CITY OF PEARLAND, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended
September 30, 2010

Officials Issuing Report

Bill Eisen **City Manager**	**Jon Branson** **Assistant City Manager**	**Mickiel Hodge** **Assistant City Manager**	**Claire Bogard** **Director of Finance**	**Rick Overgaard** **Assistant Director of Finance**

CITY OF PEARLAND, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS

	Page
Introductory Section	
Letter of Transmittal	i
Principal Officials	x
Organization Chart	xi
GFOA Certificate of Achievement	xii
Financial Section	
Independent Auditors' Report	1
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	19
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet - Governmental Funds	22
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	23
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	25
Statement of Net Assets - Proprietary Funds	26
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28
Combining Statement of Net Assets - Discretely Presented Component Units - Governmental Activities	30
Combining Statement of Activities - Discretely Presented Component Units - Governmental Activities	31
Notes to the Financial Statements	32
Required Supplementary Information:	
General Fund - Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	65
Notes To Required Supplementary Budget Information	66
Required Pension System and Other Post Retirement Benefit Supplementary Information	67

Financial Section (Continued) **Page**

Other Supplementary Information:

Combining and Individual Fund Statements and Schedules

Combining Balance Sheet - Non-Major Governmental Funds 72

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds 74

Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:

Debt Service Fund 76

Hotel/Motel Tax Fund 77

Court Security Fund 78

City-Wide Donations Fund 79

Court Technology Fund 80

Regional Detention Fund 81

Park Donations Fund 82

Police Seizure Fund 83

Parks and Recreation Development Fund 84

Sidewalk Fund 85

Grant Fund 86

Traffic Impact Improvements 87

Emergency Management Fund 88

Management District 1 Fund 89

U of H Fund 90

Juvenile Management Fund 91

Discretely Presented Component Units Fund Based Financial Statements:

Balance Sheets - Governmental Funds 94

Schedules of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds 95

Long-Term Debt Amortization Schedules:

Combining Schedule of Governmental Activity Long-Term Debt 98

Combining Schedule of Enterprise Fund Long-Term Debt 104

Combining Schedule of General Long-Term Debt of Pearland Economic Development Corporation 108

Combining Schedule of General Long-Term Debt of Development Authority of Pearland 110

Statistical Section (Unaudited)	**Page**
Net Assets by Component	116
Changes in Net Assets	118
Fund Balances of Governmental Funds	122
Changes in Fund Balances of Governmental Funds	124
Assessed Value and Estimated Actual Value of Taxable Property	126
Direct and Overlapping Property Tax Rates	128
Property Tax Levies and Collections	130
Principal Property Taxpayers	131
Taxable Sales by Category	132
Outstanding Debt by Type	134
Ratios of General Bonded Debt to Assessed Value and Net Bonded Debt per Capita	136
Direct and Overlapping Governmental Activities Debt	137
Pledged Revenue Coverage	138
Demographic and Economic Statistics	139
Principal Employers	140
Full-time Equivalent City Government Employees by Function/Program	141
Operating Indicators by Function/Program	142
Capital Asset Statistics by Function/Program	146

Introductory Section

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February 21, 2011

To the Honorable Mayor, Members
Of City Council, and Citizens of the
City of Pearland, Texas

The Comprehensive Annual Financial Report (CAFR) of the City of Pearland, Texas (the "City") for the fiscal year ended September 30, 2010, is hereby submitted as mandated by both local and state statutes. These ordinances and statutes require that the City issue an annual report on its financial position and activity, and that an independent firm of certified public accountants audit this report.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Null-Lairson, PC, Certified Public Accountants, have issued an unqualified (or "clean") opinion on the City of Pearland's financial statements for the year ended September 30, 2010. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE GOVERNMENT

The City of Pearland, incorporated in 1959, is located across the northern end of Brazoria County and shares a common border with Houston, Texas to the north. The City also extends into Fort Bend and Harris Counties. The City of Pearland, encompassing approximately 48 square miles, is the fastest growing city in Brazoria County, increasing from approximately 18,000 residents in 1990 to 96,097 residents estimated as of June 2010.

The City of Pearland is a home-rule City operating under a Council-Manager form of government.

Policy-making and legislative authority are vested in a governing council (Council) consisting of the mayor and five other members. The Mayor and all Council members are elected at large. The Mayor is allowed to vote only in case of a tie vote. The Mayor and each Council member hold office for a period

of three years and until his/her successor is elected and qualified. Council members shall be limited to two full consecutive terms of office and there is no limitation on the office of Mayor. The City Manager is appointed by Council and is responsible for implementation of Council policy, execution of the laws, and all day-to-day operations of the City.

A full range of municipal services is provided by the City of Pearland including public safety (police, fire, and emergency medical services); solid waste; water and wastewater utilities; public improvements; repair and maintenance of infrastructure; recreational and community activities; and general administrative services. In addition, the City provides planning for future land use, traffic control, building codes, and health inspections, and plans for new infrastructure and rehabilitation of infrastructure to meet the needs of the citizens today, as well as tomorrow. The City is authorized to issue debt, subject to certain limitations, for the purpose of financing its capital projects and the City is empowered to levy a property tax on real property within its boundaries.

Activities of the general, debt service, water and sewer, solid waste, capital project funds, and special revenue funds such as hotel/motel tax are included in the City's annual appropriated budget. Capital project funds are budgeted for project length. The legal level of control for each budget is at the fund level, which is to say that total expenditures for each fund should not exceed total budgeted expenditures for that fund. The City Manager is authorized to transfer budgeted amounts within and among departments. The City Council must approve any budget amendment that increases appropriations by fund. The City amends the budget at the end of each fiscal year to reflect current year projections for revenues and expenditures/expenses.

As an independent political subdivision of the State of Texas, the City is considered a primary government. Pursuant to standards established by the Governmental Accounting Standards Board (GASB), the City also reports for all funds for which the City, as the primary government, is financially accountable. As such, this report includes financial activities of three component units as follows: The Pearland Economic Development Corporation was created by the City in 1995 under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and related development activities on behalf of the City. The Tax Increment Reinvestment Zone (TIRZ #2) was created in 1998 for the purposes of development and redevelopment in the Zone Area, better known as Shadow Creek Ranch. The City participates in the Zone by contributing a portion of tax increments produced in the Zone to the Tax Increment Fund. The Development Authority of Pearland was created in 2004 to provide financing for the development of TRIZ #2.

ECONOMIC CONDITIONS

Local Economy

Located minutes away from downtown Houston, Texas, the nation's second largest seaport, the world-renowned Texas Medical Center, and NASA-Johnson Space Center, Pearland is the premier location for residential and commercial growth. With abundant land, business facilities, a sound infrastructure, and a diverse workforce supported by educational programs, Pearland's growth has been consistent and will continue to be sustained over time with continued residential and commercial development.

The total of all new construction permitted during calendar year 2010 totaled over $171.0 million, a 39% reduction in value from 2009. New single-family housing permits totaled 723 with a construction value of $140 million, down $8 million from 2009. The number of permits are in-line with the 744 anticipated

for the year and declined by 53 from 2009 and by 517 from 2008; however, Pearland continues to grow at a respectable pace, faring better than the rest of the nation. Residential permitting activity is anticipated to remain at these levels for fiscal year 2011. For calendar year 2010, the City had 40 commercial permits with a value of $25 million, down from the 78 permits with a value of $95 million in 2009. Permits in 2009 included several large municipal facilities: Public Safety Facility, Recreation Center/Natatorium, and the University of Houston Clear Lake Campus. Broad downward pressure remains on all segments of the commercial real estate market.

In Houston home sales plunged after the tax credit was cancelled. Double-digit declines in home sales took their toll on the market, which has historically been one of the lower priced urban markets in the country. It will be difficult to get a feel for a full recovery in Houston for a while since sales have turned slow and would-be buyers are holding off, still worried about the state of the national economy.

Houston is big oil and the drilling moratorium in the Gulf of Mexico and NASA related funding issues are adding challenges to an already perplexing market, as well as a projected $27 billion budget deficit for the State of Texas. Sales are showing weakness, which means prices should continue to move southward. However, a lower inventory of homes listed for sale than in many other regions should aid Houston and send it on its way into a housing recovery. But that, like so many other things, will take time. The Institute of Regional Forecasting expects that it will take another 2 to 3 years for the housing market to embark on its initial move towards a true recovery. Despite all of the gimmicks to forestall them, residential foreclosures will remain stubbornly high. Right now, there are nearly 10% of American households who will have to abandon their homes to foreclosure, and programs to keep them in their homes will only postpone the inevitable.

For fiscal year 2010, Pearland had 870 foreclosure filings, up from the 588 in fiscal year 2009. These filings include areas in the ETJ, but with a Pearland address. Even though foreclosure filings have increased, this only represents 3% of total households in Pearland.

Pearland's unemployment rate was 6.9% in September 2010, up from 6.3% in September 2009. This is compared to the national unemployment rate of 9.6% and the State of Texas unemployment rate of 8.2% as of September 2010. While Pearland's unemployment is less than the national and state rates, businesses are still slow to hire and it will take time for the private sector to begin hiring again. However, Texas has been recognized as having the best business climate in the country. Houston's economy will continue to grow next year, adding more jobs in 2011 than in 2010. The Greater Houston Partnership forecasts the region to add 23,300 private sector jobs, however, the public sector is expected to lose 5,100 jobs. The public sector job loss could be much higher if the announced budget cuts in education at the State level are realized. The Houston area is built on businesses, on jobs, and on economic opportunities. Recovery will take time and Pearland is ready to take advantage of those opportunities when that time comes.

Pearland has two prime areas for commercial, mixed use, livable developments along the Highway 288 corridor. A strategic and target market study completed in 2009 shows that life sciences, port-related activities, production/industrial, campus based back-office, and the education/public sectors are prime areas of interest for the Pearland area. Combined with a mix of reinforcing land uses, urban planning, key entertainment and cultural attractions, public spaces, and walkability and connectivity, all will provide for livable sustainable developments. City Council has just approved staff to proceed with zoning of the Spectrum Area via form based codes, which allows the development to function as if being developed by

a single master developer.

Summer 2009 saw the completion of an 80,000 square foot class "A" office building in Shadow Creek Ranch. ZT Wealth, a financial service firm, relocated from their Houston Galleria office and occupies 20,000 square feet and American Business Consulting, a provider of practice services to the dental and medical community, leased 13,000 square feet and brought 25 new jobs to Pearland. Delta Rigging and Tool has also moved into 7,800 square feet, bringing this facility to over 75% occupancy.

A Minnesota based firm, CSI, a medical device company developing and commercializing innovative interventional treatment systems for vascular disease leased a 46,000 square foot facility, moved in and began operations in fiscal year 2010. CSI and could hire approximately 250 employees over the course of five-years to work at the Pearland facility, expanding the area's already thriving medical technology sector.

The Pearland Economic Development Corporation continues to promote Pearland and is working with a myriad of companies on future relocations and site visits as well as working with existing businesses on future expansions.

Sales tax for fiscal year 2010 totaled $19.5 million, a decrease of $924 thousand or 4.5% over fiscal year 2009. Pearland is a regional shopping destination however with lower consumer confidence, potential for job loss, debt, credit tightening, etc., homeowners tightened their budgets and spending. However, for the past nine months, sales tax exceeded the previous year remittances, signaling that consumer confidence is rising. As such, the City projected a 2.5% growth in sales tax for fiscal year 2011.

Long-Term Financial Planning

The City adopts a one-year budget, including a five-year capital improvement program (CIP). Even though a one-year budget is adopted, the budget implements strategies, both financial and operational, to meet existing challenges and to plan for the future.

The City's Five-Year CIP for fiscal year 2011 through fiscal year 2015 totals $199 million and continues to implement the $162 million bond program approved by the voters in May 2007, though at a slower pace, which is financially feasible given the current economy. Projects include Drainage ($19M), Streets ($65M), Facilities ($14M), Parks ($22M), Water ($27M), and Wastewater ($52M). Projects in the CIP have identified funding sources or potential funding sources. Funding for these projects comes from the issuance of debt through Certificates of Obligation, General Obligation Bonds, and Revenue Bonds, as well as impact fees, cash, and contributions from the State, County, and other sources. Those projects that are unfunded will be identifying projects for a new bond referendum.

The Debt Service Fund forecast shows a need to increase the Debt Service component of the tax rate to $0.5125 by tax year 2013 to implement the Five-Year CIP. This is slightly higher than last years forecast due to slower increases in property valuations through-out the forecast, however still consistent with the financial modeling that the City undertook when analyzing the Debt Service tax implications of implementing the $162 million bond referendum.

The City completes a Water/Sewer Cost of Service Rate Study annually for the forecast. The study is built around the Five-Year CIP, operating budget, and future needs. Due to funds on hand for pay-as-you go capital improvements, no rate increase was necessary for fiscal year 2011, however, the model anticipates

rate increases for 2012 and 2014. With the implementation of past rate increases, the City's utility system continues to be self-supporting and financially sound.

Relevant Financial Policies/Guidelines

Financial Policies guide the development and implementation of the budget and are a framework for fiscal decision making and that ensure financial resources are available to meet the current and future needs of the City. City Council adopted a set of Financial Management Policy Statements in August 2009. The policy statements address areas of reporting and auditing, budgeting, revenues, capital improvements, debt, and grants to name a few. Some of the most relevant policies are:

- Recurring revenues fund recurring expenditures/expenses.
- Non-recurring funds fund non-recurring expenditures/expenses.
- General Fund Operating Reserves should be a minimum of two months of operations.
- Water and Wastewater Operating Reserves shall strive to be maintained at 25% of operations.
- Budget revenues on a conservative basis.
- Fund existing services at current service levels.
- Enterprise Funds must be self-supporting.
- Leverage City dollars by seeking outside funding sources.
- Maintain stable property tax rates.

Major Initiatives

The City Council, staff, and community share a vision that combines progress and innovation with prudent controls to shape Pearland's future, even as it becomes one of the largest suburbs in the Houston area. Some of the major initiatives are as follows:

Public Safety
Among numerous other reasons, families move to Pearland for a high degree of personal safety and a low crime rate. The City Council continues to emphasize public safety and the City delivers programs in the areas of law enforcement, emergency management, emergency medical services, and fire protection.

The City completed a 79,800 square foot public safety facility totaling approximately $21.5 million. The facility includes a police station including a jail, a state of the art Emergency Operations Center, court facilities and an annex for utility bill paying and a county annex. The facility opened in the spring of 2010. The City also constructed and opened in January 2011a $2.2 million, 9,800 square foot Fire Station located off Kirby Drive. The facility has living quarters to accommodate a 24/7 fire and EMS operation.

The fire department, in 2010, was a combination paid-volunteer department with 18 paid firefighters and approximately 45 volunteers. In order to enhance response times and to protect life and property, the City budgeted in fiscal year 2011 for three stations to be staffed 24/7 with a combination of full-time, paid part-time, and volunteers, including staffing for the new Fire Station. As of January 2011, this has been completed.

Brazoria County MUD's 21 and 22 are also in the midst of constructing a Fire Station in the City's ETJ. This station will be staffed and operated by Pearland Volunteer Firefighters with the MUD's bearing the

cost of operations, pursuant to a Strategic Partnership Agreement. This will greatly enhance response times out in the ETJ, where development continues.

Economic Development
Economic development provides long-term benefits to a community. It increases property values and sales taxes, lowers property tax rates, creates jobs and wealth and leads to higher living standards. The City is dedicated to helping foster the City's economic base to improve the quality of life for its citizens and business community through business attraction, expansion, and retention programs.

The Pearland Economic Development Corporation also began an initiative in the Spectrum area, along Hwy 288 and Beltway 8, to build upon previous investments, identify development issues, and to create an identity for the area to seek a sustainable development. This initiative and study will be completed in 2011.
The area is currently owned by several developers/persons and is not under a master developer: as such, along with the economy, has been slow to develop. As a result of the study, the City Council authorized staff to move forward with zoning via form based codes, which will allow the area to function as if there were a master developer.

Land Use Plan/Annexation
Land use planning seeks to order and regulate the use of land in an efficient and ethical way, thus preventing land use conflicts. Land use planning is the systematic assessment of land, alternatives for land use, and social and economic conditions in order to select and adopt the best land use options. Its purpose is to select and put into practice those land uses that will best meet the needs of the people while safeguarding resources and ensuring sustainability. City staff worked extensively on reviewing and updating the land use plan with the Planning & Zoning Commission. There were approximately eighteen public meetings over a two-month period seeking public input from the community on the land use plan. One of the recommendations out of the land-use plan was the proposal to annex six areas into the City. The six areas totaled 2,673 acres with 390 tracts and a total population of approximately 600 residents. The City began the process for annexation, however in the fall of 2010, City Council directed staff to proceed with the annexation of Area 5 but delay action on the remaining areas. Area 5 is 590 acres with 64 tracts. The City began communications with the landowners via letters, a public forum, and one-on-one meetings and staff will prepare a service plan of the area if directed by Council. Annexation of Area 5 could be completed by summer 2011. The City will then consider annexation of the other areas. The City will also begin planning for the annexation of Brazoria County MUD #4, which will occur December 2012, pursuant to a Strategic Partnership Agreement between the City and MUD.

The land use plan was approved June 2010 with not only modifications to the land use plan, but modifications to the Thoroughfare Plan and Comprehensive Plan text.

Capital Improvement Projects and Planning
With continued residential and commercial growth, and to plan for the future, the need to build new infrastructure and maintain existing infrastructure is a priority and will be implemented through an aggressive capital improvement program. The City's Five-Year CIP 2011 – 2015 totals $199 million. Projects include Drainage ($19M), Streets ($65M), Facilities ($14M), Parks ($22M), Water ($27M), and Wastewater ($52M).

Major thoroughfare projects include the widening of Bailey Road between FM1128 and Veterans, widening three miles of Mykawa Road to a four lane facility, reconstruction of one mile of Old Alvin

Road from Plum Street to McHard Road, the extension of Pearland Parkway to Dixie Farm Road, and Longwood Street Reconstruction. Major drainage projects include expansion of the D.L. Smith detention pond by approximately 150 acre-feet, an additional 200 acre-feet of storm water storage in the Hickory Slough watershed, and future storm water regional detention. Major park projects include a soccer complex, improvements to Independence and Centennial Parks, Phase I development of the Shadow Creek Ranch Park, and a 7,000 square foot Nature Center. Facility projects include funding of a Public Works annex on the west-side of town, and an 11,500 square feet expansion and renovation to the Tom Reid Library. Also included is the renovation of the Old Police Facility on Veterans to accommodate City departments that will move from the City Hall Complex. Water projects include the preliminary design of a 20 million gallon per day surface water plant along with various waterline extensions. Wastewater projects include the replacement of Southdown wastewater treatment plant, rehabilitation of the Barry Rose Lift Station, design for the expansion of the John Hargrove Environmental Center wastewater treatment plant and major rehabilitation projects.

Transportation Improvements and Strategic Planning

Charged with planning, establishing, and maintaining an effective transportation system, the City of Pearland is involved in numerous activities to face this challenge. The $84 million transportation bond program (passed in 2007) will construct major projects over the next seven years as mentioned previously.

The City is also involved in regional efforts for long-range transportation planning. The Mayor is a member of H-GAC's Transportation Policy Council (TPC) and an Assistant City Manager is a member of the Technical Advisory Committee (TAC), a sub-committee of the TPC. The City has submitted several proposed roadway projects from its Capital Improvement Program for possible funding in the region's Transportation Improvement Program for 2011-2014. The TPC and TAC will be considering the list in 2011 with a recommendation of a list of projects to be approved in September 2011 by the TPC. The City has also been working the Brazoria County Toll Road Authority (BCTRA) to develop viable low cost alternatives for the Hwy 288 toll facility that can be constructed on a near-term schedule (3-5 years) to provide immediate relief to congestion along the corridor. The City will continue to secure state and federal funding for projects in order to reduce the funding burden on the city taxpayers.

Because rail service is an integral part of a comprehensive transportation system and enhances accessibility and mobility, the City of Pearland in 2009, adopted a resolution supporting the Kirby rail route as the preferred passenger rail route in Pearland as organizations develop their transit plans for the region. Rail will also generate economic development, jobs, and tourism along with establishing and strengthening social, historical, commercial, and cultural bonds between communities.

In 2010, a Pearland Transit Feasibility Study was conducted to examine the need, demand, and service options to determine whether fixed route local bus service is a practical option for the City of Pearland. Pearland is the fastest growing city in the Houston urbanized area and the city is projected to continue to grow at an accelerated pace. To date, transit service provided by Connect Transit/Gulf Coast Center on a demand response basis is offered to the residents of Pearland. Five Connect Transit vans provide service in Pearland and the remainder of Brazoria County. It is estimated that during FY 2009 Connect Transit provided over 4,300 trips in Pearland and Alvin. Presently, plans are underway for the implementation of commuter bus service between Pearland and destinations in the Texas Medical Center. The City of Pearland and the Metropolitan Transit Authority of Harris County (METRO) are in the process of

coordinating the site selection and service plan for Park and Ride operations. The plan also outlined transportation needs and operations within the City of Pearland. There were four options presented: keep the status quo and work with Connect Transit for appropriate funding; add a user side subsidized taxi service; the third option includes the provision of a user side subsidized taxi service and the implementation of two fixed bus routes; and the fourth option, which is more long-term and not recommended at this time, is subsidized taxi service, three fixed bus routes in Pearland, and two intercity routes connecting Pearland/Alvin and Pearland/Houston. Council directed the staff to continue to monitor transit need in the City.

Fiscal Responsibility and Sustainability

Fiscal sustainability can be defined as "the extent to which patterns of Government spending do not undermine the capability of the Government to continue to spend to achieve its public purposes." City Council takes a pro-active stance in ensuring the fiscal health and sustainability of the City. Council adopted a set of Financial Management Policy Statements and receives quarterly Finance "Snapshot" presentations, which includes economic indicators. The City also prepares a Five-Year Forecast for the City's major funds to see how the spending decisions made today affect the future as well as to identify any issues/concerns that are forthcoming and to put strategies in place today to address those issues/concerns for the future.

Fiscal Sustainability is even more important given the current state of the economy. Based on the long-range forecast and impacts to the debt service and operating funds, the City has delayed several major capital improvement projects until it is anticipated that the City can afford those projects. The City also identified programs and line-items that could be reduced with little or no impact to the citizens resulting in budget reductions totaling $3.3 million in the City's General Fund budget and $800 thousand in the Water/Sewer Fund for the 2010-2011 fiscal year. While only a few months into the 2011 fiscal year, the City is already beginning to prepare for the 2012 budget process and up-coming forecast with the same goal of being fiscally responsible to our citizens.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for the Excellence in Financial Reporting to the City of Pearland, Texas, for its Comprehensive Annual Financial Report for the year ended September 30, 2009. This was the 33rd consecutive year that the City has received this prestigious award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted 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 GFOA to determine its eligibility for another certificate.

The City has also received the GFOA's Distinguished Budget Presentation Award for its annual budget document. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

To the Honorable Mayor, Members
Of City Council, and Citizens of the
City of Pearland, Texas

In addition, the City also received The International City/County Management Association (ICMA) Certificate of Achievement for Performance Measurement. The program assesses a local government's performance measurement program and encourages analysis of results by comparing to peers and gauging performance over time.

The preparation of this report was accomplished with the dedicated service of the Accounting staff of the Finance Department. We express our sincere appreciation to these individuals who have continually demonstrated the core beliefs of the City and who assisted and contributed to the preparation of this report. We also thank the Mayor and members of the City Council for their support in planning and conducting the financial operations of the City in a responsible manner.

Respectfully submitted,

Bill Eisen, City Manager

Claire Bogard, Director of Finance

Rick Overgaard, Assistant Director of Finance

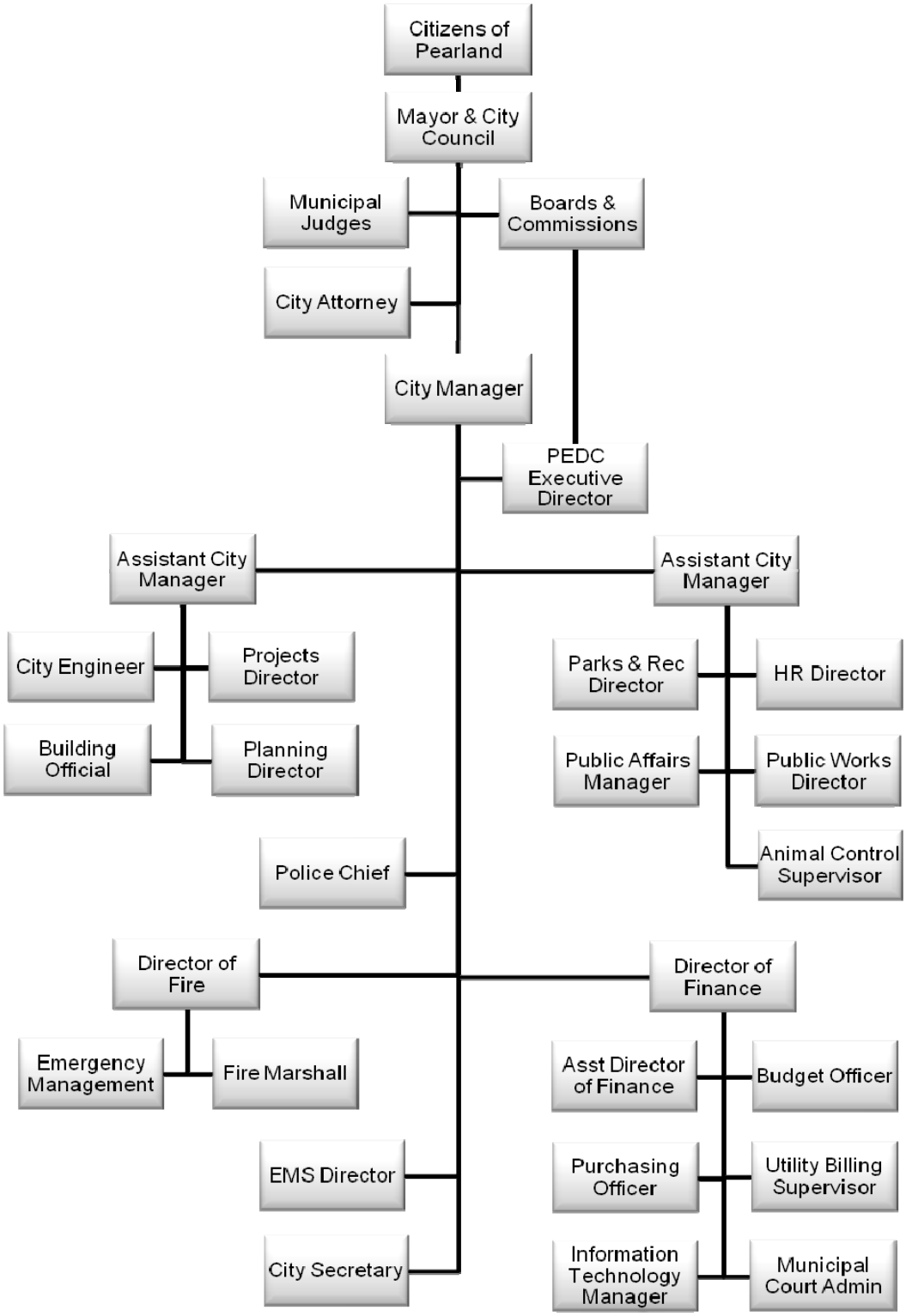
CITY OF PEARLAND, TEXAS
PRINCIPAL OFFICIALS

Elected Officials	Position	Term Expires May
Tom Reid	Mayor	2011
Woody Owens	Council Member at Large - Position One	2013
Scott Sherman	Council Member at Large - Position Two, Mayor Pro Tem	2012
Steve Saboe	Council Member at Large - Position Three	2011
Felicia Kyle	Council Member at Large - Position Four	2012
Ed Thompson	Council Member at Large - Position Five	2013

Appointed Officials	Position
Bill Eisen	City Manager
Darrin Coker	City Attorney
Letitia Farnie	Municipal Court Judge

City Management	Position
Mickiel Hodge	Assistant City Manager
Jon Branson	Assistant City Manager
Claire Bogard	Director of Finance
Matt Buchanan	Executive Director PEDC
Jeff Sundseth	Director of Emergency Medical Services
Young Lorfing	City Secretary
Danny Cameron	Director of Public Works
Bonita Hall	Director of Human Resources
Chris Doyle	Police Chief
Narciso Lira	City Engineer
David Whittaker	Building Official
Michelle Smith	Director of Parks and Recreation
Glen Turner	Interim Director of Fire Services
Andrew Fearn	Head Librarian
Lata Krishnarao	Director of Planning
Trent Epperson	Projects Director

Organizational Chart



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Pearland

Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2009

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.

President

Executive Director

Financial Section

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Null-Lairson, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Pearland, Texas (the City) as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16, and budgetary comparison, required pension system, and other post-employment benefits on pages 65 through 67 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

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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 non-major fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements and schedules 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 it.

Null-Lairson, P.C,

Houston, Texas

February 21, 2011

Management's Discussion and Analysis

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As management of the City of Pearland, 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, 2010.

FINANCIAL HIGHLIGHTS

- The assets of the primary government of the City of Pearland exceeded its liabilities as of September 30, 2010, by $639.8 million (net assets). Of this amount, $25.6 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. The remaining amount is for investments in capital assets, net of related debt and amounts restricted for capital projects, debt service, and community development projects.
- The City's total primary government net assets increased by $13.0 million.
- At the close of the current fiscal year, the City of Pearland's governmental funds reported combined ending fund balances of $54.7 million, a decrease of $31.6 million in comparison with the prior year, approximately all of which is related to capital projects. Approximately $31.0 million of the September 30, 2010, fund balance can be attributed to work in progress for capital projects.
- As of September 30, 2010, the unreserved, undesignated fund balance for the General Fund was $12.6 million or 26% of total General Fund expenditures. The total fund balance for the General Fund is $12.9 million or 27% of General Fund expenditures.
- The City of Pearland's General Obligation and Certificates of Obligation debt for governmental activities totaled $298.6 million, a net increase of $26.1 million over the previous year. The increase is attributable to the issuance of new debt offset by principal payments of $6.0 million. The City's debt for business activities totaled $128.8 million, a net increase of approximately $11 million from the previous year. The key factors were the issuing of the Permanent Improvement and Refunding Bonds of $11.7 million related to water and sewer activities and Water and Sewer revenue bonds of $23 million. This was offset by refundings of $20.6 million and principal payments of $3.7 million.

Overview of the Financial Statements

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

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

The Statement of Net 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.

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 when 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 the future fiscal periods (e.g., uncollected taxes and earned but unused 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 and charges (business-type activities). The governmental activities of the City of Pearland include general government, public safety, public works, community services and parks and recreation. The business-type activities of the City include water, sewer, and solid waste.

The government-wide financial statements can be found on pages 19 through 21 of this report. The government-wide financial statements include not only the City of Pearland, itself (known as the primary government), but also a legally separate Economic Development Corporation, Tax Increment Reinvestment Zone (TIRZ) and the Development Authority of Pearland for which the City of Pearland is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government, itself.

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

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

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

Beginning on page 20 of this report, information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, Capital Projects and other funds, which are considered to be major funds. Data from the other governmental 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 elsewhere in this report.

The City of Pearland adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

Proprietary Funds - The City maintains one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an Enterprise Fund to account for its Water and Sewer Fund and Solid Waste Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements, which begin on page 24 of this report, provide separate information for the Water and Sewer and Solid Waste Enterprise Funds since it is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 24 through 27 of this report.

Combining Component Unit Financial Statements - The City's three discretely presented component units shown in aggregate on the face of the government-wide financial statements have individual information for each of the major discretely presented component units presented in the form of combining statements immediately following the fund financial statements of the primary government.

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 beginning on page 32 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report also presents other required supplementary information as well as combining and individual fund statements and schedules that further support the information in the financial statements. This information is presented immediately following the notes to the financial statements beginning on page 65 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $639.8 million at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (90% percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

COMPARATIVE SCHEDULE OF NET ASSETS
September 30, 2010 and 2009
Amounts in (000's)

	Governmental Activities		Business-type Activities		Totals	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Assets						
Current and other assets	$ 79,176	$ 102,663	$ 47,585	$ 35,952	$ 126,761	$ 138,615
Capital assets	696,476	634,110	263,167	255,257	959,643	889,367
Total Assets	775,652	736,773	310,752	291,209	1,086,404	1,027,982
Liabilities						
Other liabilities	11,043	11,371	8,159	6,210	19,202	17,581
Long-term liabilities outstanding	298,553	272,403	128,820	117,628	427,373	390,031
Total Liabilities	309,596	283,774	136,979	123,838	446,575	407,612
Net assets						
Invested in capital assets, net of related debt	434,344	429,054	144,244	146,150	578,588	575,204
Restricted	18,020	10,615	17,587	11,965	35,607	22,580
Unrestricted	13,692	13,330	11,942	9,256	25,634	22,586
Total Net Assets	$ 466,056	$ 452,999	$ 173,773	$ 167,371	$ 639,829	$ 620,370

An additional portion of the City's net assets (six percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (four percent) may be used to meet the government's ongoing obligations to citizens and creditors.

The increase in Total Net Assets from the prior year is $19.5 million, of which $8.0 million can be attributed to the capital lease on the University of Houston Clear Lake Pearland campus building. Restricted assets also increased by $5.0 million due to the issuance of debt for the design and construction of ongoing capital projects.

COMPARATIVE SCHEDULE OF CHANGES IN NET ASSETS
For the Years Ended September 30, 2010 and 2009
Amounts in (000's)

	Governmental Activities		Business-type Activities		Totals	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Revenues						
Program revenues:						
Charges for services	$ 8,524	$ 8,985	$ 32,274	$ 33,383	$ 40,798	$ 42,368
Operating grants and contributions	6,646	6,360	70	2,464	6,716	8,824
Capital grants and contributions	29,898	31,025	8,611	6,125	38,509	37,150
Property taxes	32,963	31,140			32,963	31,140
Sales and use taxes	13,578	14,218			13,578	14,218
Franchise taxes	5,426	5,075			5,426	5,075
Investment earnings	253	1,376	100	363	353	1,739
Other	1,028	6,294	779	23	1,807	6,317
Total Revenues	98,316	104,473	41,834	42,358	140,150	146,831
Expenses						
General Government	13,439	12,355			13,439	12,355
Public Safety	24,268	22,438			24,268	22,438
Public Works	23,978	26,893			23,978	26,893
Community Services	3,323	3,290			3,323	3,290
Parks and Recreation	7,699	7,240			7,699	7,240
Interest on long-term debt	13,738	11,647			13,738	11,647
Water and Sewer			27,157	25,439	27,157	25,439
Solid Waste			7,089	7,106	7,089	7,106
Total Expenses	86,445	83,863	34,246	32,545	120,691	116,408
Increase (decrease) in net assets before transfers	11,871	20,610	7,588	9,813	19,459	30,423
Transfers	1,186	621	(1,186)	(621)		
Increase in net assets	13,057	21,231	6,402	9,192	19,459	30,423
Net assets - beginning	452,999	431,768	167,371	158,179	620,370	589,947
Net assets - ending	$ 466,056	$ 452,999	$ 173,773	$ 167,371	$ 639,829	$ 620,370

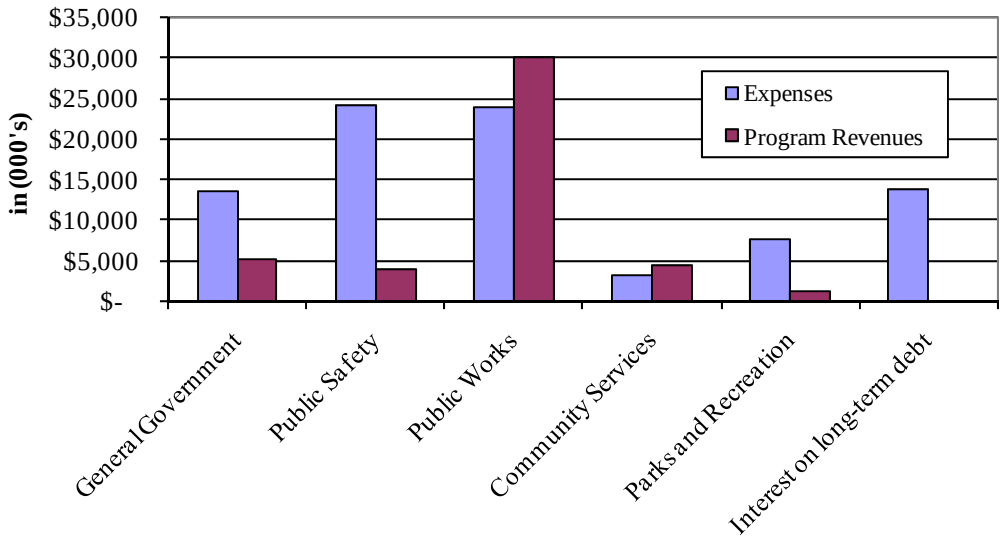
At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The most significant change in net assets occurred with a net increase in capital assets, of $7.2 million due to contribution of infrastructure by developers.

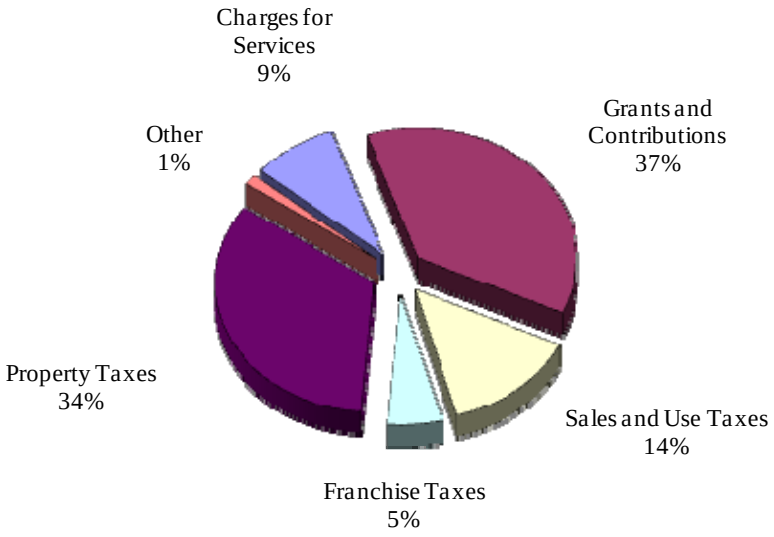
Governmental activities - Governmental activities increased the City's net assets by $13.1 million, thereby accounting for 67% percent of the total growth in the net assets of the City. Key elements of this increase are as follows:

- Property taxes, sales and use taxes, and franchise taxes totaled $33.0 million, $13.6 million, and $5.4 million respectively. These revenues increased by $1.5 million from prior year primarily as a result of an increase in property tax valuations.
- Capital Contributions totaled $29.9 million as a result of infrastructure contributed by developers.
- The revenues were offset by expenses for general government, public safety, and public works of $13.4 million, $24.3 million, and $24.0 million respectively. These expenses were relatively consistent with the prior year.
- The increase in net assets was also offset by interest expense on long-term debt of $13.7 million, an increase of $2.1 million from the prior year. This increase is due to new debt issued during the fiscal year.

Expenses and Program Revenues - Governmental Activities



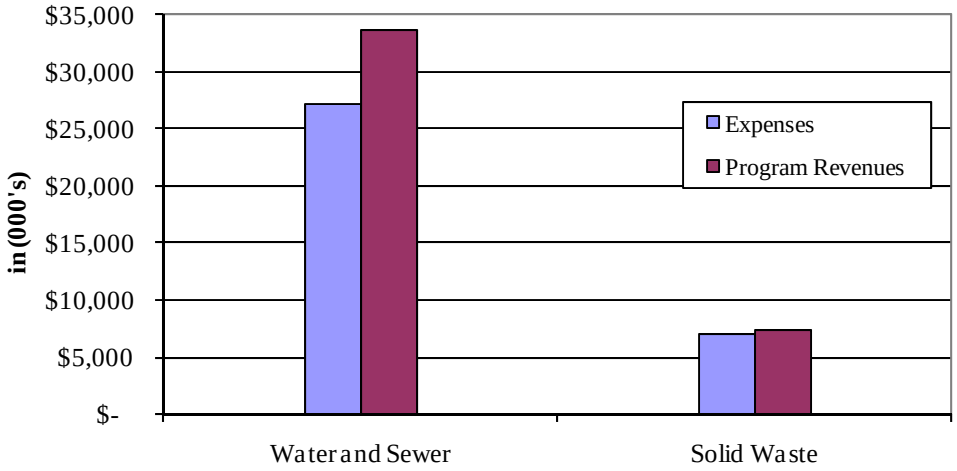
Revenues by Source - Governmental Activities



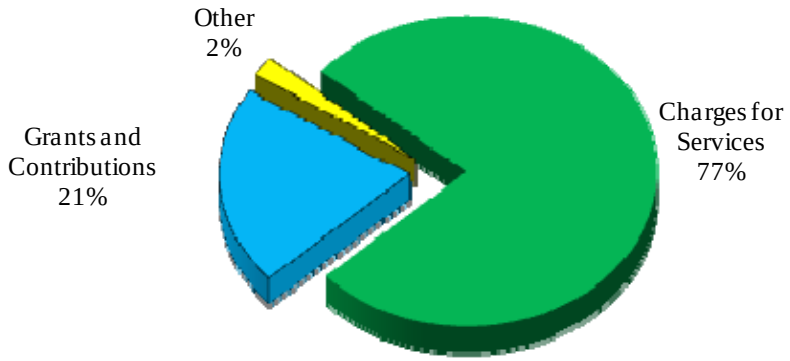
Business-type activities - Business-type activities increased the City's net assets by $6.4 million, accounting for 33% percent of the total growth in the government's net assets. Key elements of this increase are as follows.

- Charges for services of $32.3 million decreased approximately $1.1 million over the prior year primarily due to a decrease in water and sewer consumption.
- Capital grants and contributions of $8.6 million increased $2.5 million from the prior year due to increased contributions of infrastructure from developers.
- The revenues listed above were offset by expenses of $27.2 million and $7.1 million respectively for Water and Sewer and Solid Waste. Expenses for Water and Sewer increased from prior year by $1.7 million due to an increase of $427 thousand for interest on debt, an increase of $585 thousand for depreciation and an increase of $700 thousand in operating costs to maintain the system. Expenses for Solid Waste Management decreased by $17.0 thousand due to expenses which are based on rates and number of customers.
- Operating grants and contributions decreased by $2.4 million due to completion of a Pearland Economic Development Corporation capital project during the current fiscal year that the corporation has contributed to.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of $54.7 million. Of this, $12.6 million is unreserved and available for day-to-day operations of the City; $6.5 million is reserved for debt service; and the remaining balance is reserved or designated for capital projects and other projects.

There was a decrease in the combined fund balance of $31.6 million from the prior year. The decrease in fund balance includes a decrease in the capital projects fund balance of approximately $31.6 million due to the capital outlay expenditure of $60.8 million, offset by recent bond issues of $29.1 million; a decrease of $540.9 thousand in the debt service fund balance, and a combined decrease of $106.6 thousand in the remaining special revenue funds.

With a current year increase of $642.7 thousand, mainly due to increases of transfers in for in-house engineering and project management on capital projects, the General Fund's fund balance totaled $12.9 million at year end.

In the Capital Projects Fund, the City spent $60.8 million on various improvement projects. Additionally, the City issued $16.5 million in General Obligation Bonds and $12.1 million in Certificates of Obligation, leaving an ending fund balance of $30.9 million.

Proprietary Funds - The City's business-type activities contain two activities (water and sewer, and solid waste) The City's proprietary funds provide the same type of information found in the government-wide financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, there was a $883 thousand increase in appropriations between the original and final amended budget. The increase in appropriations is attributable to carryover funding from prior-year encumbrances and projects and to reflect projections during the 2010-2011 budget process.

Budget estimates for revenues and other sources combined decreased by approximately $171 thousand for the year. Also to reflect carryovers and revised projections, actual revenues of $43.9 million were $408 thousand over the final budget mainly in sales and use taxes and franchise fees. Actual expenditures of $48.1 million were under budget by $2.4 million, resulting in the year-end fund balance of $12.9 million over budget by $2.4 million.

At year-end, equipment purchases and several projects were still in progress and part of the $2.4 million will be carried over and reappropriated in the 2010-2011 budget year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of fiscal year 2010, the City's governmental activities and business-type activities had invested $696.5 million and $263.2 million, respectively, in a variety of capital assets and infrastructure, as reflected in the following schedule. This represents a net increase of $7.9 million, or 3% percent over the end of last fiscal year for the business-type activities capital assets and a change of $62.4 million or 10% percent for the governmental activities capital assets.

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	$ 28,457	$ 28,457	$ 3,610	$ 3,610	$ 32,066	$ 32,066
Construction in progress	131,534	85,710	27,808	19,202	159,342	104,912
Infrastructure	509,657	497,271	172,082	170,614	681,739	667,885
Buildings and improvements	20,586	17,421	27,152	27,781	47,738	45,201
Machinery and equipment	6,242	5,252	1,148	1,303	7,390	6,555
Contractual water rights			31,368	32,749	31,368	32,749
Total Capital Assets	$ 696,476	$ 634,110	$ 263,167	$ 255,257	$ 959,643	$ 889,368

Construction in progress at year-end represents numerous ongoing projects, the largest of which relate to street, building and water/sewer projects. Additional information on the City's capital assets can be found in Note 4 to the financial statements.

Long-Term Debt - At the end of the current fiscal year, the City had total bonds, certificates of obligation, notes, capital leases, and post employment liabilities outstanding of $427.4 million. Of this amount, $193.8 million is composed of general obligation bonds, $102.9 million is composed of certificates of obligation and $116.4 million represents revenue bonds secured solely by specified revenue sources.

	Governmental Activities		Business-Type Activities		Totals	
	2010	2009	2010	2009	2010	2009
General obligation bonds	$ 193,785	$ 180,765	$	$	$ 193,785	$ 180,765
Deferred amount for issuance premium/(discount)	3,623	2,776	783	186	4,406	2,962
Revenue bonds			116,440	104,435	116,440	104,435
Certificates of obligation	92,380	82,505	10,540	12,160	102,920	94,665
Capital leases payable	3,237	1,479	345	200	3,582	1,679
Compensated absences	4,654	4,395	546	520	5,200	4,915
Post employment benefit liability	873	484	166	92	1,039	576
	$ 298,552	$ 272,404	$ 128,820	$ 117,593	$ 427,372	$ 389,997

The City had the following debt issuances during the year: $12.1 million Certificate of Obligations, $28.4 million Permanent Improvement Bonds (of which $12.2 million was refunded to pay Water and Sewer Certificate of Obligations), $14.0 million Water and Sewer Revenue bonds, and $8.9 million Water and Sewer Refunding bonds. The net effect of these issuances was an increase in debt of $33.3 million or 8.8% percent.

The City of Pearland's General Obligation and Certificates of Obligation debt for governmental activities increased to $298.6 million, a net increase of $26.1 million over the previous year. The key factor was the sale of Permanent Improvement and Refunding Bonds of $28.4 million, of which $12.1 million was bonds refunded to pay Water and Sewer activities, and $12.1 million in Certificates of Obligation. The increase was offset by principal payments of $6.0 million. The City's debt for business activities increased to $127.7 million, a net increase of $11 million from the previous year. Other key factors were the issuance of Water and Sewer Revenue bonds totaling $23.0 million, offset by principal payments of $12.6 million.

Current ratings on debt issues are as follows:

	Standard and Poors	Fitch
General obligation bonds	AA-	AA1
Revenue bonds	AA-	AA-

Both the Pearland Economic Development Corporation (PEDC) and the Development Authority of Pearland (DAP), component units of the City, have issued debt. The PEDC bonds are rated A1 from Moody's. The DAP bonds are rated A- by Standard and Poors. Additional information on the City's long-term debt can be found in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Two primary factors in the 2011 budget are the economy and the cost of operating new facilities that were either completed late in FY 2010 or will be completed early in FY 2011. Negative economic conditions in the nation and the Houston region will continue to impact the City's revenues with lower than anticipated property values, sales tax and permits. New home starts for 2011 are expected to remain at a relatively low level with the issuance of 744 single family building permits projected to be issued in FY 2011, flat with 2010. Commercial construction is expected to continue along the current trend of relatively high numbers of permits, but a lower average value per permit. This is due to most commercial permits being for finish-out of tenant space in existing structures rather than the larger building construction permits for shopping centers that were issued in 2008. Sales tax revenues are down approximately 4% compared to the 2009 fiscal year. From March through September, however, we saw a more positive trend with sales for each of these months up over the comparable month of the prior year. As a result, a 2.5% increase in sales tax revenue is projected in FY 2011.

Operating costs for new facilities will also be a major factor in the City's General Fund budget for FY 2011. The budget provides funding for a full year of operating costs for both the new Recreation Center and Public Safety Buildings, Fire Station 5 and night staffing of two existing stations, takeover of TxDOT traffic signals, and contracted maintenance of new medians and major City facilities. To offset these increased costs and limited revenues, the budget includes $3.3 million in General Fund expenditure reductions, $888,488 in revenue enhancements, delay of planned capital projects, and an increase of 1.25 cents in the ad valorem tax rate. The increase in the tax rate is related only to debt service, as the portion of the property tax rate that funds operations is to be reduced by a half a cent.

The Pearland City Council approved a $49.67 million General Fund budget for FY 2011. This is a 0.17% decrease from the FY 2010 adopted budget. The budget funds a net increase of 15 new full-time equivalent positions, primarily due to increased staffing in Fire Services. The budget incorporates a tax rate of $0.6551 per $100 of valuation, which is an increase of $0.0125 or 1.9% over last year.

The Water and Sewer fund is able to fund operations, debt service, and bond coverage requirements with no increase in rates. This is mainly attributable to efficient operations and transfers in from water and sewer impact fee funds used towards annual debt service payments.

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of City's finances. If you have questions about this report or need any additional financial information, contact Claire Bogard, Director of Finance, at 3519 Liberty Drive, Pearland, Texas 77581, or call (281) 652-1600. For general information, visit the City's website at www.cityofpearland.com.

Basic Financial Statements

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CITY OF PEARLAND, TEXAS

STATEMENT OF NET ASSETS

September 30, 2010

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and equivalents	$ 41,949,007	$ 6,352,059	$ 48,301,066	$ 14,141,774
Investments	14,080,127	4,046,958	18,127,085	2,027,982
Receivables, net of allowance for uncollectibles	17,144,984	3,599,922	20,744,906	1,309,260
Due from other governmental agencies	1,360,967		1,360,967	
Inventories	92,372		92,372	
Prepaid items	302,935	78,972	381,907	16,535
Restricted cash and investments		31,484,883	31,484,883	3,414,747
Deferred charges	4,245,268	2,022,129	6,267,397	3,506,532
Capital assets:				
Capital assets not subject to depreciation	159,990,403	31,417,754	191,408,157	3,220,907
Capital assets, net of accumulated depreciation	536,485,205	231,749,402	768,234,607	6,958,167
Total Capital Assets	696,475,608	263,167,156	959,642,764	10,179,074
Total Assets	775,651,268	310,752,079	1,086,403,347	34,595,904
Liabilities				
Accounts payable and accrued liabilities	6,624,076	5,407,439	12,031,515	88,485
Accrued interest	1,034,000	442,705	1,476,705	288,191
Unearned revenues	3,201,630	11,602	3,213,232	
Customer deposits	182,802	2,297,840	2,480,642	38,333
Long-term liabilities				
Due within one year	8,477,042	4,114,753	12,591,795	2,630,000
Due in more than one year	290,075,287	124,704,920	414,780,207	74,368,061
Total Liabilities	309,594,837	136,979,259	446,574,096	77,413,070
Net Assets				
Invested in capital assets, net of related debt	434,343,656	144,243,716	578,587,372	(66,818,987)
Restricted for:				
Capital projects		16,953,173	16,953,173	
Debt service	13,760,600	633,562	14,394,162	2,559,497
Community development projects	4,260,554		4,260,554	
Unrestricted	13,691,621	11,942,369	25,633,990	21,442,324
Total Net Assets	$ 466,056,431	$ 173,772,820	$ 639,829,251	$ (42,817,166)

See Notes to Financial Statements.

CITY OF PEARLAND, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	$ 13,439,107	$	$ 5,215,399	$
Public Safety	24,267,990	3,296,233	641,304	97,743
Public Works	23,977,123	10,407	206,566	29,800,443
Community Services	3,323,056	4,311,524	158,841	
Parks and Recreation	7,698,457	905,761	423,791	
Interest on long-term debt	13,738,197			
Total Governmental Activities	86,443,930	8,523,925	6,645,901	29,898,186
Business-type activities:				
Water and Sewer	27,158,623	24,960,621	70,340	8,611,451
Solid Waste	7,088,779	7,313,507		
Total Business-Type Activities	34,247,402	32,274,128	70,340	8,611,451
Total Primary Government	$ 120,691,332	$ 40,798,053	$ 6,716,241	$ 38,509,637
Component Units:				
Pearland Economic Development Corporation	5,153,058			
Tax Increment Reinvestment Zone #2	5,291,784			
Development Authority of Pearland	9,092,901			
Total Component Units	$ 19,537,743	$	$	$

General Revenues:

Taxes:

Property taxes

Sales and use taxes

Franchise taxes

Unrestricted investment earnings

Miscellaneous

Transfers

Total General Revenues and Transfers

Change in net assets

Net assets - beginning

Net assets - ending

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (8,223,708)	$	$ (8,223,708)	
(20,232,710)		(20,232,710)	
6,040,293		6,040,293	
1,147,309		1,147,309	
(6,368,905)		(6,368,905)	
(13,738,197)		(13,738,197)	
(41,375,918)		(41,375,918)	
	6,483,789	6,483,789	
	224,728	224,728	
	6,708,517	6,708,517	
(41,375,918)	6,708,517	(34,667,401)	
			$ (5,153,058)
			(5,291,784)
			(9,092,901)
			(19,537,743)
32,962,570		32,962,570	17,590,983
13,578,412		13,578,412	6,493,220
5,426,110		5,426,110	
252,911	100,486	353,397	42,993
1,027,593	778,483	1,806,076	248,268
1,186,124	(1,186,124)		
54,433,720	(307,155)	54,126,565	24,375,464
13,057,802	6,401,362	19,459,164	4,837,721
452,998,629	167,371,458	620,370,087	(47,654,887)
$ 466,056,431	$ 173,772,820	$ 639,829,251	$ (42,817,166)

CITY OF PEARLAND, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2010

	General Fund	Debt Service	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 8,754,435	$ 4,590,635	$ 24,315,446	$ 4,193,350	$ 41,853,866
Investments	2,019,794	2,007,194	10,053,139		14,080,127
Receivables, net of allowance for uncollectibles	5,128,138	11,755,569	28,061	233,216	17,144,984
Due from other governments	634,281		726,686		1,360,967
Due from other funds	87,599				87,599
Inventories	92,372				92,372
Prepaid items	53,994	219,334	3,944	25,663	302,935
Total Assets	$ 16,770,613	$ 18,572,732	$ 35,127,276	$ 4,452,229	$ 74,922,850
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 1,276,286	$ 171,219	$ 4,234,036	$ 83,546	$ 5,765,087
Accrued expenditures	835,623				835,623
Deposits	182,802				182,802
Due to other funds				87,599	87,599
Deferred revenue	1,614,106	11,695,825		20,530	13,330,461
Total Liabilities	3,908,817	11,867,044	4,234,036	191,675	20,201,572
Fund balances:					
Reserved for:					
Inventories	92,372				92,372
Encumbrances	117,144				117,144
Prepaid items	53,994	219,334		25,663	298,991
Debt service		6,486,354			6,486,354
Unreserved, reported in:					
General fund	12,598,286				12,598,286
Special revenue funds				4,234,891	4,234,891
Capital projects funds			30,893,240		30,893,240
Total fund balances	12,861,796	6,705,688	30,893,240	4,260,554	54,721,278
Total Liabilities and Fund Balances	$ 16,770,613	$ 18,572,732	$ 35,127,276	$ 4,452,229	$ 74,922,850

See Notes to Financial Statements.

CITY OF PEARLAND, TEXAS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

September 30, 2010

Total fund balance, governmental funds	$	54,721,278
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		696,475,608
Certain other long-term assets (property taxes receivable and adjudicated court fines receivable) are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		10,128,831
Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		
Bonds and capital leases payable		(293,025,192)
Compensated absences		(4,654,191)
Accrued interest governmental activity debt		(1,034,000)
Estimated post employment benefit liability		(872,946)
Deferred bond issuance costs		4,245,268
The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		71,775
Net Assets of Governmental Activities in the Statement of Net Assets	$	466,056,431

See Notes to Financial Statements.

CITY OF PEARLAND, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

	General Fund	Debt Service	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	$ 11,115,823	$ 21,740,334	$	$	$ 32,856,157
Sales and use taxes	13,082,134			496,278	13,578,412
Franchise fees	5,426,110				5,426,110
Licenses and permits	1,806,692				1,806,692
Fines and forfeitures	2,310,041			164,495	2,474,536
Charges for services	9,245,791	81,766			9,327,557
Investment earnings	63,164	377,463	142,176	7,709	590,512
Intergovernmental	477,929		2,035,497	1,175,834	3,689,260
Other	383,189		222,140	377,599	982,928
Total Revenues	43,910,873	22,199,563	2,399,813	2,221,915	70,732,164
Expenditures					
Current:					
General government	8,064,367		60	462,662	8,527,089
Public safety	23,141,409			642,590	23,783,999
Public works	7,108,143				7,108,143
Community services	3,648,920			190,346	3,839,266
Parks and recreation	6,096,658			208,320	6,304,978
Debt Service:					
Principal		6,200,254			6,200,254
Interest and other charges		13,103,133			13,103,133
Bond issuance costs			531,589		531,589
Capital outlay			60,806,973	509,626	61,316,599
Intergovernmental		3,794,164			3,794,164
Total Expenditures	48,059,497	23,097,551	61,338,622	2,013,544	134,509,214
Excess (deficiency) of revenues over expenditures	(4,148,624)	(897,988)	(58,938,809)	208,371	(63,777,050)
Other Financing Sources (Uses)					
Issuance of debt			29,107,632		29,107,632
Discount on general obligation debt			(145,590)		(145,590)
Capital leases	2,050,000				2,050,000
Transfers in	3,024,510	357,127	97,388	19,069	3,498,094
Transfers out	(283,197)		(1,694,731)	(334,042)	(2,311,970)
Total Other Financing Sources (Uses)	4,791,313	357,127	27,364,699	(314,973)	32,198,166
Net change in fund balances	642,689	(540,861)	(31,574,110)	(106,602)	(31,578,884)
Fund balances - beginning	12,219,107	7,246,549	62,467,350	4,367,156	86,300,162
Fund balances - ending	$ 12,861,796	$ 6,705,688	$ 30,893,240	$ 4,260,554	$ 54,721,278

See Notes to Financial Statements.

CITY OF PEARLAND, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2010

Net change in fund balances - total governmental funds:	$	(31,578,884)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
This is the amount by which capital outlays of $65,599,903 exceeded depreciation of $22,991,275 in the current period.		42,608,628
Capital assets net of related debt acquired as a result of Municipal Utility District annexation.		27,790,341
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		130,704
Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.		(25,772,983)
Governmental funds report bond issuance costs as expenditures. In contrast, the government wide financial statements amortized such a cost over the life of the bonds.		531,588
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:		
Accrued interest not reflected in Governmental funds		(35,747)
Amortization of bond issuance costs		(80,864)
Post employment benefit liability		(648,140)
Internal service funds are used by management to charge the costs of certain activities, such as property and liability insurance coverage and employee health benefits, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		113,159
Change in net assets of governmental activities	$	13,057,802

See Notes to Financial Statements.

CITY OF PEARLAND, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2010

	Business-type Activities - Enterprise Funds			Governmental Activities -
	Water and Sewer Fund	Solid Waste Fund	Total	Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents	$ 5,706,878	$ 645,181	$ 6,352,059	$ 95,141
Investments	4,046,958		4,046,958	
Accounts receivable, net of allowance for doubtful accounts	2,769,825	830,097	3,599,922	
Prepaid items	78,972		78,972	
Restricted cash and cash equivalents	31,484,883		31,484,883	
Total current assets	44,087,516	1,475,278	45,562,794	95,141
Non-current assets:				
Deferred charges	2,022,129		2,022,129	
Capital assets:				
Land and improvements	3,609,542		3,609,542	
Construction in progress	27,808,212		27,808,212	
Contractual rights to water supply	34,511,428		34,511,428	
Infrastructure	241,377,160		241,377,160	
Buildings	29,101,323		29,101,323	
Machinery and equipment	2,985,148		2,985,148	
Less Accumulated depreciation	(76,225,657)		(76,225,657)	
Total non-current assets	265,189,285		265,189,285	
Total Assets	309,276,801	1,475,278	310,752,079	95,141
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	4,174,511	1,232,928	5,407,439	23,366
Accrued interest payable	442,705		442,705	
Customer deposits	2,297,840		2,297,840	
Unearned revenue	11,602		11,602	
Compensated absences - current portion	78,646		78,646	
Bonds and certificates of obligation payable - current portion	3,980,000		3,980,000	
Capital lease - current portion	56,107		56,107	
Total current liabilities	11,041,411	1,232,928	12,274,339	23,366
Non-current liabilities:				
Compensated absences	466,954		466,954	
Capital lease obligation	289,250		289,250	
Other post-employment benefits	165,567		165,567	
Bonds and certificates of obligation payable	123,783,149		123,783,149	
Total non-current liabilities	124,704,920		124,704,920	
Total Liabilities	135,746,331	1,232,928	136,979,259	23,366
Net Assets				
Invested in capital assets, net of related debt	144,243,716		144,243,716	
Restricted for debt service	633,562		633,562	
Restricted for capital projects	16,953,173		16,953,173	
Unrestricted	11,700,019	242,350	11,942,369	71,775
Total Net Assets	$ 173,530,470	$ 242,350	$ 173,772,820	$ 71,775

See Notes to Financial Statements.

CITY OF PEARLAND, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

For the Year Ended September 30, 2010

	Business-type Activities - Enterprise Funds			Governmental Activities -
	Water and Sewer Fund	Solid Waste Fund	Total	Internal Service Fund
Revenues				
Charges for services	$ 24,960,621	$ 7,313,507	$ 32,274,128	$ 871,639
Operating Expenses				
Personnel services	4,221,319		4,221,319	
Supplies and materials	2,024,449		2,024,449	
Contractual services	5,506,180	7,088,779	12,594,959	758,586
Repairs and maintenance	882,358		882,358	55,069
Other expenses	950,078		950,078	
Depreciation and amortization	7,956,855		7,956,855	
Total Operating Expenses	21,541,239	7,088,779	28,630,018	813,655
Operating income (loss)	3,419,382	224,728	3,644,110	57,984
Non-Operating Revenues (Expenses)				
Earnings on investments	100,260	226	100,486	106
Miscellaneous revenue (expense)	769,735	1,705	771,440	
Operating grants and contributions	70,340		70,340	
Gain (loss) on disposal of capital assets	7,045		7,045	
Interest expense	(5,617,386)		(5,617,386)	
Total Non-Operating Revenues (Expenses)	(4,670,006)	1,931	(4,668,075)	106
Income (loss) before contributions and transfers	(1,250,624)	226,659	(1,023,965)	58,090
Capital contributions	8,611,451		8,611,451	
Transfers in	169,739		169,739	
Transfers out	(1,355,863)		(1,355,863)	
Change in net assets	6,174,703	226,659	6,401,362	58,090
Total net assets - beginning	167,355,767	15,691	167,371,458	13,685
Total net assets - ending	$ 173,530,470	$ 242,350	$ 173,772,820	$ 71,775

See Notes to Financial Statements.

CITY OF PEARLAND, TEXAS *Page 1 of 2*

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2010

	Business-type Activities - Enterprise Funds			Governmental Activities -
	Water and Sewer Fund	Solid Waste Fund	Total	Internal Service Fund
Cash Flows from Operating Activities				
Receipts from customers and users	$ 25,142,857	$ 7,203,878	$ 32,346,735	$ 872,139
Disbursed for personnel services	(4,214,187)		(4,214,187)	
Disbursed for goods and services	(8,278,711)	(6,481,199)	(14,759,910)	(790,810)
Net cash provided (used) by operating activities	12,649,959	722,679	13,372,638	81,329
Cash Flows from Noncapital Financing Activities				
Transfers from funds	169,739	(77,723)	92,016	
Transfers to other funds	(1,355,863)		(1,355,863)	
Operating grants and contributions	70,340		70,340	
Net cash provided by (used by) noncapital financing activities	(1,115,784)	(77,723)	(1,193,507)	
Cash Flows from Capital and Related Financing Activities				
Proceeds from the sale of equipment	7,045		7,045	
Capital grants and contributions	4,211,519		4,211,519	
Proceeds from the sale of bonds	35,387,840		35,387,840	
Principal payments on debt	(3,695,000)		(3,695,000)	
Bonds refunded	(20,590,000)		(20,590,000)	
Issuance costs	(513,466)		(513,466)	
Acquisition and construction of capital assets	(10,653,806)		(10,653,806)	(18,562)
Net cash used by capital and related financing activities	4,154,132		4,154,132	(18,562)
Cash Flows from Investing Activities				
Purchase of investments	(1,047,898)		(1,047,898)	
Interest received	100,260	225	100,485	106
Interest paid	(5,617,384)		(5,617,384)	
Net cash provided by (used by) investing activities	(6,565,022)	225	(6,564,797)	106
Net increase (decrease) in cash and equivalents	9,123,285	645,181	9,768,466	62,873
Cash and equivalents, beginning	27,068,476		27,068,476	32,268
Cash and equivalents, end	$ 36,191,761	$ 645,181	$ 36,836,942	$ 95,141
Unrestricted cash and equivalents	$ 5,706,878	$ 645,181	$ 6,352,059	$ 95,141
Restricted cash and equivalents	30,484,883		30,484,883	
	$ 36,191,761	$ 645,181	$ 36,836,942	$ 95,141

CITY OF PEARLAND, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2010

	Business-type Activities - Enterprise Funds			Governmental Activities -
	Water and Sewer Fund	Solid Waste Fund	Total	Internal Service Funds
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	$ 3,419,382	$ 224,728	$ 3,644,110	$ 57,984
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	7,956,855		7,956,855	
(Increase) decrease in accounts receivable		(109,629)	(109,629)	500
(Increase) decrease in prepaid expenses	(57,817)		(57,817)	
Increase (decrease) in accounts payable	1,142,171	605,875	1,748,046	22,845
Increase (decrease) in salaries payable	7,132		7,132	
Increase (decrease) in customer deposits	170,634		170,634	
Increase (decrease) in unearned revenue	11,602		11,602	
Net Cash Provided by Operating Activities	$ 12,649,959	$ 720,974	$ 13,370,933	$ 81,329
Summary of non-cash transactions				
	$ 4,399,932	$	$ 4,399,932	$

CITY OF PEARLAND, TEXAS
COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES
September 30, 2010

	Pearland Economic Development Corporation	Tax Increment Reinvestment Zone #2	Development Authority of Pearland	Total Component Units
Assets				
Cash and cash equivalents	$ 2,597,379	$ 6,759,997	$ 4,784,398	$ 14,141,774
Investments	2,027,982			2,027,982
Receivables - less allowance for uncollectibles	1,181,219	128,041		1,309,260
Prepaid items	16,535			16,535
Restricted cash	665,254		2,749,493	3,414,747
Deferred charges	423,320		3,083,212	3,506,532
Capital assets not subject to depreciation	2,852,284			2,852,284
Capital assets net of accumulated depreciation	7,326,790			7,326,790
Total Assets	17,090,763	6,888,038	10,617,103	34,595,904
Liabilities				
Accounts payable and accrued expenses	84,969	3,465		88,434
Accrued interest	98,195		189,996	288,191
Customer deposits	38,333			38,333
Non-current liabilities:				
Due within one year	800,000		1,830,000	2,630,000
Due in more than one year	25,483,740		48,884,372	74,368,112
Total Liabilities	26,505,237	3,465	50,904,368	77,413,070
Net Assets				
Invested in capital assets, net of related debt	(16,104,666)		(50,714,372)	(66,819,038)
Restricted - debt service	567,059		2,559,497	3,126,556
Unrestricted	6,123,133	6,884,573	7,867,610	20,875,316
Total Net Assets	$ (9,414,474)	$ 6,884,573	$ (40,287,265)	$ (42,817,166)

CITY OF PEARLAND, TEXAS
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES
For the Year Ended September 30, 2010

Functions/Programs	Expenses	Net (Expense) and Changes in Net Assets: Economic Development Corporation	Tax Increment Reinvestment Zone #2	Development Authority of Pearland	Totals
Component Units:					
Pearland Economic Development Corporation	$ 5,153,058	$ (5,153,058)	$	$	$ (5,153,058)
Tax Increment Reinvestment Zone #2	5,291,784		(5,291,784)		(5,291,784)
Development Authority of Pearland	9,092,901			(9,092,901)	(9,092,901)
	$ 19,537,743	(5,153,058)	(5,291,784)	(9,092,901)	(19,537,743)
General Revenues:					
Taxes:					
Property taxes		$	$ 17,590,983	$	$ 17,590,983
Sales and use tax		6,493,220			6,493,220
Other					
Unrestricted investment earnings		16,964	15,770	10,259	42,993
Miscellaneous		248,268			248,268
Transfers between component units			(13,391,813)	13,391,813	
Total General Revenues and Transfers		6,758,452	4,214,940	13,402,072	24,375,464
Change in net assets		1,605,394	(1,076,844)	4,309,171	4,837,721
Net assets, beginning		(11,019,868)	7,961,417	(44,596,436)	(47,654,887)
Net assets, ending		$ (9,414,474)	$ 6,884,573	$ (40,287,265)	$ (42,817,166)

See Notes to Financial Statements.

Note 1 - Summary of Significant Accounting Policies

The City of Pearland, Texas (the "City") was incorporated in December 1959 and adopted a "Home Rule Charter" February 6, 1971. The Charter, as amended, provides for a Council-Manager form of government and provides services authorized by its charter. Presently, these services include police and emergency medical, water and sewer services, drainage, sanitation, building and code inspection, planning, zoning, engineering, street repair and maintenance, park maintenance, recreational activities for citizens, and general administrative services. Fire protection is provided through a combination full-time/volunteer department. The City is governed by an elected mayor and five-member Council.

The Mayor and all members are elected at large. The Mayor is allowed to vote only in case of a tie vote. The Mayor and each Council member hold office for a period of three years and until his/her successor is elected and qualified. Council members shall be limited to two full consecutive terms of office and there is no limitation on the office of the Mayor. The City Manager is appointed by Council and is responsible for implementation of Council policy, execution of the laws, and all day-to-day operations of the City.

A. Financial Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by accounting principles generally accepted in the United States of America, these financial statements have been prepared based on considerations regarding the potential for inclusion of component units, which are other entities or organizations that are financially accountable to the City. Discretely presented component units are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Based on these considerations, the City's financial statements include the following discretely presented component units: the Pearland Economic Development Corporation (PEDC); the Tax Increment Reinvestment Zone (TIRZ #2); and the Development Authority of Pearland (DAP). No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected Governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include: considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to 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. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The component units do not issue separate financial statements.

Note 1 - Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Discretely Presented Component Units:

Pearland Economic Development Corporation (PEDC)
In 1995, the citizens of Pearland established the Pearland Economic Development Corporation (PEDC) to help the citizens and public officials of Pearland attract new businesses and to help existing businesses to expand. The mechanism to fund the operations of the corporation is through a sales tax levy at a rate of one-half of one percent (1/2%). The PEDC is fiscally dependent upon the primary government because, besides appointing the Board, the City Council also must approve the PEDC's budget and any debt issuances.

Tax Increment Reinvestment Zone (TIRZ #2)
In 1998, the Tax Increment Reinvestment Zone (TIRZ #2) was established for a period of 30 years or until dissolved by the City. The TIRZ #2 provides tax-assisted property development and/or redevelopment in specific geographic areas in accordance with applicable state laws. Besides appointing Board members, the City Council must also approve any debt issuances done on behalf of the TIRZ. A major land owner within the City of Pearland sits on the Board of Directors for the TIRZ #2.

Development Authority of Pearland
In 2004, the City created the Development Authority of Pearland to provide financing for the development of the TIRZ #2. Proceeds from bond sales are to be used to reimburse developers and fund a debt service reserve. Besides appointing Board members, the City Council must also approve any debt issuances done on behalf of the Development Authority.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this general rule are charges between the City's business-type and governmental funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

The government-wide financial statements and all proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the statements of net assets. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Furniture and equipment capitalized in the Proprietary Fund Types are valued at cost.

The governmental fund financial statements are presented on a *current financial resources measurement focus* and *modified accrual basis of accounting*. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Measurable means that the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, sales and use taxes, franchise fees, charges for services and interest on temporary investments. Other receipts become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund-based financial statements with the governmental column of the government-wide presentation.

In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental funds are those funds through which most governmental functions are typically financed. The City reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, administrative services, public works, parks and recreation, community development, and public safety.

Note 1 - Summary of Significant Accounting Policies (continued)

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

The *Debt Service Fund* is used to account for the payment of interest and principal on all general obligation bonds and other governmental long-term debt of the City. The primary source of revenue for debt service is local property taxes. The Debt Service Fund is considered a major fund for reporting purposes.

The *Capital Projects Fund* is used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The Capital Projects Fund is considered a major fund for reporting purposes.

The City's Business type activities consist of the following funds:

The *Enterprise Funds* are used to account for the operations that provide water and sewer utility services as well as solid waste collection services to the public. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges.

Additionally, the city maintains an *Internal Service Fund* used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. Services provided by the Internal Service Funds include property and liability insurance coverage and employee health benefits. The Internal Service Fund is included in governmental activities for government-wide reporting purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. All assets, liabilities, equities, revenues, expenses and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position and cash flows. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel and depreciation. In accordance with GASB Statement No. 20, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for enterprise funds.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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

Amounts reported as *program revenues* include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenue. Likewise, general revenue includes all taxes.

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 City's Enterprise Fund are charges to customers for sales and services. Operating expenses for Enterprise Funds 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 expense.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are appropriately provided for in the subsequent year's budget.

E. Cash and Cash Equivalents

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

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and securities and disclosed as part of the City's investments.

The City pools excess cash of the various individual funds to purchase these investments. These pooled investments are reported in the combined balance sheet as Investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund, monthly, based on their respective share of investments in the pooled investments.

F. Investments

Investments consist of United States (U.S.) Government Agency securities. The City reports all investments at fair value based on quoted market prices at year-end date.

Note 1 - Summary of **Significant Accounting Policies (continued)**

G. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Trade accounts receivable in excess of 120 days comprise the trade accounts receivable allowance for uncollectibles.

H. Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed. These receivables and payables are classified as "due from other funds" or "due to other funds" (or "due from component unit/primary government" or "due to component unit/primary government" if the transactions are between the primary government and its component unit). Interfund receivables and payables which are not expected to be paid within 12 months are classified as loans from/loans to other funds, component units, or primary government.

I. Inventories and Prepaid Items

Inventory, which consists of fuel and auto parts for use in the City's vehicles, is stated at cost (first-in, first-out method). Expenditures are recognized as the fuel and auto parts are consumed rather when purchased.

J. Restricted Assets

Certain proceeds of the Water and Sewer Enterprise Fund revenue bonds and 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. Certain resources are also set aside for repayment of Pearland Economic Development Corporation and Development Authority Bonds and are reported as restricted assets.

K. Capital Assets

Capital assets which include property, plant, equipment and infrastructure, 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 of three years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset	Years
Buildings and improvements	10-45
Machinery and equipment	3-15
Infrastructure	10-50

Note 1 - Summary of Significant Accounting Policies (continued)

L. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick and holiday pay benefits.

Employees hired prior to October 1, 2005, earn vacation leave at the rate of 15 days per year from 1 to 15 years of service, 20 days per year for service of 16 to 19 years, and 25 days per year for service of 20 years or more. Employees, who are not classified and are hired after October 1, 2005, earn vacation at a rate of 10 days per year from 1-6 years of service, 15 days per year for 7-15 years of service and 20 days for 16 and over years of service. Effective October 1, 2005, employees are no longer able to carry over unused vacation from one year to the next with the exception of police department personnel in classified positions. Employees are required to use their vacation in the year it is earned. Employees who are unable to use their vacation due to departmental scheduling or staffing problems, may, with the City Manager's approval, receive compensation for half of the remaining balance up to a maximum of forty (40) hours.

City employees receive 11 paid holidays per year. Employees required to work on a City-observed holiday may be paid or may elect to receive compensatory time off for the holiday. Overtime is earned at one and one-half times the regular rate of pay for non-exempt employees. Employees may be paid or receive compensatory time. The maximum accrual for overtime is 60 hours, except for employees involved in public safety, who can accrue up to 120 hours.

All sick leave benefits are accumulated and paid to employees upon separation from the City not to exceed 720 hours for employees hired prior to July 24, 2006, and 360 hours for employees hired after. Vacation, sick and holiday pay benefits are 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.

M. Estimates

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

Note 2 - Deposits (Cash) and Investments

Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

In accordance with applicable statutes, the City has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the City incurs for banking services received. The City may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. City policy requires the collateralization level to be at least 102% of market value of principal and accrued interest.

The Council has adopted a written investment policy regarding the investment of City funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the City's investment policy. The City's investment policy is more restrictive than the PFIA requires. It is the City's policy to restrict its direct investments to obligations of the U.S. Government or U.S. Government Agencies, fully collateralized certificates of deposit, bankers' acceptances, mutual funds, repurchase agreements and local government investment pools. The maximum maturity allowed is three years from date of purchase. The City's investment policy does not allow investments in collateralized mortgage obligations.

Deposit and Investment Amounts

The City's cash and investments are classified as: cash and cash equivalents, investments, and restricted cash and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, and short-term investments, which have maturities at purchase of less than three months, consisting mainly of certificates of deposit. The restricted cash and investments are assets restricted for specific use. The restricted cash and investments include cash on deposit with financial institutions. For better management of cash, the City pools the cash, based on the City's needs, into either bank/sweep accounts, or in longer-term investments in U.S. Government Securities. However, each fund's balance of cash and investments is maintained in the books of the City.

The deposit and investment policies for the Pearland Economic Development Corporation, TIRZ Developments, and Development Authority of Pearland are substantially the same as the City.

Note 2 - Deposits (Cash) and Investments (continued)

The following schedule shows the City's recorded cash and investments at year-end:

	Total Fair Value	
	Primary Government	Component Units
Cash deposits	$ 76,738,794	$ 17,556,521
Temporary Investments		
FHLB discount note	15,137,253	1,001,501
FHLMC discount note	4,024,357	1,026,481
FNMA discount note	2,012,630	
	$ 97,913,034	$ 19,584,503

Quoted market prices are the basis of the fair value for U.S. Treasury and Agency securities. The amount of increase or decrease in the fair value of investments during the current year is included in the City's investment income as follows:

	Primary Government	Component Units
Interest income	$ 339,786	$ 42,931
Unrealized gain (loss) on temporary investments	13,611	62
Investment earnings	$ 353,397	$ 42,993

Interest Rate Risk

At year-end, the City had the following investments subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

	Primary Government		Component Units	
	Total Fair Value	Weighted Average Maturity (days)	Total Fair Value	Weighted Average Maturity (days)
Temporary Investments				
FHLB discount note	$ 15,137,253	208	$ 1,001,501	236
FHLMC discount note	4,024,357	90	1,026,481	200
FNMA discount note	2,012,630	210		
	$ 21,174,240		$ 2,027,982	
Portfolio weighted average maturity		186		218

Note 2 - Deposits (Cash) and Investments (continued)

The City's investment policy specifies a maximum weighted average maturity of 547.5 days or 18 months based on the stated maturity date for each investment in the portfolio.

To the extent possible, the City attempts to match investments with anticipated cash flow requirements. The City does not directly invest in securities with a stated maturity date more than three years or 1,095 days from date of purchase. The settlement date is considered the date of purchase.

Concentration of Credit Risk

With the exception of U.S. Treasury Securities and interest-bearing checking accounts that are fully collateralized, no more than 75 percent of the City's total investment portfolio will be invested in a single security type. As of September 30, 2010, the City had investments in U.S. Agency securities that exceeded five percent of the total investment portfolio at year-end.

	Primary Government		Component Units	
Investment Type	**Total Fair Value**	**Percentage of Total Portfolio**	**Total Fair Value**	**Percentage of Total Portfolio**
FHLB discount note	$ 15,137,253	71%	$ 1,001,501	49%
FHLMC discount note	4,024,357	19%	1,026,481	51%
FNMA discount note	2,012,630	10%		
Total	$ 21,174,240	100%	$ 2,027,982	100%

Credit Risk

Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association Discount Notes were rated AAA by Standard & Poor's, AAA by Fitch Ratings, and Aaa by Moody's Investors Service.

All credit ratings meet acceptable levels required by guidelines prescribed by both the PFIA and the City's investment policy. A public fund investment pool must be continuously rated no lower than AAA or AAAm or no lower than investment grade by at least one nationally-recognized rating service and have a weighted average maturity no greater than 90 days. Investments with minimum required ratings do not qualify as authorized investments during the period the investment does not have the minimum rating.

Restricted Assets

The Enterprise Funds have restricted certain cash and investments for customer deposits, reserve and emergency expenditures, capital improvements, cash restricted for others, and revenue bond debt service. Because of certain bond covenants, the Enterprise Fund is required to maintain prescribed amounts of resources that can be used only to service outstanding debt. Some of the proceeds from debt or from funds received from acquisition of Municipal Utility Districts are restricted for use on capital projects

	Primary Government	Component Units
Revenue bond debt service	$ 1,076,267	$ 3,414,747
Customer deposits	2,297,090	
Capital improvements	28,111,526	
Total	$ 31,484,883	$ 3,414,747

Note 3 - Receivables

Receivables at September 30, 2010, consisted of the following:

Primary Government:

Governmental Funds:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Non-Major Governmental Funds	Total
Receivables					
Property taxes, including penalties and interest	$ 631,396	$ 889,193	$	$	$ 1,520,589
Lease receivable		10,877,960			10,877,960
Sales and other taxes	3,384,300				3,384,300
Fines and forfeitures	722,035				722,035
Interest	17,990	9,931	28,061		55,982
Due from other governments	634,281		726,686		1,360,967
Other	387,548			233,216	620,764
Allowance for uncollectibles	(15,131)	(21,515)			(36,646)
	$ 5,762,419	$ 11,755,569	$ 754,747	$ 233,216	$ 18,505,951

Proprietary Funds:

	Water and Sewer Fund	Solid Waste Fund	Total
Receivables			
Customer accounts	$ 2,964,208	$ 894,616	$ 3,858,824
Interest	40,702		40,702
Other	12,114		12,114
Allowance for uncollectibles	(247,199)	(64,519)	(311,718)
	$ 2,769,825	$ 830,097	$ 3,599,922

Note 3 - Receivables (continued)

Component Units:

	Pearland Economic Development Corporation	Tax Increment Reinvestment Zone Developments	Development Authority of Pearland	Total
Receivables				
Sales and other taxes	$ 1,140,486	$	$	$ 1,140,486
Interest	24,953			24,953
Other	15,780	128,041		143,821
Total	$ 1,181,219	$ 128,041	$	$ 1,309,260

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable - general fund	$ 557,479	$
Delinquent property taxes receivable - debt service fund	760,405	
Lease revenues-principal	8,088,912	
Municipal fines and forfeitures	722,035	
Lease interest revenues		2,789,048
Grants and revenues prior to meeting all eligibility requirements		412,582
Total Deferred Revenue for Governmental Funds	$ 10,128,831	$ 3,201,630

Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Central Appraisal District ("CAD") of Brazoria County, Harris County, and Fort Bend County, Texas, establishes appraised values. Taxes are levied by the City Council based on the appraised values and operating needs of the City. The City contracts billing and collection of tax levies with the Brazoria County Tax Assessor-Collector.

Note 4 - Capital Assets

A summary of changes in the primary government's capital assets for the year ended September 30, 2010, follows:

	Primary Government			
	Balance September 30, 2009	**Increases**	**(Decreases)**	**Balance September 30, 2010**
Governmental Activities				
Capital assets not being depreciated:				
Land	$ 28,456,629	$	$	$ 28,456,629
Construction in progress	85,710,196	45,823,578		131,533,774
Total capital assets not being depreciated	114,166,825	45,823,578		159,990,403
Other capital assets:				
Infrastructure	662,638,535	32,406,430		695,044,965
Buildings and improvements	27,420,836	5,192,066	(585,320)	32,027,582
Machinery and equipment	11,870,114	2,627,604	(439,120)	14,058,598
Total other capital assets	701,929,485	40,226,100	(1,024,440)	741,131,145
Less accumulated depreciation for:				
Infrastructure	(165,367,676)	(20,020,045)		(185,387,721)
Buildings and improvements	(10,000,221)	(1,441,589)		(11,441,810)
Machinery and equipment	(6,617,931)	(1,529,640)	331,162	(7,816,409)
Total accumulated depreciation	(181,985,828)	(22,991,274)	331,162	(204,645,940)
Other capital assets, net	519,943,657	17,234,826	(693,278)	536,485,205
Totals	$ 634,110,482	$ 63,058,404	$ (693,278)	$ 696,475,608

	Balance September 30, 2009	**Increases**	**(Decreases)**	**Balance September 30, 2010**
Business-type Activities				
Capital assets not being depreciated:				
Land and intangibles	$ 3,609,542	$	$	$ 3,609,542
Construction in progress	19,201,511	8,606,701		27,808,212
Total capital assets not being depreciated	22,811,053	8,606,701		31,417,754
Other capital assets:				
Water and sewer system	234,295,776	7,081,384		241,377,160
Buildings and improvements	29,062,375	38,948		29,101,323
Machinery and equipment	2,873,319	124,446	(12,617)	2,985,148
Contractual water rights	34,511,428			34,511,428
Total other capital assets	300,742,898	7,244,778	(12,617)	307,975,059
Less accumulated depreciation for:				
Water and sewer system	(63,682,067)	(5,613,486)		(69,295,553)
Buildings and improvements	(1,281,530)	(667,949)		(1,949,479)
Machinery and equipment	(1,570,365)	(279,830)	12,617	(1,837,578)
Contractual water rights	(1,762,588)	(1,395,590)	15,132	(3,143,046)
Total accumulated depreciation	(68,296,550)	(7,956,855)	27,749	(76,225,656)
Other capital assets, net	232,446,348	(712,077)	15,132	231,749,403
Totals	$ 255,257,401	$ 7,894,624	$ 15,132	$ 263,167,157

Note 4 - Capital Assets (continued)

Depreciation was charged to programs as follows:

General government	$	724,503
Public safety		1,235,873
Public works		19,431,331
Community services		94,911
Parks and recreation		1,504,656
Total Governmental Activity	$	22,991,274
Water and sewer	$	7,956,855
Total Business-Type Activity	$	7,956,855

The City had active construction projects as of September 30, 2010. The projects included various improvements to streets, drainage and facilities as well as and water and sewer improvements. At year-end, the City's contractual commitments on projects were as follows:

Project Description	**Total In Progress**	**Commitment**
Drainage Improvement	$ 14,417,795	$ 6,434,492
Building Improvements	22,942,495	7,754,217
Street Improvement	74,715,216	20,514,659
Park Improvements	19,458,268	2,351,431
Water and Sewer Improvements	27,808,212	28,258,238
Totals	$ 159,341,986	$ 65,313,037

Note 5 - Long-Term Debt

A. General Obligation Bonds and Certificates of Obligation

The City issues general obligation bonds and certificates of obligation and, upon annexation and dissolution of Municipal Utility Districts, assumes unlimited tax and revenue obligations. The assumed obligations were used to acquire and construct major capital facilities. General obligation bonds, certificates of obligation, and assumed obligations from dissolved and annexed areas are for both governmental and business-type activities. The bonds are reported in the Proprietary Funds only if they are expected to be repaid from proprietary revenues. The general long-term bonds, certificates of obligation and assumed obligations are paid through the Debt Service Fund from tax revenues.

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2010. In general, the City uses the General and Debt Service funds to liquidate governmental long-term liabilities.

	Balance September 30, 2009	Additions	(Reductions)	Balance September 30, 2010	Amounts Due Within One Year
Governmental Activities					
Bonds payable:					
General obligation bonds	$ 180,765,000	$ 16,735,000	$ (3,715,000)	$ 193,785,000	$ 4,090,000
Certificates of obligation	82,505,000	12,145,000	(2,270,000)	92,380,000	3,325,000
Deferred amount for issuance premium/(discount)	2,775,624	1,119,133	(271,952)	3,622,805	
Total bonds payable	266,045,624	29,999,133	(6,256,952)	289,787,805	7,415,000
Other liabilities:					
Obligations under capital leases	1,478,536	2,050,000	(291,149)	3,237,387	434,806
Compensated absences	4,395,127	2,924,388	(2,665,324)	4,654,191	627,236
Other post-employment benefits	483,870	389,076		872,946	
Total Governmental Activities	$ 272,403,157	$ 35,362,597	$ (9,213,425)	$ 298,552,329	$ 8,477,042

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

The full amount estimated to be required for debt service on general obligation debt is provided by (1) the debt service portion of the tax levy; (2) interest earned in the Debt Service Fund; and (3) transfers from the Water and Sewer Enterprise Fund. Transfers from the Enterprise Funds are approved at the discretion of City Council and are not intended to service a specific bond series.

Note 5 - Long-Term Debt (continued)

A. General Obligation Bonds and Certificates of Obligation (continued)

A summary of the terms of general obligation bonds and certificates of obligation, as of September 30, 2010, follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
General Obligation Bonds				
General Obligation Bonds, Series 2001	$ 1,900,000	2010	3.90	$ 175,000
Permanent Improvement, Series 2002	25,000,000	2027	5.10-5.08	1,580,000
Permanent Improvement, Series 2003	15,000,000	2028	4.00-6.00	13,220,000
Permanent Improvement and Refunding Bonds, Series 2005	37,015,000	2029	3.25-5.00	34,955,000
Permanent Improvement and Refunding Bonds, Series 2006	32,165,000	2029	4.00-5.00	31,965,000
Permanent Improvement and Refunding Bonds, Series 2007	69,640,000	2032	4.00-5.00	69,600,000
Permanent Improvement, Series 2008	22,835,000	2032	4.50-5.50	22,425,000
Permanent Improvement and Refunding Bonds, Series 2009	16,735,000	2034	2.00-5.00	16,455,000
Annexed Municipal Utility District Bonds				
BC MUD 1 Series 2001	4,940,000	2018	4.00-5.00	1,645,000
BC MUD 1 Series 2007	1,940,000	2030	3.75-4.35	1,940,000
Total General Obligation Bonds				$ 193,785,000
Certificates of Obligation				
Certificates of Obligation, Series 2001	11,650,000	2022	5.00-6.00	$ 575,000
Certificates of Obligation, Series 2003	25,000,000	2023	3.00-4.50	16,280,000
Certificates of Obligation, Series 2004	21,000,000	2028	4.00-5.25	13,400,000
Certificates of Obligation, Series 2006	9,700,000	2029	3.65-4.68	9,600,000
Certificates of Obligation, Series 2007	23,250,000	2032	3.25-5.25	23,050,000
Certificates of Obligation, Series 2008	9,000,000	2032	3.75-5.00	8,810,000
Certificates of Obligation, Series 2009	8,520,000	2034	2.25-5.00	8,520,000
Certificates of Obligation, Series 2009A	12,145,000	2029	2.00-4.50	12,145,000
Total Certificates of Obligation				$ 92,380,000

Prior Year Refunding

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2010, approximately $43.7 million of previously refunded bonds outstanding were considered defeased.

Note 5 - Long-Term Debt (continued)

A. General Obligation Bonds and Certificates of Obligation (continued)

Capital Lease Obligations

The City has entered into certain capital lease agreements in order to purchase public safety and management information systems equipment and other construction-related equipment. The capital lease obligations are paid out of the General, Debt Service and Water and Sewer Funds. The historical purchase price of the capital assets under lease is approximately $4.6 million.

Following is a summary of future lease payments due on this equipment:

	Fiscal Year	Obligations
	2011	$ 621,115
	2012	621,115
	2013	621,115
	2014	621,115
	2015	721,115
	2016-2017	996,313
Total		4,201,888
Less: Interest		(619,144)
Obligations under capital leases		$ 3,582,744

Note 5 - Long-Term Debt (continued)

A. General Obligation Bonds and Certificates of Obligation (continued)

The annual requirements to amortize governmental activity general obligation bonds and certificates of obligation outstanding at September 30, 2010, were as follows:

	Governmental Activities			
	General Obligation		Certificates of Obligation	
Fiscal Year	Principal	Interest	Principal	Interest
2011	$ 4,090,000	$ 8,883,186	$ 3,325,000	$ 3,879,819
2012	5,080,000	8,683,035	3,125,000	3,758,041
2013	5,460,000	8,459,571	3,270,000	3,639,707
2014	5,860,000	8,228,480	3,425,000	3,514,839
2015	6,140,000	7,954,899	3,540,000	3,381,616
2016	6,415,000	7,651,781	3,700,000	3,239,850
2017	5,615,000	7,371,213	4,140,000	3,081,059
2018	5,465,000	7,112,874	4,720,000	2,894,236
2019	7,430,000	6,813,703	5,110,000	2,686,692
2020	9,035,000	6,439,018	4,050,000	2,490,495
2021	9,430,000	6,023,787	4,235,000	2,310,495
2022	9,850,000	5,588,269	4,415,000	2,120,221
2023	10,290,000	5,130,565	4,610,000	1,919,698
2024	12,370,000	4,605,671	3,210,000	1,742,825
2025	11,350,000	4,050,045	4,945,000	1,554,482
2026	11,800,000	3,507,074	5,255,000	1,317,188
2027	12,370,000	2,942,094	5,460,000	1,080,583
2028	12,915,000	2,344,869	5,715,000	846,799
2029	15,435,000	1,667,385	4,055,000	644,684
2030	8,120,000	1,108,972	3,290,000	493,950
2031	8,270,000	719,996	3,685,000	338,925
2032	8,460,000	326,047	4,065,000	159,025
2033	1,235,000	95,875	505,000	51,750
2034	1,300,000	32,500	530,000	26,500
	$ 193,785,000	$ 115,740,909	$ 92,380,000	$ 47,173,479

Note 5 - Long-Term Debt (continued)

B. Enterprise Fund Debt

The following is a summary of changes in the City's total business-type long-term liabilities for the year ended September 30, 2010.

	Balance September 30, 2009	Additions	(Reductions)	Balance September 30, 2010	Amounts Due Within One Year
Business-type Activities					
Bonds payable:					
Certificates of obligation	$ 12,160,000	$ 11,660,000	$ (13,280,000)	$ 10,540,000	$ 810,000
Water and sewer revenue bonds	104,435,000	23,010,000	(11,005,000)	116,440,000	3,170,000
Deferred amount for issuance premium/(discount)	186,111	717,840	(120,802)	783,149	
Total bonds payable	116,781,111	35,387,840	(24,405,802)	127,763,149	3,980,000
Other liabilities:					
Obligations under capital leases	200,156	189,681	(44,480)	345,357	56,107
Compensated absences	519,632	307,856	(281,888)	545,600	78,646
Other post-employment benefits	91,931	73,636		165,567	
Total Business-type Activities	$ 117,592,830	$ 35,959,013	$ (24,732,170)	$ 128,819,673	$ 4,114,753

A summary of the terms of certificates of obligation and revenue bonds recorded in the Enterprise Funds as of September 30, 2010, is as follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Water and Wastewater Fund				
Water and Sewer System Adjustable Rate Revenue Bonds, Series 1999	$ 8,000,000	2020	4.41-4.60	$ 6,145,000
Water and Sewer System Revenue Bonds, Series 2001	10,000,000	2023	4.37-6.25	240,000
Water and Sewer System Revenue Bonds, Series 2003	9,500,000	2025	4.00-6.00	7,775,000
Water and Sewer System Revenue and Refunding Bonds, Series 2006	13,845,000	2031	3.74-4.82	12,725,000
Water and Sewer System Revenue and Refunding Bonds, Series 2007	40,135,000	2031	3.50-5.50	39,125,000
Water and Sewer System Revenue Bonds, Series 2008	14,950,000	2034	4.125-5.00	14,610,000
Water and Sewer System Revenue Bonds, Series 2009	13,130,000	2034	3.00-5.50	12,810,000
Permanent Improvement and Refunding Bonds, Series 2009	11,660,000	2018	2.00-5.00	10,540,000
Water and Sewer System Revenue Bonds, Series 2010A	14,040,000	2035	1.75-4.50	14,040,000
Water and Sewer System Refunding Bonds, Series 2010B	8,970,000	2023	1.75-4.00	8,970,000
Total Utility System Fund				$ 126,980,000

Current Year Refunding

On March 22, 2010, the City issued $8,970,000 in Water and Sewer Refunding Bonds. The refunding bonds have interest rates from 1.75% to 4.00%, with an average rate of 3.71%. The proceeds were deposited into an escrow fund and were used to lower the City’s overall debt service and to pay costs of issuing the Bonds. This refunding decreased the City’s total debt service payment by $392,883 for an economic gain (difference between the present values of the debt service payments on the old and new debt) of $262,835.

Note 5 - Long-Term Debt (continued)

B. Enterprise Fund Debt (continued)

October 1, 2009, the City issued $28,395,000 in Permanent Improvement and Refunding Bonds, of which $12,160,000 was used to refund its Series 1998 Combination Tax and Revenue Certificates of Obligation for Water and Sewer activities. The proceeds were deposited into an escrow fund and were used to lower the City's overall debt service and to pay costs of issuing the Bonds. The refunding bonds have interest rates of 2.0% to 5.0% with an average rate of 3.82%. This refunding decreased the City's total debt service payment by $525,943 for an economic gain (difference between the present values of the debt service payments on the old and new debt) of $490,396.

The annual requirements to amortize governmental activity revenue bonds and certificates of obligation outstanding at September 30, 2010, were as follows:

	Business-Type Activities			
	Revenue Bonds		Certificates of Obligation	
Fiscal Year	Principal	Interest	Principal	Interest
2011	$ 3,170,000	$ 5,154,774	$ 810,000	$ 363,300
2012	3,305,000	5,016,099	830,000	346,900
2013	3,445,000	4,883,637	1,110,000	327,500
2014	3,580,000	4,744,239	1,155,000	287,525
2015	3,720,000	4,599,949	1,195,000	243,712
2016	3,880,000	4,449,216	1,220,000	212,000
2017	4,040,000	4,287,148	2,065,000	143,601
2018	4,210,000	4,114,630	2,155,000	45,988
2019	4,395,000	3,932,513		
2020	4,580,000	3,741,485		
2021	4,780,000	3,542,164		
2022	4,990,000	3,334,541		
2023	5,205,000	3,118,216		
2024	5,460,000	2,891,514		
2025	5,715,000	2,639,768		
2026	5,980,000	2,371,443		
2027	6,270,000	2,080,606		
2028	6,580,000	1,771,825		
2029	6,890,000	1,463,326		
2030	7,180,000	1,173,994		
2031	7,480,000	871,113		
2032	3,410,000	555,025		
2033	3,580,000	384,475		
2034	3,750,000	215,225		
2035	845,000	38,025		
	$ 116,440,000	$ 71,374,947	$ 10,540,000	$ 1,970,526

Note 5 - Long-Term Debt (continued)

C. Component Unit Long-Term Debt

The following is a summary of the long-term debt transactions of the Pearland Economic Development Corporation and the Development Authority of Pearland for the year ended September 30, 2010:

	Balance September 30, 2009	Additions	(Reductions)	Balance September 30, 2010	Amounts Due Within One Year
Pearland Economic Development Corporation					
Sales tax revenue bonds	$ 19,010,000	$ 7,685,000	$ (565,000)	$ 26,130,000	$ 800,000
Deferred amount for issuance premium/(discount)	113,012		(11,107)	101,905	
Compensated absences	69,992	28,241	(46,398)	51,835	
Development Authority of Pearland					
Tax Increment Revenue Bonds	52,820,000		(1,760,000)	51,060,000	1,830,000
Deferred amount for issuance premium/(discount)	(375,726)		30,098	(345,628)	
	$ 71,637,278	$ 7,713,241	$ (2,352,407)	$ 76,998,112	$ 2,630,000

A summary of the terms of the revenue bonds recorded as long-term liabilities in the Pearland Economic Development Corporation and Development Authority of Pearland as of September 30, 2010, is as follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Pearland Economic Development Corporation				
Sales Tax Revenue Bonds, Series 2005	$ 10,590,000	2026	2.30-4.42	$ 8,775,000
Sales Tax Revenue Bonds, Series 2006	10,235,000	2030	3.66-4.75	9,670,000
Sales Tax Revenue Bonds, Series 2010	7,685,000	2030	variable-resets every 6 months	7,685,000
Development Authority of Pearland				
Tax Increment Revenue Bonds, Series 2004	13,995,000	2028	2.50-5.50	11,215,000
Tax Increment Revenue Bonds, Series 2005	9,775,000	2028	3.50-4.75	7,515,000
Tax Increment Revenue Bonds, Series 2006	9,970,000	2028	4.00-4.40	8,935,000
Tax Increment Revenue Bonds, Series 2007	15,950,000	2029	3.70-4.75	14,875,000
Tax Increment Revenue Bonds, Series 2009	8,815,000	2029	3.00-5.875	8,520,000
Total Component Unit Long-Term Debt				$ 77,190,000

Note 5 - Long-Term Debt (continued)

C. Component Unit Long-Term Debt (continued)

The annual requirements to amortize component unit revenue bonds outstanding at September 30, 2010, were as follows:

	Revenue Bonds			
	Pearland Development Corporation		Development Authority of Pearland	
Fiscal Year	Principal	Interest	Principal	Interest
2011	$ 800,000	$ 1,259,177	$ 1,830,000	$ 2,371,673
2012	840,000	1,257,457	1,900,000	2,300,358
2013	880,000	1,219,307	1,975,000	2,224,827
2014	920,000	1,177,107	2,055,000	2,144,711
2015	965,000	1,132,957	2,140,000	2,059,779
2016	1,010,000	1,086,557	2,230,000	1,968,415
2017	1,060,000	1,034,957	2,330,000	1,871,539
2018	1,115,000	980,869	2,430,000	1,769,317
2019	1,175,000	923,576	2,540,000	1,659,862
2020	1,230,000	868,726	2,540,000	1,544,511
2021	1,285,000	810,926	2,655,000	1,427,346
2022	1,350,000	749,876	2,780,000	1,303,429
2023	1,415,000	684,001	2,915,000	1,171,434
2024	1,480,000	614,738	3,055,000	1,032,070
2025	1,555,000	541,738	3,200,000	882,421
2026	1,635,000	464,626	3,360,000	724,969
2027	1,715,000	383,438	3,530,000	556,764
2028	1,805,000	292,438	3,705,000	379,364
2029	1,895,000	199,825	3,890,000	192,313
2030	2,000,000	102,625		
	$ 26,130,000	$ 15,784,921	$ 51,060,000	$ 27,585,095

D. Legal Compliance

Long-term debt assumed by the City upon dissolution of annexed municipal utility district in fiscal years 2006 and 2007 has been recorded as part of the City's long-term debt. A portion of the assumed debt is related to assets recorded in the Water and Sewer Fund. Even though the debt is related to assets recorded in the Water and Sewer Fund, the debt is considered general obligation debt based on Texas law.

Note 6 - Interfund Transactions

A summary of interfund transfers, the purpose of which is to cover operational expenses/expenditures, for the year ended September 30, 2010, is as follows:

Transfers In	Transfers Out	Amounts	Purpose
General Fund	Capital Projects Fund	$ 1,614,731	Transfer of funds for capital projects costs
General Fund	Non-Major Governmental Fund	331,042	Transfer of funds for operating costs
General Fund	Water and Sewer Fund	1,078,738	Transfer of funds for administrative costs
Debt Service Fund	Water and Sewer Fund	277,127	Transfer of funds for debt service payments
Debt Service Fund	Capital Projects Fund	80,000	Transfer of funds for debt service payments
Non-Major Governmental Fund	General Fund	16,069	Transfer of funds for capital project costs
Non-Major Governmental Fund	Non-Major Governmental Fund	3,000	Transfer of donations
Water and Sewer Fund	General Fund	169,740	Transfer of funds for operating costs
Capital Projects Fund	General Fund	97,388	Transfer of funds for operating costs
		$ 3,667,835	

A summary of interfund receivables and payables at September 30, 2010, follows:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Non-Major Governmental Fund	$ 87,599	Short-term loan to fund operations
		$ 87,599	

Note 7 - Fund Equity / Net Assets

The City records fund balance reserves on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

The Pearland Economic Development Corporation and the Development Authority of Pearland, discretely presented component units of the City, had negative net asset balances at year-end of approximately $9.4 and $40.3 million respectively. These deficit balances are caused by these entities issuing bonds for economic development related construction projects and, in accordance with state law, transferring the capital assets to the primary government while retaining the related debt. As noted in Note 5, the debt is expected to be retired with future dedicated sales and property tax revenues.

Note 8 - Deferred Compensation Plan

The City maintains, for its employees, a tax-deferred compensation plan meeting the requirements of Internal Revenue Code Section 457. The plan was established in the 1995 fiscal year by City Ordinance, and Nationwide Retirement Solutions and SRC Retirement Corporation were appointed as plan administrators. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. The plan's trust arrangements are established to protect deferred compensation amounts of employees under the plan from any other use other than intended under the plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under plan provisions are disbursed bi-weekly by the City to a third-party administrator. The third-party administrator handles all funds in the plan and makes investment decisions and disburses funds to employees in accordance with plan provisions.

Note 9 - Employee Retirement System

Plan Description and Provisions

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), one of 837 currently administered by TMRS, an agent multiple-employer public employee retirement system.

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 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%, 150%, or 200%) 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 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.

The plan provisions are adopted by the City Council 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 2009	Plan Year 2010
Employee deposit rate	7.0%	7.0%
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)	70% of CPI Repeating	70% of CPI Repeating

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

Note 9 - Employee Retirement System (continued)

Contributions

Under the state law governing TMRS, the Actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. The projected unit credit actuarial cost method is used for determining the City contribution rate using a 28-year closed period. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The City's total payroll in fiscal year 2010 was $27.5 million and the City's contributions were based on a payroll of $26.7 million. Contributions made by employees totaled $1.9 million, and the City made contributions of $3.0 million during the fiscal year ended September 30, 2010.

Three-year trend information is presented below:

	2010	2009	2008
Annual Pension Cost (APC)	$ 2,995,119	$ 2,331,353	$ 1,907,416
Percentage of APC Contributed	100%	100%	100%
NPO at the End of Period	$ -	$ -	$ -

Because the actuary determines contribution rates on an annual basis and the City pays the calculated rate each month, the City will always have a net pension obligation (NPO) of zero at the beginning and end of the period, and the annually required contributions (ARC) will always equal contributions made.

All assumptions for the December 31, 2009, valuations are contained in the 2009 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	28 Years - Closed Period
Asset Valuation Method	Amortized cost
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	Varies by age and service
Includes Inflation At	3.00%
Cost-of-Living Adjustments	2.1%

Note 9 - Employee Retirement System (continued)

In order to provide a reasonable retirement benefit at a reasonable cost to employers and to provide better long-range rate forecasts, TMRS' actual funding method is the Projected Unit Credit method using a 25-30 year "closed" period.

For cities that have adopted annually repeating annuity increases (COLA's) this change in method results in increased contribution rates, which will provide advanced funding and positive improvement in the pension funding rates. The TMRS Board adopted an eight-year phase-in period for new rates to enable cities to slowly increase contributions. These were reflected in 2009.

A schedule of funding status and progress for TMRS for the most recent valuation date follows:

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	(UAAL) as a Percentage of Covered Payroll
2009	$ 40,139,722	$ 57,645,422	70%	$17,505,700	$ 25,519,548	69%

A schedule of funding progress for TMRS for the three most recent actuarial valuations may be found in the required supplementary information section of the City's Annual Financial Report.

Note 10 - Other Post-Employment Benefits

In addition to pension benefits, the City provides access to medical and dental coverage through its selected insurance carrier, to retirees and/or retiree dependents. The City's other post-employment benefit plan is a single-employer plan. To qualify for retiree's medical or dental insurance, the retiree must have a minimum of ten years of continuous service with the City and be at least sixty years of age, or with 20 years of continuous service at any age. The City provides the coverage on a pay-as-you-go basis similar to current employees, but the City does not pay any portion of the retiree premium. Therefore, there is an implicit subsidy due to the blended rate paid by the retirees. Thus, there is no direct liability due from the City as it does not pay any portion of the retiree's costs.

The costs of providing these benefits and number of retired employees are as follows:

Total Cost	City's Cost	Emp/Dep Coverage Cost	Number of Retired Employees
$ 58,395	$	$ 58,395	8

Retirees who are entitled to receive retirement benefits under the City's retirement plan may purchase continued health benefits coverage for the retiree and the retiree's dependents, but shall pay 100% of the premium for coverage. The retiree, however, is able to receive a lower rate by participating in the City's plan as opposed to individually purchasing health insurance. The City's coverage is secondary to Medicare when the person becomes eligible for these benefits.

Note 10 - Other Post-Employment Benefits (continued)

The Governmental Accounting Standards Board published a guideline regarding accounting and financial reporting by employers for post-employment benefits other than pensions. This document gives guidance regarding the methods and timing for reporting. The effect of the Guideline is to cause the cost of retiree benefits to be accrued for during the working lifetime of the employees. This requires pre-funding or accruing of a liability. The City has elected to accrue the liability, and the unfunded liability will be funded over a period of 30 years. The results of the City's most recent actuarial valuation are as follows:

Actuarial Valuation Date October 1,	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	(UAAL) as a Percentage of Covered Payroll
2009	$ 6,063,524	$ 6,063,524	$ 25,519,548	24%

Net OPEB obligations at year-end for the last two fiscal years are as follows:

	2009	2010
Normal cost	$ 229,630	$ 323,138
Amortization of UAAL	116,541	116,541
Annual required contribution (ARC)	346,171	439,679
Interest on prior-year net OPEB obligation	13,847	23,032
Estimated increase in Net OPEB obligation	360,018	462,711
Net OPEB Obligation - beginning of year	215,783	575,801
Net OPEB obligation - end of year	$ 575,801	$ 1,038,513

The annual cost recorded to the general ledger for fiscal year 2010 is $462,711 , which includes the estimated normal cost of $323,138 to provide for the benefits earned by active employees. The total liability, which is not recorded to the general ledger, is $6,063,524, and represents the actuarial present value of benefits.

Actuarial valuations for OPEB plans 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 results are compared to past expectations and new estimates are made about the future. The methods and assumptions used as of the measurement date of October 1, 2008, include using the Projected Unit Credit actuarial costs method, amortization period of 30 years, a discount rate of 4%, medical inflation and ultimate pre-Medicare rate of 10% and 5% respectively, with a straight years of service amortization method.

Separate, audited GAAP-basis postemployment benefit plan reports are not applicable for the other post retirement benefit plan for the City as there are no separately issued plan financial statements.

Note 11 - Commitments and Contingencies

Litigation and Other Contingencies

The City was involved in various lawsuits and arbitration proceedings at September 30, 2010. The City and its legal counsel believe that any amounts which the City might ultimately be required to pay will not exceed underlying insurance coverage.

Note 11 - Commitments and Contingencies (continued)

Reimbursements due to Developers

Shadow Creek Town Center

In 2004, the City, along with the Reinvestment Zone Number Two (the Zone) and the Development Authority of Pearland (the Authority), component units of the City, entered into an agreement with a developer to reimburse the developer all or a portion of the project costs to implement the Shadow Creek Ranch Development TIRZ (TIRZ Plan). As projects implementing the TIRZ Plan are completed, the Zone Board may recommend to the City that the Authority reimburse developers on behalf of the Zone and the City. The Zone Board will forward to the City and the Authority all of the necessary and required documentation supporting the requested reimbursement and a determination of the exact amount requested for reimbursement, including a calculation of the amount of interest to be reimbursed on funds advanced for the projects. In addition all monies available in the Tax Increment Fund shall be transferred to the escrow agent no less than once per year and no later than the fifteenth day of each August, subject to the retention by the City of: (1) an amount equal to the City's administrative costs connected with the Zone and the TIRZ Plan, as provided in the TIRZ plan (36% of the City's Tax Increment, but not more than $0.255, in years four through eight, and 64% of the City's Tax Increment, but not more than $0.44, in years nine through 30) shall be retained by the City; (2) amounts required to be maintained in the Alvin ISD Suspense Account; (3) an amount sufficient to pay reasonable current and anticipated administrative and operating costs of the Zone, as determined by the Zone Board.

On November 13, 2006, the City of Pearland, Pearland Economic Development Corporation (PEDC) and Shadow Creek Retail, LP entered into an agreement whereby the developer would build and construct a mixed use commercial development located at the northwest corner of State Highway 288 and Broadway, also known as FM 518.

The Developer provided for the construction of segments of Broadway Street, Business Center Drive, Memorial Hermann Drive, as well as landscaping, underground utilities, pipeline relocation and other associated costs. The source of funds for reimbursement of the public infrastructure is both the TIRZ #2 and City and PEDC sales tax revenue generated from the project. The total funded from TIRZ #2 is $11,749,618 and the amount of TIRZ improvements to be funded from sales tax is $2,001,931. Once completion and tenant occupancy of at least 318,000 square feet is achieved for a period of three consecutive months, the City and PEDC, shall remit, monthly, thirty-three percent of sales tax received by the City and PEDC to the Developer until paid in full plus interest at eight percent per annum for the first two years following completion of the widening of Broadway and interest at five percent per annum for the subsequent two years. The Developer met the targets set forth in the agreement in fiscal year 2008.

Through September 30, 2010, the City remitted sales tax to the developer pursuant to the agreement in the amount of $638,059, of which $248,893 was remitted in fiscal year 2010.

Note 11 - Commitments and Contingencies (continued)

Reimbursements due to Developers (continued)

Pearland Town Center

On January 31, 2007, the City and the Pearland Town Center Limited Partnership and CBL & Associates Management, Inc. entered into an agreement whereby the developer would build and construct a 700,000-square-foot retail and commercial development, including public infrastructure to serve the project and then convey the public infrastructure to the City. In consideration of the development which will bring additional sales tax revenue to the City and additional jobs, the City will reimburse the Developer solely for the costs associated with the public infrastructure from city sales tax revenues. The cost of the infrastructure subject to reimbursement is $2,710,362. The City will make monthly reimbursement payments to the Developer from 50% of the sales tax generated within the project. Reimbursement is to begin one hundred days after the City receives notice from the Developer, and the City subsequently verifies that 75% of the square footage or 525,000 square feet have been open for business for at least thirty consecutive days. The City shall pay the Developer the entire Reimbursement Amount, including interest within three years of the completion date. Construction of the project began in fiscal year 2007 and Pearland Town Center opened on July 31, 2008. The City received notice in November 2008 that at least 525,000 square feet had been open for thirty days. As of September 30, 2010, reimbursements totaled $761,512, of which $428,415 was remitted in fiscal year 2010.

Shadow Creek Ranch Office Building - ZT Group

The Pearland Economic Development Corporation approved an incentive agreement with ZT Group for construction of an 80,000-square-foot class “A” office building in Shadow Creek Ranch. The incentive is broken into two parts:

Part A - If 50% or more of the building is leased prior to the end of construction of the shell building, then PEDC will pay up to $1,500 for each new job created provided that the average for jobs with each lease is $40,000 annually and that all jobs are in the facility in Pearland. The benefit is capped at $600,000.

Part B - If the building is not 50% pre-leased, PEDC will pay a gross lease on the facility at the rate of $100,000 per month for a maximum of 12 months or 30 days after the facility is 50% or more leased.

As of 9/30/2009, the building was not 50% pre-leased and the Pearland Economic Development Corporation began paying $100,000 a month in October 2009 for a total of $1.2 million in fiscal year 2010.

Cardiovascular Systems Inc. (CSI)

The Pearland Economic Development Corporation approved an incentive agreement with Cardiovascular Systems Inc. for a potential total incentive of $13.85 million. CSI is a medical device company developing and commercializing innovative interventional treatment systems for vascular disease. The incentive includes a 10-year lease agreement for a new 46,000-square-foot manufacturing facility in Pearland. The company received $3.5 million upon the signing of the lease and could receive up to an additional $2.75 million over five years as milestones are met. CSI could hire approximately 250 employees over the course of five years to work at the Pearland facility, expanding the area’s already thriving medical technology sector. CSI began operations in fiscal year 2010 and received $300,000 upon occupying the facility.

Note 12 - 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 mainly encompasses obtaining property and liability insurance through Texas Municipal League's Intergovernmental Risk-Pool (TML-IRP), and through commercial insurance carriers. The participation of the City in TML-IRP is limited to payment of premiums. 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 City also provides Workers' Compensation insurance on its employees through TML-Workers' Compensation Fund. Workers' Compensation premiums are subject to change when audited by TML Workers' Compensation Fund. At fiscal year-end September 30, 2010, the City believed the amounts paid on Workers' Compensation would not change significantly from the amounts recorded.

Note 13 - Capital Lease

The City has a 20-year agreement to lease a facility to the University of Houston Clear Lake (UHCL), which commenced in July 2010. Rent or lease payments are broken into two parts, debt service and operating. For accounting purposes the City has classified the lease as a direct financing lease. Because this lease is recorded in a governmental fund, the receivable is deferred and the distinction between a sales and direct financing lease is not relevant at the fund level.

UHCL has an option to purchase the facility upon the commencement date of July 2010 until the 61st day preceding the 20th anniversary of the commencement date.

The lease payments related to debt service to be received coincide with debt service payments the City is required to make on a bond that matures on March 1, 2029. At September 30, 2010, the future minimum debt service lease payments to be received under the lease are as follows:

Fiscal year ending September 30,	Payment
2011	$ 690,507
2012	681,977
2013	673,447
2014	664,384
2015	654,255
2016-2029	7,513,390
Total	$ 10,877,960

Note 14 - Operating Lease

The City has a five-year agreement to lease a portion of the UHCL facility to the Pearland Economic Development Corporation which commenced in July 2010. For accounting purposes the City has classified the lease as an operating lease. The agreement calls for up to three additional five-year terms for a total of 20 years. The rent/lease payments are broken into two parts, debt service and operating.

Note 14 - Operating Lease (continued)

The debt service lease payments to be received coincide with debt service payments the City is required to make on a bond that matures on March 1, 2029. At September 30, 2010, the future minimum debt service lease payments to be received under the lease are as follows:

Fiscal year ending September 30,	Payment
2011	$ 116,256
2012	114,820
2013	113,384
2014	111,858
2015	110,153
2016-2029	1,278,165
Total	$ 1,844,636

Note 15 - Subsequent Events

Development Authority of Pearland - Developer Reimbursement

On October 25, 2010, the Development Authority of Pearland authorized a $4.7 million cash reimbursement to the developer in association with the Master Development agreement and financing plan. To date, the DAP has issued $58.5 million in debt based on supported value on the ground and reimbursed the Developer $67.5 million, including interest. Of this amount $16.9 million was made in cash reimbursements. Cash contributions assist in paying off the obligations earlier as well as reduce interest and carrying cost of the bonds. There is approximately $90.2 million of improvements approved for reimbursement by the TIRZ board, but not yet reimbursed. The amended plan, estimated that throughout the life of the TIRZ, infrastructure projects to be financed totaled $169.1 million.

Lease Purchase Financing

On December 22, 2009, City Council approved adoption of a resolution declaring the City's intention to reimburse certain fiscal year 2010 capital expenditures from future capital lease proceeds, with aggregate purchase prices in an amount not to exceed $1,650,000. On December 13, 2010, City Council approved lease purchase financing on actual purchase amounts totaling $570,721. The best proposal was received from SunTrust Equipment Finance & Leasing Corporation with an interest rate of 2.410%. The annual payment is $88,158, for a grand total of $617,105 over the term of the lease. The bank will obtain a security interest in the subject fixtures and equipment, an interest which will be released upon final payment, resulting in the City holding full ownership rights to the equipment.

General Obligation and Refunding Bonds, Series 2010 A and 2010 B

On September 13, 2010, City Council approved the sale of General Obligation and Refunding Bonds totaling $13.9 million. The sales included $12.2 million for street, drainage and recreation projects as approved by voters in May 2007. Refunding bonds totaled $1.7 million and resulted in savings of approximately $154,930 over eight years, by taking coupons ranging from 4.4% to 5.0% down to 0.75% to 2.54%. The bond document was dated October 1, 2010, and bond proceeds were received on October 12, 2010.

Required Supplementary Information

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CITY OF PEARLAND, TEXAS

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the year ended September 30, 2010

	Budgeted Amounts			Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
Revenues				
Property taxes	$ 10,968,001	$ 11,030,995	$ 11,115,823	$ 84,828
Sales and use taxes	14,358,740	12,883,866	13,082,134	198,268
Franchise fees	5,201,751	5,153,140	5,426,110	272,970
Licenses and permits	2,048,457	2,002,934	1,806,692	(196,242)
Fees and forfeitures	2,508,098	2,340,157	2,310,041	(30,116)
Charges for services	9,940,817	9,219,385	9,245,791	26,406
Investment earnings	180,000	65,938	63,164	(2,774)
Intergovernmental	105,870	477,929	477,929	
Other	311,155	328,340	383,189	54,849
Total Revenues	45,622,889	43,502,684	43,910,873	408,189
Expenditures				
Current:				
General government	9,034,828	8,474,679	8,064,367	410,312
Public safety	23,472,480	23,837,073	23,141,409	695,664
Public works	7,121,596	7,973,660	7,108,143	865,517
Community services	3,280,591	3,833,917	3,648,920	184,997
Parks and recreation	6,659,115	6,332,376	6,096,658	235,718
Total Expenditures	49,568,610	50,451,705	48,059,497	2,392,208
Excess (deficiency) of revenues over expenditures	(3,945,721)	(6,949,021)	(4,148,624)	2,800,397
Other Financing Sources (Uses)				
Proceeds from capital leases	1,151,176	2,539,562	2,050,000	(489,562)
Transfers in	2,421,916	2,982,890	3,024,510	41,620
Transfers out	(263,509)	(283,197)	(283,197)	
Total Other Financing Sources (Uses)	3,309,583	5,239,255	4,791,313	(447,942)
Net change in fund balances	(636,138)	(1,709,766)	642,689	2,352,455
Fund balances, beginning	12,219,107	12,219,107	12,219,107	
Fund balances, ending	$ 11,582,969	$ 10,509,341	$ 12,861,796	$ 2,352,455

Budgetary Compliance

The City of Pearland has complied with all material budget requirements for the year ended September 30, 2010.

Annual appropriated budgets are adopted for the General, Special Revenue and Debt Service Funds, using the same basis of accounting as for financial reporting. All annual appropriations lapse at fiscal year end. Project length budgets are adopted for the Capital Project Funds. The City, for management control, approves a financial plan for the Enterprise Fund. City Council approves the annual budget for the Pearland Economic Development Corporation, which is included in the City's financial reporting entity.

Expenditures may not legally exceed budgeted appropriations at the fund level (i.e. General Fund, Debt Service Fund, etc.). Expenditure requests, which would require an increase in total budgeted appropriations, must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

Because City Council adopts the budget at the fund level, management has the authority to transfer available funds allocated by the budget from one function/department or activity to another function or activity within the same department. In cooperation with the directors and department heads of the City, the Budget Officer, the Director of Finance and the City Manager prepare an annual budget for the General Fund, Special Revenue Funds and Debt Service Fund for the ensuing fiscal year, in a form and style as deemed desirable by the City Manager. The City Manager shall submit to the Council, for its review, consideration, and revision, both a letter describing the proposed new budget, as well as a balanced budget for the forthcoming fiscal year, between 60 (sixty) and 90 (ninety) days prior to the beginning of the fiscal year. The budget, as adopted, must set forth the appropriations for services, functions, and activities of the various City departments and agencies, and shall meet all fund requirements provided by law and required by bond covenants. Capital projects are budgeted on a project-length basis.

Amounts reported in the accompanying financial statements represent the budgeted amount with all supplemental appropriations.

TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)
Schedule of Funding Progress

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	(UAAL) as a Percentage of Covered Payroll
2009	$ 40,139,722	$ 57,645,422	70%	$17,505,700	$ 25,519,548	69%
2008	35,087,719	52,248,976	67%	17,161,257	25,135,418	68%
2007	31,242,862	44,076,397	71%	12,833,535	19,967,051	64%

CITY OF PEARLAND OTHER POST-EMPLOYMENT BENEFIT OBLIGATION
Schedule of Funding Progress

Actuarial Valuation Date December 31,	Actuarial Value of Assets	Actuarial Accrued Liabilities	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll	(UAAL) as a Percentage of Covered Payroll
2009	$	$ 6,063,524	0%	$ 6,063,524	$ 25,519,548	24%
2008		6,063,524	0%	6,063,524	25,135,418	24%
2007	N/A	N/A	N/A	N/A	N/A	N/A

While retirees get the benefit of an overall employee blended rate for the Other Post-Employment Benefit Obligation, benefits are funded on a pay-as-you go basis via premiums paid by the retirees and to be paid by future retirees. Therefore, the City does not pay for retiree health insurance directly and there is an implicit subsidy due to the blended rate paid by the retirees. Thus, there is no direct liability due from the City as it does not pay any portion of the retiree's costs.

Trend information is designed to provide information about the progress made in accumulating sufficient assets to pay benefits when due.

Other Supplementary Information

Combining and Individual Fund Statements and Schedules

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CITY OF PEARLAND, TEXAS
NON-MAJOR GOVERNMENTAL FUNDS
SPECIAL REVENUE FUNDS

To account for the proceeds of specific revenue sources that, are legally restricted to expenditures for specific purposes.

Hotel/Motel Tax Fund - A fund created to account for hotel/motel occupancy tax revenue.

Court Security Fund - A fund created to account for the receipt and expenditure of revenues from court fines for court security.

City-Wide Donation Fund - A fund created to account for miscellaneous donations for all city departments except parks.

Court Technology Fund - This fund is used to account for the receipt and expenditure of revenues from court fines for court technology.

Regional Detention Fund - A fund created to account for regional detention development.

Park Donation Fund - A fund used to account for park donations for park special events and development of parks. This fund also includes funds from tree trust donations.

Police Seizure Fund - A fund created to account for state and federal seizure funds which are used solely for law enforcement purposes.

Park and Recreation Development Fund - A fund created to account for the receipt and expenditure of payment in lieu of parkland for the development of parks.

Sidewalk Fund - A fund created to account for resources designated for sidewalks.

Grant Fund - A fund created to account for revenues and expenditures associated with federal, state, and local grants.

Traffic Impact Improvement Fund - A fund created to account for resources for street assessments.

Juvenile Management Fund - A fund created to account for receipt and expenditure of revenues from court fines for juvenile case manager.

Emergency Management Fund - A fund created to account for funds distributed by the National Flood Insurance Program, to be used by the City to buy out program-participating homeowners in flood prone areas.

Management District 1 Fund - A fund created to account for sales tax collections from the Poag & McEwen Lifestyle Center development to finance and assist the development of public infrastructure.

University of Houston (U of H) Fund - A fund created to account for lease revenues and the operating expenditures related to the University of Houston Clear Lake-Pearland Campus built by the City and leased to the University of Houston Clear Lake and the Pearland Economic Development Corporation.

CITY OF PEARLAND, TEXAS
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
September 30, 2010

	Hotel/Motel Tax	Court Security	City-Wide Donations	Court Technology	Regional Detention	Park Donations	Police Seizure
Assets							
Cash and cash equivalents	$ 1,325,516	$ 135,655	$ 44,486	$ 196,055	$ 4,033	$ 50,394	$ 249,043
Receivables (net of allowance for uncollectibles)	111,878	2,655		2,525			
Prepaid items	25,663						
Total Assets	$ 1,463,057	$ 138,310	$ 44,486	$ 198,580	$ 4,033	$ 50,394	$ 249,043
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	$ 44,637	$ 352	$	$	$	$	$ 2,780
Due to other funds							
Deferred revenue		2,655		2,525			
Total Liabilities	44,637	3,007		2,525			2,780
Fund Balance:							
Unreserved, reported in							
Prepaid expenses	25,663						
Special revenue funds	1,392,757	135,303	44,486	196,055	4,033	50,394	246,263
Total Fund Balances	1,418,420	135,303	44,486	196,055	4,033	50,394	246,263
Total Liabilities and Fund Balances	$ 1,463,057	$ 138,310	$ 44,486	$ 198,580	$ 4,033	$ 50,394	$ 249,043

Parks and Recreation Development	Sidewalk	Grant Fund	Traffic Impact Improvements	Juvenile Management Fund	Emergency Management	Management District 1	U of H Fund	Totals
$ 1,166,315	$ 213,139	$ 11,300	$ 546,564	$ 9,071	$	$ 198,140	$ 43,639	$ 4,193,350
		115,414		744				233,216
								25,663
$ 1,166,315	$ 213,139	$ 126,714	$ 546,564	$ 9,815	$	$ 198,140	$ 43,639	$ 4,452,229
$ 2,089	$	$ 8,704	$	$	$	$	$ 24,984	$ 83,546
		87,599						87,599
				744			14,606	20,530
2,089		96,303		744			39,590	191,675
								25,663
1,164,226	213,139	30,411	546,564	9,071		198,140	4,049	4,234,891
1,164,226	213,139	30,411	546,564	9,071		198,140	4,049	4,260,554
$ 1,166,315	$ 213,139	$ 126,714	$ 546,564	$ 9,815	$	$ 198,140	$ 43,639	$ 4,452,229

CITY OF PEARLAND, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

	Hotel/Motel Tax	Court Security	City-Wide Donations	Court Technology	Regional Detention	Park Donations	Police Seizure
Revenues							
Sales and use taxes	$ 496,278	$	$	$	$	$	$
Fines and forfeitures		50,888		62,452			
Investment earnings	2,432	256	94	455	7	99	481
Intergovernmental							
Other	139		25,716			86,764	61,289
Total Revenues	498,849	51,144	25,810	62,907	7	86,863	61,770
Expenditures							
Current:							
General government	441,253						
Public safety			26,229				81,575
Public works							
Community services		1,913	10,351	146,816			
Parks and recreation						82,326	
Capital outlay							
Total Expenditures	441,253	1,913	36,580	146,816		82,326	81,575
Excess (deficiency) of revenues over expenditures	57,596	49,231	(10,770)	(83,909)	7	4,537	(19,805)
Other Financing Sources (Uses)							
Transfers in			3,000				
Transfers out		(49,122)				(3,000)	
Total Other Financing Sources (Uses)		(49,122)	3,000			(3,000)	
Net change in fund balances	57,596	109	(7,770)	(83,909)	7	1,537	(19,805)
Fund balances - beginning	1,360,824	135,194	52,256	279,964	4,026	48,857	266,068
Fund balances - ending	$ 1,418,420	$ 135,303	$ 44,486	$ 196,055	$ 4,033	$ 50,394	$ 246,263

Parks and Recreation Development	Sidewalk	Grant Fund	Traffic Impact Improvements	Juvenile Management Fund	Emergency Management	Management District 1	U of H Fund	Totals
$	$	$	$	$	$	$	$	$ 496,278
				51,155				164,495
1,922	379	25	1,009	8		539	3	7,709
		1,066,293			97,743		11,798	1,175,834
147,150	10,407		4,670				41,464	377,599
149,072	10,786	1,066,318	5,679	51,163	97,743	539	53,265	2,221,915
		21,409						462,662
		440,943			93,843			642,590
		31,266						190,346
29,365		50,067					46,562	208,320
		509,626						509,626
29,365		1,053,311			93,843		46,562	2,013,544
119,707	10,786	13,007	5,679	51,163	3,900	539	6,703	208,371
		16,069						19,069
		(35,453)		(42,596)		(201,217)	(2,654)	(334,042)
		(19,384)		(42,596)		(201,217)	(2,654)	(314,973)
119,707	10,786	(6,377)	5,679	8,567	3,900	(200,678)	4,049	(106,602)
1,044,519	202,353	36,788	540,885	504	(3,900)	398,818		4,367,156
$ 1,164,226	$ 213,139	$ 30,411	$ 546,564	$ 9,071	$	$ 198,140	$ 4,049	$ 4,260,554

CITY OF PEARLAND, TEXAS

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Property taxes	$ 21,477,390	$ 21,740,334	$ 262,944	$ 20,660,512
Charges for services	31,310	81,766	50,456	
Investment earnings	372,707	377,463	4,756	147,127
Total Revenues	21,881,407	22,199,563	318,156	20,807,639
Expenditures				
Debt Service:				
Principal	6,200,096	6,200,254	(158)	5,482,132
Interest	13,101,209	13,103,133	(1,924)	11,941,654
Intergovernmental	3,794,165	3,794,164	1	3,249,619
Total Expenditures	23,095,470	23,097,551	(2,081)	20,673,405
Revenues over (under) expenditures	(1,214,063)	(897,988)	316,075	134,234
Other Financing Sources (Uses)				
Transfers from other funds	357,127	357,127		277,127
Total Other Financing Sources (Uses)	357,127	357,127		277,127
Net change in fund balance	(856,936)	(540,861)	316,075	411,361
Fund Balances - Beginning	7,246,549	7,246,549		6,835,188
Fund Balances - Ending	$ 6,389,613	$ 6,705,688	$ 316,075	$ 7,246,549

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - HOTEL/MOTEL TAX

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Hotel occupancy tax	$ 495,544	$ 496,278	$ 734	$ 456,872
Investment earnings	1,709	2,432	723	11,766
Other		139	139	
Total Revenues	497,253	498,849	1,596	468,638
Expenditures				
Current:				
General government	473,479	441,253	32,226	354,590
Total Expenditures	473,479	441,253	32,226	354,590
Revenues over (under) expenditures	23,774	57,596	33,822	114,048
Other Financing Sources (Uses)				
Transfers to other funds	(4,817)		4,817	
Net change in fund balance	18,957	57,596	38,639	114,048
Fund Balances - Beginning	1,360,824	1,360,824		1,246,776
Fund Balances - Ending	$ 1,379,781	$ 1,418,420	$ 38,639	$ 1,360,824

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - COURT SECURITY

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Fines and forfeitures	$ 50,255	$ 50,888	$ 633	$ 50,312
Investment earnings	210	256	46	1,305
Total Revenues	50,465	51,144	679	51,617
Expenditures				
Current:				
Community services	3,900	1,913	1,987	2,405
Total Expenditures	3,900	1,913	1,987	2,405
Revenues over (under) expenditures	46,565	49,231	2,666	49,212
Other Financing Sources (Uses)				
Transfers (out)	(49,122)	(49,122)		(46,307)
Net change in fund balance	(2,557)	109	2,666	2,905
Fund Balances - Beginning	135,194	135,194		132,289
Fund Balances - Ending	$ 132,637	$ 135,303	$ 2,666	$ 135,194

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - CITY-WIDE DONATIONS

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$ 87	$ 94	$ 7	$ 558
Other income	21,279	25,716	4,437	31,955
Total Revenues	21,366	25,810	4,444	32,513
Expenditures				
Current:				
Public safety	28,689	26,229	2,460	21,255
Community services	20,469	10,351	10,118	9,750
Total Expenditures	49,158	36,580	12,578	31,005
Revenues over (under) expenditures	(27,792)	(10,770)	17,022	1,508
Other Financing Sources (Uses)				
Transfers in (out)		3,000	3,000	
Net change in fund balance	(27,792)	(7,770)	20,022	1,508
Fund Balances - Beginning	52,256	52,256		50,748
Fund Balances - Ending	$ 24,464	$ 44,486	$ 20,022	$ 52,256

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - COURT TECHNOLOGY

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Fines and forfeitures	$ 61,642	$ 62,452	$ 810	$ 61,844
Investment earnings	422	455	33	2,751
Total Revenues	62,064	62,907	843	64,595
Expenditures				
Current:				
Community services	149,618	146,816	2,802	84,161
Total Expenditures	149,618	146,816	2,802	84,161
Revenues over (under) expenditures	(87,554)	(83,909)	3,645	(19,566)
Net change in fund balance	(87,554)	(83,909)	3,645	(19,566)
Fund Balances - Beginning	279,964	279,964		299,530
Fund Balances - Ending	$ 192,410	$ 196,055	$ 3,645	$ 279,964

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - REGIONAL DETENTION

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$ 6	$ 7	$ 1	$ 813
Other income				3,255
Total Revenues	6	7	1	4,068
Other Financing Sources (Uses)				
Operating Transfers (Out)				(116,557)
Net change in fund balance	6	7	1	(112,489)
Fund Balances - Beginning	4,026	4,026		116,515
Fund Balances - Ending	$ 4,032	$ 4,033	$ 1	$ 4,026

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - PARK DONATIONS

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$ 67	$ 99	$ 32	$ 1,561
Other	80,850	86,764	5,914	68,320
Total Revenues	80,917	86,863	5,946	69,881
Expenditures				
Current:				
Parks and recreation	91,899	82,326	9,573	35,790
Total Expenditures	91,899	82,326	9,573	35,790
Revenues over (under) expenditures	(10,982)	4,537	15,519	34,091
Other Financing Sources (Uses)				
Transfers (to) other funds		(3,000)	(3,000)	(181,825)
Net change in fund balance	(10,982)	1,537	12,519	(147,734)
Fund Balances - Beginning	48,857	48,857		196,591
Fund Balances - Ending	$ 37,875	$ 50,394	$ 12,519	$ 48,857

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - POLICE SEIZURE

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$ 415	$ 481	$ 66	$ 1,341
Other	56,650	61,289	4,639	250,852
Total Revenues	57,065	61,770	4,705	252,193
Expenditures				
Current:				
Public safety	124,775	81,575	43,200	136,648
Total Expenditures	124,775	81,575	43,200	136,648
Revenues over (under) expenditures	(67,710)	(19,805)	47,905	115,545
Net change in fund balance	(67,710)	(19,805)	47,905	115,545
Fund Balances - Beginning	266,068	266,068		150,523
Fund Balances - Ending	$ 198,358	$ 246,263	$ 47,905	$ 266,068

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - PARKS AND RECREATION DEVELOPMENT

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$ 1,530	$ 1,922	$ 392	$ 9,493
Other	148,650	147,150	(1,500)	67,500
Total Revenues	150,180	149,072	(1,108)	76,993
Expenditures				
Current:				
Parks and recreation	30,000	29,365	635	18,839
Total Expenditures	30,000	29,365	635	18,839
Revenues over (under) expenditures	120,180	119,707	(473)	58,154
Other Financing Sources (Uses)				
Transfers from other funds				
Net change in fund balance	120,180	119,707	(473)	58,154
Fund Balances - Beginning	1,044,519	1,044,519		986,365
Fund Balances - Ending	$ 1,164,699	$ 1,164,226	$ (473)	$ 1,044,519

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - SIDEWALK

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$ 307	$ 379	$ 72	$ 1,776
Other	12,000	10,407	(1,593)	22,168
Total Revenues	12,307	10,786	(1,521)	23,944
Net change in fund balance	12,307	10,786	(1,521)	23,944
Fund Balances - Beginning	202,353	202,353		178,409
Fund Balances - Ending	$ 214,660	$ 213,139	$ (1,521)	$ 202,353

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - GRANT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$ 33	$ 25	$ (8)	$ 260
Intergovernmental	2,049,803	1,066,293	(983,510)	664,921
Other				353
Total Revenues	2,049,836	1,066,318	(983,518)	665,534
Expenditures				
Current:				
General government	21,542	21,409	133	36,915
Public safety	523,298	440,943	82,355	148,231
Public works				
Community service	494,846	31,266	463,580	84,872
Parks and recreation	250,255	50,067	200,188	
Capital outlay	706,031	509,626	196,405	138,775
Total Expenditures	1,995,972	1,053,311	942,661	408,793
Revenues over (under) expenditures	53,864	13,007	(40,857)	256,741
Other Financing Sources (Uses)				
Transfers from other funds	16,069	16,069		
Transfers (to) other funds	(66,251)	(35,453)	30,798	(305,897)
Total other financing sources (uses)	(50,182)	(19,384)	30,798	(305,897)
Net change in fund balance	3,682	(6,377)	(10,059)	(49,156)
Fund Balances - Beginning	36,788	36,788		85,944
Fund Balances - Ending	$ 40,470	$ 30,411	$ (10,059)	$ 36,788

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - TRAFFIC IMPACT IMPROVEMENTS

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$ 850	$ 1,009	$ 159	$ 6,726
Other	4,670	4,670		
Total Revenues	5,520	5,679	159	6,726
Expenditures				
Public works				22,680
Total Expenditures				22,680
Revenues over (under) expenditures	5,520	5,679	159	(15,954)
Transfers (to) other funds				(192,184)
Total Other Financing Sources (Uses)				(192,184)
Net change in fund balance	5,520	5,679	159	(208,138)
Fund Balances - Beginning	540,885	540,885		749,023
Fund Balances - Ending	$ 546,405	$ 546,564	$ 159	$ 540,885

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - EMERGENCY MANAGEMENT

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Intergovernmental	$ 97,743	$ 97,743	$	$ 279,466
Total Revenues	97,743	97,743		279,466
Expenditures				
Current:				
Public safety	93,843	93,843		1,450
Capital outlay				775,503
Total Expenditures	93,843	93,843		776,953
Revenues over (under) expenditures	3,900	3,900		(497,487)
Net change in fund balance	3,900	3,900		(497,487)
Fund Balances - Beginning	(3,900)	(3,900)		493,587
Fund Balances - Ending	$	$	$	$ (3,900)

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - MANAGEMENT DISTRICT 1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$ 504	$ 539	$ 35	$ 479
Intergovernmental				96,530
Total Revenues	504	539	35	97,009
Other Financing Sources (Uses)				
Transfers from other funds				
Transfers (to) other funds	(201,216)	(201,217)	(1)	
Total Other Financing Sources (Uses)	(201,216)	(201,217)	(1)	
Net change in fund balance	(200,712)	(200,678)	34	97,009
Fund Balances - Beginning	398,818	398,818		301,809
Fund Balances - Ending	$ 198,106	$ 198,140	$ 34	$ 398,818

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - U OF H FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Final Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Investment earnings	$	$ 3	$ 3	$
Intergovernmental	11,798	11,798		
Other	35,127	41,464	6,337	
Total Revenues	46,925	53,265	6,340	
Expenditures				
Current:				
Parks and recreation	43,925	46,562	(2,637)	
Total Expenditures	43,925	46,562	(2,637)	
Revenues over (under) expenditures	3,000	6,703	3,703	
Other Financing Sources (Uses)				
Transfers from other funds				
Transfers (to) other funds	(3,000)	(2,654)	346	
Total Other Financing Sources (Uses)	(3,000)	(2,654)	346	
Net change in fund balance		4,049	4,049	
Fund Balances - Beginning				
Fund Balances - Ending	$	$ 4,049	$ 4,049	$

CITY OF PEARLAND, TEXAS

SPECIAL REVENUE FUND - JUVENILE MANAGEMENT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended September 30, 2010

with comparative actual totals for the year ended September 30, 2009

	2010			
	Budget	Actual	Variance Positive / (Negative)	2009
Revenues				
Fines and Fees	$ 61,642	$ 51,155	$ (10,487)	$ 504
Investment earnings	5	8	3	
Total Revenues	61,647	51,163	(10,484)	504
Revenues over (under) expenditures	61,647	51,163	(10,484)	504
Other Financing Sources/(Uses)				
Transfers (to) other funds	(42,596)	(42,596)		
Total other financing sources (uses)	(42,596)	(42,596)		
Net change in fund balance	19,051	8,567	(10,484)	504
Fund Balances - Beginning	504	504		
Fund Balances - Ending	$ 19,555	$ 9,071	$ (10,484)	$ 504

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Discretely Presented Component Units
Fund Based Financial Statements

CITY OF PEARLAND, TEXAS

DISCRETELY PRESENTED COMPONENT UNITS

BALANCE SHEETS - GOVERNMENTAL FUNDS

September 30, 2010

	Pearland Economic Development Corporation	Tax Increment Reinvestment Zone #2	Development Authority of Pearland	Total Component Units
Assets				
Cash and equivalents	$ 2,597,379	$ 6,759,997	$ 4,784,398	$ 14,141,774
Investments	2,027,982			2,027,982
Receivables-less allowance for uncollectibles	1,181,219	128,041		1,309,260
Prepaid items	16,535			16,535
Restricted cash	665,254		2,749,493	3,414,747
Total Assets	$ 6,488,369	$ 6,888,038	$ 7,533,891	$ 20,910,298
Liabilities				
Accounts payable and accrued expenses	$ 84,969	$ 3,465	$	$ 88,434
Customer deposits	38,333			38,333
Total Liabilities	123,302	3,465		126,767
Fund Balance				
Reserved for debt service	665,254		2,749,493	3,414,747
Unreserved	5,699,813	6,884,573	4,784,398	17,368,784
Total Fund Balance	6,365,067	6,884,573	7,533,891	20,783,531
Total Liabilities and Fund Balance	$ 6,488,369	$ 6,888,038	$ 7,533,891	$ 20,910,298
Reconciliation from fund balance to net assets				
fund balance	$ 6,365,067	$ 6,884,573	$ 7,533,891	$ 20,783,531
Add capital assets	10,179,074			10,179,074
Less revenue bonds payable	(25,808,585)		(47,631,160)	(73,439,745)
Less other long-term liabilities	(51,835)			(51,835)
Less interest payable	(98,195)		(189,996)	(288,191)
Net Assets	$ (9,414,474)	$ 6,884,573	$ (40,287,265)	$ (42,817,166)

CITY OF PEARLAND, TEXAS

DISCRETELY PRESENTED COMPONENT UNITS

STATEMENT OF REVENUES, EXPENDITURES, AND

CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2010

	Pearland Economic Development Corporation	Tax Increment Reinvestment Zone #2	Development Authority of Pearland	Total Component Units
Revenues				
Taxes:				
Property taxes	$	$ 17,590,983	$	$ 17,590,983
Sales and use taxes	6,493,220			6,493,220
Investment earnings	16,964	15,770	10,259	42,993
Other	248,268			248,268
Total Revenues	6,758,452	17,606,753	10,259	24,375,464
Expenditures				
Current:				
General government			11,034	11,034
Economic development	3,804,748	5,291,784	6,329,130	15,425,662
Capital Outlay	3,245,575			3,245,575
Debt Service				
Principal	565,000		1,760,000	2,325,000
Interest	920,566		2,453,020	3,373,586
Bond issuance cost	84,465		2,500	86,965
Intergovernmental - City	439,635			439,635
Total Expenditures	9,059,989	5,291,784	10,555,684	24,907,457
Revenues over (under) expenditures	(2,301,537)	12,314,969	(10,545,425)	(531,993)
Other Financing Sources (Uses)				
Transfers from other component units			13,391,813	13,391,813
Transfers (to) other component units		(13,391,813)		(13,391,813)
Issuance of revenue bonds	7,685,000			7,685,000
Total other financing sources (uses)	7,685,000	(13,391,813)	13,391,813	7,685,000
Changes in fund balance	5,383,463	(1,076,844)	2,846,388	7,153,007
Fund Balances - Beginning	981,604	7,961,417	4,687,503	13,630,524
Fund Balances - Ending	$ 6,365,067	$ 6,884,573	$ 7,533,891	$ 20,783,531
Reconciliation from changes in fund balance to changes in net assets				
Change in fund balance	$ 5,383,463	$ (1,076,844)	$ 2,846,388	$ 7,153,007
Add principal payments	565,000		1,760,000	2,325,000
Bond issuance costs			(302,631)	(302,631)
Changes in interest payable	54,497		5,414	59,911
Less changes in other long-term liabilities	(7,685,000)			(7,685,000)
Add premium/discount on bonds				
Less post-employment benefit liability expense	(16,825)			(16,825)
Less issuance of revenue bonds				
Add capital outlay	3,304,259			3,304,259
Changes in Net Assets	$ 1,605,394	$ (1,076,844)	$ 4,309,171	$ 4,837,721

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Long-Term Debt Amortization Schedules

CITY OF PEARLAND, TEXAS
COMBINING SCHEDULE OF GOVERNMENTAL ACTIVITY LONG-TERM DEBT
BY MATURITY DATE
September 30, 2010

	Certificates of Obligation, Series 2001			BCMUD #1 Series 2001		
Fiscal Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2011	$ 575,000	$ 11,500	$ 586,500	$ 185,000	$ 78,332	$ 263,332
2012				200,000	70,193	270,193
2013				210,000	61,192	271,192
2014				220,000	51,428	271,428
2015				230,000	40,977	270,977
2016				235,000	29,765	264,765
2017				255,000	18,250	273,250
2018				110,000	5,500	115,500
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
2033						
2034						
	$ 575,000	$ 11,500	$ 586,500	$ 1,645,000	$ 355,637	$ 2,000,637

	Certificates of Obligation, Series 2003			Permanent Improvement Bonds, Series 2002		
Fiscal Year	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2011	$ 1,175,000	$ 631,233	$ 1,806,233	$ 770,000	$ 79,800	$ 849,800
2012	1,235,000	580,095	1,815,095	810,000	28,350	838,350
2013	1,295,000	531,114	1,826,114			
2014	1,035,000	488,203	1,523,203			
2015	1,090,000	449,408	1,539,408			
2016	1,145,000	407,488	1,552,488			
2017	1,210,000	361,533	1,571,533			
2018	1,180,000	313,733	1,493,733			
2019	1,240,000	265,333	1,505,333			
2020	1,310,000	213,023	1,523,023			
2021	1,380,000	156,188	1,536,188			
2022	1,455,000	95,944	1,550,944			
2023	1,530,000	32,513	1,562,513			
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
	$ 16,280,000	$ 4,525,803	$ 20,805,803	$ 1,580,000	$ 108,150	$ 1,688,150

Fiscal Year	Permanent Improvement Bonds, Series 2002 Principal	Interest	Total	Permanent Improvement Bonds, Series 2003 Principal	Interest	Total
2011	$ 770,000	$ 79,800	$ 849,800	$ 350,000	$ 581,329	$ 931,329
2012	810,000	28,350	838,350	370,000	559,728	929,728
2013				390,000	536,929	926,929
2014					525,229	525,229
2015					525,228	525,228
2016				455,000	516,129	971,129
2017				725,000	492,529	1,217,529
2018				765,000	462,729	1,227,729
2019				805,000	430,826	1,235,826
2020				845,000	396,266	1,241,266
2021				885,000	359,283	1,244,283
2022				935,000	320,153	1,255,153
2023				980,000	278,613	1,258,613
2024				1,030,000	234,000	1,264,000
2025				1,085,000	186,413	1,271,413
2026				1,140,000	136,350	1,276,350
2027				1,200,000	83,700	1,283,700
2028				1,260,000	28,350	1,288,350
2029						
2030						
2031						
2032						
2033						
2034						
	$ 1,580,000	$ 108,150	$ 1,688,150	$ 13,220,000	$ 6,653,781	$ 19,873,781

Fiscal Year	Certificates of Obligation, Series 2004 Principal	Interest	Total	Permanent Improvement & Refund Bonds, Series 2005 Principal	Interest	Total
2011	$ 365,000	$ 575,221	$ 940,221	$ 1,705,000	$ 1,578,223	$ 3,283,223
2012	380,000	560,322	940,322	1,775,000	1,514,039	3,289,039
2013	385,000	545,021	930,021	1,845,000	1,445,011	3,290,011
2014	710,000	523,121	1,233,121	1,930,000	1,370,664	3,300,664
2015	710,000	494,721	1,204,721	2,010,000	1,281,814	3,291,814
2016	730,000	465,922	1,195,922	2,115,000	1,178,689	3,293,689
2017	1,030,000	430,721	1,460,721	865,000	1,108,514	1,973,514
2018	1,070,000	388,186	1,458,186	995,000	1,071,314	2,066,314
2019	1,160,000	341,891	1,501,891	380,000	1,043,624	1,423,624
2020		317,532	317,532	385,000	1,027,893	1,412,893
2021		317,531	317,531	395,000	1,011,658	1,406,658
2022		317,531	317,531	405,000	994,756	1,399,756
2023		317,531	317,531	875,000	967,338	1,842,338
2024		317,532	317,532	2,625,000	882,900	3,507,900
2025	1,625,000	280,969	1,905,969	2,760,000	748,275	3,508,275
2026	1,675,000	205,672	1,880,672	2,900,000	606,775	3,506,775
2027	1,730,000	126,931	1,856,931	3,045,000	465,763	3,510,763
2028	1,830,000	43,463	1,873,463	4,010,000	297,000	4,307,000
2029				3,935,000	98,375	4,033,375
2030						
2031						
2032						
	$ 13,400,000	$ 6,569,818	$ 19,969,818	$ 34,955,000	$ 18,692,622	$ 53,647,622

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Unaudited Statistical Section

This part of the City of Pearland, 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.

Contents	Page
Financial Trends *These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.*	116
Revenue Capacity *These schedules contain information to help the reader assess the government's most significant local revenue sources, the property tax and sales tax.*	126
Debt Capacity *These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.*	134
Demographic and Economic Information *These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.*	139
Operating Information *These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.*	141

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

CITY OF PEARLAND, TEXAS

NET ASSETS BY COMPONENT
Last Eight Fiscal Years*
Amounts in (000's)
(Accrual Basis of Accounting)

	2003	2004	2005	2006	2007
Governmental Activities					
Invested in capital assets, net of related debt	$ 418,713	$405,052	$396,619	$402,103	$400,522
Restricted	4,151	6,391	6,862	8,085	10,130
Unrestricted	3,210	6,746	5,785	8,917	11,809
Total governmental activities net assets	$ 426,074	$418,189	$409,266	$419,105	$422,461
Business-type activities					
Invested in capital assets, net of related debt	$ 107,472	$113,736	$127,144	$130,648	$126,779
Restricted			7,027	10,129	24,258
Unrestricted	25,749	18,986	552	700	1,638
Total business-type activities net assets	$ 133,221	$132,722	$134,723	$141,477	$152,675
Primary government					
Invested in capital assets	$ 526,185	$518,788	$523,763	$532,751	$527,301
Restricted	4,151	6,391	13,889	18,214	34,388
Unrestricted	28,959	25,732	6,337	9,617	13,447
Total primary government net assets	$ 559,295	$550,911	$543,989	$560,582	$575,136

*GASB 34 was implemented in fiscal 2003, therefore 10 years of data is unavailable.

In Fiscal Year 2007, the City implemented the retroactive reporting of infrastructure in accordance with GASB 34. Prior year presentations have been adjusted to reflect the retroactive reporting.

2008	2009	2010
$410,002	$429,054	$434,344
10,864	10,615	18,020
10,903	13,330	13,692
$431,769	$452,999	$466,056
$138,679	$146,150	$144,244
16,094	11,965	17,587
3,406	9,256	11,942
$158,179	$167,371	$173,773
$548,681	$575,204	$578,588
26,958	22,580	35,607
14,309	22,586	25,634
$589,948	$620,370	$639,829

CITY OF PEARLAND, TEXAS
CHANGES IN NET ASSETS
Last Eight Fiscal Years*
Amounts in (000's)
(Accrual Basis of Accounting)

	2003	2004	2005	2006	2007
Expenses					
Governmental activities					
General Government	$ 6,275	$ 7,314	$ 8,714	$ 8,574	$ 8,660
Public Safety	9,645	10,525	11,857	12,564	14,655
Public Works	25,729	25,913	28,858	26,914	24,041
Community Services	2,874	2,700	2,939	2,903	3,113
Parks and Recreation				4,131	4,882
Interest on long-term debt	4,559	5,549	5,115	6,559	9,070
Total government activities expenses	49,082	52,001	57,483	61,645	64,421
Business-type activities:					
Water and Sewer	13,643	19,265	17,624	20,531	21,076
Solid Waste					5,218
Total business-type activities:	13,643	19,265	17,624	20,531	26,294
Total primary government expenses	$ 62,725	$ 71,266	$ 75,107	$ 82,176	$ 90,715
Program Revenue					
Governmental activities					
Charges for services:					
General Government	$ 161	$ 506	$ 185	$	$
Public Safety	1,998	2,975	3,640	2,627	2,788
Public Works	5,547	6,864	7,221	4,331	195
Community Services	866	696	1,263	6,312	5,822
Parks and Recreation				825	818
Operating grants and contributions					
General Government	5		2	1,239	1,659
Public Safety	370	839	673	111	154
Public Works	12				456
Community Services	324	17	479	55	34
Parks and Recreation				21	11
Capital grants and contributions					
General Government	14	1,319	800		
Public Safety	1,618	756	312		
Public Works	586		6	15,743	8,690
Parks and Recreation				6	
Total governmental activities program revenues	11,501	13,971	14,582	31,270	20,627
Business-type activities:					
Charges for services					
Water and Sewer	8,809	11,893	11,219	13,849	17,754
Solid Waste					5,218
Operating grants and contributions					
Water and Sewer		47		474	385
Capital grants and contributions					
Water and Sewer	9,882	6,933	8,365	13,434	12,621
Total business-type activities program revenues	18,691	18,873	19,585	27,757	35,978
Total primary government program revenues	$ 30,192	$ 32,844	$ 34,167	$ 59,027	$ 56,605

2008	2009	2010
$ 11,161	$ 12,355	$ 13,439
17,684	22,438	24,268
24,532	26,893	23,977
3,336	3,290	3,323
7,157	7,240	7,699
12,266	11,647	13,738
76,136	83,863	86,444
22,570	25,439	27,157
6,024	7,106	7,089
28,594	32,545	34,246
$ 104,730	$116,408	$120,690
$	$	$
2,959	3,524	3,296
103	35	10
5,130	4,755	4,312
936	672	906
3,951	4,913	5,215
230	420	641
551	375	207
129	202	159
115	450	424
503	279	98
15,263	26,092	29,800
261	4,653	
30,131	46,370	45,068
21,524	26,617	24,961
6,038	6,766	7,313
315	2,464	70
5,869	6,125	8,611
33,746	41,972	40,955
$ 63,877	$ 88,342	$ 86,023

CITY OF PEARLAND, TEXAS
CHANGES IN NET ASSETS
Last Eight Fiscal Years*
Amounts in (000's)
(Accrual Basis of Accounting)

	2003	2004	2005	2006	2007
Net (Expense)/Revenue					
Governmental activities	$ (37,581)	$ (38,030)	$ (42,901)	$ (30,375)	$ (43,794)
Business-type activities	5,048	(392)	1,961	7,226	9,684
Total primary government net expense	$ (32,533)	$ (38,422)	$ (40,940)	$ (23,149)	$ (34,110)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes:					
Property taxes	$ 15,120	$ 17,907	$ 19,805	$ 21,845	$ 24,823
Sales and use taxes	6,008	6,933	8,026	9,980	11,025
Franchise taxes	2,533	2,883	3,097	3,426	3,760
Investment earnings	171	1,115	1,863	2,991	4,943
Miscellaneous	741	782	828	740	1,539
Transfers	728	524	359	1,230	1,060
Total governmental activities	$ 25,302	$ 30,145	$ 33,978	$ 40,212	$ 47,150
Business-type activities:					
Investment earnings	$ 196	$ 417	$ 399	$ 758	$ 2,574
Miscellaneous					
Transfers	(728)	(524)	(359)	(1,230)	(1,060)
Total business-type activities	(532)	(107)	40	(472)	1,514
Total primary government	$ 24,770	$ 30,038	$ 34,018	$ 39,740	$ 48,664
Change in Net Assets					
Governmental activities	$ (12,279)	$ (7,885)	$ (8,923)	$ 9,837	$ 3,356
Business-type activities	4,516	(499)	2,001	6,754	11,198
Total primary government	$ (7,763)	$ (8,384)	$ (6,922)	$ 16,591	$ 14,554

*GASB 34 was implemented in fiscal 2003, therefore 10 years of data is unavailable.

In Fiscal Year 2007, the City implemented the retroactive reporting of infrastructure in accordance with GASB 34. Prior year presentations have been adjusted to reflect the retroactive reporting of depreciation expenses.

2008	2009	2010
$ (46,005)	$ (37,493)	$ (41,376)
5,152	9,427	6,709
$ (40,853)	$ (28,066)	$ (34,667)
$ 29,492	$ 31,140	$ 32,963
12,581	14,218	13,578
4,427	5,075	5,426
4,572	1,376	253
2,911	6,294	1,028
1,330	621	1,186
$ 55,313	$ 58,724	$ 54,434
$ 1,669	$ 363	$ 100
12	23	779
(1,330)	(621)	(1,186)
351	(235)	(307)
$ 55,664	$ 58,489	$ 54,127
$ 9,308	$ 21,231	$ 13,058
5,503	9,192	6,402
$ 14,811	$ 30,423	$ 19,460

CITY OF PEARLAND, TEXAS

FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years

Amounts in (000's)

(Modified Accrual Basis of Accounting)

	2001	2002	2003	2004
General fund				
Reserved	$ 472	$ 286	$ 52	$ 70
Unreserved	6,092	4,739	5,310	8,216
Total General Fund	$ 6,564	$ 5,025	$ 5,362	$ 8,286
All other governmental funds				
Reserved for debt service	$ 1,545	$ 2,230	$ 2,130	$ 3,008
Reserved for prepaid items				
Unreserved, reported in:				
Special revenue funds	861	877	1,724	2,849
Capital projects funds	3,654	28,494	41,255	46,580
Total other Governmental Funds	$ 6,060	$ 31,601	$ 45,109	$ 52,437

2005	2006	2007	2008	2009	2010
$ 71	$ 636	$ 704	$ 4,879	$ 818	$ 264
8,132	9,961	12,932	8,647	11,401	12,598
$ 8,203	$ 10,597	$ 13,636	$ 13,526	$ 12,219	$ 12,862
$ 3,855	$ 4,658	$ 6,552	$ 6,835	$ 7,246	$ 6,486
					245
2,462	3,215	4,546	4,988	4,368	4,235
44,338	53,763	96,542	110,715	62,467	30,893
$ 50,655	$ 61,636	$ 107,640	$ 122,538	$ 74,081	$ 41,859

CITY OF PEARLAND, TEXAS
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Ten Fiscal Years
Amounts in (000's)
(Modified Accrual Basis of Accounting)

	2001	2002	2003	2004
Revenues				
Property taxes	$ 10,833	$ 12,858	$ 15,120	$ 17,891
Sales and use taxes	4,863	5,103	6,008	6,933
Franchise fees	2,304	2,454	2,533	2,883
Licenses and permits	1,897	2,257	2,682	3,441
Fines and forfeitures	857	845	1,422	1,608
Charges for services	3,203	3,652	3,982	5,260
Investment earnings		649	171	1,115
Intergovernmental	334	9,001	2,398	3,040
Other	1,961	1,584	1,133	1,076
Total Revenues	26,251	38,403	35,451	43,247
Expenditures				
General government	4,235	16,225	5,852	6,221
Public safety	6,692	8,303	9,650	10,142
Public works	5,975	7,604	8,770	8,709
Community services	2,662	2,932	2,827	2,904
Parks and recreation				
Debt service:				
Principal	1,680	1,920	2,040	3,000
Interest and other charges	1,596	2,374	4,469	5,665
Capital outlay	4,517	12,239	23,568	18,058
Intergovernmental				
Total Expenditures	27,357	51,598	57,176	54,699
Excess of revenues over (under) expenditures	(1,106)	(13,195)	(21,725)	(11,452)
Other Financing Sources (Uses)				
Transfers in	1,023	4,382	1,534	1,431
Transfers out	(128)	(3,752)	(806)	(907)
Bonds issued		38,550	34,653	184
Capital leases				21,000
Other		(1,900)		94
Total other Financing Sources (uses)	895	37,280	35,381	21,803
Net change in fund balances	$ (211)	$ 24,085	$ 13,655	$ 10,350
Debt service as a percentage of noncapital expenditures	14.3%	10.9%	19.4%	23.6%

2005	2006	2007	2008	2009	2010
$ 19,745	$ 22,150	$ 24,525	$ 29,200	$ 31,349	$ 32,856
8,026	9,980	11,025	12,581	14,218	13,578
3,097	3,426	3,760	4,427	5,075	5,426
3,864	4,067	4,030	2,992	2,079	1,807
1,935	2,038	2,048	2,086	2,325	2,475
6,139	8,734	5,250	7,512	8,885	9,328
1,863	2,991	4,938	4,568	1,375	591
2,382	7,852	14,463	3,731	7,589	3,689
1,172	1,744	1,815	5,638	8,980	983
48,223	62,982	71,854	72,735	81,875	70,732
6,750	6,381	6,293	7,388	8,412	8,527
11,081	12,870	14,598	19,604	22,310	23,784
10,450	9,728	6,278	7,536	12,051	7,108
2,747	3,787	3,102	3,426	3,386	3,839
	3,358	4,908	6,605	5,789	6,305
3,535	3,429	3,228	3,160	5,482	6,200
5,555	6,771	10,197	12,382	12,080	13,635
28,661	36,706	28,530	27,777	68,615	61,317
1,084	1,684	2,169	3,434	3,250	3,794
69,862	84,714	79,303	91,312	141,375	134,509
(21,639)	(21,732)	(7,449)	(18,577)	(59,500)	(63,777)
4,870	5,852	4,596	4,912	3,246	3,498
(4,510)	(4,698)	(3,536)	(3,582)	(2,625)	(2,312)
37,015	41,959	94,559	31,835	8,520	28,962
271		1,568		649	2,050
(15,926)	(8,004)	(40,695)	200	(54)	
21,719	35,108	56,492	33,365	9,736	32,198
$ 80	$ 13,376	$ 49,043	$ 14,788	$ (49,764)	$ (31,579)
22.1%	22.0%	37.6%	33.3%	35.5%	40.4%

CITY OF PEARLAND, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE

OF TAXABLE PROPERTY

Last Five Fiscal Years

		Real Property			
Fiscal Year	**Tax Year**	**Residential**	**Commercial**	**Personal Property**	**Less Tax Exempt Real Property**
2006	2005	$ 2,689,041,440	$ 1,072,417,312	$ 309,552,190	$ 270,175,010
2007	2006	3,398,952,580	1,234,444,431	378,160,330	307,538,080
2008	2007	4,136,844,130	1,463,969,653	449,453,570	384,651,183
2009	2008	4,535,133,971	1,795,132,850	521,854,047	461,051,494
2010	2009	4,673,324,896	1,762,831,286	632,160,830	484,145,515

Notes:

Information not presented was not available at time of publication.

Agricultural Property and Productivity Loss in Commercial

Assessed valuation for fiscal year 2007 does not include Brazoria County Mud #1 valuation of $241,248,630 that was annexed into the City on December 31, 2006.

Assessed value based on adjusted tax roll at September 30, 2010.

Less Other Exemptions and Abatements	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percent of Actual Taxable Value
$ 224,396,803	$ 3,576,439,129	$ 0.6744	$ 3,576,439,129	100%
291,197,312	4,412,821,949	0.6527	4,412,821,949	100%
275,826,005	5,389,790,165	0.6526	5,389,790,165	100%
486,242,814	5,904,826,560	0.6526	5,904,826,560	100%
315,123,559	6,269,047,937	0.6526	6,269,047,937	100%

CITY OF PEARLAND, TEXAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
Last Ten Fiscal Years
(rate per $100 of assessed value)

	City Direct Rates			Overlapping Rates [a]								
Fiscal Year	M & O Rate	I & S Rate	Total Direct	Pearland Independent School District	Pasadena Independent School District	Alvin Independent School District	Alvin Comm College	Brazoria County	Fort Bend County	Harris County	Port of Houston Authority	Harris County Flood Control
2001	$ 0.435	$ 0.260	$ 0.695	$ 1.820			$ 0.239	$ 0.400	$ 0.575	$ 0.384	$ 0.018	$ 0.048
2002	0.430	0.256	0.686	1.837			0.241	0.420	0.538	0.360	0.020	0.050
2003	0.406	0.280	0.686	1.837			0.255	0.420	0.513	0.360	0.020	0.050
2004	0.346	0.350	0.696	1.809			0.255	0.420	0.499	0.388	0.020	0.042
2005	0.339	0.356	0.695	1.792			0.241	0.422	0.500	0.400	0.017	0.033
2006	0.345	0.329	0.674	1.792		1.546	0.238	0.408	0.517	0.400	0.015	0.033
2007	0.299	0.354	0.653	1.662	1.350	1.328	0.220	0.382	0.517	0.402	0.013	0.032
2008	0.250	0.402	0.653	1.427	1.350	1.328	0.210	0.311	0.517	0.392	0.014	0.031
2009	0.220	0.433	0.653	1.419	1.350	1.304	0.200	0.330	0.500	0.391	0.018	0.031
2010	0.220	0.433	0.653	1.419	1.350	1.304	0.200	0.366	0.500	0.392	0.016	0.029

Source: Brazoria County, Harris County, and Fort Bend County Appraisal District.

[a] Overlapping rates are those of local and county governments that apply to property owners within the City of Pearland. Not all overlapping rates apply to all Pearland property owners.

Harris County Hospital District	Harris County Dept of Education	Brazoria/ Ft Bend MUD No. 1	MUD No. 6	MUD No. 17	MUD No. 18	MUD No. 19	MUD No. 23	MUD No. 26	MUD No. 28	MUD No. 34	MUD No. 35
$ 0.190	$ 0.006			$ 0.750	$ 0.650	$ 0.800					
0.190	0.006			0.750	0.650	0.800					
0.190	0.006			0.750	0.650	0.800		0.850			
0.190	0.006			0.750	0.650	0.800		0.850			
0.190	0.006		0.890	0.750	0.650	0.800	0.850	0.850	0.820	0.850	
0.192	0.006	0.850	0.800	0.750	0.640	0.800	0.850	0.850	0.820	0.850	
0.192	0.006	0.850	0.720	0.750	0.610	0.780	0.850	0.770	0.820	0.850	
0.192	0.006	0.850	0.670	0.730	0.590	0.680	0.850	0.710	0.820	0.850	0.850
0.192	0.006	0.850	0.630	0.630	0.570	0.660	0.820	0.710	0.820	0.850	0.890
0.192	0.060	0.850	0.630	0.600	0.560	0.630	0.800	0.710	0.820	0.850	1.020

CITY OF PEARLAND, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year Ended Sept 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2001	$ 10,863,316	$ 10,609,654	97.66%	$ 237,085	$ 10,846,739	99.8%
2002	12,890,017	12,477,283	96.79%	388,422	12,865,705	99.8%
2003	14,880,007	14,575,297	98.02%	275,606	14,850,903	99.8%
2004	18,030,473	17,633,986	98.03%	359,046	17,993,032	99.8%
2005	21,073,788	20,576,812	98.08%	463,553	21,040,365	99.8%
2006	24,284,597	23,690,031	97.84%	547,046	24,237,077	99.8%
2007	28,819,229	28,235,276	98.14%	525,845	28,761,121	99.8%
2008	35,035,569	34,461,652	98.36%	488,099	34,949,751	99.8%
2009	38,368,354	37,820,603	98.57%	369,095	38,189,698	99.5%
2010	41,081,407	40,590,543	98.81%		40,590,543	98.8%

Source: Brazoria County Tax Office

Taxes levied based on adjusted tax roll.

CITY OF PEARLAND, TEXAS
PRINCIPAL PROPERTY TAX PAYERS
Current Year And Nine Years Ago

	2010			2001		
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value**	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value**
Pearland Town Center LP	75,533,070	1	1.21%			
Weatherford U.S., Inc.	58,636,172	2	0.94%	29,100,820	1	1.86%
Pearland Investments Ltd	52,997,630	3	0.85%			
Amreit SPF Shadow Creek, LP	49,613,650	4	0.79%			
Inland American Shadow Creek, L	30,000,000	5	0.48%			
Pearland Lifestyle Center, LP	26,040,041	6	0.42%			
Centerpoint Energy, Inc.	24,885,690	7	0.40%			
Inland American Waterford, LTD	24,500,480	8	0.39%			
Walmart Real Estate Bus TR	24,373,700	9	0.39%			
Shadow Kirby LTD Partnership	24,278,600	10	0.39%			
Reliant Energy				14,070,710	2	0.90%
Southwestern Bell Telephone				10,758,360	3	0.69%
Pearland Enclave Apts. LTD				10,235,020	4	0.65%
Albertsons, Inc.				7,719,520	5	0.49%
Aggreko, Inc.				7,649,420	6	0.49%
Lowe's Home Centers, Inc.				6,931,600	7	0.44%
Home Depot USA, Inc.				6,199,660	8	0.40%
Continental 34 Fund, LTD				6,044,420	9	0.39%
Phillips Petroleum Co				5,998,890	10	0.38%
Total	$ 390,859,033		6.25%	$ 104,708,420		6.70%

Source: Brazoria County Appraisal District

CITY OF PEARLAND, TEXAS
TAXABLE SALES BY CATEGORY
Last Ten Calendar Years
(in thousands of dollars)

	Calendar Year			
	2001	**2002**	**2003**	**2004**
Agriculture, Forestry, Fishing	$ 1,783	$ 6	$ 13	$ 190
Mining, Quarrying, Oil and Gas	1,222	4,062	4,283	3,738
Utilities				
Manufacturing	15,648	24,365	27,491	29,200
Wholesale Trade	13,269	13,248	11,234	13,059
Retail Trade	253,792	240,767	278,527	305,156
Transportation/Warehousing	2,083	50	43	54
Information		2,323	2,851	3,365
Finance, Insurance	2,940	3,095	3,403	3,505
Real Estate/Rental/Leasing		14,900	14,243	10,722
Professional/Scientific/Technical		2,421	2,743	3,516
Management of Companies/Enterprises				2,399
Admin/Support/Waste Mgmt/Remediation		7,760	10,515	17,880
Educational Services		133	195	95
Health Care/Social Assistance		17	14	9
Arts, Entertainment & Recreation		3,990	4,283	4,703
Accommodations & Food Services		43,421	54,331	65,708
Construction	16,902	18,204	14,392	13,288
Other Services (Except Public Admin)	61,834	13,315	14,500	15,108
Other		5,546	2,412	547
Total	$ 369,473	$ 397,621	$ 445,474	$ 492,242
City direct sales tax rate [b]	1.00%	1.00%	1.00%	1.00%

Source: State Comptroller's Office.

[a] 2010 taxable sales thru 2nd quarter of 2010.

[b] The City direct sales tax rate includes the City only and not the Pearland Economic Development Corp. (4B).

[C] Categories changed in 2007. Re-categorized data only available back to 2002.

Calendar Year						
2005	2006	2007	2008	2009	2010 [a]
$ 283	$ 453	$ 473	$ 675	$ 566	43
2,985	11,186	9,280	10,520	5,134	3,432
	7	3	6	6	
41,057	46,241	50,134	47,447	29,457	18,838
24,070	30,592	28,782	32,999	24,613	13,464
370,665	464,850	536,352	668,080	701,277	320,050
55	155	169	138	161	92
7,203	8,553	10,086	12,567	14,413	7,337
1,811	1,722	1,038	1,469	1,811	751
18,629	33,329	44,560	51,665,529	37,573	19,541
3,538	3,893	4,103	5,218	5,923	2,910
2,278		1,161	2,594		
13,688	8,060	9,209	12,656	11,666	5,472
204	110	110	212	138	78
72	56	63	37	52	77
4,787	5,208	8,789	9,751	9,909	5,448
80,185	95,154	107,850	127,994	145,857	75,697
13,234	18,348	16,232	17,496	14,372	6,729
16,921	20,390	20,794	23,764	23,647	11,963
13	2				
$ 601,677	$ 748,310	$ 849,188	$ 52,639,153	$ 1,026,574	$ 491,921
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

CITY OF PEARLAND, TEXAS
RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
(dollars in thousands, except per capita)

	Governmental Activities			Business-Type Activities		
Fiscal Year	**General Obligation Bonds**	**Certificates of Obligation Bonds**	**Capital Lease Obligations**	**Revenue Bonds**	**Certificates of Obligation Bonds**	**Capital Lease Obligations**
2001	$ 12,610	$ 15,680	$ 75	$ 16,140	$ 17,000	$
2002	13,335	51,585		25,570	16,925	
2003	26,880	70,650		34,485	16,835	
2004	25,345	90,185	184	33,505	16,735	
2005	60,175	72,390	396	32,480	15,880	
2006	90,305	81,275	309	40,170	15,000	
2007	164,810	66,220	1,538	79,180	13,915	
2008	184,985	74,980	1,187	92,900	13,140	
2009	180,765	82,505	1,479	104,435	12,160	235
2010	193,785	92,380	3,237	116,440	10,540	345

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

* Information not avaialble.

Total Primary Government	Percentage of Personal Income	Per Capita
$ 61,505	5.8%	1,519
107,415	9.5%	2,492
148,850	10.6%	3,167
165,954	10.3%	3,073
181,321	9.3%	2,895
227,059	11.1%	2,862
325,663	12.4%	3,854
367,192	12.4%	4,126
381,579	13.0%	4,121
416,728	13.3%	4,337

CITY OF PEARLAND, TEXAS

RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA

Last Ten Fiscal Years

(dollars in thousands, except per capita)

Fiscal Year	Tax Year	General Obligation Bonds	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Percentage of Personal Income [a]	Per Capita [a]
2001	2000	$ 45,290	$ 1,545	$ 43,745	3.3%	4.1%	$ 1,080
2002	2001	81,845	2,230	79,615	5.1%	7.0%	1,847
2003	2002	114,365	2,130	112,235	6.0%	8.0%	2,388
2004	2003	132,265	3,008	129,257	6.3%	8.0%	2,394
2005	2004	148,445	3,855	144,590	6.2%	7.4%	2,308
2006	2005	186,580	4,658	181,922	5.1%	8.9%	2,293
2007	2006	244,945	6,552	238,393	5.4%	9.1%	2,821
2008	2007	273,105	6,552	266,553	4.9%	9.0%	2,995
2009	2008	275,430	7,247	268,183	4.5%	9.1%	2,896
2010	2009	296,705	6,706	289,999	4.6%	9.2%	3,018

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

[a] Population data can be found in demographic and economic statistics table.

* Information not available.

CITY OF PEARLAND, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

September 30, 2010

Taxing Jurisdiction	Gross Debt *	Overlapping Percent	Overlapping Amount
Alvin Community College District	$17,615,000	21.09%	$ 3,715,004
Alvin ISD	332,900,000	27.34%	91,014,860
Brazoria County	66,370,000	22.93%	15,218,641
Brazoria County MUD No. 17	31,115,000	100.00%	31,115,000
Brazoria County MUD No. 18	31,560,000	97.35%	30,723,660
Brazoria County MUD No. 19	38,965,000	100.00%	38,965,000
Brazoria County MUD No. 23	16,130,000	100.00%	16,130,000
Brazoria County MUD No. 26	51,770,000	100.00%	51,770,000
Brazoria County MUD No. 28	10,660,000	100.00%	10,660,000
Brazoria County MUD No. 34	10,165,000	100.00%	10,165,000
Brazoria County MUD No. 35	9,745,000	100.00%	9,745,000
Brazoria-Fort Bend County MUD No. 1	55,530,000	100.00%	55,530,000
Fort Bend County	457,230,000	0.16%	731,568
Harris County (a)	2,160,291,628	0.13%	2,808,379
Harris County Dept. of Education	8,160,000	0.13%	10,608
Harris County Flood Control District	102,539,024	0.13%	133,301
Pasadena ISD	434,480,000	0.14%	608,272
Pearland ISD	330,192,590	93.85%	309,885,746
Port of Houston Authority	785,949,397	0.13%	1,021,734
TOTAL ESTIMATED OVERLAPPING			679,951,772
The City	$296,705,000	100.00%	296,705,000
Total Direct and Estimated Overlapping Debt			$ 976,656,772
Population			96,097
Per Capita Debt - Direct and Overlapping Debt			$ 10,163

Source: Individual jurisdictions and/or Texas Municipal Reports.

* Debt amounts are as of September 30, 2010.

CITY OF PEARLAND, TEXAS

PLEDGED REVENUE COVERAGE

Amounts in (000's)

Last Ten Fiscal Years

	Water & Sewer Revenue Bonds						
				Debt Service			
Fiscal Year	Gross Revenues	Less: Operating Expenses	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage
2001	$ 8,727	$ 4,947	$ 3,780	$ 570	$ 760	$ 1,330	2.84
2002	9,037	5,244	3,793	575	1,159	1,734	2.19
2003	9,023	6,282	2,741	980	1,635	2,615	1.05
2004	12,357	10,877	1,480	1,025	1,504	2,529	0.59
2005	11,619	8,607	3,012	1,075	1,459	2,534	1.19
2006	15,004	11,228	3,776	1,125	1,829	2,954	1.28
2007	20,713	12,151	8,562	1,125	2,915	4,040	2.12
2008	23,507	14,827	8,680	1,230	4,011	5,241	1.66
2009	26,980	12,877	14,103	1,595	4,648	6,243	2.26
2010	25,061	13,585	11,476	2,575	4,848	7,423	1.55

Note: 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.

CITY OF PEARLAND, TEXAS

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

Fiscal Year	Population (A)	Personal Income (in $000's)	Per Capita Personal Income (B)	Median Age (B)	Education level in Years of Schooling	School Enrollment (C)	Unemployment Rate (D)
2001	40,500	$ 1,065,393	$ 26,306	34.0	14.3	10,618	3.6%
2002	43,103	1,133,868	26,306	34.0	14.3	11,723	4.3%
2003	47,000	1,400,741	29,803	35.1	14.3	12,708	4.7%
2004	54,000	1,609,362	29,803	35.1	14.3	13,600	4.5%
2005	62,634	1,951,801	31,162	35.5	14.3	15,023	4.6%
2006	79,322	2,050,394	25,849	33.4	14.3	16,629	3.6%
2007	84,500	2,631,837	31,146	34.9	14.3	17,733	3.6%
2008	89,000	2,963,255	33,295	35.8	14.3	18,439	3.8%
2009	92,600	2,941,717	31,768	34.5	14.2	20,056	6.5%
2010	96,097	3,142,063	32,697	33.4	14.2	21,269	6.9%

(A) Estimated

(B) Pearland Economic Development Corporation

(C) Texas Education Agency

(D) Bureau of Labor Statistics

* Information not presented is not avaialble.

CITY OF PEARLAND, TEXAS
PRINCIPAL EMPLOYERS
Current Year and Five Years Ago

	2010			2005		
Employer	**Employees**	**Rank**	**Percentage of Total City Employment**	**Employees**	**Rank**	**Percentage of Total City Employment**
Pearland ISD	2,274	1	4.99%	1,820	1	7.26%
Wal-Mart	800	2	1.75%	800	2	3.19%
City of Pearland	601	3	1.32%	420	3	1.71%
Kemlon	325	4	0.71%	185	6	0.74%
Bass Pro Shop	300	5	0.66%			
Packaging Service Co, Inc.	235	6	0.52%			
Home Depot	225	7	0.49%			
TurboCare	180	8	0.39%	175	7	0.70%
Weatherford	175	9	0.38%	250	4	1.00%
Profax	160	10	0.35%			
Randall's				250	5	1.00%
Super Target				150	8	0.60%
Tele-flow				140	9	0.56%
Lowes				132	10	0.53%
Total	5,275		11.57%	4,446		17.73%

Source: Pearland Economic Development Corp.
Note: Information for the period nine years ago is not readily available.

CITY OF PEARLAND, TEXAS

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

Last Ten Fiscal Years

	Full-time Equivalent Employees as of Sept 30									
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Function/Program										
Governmental Activities										
General Government	34	37	45	41	42	49	51	55	55	57
Public Safety	113	132	132	160	170	184	205	242	253	264
Public Works	30	32	41	42	43	44	47	45	47	47
Community Services	22	26	34	37	41	47	50	51	52	47
Parks and Recreation	47	50	52	55	58	52	59	68	72	99
Business Type Activities										
Water & Sewer	49	51	56	62	62	76	78	77	82	82
Component Unit										
Economic Development	4	4	4	4	4	4	4	5	5	6
Total	299	332	364	401	420	456	494	543	564	601

Source: City Budget

CITY OF PEARLAND, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Eight Fiscal Years

	Fiscal Year				
Function/Program	**2003**	**2004**	**2005**	**2006**	**2007**
GENERAL GOVERNMENT					
Finance					
Number of purchase orders	3,953	3,667	3,183	3,085	3,475
Number of budget transfers	61	82	117	226	194
Number of invoices paid	N/A	N/A	21,180	22,438	22,279
Average number of employees paid per month	764	848	930	984	1,026
Human Resources					
Number of hires	69	58	77	95	97
Number of interviews conducted	320	292	333	360	449
Number of applications received	2,318	2,541	3,138	2,808	3,074
Legal					
Number of resolutions and ordinances prepared	261	268	234	295	269
Information Technology					
Average monthly service requests	275	300	350	370	486
Number of PC's supported	175	185	205	220	354
PUBLIC SAFETY					
Police					
Number of police calls resulting in dispatch	23,706	25,849	27,443	30,496	32,747
Total police arrests made	4,234	4,222	3,753	4,809	5,053
Dispatched calls per patrol officer	677	680	704	555	544
Commercial vehicles equipment violations	991	1,104	1,015	1,069	980
UCR Part I cases assigned	398	398	418	366	371
Fire					
Total number of arson incidents	8	6	4	11	21
Fires investigated	33	71	70	120	96
Total annual inspections	300	1,059	965	1,307	2,333
Total calls for service	644	889	1,168	1,188	1,202
EMS					
Total calls for service	N/A	3,297	3,941	4,290	5,372
Patients treated	2,858	3,124	3,848	4,048	4,983
PUBLIC WORKS					
Fleet Maintenance					
Fleet maintenance jobs completed	3,593	3,850	3,950	4,778	4,686
Preventative maintenance performed	1,348	1,501	2,251	1,815	1,889
Other Public Works					
Fuel issued (gallons)	143,686	183,000	220,000	303,930	318,587
Street sweeping (miles)	145	790	790	790	583
Street signs maintained/replaced	865	758	1,170	1,725	1,404
Total work orders completed	15,463	16,888	19,327	21,181	19,961

2008	2009	2010
3,552	3,264	2,913
398	406	470
23,434	23,259	21,632
1,185	1,230	1,220
109	90	91
353	431	532
2,495	3,137	3,880
293	266	229
616	649	734
386	394	429
34,865	37,440	35,676
4,424	5,188	5,986
592	576	513
860	711	672
349	629	2,003
9	8	5
28	33	22
2,677	2,374	1,752
2,215	2,432	2,416
6,029	6,411	6,472
5,529	5,804	5,619
4,153	3,063	2,394
1,756	1,998	1,741
343,865	313,596	354,422
2,324	2,561	2,239
1,288	2,864	2,049
18,723	20,213	18,632

CITY OF PEARLAND, TEXAS

OPERATING INDICATORS BY FUNCTION/PROGRAM

Last Eight Fiscal Years

	Fiscal Year				
	2003	**2004**	**2005**	**2006**	**2007**
PARKS AND RECREATION					
All Parks and recreation					
ROW maintained - acres	760	N/A	N/A	478	385
Trees maintained - acres	N/A	N/A	3,450	3,450	4,280
Acres of city property mowed	N/A	N/A	N/A	167	439
Total number of parkwork orders received	N/A	N/A	N/A	227	361
Parkland - acres	N/A	N/A	N/A	175	175
Total number of special events held	24	23	24	20	25
Total number of tournaments held	N/A	N/A	N/A	19	25
Number of recreation classes offered	N/A	632	1,170	1,189	1,222
Average monthly attendance (all locations)	2,543	5,211	5,977	6,723	7,988
COMMUNITY SERVICES					
Animal Control					
Number of animals at shelter	2,357	1,834	2,228	2,898	3,068
Total number of calls for service	3,721	3,535	5,443	4,600	6,099
Inspection Services					
Total building inspections	35,007	44,973	53,924	36,724	31,004
Total code violation cases	5,242	3,687	2,792	2,739	3,962
Total permits issued	11,515	13,738	15,289	14,889	13,769
Number of plans reviewed	2,136	2,482	3,026	2,682	3,055
Municipal Court					
Number of trials	1,667	2,195	2,800	1,952	2,305
Number of charges	24,494	20,964	18,275	22,185	20,481
Warrants cleared	N/A	N/A	N/A	N/A	3,596
WATER & SEWER					
Distribution and Collection					
Fire hydrant maintenance and inspections	1,730	1,730	1,967	99*	537
Backed up sewer repairs	313	261	278	251	330
Water mains repaired	29	37	71	129	108
Water Production					
Water produced - wells (in millions of gallons)	1,465	1,850	1,925	2,044	1,597
Surface Water Purchased (in millions of gallons)	118	280	683	967	1,121
Billing & Collections					
Annual meter reads	N/A	N/A	211,956	234,875	285,930
Number of bills	146,055	N/A	192,014	248,848	293,833
Wastewater Treatment					
Wastewater treated (in millions of gallons)	1,467	1,386	1,398	1,668	2,305

Sources: Various city departments.

*In Water & Sewer, Distribution and Collection fire hydrant maintenance and inspections is contracted out. During FY06, the contractor's services were disrupted by a storm.

2008	2009	2010
210	228	245
5,000	5,004	5,800
470	851	1,301
316	275	252
180	138	139
25	25	24
9	6	9
1,083	855	307
7,607	3,623	11,823
2,947	2,868	2,532
4,296	3,529	4,206
34,773	24,834	21,753
3,629	4,274	3,433
9,878	9,249	7,874
1,309	925	969
1,616	1,391	402
19,666	24,400	325
6,402	7,374	82
740	451	402
393	270	325
160	168	82
2,128	2,574	3,065
1,147	1,146	634
325,471	340,281	344,618
318,160	325,201	336,668
2,096	2,106	2,361

CITY OF PEARLAND, TEXAS

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

Last Six Fiscal Years

	Fiscal Year					
Function/Program	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
PUBLIC SAFETY						
Police						
Police stations	1	1	1	1	1	1
Police vehicles	109	112	117	126	130	138
Fire						
Fire stations	4	4	4	4	4	4
Fire vehicles	15	16	16	17	17	17
EMS						
EMS Stations	3	3	3	3	3	3
EMS Ambulances	5	5	5	6	8	8
PUBLIC WORKS						
Other public works						
Streets (miles)*	248	578	758	773	807	807
Streetlights	3,494	3,563	5,294	5,479	5,479	5,479
Traffic signals	47	48	57	67	71	80
PARKS AND RECREATION						
Parks and recreation						
Developed acreage**	124	175	175	180	138	139
Pools	1	1	1	1	1	3
Outdoor basketball courts	N/A	10	10	10	10	10
Soccer fields	N/A	12	12	12	12	12
Activity buildings	3	3	3	3	3	4
Baseball/Softball Fields	4	4	4	4	4	4
WATER AND SEWER						
Water Production						
Water wells	9	9	10	11	11	11
Pumping stations	2	2	2	2	2	3
Ground storage tanks	13	15	15	15	15	15
Elevated towers	4	5	5	5	5	6
Wastewater						
Treatment Plants	4	4	5	5	5	5
Lift Stations	78	74	78	76	78	78
Distribution and Collection						
Water mains (miles)	296	361	395	410	420	433
Sanitary sewers (miles)	279	321	353	360	370	378

Sources: Various city departments.

Note: No capital asset indicators are available for the general government and community services functions.

*Inside city limits. Prior to FY07, street miles were measured visually.
Beginning FY07, a GIS system was used to measure street miles.

**Prior to 2009, Parkland acres included medians and Wastewater Treatment Plants.