



Comprehensive Annual Financial Report

Fiscal Year Ended
December 31, 2010



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**The Woodlands Township
Comprehensive Annual Financial Report**

**Fiscal Year Ended
December 31, 2010**

**Prepared by the
Finance and Administration Department**

The Woodlands Township is a special purpose district located in Montgomery County, Texas
www.thewoodlandstownship-tx.gov

The Woodlands Township

Table of Contents

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	2
Organizational Chart	6
Board of Directors	7
FINANCIAL SECTION	
Independent Auditors' Report	11
Management's Discussion and Analysis	13
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	26
Statement of Activities	27
Fund Financial Statements:	
Balance Sheet – Governmental Funds	28
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	29
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds	30
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	31
Notes to Financial Statements	32
Other Supplementary Information:	
Special Revenue Funds – Project Balance Sheets	56
Special Revenue Funds – Schedule of Project Revenue, Expenditures and Changes in Fund Balances	57
Statement of Activities – Discretely Presented Component Units	58
STATISTICAL SECTION	
Financial Trends:	
Net Assets by Component	60
Changes in Net Assets	61
Fund Balances of Governmental Funds	62
Changes in Fund Balances of Governmental Funds	64
Revenue Capacity:	
General Governmental Tax Revenue by Source	66
Assessed Value and Actual Value of Taxable Property	67
Property Tax Levies and Collection	68
Principal Property Tax Payers	69
Top Sales Tax Sources	70
Taxable Sales by Category	71

(continued)

The Woodlands Township

Table of Contents

(continued)

	Page
STATISTICAL SECTION <i>(continued)</i>	
Debt Capacity:	
Ratios of Outstanding Debt by Type	72
Ratios of Revenue Bonds Outstanding	73
Pledged Revenue Coverage	74
Direct and Overlapping Governmental Activities Debt	75
Direct and Overlapping Government Tax Rates	76
Demographic and Economic Statistics:	
Area Demographic and Economic Statistics	77
Sales Tax Revenue Statistics	78
Principal Non-Retail Employers	79
Operating Information:	
Full-time Equivalent Government Employees by Function	80
Capital Asset Statistics by Function	81
Operating Indicators by Function	82

INTRODUCTORY SECTION



The Woodlands Township
2201 Lake Woodlands Drive
The Woodlands, Texas 77380



LOCATIONS:

**The Woodlands Township
Board Chambers**
10001 Woodloch Forest
Drive, Suite 600
The Woodlands, Texas 77380
281-210-3800

**The Woodlands Township
Service Center**
2201 Lake Woodlands Drive
The Woodlands, Texas 77380
281-210-3800

**Law Enforcement and
Neighborhood Services Annex**
2202 Timberloch Place, Suite 222
The Woodlands, Texas 77380
281-210-3800

**Parks, Recreation and
Environmental Services**
8203 Millennium Forest Drive
The Woodlands, Texas 77381
281-210-3900

**The Woodlands
Recreation Center**
5310 Research Forest Drive
The Woodlands, Texas 77381
281-210-3950

September 21, 2011

To the Board of Directors and Citizens
Of The Woodlands Township:

The Comprehensive Annual Financial Report (CAFR) of The Woodlands Township (the Township) for the fiscal year ended December 31, 2010 is submitted herewith. The Township's Finance and Administration Department prepared this report.

This CAFR is published to provide our Board of Directors, citizens, bondholders, and other interested parties with detailed information concerning the financial condition and activities of the Township. Management assumes full responsibility for the completeness and reliability of the presented data including all disclosures. We believe the information, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Township as measured by the financial activity of its various funds.

Blazek & Vetterling, Certified Public Accountants, have issued an unqualified ("clean") opinion on The Township's financial statements for the year ended December 31, 2010. The independent auditors' report is located at the front of the financial section of this report.

Management's Discussion & Analysis (MD&A) immediately follows the independent auditors' 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 WOODLANDS TOWNSHIP

The Township is the local government for a master planned community located just off Interstate 45 in the southeastern region of the State of Texas and 27 miles north of downtown Houston. Currently, the Township encompasses a land area of approximately 44 square miles and serves a population of 97,000. Founded in 1974, The Woodlands was one of the first master-planned communities in the country and is now one of the most successful. Over the last three decades, the community has also become a thriving center for business and tourism.

The Township was originally established in 1993 as the Town Center Improvement District (TCID). It was created by the Texas Legislature as a governmental agency charged with promoting health, welfare and safety in The Woodlands Town Center, a 1,000-acre business and commerce district. Pursuant to voter approval in 2007, the area under TCID's jurisdiction was expanded to include The Woodlands' entire 28,000-acre residential and commercial area. The organization was then renamed The Woodlands Township.

Prior to January 1, 2010, The Woodlands Community Service Corporation, a private not-for-profit corporation, provided municipal-type services to The Woodlands community on behalf of The Woodlands Community Association, The Woodlands Association and The Woodlands Commercial Owners Association (collectively, the Associations). On January 1, 2010, pursuant to a Transition Agreement between the relevant parties, the Associations assigned their respective covenants, responsibilities, obligations, contracts, rights, and operations to The Township. At the same time, the transition of staff and services from the Associations to the Township took place. This transition provided for the seamless consolidation of services into a single governing body for the benefit of the

To the Board of Directors and Citizens
Of The Woodlands Township:
September 21, 2011
Page 2

community. In place of an annual assessment fee previously imposed by the Associations to fund services, the transitioned services are now funded through an ad valorem property tax, supplemented by sales tax and other revenues. The Associations were legally dissolved in August 2010.

The Township provides funding for services and improvement projects in the community, which supplement services provided by the county, other governmental agencies, political subdivisions, and municipalities. Interlocal partnerships and strategic alliances are the key to effective service delivery for the Township.

The Township provides a full range of services to residents, visitors, and business communities including law enforcement, fire protection, facilities and park maintenance, recreation, transportation services, visitor services, environmental services including waste management and recycling and economic development programs. All services provided by The Township, The Woodlands Economic Development Zone, The Woodlands Convention & Visitors Bureau, and The Woodlands Fire Department are included in the Township's financial statements for the year end December 31, 2010.

The Township is governed by a board of directors ("Board"), which officially organized on August 18, 1993. Policy-making and legislative authority are vested in the governing Board currently seated with seven directors who are elected at large by position. Elections are held annually in May for the election of three or four directors as appropriate to serve staggered two year terms.

The Woodlands was recently named by *Travel + Leisure Magazine* as one of America's "Coolest Suburbs Worth a Visit". Among the community's assets highlighted by the article are its thriving Town Center, great restaurants, major retail outlets, an elaborate park, pathway and lake system, and the Cynthia Woods Mitchell Pavilion – one of the top five outdoor amphitheatres in the world.

LOCAL ECONOMY

South Montgomery County, Texas, which includes The Township, has enjoyed unprecedented commercial growth in the last several years. The County and Township embrace a progressive, pro-business, pro-growth attitude that includes attractive tax and other incentives to qualifying companies. The area's economic base is well diversified. Approximately 5,100 businesses are located in the area, ranging from owner-operated establishments to national corporate headquarters.

Over 5,000 of the community's 28,000 acres are dedicated to commercial development. The Township is home to a range of leading companies including Anadarko Petroleum Corporation, CB&I, Chevron Phillips Chemical Company, Halliburton Security DBS, Hewitt Associates, Baker Hughes, Huntsman Petrochemical Corporation, Lexicon Pharmaceuticals, Maersk Line, and US Oncology. The Township's small business community is also very important to the vitality of the local economy.

A large, skilled and highly educated workforce is located with The Woodlands and immediate area. Within commutable distance of the Township, there is a civilian labor force of more than half a million people. In the immediate area, the civilian labor force outnumbers local jobs by nearly 60%. This abundance of educated, motivated and productive people provides local employers with excellent workforce opportunities.

In 2010, the Washington, D.C.-based real estate advisory firm RCLCO, which tracks the performance of master-planned communities on a year-over-year basis through an annual survey of more than 400 developments, awarded The Woodlands the No. 2 spot for "10 Best-Selling Master Planned Communities" in the country. Also in 2010, *Southern Living Magazine* named The Woodlands as one of America's best shopping destinations.

To the Board of Directors and Citizens
Of The Woodlands Township:
September 21, 2011
Page 3

The Township's access to major modes of regional, national and international transportation, as well as its proximity to quality healthcare facilities, also contributes to its strong economic standing. Additionally, entities such as the South Montgomery County Chamber of Commerce, the Economic Development Partnership, and The Woodlands Convention & Visitors Bureau provide the community valuable services and a strong foundation for economic activity. The Township is well positioned to face current and future economic challenges and opportunities.

LONG-TERM FINANCIAL PLANNING

A significant part of the Township's annual budget process is dedicated to the development of a five-year business plan. Detailed analyses regarding revenue sources, operating expenditures, proposed new amenities and programs, residential and commercial growth, staffing requirements, capital plans, and debt management plans are conducted and factored into a long-term financial planning model. Senior management and the Board of Directors review the five-year business plan to ensure that current budget decisions do not negatively impact long-term financial goals.

The Board of Directors has approved policies establishing appropriate levels of cash reserves for operations, capital replacement, economic development, and debt service. Operating reserves are required to be maintained at a minimum level of 20 percent of annual operating revenues. As of December 31, 2010, the Township had \$36.2 million in unrestricted net assets and \$3.8 million in restricted net assets, meeting all policy requirements.

The Township's debt management plan includes the issuance of up to \$14.2 million in general obligations bonds during the fourth quarter of 2011. The bonds have been previously authorized by voters and will be used to finance the reconstruction of Central Fire Station, the purchase of two ladder trucks for the Fire Department, and the development of park and pathway amenities in residential and commercial areas. Additionally, the Township anticipates the issuance of \$3.7 million in general obligation bonds in the year 2014 to fund park and pathway amenities.

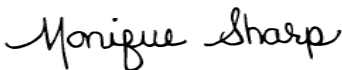
ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the efficient and dedicated services of the Township's Audit Committee, independent auditors, and entire staff of the Finance and Administration Department. Appreciation is also expressed to employees throughout the organization, especially those employees who were instrumental in the successful completion of this report. The President's Office and Finance staff also wishes to commend and thank the Board of Directors for their leadership and support in maintaining the highest standards of professionalism in the management of The Township's finances.

Respectfully submitted,



Don T. Norrell
President/General Manager

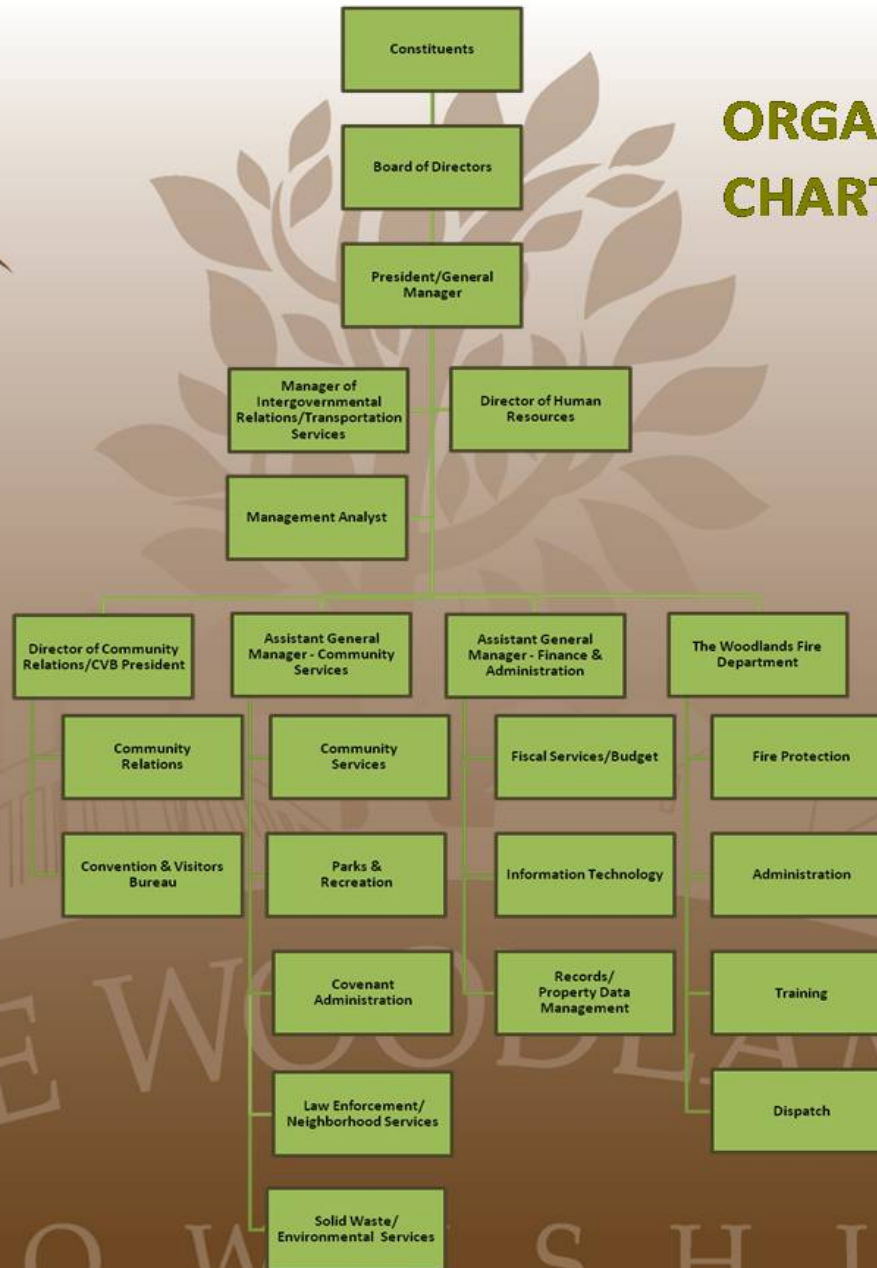


Monique Sharp
Assistant General Manager
Finance and Administration

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ORGANIZATIONAL CHART



**THE WOODLANDS TOWNSHIP
BOARD OF DIRECTORS
For the Year Ended December 31, 2010**

Chairman Mr. Bruce Tough (Re-elected by the Board as Chairman, June 1, 2011) <i>Position 7 - Term Expires: May 2013</i>
Vice Chairman Mr. Lloyd Matthews (Re-elected by the Board as Vice Chairman, June 1, 2011) <i>Position 3 - Term Expires: May 2012</i>
Treasurer Dr. Edmund W. Robb III (First elected by the Board as Treasurer, June 1, 2011) <i>Position 4 - Term Expires: May 2012</i>
Secretary Mr. Claude Hunter (First elected by the Board as Secretary, June 1, 2011) <i>Position 1 - Term Expires: May 2012</i>
Director Mr. Tom Campbell <i>Position 2 - Term Expires: May 2012</i>
Director Ms. Nelda Luce Blair <i>Position 5 - Term Expires: May 2013</i>
Director Ms. Peggy S. Hausman <i>Position 6 - Term Expires: May 2013</i>

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FINANCIAL SECTION

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Independent Auditors' Report

To the Board of Directors of
The Woodlands Township:

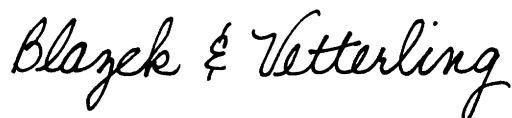
We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Woodlands Township (the Township), as of and for the year ended December 31, 2010, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Township. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Woodlands Township as of December 31, 2010, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Township's basic financial statements. The introductory section, supplementary schedules on special revenue funds and component units and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules on special revenue funds and component units have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.



September 12, 2011

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**The Woodlands Township
Management's Discussion and Analysis
For the year ended December 31, 2010**

As management of The Woodlands Township, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2010. Please read this discussion in conjunction with the transmittal letter at the beginning of the report and the Township's financial statements following this section.

FINANCIAL HIGHLIGHTS

- During 2010, community services previously provided by The Woodlands Community Association, The Woodlands Association, The Woodlands Commercial Owners Association (collectively referred to as the Associations); and The Woodlands Community Service Corporation, The Woodlands Fire Department, The Woodlands Recreation Center (collectively referred to as the Service Companies) were consolidated into the operations of the Township.
- The assets of the Township exceeded its liabilities at December 31, 2010 by \$113.2 million. Of this amount, \$36.2 million may be used to meet the Township's ongoing obligations to its citizens and creditors.
- The Township's total net assets increased by \$77.6 million. Approximately 92% of this increase is the result of the substantial completion of the consolidation of the community services provided by the Township and the Associations.
- As of the close of the current fiscal year, the Township's governmental funds reported combined fund balances of \$56.0 million, an increase of \$28.5 million in comparison to the prior year. Approximately \$15.5 million (28 %) of the fund balance is available for spending at the Township's discretion.
- At December 31, 2010, unreserved fund balance for the general fund was \$22.8 million or 38% of the total general fund expenditures.
- On a government-wide basis, the Township's total liabilities, excluding assets held in trust, increased by \$46.2 million during the current fiscal year. The key factors in this increase were the issuance of \$34.8 million in general obligation bonds for the acquisition of fire department and park assets and the refinancing of debt assumed from the Associations on the transition date, and \$12.2 million in revenue bonds for the purchase and renovation of an office facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township'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. In addition to the basic financial statements, this report also contains other supplementary information as listed in the table of contents.

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis.

In the statement of net assets and the statement of activities, the Township is divided into two kinds of activities:

- *Governmental activities* – Most of the Township’s basic services are reported here, including general and administrative, public safety, parks and recreation, economic development, community services, and community relations. Property taxes, sales taxes, and program fees fund most of these activities.
- *Component units* – The Township includes two separate legal entities in its report - *The Woodlands Convention and Visitors Bureau* and *The Woodlands Fire Department*. Although legally separate, these component units are included because the Township is financially accountable for them.

The government-wide financial statements can be found on pages 26-27 of this report.

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 Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township are governmental funds.

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

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

The Township maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Capital Projects fund, the Debt Service fund, and the Special Revenue fund, all of which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 28-31 of this report.

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 governmental fund financial statements. The notes to the financial statements can be found on pages 32-53 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, supplementary information related to the five individual project statements that comprise the Special Revenue fund may be found on pages 56-57. The statements of activities for the discretely presented component units may be found on page 58.

Prior Year Information

In accordance with the Transition Agreement, the assets and liabilities of entities presented in the prior year as blended component units were merged into the General fund. The comparative information provided below has been adjusted to reflect the merged entity. Additionally, effective January 1, 2010, the Township expanded its

responsibilities and has expanded its reporting of expenditures. Prior year data has been reclassified to reflect the new reporting.

Additionally, as further explained in Note 2 of the financial statements, there were prior period adjustments. The prior year numbers presented below have been restated to be consistent with the current year presentation.

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 Township, assets exceeded liabilities by \$113.2 million at December 31, 2010.

By far the largest part of the Township's net assets, \$73.2 million (65%) reflects its investments in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional \$3.8 million (3%) of the Township's net assets represents resources that are subject to external restriction on how they may be utilized. The remaining balance of unrestricted net assets, \$36.2 million may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township reported positive balances in all three categories of net assets, for the government as a whole, as well as for its separate governmental activities.

The following table provides a comparative summary of the Township's net assets as of December 31, 2010 and 2009.

	CONDENSED STATEMENTS OF NET ASSETS (ROUNDED TO 000'S)	
	YEAR ENDED DECEMBER 31, 2010	YEAR ENDED DECEMBER 31, 2009
Current and other assets	\$ 100,387,000	\$ 75,608,000
Long-term receivables and other assets	4,910,000	2,512,000
Capital assets	<u>164,609,000</u>	<u>139,427,000</u>
Total assets	<u>\$ 269,906,000</u>	<u>\$ 217,547,000</u>
Current and other liabilities	\$ 46,026,000	\$ 118,062,000
Long-term liabilities outstanding	<u>110,649,000</u>	<u>63,829,000</u>
Total liabilities	<u>156,675,000</u>	<u>181,891,000</u>
Invested in capital assets of outstanding debt	73,219,000	70,290,000
Restricted	3,838,000	3,934,000
Unrestricted	<u>36,174,000</u>	<u>(38,568,000)</u>
Total net assets	<u>113,231,000</u>	<u>35,656,000</u>
Total liabilities and assets	<u>\$ 269,906,000</u>	<u>\$ 217,547,000</u>

The most significant change in net assets relates to the assumption of all the assets, liabilities and responsibilities of the Woodlands Associations and The Woodlands Fire Department as outlined in Note 1 to the financial statements. This resulted in an addition to net assets of \$71.5 million in 2010.

The following table summarizes the changes in the Township's net assets as a result of its activities for the years ended December 31, 2010 and 2009.

	CONDENSED STATEMENTS OF CHANGES IN NET ASSETS (ROUNDED TO 000'S)	
	YEAR ENDED DECEMBER 31, 2010	YEAR ENDED DECEMBER 31, 2009
REVENUE:		
Tax revenue	\$ 73,006,000	\$ 33,145,000
Program service fees	3,516,000	19,159,000
Grants and contributions	2,341,000	687,000
Investment earnings	<u>420,000</u>	<u>1,063,000</u>
Total revenue	<u>79,283,000</u>	<u>54,054,000</u>
EXPENSES:		
General and administrative	8,541,000	6,913,000
Public safety	25,246,000	22,893,000
Parks and recreation	17,760,000	7,488,000
Economic development	4,662,000	5,952,000
Community services	11,892,000	5,856,000
Community relations	1,055,000	990,000
Interest and debt related expenses	<u>4,031,000</u>	<u>3,539,000</u>
Total expenses	<u>73,187,000</u>	<u>53,631,000</u>
Excess of revenue over expenses before special item	6,096,000	423,000
Special item: Net assets received due to Transition Agreement	<u>71,479,000</u>	<u> </u>
CHANGES IN NET ASSETS	77,575,000	423,000
Net assets, beginning of year	<u>35,656,000</u>	<u>35,233,000</u>
Net assets, end of year	<u>\$ 113,231,000</u>	<u>\$ 35,656,000</u>

The Township's net assets increased \$77.6 million from the 2009 ending balance of \$35.6 to the 2010 ending balance of \$113.2 million. The reasons for this increase are explained in the following section.

Governmental Activities

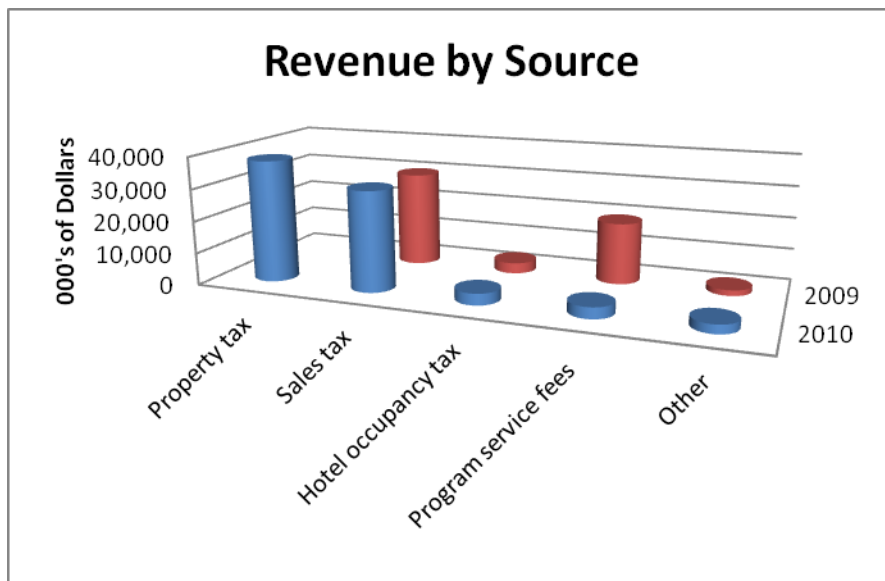
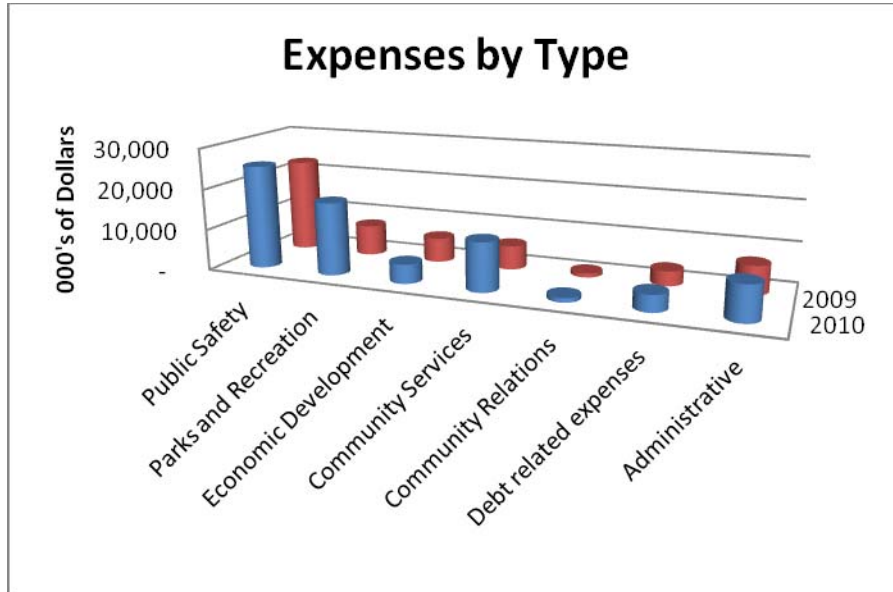
Governmental activities increased the Township's net assets by \$77.6 million during the current fiscal year. Key elements of this increase are as follows:

Revenue:

- A one-time \$71.5 million increase in net assets due to the addition of the Associations and related service companies in accordance with the Transition Agreement.
- Property tax revenues were earned in 2010 for the first time.

Expenses:

- Expenses in 2010 increased by \$19.6 million primarily relating to the Township's assumption of the Associations' responsibilities for parks and recreation and community services.



FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

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

Governmental Funds

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

As of December 31, 2010, the Township's governmental funds reported a combined ending fund balance of \$56.0 million, an increase of \$28.5 or 104% from the prior year.

	<u>2010</u>	<u>2009</u>	INCREASE (DECREASE)
Fund balances:			
General fund	\$ 30,321,000	\$ 28,530,000	\$ 1,791,000
Capital Projects fund	26,483,000	1,294,000	25,189,000
Debt Service fund	6,459,000	4,944,000	1,515,000
Special Revenue fund	<u>(7,312,000)</u>	<u>(7,290,000)</u>	<u>(22,000)</u>
Total fund balances	<u>\$ 55,951,000</u>	<u>\$ 27,478,000</u>	<u>\$ 28,473,000</u>

Approximately \$15.5 million of the \$56.0 million total constitutes unreserved and undesignated fund balances, which are available for spending at the Township's discretion. The remaining fund balances are designated or reserved to indicate that funds are not available for new spending because they have already been committed to the following: 1) for authorized capital projects (\$26.5 million); 2) to pay debt service (\$6.5 million); 3) for receivable of future sales tax revenue from special revenue fund related to repayment of construction costs for Town Green Park and Waterway Square (\$6.7 million); and 4) for prepayment of expenses related to fiscal 2011.

General Fund – The General fund is the Township's primary operating fund. It accounts for all financial resources of the Township except those required to be accounted for in another fund. At December 31, 2010, the General fund had an unreserved and undesignated fund balance of \$22.8 million and a total fund balance of \$30.3 million.

As a measure of the General fund's liquidity, it may be useful to compare both unreserved/undesignated fund balance and total fund balance to total fund expenditures. Unreserved/undesignated fund balance represents 38% of total General fund expenditures, while total fund balance represents 51%. Pursuant to Board policy, the Township maintains an undesignated General fund balance at a minimum amount equal to 20% of the current year's budgeted revenues.

The Township's General fund balance increased \$1.8 million or 6% during the current fiscal year. Key factors for this increase are as follows:

- The receipt of current financial resources net of liabilities in the amount of \$2.2 million related to the Transition Agreement.
- Property tax revenues were earned and available for use for the first time in 2010.

Capital Projects Fund – The Capital Projects fund accounts for the resources accumulated and payments made for the acquisition or construction of capital assets and projects. Resources are derived from General fund allocations or debt proceeds.

The Township's Capital Projects fund increased \$25.2 million during the current fiscal year. This increase is due primarily to the sale of general obligation bonds of \$15.6 million, the sale of revenue bonds of \$12.2 million, and transfers from other funds of \$12 million. These increases were partially offset by capital outlay expenditures of \$13.7 million.

At December 31, 2010, the Capital Projects fund had an ending balance of \$26.5 million. Of this amount, \$9.7 million represents funds that will be carried over to the 2011 fiscal year to pay for certain capital assets not completed in 2010. Pursuant to Board policy, \$10.9 million is reserved in the Capital Projects fund for the future refurbishment, replacement of existing assets, and future economic development projects. The remaining \$5.9 million will be used for capital projects related to the fire department and parks and pathways. These reserve balances are funded from annual favorable budget variances that materialize in the General fund's operating expenditures. The favorable budget variances are used first to ensure that the General fund operating reserve maintains a balance equal to 20% of the current year's operating revenues. The remaining cash generated from favorable budget variances is allocated 75% to the capital reserve and 25% to the economic development reserve.

Additional information on the Township's capital assets can be found in the accompanying notes to the financial statements (pages 41-42) and in the Capital Assets section of this management's discussion and analysis (page 19).

Debt Service Fund – The Debt Service fund accounts for the resources accumulated and payments made for principal and interest on the bonded and non-bonded debt of the Township. Hotel occupancy tax revenues of seven percent and up to one-half of one percent of general sales tax collected by the Township are pledged for the payment of debt service.

The Debt Service fund had a total fund balance of \$6.5 million at the end of the fiscal year, all of which is reserved for the payment of debt service.

Additional information on the Township’s debt administration can be found in the accompanying notes to the financial statements (pages 47-48) and in the Long-Term Debt section of this management’s discussion and analysis (pages 20-21).

Special Revenue Fund – The Special Revenue fund accounts for a one percent of sales and use tax collected within a specific geographic area of the Township defined as The Woodlands Township Economic Development Zone (the Zone). These resources are dedicated to the payment of projects approved and funded by the Zone to promote economic activity throughout the Township. Sales tax proceeds collected in excess of those required to be allocated to the approved projects are transferred to The Fire Department for payment of the department’s operations.

For 2010, the Special Revenue fund recorded \$15.5 million in sales and use tax revenues. Of this amount, \$1.4 million was paid to the authorized Zone projects for the purpose of paying down debt service, and \$13.6 million was transferred to the General fund to pay for fire department operations. The year-end deficit balance of \$7.3 million in this fund largely is due to a \$3.9 million liability related to the Town Green Park project and a \$2.7 million liability related to the Waterway Square project. The Zone’s liabilities will be repaid from future incremental sales tax revenue collections generated by the Zone in accordance with the approved financing plans for each project.

General Fund Budgetary Highlights

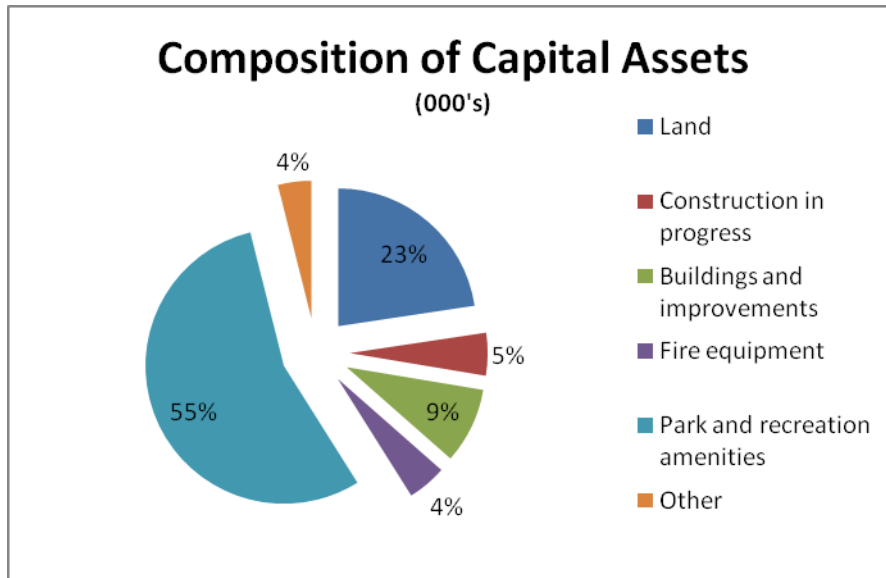
During fiscal year 2010, the Board of Directors of the Township amended the budget for the General fund four times. The amendments related to the Transition Agreement, adjustment of capital expenditures based on mid-year forecasts, and a year-end adjustment of revenue and expenditures based on actuals. The final amended budget indicated the Township would increase its General fund balance by \$492,000.

The actual revenues for the year totaled \$76.9 million, which were \$2.3 million higher than the final budget. The primary reasons for the favorable variance include collections of tax revenues in excess of budgeted amounts offset by a small unfavorable variance in interest earning and program service fees. Actual expenditures for the year were \$74.7 million, an amount \$1.1 million lower than the final budget. The primary reasons for the favorable variance are savings in salaries and benefits because of open positions throughout the year and less than anticipated expenditures in law enforcement contracted services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township’s investment in capital assets for its governmental activities as of December 31, 2010 amounted to \$164.6 million (net of accumulated depreciation). This amount represents a net increase (including additions and deductions) of \$25.2 million over the prior year. The investment in capital assets includes land, buildings and improvements, park and recreation amenities, fire department equipment, information technology, construction in progress, and other machinery and equipment.



Major capital asset events during the ended December 31, 2010 included:

- Transfer of title of all capital assets of the Woodlands Associations and the related service companies.
- A new building was purchased to become the permanent home of the Township.
- Construction of two new firestations began.

Additional information about capital assets can be found in Note 10 to the financial statements (page 41).

Long-Term Debt

At December 31, 2010, the Township had total debt outstanding of \$106.5 million; an increase of \$45.0 million from the prior year's ending debt balance. During 2010, the Township issued \$34.8 million in general obligation bonds to finance the acquisition of parks and fire department assets and to refinance debt assumed for the community associations on the governance transition date, as previously explained. Additionally, the Township refunded its Series 2001 sales tax and hotel occupancy tax revenue bonds in order to take advantage of favorable interest rates. Revenue bonds totaling \$12.2 million also were issued in 2010 to finance the purchase of an office building for the Township's administrative and operational activities. A comparative summary of the components of outstanding debt follows:

	<u>2010</u>	<u>2009</u>
Debt instruments:		
Series 2001 Sales Tax and Hotel Occupancy Tax Bonds	\$ 1,555,000	\$ 43,570,000
Series 2009 Revenue Bonds	17,145,000	17,825,000
2010 Unlimited Tax Bonds	34,800,000	
2010 Sales Tax and Hotel Occupancy Tax Refunding Bonds	40,800,000	
2010 Sales Tax and Hotel Occupancy Tax Bonds	12,175,000	
Notes payable	<u>90,000</u>	<u>38,000</u>
Total debt instruments	<u>\$ 106,565,000</u>	<u>\$ 61,433,000</u>

The Series 2009 Revenue Bonds were issued to retire outstanding bond anticipation notes, the proceeds of which were used for the initial deposits required by the regional participation agreements with the Cities of Houston and Conroe.

Current ratings on debt issues are as follows:

<u>BOND ISSUE</u>	<u>RATING AGENCY</u>	<u>UNDERLYING (SPUR)</u>	<u>RATING ACTION</u>	<u>INSURED</u>	<u>RATING ACTION</u>
Series 2001	Moody's	A2	October 29, 2010	A3	October 17, 2008
Series 2001	S&P	A+/Stable	October 9, 2008	A+ Watch	June 5, 2009
Series 2009	Moody's	A2	October 29, 2010	A3	October 17, 2008
Series 2009	S&P	A+/Stable	January 16, 2009	Not applicable	
Series 2010 Unlimited tax	Moody's	A2	October 29, 2010	A3	January 15, 2009
Series 2010 Unlimited tax	S&P	AA/Stable	March 22, 2010	Not applicable	
Series 2010 Sales and hotel occupancy tax refunding	Moody's	A2	October 29, 2010	A2	September 13, 2010
Series 2010 Sales and hotel occupancy tax refunding	S&P	A+/Stable	October 20, 2010	A++ Negative	October 10, 2009
Series 2010 Sales and hotel occupancy tax	Moody's	A2	October 29, 2010	Not applicable	
Series 2010 Sales and hotel occupancy tax	S&P	A+/Stable	December 7, 2010	A++ Negative	August 10, 2011

Additional information on the Township's long-term debt can be found in Note 15 (page 47) to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Township's Board of Directors adopts an annual financial plan for each of the governmental funds and component units. The annual financial plans serve as the foundation for the Township's allocation of resources as well as long-range planning in conjunction with the Township's strategic plan.

The national, regional and local economies were carefully considered in the development of the 2011 budget. The budget was prepared with the goal of achieving certain key objectives, including:

- Meet the short-term and long-term needs of the community
- Continue to provide high quality services and amenities
- Provide enhancements to services as needed and appropriate
- Maintain and replace capital assets and facilities as necessary
- Create financial flexibility for change conditions and opportunities
- Maintain or lower the property tax rate

Total revenue projections for 2011 equal \$81.0 million, which is a 5.2% increase from 2010 revenue of \$77 million. The increase is primarily the result of anticipated higher revenues from property taxes, sales taxes and program fees, as well as the implementation of a supplemental one percent hotel occupancy tax. The increase is largely offset by a decrease in contributions as monies transferred from the community associations in the 2010 governance transition represented a one-time revenue source.

Property tax revenue is based on a property tax rate of \$0.3274 applied to a taxable property value base of \$12.0 billion, an increase of \$400 million from last year's tax base of \$11.6 billion. Total property tax revenue is projected to be \$39.6 million, an increase of \$1.5 million or 4% from 2010. Revenue from property tax comprises 49% of total revenues.

Sales tax revenue for 2011 is projected to be \$32.2 million, which is a 3% increase over the \$31.3 million collected for 2010. Revenues from an eight percent hotel occupancy tax are anticipated to generate \$4.0 million, which is an 11% increase from the 2010 total of \$3.6 million that was generated from a seven percent tax rate.

The 2011 budget includes \$86.8 million in expenditures, representing a 14.5% increase over the 2010 total of \$73.2 million. The increase is primarily related to expenditures for capital projects, which are \$4.2 million higher than

2010. The 2011 budget of \$12.2 million for capital assets includes expenditures for new parks and pathways as well as renovations to existing amenities. Leasehold improvements for a new office facility and additional patrol vehicles for an enhanced law enforcement program also contribute to the increase. Additionally, capital investments for information technology and the fire department are scheduled in 2011.

Operating expenditures for The Fire Department, a component unit of the Township, increased \$937,000 in the budget due primarily to higher salaries and benefits, including six new positions and costs associated with maintenance and operations for a new fire station. As a result of growth in the community, parks and recreation expenses for contracted services, utilities and maintenance increased, as well as costs for the solid waste contract, streetscape maintenance, and street lighting. Continued expansion of the community policing program also has been factored into the budget, including three additional personnel and an increase in targeted overtime.

REQUESTS FOR INFORMATION

This financial report provides a general overview of the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: The Woodlands Township, Attention: Assistant General Manager – Finance and Administration, 10001 Woodloch Forest Drive, Suite 600, The Woodlands, Texas 77380.

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BASIC FINANCIAL STATEMENTS

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The Woodlands Township

Statement of Net Assets as of December 31, 2010

	PRIMARY GOVERNMENT	COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	THE WOODLANDS CONVENTION AND VISITORS BUREAU	THE WOODLANDS FIRE DEPARTMENT
ASSETS			
Cash and cash equivalents	\$ 69,988,662	\$ 374,203	\$ 38,988
Receivables, net	29,517,389	54,234	22,592
Prepaid expenses	880,720		215,005
Due from primary government		26,100	50,029
Capital lease receivable	1,876,711		
Capitalized bond issuance costs, net	3,033,842		
Capital assets not being depreciated	63,636,403		
Capital assets, net of depreciation	<u>100,972,525</u>		
TOTAL ASSETS	\$ <u>269,906,252</u>	\$ <u>454,537</u>	\$ <u>326,614</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued liabilities	\$ 5,337,615	\$ 163,681	\$ 282,495
Due to component unit	76,129		
Accrued interest payable	1,500,341		
Deferred revenue	39,112,148	3,000	22,332
Due to primary government		287,856	4,825
Long-term liabilities:			
Due within one year:			
Bonds payable	3,545,000		
Compensated absences	90,405		16,962
Deferred revenue related to operating lease	177,500		
Due in more than one year:			
Bonds payable	102,930,000		
Net other postemployment benefit liability	41,388		
Deferred revenue related to operating lease	2,041,250		
Unearned financing premiums	<u>1,822,897</u>		
TOTAL LIABILITIES	<u>156,674,673</u>	<u>454,537</u>	<u>326,614</u>
Net assets:			
Invested in capital assets net of related debt	73,219,481		
Restricted for debt retirement	3,038,105		
Restricted for health care obligations	800,011		
Unrestricted	<u>36,173,982</u>		
TOTAL NET ASSETS	\$ <u>113,231,579</u>	\$ <u>0</u>	\$ <u>0</u>

See accompanying notes to financial statements.

The Woodlands Township

Statement of Activities for the year ended December 31, 2010

	PROGRAM REVENUE				GOVERNMENTAL ACTIVITIES	COMPONENT UNITS
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
<u>Functions/Programs</u>						
Primary government:						
Governmental activities:						
General and administrative	\$ 8,541,489				\$ (8,541,489)	
Public safety	25,246,482				(25,246,482)	
Parks and recreation	17,760,347	\$ 2,840,416		\$ 2,140,633	(12,779,298)	
Economic development	4,661,526				(4,661,526)	
Community services	11,892,104	636,864	\$ 200,997		(11,054,243)	
Community relations	1,055,094	38,636			(1,016,458)	
Interest expense	3,827,202				(3,827,202)	
Debt issuance costs and other	203,311				(203,311)	
Total primary government	<u>\$ 73,187,555</u>	<u>\$ 3,515,916</u>	<u>\$ 200,997</u>	<u>\$ 2,140,633</u>	<u>(67,330,009)</u>	
Component units:						
Governmental activities:						
Woodlands Convention and Visitors Bureau	\$ 2,660,560	\$ 2,660,074				\$ (486)
Woodlands Fire Department	<u>14,630,237</u>	<u>14,628,556</u>				<u>(1,681)</u>
Total component units	<u>\$ 17,290,797</u>	<u>\$ 17,288,630</u>	<u>\$ 0</u>	<u>\$ 0</u>		<u>(2,167)</u>
General revenue:						
Taxes					38,091,288	
Property					31,307,932	
Sales					3,607,297	
Hotel occupancy					419,701	2,167
Investment earnings						
Total general revenue					<u>73,426,218</u>	<u>2,167</u>
Change in net assets due to Transition Agreement					<u>71,479,090</u>	<u>(6,496,186)</u>
Change in net assets					77,575,299	(6,496,186)
Net assets, beginning of year					<u>35,656,280</u>	<u>6,496,186</u>
Net assets, end of year					<u>\$ 113,231,579</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

The Woodlands Township

Balance Sheet – Governmental Funds as of December 31, 2010

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICE</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS					
Cash and cash equivalents	\$ 45,589,420	\$ 15,085,853	\$ 8,213,540	\$ 1,099,849	\$ 69,988,662
Receivables, net	26,022,276		36,918	3,458,195	29,517,389
Due from other funds	7,020,096	12,458,656			19,478,752
Prepaid expenditures	880,720				880,720
Long-term receivables from other funds	<u>6,665,722</u>				<u>6,665,722</u>
TOTAL ASSETS	<u>\$ 86,178,234</u>	<u>\$ 27,544,509</u>	<u>\$ 8,250,458</u>	<u>\$ 4,558,044</u>	<u>\$ 126,531,245</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 4,210,675			\$ 1,036,886	\$ 5,247,561
Due to other funds	12,458,656	\$ 1,061,308	\$ 1,791,525	4,167,263	19,478,752
Due to component unit	76,129				76,129
Deferred revenue	39,112,148				39,112,148
Long-term payable to other funds				<u>6,665,722</u>	<u>6,665,722</u>
Total liabilities	<u>55,857,608</u>	<u>1,061,308</u>	<u>1,791,525</u>	<u>11,869,871</u>	<u>70,580,312</u>
Fund balances:					
Reserved					
Debt service			6,458,933		6,458,933
Prepaid expenditures	880,720				880,720
Long-term receivables	6,665,722				6,665,722
Unreserved					
Designated for capital projects		26,483,201			26,483,201
Undesignated	<u>22,774,184</u>			<u>(7,311,827)</u>	<u>15,462,357</u>
Total fund balances	<u>30,320,626</u>	<u>26,483,201</u>	<u>6,458,933</u>	<u>(7,311,827)</u>	<u>55,950,933</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 86,178,234</u>	<u>\$ 27,544,509</u>	<u>\$ 8,250,458</u>	<u>\$ 4,558,044</u>	<u>\$ 126,531,245</u>

See accompanying notes to financial statements.

The Woodlands Township

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets for the year ended December 31, 2010

Total fund balances, governmental funds	\$ 55,950,933
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in government activities are not current financial resources and therefore are not reported in the fund financial statements.	164,608,928
Certain deferred revenue is not earned in the current period and therefore are not reported in fund financial statements.	
Parking garage revenues prepaid	(2,218,750)
Financing premium related to refunding	(1,822,897)
Certain assets included in the statement of net assets are not available to pay current period expenditures and are therefore not reported as assets in the fund financial statements.	
Capital lease receivable	1,876,711
Capitalized bond issuance costs, net	3,033,842
Some liabilities that are not due and payable in the current period are not reported as liabilities in the fund financial statement, but are reported in the governmental activities of the statement of net assets.	
Bonds payable	(106,475,000)
Accrued interest payable	(1,500,341)
Compensated absences	(90,405)
Accrued rent on office space	(90,054)
Net other postemployment benefit liability	<u>(41,388)</u>
Net assets of governmental activities in the statement of net assets	<u>\$ 113,231,579</u>

See accompanying notes to financial statements.

The Woodlands Township

Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds for the year ended December 31, 2010

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICE</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:					
Property taxes	\$ 38,091,288				\$ 38,091,288
Sales taxes	15,793,371			\$ 15,514,561	31,307,932
Hotel occupancy taxes	3,607,297				3,607,297
Investment earnings	163,199	\$ 21,517	\$ 133,710	2,162	320,588
Investment earnings from other funds	453,837				453,837
Program service fees and grants	<u>3,639,405</u>				<u>3,639,405</u>
Total revenue	<u>61,748,397</u>	<u>21,517</u>	<u>133,710</u>	<u>15,516,723</u>	<u>77,420,347</u>
EXPENDITURES:					
General and administrative	7,938,138				7,938,138
Public safety	23,610,653				23,610,653
Parks and recreation	12,014,668				12,014,668
Economic development	3,215,477			1,446,049	4,661,526
Community services	11,759,355				11,759,355
Community relations	988,242				988,242
Capital outlay		13,747,069			13,747,069
Interest expense to other funds				453,837	453,837
Debt service:					
Principal			21,872,403		21,872,403
Interest			3,432,505		3,432,505
Bond issuance costs		690,848	1,117,408		1,808,256
Bond refunding premium paid			795,734		795,734
Bond refunding			<u>40,530,000</u>		<u>40,530,000</u>
Total expenditures	<u>59,526,533</u>	<u>14,437,917</u>	<u>67,748,050</u>	<u>1,899,886</u>	<u>143,612,386</u>
Excess (deficiency) of revenue over (under) expenditures	<u>2,221,864</u>	<u>(14,416,400)</u>	<u>(67,614,340)</u>	<u>13,616,837</u>	<u>(66,192,039)</u>
Other financing sources (uses):					
Operating transfers in	13,638,613	12,017,372	4,864,181		30,520,166
Operating transfers out	(16,323,481)	(558,072)		(13,638,613)	(30,520,166)
Proceeds from issuance of bonds		27,785,000	59,990,000		87,775,000
Financing premium		<u>360,824</u>	<u>1,558,006</u>		<u>1,918,830</u>
Total other financing sources (uses)	<u>(2,684,868)</u>	<u>39,605,124</u>	<u>66,412,187</u>	<u>(13,638,613)</u>	<u>89,693,830</u>
Change in fund balance due to Transition Agreement	<u>2,253,422</u>	<u>0</u>	<u>2,717,417</u>	<u>0</u>	<u>4,970,839</u>
CHANGES IN FUND BALANCES	1,790,418	25,188,724	1,515,264	(21,776)	28,472,630
Fund balances, beginning of year	<u>28,530,208</u>	<u>1,294,477</u>	<u>4,943,669</u>	<u>(7,290,051)</u>	<u>27,478,303</u>
Fund balances, end of year	<u>\$ 30,320,626</u>	<u>\$ 26,483,201</u>	<u>\$ 6,458,933</u>	<u>\$ (7,311,827)</u>	<u>\$ 55,950,933</u>

See accompanying notes to financial statements.

The Woodlands Township

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities for the year ended December 31, 2010

Changes in fund balances \$ 28,472,630

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

Government funds report outlays for capital assets as expenditures because such outlays use current financial resources. The statement of activities recognizes the cost of outlays allocated over estimated useful lives as depreciation expense.

Capital outlay	13,747,069
Depreciation expense	(8,101,795)

Governmental funds do not recognize as revenue contributions of real property and related debt because such contributions do not increase current financial resources.

Capital assets net of related debt included in Transition Agreement	66,508,251
Donated land from the developer	2,140,633

Governmental funds do not recognize revenue that is not available to pay current obligations.

Capital lease revenue	176,621
Accrued rent not reflected in governmental funds	24,015

Governmental funds report bond proceeds as current financial resources. The statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. The statement of activities treats such repayments as a reduction in long-term liabilities.

Principal retirement on debt and bond refunding	62,402,403
Proceeds from debt issuance	(87,775,000)
Financing premiums	(1,918,830)
Bond issuance costs	1,808,256
Bond refunding premiums	795,734

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	(490,639)
Amortization of bond issuance related costs	(203,311)
Amortization of financing premiums	95,942
Net other postemployment benefit liability	(41,388)
Compensated absences	(65,292)

Change in net assets of governmental activities \$ 77,575,299

See accompanying notes to financial statements.

The Woodlands Township

Notes to Financial Statements for the year ended December 31, 2010

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

ORGANIZATION

As an independent political subdivision of the State of Texas, The Woodlands Township (the Township) 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 in determining the Township's financial reporting entity status as a primary government include: a separate elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

In November 2007, the voters of the Township authorized the Township's Board of Directors to assess, levy, and collect an annual ad valorem tax on a uniform basis upon all taxable property included within its expanded boundaries. In February 2008, a Transition Agreement was executed in an effort to consolidate community services into one unified governing body. The agreement and subsequent amendments outline general terms, funding commitments, organizational timelines, and terms of conveyance for certain assets, liabilities, and functions. The seven parties to the Transition Agreement include: property owners associations (The Woodlands Community Association, Inc., The Woodlands Association, Inc., The Woodlands Commercial Owners Association, Inc., collectively referred to as the Associations); service companies (The Woodlands Community Service Corporation, The Woodlands Fire Department, Inc., The Woodlands Recreation Centers, Inc.); and the Township. Upon the implementation by the Township of an ad valorem tax, all community service functions, previously the responsibility of the Associations became the responsibility of the Township.

In accordance with the Transition Agreement, a property tax was assessed on October 1, 2009. The levy of the ad valorem tax initiated the transfer and subsequent assumption by the Township of certain assets, liabilities, and functions previously owned and/or provided by the Associations and the service companies.

Effective January 1, 2010, according to provisions of the Transition Agreement, the Township has:

- A seven-member, fully elected governing body;
- Assumed the assets, liabilities, and responsibilities of each service company;
- Fully funded all community services previously provided by each service company.

As required by generally accepted accounting principles, these statements include the Township and its component units, entities for which the Township is considered to be financially accountable. The component units are included in the Township's reporting entity because of the significance of their operational or financial relationships with the Township. The Township is financially accountable if it appoints a voting majority of an organization's governing board and is able to impose its will on the organization or there is a potential for the organization to provide a specific financial burden on the Township. The Township is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the Township's financial statements to be misleading or incomplete.

Certain component units, although legally separate entities, may be in substance, part of the government's operations and may be combined or blended with the data of the Township while other component units are discretely presented. The Township has no blended component units; however, there are two organizations that are discretely presented component units. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the Township. Discretely presented component units included herein have a December 31 year end. Complete financial statements for the component units may be obtained by written request to the Township's finance and administration department.

Discretely Presented Component Units

The Woodlands Fire Department, Inc. – The Woodlands Fire Department, Inc. (the Fire Department) is a 501(c)(3) organization that provides fire protection, emergency medical services, and related educational and charitable

activities in the Township. A seven-member board of community leaders, appointed by the Township's Board of Directors governs the Fire Department and its activities. Effective January 1, 2010, in accordance with the Asset Lease and Service Agreement between the Fire Department and the Township, title to all capital assets of the Fire Department and related debt was transferred to the Township. Assets are leased back to the Fire Department for a nominal amount per year. Additionally, in accordance with the agreement, the Township provides administrative support at no cost to the Fire Department.

The Woodlands Convention and Visitors Bureau – The Woodlands Convention and Visitors Bureau (CVB), a 501(c)(6) organization, was created in 2006 by the Township's Board of Directors. The organization implements programs and produces events to promote local hotels, amenities, attractions, restaurants, and retailers. By attracting visitors to the area, the CVB helps stimulate demand for The Woodlands as a travel destination and stimulates economic development. The CVB provides services to help create new revenue for businesses and enhance sales and hotel occupancy tax collections for the Township. Tax revenue generated by the tourism industry is reinvested in community projects and programs.

The CVB is a discretely presented component unit of the Township because of the composition of its Board of Directors. The CVB's membership is open to three classes (A, B, and C) each with equal voting rights. Members are elected by the Board of Directors of the Township or appointed by the CVB Board of Directors. Currently, the Township is the only member of the CVB. Annually, the membership elects the CVB's Board of Directors. As of December 31, 2008, the CVB's seven-member Board was composed of four Township Directors and three community business leaders. The CVB and Township have executed a service agreement whereby the Township will make staff available and provide administrative support at no cost to the CVB.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present information on all of the activities of the primary government and its component units. Certain eliminations have been made as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 related to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated. The primary government is reported separately from the legally separated component units for which the primary government is financially responsible.

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

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed. None of the government-wide net assets are restricted by the Township's enabling legislation.

The governmental fund financial statements include a Balance Sheet and a Statement of Revenue, Expenditures and Changes in Fund Balances for all governmental funds and non-major aggregated funds (the Township currently reports no non-major funds). An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the government-wide financial statements. The Township considers all funds major funds because the financial position and activities are significant to the Township as a whole.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the donor have been met.

Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township 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 tax, sales and use tax, hotel occupancy tax, program service fees and grants. Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for debt service expenditures which are recognized when due. Investment earnings are recorded on the accrual basis of accounting.

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

Government Fund Types

The Township reports the following major governmental funds as separate columns in the fund financial statements:

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

The *Capital Projects Fund* is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction projects, capital reserves, and other capital asset acquisitions.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on the bonded debt of the Township. The primary source of revenue for debt service is hotel occupancy tax and one-half of one percent of collected sales and use tax collected within the Township.

The *Special Revenue Fund* is used to account for the proceeds from specific revenue sources that are designated for special purposes. The Special Revenue Fund includes approved projects funded through The Woodlands Township Economic Development Zone (the Zone). The Zone was established to further the promotion and stimulation of business, commercial and economic activity in the Zone as well as the Township.

ASSETS, LIABILITIES AND FUND BALANCE/NET ASSETS

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit, short-term investments in privately managed public funds investment pools, and sweep accounts.

Prepaid Expenses

Prepaid expenses reflect payments to vendors for costs applicable to future accounting periods and are recorded as prepaid assets in both the government-wide and fund financial statements using the consumption method of accounting.

Capital Assets

Capital assets used in governmental fund types of the government are recorded as expenditures of the appropriate fund and as assets in the government-wide financial statements to the extent the Township's capitalization threshold is met. Depreciation is recorded on capital assets on a government-wide basis. All assets (donated and purchased) are recorded at cost or at the estimated fair value at the date of acquisition or donation. Capital assets and improvements are capitalized as constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at the government-wide level. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available.

The Township does not use the modified approach for infrastructure reporting. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. The Township currently capitalizes additions and transfers of sound system equipment, computer equipment, and wayfinding signs as systems, regardless of each individual component's value in relation to the capitalization threshold. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and the resulting gain or loss is included in the results of operations.

The Township's Board of Directors has adopted a capitalization policy for reporting capital assets which exceed \$5,000 in cost and have a useful life greater than one year. The straight-line method of depreciation is applied over the following estimated useful life for the type of assets:

<u>ASSET DESCRIPTION</u>	<u>ESTIMATED USEFUL LIFE</u>
Parks and land improvements	20 to 30 years
Equipment	5 to 20 years
Buildings and garages	20 to 40 years
Leasehold improvements	Lease term
Land	Not applicable
Construction in progress	Not applicable

From time to time, the Township accepts donations of public art, sculptures, and mosaics which are maintained for public enjoyment and not held for resale. These are considered non-depreciable assets.

Interfund Transactions

Interfund transactions are transactions that occur between individual funds during the course of routine operations. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Transactions between funds that would be reported as revenue and expenditures if they involved organizations external to the Township are accounted for as revenue and expenditures in the applicable funds. Transactions that constitute reimbursements to a fund for expenditures initially made from that fund, which are properly attributable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of the expenditures in the fund that is reimbursed. Other legally authorized transfers are treated as operating or residual equity transfers and are included in the results of operations of the governmental funds.

Compensated Absences

Annual paid time off is granted to employees who work in excess of 1,000 hours per year. Any unused paid time off in excess of 40 hours lapses at the end of each fiscal year, unless exception to this policy is approved in writing by the President of the Township. The Township allows employees to be compensated for paid time off upon leaving the employment of the Township. Compensated absences are recorded in the General Fund of the primary government and component units when they become due.

Fund Balances and Net Assets

Reserved fund balances represent those portions of fund balance not available for appropriation for expenditures that represent long-term receivables, or are legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Undesignated fund balances represent available balances for the Township's future use.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Township or through external restrictions imposed by donors. When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Program Revenue

Program revenue primarily represents fees for services related to the use of the Township's recreational facilities.

Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – RESTATEMENT OF BEGINNING NET ASSETS

Effective December 31, 2009, the Township recorded a \$17,741,726 adjustment to expense previously capitalized payments to the City of Houston and the City of Conroe. These amounts, previously reported as deposits on regional participation projects, should have been expensed as incurred because they are not expected to result in future economic benefit to the Township. Additionally, the Township recorded an adjustment to defer recognition of a \$3,550,000 payment from the Cynthia Woods Mitchell Pavilion (the Pavilion) received by the Township in connection with the construction of the Convention Center parking garage. In connection with the construction of this garage, the Township and the Pavilion entered into a long-term lease whereby the Pavilion has use of the garage for a 20-year period. The unamortized balance at December 31, 2009 of \$2,396,250 will be recognized by the Township over the remainder of the original life of the lease. As a result of these adjustments, assets at December 31, 2009 were decreased by \$17,741,726, liabilities at December 31, 2009 were increased by \$2,396,250, and net assets at December 31, 2010 were decreased by \$20,137,976.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

New Accounting Standards

During fiscal year 2010, the Township adopted the following GASB Statements:

Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*. In 2010, as part of the consolidation of the assets, obligations and responsibilities of the POA's, the Township adopted a postemployment benefit plan for certain retirees who have not yet reached the age to be eligible for Medicare benefits. As a result, the Township implemented GASB No. 45 which improves the relevance and usefulness of financial reporting by a) requiring systematic, accrual-basis measurement and recognition of other post employment benefits (OPEB) over a period that approximates employees' years of service and b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. See Note 18.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. This pronouncement had no impact on current financial statements.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The statement requires that the fair value of financial arrangements called derivatives or derivative instruments be reported in the financial statements of state and local governments. Additional information about derivatives is disclosed in the notes to the financial statements, including identification of the risks to which hedging derivative instruments themselves expose a government. This statement had no impact on current financial statements.

Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This statement had no impact on current financial statements.

The GASB has issued the following statements which will be effective in future years as described below:

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for the Township beginning in fiscal year 2011. This statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, which is effective for the Township beginning in fiscal year 2012. This statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer, other postemployment benefit (OPEB) plans and clarifies when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers.

Statement No. 59, *Financial Instruments Omnibus*, which is effective for the Township beginning in fiscal year 2011. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for the Township beginning in fiscal year 2013. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators.

Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, which is effective for the Township beginning in fiscal year 2013. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for the Township beginning in fiscal year 2013. The objective of this statement is to incorporate into the GASB authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contributing to the GASB efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

The Township has not yet determined the impact of implementing the above new pronouncements.

Annual Financial Plan

The Township does not adopt annual appropriated budgets for its funds. However, the Board does adopt annual financial plans for the General fund. The plans are reviewed by management and the Board throughout the year to control and enhance the Township's operating results. The Board generally considers the Township's final annual actual operating results for all funds representative of the Township's annual financial plans for that year. Encumbrances are liquidated or accrued at the close of each fiscal year.

Deficit Fund Balances

The Special Revenue fund has a deficit fund balance of \$7.3 million as of December 31, 2010. In accordance with the project and financing plans adopted by the Board of the Zone, this deficit relates specifically to the cost of construction for Town Green Park and Waterway Square. The Township financed the construction of the projects and will receive repayments from future incremental sales tax revenue collections generated by the Zone. The capital outlay expenditures and related interfund liability to the General fund are recorded in the Special Revenue fund. The combined project plans for these two projects allow for the repayment of up to \$8.6 million in approved project costs.

NOTE 4 – CASH AND INVESTMENTS

The Township’s cash and cash equivalents at December 31, 2010 consist of the following:

	PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL
Cash on hand	\$ 3,800	\$ 350	\$ 4,150
Demand deposits	12,534,856	412,841	12,947,697
Certificates of deposit	3,779,028		3,779,028
Repurchase agreements	1,877,188		1,877,188
Investments:			
Money market mutual funds	389,932		389,932
TexSTAR	20,141,709		20,141,709
TexPool	<u>31,262,149</u>		<u>31,262,149</u>
Total cash and investments	<u>\$ 69,988,662</u>	<u>\$ 413,191</u>	<u>\$ 70,401,853</u>

These amounts are reported as cash and cash equivalents in the accompanying Statement of Net Assets as of December 31, 2010.

Authorization for Deposits and Investments

The Texas Public Funds Investment Act, as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the Township. In accordance with the Township’s Investment Policy, authorized investments include the following:

- Obligations of the United States government or its agencies and instrumentalities;
- Direct obligations of the State of Texas or its agencies;
- Other obligations, of which the principal and interest are unconditionally guaranteed or insured by the State of Texas;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent;
- Certificates of Deposit issued by an approved institution domiciled in the State of Texas;
- Fully collateralized repurchase agreements;
- Collateralized mortgage obligations by a federal agency or instrumentality of the United States;
- Banker’s acceptance notes;
- Commercial paper with a stated maturity of 270 days or fewer;
- No-load money market mutual funds;
- Investment pools; and
- Guaranteed investment contracts.

Investments and Interest Rate Risk

The Township’s investments are reported at fair value and include short-term investments in privately-managed investment pool accounts and SEC registered money market mutual funds. TexPool and TexSTAR are Texas Local Government Investment Pools, which operate in a manner consistent with SEC Rule 2a7 of the Investment Company Act of 1940 and fully comply with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These investment pools use amortized cost rather than market value to report net assets and to compute share prices. Accordingly, the fair value of the position in TexPool and TexSTAR is the same value as the number of shares owned. The INVESCO AIM MM is a no-load money market mutual fund. As of December 31, 2010, the Township had investments with the following maturities and credit quality:

<u>INVESTMENT</u>	<u>FUND</u>	<u>FAIR VALUE</u>	<u>WAM</u>	<u>S&P RATINGS</u>
TexPool	General	\$ 31,262,149	<60 days	AAA
TexSTAR	General	3,259,939	<60 days	AAAm
TexSTAR**	General	800,011	<60 days	AAAm
TexSTAR	Capital projects	15,085,853	<60 days	AAAm
TexSTAR	Debt service	995,906	<60 days	AAAm
INVESCO AIM MM	General	<u>389,932</u>	<60 days	AAAm
Total investments		<u>\$ 51,793,790</u>		

**Account restricted for health insurance claims contingency fund.

In accordance with its investment policy, the Township manages its exposure to any decline in fair values by limiting the maturity of each investment to a period no longer than ninety (90) days. Additional authorization is required for periods exceeding ninety (90) days; however, in no event shall the maturity of any individual investment owned by the Township exceed two (2) years, unless otherwise specifically stated in the investment policy.

Deposits and Custodial Credit Risk

State statutes require that all the Township’s deposits in financial institutions be fully collateralized by depository insurance or by certain government obligations that have a market value of not less than the principal amount of the deposits. Furthermore, the Township’s internal written investment policy further restricts the value of such collateral to not less than 110% of the principal amount of the uninsured deposit. As of December 31, 2010, the Federal Depository Insurance Corporation (FDIC) covered unlimited deposits held in noninterest bearing accounts and up to \$250,000 per depositor for interest bearing accounts.

At December 31, 2010, the following time deposits including accrued interest as of December 31, 2010, were properly collateralized or insured in accordance with State requirements:

<u>BANK</u>	<u>TYPE</u>	<u>FUND</u>	<u>FAIR VALUE</u>	<u>MATURITY</u>
Encore Bank	Certificate of Deposit	General	\$3,051,905	356 days
Encore Bank	Certificate of Deposit	Debt Service	\$727,123	356 days
HypoVereins Bank*	Repurchase Agreements	Debt Service	\$1,877,188	6,264 days

*Separately authorized in connection with debt covenants to establish a Debt Service Reserve fund.

The carrying value of demand deposits of the primary government at December 31, 2010 was \$12,947,698 and the related bank balances were \$14,188,235. The carrying value of demand deposits of the discretely presented component units at December 31, 2010 was \$412,842 and the related bank balances were \$534,624. Consistent with the Township’s policies, all deposits in financial statements are fully collateralized by depository insurance.

NOTE 5 – RECEIVABLES AND DEFERRED REVENUE

Primary Government

Receivables as of year-end for the Township’s individual major funds, including allowances for uncollectible accounts, are as follows:

	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICE</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL</u>
Property tax	\$ 22,132,760				\$ 22,132,760
Sales tax	3,540,147			\$ 3,458,195	6,998,342
Hotel occupancy tax	215,781				215,781
Due from component units	292,681				292,681
Other receivables	<u>359,113</u>		<u>\$ 36,918</u>		<u>396,031</u>
Total receivables	26,540,482		36,918	3,458,195	30,035,595
Less: allowance for uncollectible accounts	<u>(518,206)</u>				<u>(518,206)</u>
Receivables, net	<u>\$ 26,022,276</u>	<u>\$ 0</u>	<u>\$ 36,918</u>	<u>\$ 3,458,195</u>	<u>\$ 29,517,389</u>

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. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds are as follows:

Deferred revenues at December 31, 2010 consist of unavailable property tax of \$21,626,701 and unearned property tax revenues of \$17,485,447.

Discretely Presented Component Units

Other receivables relate to program revenues expected to be collected within 60 days. Deferred revenues represent advance receipts on program fees and are unearned.

NOTE 6 – PROPERTY TAX

Property taxes are levied by October of each year 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 Montgomery County Appraisal District establishes property values. Taxes are levied by the Township based on the appraised values and operating needs of the Township. Montgomery County performs billing and collection of tax levies.

NOTE 7 – SALES AND USE TAX

On November 2, 1993, the voters of the Township authorized the Board to levy and collect one percent sales and use tax within the Township, subject to the applicable provisions of the Texas Tax Code. Prior to the 2010 fiscal year, the Township relied on this tax for the funding of substantially all of its programs, functions and services. Beginning with the 2010 fiscal year, an ad valorem tax was levied (See Note 6).

On November 6, 2007, the voters of the Township authorized the Board to expand the boundaries of the Township in which the base one percent sales and use tax is collected effective April 1, 2008. In addition, following a public hearing on November 16, 2007, the existing economic development zones were reorganized as the Zone. At that time, the Zone's Board imposed an incremental one percent sales and use tax within the boundaries of the expanded Township, but by order dated March 26, 2008, the Board of the Zone temporarily excluded the Harris County area from its boundaries. Collections of the incremental sales and use tax will be used exclusively to satisfy funding obligations under the Transition Agreement and other improvement projects as approved by the Board.

The Township recorded revenues of \$15,793,371 in the General fund and \$15,514,561 in the Special Revenue fund from the levy of sales and use tax for the fiscal year ended December 31, 2010.

NOTE 8 – HOTEL OCCUPANCY TAX

The Township Act (as amended by Senate Bill 26) provides for the assessment of a hotel occupancy tax of up to 7% of the price paid for a hotel room. By Board order, the Township has imposed the maximum 7% tax, effective September 1, 1997 (for fiscal period 1997-98 and thereafter). As provided by the Township Act, the Township can apply the proceeds from a hotel occupancy tax for any of the Township's purposes and for purposes described by Section 352.1015 of the Texas Tax Code, to the extent considered appropriate by the Board. Generally, proceeds are used for the costs to advertise and promote tourism and costs related to business development and commerce, including financing and operating improvement projects for conventions, trade shows and similar events.

NOTE 9 – GRANT REVENUE

The Houston-Galveston Area Council (HGAC) awarded the Township an initial intergovernmental contract of \$404,760 (\$202,380 federal; \$202,380 local match) for the amended period June 2007 through June 2008 to provide certain transit services. HGAC renewed the contract for two additional contract periods ending June 2010. Under the renewal, the amount of the award for each period is \$388,800 (\$194,400 federal; \$194,400 local match). Over a three-year period, the program could receive up to \$591,000 in federal congestion mitigation and air quality funding. For 2010, \$175,097 in actual operating contributions for grant funding is recorded as program revenue under community services on the statement of activities.

The Township has contracted with Brazos Transit District to provide transportation services as required by the grant. The Township has retained The Goodman Corporation as a transportation consultant and advisor on grant reporting and compliance issues as required by federal funding organizations.

NOTE 10 – CAPITAL ASSETS

Primary Government

The Township’s investment in capital assets at December 31, 2010 consists of the following:

	BALANCE AT JANUARY 1, 2010	ADDITIONS	COMPLETIONS/ DISPOSALS	BALANCE AT DECEMBER 31, 2010
Depreciable capital assets:				
Parks and pathways	\$ 121,727,119	\$ 4,735,533		\$ 126,462,652
Equipment	8,300,053	11,241,005	\$ (113,755)	19,427,303
Building and leasehold improvements	<u>6,195,687</u>	<u>14,176,360</u>	<u> </u>	<u>20,372,047</u>
Depreciable capital assets, at cost	136,222,859	30,152,898	(113,755)	166,262,002
Accumulated depreciation:				
Parks and pathways	(40,423,506)	(5,504,863)		(45,928,369)
Equipment	(5,212,944)	(7,254,334)	110,721	(12,356,557)
Building and leasehold improvements	<u>(2,312,773)</u>	<u>(4,691,778)</u>	<u> </u>	<u>(7,004,551)</u>
Total depreciable capital assets, net	<u>88,273,636</u>	<u>12,701,923</u>	<u>(3,034)</u>	<u>100,972,525</u>
Nondepreciable capital assets:				
Land	47,439,083	4,563,127		52,002,210
Construction in progress	3,581,209	10,160,496	(2,240,798)	11,500,907
Sculpture and art	<u>133,286</u>	<u> </u>	<u> </u>	<u>133,286</u>
Total nondepreciable capital assets	<u>51,153,578</u>	<u>14,723,623</u>	<u>(2,240,798)</u>	<u>63,636,403</u>
Total capital assets, net	<u>\$ 139,427,214</u>	<u>\$ 27,425,546</u>	<u>\$ (2,243,832)</u>	<u>\$ 164,608,928</u>

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

General and administrative	\$ 574,126
Public safety	1,630,243
Parks and recreation	5,719,233
Community services	118,262
Community relations	<u>59,931</u>
Total	<u>\$ 8,101,795</u>

In May 2008, the Township assumed management, maintenance, and operational responsibilities of The Woodlands Waterway (the Waterway) in accordance with the Waterway Maintenance, Use and Operations Agreement between The Woodlands Land Development Company (the Development Company) and the Township. The Waterway is considered a significant component of the pedestrian and transit corridor within the Town Center of the Township. Over a fifteen year period, the Waterway will be fully conveyed to the Township by special warranty deed and fee transfers. In accordance with generally accepted accounting principles for capital assets maintained by a governmental entity, the Township has recorded the Waterway based on the estimated fair value of the related easement and infrastructure improvements as of December 31, 2008. From time to time, the Development Company will convey title of developed assets to the Township. Conveyances are recorded at the cost of the project provided by the Development Company that approximates fair value.

NOTE 11 – CAPITAL PROJECTS AND COMMITMENTS

Primary Government

As of December 31, 2010 the Township had the following commitments:

<u>PROJECT</u>	<u>AMOUNT AUTHORIZED</u>	<u>SPENT TO DATE</u>	<u>REMAINING COMMITMENT</u>
Fire Station #7	\$2,315,139	\$160,157	\$2,154,982
Fire Station #8	\$2,660,861	\$1,078,813	\$1,582,048
Aided dispatch system	\$495,000	\$20,000	\$475,000
Township headquarters	\$11,400,000	\$8,888,887	\$2,511,113
Alden Bridge Sports Park Improvements	\$581,078		\$581,078
	\$21,609,741	\$19,855,687	\$1,754,054

In addition to these projects, the Township Board approved a \$100,000 commitment to the Greater Houston Partnership Opportunity Houston program. This contribution is payable over a five-year period with annual contributions of \$20,000 a year. Payments for this program began in 2007.

In 2007, the Township executed Regional Participation Agreements (RPAs) with the City of Houston and the City of Conroe. Each agreement established a regional participation fund or escrow account for mutually beneficial projects within the applicable region; defined payment terms, eligible projects, accounting for deposits, annexation deferral terms, as well as other contractual terms and conditions; and, provided an initial list of new improvement projects or those which will enhance existing public works. The RPAs require the Township to remit periodic deposits for an unlimited duration into each regional participation fund in the amount of 1/16th of one percent of the sales and use tax collections from within the boundaries of the Township in each City’s extra territorial jurisdiction. In 2010, the Township remitted \$973,839 to the funds. This amount is included in the expenditures for economic development.

NOTE 12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables as of December 31, 2010 are as follows:

<u>RECEIVABLE FUND</u>	<u>PAYABLE FUND</u>	<u>RECEIVABLE</u>	<u>PAYABLE</u>
General	Special Revenue	\$ 4,167,263	\$ 4,167,263
Capital Projects	General	12,458,656	12,458,656
General	Debt Service	1,791,525	1,791,525
General	Capital Projects	<u>1,061,308</u>	<u>1,061,308</u>
Total		<u>\$ 19,478,752</u>	<u>\$ 19,478,752</u>

The amount due to the General fund from the Special Revenue fund is for sales tax revenues to be transferred.

The outstanding balances between the General and Capital Projects funds result mainly from the time lag between the period in which funds are designated and the period in which projects are completed.

As of December 31, 2010, interfund balances due from the General fund to the Capital Projects fund are as follows:

<u>PROJECT</u>	<u>BALANCE</u>
Fire department dispatch system upgrades	\$ 475,000
Field lighting for Alden Bridge Sports Park	355,093
Software purchases and upgrades	146,000
Law enforcement vehicles and equipment	124,514
Aquatic facilities improvements	115,000
Computer hardware purchases and upgrades	85,436
Parks and pathways improvements	80,238
Fire department protective gear and systems	69,541
Leasehold improvements	<u>25,512</u>
Total projects	<u>\$ 1,476,334</u>
<u>CAPITAL RESERVES</u>	<u>BALANCE</u>
Economic Development reserve	\$ 2,523,711
Waterway improvements	342,195
Town Green Park	150,002
Signage	109,000
Town Center Garage	48,635
Unallocated reserves	<u>7,808,779</u>
Total capital reserves	<u>\$ 10,982,322</u>

All interfund balances are subject to collection in the subsequent year.

The related General fund receivable and interest income, and Special Revenue fund liability and interest expense for Town Green Park and Waterway Square expenditures are recorded in the fund financial statements only. The related interfund activity has been eliminated from the government-wide financials.

Interfund transfers for the year ended December 31, 2010 are as follows:

<u>TRANSFER OUT</u>	<u>GENERAL</u>	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICE</u>	<u>SPECIAL REVENUE</u>	<u>TOTAL</u>
General		\$ 12,017,372	\$ 4,306,109		\$ 16,323,481
Capital Projects			558,072		558,072
Special Revenue	<u>\$ 13,638,613</u>				<u>13,638,613</u>
Total	<u>\$ 13,638,613</u>	<u>\$ 12,017,372</u>	<u>\$ 4,864,181</u>	<u>\$ 0</u>	<u>\$ 30,520,166</u>
Transfers in	\$ 13,638,613	\$ 12,017,372	\$ 4,864,181		\$ 30,520,166
Transfers out	<u>(16,323,481)</u>	<u>(558,072)</u>		<u>\$ (13,638,613)</u>	<u>(30,520,166)</u>
Total	<u>\$ (2,684,868)</u>	<u>\$ 11,459,300</u>	<u>\$ 4,864,181</u>	<u>\$ (13,638,613)</u>	<u>\$ 0</u>

Transfers from the General fund were made for the following purposes:

<u>TRANSFERS OUT FROM GENERAL FUND FOR:</u>	<u>TRANSFERS IN:</u>		
	<u>CAPITAL PROJECTS</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
Town Center parking garage replacement reserve	\$ 6,465		\$ 6,465
Capital reserves	2,520,626		2,520,626
Hotel occupancy tax		\$ 3,607,297	3,607,297
Sales tax pledged to debt service		698,812	698,812
Project expenditures	<u>9,490,281</u>		<u>9,490,281</u>
Total	<u>\$ 12,017,372</u>	<u>\$ 4,306,109</u>	<u>\$ 16,323,481</u>

Transfers from the Special Revenue fund to the General Fund of \$13.7 million represent sales tax collections in the expanded Zone which are designated for fire protection services.

NOTE 13 – ECONOMIC DEVELOPMENT ZONE PROJECTS

Created in November 2007 by resolution of the Township’s Board of Directors, The Woodlands Township Economic Development Zone’s boundaries overlay the expanded boundaries of the Township within Montgomery County in its entirety.

By agreement, the Township and the Zone have agreed that: 1) the Zone will pay the Township all net proceeds derived from the collection of a one percent sales and use tax within the Zone; 2) all amounts received from the Zone by the Township will be applied solely for the improvement projects described below; and 3) in consideration of the payments between entities, the Township will make staff available and provide administrative support at no cost to the Zone.

As noted, future sales tax revenue collections for the Zone have been committed for specific projects to the extent of actual collections. All Zone activity for the year is included in the Special Revenue fund of the financial statements. The terms and obligations of repayment to third-party developers (net revenue payments) and the Township (priority payments) for each project are outlined below. In accordance with each financing plan, payments are contingent upon the actual receipt of sales tax collections within the Zone.

Economic Development Project No. 1

Approved in September 2000, project costs include the redevelopment, rehabilitation, expansion and enlargement of the Pavilion by the Center for the Performing Arts at The Woodlands.

In accordance with the approved financing plan, a one-percent incremental sales tax collected within the entertainment venue, along with any interest earnings, are allocated to the payment of project costs as identified in the project plan until: 1) October 1, 2020, or 2) the aggregate amount of payments for project costs equals \$1,350,000, whichever occurs first.

Payments to the Pavilion are recorded as economic development expenditures in the tax increment fund for the project. As of December 31, 2010, aggregate net revenue payments, excluding one-time capital grants, were \$1,268,683.

Economic Development Project No. 2

Approved in November 2002, project costs include public enhancements to the mixed-use development located at Market Street within the boundaries of the Township and the development of Town Green Park. Approved reimbursable public enhancement costs of \$10,600,000 for the Market Street project include, among other items, improvements to parking facilities, public art and architectural elements, public restrooms, and public plazas. Approved project costs for Town Green Park were \$4,336,823.

The approved financing plan has a term effective for fiscal year 2005 and not to exceed thirty years or until the repayment of all project costs, whichever occurs first. The assessed one-percent incremental sales tax collected within the boundaries of the project, along with any interest earnings, are allocated to the payment of project costs as identified in the financing plan as follows: 1) the first \$200,000 of annual collections are reimbursed to the Township as a priority payment and applied to Town Green Park project costs, not to exceed \$4,336,823, plus interest, and 2) annual collections in excess of the priority payment are reimbursed to the Market Street developer and applied to public enhancement costs, not to exceed \$10,600,000, plus interest. During the 24th annual period or fiscal year 2028, the Township’s priority payment for subsequent annual periods will be recalculated to fully amortize the outstanding unpaid project costs for the Town Green Park project, and then to the remaining unamortized balance for the Market Street project.

Payments to the Market Street developer are recorded as economic development expenditures in the tax increment fund for the project. As of December 31, 2010, aggregate net revenue payments including interest to the developer were \$4,244,964 and priority payments to the Township were \$1,000,000.

Economic Development Project No. 3

Approved in July 2003 and amended in October 2004, project costs include public enhancements to the mixed-use development located at The Woodlands Mall expansion within the boundaries of the Township and a portion of the development costs of Waterway Square. Approved reimbursable public enhancement costs of \$7,499,111 for the Mall Expansion project include, among other items, costs for utility relocations, landscaping, signage, paving and sidewalks, lighting improvements, and related engineering, surveying, and other soft costs. Approved project costs for the Waterway Square project were \$4,343,164.

The approved financing plan has a term effective for fiscal year 2004 and not to exceed thirty years or until the repayment of all project costs, whichever occurs first. The assessed one-percent incremental sales tax collected within the boundaries of the project, along with any interest earnings, are to be used to pay project costs identified in the financing plan as follows: 1) the first \$350,000 of annual collections are reimbursed to the Township as a priority payment and applied to the Waterway Square project costs, not to exceed \$4,343,164, plus interest; and 2) annual collections in excess of the priority payment are reimbursed to the developer of the Mall Expansion project and applied to public enhancement costs, not to exceed \$7,499,111 plus interest.

Payments to the Mall Expansion developer are recorded as capital outlay in the tax increment fund for the project. As of December 31, 2010, aggregate net revenue payments including interest to the developer were \$2,279,504 and priority payments to the Township were \$2,450,000.

Economic Development Project No. 4

Approved in December 2006, project costs include construction of a new fire station and state-of-the-art training center in the College Park service area of the Township by The Fire Department.

The assessed one-percent incremental sales tax in the College Park service area along with any interest earnings, are to be used to pay project costs identified in the financing plan until: 1) December 27, 2026, or 2) the aggregate amount of payments applied to project costs equals \$11,670,000 plus interest, whichever occurs first.

In 2010, the capital assets of The Fire Department and related debt were assumed by the Township.

Community Fire Protection Services

Beginning fiscal year 2008, a portion of the sales and use tax collections from within the Zone, after allowance for the projects noted above, are committed to community fire protection. The amount funded in 2010 from the Zone and the expanded boundaries was \$14,232,000.

NOTE 14 – LONG-TERM LEASE RECEIVABLE

Primary Government

Capital Lease – Convention Center, Sky Bridge and Parking Garage

The Township leases the Convention Center, sky bridge and a portion of the adjacent parking garage (500 spaces) for a term of 99 years to Inland American Lodging Woodlands L.P. These facilities were constructed by the Township with bond proceeds in 2001.

The Township reports the Convention Center lease as a capital lease based on the lease terms and the requirements of generally accepted accounting principles. The related capital assets are restricted under the terms of the

Convention Center lease and, as such, the historical cost associated with the leased assets, including the land, has not been recorded by the Township.

Beginning in 2003, the Township recorded and began to amortize the future minimum lease payments under the Convention Center lease over the 99-year lease term. Rental payments under the lease commenced on January 1, 2005. Annual base rental amounts under the lease are equal to the annual base rental for the preceding year increased or decreased based on the change in the Consumer Price Index for all Urban Consumers (CPI-U) Houston-Galveston-Brazoria, Texas.

The Convention Center lease will generate \$9,100,000 in total remaining lease payments over the term of the lease. The future minimum lease payments are \$1,876,712 at a rate of 5.2791%, without adjustment for future changes in the CPI-U as described above. The amortization of the future minimum lease payments under the Convention Center lease is shown below:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2011	\$ 927	\$ 99,073	\$ 100,000
2012	975	99,025	100,000
2013	1,027	98,973	100,000
2014	1,081	98,919	100,000
2015	1,138	98,862	100,000
2016-2020	6,659	493,341	500,000
2021-2025	8,612	491,388	500,000
2026-2030	11,138	488,862	500,000
2031-2035	14,405	485,595	500,000
2036-2040	18,630	481,370	500,000
2041-2045	24,095	475,905	500,000
2046-2050	31,163	468,837	500,000
2051-2055	40,304	459,696	500,000
2056-2060	52,127	447,873	500,000
2061-2065	67,418	432,582	500,000
2066-2070	87,194	412,806	500,000
2071-2075	112,771	387,229	500,000
2076-2080	145,850	354,150	500,000
2081-2085	188,633	311,367	500,000
2086-2090	243,966	256,034	500,000
2091-2095	315,529	184,471	500,000
2096-2100	408,084	91,916	500,000
2101	94,986	5,014	100,000
Total	<u>\$ 1,876,712</u>	<u>\$ 7,223,288</u>	<u>\$ 9,100,000</u>

The Township has retained all debt associated with building the leased facilities. Township management expects the additional activities related to the Convention Center lease to benefit the Township generally through expanded economic development. At December 31, 2010, the principal amount of the Township's remaining debt on bonds issued to construct the leased facilities was \$42,355,000.

Operating Lease – Parking Garage

On February 1, 2003, the Township and the Pavilion entered into a long-term lease whereby the Pavilion is leasing a portion of the Convention Center parking garage for a term of 20 years. Consideration for the Pavilion Lease was received by the Township prior to construction of the Convention Center parking garage in the amount of \$3,550,000. The Township's costs for these facilities and related depreciation are shown below:

<u>CATEGORY</u>	<u>COST</u>	<u>ACCUMULATED DEPRECIATION</u>	<u>BOOK VALUE</u>
Land	\$835,713		\$835,713
Buildings (Garage)	\$3,100,814	\$546,566	\$2,554,248

The Township reports this lease as an operating lease based on the lease terms and the requirements of generally accepted accounting principles. Accordingly, a portion of the land and facility costs as noted above are recorded in the Township's capital assets. The consideration received in advance of the construction was considered as deferred revenue and is being amortized over the term of the lease. Revenue recognized each year is \$177,500.

Discretely Presented Component Units

In 2008, the Fire Department entered into an operating lease agreement with a local community college for their use of the training facility to teach fire operation training classes. In addition to collaborative training opportunities, the facility also will be used by the Fire Department to meet departmental training needs. The non-cancelable portion of the lease provides revenues to the Fire Department of \$42,000 per year for the next two years plus a portion of gross revenues from certain defined training classes.

NOTE 15 – LONG-TERM DEBT

The following is a summary of the Township's long-term debt for the year ended December 31, 2010:

	BALANCE DECEMBER 31, <u>2009</u>	<u>INCREASES</u>	<u>DECREASES</u>	BALANCE DECEMBER 31, <u>2010</u>	PAYABLE WITHIN <u>ONE YEAR</u>
Primary government:					
Governmental activities:					
Revenue bonds	\$ 61,395,000	\$ 52,975,000	\$ (42,695,000)	\$ 71,675,000	\$ 6,255,000
General obligation bonds		34,800,000		34,800,000	835,000
Compensated absences	<u>25,113</u>	<u>280,667</u>	<u>(215,375)</u>	<u>90,405</u>	<u>90,405</u>
Total governmental activities	61,420,113	88,055,667	(42,910,375)	106,565,405	7,180,405
Business-type activities:					
Notes payable	<u>12,903</u>		<u>(12,903)</u>		
Total primary government	<u>\$ 61,433,016</u>	<u>\$ 88,055,667</u>	<u>\$ (42,923,278)</u>	<u>\$ 106,565,405</u>	<u>\$ 7,180,405</u>
Component units:					
Governmental activities:					
Notes payable	\$ 13,619,500		\$ (13,619,500)		
Compensated absences		<u>\$ 335,815</u>	<u>(318,853)</u>	<u>\$ 16,962</u>	<u>\$ 16,962</u>
Total discretely presented component units	<u>\$ 13,619,500</u>	<u>\$ 335,815</u>	<u>\$ (13,938,353)</u>	<u>\$ 16,962</u>	<u>\$ 16,962</u>

In April 2010, the Township issued \$34,800,000 of Series 2010 Unlimited Tax Bonds to: (1) finance fire fighting facilities and equipment; (2) recreational facilities and equipment; (3) refinance certain existing assumed obligations incurred for capital expenditures; and (4) pay issuance costs related to the bonds. The Series 2010 Unlimited Tax Bonds were issued as current interest term bonds at interest rates ranging from 3% to 4% and are payable from ad valorem tax revenues.

In October 2010, the Township issued \$40,800,000 of Series 2010 Sales Tax and Hotel Occupancy Tax Refunding Bonds to refund a portion of the Township's Series 2001 Sales Tax and Hotel Occupancy Tax Bonds. The Series 2001 bonds originally were issued to finance a convention center, an adjacent garage and hotel meeting rooms. The Series 2010 Sales Tax and Hotel Occupancy Tax Refunding Bonds were issued as serial bonds at rates ranging from 2% to 5% and are secured by a lien on pledged revenues that consist of: (1) one half of 1% of sales taxes collected within the Township, and (2) base occupancy tax received from a 7% tax on hotel room rentals within the Township. The proceeds of the bonds also were used to pay bond issuance costs of \$349,755, an underwriter's discount of \$143,030 and purchase a bond insurance policy for \$363,504.

In December 2010, the Township issued \$12,175,000 of Series 2010 Sales Tax and Hotel Occupancy Tax Bonds to finance the purchase and renovation of an administrative office facility. The Series 2010 Sales Tax and Hotel Occupancy Tax Bonds were issued as serial bonds at interest rates ranging from 4.25% to 5%. The proceeds of the bonds were used to pay issuance costs and fund a debt service reserve fund of \$246,166 and \$562,963, respectively.

The following table displays the total principal debt outstanding by issuance as of December 31, 2010:

<u>DESCRIPTION</u>	<u>ISSUANCE DATE</u>	<u>INTEREST RATES</u>	<u>FINAL MATURITY DATE</u>	<u>OUTSTANDING PRINCIPAL AMOUNT</u>
Series 2001 Sales Tax and Hotel Occupancy Tax Bonds	June 1, 2001	4%-5.625%	March 1, 2027	\$1,555,000
Series 2009 Revenue Bonds	March 1, 2009	1.25%-5.1%	March 1, 2028	\$17,145,000
Series 2010 Unlimited Tax Bonds	April 22, 2010	3%-4.125%	March 1, 2030	\$34,800,000
Series 2010 Sales Tax and Hotel Occupancy Tax Refunding Bonds	October 1, 2010	2%-5%	March 1, 2027	\$40,800,000
Series 2010 Sales Tax and Hotel Occupancy Tax Bonds	December 1, 2010	3.5%-4.75%	March 1, 2026	\$12,175,000

Annual debt service requirements to maturity are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2011	\$ 3,545,000	\$ 6,320,022	\$ 9,865,022
2012	4,520,000	3,944,549	8,464,549
2013	4,635,000	3,797,244	8,432,244
2014	4,790,000	3,614,654	8,404,654
2015	4,970,000	3,414,480	8,384,480
2016-2020	27,630,000	14,125,168	41,755,168
2021-2025	33,330,000	8,304,326	41,634,326
2026-2030	<u>23,055,000</u>	<u>1,819,801</u>	<u>24,874,801</u>
Total	<u>\$ 106,475,000</u>	<u>\$ 45,340,244</u>	<u>\$ 151,815,244</u>

At December 31, 2010, the Township had \$15,140,000 of authorized but unissued unlimited tax bonds.

Discretely Presented Component Units

The Fire Department debt obligations at December 31, 2009 were transferred to the Township when title of the associated capital assets was transferred to the Township on January 1, 2010.

NOTE 16 – SIGNIFICANT PROVISIONS OF THE TOWNSHIP ACT

The Township's enabling legislation (the Act) is amended from time to time. Certain provisions of the Township Act, in effect as of December 31, 2010, are summarized below:

General and Specific Powers of the Township

The services, projects, and improvements provided by the Township are accomplished under the powers conferred by the Act, Chapter 289, Acts of the 73rd Legislature, Regular Session, 1993 and as thereafter amended. The Township will not act as the agent of any private interests, although many private interests will be benefited by the Township as will the general public.

The Township Board has the authority to: 1) levy, assess, and apply taxes, fees, and charges for Township authorized purposes; 2) add territory on its own motion and without petitions only after notice and public hearing and subject to a confirmation election; 3) conduct public hearings required for certain rules and regulations; 4) enforce rules and ordinances in accordance with Section 54.001, Local Government Code; 5) create an economic development zone on its own motion or upon receipt of a petition of property owners and exercise economic development powers of Chapter 380, Local Government Code; 6) borrow money or issue bonds for the corporate purposes of the Township; 7) undertake separately or joint improvement projects for the Township; 8) contract off-duty peace officers for special event, holiday, or traffic congestion public safety services; 9) contract with any person, entity, or other political subdivision for the accomplishment of any of the Township's purposes with limited exceptions for public safety personnel; and 10) dissolve the Township at any time upon the repayment, discharge, or assumption by other governmental entity of any outstanding indebtedness or contractual obligations.

In addition, the Township Board may call elections for: incorporation as a municipality or the release from the extraterritorial jurisdiction of a municipality; adoption of another form of local government; authorizing or discontinue the levy of taxes; authorizing the issuance of bonds or other indebtedness; election of directors or reorganization of the Board; or the addition or exclusion of territory.

The Township's powers and authority is limited, in that it: 1) does not have the power of eminent domain; 2) may not directly employ peace officers; 3) may not directly employ any fire protection personnel before January 1, 2012; and 4) may not impose an impact fee or assessment on a single family residential property or a residential duplex, triplex, quadruplex, or condominium.

Board of Directors

The Act requires that each director appointed or elected take the oath of office prescribed by the constitution for public officers and execute a bond for \$10,000 payable to the Township and conditioned upon the faithful performance of duties. All bonds of the directors shall be approved by the Board. Qualifications to serve as a director include: 1) a person at least 18 years of age and 2) be a resident of the Township. Directors are not compensated for service on the Board.

Bonded Indebtedness

The Act authorizes the Township to issue bonds in accordance with specific sections of the Local Government Code. Bonds issued by the Township for the primary purpose of providing water, sewage or drainage facilities must be approved by the Texas Commission on Environmental Quality in the manner provided by Chapter 49 of the Texas Water Code.

Bonds issued by the Township may be secured and made payable, wholly or partly, by a pledge of any part or combination of: the net proceeds of a specified portion, but not more than one-half percent of the sales tax, the hotel occupancy tax, an ad valorem tax, or any contracted revenues or proceeds including those from the Zone.

Other Provisions

The Township may contract with area municipalities, other political subdivisions, corporations and individuals to achieve its purposes. Contracts for security services and interlocal contracts with area municipalities and other political subdivisions for law enforcement assistance within the Township have been entered into by the Township.

In addition, following a public hearing, the Township may adopt and enforce rules and regulations related to real property owned by the Township or any real property in which the Township has an interest. Any and all fines or other penalties collected for a violation of a Township rule is remitted to Montgomery County.

For purposes of open meetings and records laws and application of related statutes, the Township is considered a municipal utility district. In addition, competitive bids for construction work or the purchase of material or equipment is required for expenditures greater than \$25,000.

NOTE 17 – OPERATING LEASE AGREEMENTS

In September 2003, the Township entered into an operating lease agreement for office space starting January 2004. Monthly payments for the office lease began in September 2004 at a monthly base rent of \$21,769 through June 2009, and \$22,639 per month for the remaining lease term. Pursuant to the Transition Agreement, the Township assumed the responsibility of other office space that was used by the Associations. This office space is currently being used by Township employees and has a monthly base rent of \$28,028 through December 31, 2011. Additionally, the Township leases certain office and telephone equipment with non-cancelable terms through 2015. Annual payments under these leases are shown below:

	<u>OFFICE</u>	<u>EQUIPMENT</u>	<u>TOTAL</u>
2011	\$ 723,879	\$ 242,161	\$ 966,040
2012	271,674	211,669	483,343
2013	271,674	164,863	436,537
2014	203,756	147,210	350,966
2015		<u>12,604</u>	<u>12,604</u>
Total	<u>\$ 1,470,983</u>	<u>\$ 778,507</u>	<u>\$ 2,249,490</u>

During the year ended December 31, 2010, the Township incurred lease expenditures of \$1,049,045 in governmental funds and \$1,025,030 in the government-wide financial statements that included \$90,054 in accrued rent that will be paid over the remaining lease term.

Discretely Presented Component Units

CVB and the Fire Department have entered into operating leases for office equipment and a mobile office. Annual payments under these leases are shown below:

2011	\$ 55,915
2012	41,405
2013	35,153
2014	20,941
2015	<u>6,892</u>
Total	<u>\$ 160,306</u>

During the year ended December 31, 2010, the component units incurred lease expenditures of \$90,000.

NOTE 18 – POSTEMPLOYMENT BENEFITS

Primary Government

All Township employees participate in Social Security. The Township contributes 6.2% of eligible wages paid. In 2010, the Township paid \$691,729 for Social Security benefits of its employees.

Deferred Compensation Plan

The Township maintains, for its employees, a tax-deferred compensation plan that meets the requirements of Internal Revenue Code Section 457. The plan was originally established by the Township in 2000 and restated in January 2010. Principal Life Insurance Company (Principal) provides administrative, recordkeeping and investment services to the plan and Principal Trust Company serves as the Directed Trustee. The Township serves as the plan administrator. Participants may contribute up to 85% of their compensation to the plan subject to Internal Revenue Code limits. Payments from the plan are 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 Township to Principal. Principal handles all funds in the plan and processes the investment decisions made by participants and disburses funds to participants in accordance with plan provisions. Employees contributed \$694,365 to the Section 457 plan in 2010.

Defined Contribution Plan

The Woodlands Community Service Corporation previously established The Woodlands Community Service 401(k) Plan on January 1, 1997. The plan's terms, provisions and conditions were completely restated on January 1, 2010 to a governmental plan. On January 1, 2010, the Township became the plan administrator and the plan name became The Woodlands Township 401(a) plan, a defined contribution plan that meets the requirements of Internal Revenue Code Section 401(a). Principal Life Insurance Company (Principal) provides administrative, recordkeeping and investment services to the plan and Principal Trust Company serves as the Directed Trustee. The Township may make a discretionary matching contribution to the plan at a rate that it determines annually. The contribution rate was 14% of eligible employees' salaries for 2010, provided an employee made salary deferral contributions of 7% of their salary. For the year ended December 31, 2010, the Township's contributions to this plan totaled \$978,805. The plan is fully funded on a current basis.

Other Postemployment Benefits

As of January 1, 2010, the Township adopted a policy providing postemployment medical benefits to certain eligible employees. Accordingly, for the fiscal year ended December 31, 2010, the Township has implemented GASB No. 45 which addresses the reporting and disclosure requirements for other postemployment benefits (OPEB). GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions Plans*, requires the long term cost of retirement health care and obligations for other postemployment benefits be determined on an actuarial basis and reported similar to pension plans.

Plan Description – Employees of the Township and its component units whose age plus years of service is at least 75 (69.5 for Fire Department employees who are covered by the collective bargaining agreement) with a minimum of 10 years of service are eligible for a medical subsidy for those who chose to remain enrolled in the Township's self insured medical plan. The Township provides a 50% subsidy of the employee only premium up to a maximum of \$300 per month toward all tiers of coverage. Additionally, the Township provides retirees with HRA contributions of \$1,500 for those having employee only coverage and \$3,000 for those having employee plus dependent coverage. Eligibility for the Retiree Medical Plan and HRA contributions end when the retiree becomes eligible for Medicare.

The Township contracts with an actuarial consultant to provide an actuarial valuation of the Town's OPEB liability under GASB Statement No. 45. The most recent OPEB liability actuarial valuation was completed in May 2011 for the year ended December 31, 2010. A copy of the report may be obtained by contacting the Finance Director of the Township.

Funding Policy – GASB Statement No. 45 does not require the prefunding of postemployment benefit liabilities. The Township currently funds these benefits on a pay as you go basis. No assets have been segregated and restricted to provide postemployment benefits.

Annual OPEB Cost – The annual required contribution (ARC) is an actuarially determined rate representing a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed 30 years. OPEB costs for the year ended December 31, 2010 and the annual required contribution is as follows.

Normal cost	\$ 39,000
Amortization of unfunded liability	<u>26,000</u>
Total ARC	<u>\$ 65,000</u>

Funding Status and Funding Progress – The Township's annual OPEB, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ending December 31, 2010 is as follows:

ARC	\$65,000
Actual contribution	\$23,612
Percent contributed	41.5%
Net OPEB obligation	\$41,388
Actuarial accrued liability	\$643,000
Plan assets	\$0
Unfunded actuarial accrued liability	\$643,000
Covered payroll	\$18,820,072
Unfunded actuarial accrued liability as a percentage of covered payroll	3.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision and as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress is to provide multi-year information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As this is the first year of the plan and implementation, this schedule is not presented.

Actuarial Methods and Assumptions – Actuarial valuations include projections based on the substantive plan as understood by the employer and eligible employees and include the type of benefits in force at the date of the valuation and the understood cost sharing arrangements between the Township and eligible employees. The actuarial valuation date was January 1, 2010 and utilized the Projected Unit Cost method. It was assumed that postemployment benefits would continue to be paid from general assets that consist of short-term investments. The valuation results were developed assuming a discount rate of 4.5% and assumed a health care cost trend rate assumption of 11% in the year ending December 31, 2010 and grading down by 0.5% each year to an rate of 5% in 2021. The remaining amortization period is considered to be 30 years. The valuation assumes that 10% of future retirees will participate and enroll under this plan. Actual participation results will be monitored in the future as there is no recent data to support this assumption. Employee salary assumptions are not applicable to the valuation.

Discretely Presented Component Units

All Fire Department employees are eligible to participate in a 401(k) defined contribution plan. Plan funds are held by Fidelity Management Trust Company and invested in mutual funds. All investment decisions are self-directed by participants in the plan. The Fire Department contributed \$1,138,000 to the plan in 2010 and Fire Department employees contributed \$792,500. The plan is administered by the Fidelity Management Trust Company.

NOTE 19 – RISK MANAGEMENT

Primary Government

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injuries; and natural disasters. The risk of loss is covered by commercial insurance carriers and through Texas Municipal League's Intergovernmental Risk Pool (TML-IRP). The participation of the Township in TML-IRP is limited to payment of premiums for real and personal property, errors and omissions, general liability, and workers' compensation coverage. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Discretely Presented Component Unit

Risk Management – The Fire Department and the CVB are covered by specific inclusion in the policies of the primary government.

Litigation – The Fire Department is a defendant in various lawsuits arising in the normal course of its operations which, in the opinion of management, will not have a material adverse impact on the Fire Department's financial position.

Health Benefits – The Fire Department maintains a self-insurance program for its employee's health benefits. Under this program, the Fire Department is responsible for claims of \$1,500 per person and \$3,000 per family. The Fire Department maintains third-party insurance coverage for any losses in excess of such amounts. The unfunded contingent liability for health benefits was nominal.

Site Remediation – In 2005, the Fire Department entered into a contract with a consulting company to install, operate, and maintain a remediation system to remove phase-separated hydrocarbons and dissolved-phase hydrocarbons at one of the fire stations. Installation of the system was completed in 2005 and certain operation and maintenance procedures were performed in 2006. In August 2006, the operation of the remediation system was terminated until further notification from the State of Texas. In January 2011, the Fire Department was notified that

it had met the closure requirements of Title 30, Texas Administrative Code, Chapter 334 and applicable program guidance and that no further corrective action is necessary.

Collective Bargaining Unit – The firefighters and dispatchers of the Fire Department (approximately 79% of total employees) are covered under a collective bargaining agreement between the Fire Department and The Woodlands Professional Firefighters Association Local 3846. The agreement extends through December 31, 2011.

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OTHER SUPPLEMENTARY INFORMATION

The Woodlands Township

Special Revenue Funds – Project Balance Sheets for the year ended December 31, 2010

	<u>PROJECT NO. 1</u>	<u>PROJECT NO. 2</u>	<u>PROJECT NO. 3</u>	<u>PROJECT NO. 4</u>	<u>PROJECT NO. 5</u>	<u>TOTAL PROJECTS</u>
ASSETS						
Cash and cash equivalents	\$ 17	\$ 109	\$ 135	\$ 1,099,588		\$ 1,099,849
Sales tax receivable	8,160	226,112	156,246		\$ 3,067,677	3,458,195
Due from other funds					885,055	885,055
TOTAL ASSETS	<u>\$ 8,177</u>	<u>\$ 226,221</u>	<u>\$ 156,381</u>	<u>\$ 1,099,588</u>	<u>\$ 3,952,732</u>	<u>\$ 5,443,099</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accrued expenditures	\$ 8,177	\$ 372,768	\$ 655,939			\$ 1,036,884
Due to other funds				\$ 1,099,588	\$ 3,952,732	5,052,320
Long term payable to other funds		3,952,311	2,713,411			6,665,722
Total liabilities	<u>8,177</u>	<u>4,325,079</u>	<u>3,369,350</u>	<u>1,099,588</u>	<u>3,952,732</u>	<u>12,754,926</u>
Fund balances:						
Undesignated		(4,098,858)	(3,212,969)			(7,311,827)
Total fund balances	<u>0</u>	<u>(4,098,858)</u>	<u>(3,212,969)</u>	<u>0</u>	<u>0</u>	<u>(7,311,827)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,177</u>	<u>\$ 226,221</u>	<u>\$ 156,381</u>	<u>\$ 1,099,588</u>	<u>\$ 3,952,732</u>	<u>\$ 5,443,099</u>

See accompanying notes to financial statements.

The Woodlands Township

Special Revenue Funds – Statement of Revenue, Expenditures and Changes in Fund Balances for the year ended December 31, 2010

	<u>PROJECT NO. 1</u>	<u>PROJECT NO. 2</u>	<u>PROJECT NO. 3</u>	<u>PROJECT NO. 4</u>	<u>PROJECT NO. 5</u>	<u>TOTAL PROJECTS</u>
REVENUE:						
Sales tax revenue	\$ 141,165	\$ 995,734	\$ 740,320	\$ (1,271)	\$ 13,638,613	\$ 15,514,561
Investment earnings	<u>43</u>	<u>446</u>	<u>594</u>	<u>1,079</u>		<u>2,162</u>
Total revenue	<u>141,208</u>	<u>996,180</u>	<u>740,914</u>	<u>(192)</u>	<u>13,638,613</u>	<u>15,516,723</u>
EXPENDITURES:						
Economic development	162,792	742,753	540,504			1,446,049
Interest and fiscal charges	<u></u>	<u>253,427</u>	<u>200,410</u>			<u>453,837</u>
Total expenditures	<u>162,792</u>	<u>996,180</u>	<u>740,914</u>			<u>1,899,886</u>
Excess (deficiency) of revenue over (under) expenditures	<u>(21,584)</u>	<u>0</u>	<u>0</u>	<u>(192)</u>	<u>13,638,613</u>	<u>13,616,837</u>
Other financing sources (uses):						
Operating transfers out					<u>(13,638,613)</u>	<u>(13,638,613)</u>
Total other financing sources (uses)					<u>(13,638,613)</u>	<u>(13,638,613)</u>
CHANGES IN FUND BALANCES	(21,584)	0	0	(192)	0	(21,776)
Fund balances, beginning of year	<u>21,584</u>	<u>(4,098,858)</u>	<u>(3,212,969)</u>	<u>192</u>	<u>0</u>	<u>(7,290,051)</u>
Fund balances, end of year	<u>\$ 0</u>	<u>\$ (4,098,858)</u>	<u>\$ (3,212,969)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (7,311,827)</u>

See accompanying notes to financial statements.

The Woodlands Township

Statement of Activities – Discretely Presented Component Units for the year ended December 31, 2010

	THE WOODLANDS CONVENTION AND VISITORS BUREAU	THE WOODLANDS FIRE DEPARTMENT			TOTAL GOVERNMENTAL FUNDS
	GENERAL	GENERAL	DEBT SERVICE	TOTAL WOODLANDS FIRE DEPARTMENT	
EXPENSES:					
Current:					
Attractions and events	\$ 1,405,355				\$ 1,405,355
Destination marketing	710,137				710,137
Market and promotion	322,084				322,084
Fire protection services		\$ 14,081,069		\$ 14,081,069	14,081,069
General and administrative	<u>222,984</u>	<u>549,168</u>		<u>549,168</u>	<u>772,152</u>
Total expenses	<u>2,660,560</u>	<u>14,630,237</u>		<u>14,630,237</u>	<u>17,290,797</u>
REVENUE:					
Intergovernmental revenue	2,228,001	14,231,852		14,231,852	16,459,853
Investment earnings	486	1,681		1,681	2,167
Miscellaneous revenue	<u>432,073</u>	<u>396,704</u>		<u>396,704</u>	<u>828,777</u>
Total revenue	<u>2,660,560</u>	<u>14,630,237</u>		<u>14,630,237</u>	<u>17,290,797</u>
Excess (deficiency) of revenue over (under) expenses	0	0		0	0
Change in fund balances due to Transition Agreement	<u>0</u>	<u>(4,005,130)</u>	<u>\$ (2,491,056)</u>	<u>(6,496,186)</u>	<u>(6,496,186)</u>
CHANGES IN NET ASSETS	0	(4,005,130)	(2,491,056)	(6,496,186)	(6,496,186)
Net assets, beginning of year	<u>0</u>	<u>4,005,130</u>	<u>2,491,056</u>	<u>6,496,186</u>	<u>6,496,186</u>
Net assets, end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

See accompanying notes to financial statements.

STATISTICAL SECTION

**The Woodlands Township
Net Assets by Component
Last Six Fiscal Years
(accrual basis of accounting)**

	Fiscal Year					
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Governmental activities						
Invested in capital assets, net of related debt	\$ 73,219,481	\$ 67,770,992	\$ 65,571,217	\$ 10,977,452	\$ 6,675,173	\$ 2,154,135
Restricted for debt services	3,038,105	3,933,967	4,800,759	4,623,629	4,437,813	1,163,663
Restricted for health care obligations	800,011	-	-	-	-	-
Unrestricted	36,173,982	(18,745,899)	(17,147,464)	(25,248,944)	(26,445,286)	(26,445,901)
Total governmental activities net assets	<u>\$ 113,231,579</u>	<u>\$ 52,959,060</u>	<u>\$ 53,224,512</u>	<u>\$ (9,647,863)</u>	<u>\$ (15,332,300)</u>	<u>\$ (23,128,103)</u>
Business-type activities						
Invested in capital assets, net of related debt	-	\$ 2,518,604	-	-	-	-
Restricted	-	-	-	-	-	-
Unrestricted	-	316,592	-	-	-	-
Total business-type activities net assets	<u>\$ -</u>	<u>\$ 2,835,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Primary government						
Invested in capital assets, net of related debt	\$ 73,219,481	\$ 70,289,596	\$ 65,571,217	\$ 10,977,452	\$ 6,675,173	\$ 2,154,135
Restricted for debt service	3,038,105	3,933,967	4,800,759	4,623,629	4,437,813	1,163,663
Restricted for health care obligations	800,011	-	-	-	-	-
Unrestricted	36,173,982	(18,429,307)	(17,147,464)	(25,248,944)	(26,445,286)	(26,445,901)
Total primary government net assets	<u>\$ 113,231,579</u>	<u>\$ 55,794,256</u>	<u>\$ 53,224,512</u>	<u>\$ (9,647,863)</u>	<u>\$ (15,332,300)</u>	<u>\$ (23,128,103)</u>

Source: Audited Comprehensive Annual Financial Reports

Note: The significant increases in 2010 are due to the merger of The Woodlands Township and The Community Associations.

**The Woodlands Township
Changes in Net Assets
Last Five Fiscal Years
(accrual basis of accounting)**

Expenses	Fiscal Year					
	2010	2009	2008	2007	2006	2005
Governmental activities						
General and administrative	\$ 8,541,489	\$ 2,936,574	\$ 994,155	\$ 3,724,658	\$ 2,860,142	\$ 2,693,037
Public safety	25,246,482	19,733,132	4,436,086	4,149,065	3,816,320	3,982,691
Parks and recreation	17,760,347	-	-	-	-	-
Community relations	1,055,094	456,034	360,275	2,222,446	1,584,088	1,484,622
Economic development	4,661,526	5,952,351	315,601	684,582	350,586	506,998
Community services	11,892,104	3,033,631	1,414,033	736,789	266,677	197,178
Interest expense and other financing charges	4,030,513	3,538,611	2,505,017	2,425,408	2,480,262	2,544,774
Total governmental activities expenses	<u>\$ 73,187,555</u>	<u>\$ 35,650,333</u>	<u>\$ 10,025,167</u>	<u>\$ 13,942,948</u>	<u>\$ 11,358,075</u>	<u>\$ 11,409,300</u>
Total Business-type activities expenses	\$ -	\$ 17,980,414	\$ -	\$ -	\$ -	\$ -
Total primary government expenses	<u>\$ 73,187,555</u>	<u>\$ 53,630,747</u>	<u>\$ 10,025,167</u>	<u>\$ 13,942,948</u>	<u>\$ 11,358,075</u>	<u>\$ 11,409,300</u>
Program Revenues						
Governmental activities						
Fees, Operating Grants & Contributions:						
Community relations	\$ 38,636	\$ 27,100	\$ 25,100	\$ 455,121	\$ 388,894	\$ 378,143
Community services	837,861	200,548	191,612	109,654	-	-
Parks and recreation	2,840,416	-	-	-	-	-
Capital Grants and Contributions:						
Operations and maintenance	2,140,633	-	-	-	2,505,000	-
Total governmental activities program revenues	<u>\$ 5,857,546</u>	<u>\$ 227,648</u>	<u>\$ 216,712</u>	<u>\$ 564,775</u>	<u>\$ 2,893,894</u>	<u>\$ 378,143</u>
Total Business-type activities program revenues	\$ -	\$ 19,440,848	\$ -	\$ -	\$ -	\$ -
Total primary government program revenues	<u>\$ 5,857,546</u>	<u>\$ 19,668,496</u>	<u>\$ 216,712</u>	<u>\$ 564,775</u>	<u>\$ 2,893,894</u>	<u>\$ 378,143</u>
Net (expense)/revenue						
Governmental activities	\$ (67,330,009)	\$ (35,422,685)	\$ (9,808,455)	\$ (13,378,173)	\$ (8,464,181)	\$ (11,031,157)
Business-type activities	-	1,460,434	-	-	-	-
Total primary government net expense	<u>\$ (67,330,009)</u>	<u>\$ (33,962,251)</u>	<u>\$ (9,808,455)</u>	<u>\$ (13,378,173)</u>	<u>\$ (8,464,181)</u>	<u>\$ (11,031,157)</u>
General Revenues & Other Changes in Net Assets						
Governmental activities						
Taxes:						
Property	\$ 38,091,288	\$ -	\$ -	\$ -	\$ -	\$ -
Sales and Use	31,307,932	29,814,070	26,930,229	14,222,505	12,002,873	10,336,875
Other	3,607,297	3,330,819	4,132,397	3,758,367	3,273,005	2,568,060
Unrestricted investment earnings	419,701	1,053,350	830,534	1,070,997	973,171	661,421
Other Revenues	-	29,831	12,712	10,742	10,935	60,137
Transfer in/(out)	-	(19,790)	(7,787,080)	-	-	-
Total governmental activities	<u>\$ 73,426,218</u>	<u>\$ 34,208,280</u>	<u>\$ 24,118,792</u>	<u>\$ 19,062,611</u>	<u>\$ 16,259,984</u>	<u>\$ 13,626,493</u>
Total Business-type activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gain on Land Sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300,000
Total primary government general revenues and other changes in net assets	<u>\$ 73,426,218</u>	<u>\$ 34,208,280</u>	<u>\$ 24,118,792</u>	<u>\$ 19,062,611</u>	<u>\$ 16,259,984</u>	<u>\$ 13,926,493</u>
Changes in Net Assets						
Governmental activities	\$ 6,096,209	\$ (1,214,405)	\$ 14,310,337	\$ 5,684,438	\$ 7,795,804	\$ 2,595,336
Business-type activities	-	1,460,434	-	-	-	-
Due to transition agreement	71,479,090	-	-	-	-	300,000
Total primary govt changes in net assets	<u>\$ 77,575,299</u>	<u>\$ 246,029</u>	<u>\$ 14,310,337</u>	<u>\$ 5,684,438</u>	<u>\$ 7,795,804</u>	<u>\$ 2,895,336</u>

Source: Audited Comprehensive Annual Financial Reports

Note: The significant increases in 2010 are due to the merger of The Woodlands Township and The Community Associations. The business type activities in 2009 were entities that had previously been part of the Community Associations. Effective January 1, 2010, the entities were dissolved and their operations were merged with the primary government.

**The Woodlands Township
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	Fiscal Year					
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
General Fund						
Unreserved, undesignated	\$ 22,774,184	\$ 21,968,883	\$ 17,767,080	\$ 12,835,980	\$ 10,040,421	\$ 9,024,029
Unreserved, designated	-	-	4,451,163	-	-	-
Reserved for Long-term Rec	6,665,722	6,376,288	6,851,522	8,134,629	3,715,575	1,504,986
Reserved for Debt Service	-	-	-	-	-	-
Reserved for Prepaids	880,720	185,037	56,195	-	-	-
Total General Fund	<u>\$ 30,320,626</u>	<u>\$ 28,530,208</u>	<u>\$ 29,125,960</u>	<u>\$ 20,970,609</u>	<u>\$ 13,755,996</u>	<u>\$ 10,529,015</u>
All other governmental funds						
Reserved for Debt Service	\$ 6,458,933	\$ 4,943,669	\$ 4,800,759	\$ 4,623,629	\$ 4,437,813	\$ 1,996,742
Reserved for Capital Exp	26,483,201	-	-	-	-	68,256
Unreserved, designated reported in:						
Capital Projects	-	1,294,477	935,695	1,433,704	5,341,991	7,102,752
Special Revenue Fund	-	-	-	848,902	1,129,335	-
Unreserved, undesignated reported in:						
Special Revenue Fund	(7,311,827)	(7,290,051)	(6,851,522)	(6,634,493)	(3,565,945)	(627,429)
Total all other governmental funds	<u>\$ 25,630,307</u>	<u>\$ (1,051,905)</u>	<u>\$ (1,115,068)</u>	<u>\$ 271,742</u>	<u>\$ 7,343,194</u>	<u>\$ 8,540,321</u>
Total all fund balances	<u>\$ 55,950,933</u>	<u>\$ 27,478,303</u>	<u>\$ 28,010,890</u>	<u>\$ 21,242,351</u>	<u>\$ 21,099,190</u>	<u>\$ 19,069,336</u>

Source: Audited Comprehensive Annual Financial Reports.

Note: The significant increases in 2010 are due to the merger of The Woodlands Township and The Community Associations.

**The Woodlands Township
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	Fiscal Year			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General Fund				
Unreserved, undesignated	\$ 12,279,239	\$ 13,411,652	\$ 12,271,581	\$ 10,515,606
Unreserved, designated	-	-	-	-
Reserved for Long-term Rec	-	-	-	-
Reserved for Debt Service	-	-	-	-
Reserved for Prepaids	-	-	-	-
Total General Fund	<u>\$ 12,279,239</u>	<u>\$ 13,411,652</u>	<u>\$ 12,271,581</u>	<u>\$ 10,515,606</u>
All other governmental funds				
Reserved for Debt Service	\$ 1,979,088	\$ 3,017,479	\$ 3,072,139	\$ 4,146,410
Reserved for Capital Exp	66,340	1,421,022	-	-
Unreserved, designated reported in:				
Capital Projects	4,063,591	-	2,106,393	33,349,115
Special Revenue Fund	-	-	-	-
Unreserved, undesignated reported in:				
Special Revenue Fund	503,782	-	10,741	11,277
Total all other governmental funds	<u>\$ 6,612,801</u>	<u>\$ 4,438,501</u>	<u>\$ 5,189,273</u>	<u>\$ 37,506,802</u>
Total all fund balances	<u><u>\$ 18,892,040</u></u>	<u><u>\$ 17,850,153</u></u>	<u><u>\$ 17,460,854</u></u>	<u><u>\$ 48,022,408</u></u>

The Woodlands Township
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year					
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues						
Property tax	\$ 38,091,288	\$ -	\$ -	\$ -	\$ -	\$ -
Sales tax	31,307,932	29,814,070	26,930,229	14,222,505	12,002,873	10,336,875
Hotel occupancy tax	3,607,297	3,330,819	4,132,397	3,758,367	3,273,005	2,568,060
Investment earnings	320,588	1,053,350	1,319,192	1,476,516	1,197,060	614,609
Intergovernmental revenue	200,997	200,548	216,712	455,121	388,894	378,143
Program service fees	3,438,408	-	-	-	-	-
Miscellaneous	-	57,767	13,506	11,497	11,651	60,137
Total Revenues	\$ 76,966,510	\$ 34,456,554	\$ 32,612,036	\$ 19,924,006	\$ 16,873,483	\$ 13,957,824
Expenditures						
Public safety	\$ 23,610,653	\$ 19,732,304	\$ 4,375,103	\$ 4,148,784	\$ 3,816,702	\$ 3,983,156
Community relations	988,242	396,890	361,119	2,221,997	1,583,192	1,484,804
Economic development	4,661,526	5,952,351	788,370	684,582	350,586	506,998
Community services	11,759,355	1,635,935	1,413,445	628,084	266,611	196,333
Parks and recreation	12,014,668	-	-	-	-	-
General and administrative	7,938,138	4,512,725	2,603,190	2,227,315	1,673,320	1,550,497
Capital outlay	13,747,069	243,384	58,860,185	5,730,929	5,689,332	2,513,673
Debt Service:						
Principal	21,872,403	1,440,969	1,379,372	1,332,957	1,260,415	1,279,919
Interest and financing charges	6,036,495	3,408,542	2,876,668	2,849,216	2,723,343	2,565,149
Bond refundings	40,530,000	-	-	-	-	-
	\$ 143,158,549	\$ 37,323,100	\$ 72,657,452	\$ 19,823,864	\$ 17,363,501	\$ 14,080,529
Rev over/(under) expenditures	\$ (66,192,039)	\$ (2,866,546)	\$ (40,045,416)	\$ 100,142	\$ (490,018)	\$ (122,705)
Other Financing Sources/(Uses)						
Developer Contributions	-	-	54,601,038	-	2,505,000	-
Transfers in/(out)	-	-	(7,787,080)	-	-	-
Debt Issuance	87,775,000	-	16,440,000	-	-	-
Capital Leases	-	-	-	43,019	14,873	-
Land Sale	-	-	-	-	-	300,000
Other Contractual Obligations	1,918,830	1,385,000	(16,440,000)	-	-	-
Total Financing Sources/(Uses)	\$ 89,693,830	\$ 1,385,000	\$ 46,813,958	\$ 43,019	\$ 2,519,873	\$ 300,000
Change in fund balance due to transition agreement	\$ 4,970,839	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ 28,472,630	\$ (1,481,546)	\$ 6,768,542	\$ 143,161	\$ 2,029,855	\$ 177,295
Debt svc as a % of noncapital exp	21.6%	13.1%	30.8%	29.7%	34.1%	33.2%

Source: Audited Comprehensive Annual Financial Reports.

Note: The significant increases in 2010 are due to the merger of The Woodlands Township and The Community Associations. and the issuances of three bond offerings. See the accompanying notes to the financial statements for information on the transition agreement and bond offerings

The Woodlands Township
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Property tax				
Sales tax	\$ 9,089,653	\$ 7,401,165	\$ 7,398,908	\$ 6,985,239
Hotel occupancy tax	2,279,445	1,803,198	1,446,148	838,324
Investment earnings	422,541	454,100	1,100,577	1,551,796
Intergovernmental revenue	364,110	-	-	-
Program service fees	-	-	-	-
Miscellaneous	39,538	53,437	113,801	266,262
Total Revenues	\$ 12,195,287	\$ 9,711,900	\$ 10,059,434	\$ 9,641,621
Expenditures				
Public safety	\$ 3,588,614	\$ 3,255,123	\$ 2,941,529	\$ 2,094,906
Community relations	1,393,670	705,535	862,926	967,930
Economic development	198,637	302,189	214,437	181,732
Community services	233,233	331,376	92,459	-
Parks and recreation	-	-	-	-
General and administrative	1,325,701	1,259,948	1,228,741	1,082,627
Capital outlay	565,352	726,862	32,634,034	21,645,270
Debt Service:				
Principal	1,220,374	94,707	-	-
Interest and fiscal charges	2,627,819	2,646,861	2,646,862	661,715
Bond refundings	-	-	-	-
	\$ 11,153,400	\$ 9,322,601	\$ 40,620,988	\$ 26,634,180
Rev over/(under) expenditures	\$ 1,041,887	\$ 389,299	\$ (30,561,554)	\$ (16,992,559)
Other Financing Sources/(Uses)				
Developer Contributions	-	-	-	-
Transfers in/(out)	-	-	-	3,550,000
Debt Issuance	-	-	-	51,419,425
Capital Leases	-	-	-	-
Land Sale	-	-	-	-
Other Contractual Obligations	-	-	-	-
Total Financing Sources/(Uses)	\$ -	\$ -	\$ -	\$ 54,969,425
Change in fund balance due to transition agreement	-	-	-	-
Net change in fund balances	\$ 1,041,887	\$ 389,299	\$ (30,561,554)	\$ 37,976,866
Debt svc as a % of noncapital exp	36.3%	31.9%	33.1%	13.3%

**The Woodlands Township
Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(accrual basis of accounting)**

<u>Fiscal Year</u>	<u>Sales Tax</u>	<u>Hotel Occupancy Tax</u>	<u>Property Tax</u>	<u>Total</u>
2010	\$ 31,307,932	\$ 3,607,297	\$ 38,091,288	\$ 73,006,517
2009	29,814,070	3,330,819	-	33,144,889
2008	26,930,229	4,132,397	-	31,062,626
2007	14,222,505	3,758,367	-	17,980,872
2006	12,002,873	3,273,005	-	15,275,878
2005	10,336,875	2,568,060	-	12,904,935
2004	9,089,653	2,279,445	-	11,369,098
2003	7,401,165	1,803,198	-	9,204,363
2002	7,398,908	1,446,148	-	8,845,056
2001	6,985,239	838,324	-	7,823,563

Source: Audited Comprehensive Annual Financial Reports

Notes:

- In 2008, The Township experienced a boundary expansion and creation of the community-wide Zone.
- The significant increases in 2010 are due to the merger of The Woodlands Township and The Community Associations.
- The Township's authority to levy property taxes commenced in 2010.

**The Woodlands Township
Assessed Value and Actual Value of Taxable Property
Last One Year
(unaudited)**

Fiscal Year	Residential Property	Commercial Property	Other Property	Personal Property	Less: Tax Exempt Property	Total Assessed Value	Total Direct Tax Rate
2010	\$9,344,123,810	\$1,534,425,219	\$922,517,161	\$713,065,799	\$1,109,068,851	\$11,405,063,138	\$ 0.3280
2009	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2008	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2006	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2001	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Sources: Montgomery Central Appraisal District and Harris Central Appraisal District

Notes:

- Valuations shown are certified taxable assessed values reported by the Appraisal Districts to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal Districts update records.
- Property is reassessed each year. Property is assessed at actual value; therefore, the assessed values are equal to the actual value. Tax rates are per \$100 of assessed value.
- N/A = Not Applicable as fiscal year 2010 was the first year The Woodlands Township collected property taxes.

**The Woodlands Township
Property Tax Levies and Collections
Last One Year
(unaudited)**

Fiscal Year	Tax Year	Total Tax Levy	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
			Collections	% of Levy		Total Tax Collections	% of Levy
2010	2009	\$ 38,136,495	\$ 38,178,962	100.1%	\$ -	\$ 38,178,962	100.1%
2009	2008	N/A	N/A	N/A	N/A	N/A	N/A
2008	2007	N/A	N/A	N/A	N/A	N/A	N/A
2007	2006	N/A	N/A	N/A	N/A	N/A	N/A
2006	2005	N/A	N/A	N/A	N/A	N/A	N/A
2005	2004	N/A	N/A	N/A	N/A	N/A	N/A
2004	2003	N/A	N/A	N/A	N/A	N/A	N/A
2003	2002	N/A	N/A	N/A	N/A	N/A	N/A
2002	2001	N/A	N/A	N/A	N/A	N/A	N/A
2001	2000	N/A	N/A	N/A	N/A	N/A	N/A

Source: Montgomery County Tax Collector

Note: N/A = Not Applicable as fiscal year 2010 was the first year The Woodlands Township collected property taxes.

**The Woodlands Township
Principal Property Tax Payers
Current Year
(unaudited)**

Taxpayer	Industry	2010			2009		
		Assessed Valuation	Rank	% of Total Assessed Valuation	Assessed Valuation	Rank	% of Total Assessed Valuation
Woodlands Land Dev LP	Developer	\$ 128,487,340	1	1.13%	N/A	N/A	N/A
The Woodlands Mall Associates	Retail Stores	61,956,137	2	0.54%			
Hughes Christensen Company	Oil and Gas	56,076,990	3	0.49%			
Lex-Gen Woodlands LP	Chemical Company	51,483,230	4	0.45%			
SSR WM Texas LP	Developer	48,539,050	5	0.43%			
CVS Distribution Center & Regional	Retail Stores	46,567,214	6	0.41%			
Kimco Market Street LLC	Developer	45,066,100	7	0.40%			
Regency Centers LP	Developer	44,409,390	8	0.39%			
JD Warmack Woodlands LP	Developer	40,970,170	9	0.36%			
NNN Waterway Plaza LLC	Developer	39,291,690	10	0.34%			
		<u>\$ 562,847,311</u>		<u>4.94%</u>	<u>\$ -</u>		<u>0.00%</u>

Sources: Montgomery Central Appraisal District and Harris Central Appraisal District

N/A = Not Applicable as fiscal year 2010 was the first year The Woodlands Township collected property taxes.

**The Woodlands Township
Top Sales Tax Sources
Last Six Years
(unaudited)**

Fiscal Year	Largest Tax Payer			Top 5 Tax Payers			Top 10 Tax Payers		
	Total	% Retail	% Non-Retail	Total	% Retail	% Non-Retail	Total	% Retail	% Non-Retail
2010	6.18%	6.18%	n/a	18.43%	15.26%	3.17%	28.61%	23.62%	4.99%
2009	6.67%	6.67%	n/a	19.25%	16.51%	2.73%	30.08%	23.16%	6.93%
2008	6.34%	6.34%	n/a	20.78%	16.95%	3.83%	31.87%	23.09%	8.78%
2007	5.45%	5.45%	n/a	21.98%	21.98%	n/a	35.35%	27.48%	7.87%
2006	5.76%	5.76%	n/a	23.84%	19.44%	4.40%	36.79%	29.82%	6.96%
2005	6.97%	6.97%	n/a	26.37%	22.16%	4.21%	39.30%	35.09%	4.21%
2004	<10%	<10%	n/a	27.30%	23.30%	4.00%	42.00%	35.20%	6.80%

Source: Texas State Comptrollers Office

Note: Specific tax payers may not be disclosed as such information is deemed confidential and protected by State law.

**The Woodlands Township
Taxable Sales by Category
Last Ten Fiscal Years
(in thousands)
(unaudited)**

Industry	Fiscal Year									
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Retail Trade	\$ 8,233	\$ 8,222	\$ 8,029	\$ 6,932	\$ 6,754	\$ 5,994	\$ 6,154	\$ 5,495	\$ 4,804	\$ 4,552
Accommodation and Food Services	2,143	2,134	1,962	1,431	1,417	1,209	804	640	906	782
Manufacturing	1,013	578	778	917	451	246	197	224	395	403
Wholesale Trade	695	574	685	273	314	208	488	569	677	299
Information	619	523	363	443	392	344	106	158	160	103
Mining	554	469	599	443	464	400	-	19	8	75
Professional, Scientific, & Technical Svcs	509	489	348	209	115	112	-	-	-	-
Arts, Entertainment, and Recreation	326	299	253	92	41	39	-	-	-	-
Utilities	326	34	30	26	6	5	14	10	8	7
Admin, Support, Waste Mgmt, Remediation	286	282	263	167	116	85	-	-	-	-
Real Estate, Rental, and Leasing	250	424	397	485	151	105	39	4	21	74
Construction	165	164	119	104	54	80	131	32	34	-
Management of Companies & Enterprises	38	326	369	148	160	133	127	107	78	68
Other Taxable Activity	460	557	492	204	109	211	257	(3)	212	478
Total	\$ 15,616	\$ 15,075	\$ 14,687	\$ 11,874	\$ 10,543	\$ 9,172	\$ 8,317	\$ 7,255	\$ 7,304	\$ 6,842

Source: Texas State Comptrollers Office

Notes:

- Effective 2005, the SIC system of reporting industry sectors changed to the North American Industry Classification System (NAICS) on the Texas State Comptroller reports.

- In 2008, The Woodlands Township expanded its boundaries to include 28,000 acres and imposed a sales and use tax of 1% within the expanded boundaries.

**The Woodlands Township
Ratios of Outstanding Debt by Type
Last Six Fiscal Years
(unaudited)**

Fiscal Year	General Bonded Debt			Other Governmental Activities Debt			Total Primary Government ¹	Per Capita
	General Obligation Bond	% of Actual Property Value	Per Capita	Sales Tax/ Hotel Occupancy Tax Revenue Bonds	Bond Anticipation Notes	Capital Leases		
2010	\$ 34,800,000	0.30%	\$ 359	\$ 71,675,000	\$ -	\$ -	\$ 106,475,000	\$ 1,097
2009	-	N/A	N/A	61,395,000	-	-	61,395,000	665
2008	-	N/A	N/A	44,995,000	16,440,000	15,149	61,450,149	687
2007	-	N/A	N/A	46,360,000	-	29,521	46,389,521	528
2006	-	N/A	N/A	47,670,000	-	9,458	47,679,458	568
2005	-	N/A	N/A	48,925,000	-	-	48,925,000	607

Notes:

- Details regarding The Township's outstanding debt can be found in the notes to the financial statements.

¹ Includes general bonded debt, and other governmental activities debt.

**The Woodlands Township
Ratios of Revenue Bonds Outstanding
Last Six Fiscal Years
(unaudited)**

Fiscal Year	Revenue Bonds	Less: Amounts Available in Debt Service Fund	Total Outstanding	Total Pledged Revenue	Debt as a % of Pledged Revenues
2010	\$ 71,675,000	\$ 8,250,458	\$ 63,424,542	\$ 841,201,364	8%
2009	61,395,000	4,943,669	56,451,331	801,345,096	7%
2008	44,995,000	4,800,759	40,194,241	793,370,594	5%
2007	46,360,000	4,623,629	41,736,371	647,410,957	6%
2006	47,670,000	4,437,813	43,232,187	573,947,214	8%
2005	48,925,000	1,996,742	46,928,258	495,279,371	9%

Notes:

- Details regarding the Township's outstanding debt can be found in the notes to the financial statements.
- To the extent that there is a shortfall in any annual period of hotel occupancy tax sufficient enough to service annual debt payments, 1/2 of 1% of sales tax collections are pledged to fulfill the remaining annual debt service requirement.
- Series 2010 General Obligation Bond is not included in analysis.

**The Woodlands Township
Pledged Revenue Coverage
Last Six Fiscal Years
(unaudited)**

Fiscal Year	Sales Tax/ Hotel Occupancy Tax Bonds		Total Revenue Available for Debt Service	Debt Service Requirements			Times Coverage
	Sales Tax Revenue	Hotel Occupancy Tax Revenue		Principal	Interest	Total	
2010	\$ 7,896,686	\$ 3,607,297	\$ 11,503,983	\$ 2,165,000	\$ 2,984,027	\$ 5,149,027	2.23
2009	7,537,620	3,330,819	10,868,439	1,425,000	2,751,721	4,176,721	2.60
2008	7,343,364	4,132,397	11,475,761	1,365,000	2,386,796	3,751,796	3.06
2007	5,937,200	3,758,367	9,695,567	1,310,000	2,441,661	3,751,661	2.58
2006	5,271,900	3,273,005	8,544,905	1,255,000	2,499,236	3,754,236	2.28
2005	4,585,928	2,568,060	7,153,988	1,190,000	2,560,361	3,750,361	1.91

Notes:

- Details regarding the Township's outstanding debt can be found in the notes to the financial statements.
- Per the Township's Bond Resolution, pledged revenues shall be at least 1.3 times the annual debt service during any fiscal year on the remaining outstanding revenue bonds.
- Series 2010 General Obligation Bond is not included in analysis.

**The Woodlands Township
Direct and Overlapping Governmental Activities Debt
(unaudited)**

Governmental Unit	Estimated Debt	% Overlap	\$ Overlap
Direct Debt:			
The Woodlands Township	\$ 34,800,000	100.00%	\$ 34,800,000
The Woodlands Township Economic Development Zone	-	100.00%	-
Overlapping Debt:			
Montgomery County	466,535,000	32.09%	149,711,082
Harris County ¹	2,342,176,628	0.14%	3,279,047
Conroe Independent School District	931,845,000	52.16%	486,050,352
Magnolia Independent School District	167,139,472	2.44%	4,078,203
Lone Star College System	511,070,000	9.80%	50,084,860
Tomball Independent School District	280,245,000	7.62%	21,354,669
Harris County Department of Education	8,160,000	0.14%	11,424
Montgomery County Hospital District	-	4.00%	-
Harris County Hospital District	-	1.00%	-
Harris County Flood Control District	102,539,024	0.14%	143,555
Port of Houston Authority	763,619,397	0.14%	1,069,067
The Woodlands Metro Center MUD	18,060,000	100.00%	18,060,000
Montgomery County Municipal Utility District #2	-	100.00%	-
Montgomery County Municipal Utility District #6	-	100.00%	-
Montgomery County Municipal Utility District #7	7,350,000	100.00%	7,350,000
Montgomery County Municipal Utility District #36	-	100.00%	-
Montgomery County Municipal Utility District #39	17,475,000	100.00%	17,475,000
Montgomery County Municipal Utility District #40	3,410,000	100.00%	3,410,000
Montgomery County Municipal Utility District #46	110,095,000	100.00%	110,095,000
Montgomery County Municipal Utility District #47	34,730,000	100.00%	34,730,000
Montgomery County Municipal Utility District #60	25,000,000	100.00%	25,000,000
Montgomery County Municipal Utility District #67	18,460,000	100.00%	18,460,000
Harris-Montgomery County Municipal Utility District #386	51,005,000	100.00%	51,005,000
Harris-Montgomery County Municipal Utility District #387	-	1.00%	-
Montgomery County Water Control & Improvement District #1	6,040,000	10.07%	608,228
The Woodlands Road Utility District #1	67,485,000	100.00%	67,485,000
The Woodlands Municipal Utility District #2	710,000	100.00%	710,000
Total Direct and Overlapping Debt	\$ 5,967,949,521		\$ 1,104,970,487

Sources: Texas Municipal Advisory Council, Texas Commission on Environmental Quality, Harris County, Montgomery County

Notes:

- Percentage overlap is provided by the Texas Municipal Advisory Council.

¹ Does not include Harris County General Obligation debt that is supported by the Harris County Toll Road Authority

**The Woodlands Township
Direct and Overlapping Government Tax Rates
Last Ten Fiscal Years
(unaudited)**

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Sales Tax ¹										
State of Texas	0.0625	0.0625	0.0625	0.0625	0.0625	0.0625	0.0625	0.0625	0.0625	0.0625
Montgomery County	-	-	-	-	-	-	-	-	-	-
The Woodlands Township	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100
The Woodlands Township Economic Development Zone	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100	0.0100
Total Direct and Overlapping Sales Tax	0.0825	0.0825	0.0825	0.0825	0.0825	0.0825	0.0825	0.0825	0.0825	0.0825
Hotel Occupancy Tax ²										
State of Texas	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600	0.0600
Montgomery County	-	-	-	-	-	-	-	-	-	-
The Woodlands Township	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700
The Woodlands Township Economic Development Zone	-	-	-	-	-	-	-	-	-	-
Total Direct & Overlapping Hotel Occupancy Tax	0.1300	0.1300	0.1300	0.1300	0.1300	0.1300	0.1300	0.1300	0.1300	0.1300
Property Tax ³										
State of Texas	-	-	-	-	-	-	-	-	-	-
The Woodlands Township	0.3280	-	-	-	-	-	-	-	-	-
The Woodlands Township Economic Development Zone	-	-	-	-	-	-	-	-	-	-
Montgomery County	0.4838	0.4838	0.4888	0.4913	0.4963	0.4828	0.4710	0.4710	0.4747	0.4747
Harris County	0.3922	0.3892	0.3924	0.4024	0.3999	0.3999	0.3880	0.3881	0.3839	0.3590
Conroe Independent School District	1.2850	1.2700	1.2400	1.5900	1.7600	1.7325	1.7325	1.7225	1.7025	1.7025
Magnolia Independent School District	1.3800	1.4000	1.4200	1.6600	1.7900	1.6800	1.6800	1.6900	1.6900	1.5500
Lone Star College System	0.1101	0.1101	0.1144	0.1167	0.1207	0.1145	0.1145	0.1055	0.1100	0.1100
Tomball Independent School District	1.3600	1.3600	1.2750	1.5800	1.7100	1.7300	1.7300	1.7500	1.6800	1.6500
Harris County Department of Education	0.0061	0.0058	0.0059	0.0063	0.0063	0.0063	0.0063	0.0063	0.0063	0.0063
Montgomery County Hospital District	0.0755	0.0760	0.0777	0.0781	0.0850	0.0999	0.1082	0.1338	0.1378	0.1378
Harris County Hospital District	0.1922	0.1922	0.1922	0.1922	0.1922	0.1902	0.1902	0.1902	0.1902	0.2027
Harris County Flood Control District	0.0292	0.0309	0.0311	0.0324	0.3322	0.3318	0.0417	0.0417	0.0476	0.0617
Port of Houston Authority	0.0164	0.0177	0.0144	0.0130	0.0147	0.0167	0.0200	0.0199	0.0183	0.0183
The Woodlands Metro Center MUD	0.1900	0.1900	0.2100	0.2300	0.2700	0.3000	0.3000	0.3200	0.4000	0.4000
Montgomery County Municipal Utility District #2	0.2300	0.2300	0.2400	0.2700	0.3350	0.3750	0.4100	0.4400	0.4600	0.4800
Montgomery County Municipal Utility District #6	0.1000	0.1100	0.1100	0.1100	0.2200	0.2500	0.3000	0.5000	0.5550	0.5650
Montgomery County Municipal Utility District #7	0.1750	0.1750	0.2000	0.2000	0.3000	0.3400	0.3800	0.4200	0.4400	0.4580
Montgomery County Municipal Utility District #36	0.1000	0.1100	0.1200	0.1200	0.3200	0.3600	0.3600	0.3600	0.3900	0.3960
Montgomery County Municipal Utility District #39	0.4300	0.4400	0.4700	0.4800	0.5800	0.7000	0.7200	0.7200	0.7200	0.8200
Montgomery County Municipal Utility District #40	0.1800	0.1900	0.2100	0.2100	0.2500	0.2800	0.3200	0.3650	0.4050	0.4150
Montgomery County Municipal Utility District #46	0.2850	0.3100	0.3800	0.4200	0.5000	0.5800	0.6000	0.6300	0.6950	0.7800
Montgomery County Municipal Utility District #47	0.2500	0.2600	0.2800	0.2800	0.3100	0.3600	0.3700	0.3950	0.4200	0.4340
Montgomery County Municipal Utility District #60	0.2400	0.2650	0.2900	0.3000	0.3500	0.4200	0.4200	0.4500	0.5500	0.5950
Montgomery County Municipal Utility District #67	0.3200	0.3200	0.3300	0.3400	0.4300	0.4500	0.4700	0.4700	0.4700	0.4700
Harris-Montgomery County Municipal Utility District #386	1.1500	1.2500	1.2500	1.2500	-	-	-	-	-	-
Harris-Montgomery County Municipal Utility District #387	-	-	-	-	-	-	-	-	-	-
Montgomery County Water Control & Imp Dist #1	0.7750	0.7750	0.7750	0.8200	0.8200	0.8200	0.8200	0.8200	0.8500	0.9378
The Woodlands Road Utility District #1	0.4491	0.4738	0.4800	0.4800	0.4817	0.5000	0.5000	0.5000	0.5000	0.4925

Sources: Montgomery County Central Appraisal District, Montgomery County Auditor, The Woodlands Joint Power Agency, Harris County Appraisal District

Notes:

¹ Per \$1.00 of taxable sales.

² Per \$1.00 of taxable room revenue.

³ Per \$100 of assessed valuation.

**The Woodlands Township
The Woodlands Area Demographic and Economic Statistics
Last Ten Fiscal Years
(unaudited)**

Fiscal Year	Population¹	Median Household Income¹	Median Age¹	Employers¹	Jobs¹	Unemployment Rate²	School Enrollment³
2010	97,023	\$ 118,704	42	1,712	47,100	4.7	49,323
2009	92,348	116,732	37	1,650	45,380	5.5	48,700
2008	89,397	115,481	45	1,587	44,202	4.9	46,302
2007	87,867	112,117	50	1,551	43,200	3.6	44,237
2006	83,884	109,622	45	1,511	42,190	3.3	42,431
2005	80,659	105,406	42	1,310	39,541	3.9	42,613
2004	77,128	135,000	40	1,219	37,175	4.8	40,432
2003	74,358	127,900	39	1,140	31,500	4.8	39,246
2002	70,050	110,000	40	1,112	30,096	4.8	38,016
2001	67,054	115,000	39	1,030	26,686	4.3	36,775

Sources:

¹The Woodlands Development Company/The Woodlands, Texas

²South Montgomery County Woodlands EDP/Montgomery County, Texas

³Conroe Independent School District

**The Woodlands Township
Sales Tax Revenue Statistics
Last Nine Fiscal Years
(unaudited)**

Based on Texas State Comptroller Reports*

Fiscal Year	Taxable Sales Generated	Sales Tax Collected	# of Taxpayers	Per Taxpayer	Median Deposit	Average Deposit	Min Deposit	Max Deposit	Max as % of Total
2010	\$ 1,579,337,074	\$ 15,793,371	2,878	\$ 5,488	\$ 144	\$ 5,418	\$ (24,429)	\$ 965,196	6%
2009	1,507,523,924	15,075,239	2,586	5,830	160	5,757	(13,714)	1,005,575	7%
2008	1,468,672,705	14,686,727	2,408	6,099	141	6,090	(106,165)	931,537	6%
2007	1,187,440,000	11,874,400	2,193	5,415	120	5,460	(1,483)	646,806	5%
2006	1,054,380,000	10,543,800	2,103	5,014	121	5,048	(6,559)	607,202	6%
2005	917,185,600	9,171,856	1,954	4,694	109	4,567	(29,101)	629,205	7%
2004	831,722,200	8,317,222	1,756	4,736	87	4,382	(26,299)	591,773	7%
2003	725,468,300	7,254,683	1,582	4,586	82	4,578	(63,825)	572,929	8%
2002	730,362,100	7,303,621	1,506	4,850	74	4,759	(25,300)	560,211	8%

Source: Texas State Comptroller reports

Notes:

- Prior to 2004 these reports only include those taxpayers having remitted more than \$100,000 in state and local taxes to the Comptroller in the prior year.
- For 2004 and thereafter, reports include those taxpayers having remitted more than \$25,000 in state and local taxes to the Comptroller in the prior year.

**The Woodlands Township
Principal Non-Retail Employers of The Woodlands Area
Current Year and Nine Years Ago
(unaudited)**

<u>Employer</u>	<u>2010</u>			<u>2001</u>		
	<u>Employees</u>	<u>Rank</u>	<u>% of Total Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>% of Total Employment</u>
Conroe Independent School District	3,346	1	7%	2100	1	8%
Anadarko Petroleum Corporation	2,566	2	5%	600	4	2%
Hewitt Associates, LLC	1,500	3	3%	1,300	2	5%
Memorial Hermann The Woodlands Hospital	1,400	4	3%	560	5	2%
St. Luke's Community Medical Center	1,067	5	2%	-	-	-
Huntsman Company, LLC	775	6	2%	-	-	-
Baker Hughes	750	7	2%	-	-	-
Woodforest National Bank	727	8	2%	-	-	-
Chevron Phillips Chemical Co.	611	9	1%	-	-	-
US Oncology	600	10	1%	-	-	-
Entergy	-	-	-	275	10	1%
Hughes Christensen	-	-	-	900	3	3%
Maersk Sealand	-	-	-	500	6	2%
CVS Corporation (previously Eckerd Drug)	-	-	-	450	7	2%
Mitchell Energy & Development	-	-	-	410	8	2%
Sadler Clinic	-	-	-	380	9	1%
	<u>13,342</u>		<u>28%</u>	<u>7,475</u>		<u>28%</u>
	47,100 Total Jobs			26,686 Total Jobs		

Source: South Montgomery County Woodlands Economic Development Partnership

**The Woodlands Township
Full-time Equivalent Government Employees by Function
Last Ten Fiscal Years
(unaudited)**

Fund/Function:	Full-time Equivalent Employees as of December 31									
GENERAL FUND	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General & Administrative	-	9	9	9	9	9	8	8	7	5
President's Office	4									
Legislative & Transportation	1									
Human Resources	5.75									
Finance	15									
Information Technology	9									
Records	8									
Parks & Recreation										
Park's Administration	9									
Parks Planning	10									
Parks Operation	39.5									
Aquatics	67									
Recreation	17.95									
Operations and maintenance	-	3	3	3	2	2	2	2	2	2
Development & Planning Services										
Community Services	6									
Community Relations	4									
CAD	32.75									
Environmental Services	4.25									
Public Safety										
Law Enforcement	2									
Town Center Ambassador personnel	7.75	6	5	5	4	5	5	0	0	0
Neighborhood Services	7	-	-	-	-	-	-	-	-	-
Public Safety Department	-	1	1	1	1	1	1	1	1	0
Convention & Visitors Bureau										
Marketing and public affairs	4.25	4	4	4	4	3	2	2	1	1
Economic development	1	2	2	2	2	2	2	2	2	2
	255.20	25	24	24	22	22	20	15	13	10

Source: The Woodlands Township Human Resources Department

Note: The significant increases in 2010 are due to the merger of The Woodlands Township and The Community Associations.

**The Woodlands Township
Capital Asset Statistics by Function
Last Six Fiscal Years
(unaudited)**

FUNCTION	2010	2009	2008	2007	2006	2005
Public Safety ¹						
Patrol Cars & Equipment - Sheriff's Dept	\$ 504,748	\$ 567,847	\$ 75,458	\$ 65,911	\$ 76,913	\$ 55,145
Patrol Bicycles & Equipment - Sheriff's Dept	24,559	5,980	2,894	3,972	7,179	25,833
Rescue & Haz-Mat Vehicles - Fire Dept	-	148,990	-	136,398	1,733	-
Special Equipment - Fire Department	29,846	-	-	37,808	12,885	29,904
Communications Equipment - Fire Dept	38,871	-	-	3,463	3,023	7,929
Traffic Controllers - Fire Dept	44,600	-	-	-	-	54,645
Traffic Controllers	-	-	-	-	-	10
Patrol Cars	82	14	2	2	2	2
Patrol Bicycles	24	2	2	-	-	9
Fire Stations	7	7	6	5	5	5
Fire Apparatus	13	13	12	12	8	7
Economic Development ²						
Hotel Rooms Booked for Conventions	40,820	45,255	78,090	40,101	31,875	10,140
Total Convention Center Square Feet Booked	12,812,550	13,250,150	16,716,580	12,482,300	10,605,190	3,268,930
Operations						
Wayfinding Signs	155	155	143	89	92	92
Monument Signs	6	6	6	6	6	6
Sculptures & Public Art	2	2	2	2	2	1
Miles of Pathway	185	0	0	0	0	0
Parks	116	2	2	1	1	1
Swimming Pools	13	0	0	0	0	0
Park Acreage	1,800	3.6	3.6	2.6	2.6	2.6

Sources not specifically noted include various government departments.

Notes:

- The significant increases in 2010 are due to the merger of The Woodlands Township and The Community Associations.

¹ The Township reimburses these entities for a percentage of the equipment and capital to be used in servicing the Township. The Township does not own or maintain these assets.

² Statistics for the Township built Convention Center. Source: Annual Booking Report for The Woodlands Waterway Marriott Hotel & Convention Center

**The Woodlands Township
Operating Indicators by Function
Last Six Fiscal Years
(unaudited)**

FUNCTION	2010	2009	2008	2007	2006	2005
Public Safety ¹						
# of Trooper Hours - Mounted Patrol	36,719	36,758	35,665	35,434	35,620	47,473
# of Vehicle Assists - Mounted Patrol ²	3,368	2,221	8,634	5,905	4,419	9,348
# of Other Assist Calls - Mounted Patrol ³	1,561	4,406	9,005	2,994	5,632	8,652
Traffic Citations	8,686	4,270	3,629	1,393	1,040	1,320
Total Sheriff Dept Calls	40,662	8,637	8,083	5,862	5,574	5,912
Total Fire Incident Calls	5,977	5,454	5,859 ⁸	684	612	611
Montgomery County Sheriff's Department	\$ 5,637,895	\$ 1,686,848	\$ 1,414,833	\$ 1,142,287	\$ 1,141,977	\$ 889,114
# of Full-Time MCSO Positions	85	24	22	19	19	16
Constable Precinct 3	\$ 118,902	\$ 116,979	\$ 112,000	\$ 106,230	\$ 100,903	\$ 95,050
Justice of the Peace Precinct 3	\$ 38,429	\$ 39,819	\$ 37,522	\$ 37,047	\$ 35,211	\$ 50,332
City of Oak Ridge North	\$ 100,000	\$ 216,472	\$ 216,472	\$ 215,635	\$ 215,635	\$ 215,635
City of Shenandoah	\$ 100,000	\$ 216,468	\$ 216,464	\$ 216,472	\$ 216,464	\$ 216,472
The Woodlands Fire Department	\$ 14,085,800	\$ 14,725,000	\$ 6,603,000	\$ 472,905	\$ 405,600	\$ 390,000
Marketing and Public Affairs/CVB						
Events Produced	38	24	8	6	6	5
Visitor Guides Distributed	155,103	77,395	128,490	73,276	36,049	48,889
Sponsorships Sold	\$ 225,000	\$ 267,600	\$ 237,725	\$ 272,595	\$ 287,300	\$ 199,175
Economic Development						
Convention Center Bookings ⁴	1,351	1,258	1,685	1,095	864	N/A
# of Jobs ⁵	47,100	45,380	44,202	43,200	42,190	39,541
ISO Rating ⁶	2	2	3	3	3	3
Operations and Transportation						
Transportation - Trolley Ridership	144,906	113,077	97,424	-	-	-
Transportation - Friendship Shuttle Trips ⁷	5,301	5,087	5,600	5,456	13,173	13,219

Sources not specifically noted include various government departments.

Notes:

- The significant increases in 2010 are due to the merger of The Woodlands Township and The Community Associations.

¹ Derived from interlocal contracts and actual expenses incurred.

² Vehicle assists include alarms, locating lost vehicles, lock outs, illegal parking, etc. Provided by Alpha & Omega Mounted Patrol.

³ Assist calls include customers, law enforcement, and private security. Provided by Alpha & Omega Mounted Patrol.

⁴ Statistics for the Township built Convention Center. Source: The Woodlands Waterway Marriott Hotel

⁵ The Woodlands Development Company

⁶ The Woodlands Fire Department

⁷ Contract compliance reports provided by The Friendship Center

⁸ Total Fire Calls for 2008 represent The Woodlands Township as a whole, as previous years represent only Town Center calls.