	1,955,635	853,073	923,361	904,955	1,226,304	992,586	2,098,405	1,512,987	1,235,892	1,970,819
Transfer out	(1,382,860)	(138,795)	(160,000)	(224,105)	(350,688)	(11,570)	(1,613,970)	(1,344,711)	(6,573,032)	(245,678)
Total other financing sources (uses)	<u>9,290,096</u>	<u>714,278</u>	<u>8,787,585</u>	<u>868,195</u>	<u>1,661,558</u>	<u>1,066,722</u>	<u>1,741,602</u>	<u>242,195</u>	<u>3,954,638</u>	<u>2,332,291</u>
Net change in fund balance	<u>\$ 7,747,427</u>	<u>\$ (579,804)</u>	<u>\$ 4,681,392</u>	<u>\$ (156,321)</u>	<u>\$ (921,364)</u>	<u>\$ (3,126,347)</u>	<u>\$ (832,331)</u>	<u>\$ (1,532,889)</u>	<u>\$ 1,951,876</u>	<u>\$ (1,805,595)</u>
Debt service as a percentage of noncapital expenditures	4.0%	6.2%	6.3%	8.1%	7.0%	6.1%	5.4%	7.0%	8.4%	9.8%

Note: From 2003 to 2009, Public Works and Community Development were combined as one department. Beginning in 2010, they are shown as separate departments.

In 2002, the City adopted a Financial Policy. Based on this policy, undesignated fund balance shall be allowed to accumulate to establish a 90-day operating reserve. After the reserve is established, additional undesignated funds are allowed to accumulate for future capital projects.

Table 5
City of Friendswood
Assessed Value and Taxable Value of Property
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Tax Year	Residential Property	Commercial and Industrial Property	Other Property	Total Assessed Value	Less: Exemptions and Tax Exempt Property	Total Taxable Value	Total Direct Tax Rate
2003	2002	\$ 1,552,152,869	\$ 187,715,742	\$ 191,747,800	\$ 1,931,616,411	\$ 425,222,769	\$ 1,506,393,642	0.63850
2004	2003	1,773,557,635	202,586,683	202,516,869	2,178,661,187	496,157,461	1,682,503,726	0.63850
2005	2004	1,882,823,995	211,269,120	189,513,770	2,283,606,885	532,056,903	1,751,549,982	0.63850
2006	2005	1,998,747,285	217,285,258	183,010,440	2,399,042,983	557,521,388	1,841,521,595	0.60400
2007	2006	2,163,006,305	260,809,119	215,897,086	2,639,712,510	622,333,722	2,017,378,788	0.58210
2008	2007	2,305,398,212	266,240,487	223,856,148	2,795,494,847	642,347,609	2,153,147,238	0.57640
2009	2008	2,443,040,835	271,618,942	254,262,180	2,968,921,957	672,410,955	2,296,511,002	0.57970
2010	2009	2,509,894,027	277,693,532	248,910,248	3,036,497,807	695,681,434	2,340,816,373	0.57970
2011	2010	2,547,883,315	276,080,104	235,256,040	3,059,219,459	703,419,784	2,355,799,675	0.58510
2012	2011	2,584,070,993	280,043,373	230,531,859	3,094,646,225	706,059,683	2,388,586,542	0.59020

Source: Galveston County Tax Assessor/Collector and City of Friendswood records.

Note: Property in the City of Friendswood is reassessed once every two years on average. (Source: Galveston Central Appraisal District)
Tax rates per \$100 of assessed value.
Residential property includes both single-family and multi-family properties.

Table 6
City of Friendswood
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

(unaudited)
(rate per \$100 of assessed value)

Fiscal Year Ended September 30,	City Direct Rates			Overlapping Rates				
	General	Debt Service	Total Direct	Friendswood Independent School District	Clear Creek Independent School District	Galveston County Drainage District	Galveston County	Harris County
2003	\$ 0.5547	\$ 0.0838	\$ 0.6385	\$ 1.6370	\$ 1.7400	\$ 0.1550	\$ 0.6063	\$ 0.63998
2004	0.5547	0.0838	0.6385	1.6370	1.7300	0.1500	0.6063	0.63998
2005	0.5547	0.0838	0.6385	1.6370	1.7450	0.1483	0.6388	0.63998
2006	0.5243	0.0797	0.6040	1.5070	1.7750	0.1450	0.5874	0.63998
2007	0.5120	0.0701	0.5821	1.5700	1.6300	0.1450	0.5874	0.63998
2008	0.5016	0.0748	0.5764	1.1770	1.3200	0.1425	0.5686	0.62998
2009	0.5097	0.0700	0.5797	1.3670	1.3600	0.1425	0.5586	0.62998
2010	0.4997	0.0800	0.5797	1.3670	1.3600	0.1425	0.6186	0.62998
2011	0.5198	0.0653	0.5851	1.3670	1.3600	0.1425	0.6198	0.62998
2012	0.5218	0.0684	0.5902	1.3670	1.3600	0.1400	0.6129	0.62998

Source: Galveston County Tax Assessor/Collector and City of Friendswood records.

Note: Overlapping rates are those of local and county governments that apply to property owners within the City of Friendswood. Not all overlapping rates apply to all property owners. Overlapping rates for Friendswood Independent School District, Galveston County Consolidated Drainage District and Galveston County apply only to residents whose property is in Galveston County. Overlapping rates for Clear Creek Independent School District and Harris County apply only to residents whose property is in Harris County.

Table 7
City of Friendswood
Principal Property Tax Payers
Current Year and Nine Years Ago
(Unaudited)

Taxpayer	2012			2003		
	Taxable Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Value	Rank	Percentage of Total City Taxable Assessed Value
Reserve at Autumn Crk Ltd	\$ 15,468,170	1	0.65%	\$ 10,326,050	3	0.69%
Kroger Co.	13,227,856	2	0.55%	-	-	-
Texas-New Mexico Power Co.	10,429,910	3	0.44%	9,086,300	4	0.60%
Autumn Creek Dev LTD	9,627,310	4	0.40%	6,166,950	8	0.41%
G&I VI Sky Hawk LP	8,807,817	5	0.37%	-	-	-
H.E. Butt Grocery Company	8,334,390	6	0.35%	-	-	-
HCP Friendswood LLC	6,995,240	7	0.29%	-	-	-
MB Friendswood Parkwood LP	5,861,410	8	0.25%	-	-	-
Friendswood Retirement	5,507,771	9	0.23%	8,169,425	6	0.54%
Buzbee Family LTD Partnership	5,288,460	10	0.22%	-	-	-
Southwestern Bell Telephone Co.	-	-	-	13,738,010	1	0.91%
Blackhawk Apartments	-	-	-	11,312,470	2	0.75%
Southwest Properties	-	-	-	8,849,980	5	0.59%
ACMC Friendswood Inc.	-	-	-	6,205,770	7	0.41%
Albertson's	-	-	-	4,147,230	9	0.28%
Center Point Energy Company	-	-	-	4,020,390	10	0.27%
Total	<u>89,548,334</u>		<u>3.75%</u>	<u>82,022,575</u>		<u>5.44%</u>
All other taxpayers	<u>2,299,038,208</u>		<u>96.25%</u>	<u>1,424,371,067</u>		<u>94.56%</u>
	<u>\$ 2,388,586,542</u>		<u>100.00%</u>	<u>\$ 1,506,393,642</u>		<u>100.00%</u>

Source: Galveston Central Appraisal District and Harris County Appraisal District

Table 8
City of Friendswood
Property Tax Levies and Collections
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year Ended September 30,</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected within the Fiscal Year of the Levy</u>		<u>Collections (adjustments) in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2003	\$ 9,642,413	\$ 9,496,887	98.49%	\$ 136,586	\$ 9,633,473	99.91%
2004	10,785,308	10,630,820	98.57%	146,501	10,777,321	99.93%
2005	11,221,282	11,078,265	98.73%	134,498	11,212,763	99.92%
2006	11,151,572	11,019,314	98.81%	135,435	11,154,749	100.03%
2007	11,740,541	11,532,882	98.23%	194,503	11,724,675	99.86%
2008	12,351,183	12,193,715	98.73%	207,217	12,400,932	100.40%
2009	13,230,005	13,113,928	99.12%	152,414	13,266,342	100.27%
2010	13,482,173	13,395,543	99.36%	100,393	13,495,936	100.10%
2011	13,680,511	13,608,076	99.47%	62,844	13,670,920	99.93%
2012	13,984,872	13,916,558	99.51%	-	13,916,558	99.51%

Source: Galveston County Tax Assessor/Collector and City of Friendswood records.

Table 9
City of Friendswood
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Certificates of Obligation	Revenue Bonds	Capital Leases	General Obligation Bonds	Certificates of Obligation	Water Revenue Bonds			
2003	\$ 10,375,891	\$ -	\$ -	\$ 510,858	\$ 2,468,558	\$ 2,635,000	\$ 14,185,000	\$ 30,175,307	0.36%	\$ 893
2004	10,059,865	-	-	362,154	1,830,135	2,535,000	14,160,000	28,947,154	0.33%	848
2005	17,590,000	-	-	237,597	3,310,000	470,000	14,020,000	35,627,597	0.39%	1,040
2006	17,150,000	-	-	168,957	2,855,000	280,000	30,665,000	51,118,957	0.50%	1,490
2007	16,660,000	-	-	96,380	2,375,000	50,000	30,515,000	49,696,380	0.46%	1,430
2008	16,065,000	-	-	16,351	1,680,000	-	30,355,000	48,116,351	0.41%	1,355
2009	15,445,000	-	-	982,518	865,000	-	42,260,000	59,552,518	0.50%	1,582
2010	14,800,000	-	-	839,928	-	-	42,045,000	57,684,928	0.47%	1,516
2011	22,885,000	-	-	710,023	-	-	35,205,000	58,800,023	0.46%	1,579
2012	21,605,000	-	-	975,726	-	-	34,115,000	56,695,726	N/A	1,498

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year. Personal income data provided on Table 14 is for the County of Galveston. Data was not available specific to the City of Friendswood and therefore is not included on this table.

N/A - Information is not available.

Table 10
City of Friendswood
Ratios of Net General Bonded Debt Outstanding
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Population	Taxable Value	General Bonded Debt Outstanding		Net General Bonded Debt	Percentage of Taxable Value Property	Per Capita
			General Obligation Bonds	Less Debt Service Funds			
2003	33,800	\$ 1,506,393,642	\$ 10,375,891	\$ 254,568	\$ 10,121,323	0.67%	\$ 299
2004	34,152	1,682,503,726	10,059,865	829,701	9,230,164	0.55%	270
2005	34,272	1,751,549,982	17,590,000	1,395,767	16,194,233	0.92%	473
2006	34,306	1,841,521,595	17,150,000	1,595,397	15,554,603	0.84%	453
2007	34,759	2,017,378,788	16,660,000	1,813,320	14,846,680	0.74%	427
2008	35,500	2,153,147,238	16,065,000	2,104,376	13,960,624	0.65%	393
2009	37,653	2,296,511,002	15,445,000	2,355,024	13,089,976	0.57%	348
2010	38,057	2,340,816,373	14,800,000	594,422	14,205,578	0.61%	373
2011	37,247	2,355,799,675	22,885,000	308,231	22,576,769	0.96%	606
2012	37,839	2,388,586,542	21,605,000	245,752	21,359,248	0.89%	564

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Table 11
City of Friendswood
Direct and Overlapping Governmental Activities Debt
As of September 30, 2012
(Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Friendswood Independent School District	\$ 111,019,978	100.00%	\$ 111,019,978
Clear Creek Independent School District	643,272,012	3.359%	21,604,934
Galveston County	265,054,000	5.30%	14,055,814
Harris County	3,639,971,000	0.481%	17,508,261
Subtotal, overlapping debt			164,188,987
City direct debt			22,580,726
Total direct and overlapping debt			\$ 186,769,713

Sources: Information was obtained from either the governmental unit's website or the finance department of the governmental unit.

Notes: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Friendswood. The City's share of the debt of the overlapping governments is based on the ratio of the assessed value of the City's own property to that of each of the other governments. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident--and therefore responsible for repaying the debt--of each overlapping government.

Table 12
City of Friendswood
Legal Debt Margin Information
(Unaudited)

As a City Council-City Manager form of government, the City of Friendswood is not limited by law in the amount of debt it may issue. The City's charter states:

"In keeping with the Constitution of the State of Texas and not contrary thereto, the City of Friendswood shall have the power to borrow money on the credit of the City for any public purpose not now or hereafter prohibited by the Constitution and laws of the State of Texas, and shall have the right to issue all tax bonds, revenue bonds, funding and refunding bonds, time warrants and other evidence of indebtedness as now authorized or as may hereafter be authorized to be issued by cities and towns by the laws of the State of Texas."

Article 11, Section 5 of the State of Texas Constitution states in part:

"but no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half percent of the taxable property of such city"

The tax rate for fiscal year ended September 30, 2012, is \$.5902 per \$100 of assessed valuation with assessed valuation being 100% of market value.

Table 13
City of Friendswood
Pledged-Revenue Coverage
Last Ten Fiscal Years
(Unaudited)

Fiscal Year	Waterworks and Sewer Revenue Bonds					
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2003	\$ 7,275,746	\$ 4,401,694	\$ 2,874,052	\$ 25,000	\$ 772,351	\$ 3.60
2004	7,203,736	4,238,810	2,964,926	25,000	769,936	3.73
2005	8,390,761	4,769,885	3,620,876	140,000	766,788	3.99
2006	8,392,277	4,660,868	3,731,409	160,000	445,351	6.16
2007	8,021,040	4,338,819	3,682,221	150,000	1,441,234	2.31
2008	8,624,546	5,143,516	3,481,030	160,000	1,416,465	2.21
2009	12,028,895	5,249,388	6,779,507	215,000	1,986,015	3.08
2010	9,854,083	5,184,330	4,669,753	215,000	1,904,689	2.20
2011	12,726,936	5,410,497	7,316,439	1,440,000	1,640,437	2.38
2012	11,258,216	5,361,567	5,896,649	1,090,000	1,589,565	2.20

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation or amortization expenses.

Table 14
City of Friendswood
Demographic and Economic Statistics
Last Ten Calendar Years
(Unaudited)

Calendar Year	Estimated Population	Personal Income	Per Capita Personal Income	Unemployment Rate
2003	33,800	\$ 8,356,254,000	\$ 31,313	3.8%
2004	34,152	8,719,688,000	32,055	3.5%
2005	34,272	9,192,246,000	33,146	3.9%
2006	34,306	10,144,967,000	36,284	3.0%
2007	34,759	10,913,785,000	38,553	3.4%
2008	35,500	11,744,572,000	40,711	4.9%
2009	37,653	11,937,436,000	41,621	6.2%
2010	38,057	12,257,208,000	41,876	7.1%
2011	37,247	12,848,571,000	43,444	6.8%
2012	37,839	-	-	5.0%

Sources: Population information was provided from past financial reports. Unemployment rates, personal income and per capita personal income were obtained from the U.S. Department of Labor Bureau of Labor Statistics website or the Texas Workforce Commission website.

Note: Personal Income and Per Capita Personal Income numbers are for Galveston County; 2012 numbers were not available.

Table 15
City of Friendswood
Principal Employers
Current Year and Six Years Ago
(Unaudited)

<u>Employer</u>	<u>2012</u>		<u>2006</u>	
	<u>Estimated Employees</u>	<u>Percentage of Total City Workforce</u>	<u>Estimated Employees</u>	<u>Percentage of Total City Workforce</u>
Friendswood ISD	689	28.33%	675	34.84%
HEB	349	14.35%	275	14.19%
Kroger	287	11.80%	234	12.07%
City of Friendswood	239	9.83%	222	11.46%
Clear Creek ISD	177	7.28% 2	-	0.00% 1
Friendship Haven Nursing Home	125	5.14%	135	6.97%
Friendswood Healthcare (Autumn Hills)	80	3.29%	90	4.64%
McDonalds	74	3.04%	33	1.70%
U.S. Post Office	66	2.71%	70	3.61%
Emeritus	65	2.67%	-	0.00%
UTMB	62	2.55%	-	0.00% 1
Luna's Mexican Restaurant	62	2.55%	40	2.06%
Timber Creek Golf Club	45	1.85%	41	2.12%
Sonic	40	1.64%	49	2.53%
Village on the Park	37	1.52%	34	1.75%
Perry & Sons Market and Grille	35	1.44%	-	0.00% 1
Gary Greene Realtors	-	0.00% 3	40	2.06%
Total	2,432	100.00%	1,938	100.00%

Source: City Economic Development Division

Note: Principal Employer data was not available for fiscal year 2003 - 2005.

1 Data was not available for fiscal year 2006.

2 Includes Wedgewood Elementary and Brookside Intermediate.

3 Data was not available for fiscal year 2012.

Table 16
City of Friendswood
Full-time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years
(Unaudited)

<u>Function/Program</u>	<u>Full-time Equivalent Employees as of September 30</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government:										
City Manager	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	4.65
City Secretary	4.00	4.00	4.00	4.00	5.00	5.00	5.00	5.00	5.00	5.00
Administrative Services	21.70	22.72	24.44	25.81	26.19	27.20	27.20	27.20	27.20	28.20
Public Safety:										
Police	65.06	67.40	70.07	72.06	81.41	83.90	79.40	79.40	80.40	80.40
Fire marshall and fire	12.58	12.85	12.85	4.50	6.11	6.10	6.10	6.10	6.10	6.10
Public Works:	-	-	-	-	-	-	-	19.00	19.00	19.33
Community Development:	-	-	-	-	-	-	-	17.70	17.70	16.89
Community Development and Public Works:	34.00	34.00	34.00	35.00	36.00	36.00	36.70	-	-	-
Community Services:	30.43	30.43	30.43	31.01	32.18	32.20	32.20	18.95	18.95	19.28
Library	-	-	-	-	-	-	-	14.72	14.72	14.72
Water:	9.00	9.00	9.00	9.00	9.00	9.00	10.30	10.30	10.30	10.30
Sewer:	6.00	7.00	7.00	8.00	8.00	8.00	9.00	9.00	9.00	9.00
Total City Employees:	<u>188.27</u>	<u>192.90</u>	<u>197.29</u>	<u>194.88</u>	<u>209.39</u>	<u>212.90</u>	<u>211.40</u>	<u>212.87</u>	<u>213.87</u>	<u>213.87</u>

Source: City of Friendswood Budget Documents

Notes: Beginning with fiscal year 2006, the fulltime equivalent for Fire Marshal and Fire include only the Fire Marshal Department. The City has a contract with the Friendswood Volunteer Fire Department and there are no employees paid directly by the City.

From 2003 - 2009, public works and community development were combined.
In 2010 - 2012, they are shown as two separate departments.

Beginning in fiscal year 2010, the fulltime equivalent for Library is shown separate from Community Services. In previous years, the fulltime equivalent is included with Community Services.

Table 17
City of Friendswood
Operating Indicators by Function/Program
Last Ten Fiscal Years
(Unaudited)

<u>Function/Program</u>	<u>Fiscal Year</u>					<u>Fiscal Year</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Government:										
Building permits issued	1,048	851	1,129	882	975	872	1,189	984	1,222	1,317
Building inspections conducted	10,841	10,051	12,641	12,264	11,135	11,472	6,673	8,744	9,514	10,486
Police:										
Physical arrests	752	1,189	1,041	1,804	1,923	1,868	1,794	2,002	1,962	1,885
Parking violations	74	45	22	30	34	46	33	27	82	61
Traffic violations	9,754	11,196	12,053	12,623	11,374	7,897	7,821	7,000	7,291	6,518
Fire Marshall:										
Inspections	1,065	812	731	668	1,300	1,312	1,653	1,509	1,444	1,616
Fire:										
Emergency responses	2,285	2,395	2,453	2,497	2,723	2,794	2,950	2,737	2,818	2,975
Fires extinguished	79	82	93	75	74	118	102	110	108	86
Parks and Recreation:										
Recreation participants	NA	NA	NA	NA	NA	7,547	12,283	13,792	13,894	16,068
Facility reservations	NA	NA	NA	NA	1,115	1,065	1,727	1,451	503	493
Library:										
Volumes in collection	88,185	88,737	90,163	92,633	93,028	96,100	94,512	99,880	97,622	125,251
Total volumes borrowed	290,044	280,520	281,060	300,241	308,718	323,323	350,892	356,787	349,223	355,447
Water:										
New connections	270	388	208	209	289	202	46	160	173	185
Water main breaks	10	54	76	105	44	73	73	64	516	112
Average daily consumption (thousands of gallons)	4,172	3,957	4,094	3,886	3,472	4,217	4,209	3,408	6,406	4,584
Peak daily consumption	11,491	10,718	9,935	7,030	6,358	11,004	7,187	7,606	13,698	10,896
Sewer:										
Average daily sewage treatment (thousands of gallons)	3,332	3,258	3,081	3,064	3,425	3,120	2,950	3,465	2,787	2,968
Maximum daily flow (thousands of gallons)	10,180	8,563	10,587	10,484	10,484	7,520	9,537	11,393	10,833	10,777

Source: Various City departments and prior year CAFRs

NA - Information is not available.

¹ Beginning in FY 2012, total volumes count also includes all electronic materials.

Table 18
City of Friendswood
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years
(Unaudited)

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	15	15	16	18	28	27	24	26	26	25
Fire										
Stations	3	3	3	3	3	3	4	4	4	4
Public Works										
Streets - paved (miles)	105	157	157	179	150	159	160	161	162	164
Streets - unpaved (miles)	1	4	4	1	0	2	2	2	2	2
Traffic signals	0	3	3	3	3	3	3	3	3	3
Parks and Recreation										
Acreage	189	189	189	189	189	189	189	189	189	189
Parks	8	8	8	8	8	8	8	8	8	8
Swimming pool	1	1	1	1	1	1	1	1	1	1
Tennis courts	4	4	4	4	4	4	4	4	4	4
Library	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	160	160	165	179	180	180	181	183	184	186
Fire hydrants	1,250	1,250	1,250	1,250	1,275	1,275	1,275	1,305	1,324	1,588
Connections	10,600	10,988	11,196	11,405	11,748	11,982	12,057	12,231	12,476	12,711
Storage capacity (thousands of gallons)	5,993	5,993	5,993	5,993	5,993	5,993	5,993	5,993	7,500	7,500
Sewer										
Sanitary sewers (miles)	160	160	165	153	155	155	156	158	159	162
Connections	10,240	10,331	10,537	10,682	10,902	11,115	11,256	11,404	11,563	11,828
Storm sewers (miles)	86	92	92	92	95	95	96	98	99	100
Treatment capacity (thousands of gallons)	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850	4,850

Source: Various City departments and prior year CAFRs