



THE WOODLANDS
T O W N S H I P

Annual Financial Report

Fiscal Year Ended
December 31, 2009



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The Woodlands Township Annual Financial Report

**For the fiscal year ended
December 31, 2009**

**Prepared by the
Finance & Administration Department**

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

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INTRODUCTORY SECTION

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Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

The Woodlands Township
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2008

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



A handwritten signature in black ink, appearing to be "J. R. Egan".

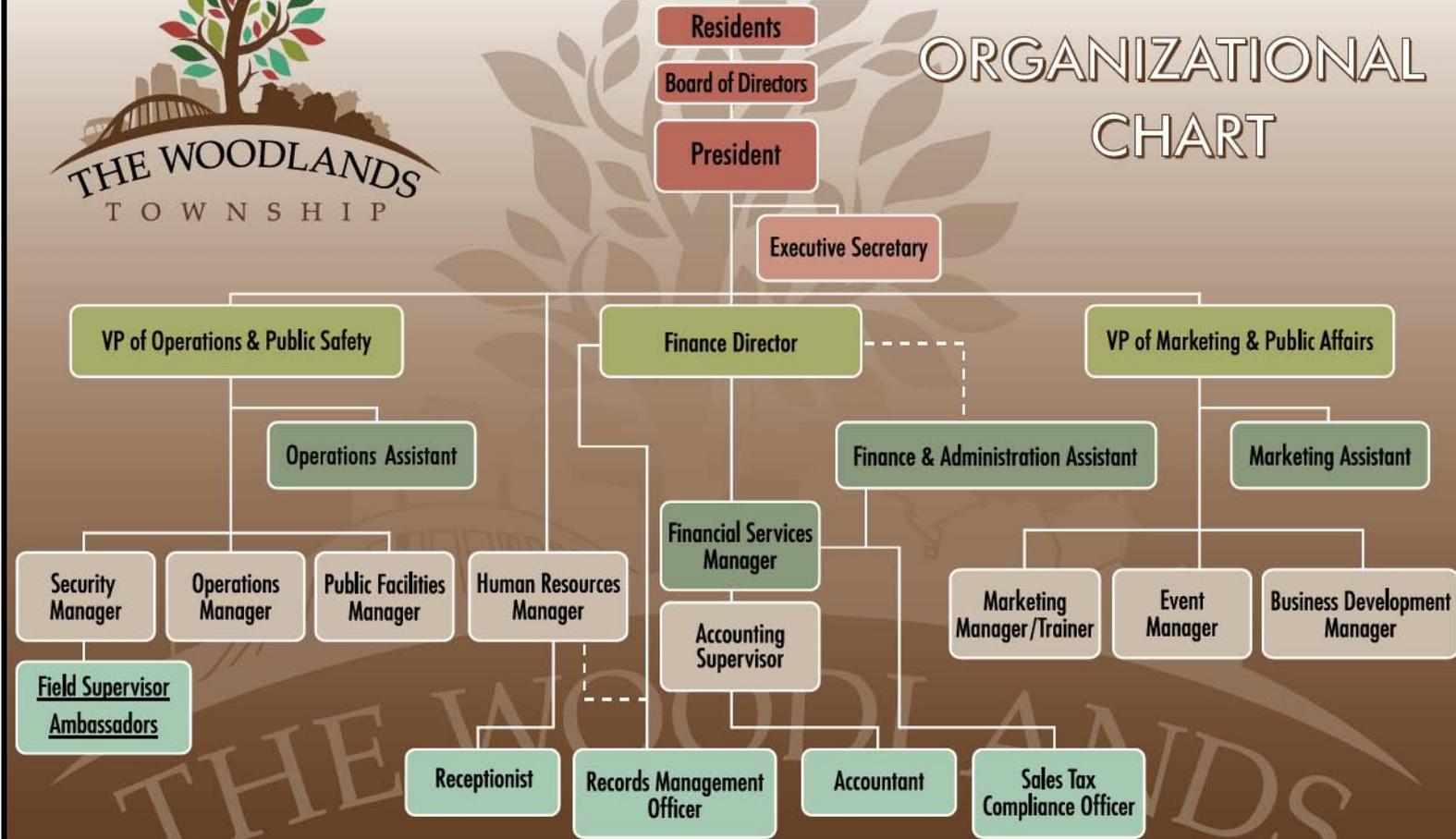
President

A handwritten signature in black ink, appearing to be "Jeffrey R. Egan".

Executive Director



ORGANIZATIONAL CHART



**THE WOODLANDS TOWNSHIP
BOARD OF DIRECTORS**
For the Year Ended December 31, 2009

ELECTED
Chairman (Elected) Ms. Nelda Luce Blair (Re-Elected by the Board as Chairman, May 27, 2009) <i>Term Expires: 1st May 2011</i>
Vice Chairman Mr. Bruce Tough (Re-Elected by the Board as Second Vice-Chairman, May 27, 2009) <i>Term Expires: 1st May 2011</i>
Treasurer/Assistant Secretary (Elected) Ms. Vicki D. Richmond (Re-Elected by the Board as Treasurer, May 27, 2009) <i>Term Expires: 1st May 2010</i>
Secretary (Elected) Mr. Alex Sutton (Re-Elected as Secretary by the Board, May 27, 2009) <i>Term Expires: 1st May 2010</i>
Director (Elected) Ms. Peggy S. Hausman <i>Term Expires: 1st May 2011</i>
Director (Elected) Ms. Kemba D. DeGroot <i>Term Expires: 1st May 2010</i>
Director (Elected) Mr. Claude Hunter <i>Term Expires: 1st May 2010</i>
Director (Elected) Mr. Tom Campbell <i>Term Expires: 1st May 2010</i>

APPOINTED

Vice Chairman (Appointed by TWA)

Mr. Lloyd W. Matthews

(Re-Elected by the Board as Vice Chairman May 27, 2009)

Term expires: 1st Sat. May 2010

Director (Appointed by WCOA)

Dr. Edmund W. Robb III

Term Expires: 1st Sat. May 2010

Director (Appointed by The Township Board July 23, 2008)

Mr. Robert C. Kinnear

Term Expires: 1st May 2010

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Woodlands Township
The Woodlands, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Woodlands Township (the "Township"), as of and for the year ended December 31, 2009, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Woodlands Township's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Woodlands Fire Department, which is a component unit and represent 11 percent, 11 percent, and 31 percent, respectively, of the assets, net assets, and revenues of the governmental activities. We also did not audit the financial statements of The Woodlands Recreation Centers, Inc. and The Woodlands Community Service Corporation, which are blended component units and represent 100 percent of the assets, net assets and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for governmental discretely presented component unit is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Woodlands Township, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion, as listed in the table of contents, 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 and the other auditors 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 opinions on the financial statements that collectively comprise The Woodlands Township's basic financial statements. The Special Revenue Fund Schedules by Project and the component units combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Special Revenue Fund Schedules by Project and component units combining schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Null-Lairson, PC

Houston, Texas
August 31, 2010

MANAGEMENT'S DISCUSSION & ANALYSIS

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, 2009. Our discussion and analysis of The Woodlands Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2009. Please read it in conjunction with the transmittal letter and the Township's financial statements, as listed in the table of contents of this report.

Overview of the Financial Statements

This 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. This report also contains other supplementary information in addition to the basic financial statements.

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 Township has governmental and business-type activities in these statements, as well as discretely presented component units.

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. Over 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. Other factors that are not included in the financial statements, such as changes in our retail tax base and boundaries, should be considered in evaluating the condition of the Township's overall financial position.

The statement of activities presents information showing how the government'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 expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected sales tax).

Within the Statements of Net Assets and Activities, the Township's activities are divided into three categories:

- *Governmental activities* – most of the Township's basic services are reported here, including public safety, marketing and public affairs, economic development, operations and maintenance, and general and administration. Sales and use taxes and other taxes finance most of these activities.
- *Business-type activities* – activities of two blended component units of the Township are reported here.

The Woodlands Recreation Centers, Inc. ("WRC") provides a recreational center for residents of The Woodlands. A funding agreement with three community associations provides the resources to own and operate the center. The associations collect annual assessments from property owners for this purpose.

The activities of The Woodlands Community Service Corporation ("WCSC") include operational, management and administrative services to its affiliated community associations and the Fire Department located in The Woodlands. Funding is provided on a cost-reimbursement basis through an agreement with those entities.

- *Component units* – two separate legal entities are included in this 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 as listed in the table of contents 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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related and legal requirements. As of December 31, 2009, the Township reports governmental and proprietary 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 fund balance sheet and the governmental fund 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 Board adopts an annual financial plan for the General Fund. The annual financial plan serves as the foundation for the Township's financial planning and control of operating funds as set forth in the Township's strategic plan. A budgetary comparison statement has not been included as there are no legal budget compliance requirements.

- **Proprietary funds** include two enterprise funds, The Woodlands Recreation Centers, Inc. and The Woodlands Community Service Corporation.

Proprietary funds provide the same type of information as the government-wide financial statements – business-type activities, only in more detail. The proprietary fund financial statements provide separate information for the WRC and the WCSC.

The basic governmental fund financial statements can be found on pages as listed in the table of contents 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 fund financial statements. The notes to the financial statements are located as listed in the table of contents of this report.

Other Supplementary Information

The Special Revenue Fund is comprised of five individual projects for which separate data is provided in the form of project statements following the notes to the financial statements in this report. In addition, fund statements for each governmental-type component unit are provided in the Other Supplementary Information section.

Government-Wide Financial Analysis

As of December 31, 2009, the Township's net assets totaled \$55.869.1 million. The current year increase in net assets of \$1.2 million primarily relates to the business-type activities of the blended component units (WRC AND WCSC). Absent those entities, the change in net assets would have been a decrease of \$270,672.

At year end, the Township had total assets of approximately \$235.3 million. Of this amount, approximately \$40.9 million consisted of cash and equivalents, approximately \$36.2 million represented receivables, \$18.4 million represented deposits and other illiquid assets, and \$139.4 million represented capital assets net of accumulated depreciation.

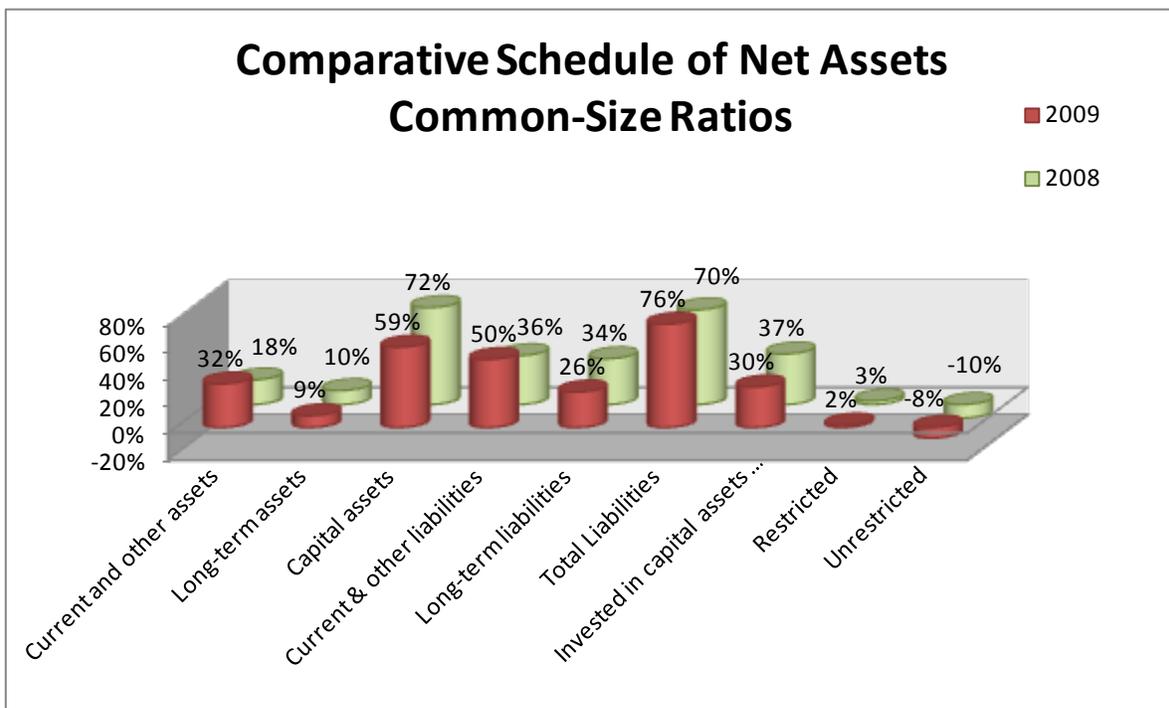
Total liabilities were approximately \$179.5 million as of year-end. Of this amount, approximately \$61.4 million consisted of outstanding debt, of which \$2.2 million is payable within the next year. A significant portion of the total liabilities was the assets held in trust for others (\$69.1 million), which relates to certain property and equipment held by The Woodlands Community Service Corporation (a business-type blended component unit of the Township) in accordance with the transition agreement. Deferred revenues, consisting primarily of deferred property taxes, totaled \$37.8. The remaining \$11.2 million consists of accounts payable and accrued expenses.

A schedule of net assets as of December 31, 2009 and 2008 follows:

Comparative Schedule of Net Assets
December 31, 2009 and 2008
Amounts in (000's)

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 74.3	\$ 31.8	\$ 1.3	\$ 1.1	\$ 75.6	\$ 32.9
Long-term receivables, deposits and other assets	20.3	18.7			20.3	18.7
Total capital assets	67.8	69.0	71.7	60.9	139.4	130.0
Total Assets	162.4	119.5	72.9	62.0	235.3	181.5
Current and other liabilities	48.0	4.9	70.1	60.7	118.1	65.6
Long-term liabilities outstanding	61.4	61.4		0.0	61.4	61.4
Total Liabilities	109.4	66.3	70.1	60.7	179.5	127.0
Net assets						
Invested in capital assets net of related debt	67.8	65.6	2.5	2.3	70.3	67.9
Restricted	3.9	4.8			3.9	4.8
Unrestricted	(18.7)	(17.1)	0.3	(0.9)	(18.4)	(18.1)
Total Net Assets	\$ 53.0	\$ 53.2	\$ 2.8	\$ 1.4	\$ 55.8	\$ 54.6

The following charts depict the common-size ratios of the individual components of the Township's assets, liabilities, and net assets for 2009 and 2008. The common-size ratios are presented as a percentage of total assets.



A schedule of the changes in net assets for 2009 and 2008 is presented next.

**Comparative Schedule of Changes in Net Assets
For the Years Ended December 31, 2009 and 2008
Amounts in (000's)**

	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	\$	\$ 0.2	\$ 19.0	\$ 16.5	\$ 19.0	\$ 16.7
Operating grants and contributions	0.2		0.5	0.5	0.7	0.5
Capital grants and contributions		54.6				54.6
Sales and use taxes	29.8	26.9			29.8	26.9
Other taxes	3.3	4.1			3.3	4.1
Unrestricted investment earnings	1.1	0.8			1.1	0.8
Other revenues	0.0				0.0	
Total Revenues	<u>34.5</u>	<u>86.7</u>	<u>19.4</u>	<u>17.0</u>	<u>53.9</u>	<u>103.7</u>
Expenses						
General and administrative	17.7	14.5			17.7	14.5
Public safety	5.0	4.4			5.0	4.4
Marketing and public affairs	0.5	0.4			0.5	0.4
Economic development	5.0	0.3			5.0	0.3
Operations and maintenance	3.0	1.4			3.0	1.4
Interest Expense	3.5	2.5			3.5	2.5
Unallocated depreciation expense		0.4				0.4
Woodlands Recreation Centers			1.7	1.6	1.7	1.6
Woodlands Community Service Corporation			16.2	14.7	16.2	14.7
Total Expenses	<u>34.7</u>	<u>23.9</u>	<u>18.0</u>	<u>16.3</u>	<u>52.7</u>	<u>40.1</u>
Change in net assets	<u>(0.2)</u>	<u>62.9</u>	<u>1.5</u>	<u>0.7</u>	<u>1.2</u>	<u>63.6</u>
Net assets, beginning of year	<u>53.2</u>	<u>(9.6)</u>	<u>1.4</u>	<u>0.6</u>	<u>54.6</u>	<u>(9.0)</u>
Net assets, end of year	<u>\$ 53.0</u>	<u>\$ 53.2</u>	<u>\$ 2.8</u>	<u>\$ 1.4</u>	<u>\$ 55.8</u>	<u>\$ 54.6</u>

The \$1.2 million change in total net assets, from \$54.6 million in 2008 to \$55.8 million in 2009 relates to a \$2.8 million increase in sales tax revenue offset by a \$1.6 million dollar increase in expenses on the Woodlands Community Service Corporation. For the fiscal year ended December 31, 2009 the Township's overall financial position decreased slightly as shown in the change in unrestricted net assets.

Governmental Funds Financial Analysis

As of December 31, 2009, the Township's governmental funds reported a combined ending fund balance of approximately \$27.5 million, compared to \$28.0 in 2008.

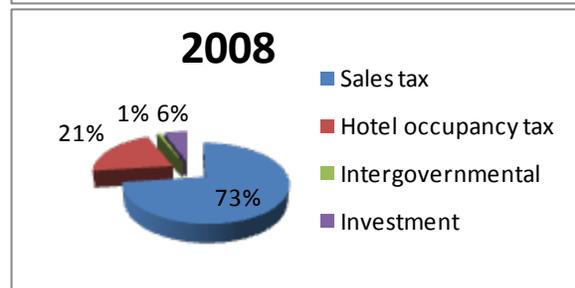
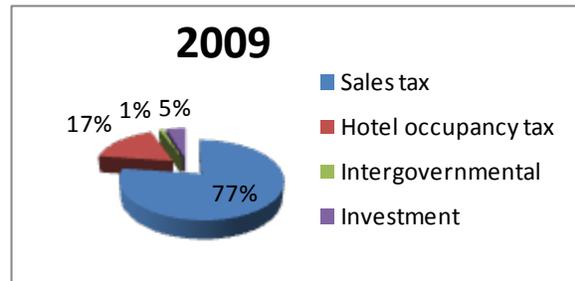
	2009	2008	Increase (Decrease)
Fund balances:			
General fund	\$ 28.5	\$ 29.1	\$ (0.6)
Special revenue funds	(7.3)	(6.9)	(0.4)
Debt service fund	4.9	4.8	0.1
Capital projects fund	1.3	0.9	0.4
Total fund balances	<u>\$ 27.5</u>	<u>\$ 28.0</u>	<u>\$ (0.5)</u>

Approximately \$14.7 million of the \$27.5 million total constitutes unreserved, undesignated fund balances. Of that amount, \$22.0 million in the General Fund is available for spending at the government's discretion, and a negative \$7.3 million in the Special Revenue Fund represents future incremental sales tax revenue collections for the repayment of Town Green Park and Waterway Square construction costs to the General Fund. The remainder of fund balance is designated or reserved to indicate that it is not available for new spending because it has already been committed to fund 1) authorized projects of approximately \$1.3 million; 2) debt service of approximately \$4.9 million; or, 3) it represents long-term receivables of \$6.8 million.

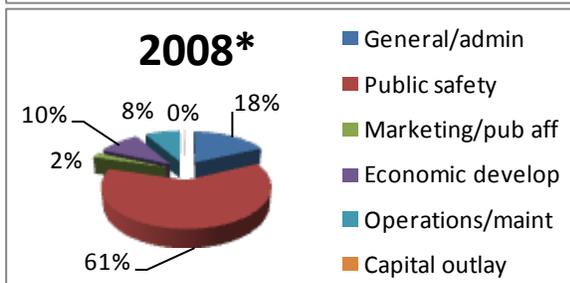
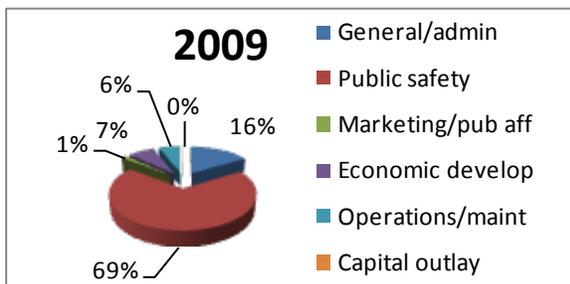
General Fund

The General Fund is the chief operating fund of the Township. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The Township's General Fund balance decreased by approximately \$0.6 million during the current fiscal year and primarily relates to a reduction in revenue. Total revenues of \$19.6 million decreased \$0.6 million or 2.9% due to a reduction in Hotel and Occupancy Tax collected and on a reduction in investment earnings.

GENERAL FUND REVENUES



GENERAL FUND EXPENDITURES



General Fund revenue components have remained relatively fixed as a percentage of total General Fund revenue for the year while General Fund expenditures of \$27.6 million increased approximately \$10.5*. A large component of this increase is an increase of \$8.6 in the amount paid to The Woodlands Fire Department (a component unit of the Township).

* -2008 expenditures have been "normalized" by excluding non-cash capital outlay expenditures of \$54.6 million related to developer contributions in the same amount that were reported as other financing sources.

Capital Projects Fund

The designated fund balance in the Capital Projects Fund of \$1.3 million increased 38% during the current fiscal year. This increase is due to amounts transferred from the General Fund for new reserve allocations for Economic Development and Capital Reserves.

Debt Service Fund

The Debt Service Fund has a total fund balance of approximately \$4.9 million, all of which is reserved for the payment of debt service. Net transfers in of \$3.7 million from the General Fund represent hotel occupancy tax collections used for the payment of bonded debt related to the leased convention center.

Special Revenue Fund

The Special Revenue Fund includes all Economic Development Zone ("Zone") activity for the year. The decrease in fund balance primarily relates to the timing of expenditures from each project's accumulated fund balance. These timing differences occur as revenues are recorded in one period while expenditures are delayed to another period due to certain contract terms and conditions which must be satisfied prior to any disbursements from the fund.

Overall, the Special Revenue Fund deficit is primarily due to the \$3.9 million Town Green Park liability and the \$2.9 million Waterway Square liability assumed by the Zone in prior years. 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. Cash balances for each project are typically distributed throughout the year in accordance with each project's financing plan as approved by the Board.

Debt Administration

At the end of the current fiscal year, the Township had total debt outstanding of approximately \$61.4 million. Outstanding debt includes \$43.6 million for Series 2001 sales tax and hotel occupancy tax revenue bonds and \$17.8 million in Series 2009 sales tax and hotel occupancy tax revenue bonds. The 2009 bonds were issued in January 2009 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. Additional information on the Township's long-term debt can be found in the accompanying notes to the financial statements. Current ratings for the 2001 and 2009 revenue bond issues are summarized below:

Bond Issue	Rating Agency	Underlying (SPUR)	Rating Action	Insured	Rating Action
Series 2001	Moody's	A2	5/6/2010	A3	10/16/2008
Series 2001	S&P	A+/Stable	2/19/2009	AA/Watch	2/19/2009
Series 2009	Moody's	A2	5/6/2010	n/a	n/a
Series 2009	S&P	A+/Stable	2/19/2009	n/a	n/a

Economic and Other Factors Affecting Tax Revenues

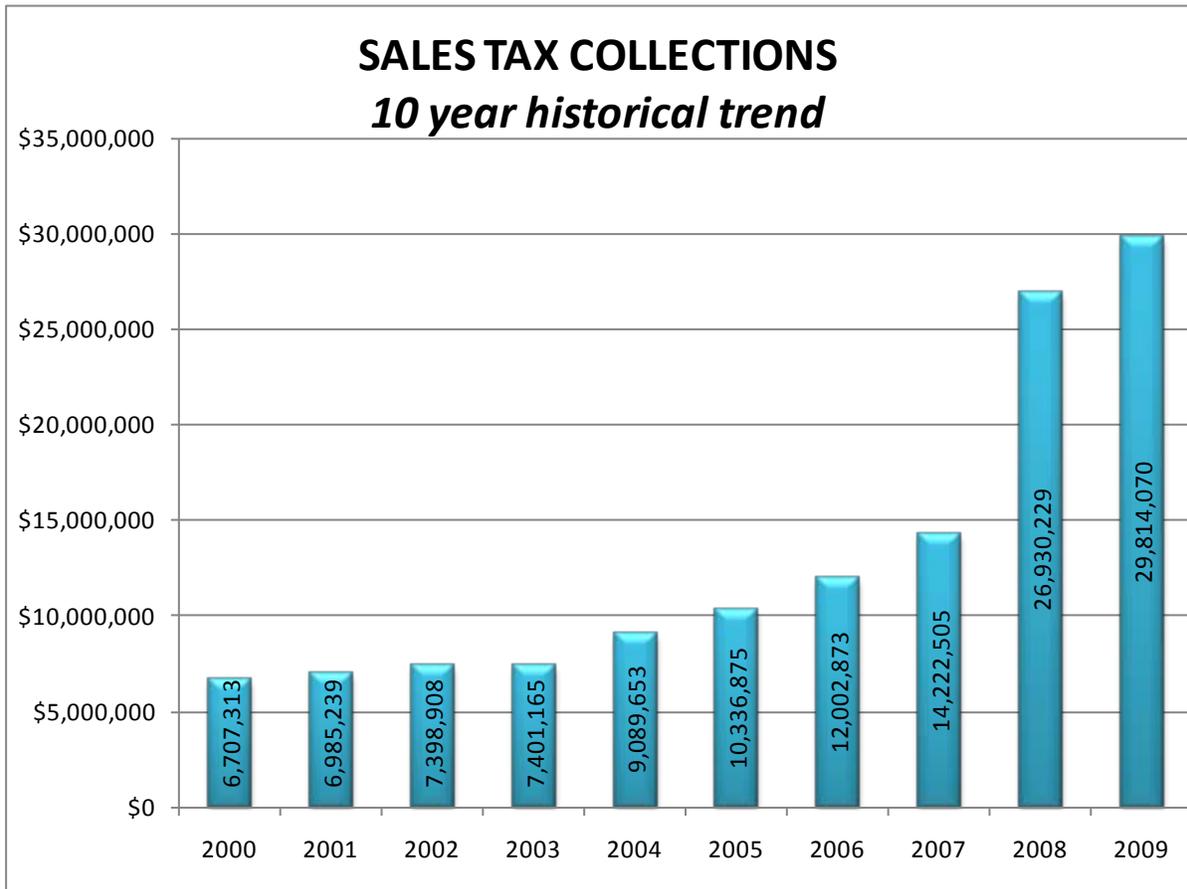
The following information provides an overview of general tax revenues including sales and use tax, hotel occupancy tax, and ad valorem property tax along with various economic factors which may affect collections.

Sales Tax

At this time, the Township is primarily funded by a 1% sales and use tax which was first approved by voters on November 2, 1993. Furthermore, an additional 1% incremental sales and use tax, the maximum allowable, was levied community-wide for The Woodlands Township Economic Development Zone on November 16, 2007; however, due to taxpayer canvassing requirements the collection of this tax commenced April 1, 2008. The incremental 1% sales tax is committed to specific projects as noted below:

Partner	Projects	Amount
Cynthia Woods Mitchell Pavilion	Pavilion expansion	\$1.3 million
General Growth Properties	Mall expansion	\$7.5 million
Kimco Woodlands, LP	Market Street	\$10.6 million
The Woodlands Fire Department	Fire Station #6 and training facility	\$11.6 million
The Woodlands Township	Town Green Park	\$4.3 million
The Woodlands Township	Waterway Square	\$4.3 million
The Woodlands Township	Fire protection services	TBD annually

Sales tax collections are primarily generated from The Woodlands Mall, Waterway Square District, Market Street, nine village shopping centers, and surrounding restaurants. Overall sales tax collections for 2009 increased \$2.9 million over the prior year. This increase is attributed to increased sales in retail trade and food services.



Hotel Occupancy Tax

Effective September 1, 1997, following the amendment of the Township Act by Senate Bill 26, the Township began to assess a hotel occupancy tax of 7% of the price paid for a hotel room. There are currently ten hotels offering more than 1,500 rooms for guests within the Township. Construction of a new boutique hotel was completed for the Market Street development which added approximately 70 new rooms in December 2009. In addition, plans for the construction of a new Candlewood Suites hotel and a new hotel in the Waterway Square district have been announced however expected opening dates have not yet been determined.

While occupancy rates decreased by 8.3% to approximately 65% in 2009, RevPAR (revenue per available room) decreased by approximately \$24 to an average rate of \$94. As a result, hotel occupancy tax revenue decreased \$801 thousand or 19% in 2009 over prior year.

Ad Valorem Property Tax

On November 16, 2007, voters authorized the Township to assess, levy and collect an annual ad valorem tax. The Township levied an ad valorem tax and adopted its first annual property tax rate on August 26, 2009. Assessed property values after exemptions and adjustments for 2009 totaled at \$11.6 billion. In accordance with the Transition Agreement, sales tax and property tax revenues fund community services for the Township.

Capital Assets

In 2009, the Township added approximately \$243 thousand in capital assets.

As of December 31, 2009, the Township had \$1.2 million in capital reserves for the replacement of existing capital assets.

Transition Assets

The Transition Agreement executed in February 2008 and thereafter twice amended, outlines the provisions and timeline to consolidate the governmental functions of the Township with those provided by the POAs and their related service companies. In connection therewith, a "Deed, Bill of Sale, Assignment, Acceptance and Assumption" agreement was executed, to convey certain financial and non-financial assets, liabilities, and functions from the POAs to service companies and to the Township, as provided in the Transition Agreement. Transferable capital assets net of accumulated depreciation and excluding any related debt is currently \$71 million.

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, Attn: Finance Director, 10001 Woodloch Forest Drive, Suite 600, The Woodlands, Texas 77380.

BASIC FINANCIAL STATEMENTS

THE WOODLANDS TOWNSHIP
STATEMENT OF NET ASSETS
December 31, 2009

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 40,831,499	\$ 48,135	\$ 40,879,634	\$ 2,903,176
Investments				
Receivables, net of allowances for uncollectibles				
Property taxes receivable	19,095,754		19,095,754	
Sales tax receivable	6,581,396		6,581,396	
Other taxes receivable	185,041		185,041	
Other receivables	9,348,281	979,312	10,327,593	530,225
Prepaid items	185,037		185,037	230,597
Other current assets		231,740	231,740	
Deposits on regional participation projects	17,741,726		17,741,726	
Capitalized debt issue costs, net	634,332		634,332	
Capital assets not being depreciated:				
Land and easements	15,585,714	31,853,370	47,439,084	1,959,149
Sculpture and art	133,286		133,286	
Construction in progress		3,539,953	3,539,953	
Capital assets net of depreciation:				
Buildings and Improvements	2,665,319	1,258,848	3,924,167	10,292,795
Signage	299,322		299,322	
Vehicles, furniture and equipment	374,124	2,416,565	2,790,689	5,146,326
Parks and waterway improvements	48,713,227	32,587,486	81,300,713	
Total capital assets	67,770,992	71,656,222	139,427,214	17,398,270
Total assets	162,374,058	72,915,409	235,289,467	21,062,268
Liabilities				
Accounts payable and accrued expenses	9,242,999	979,989	10,222,988	946,582
Accrued Interest Payable	1,009,702		1,009,702	
Deferred Revenues	37,742,184	33,087	37,775,271	
Assets held in trust for others		69,054,234	69,054,234	
Long-term liabilities:				
Due within one year				
Bonds payable	2,165,000		2,165,000	
Notes payable		12,903	12,903	1,383,992
Due in more than one year				
Bonds payable	59,230,000		59,230,000	
Notes payable				12,235,508
Compensated Absences	25,113		25,113	
Other Long Term Debt				
Total liabilities	109,414,998	70,080,213	179,495,211	14,566,082
Net Assets				
Invested in capital assets net of related debt	67,770,992	2,518,604	70,289,596	3,738,591
Restricted for:				
Debt retirement	3,933,967		3,933,967	
Unrestricted	(18,745,899)	316,592	(18,429,307)	2,757,595
Total net assets	\$ 52,959,060	\$ 2,835,196	\$ 55,794,256	\$ 6,496,186

See notes to financial statements.

THE WOODLANDS TOWNSHIP
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental Activities:								
General and administrative	\$ 17,661,574	\$	\$	\$	\$ (17,661,574)	\$	\$ (17,661,574)	
Public safety	5,008,132				(5,008,132)		(5,008,132)	
Marketing and public affairs	456,034		27,100		(428,934)		(428,934)	
Economic development	5,003,394		200,548		(4,802,846)		(4,802,846)	
Operations and maintenance	3,033,631				(3,033,631)		(3,033,631)	
Interest Expense	3,538,611				(3,538,611)		(3,538,611)	
Total governmental activities	<u>34,701,376</u>		<u>227,648</u>		<u>(34,473,728)</u>		<u>(34,473,728)</u>	
Business-type activities								
Woodlands Recreation Centers	1,745,586	1,719,498				(26,088)	(26,088)	
Woodlands Community Service Corporation	16,234,828	17,262,231	459,119			1,486,522	1,486,522	
Total business-type activities	<u>17,980,414</u>	<u>18,981,729</u>	<u>459,119</u>			<u>1,460,434</u>	<u>1,460,434</u>	
Total primary government	<u>\$ 52,681,790</u>	<u>\$ 18,981,729</u>	<u>\$ 686,767</u>	<u>\$</u>	<u>(34,473,728)</u>	<u>1,460,434</u>	<u>(33,013,294)</u>	
Component Units								
Governmental Activities	<u>\$ 18,449,277</u>	<u>\$ 1,835,489</u>	<u>\$ 19,436,676</u>	<u>\$</u>				<u>\$ 2,822,888</u>
Total governmental activities (CU)	<u>18,449,277</u>	<u>1,835,489</u>	<u>19,436,676</u>	<u>\$</u>				<u>2,822,888</u>
Total component units	<u>\$ 18,449,277</u>	<u>\$ 1,835,489</u>	<u>\$ 19,436,676</u>	<u>\$</u>				<u>2,822,888</u>
General revenues:								
Taxes:								
Sales and use taxes					29,814,070		29,814,070	
Other taxes					3,330,819		3,330,819	
Unrestricted investment earnings					1,053,350		1,053,350	249
Other revenues					29,831		29,831	800,383
Gain (loss) on disposal of assets					(19,790)		(19,790)	
Total general revenues and transfers					<u>34,208,280</u>		<u>34,208,280</u>	<u>800,632</u>
Change in net assets					(265,448)	1,460,434	1,194,986	3,623,520
Net assets - beginning					53,224,508	1,374,762	54,599,270	2,872,666
Net assets - ending					<u>\$ 52,959,060</u>	<u>\$ 2,835,196</u>	<u>\$ 55,794,256</u>	<u>\$ 6,496,186</u>

See notes to financial statements.

THE WOODLANDS TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 35,924,775	\$ 36	\$ 4,906,688	\$	\$ 40,831,499
Property tax receivable, net	19,095,754				19,095,754
Sales tax receivable	3,328,246	3,253,150			6,581,396
Other taxes receivable	185,041				185,041
Accrued Interest			36,918		36,918
Due from other funds	2,678,664			1,294,477	3,973,141
Other receivables	671,816	8	63		671,887
Prepaid items	185,037				185,037
Long-term receivables	6,761,885				6,761,885
Total assets	<u>\$ 68,831,218</u>	<u>\$ 3,253,194</u>	<u>\$ 4,943,669</u>	<u>\$ 1,294,477</u>	<u>\$ 78,322,558</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 105,966	\$	\$	\$	\$ 105,966
Accrued expenditures	1,158,383	7,864,581			9,022,964
Due to other funds	1,294,477	2,678,664			3,973,141
Deferred revenues	37,742,184				37,742,184
Total liabilities	<u>40,301,010</u>	<u>10,543,245</u>			<u>50,844,255</u>
Fund balances:					
Reserved:					
Debt service			4,943,669		4,943,669
Prepaid items	185,037				185,037
Long-term receivables	6,376,288				6,376,288
Unreserved:					
Designated:					
Capital projects				1,294,477	1,294,477
Undesignated	21,968,883	(7,290,051)			14,678,832
Total fund balances	<u>28,530,208</u>	<u>(7,290,051)</u>	<u>4,943,669</u>	<u>1,294,477</u>	<u>27,478,303</u>
Total liabilities and fund balances	<u>\$ 68,831,218</u>	<u>\$ 3,253,194</u>	<u>\$ 4,943,669</u>	<u>\$ 1,294,477</u>	<u>\$ 78,322,558</u>

See notes to financial statements.

THE WOODLANDS TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
December 31, 2009

Total fund balance, governmental funds \$ 27,478,303

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 67,770,992

Deposits on regional participation projects are restricted and reserved solely for use on mutually agreeable capital projects. Capital outlay and related expenditures will be recognized as incurred over time. 17,741,726

Certain receivables are not available to pay current period expenditures and are, therefore, not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets:
 Convention center lease receivable 1,877,591

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

Bonds payable	(61,395,000)
Unamortized debt issue costs	634,332
Accrued interest payable	(1,009,702)
Compensated absences	(25,113)
Accrued rent on office space	(114,069)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 52,959,060

THE WOODLANDS TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2009

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Revenues					
Sales tax revenues	\$ 15,075,239	\$ 14,738,831	\$	\$	\$ 29,814,070
Hotel occupancy tax revenues	3,330,819				3,330,819
Intergovernmental revenues	200,548				200,548
Investment earnings	914,791	251	138,308		1,053,350
Miscellaneous revenues	57,767				57,767
Total Revenues	19,579,164	14,739,082	138,308		34,456,554
Expenditures					
Current					
General and administrative	4,502,515			10,210	4,512,725
Public safety	19,013,364			718,940	19,732,304
Marketing and public affairs	396,890				396,890
Economic development	1,966,503	3,036,891			5,003,394
Operations and maintenance	1,635,935				1,635,935
Capital outlay	37,606			205,778	243,384
Debt service:					
Principal	15,969		1,425,000		1,440,969
Interest and fiscal charges	396	460,363	2,947,783		3,408,542
Total Expenditures	27,569,178	3,497,254	4,372,783	934,928	36,374,143
Excess (deficiency) of revenues over expenditures	(7,990,014)	11,241,828	(4,234,475)	(934,928)	(1,917,589)
Other Financing Sources (Uses)					
Operating transfers in	11,680,357		3,676,187	1,293,710	16,650,254
Operating transfers out	(4,969,897)	(11,680,357)			(16,650,254)
Proceeds from other debt obligations	683,802		701,198		1,385,000
Total other financing sources (uses)	7,394,262	(11,680,357)	4,377,385	1,293,710	1,385,000
Net change in fund balances	(595,752)	(438,529)	142,910	358,782	(532,589)
Fund balances - beginning	29,125,960	(6,851,522)	4,800,759	935,695	28,010,892
Fund balances - ending	\$ 28,530,208	\$ (7,290,051)	\$ 4,943,669	\$ 1,294,477	\$ 27,478,303

See notes to financial statements.

THE WOODLANDS TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2009

Net change in fund balances \$ (532,589)

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

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

Capital outlay	243,384
Depreciation expense	(1,495,049)

Some expenditures reported in the governmental funds are reported as deposits on contractual obligations in the Statement of Net Assets. 948,957

Governmental funds report proceeds from disposal of assets because they provide current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. (19,790)

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

Capital lease receivable	(836)
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Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Principal retirement on debt	1,440,969
Proceeds from debt issuance	(1,385,000)
Debt issue costs	666,487

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 rent not reflected in governmental funds	14,367
Accrued interest not reflected in Governmental funds	(97,914)
Amortization of bond issue costs	(32,155)
Compensated absences	(16,279)
Change in net assets of governmental activities	\$ (265,448)

See notes to financial statements.

THE WOODLANDS TOWNSHIP
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2009

	Business-type Activities - Enterprise Funds		
	Woodlands Recreation Centers, Inc.	Woodlands Community Service Corporation	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 31,645	\$ 16,490	\$ 48,135
Receivables, net of allowances for uncollectibles			
Other receivables	78,908	900,404	979,312
Other current assets	29,712	202,028	231,740
Total current assets	140,265	1,118,922	1,259,187
Capital assets not being depreciated:			
Land and easements		31,853,370	31,853,370
Sculpture and art			
Construction in progress		3,539,953	3,539,953
Capital assets net of depreciation:			
Buildings and Improvements	220,662	1,038,186	1,258,848
Vehicles, furniture and equipment	36,984	2,379,581	2,416,565
Parks and waterway improvements		32,587,486	32,587,486
Total capital assets	257,646	71,398,576	71,656,222
Total assets	397,911	72,517,498	72,915,409
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	68,535	911,454	979,989
Deferred Revenues	33,087		33,087
Total current liabilities	101,622	911,454	1,013,076
Non-current liabilities:			
Assets held in trust for others		69,054,234	69,054,234
Due within one year			
Notes payable	3,622	9,281	12,903
Total non-current liabilities	3,622	69,063,515	69,067,137
Total liabilities	105,244	69,974,969	70,080,213
Net Assets			
Invested in capital assets net of related debt	254,025	2,264,579	2,518,604
Unrestricted	38,642	277,950	316,592
Total net assets	\$ 292,667	\$ 2,542,529	\$ 2,835,196

See notes to financial statements.

THE WOODLANDS TOWNSHIP
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2009

	Business-type Activities - Enterprise Funds		
	Woodlands Recreation Centers, Inc.	Woodlands Community Service Corporation	Total
Revenues			
Charges for services	\$ 1,719,498	\$ 17,262,231	\$ 18,981,729
Other operating revenues		459,119	459,119
Total operating revenues	<u>1,719,498</u>	<u>17,721,350</u>	<u>19,440,848</u>
Operating expenses			
Recreation programs	768,656	2,046,172	2,814,828
Contracted services	570,146		570,146
Facilities	189,710	3,799,659	3,989,369
Administration	103,526	3,873,231	3,976,757
Contracted services	98,568	2,592,485	2,691,053
Covenant administration		2,212,975	2,212,975
Neighborhood services		636,481	636,481
Community relations		463,532	463,532
Community services		272,302	272,302
Environmental services		337,146	337,146
Equipment	14,674		14,674
Total operating expenses	<u>1,745,280</u>	<u>16,233,983</u>	<u>17,979,263</u>
Operating income (loss)	<u>(25,782)</u>	<u>1,487,367</u>	<u>1,461,585</u>
Non-operating revenues (expenses)			
Interest expense	(306)	(845)	(1,151)
Total other financing sources (uses)	<u>(306)</u>	<u>(845)</u>	<u>(1,151)</u>
Change in net assets	(26,088)	1,486,522	1,460,434
Net assets - beginning	<u>318,755</u>	<u>1,056,007</u>	<u>1,374,762</u>
Net assets - ending	<u>\$ 292,667</u>	<u>\$ 2,542,529</u>	<u>\$ 2,835,196</u>

See notes to financial statements.

THE WOODLANDS TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2009

	Business-type Activities - Enterprise Funds		
	Woodlands Recreation Centers, Inc.	Woodlands Community Service Corporation	Total
Cash flows from operating activities:			
Receipts from customers and users	\$ 1,706,860	\$ 17,315,270	\$ 19,022,130
Payments for goods and services	(1,640,128)		(1,640,128)
Payments for personnel services		(7,920,227)	(7,920,227)
		(7,899,236)	(7,899,236)
Net cash provided (used) by operating activities	66,732	1,495,807	1,562,539
Cash flows from capital and related financing activities:			
Principal payments on debt	(4,510)	(11,550)	(16,060)
Interest paid on capital-related debt	(306)	(845)	(1,151)
Acquisition and construction of capital assets	(81,371)	(1,706,241)	(1,787,612)
Net cash provided (used) by capital and related financing activities	(86,187)	(1,718,636)	(1,804,823)
Net increase (decrease) in cash and equivalents	(19,455)	(222,829)	(242,284)
Cash and equivalents, beginning of year	51,100	239,319	290,419
Cash and equivalents, end of year	\$ 31,645	\$ 16,490	\$ 48,135
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (25,782)	\$ 1,487,367	\$ 1,461,585
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation	79,081	589,224	668,305
(Increase) decrease in accounts receivable	(12,638)	(406,080)	(418,718)
(Increase) decrease in other assets	(941)	31,939	30,998
Increase (decrease) in accounts payable	27,941	(206,643)	(178,702)
Increase (decrease) in deferred revenue	(929)		(929)
Net cash provided (used) by operating activities	\$ 66,732	\$ 1,495,807	\$ 1,562,539

Notes to Financial Statements

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Woodlands Township conform to generally accepted accounting principles. The following is a summary of the most significant policies.

A. Reporting Entity

As an independent political subdivision of the State of Texas, 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.

As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the Township's financial reporting entity. These statements include The Woodlands Township and its component units, entities for which the Township is considered to be financially accountable. 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. Blended component units, although legally separate entities, are, in substance, part of the Township's operations, and accordingly, data from these units are combined with data of the Township. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City. All blended and discretely presented component units have a December 31 year end.

For 2009, The Woodlands Township Economic Development Zone, The Woodlands Recreation Centers, Inc., and The Woodlands Community Service Corporation have been included in the Township's financial reporting entity as blended component units (as business-type activities). The Woodlands Convention and Visitors Bureau and The Woodlands Fire Department are included as discretely presented component units (as governmental activities). Separately issued audited financial statements were prepared for The Woodlands Fire Department, The Woodlands Recreation Centers, Inc., and The Woodlands Community Service Corporation. Complete financial statements for other component units may be obtained, by written request, from the Township's finance department.

During the transition period, management will continually assess the potential for inclusion in the Township's financial reporting entity any property owners association or community service corporations. Such inclusion will be based on changes in each entity's Board governance and financial accountability criteria.

THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS

B. Government-Wide and Fund Financial Statements

The **government-wide financial statements** include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the Township accompanied by a total column.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated.

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 Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

The **governmental fund financial statements** include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all governmental funds and non-major funds aggregated (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.

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 **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 was established to further the promotion and stimulation of business, commercial and economic activity in the Zone as well as the Township.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

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 collected sales and use tax.

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 **proprietary fund financial statements** include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated.

C. Measurement Focus and Basis of Accounting

Government-wide financial statements: the government-wide financial statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Township's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the Township are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Governmental fund financial statements: the governmental fund financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. 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, and hotel occupancy tax. Other receipts become measurable and available when cash is received by the government and are recognized as revenue at that time. Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

Proprietary fund financial statements: Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported non-operating expenses.

D. Annual Financial Plan (Non-Appropriated Budget)

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 in controlling and enhancing 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.

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.

E. Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, balances in privately managed public funds investment pools, and sweep accounts. For the purpose of the statement of cash flows, temporary investments with a maturity of three months or less when purchased are considered to be cash equivalents.

F. Investments

The Township's investments are reported at fair value based on quoted market prices at year end.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

G. Prepaid Items

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

H. 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/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. A table of useful lives follows:

Asset Description	Estimated Useful Life
Office Equipment	5 to 10 years
Vehicles	5 to 15 years
Tenant Improvements	Lease term
Buildings & Garages	20 to 40 years
Machinery & Equipment	5 to 20 years
Signage & Visual Improvements	7 to 20 years
Parks & Land Improvements	20 to 30 years
Infrastructure	20 to 50 years
Land and Easements	n/a
Construction in Progress	n/a

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

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.

I. Use of Estimates

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

J. Interfund Transactions

During the course of routine operations, transactions occur between individual funds. 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 revenues and expenditures if they involved organizations external to the Township are accounted for as revenues, 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 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.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

K. Compensated Absences

Annual vacation and sick time are granted to regular full-time employees. The Township maintains a policy allowing employees to be compensated for unused vacation time upon leaving the employment of the Township. However, any unused vacation time lapses at the end of each fiscal year, unless exception to this policy is approved in writing by the President of the Township. Employees are allowed to carry over unused sick time from one fiscal year to the next, up to a maximum of 90 days. However, all accrued and earned sick leave is forfeited upon leaving the employment of the Township. At December 31, 2009, the Township recorded compensated absences of \$25,113 in accrued liabilities on the government-wide financial statements. This reflects an increase of \$16,279 from the prior year. Compensated absences are recorded in the General Fund when they become due.

L. Fund Equity

Reserved equity balances represent those portions of fund balance not appropriable for expenditures, 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.

M. Use of Restricted Funds

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.

N. Property Tax Calendar

Property taxes are levied by October 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, 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.

O. Reclassification

Certain amounts in the prior year financial statements have been reclassified in order to be consistent with current year's presentation.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

NOTE 2 – DEFICIT FUND EQUITY

The Special Revenue Fund has a deficit fund balance of \$7.3 million as of December 31, 2009. In accordance with the project and financing plans adopted by the Board of The Woodlands Township Economic Development 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 of which \$593 thousand remains unspent.

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.

NOTE 3 – DEPOSITS AND INVESTMENTS

Authorization for deposits and investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the Township. In accordance with the Township's Investment Policy, authorized investments shall include the following: (1) Obligations of the United States or its agencies and instrumentalities; (2) Direct obligations of the State of Texas or its agencies; (3) Other obligations, of which the principal and interest are unconditionally guaranteed or insured by the State of Texas; (4) Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (5) Certificates of Deposit issued by an approved institution domiciled in the State of Texas; (6) Fully collateralized repurchase agreements; (7) Collateralized mortgage obligations by a federal agency or instrumentality of the United States; (8) Banker's acceptance notes; (9) Commercial paper with a stated maturity of 270 days or fewer; (9) No-load money market mutual funds; (10) Investment pools; and (11) Guaranteed investment contracts.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

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 the 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 to compute share prices. Accordingly, the fair value of the position in TexPool and TexSTAR is the same value of the total shares. As of December 31, 2009, the Township had investments with the following maturities and credit quality:

Investment	Fund	Fair Value	WAM	S&P Ratings
TexPool	General	\$ 23,658,044	<60 days	AAAm
TexSTAR	General	\$ 3,226,801	<60 days	AAAm
Invesco AIM Liquid Assets Money Market	General	\$ 2,943,847	29 days	AAAm

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, 2009, the Federal Depository Insurance Corporation (FDIC) covered the first \$250,000 of deposits held at each depository in accordance with the Emergency Economic Stabilization Act of 2008 which temporarily increased basic FDIC insurance coverage from \$100,000 to \$250,000 per depositor.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

The following time and demand deposits including accrued interest as of December 31, 2009 were properly collateralized or insured in accordance with State requirements:

Bank	Type	Fund	Fair Value	Maturity
Encore Bank	Certificate of Deposit	General	\$ 3,001,389	275 days
Encore Bank	Certificate of Deposit	General	\$ 3,094,623	356 days
Encore Bank	Certificate of Deposit	Debt Service	\$ 714,724	395 days
HypoVereins Bank*	Repurchase Agreements	Debt Service	\$ 1,914,106	6,268 days
Woodforest National Bank	Demand Deposits	Debt Service	\$ 2,314,776	-

*Separately authorized in connection with debt covenants to establish a debt service reserve fund

NOTE 4 – RECEIVABLES/DEFERRED REVENUE

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

Receivables - Governmental Activities	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Activities
Property tax	\$ 19,476,978	\$	\$	\$	\$ 19,476,978
Sales tax	3,328,246	3,253,150			6,581,396
Hotel occupancy tax	185,041				185,041
Accrued interest			36,918		36,918
Due from component units	615,683				615,683
Intergovernmental	50,776				50,776
Other receivables	5,357	8	63		5,428
Gross receivables	23,662,081	3,253,158	36,981		26,952,220
Less allowance for uncollectible accounts	381,224				381,224
Net receivables	\$ 23,280,857	\$ 3,253,158	\$ 36,981	\$	\$ 26,570,996

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 - Governmental Activities	Unavailable	Unearned	Total Governmental Activities
Property tax	\$ 17,276,821	\$ 20,465,363	\$ 37,742,184
total deferred/unearned revenue for governmental funds	\$ 17,276,821	\$ 20,465,363	\$ 37,742,184

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

Receivables as of year-end for the Township’s business-type activities are as follows:

<u>Receivables - Business-Type Activities</u>	<u>Woodlands Recreation Centers, Inc.</u>	<u>Woodlands Community Service Corporation</u>	<u>Total Business- Type Activities</u>
Customer accounts receivable	\$ 78,908	\$	\$ 78,908
Due from affiliates		817,491	817,491
Other receivables		82,913	82,913
Net receivables	<u>\$ 78,908</u>	<u>\$ 900,404</u>	<u>\$ 979,312</u>

Management estimates that all business-type activities are fully collectible therefore no allowances for uncollectible accounts are recorded.

NOTE 5 - 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, Tax Code, to the extent considered appropriate by the Board. Generally, proceeds are used for the costs related to advertising and promoting tourism and costs related to business development and commerce, including financing and operating improvement projects for conventions, trade shows and similar events. The Township recorded revenues of \$3,330,819 from the levy of this tax for the fiscal year ended December 31, 2009.

NOTE 6 - SALES AND USE TAX

On November 2, 1993, the voters of the Township authorized the Board to levy and collect a 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 separate note).

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

On November 6, 2007, the voters of the Township authorized the Board to expand the boundaries of the Township in which collection of the base one percent sales and use tax commenced on April 1, 2008. In addition, following a public hearing on November 16, 2007, the existing economic development zones were reorganized as The Woodlands Township Economic Development 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 \$15,075,239 in the General Fund and \$14,738,831 in the Special Revenue Fund from the levy of sales and use tax for the fiscal year ended December 31, 2009.

NOTE 7 – AD VALOREM TAX

On November 6, 2007, the voters of the Township authorized the Township 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 accordance with the Transition Agreement, a property tax was assessed by 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 currently owned and/or provided by the POAs and the fiduciary service companies.

NOTE 7 – GRANT REVENUE

The Houston-Galveston Area Council, HGAC, awarded The Woodlands Township an initial intergovernmental contract of \$404,760 (\$202,380 federal; \$202,380 local match) for the amended period of June 2007 through June 2008 to provide certain transit services. HGAC renewed the contract for the period of July 2008 through June 2009 and July 2009 through June 2010 in the amount of \$388,800 (\$194,400 federal; \$194,400 local match) for each contract period. Over a three year period, the program could receive up to \$580,000 in federal congestion mitigation and air quality (CMAQ) funding. For 2009, \$200,548 in actual operating contributions for grant funding is recorded as program revenue under the operations and maintenance program on the Statement of Activities.

The Woodlands 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.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - CAPITAL ASSETS

A summary of changes in governmental activities capital assets, for the year ended December 31, 2009, follows:

Governmental Activities	Balance Beginning of Year	Additions	Retirements/ Transfers	Balance End of Year
Nondepreciable assets				
Construction in Progress	\$ 103,545	\$ 22,588	\$ (126,133)	\$ 133,286
Sculpture & Art	133,286			133,286
Land	15,585,714			15,585,714
Total nondepreciable assets	<u>15,822,545</u>	<u>22,588</u>	<u>(126,133)</u>	<u>15,719,000</u>
Depreciable assets				
Parks	50,344,329	29,320		50,373,649
Pavilion Parking Garage	3,100,813			3,100,813
Vehicles, Furniture & Equipment	549,560	146,126	53,761	749,447
Signage	497,037	45,350	(17,044)	525,343
Leasehold Improvements	80,011			80,011
Total depreciable assets	<u>54,571,750</u>	<u>220,796</u>	<u>36,718</u>	<u>54,829,263</u>
Total assets	<u>70,394,295</u>	<u>243,384</u>	<u>(89,415)</u>	<u>70,548,263</u>
Less accumulated depreciation for:				
Parks	375,611	1,284,812		1,660,423
Pavilion Parking Garage	390,007	78,280		468,287
Vehicles, Furniture & Equipment	348,415	87,471	(60,562)	375,323
Signage	198,597	36,485	(9,062)	226,020
Leasehold Improvements	39,217	8,001		47,218
Total accumulated depreciation	<u>1,351,847</u>	<u>1,495,049</u>	<u>(69,624)</u>	<u>2,777,271</u>
Capital assets, net of depreciation	<u>\$ 69,042,448</u>	<u>\$ (1,251,665)</u>	<u>\$ (19,791)</u>	<u>\$ 67,770,992</u>

Depreciation expense of \$1,495,049 for the year was charged as follows:

General and administrative	\$ 40,284
Marketing and public affairs	57,589
Operations and maintenance	1,397,176
Total depreciation expense	<u>\$ 1,495,049</u>

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

On May 9, 2008, the Township assumed management, maintenance, and operational responsibilities of The Woodlands Waterway in accordance with the Waterway Maintenance, Use and Operations Agreement between The Woodlands Land Development Company and The Woodlands 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 recorded the Waterway based on the estimated the fair value of the related easement and infrastructure improvements as of December 31, 2008.

A summary of changes in business-type activities capital assets, for the year ended December 31, 2009, follows:

Business-Type Activities	Balance Beginning of Year	Additions	Retirements/ Transfers	Balance End of Year
Nondepreciable assets				
Construction in Progress	\$ 2,756,578	\$ 783,377	\$	\$ 3,539,955
Land	29,916,299	1,937,071		31,853,370
Total nondepreciable assets	32,672,877	2,720,448	-	35,393,325
Depreciable assets				
Buildings and improvements	2,895,038	86,725	(17,419)	2,964,344
Parks	59,956,496	11,394,070		71,350,566
Vehicles, Furniture & Equipment	7,201,614	880,700	(155,527)	7,926,787
Total depreciable assets	70,053,148	12,361,495	(172,946)	82,241,697
Total assets	102,726,025	15,081,943	(172,946)	117,635,022
Less accumulated depreciation for:				
Buildings and improvements	1,536,504	(767,822)	(17,419)	751,263
Parks	34,711,782	3,209,476		37,921,258
Vehicles, Furniture & Equipment	5,555,796	1,906,010	(155,527)	7,306,279
Total accumulated depreciation	41,804,082	4,347,664	(172,946)	45,978,800
Capital assets, net of depreciation	\$ 60,921,943	\$ 10,734,279	\$	\$ 71,656,222

NOTE 9 – CAPITAL PROJECTS & COMMITMENTS

As of December 31, 2009, the Township had the following outstanding commitments:

Project	Amount Authorized	Expended to Date	Remaining Commitment
Town Green Park	\$ 4,336,823	\$ 3,744,103	\$ 592,720
Waterway Camera System	355,000	340,000	15,000
	\$ 4,691,823	\$ 4,084,103	\$ 607,720

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

The Town Green Park project was substantially complete as of December 31, 2009. The remaining commitment will likely remain unspent. Other commitments related to the Transition Agreement and Zone projects can be found in each respective note disclosure.

NOTE 11 – INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables as of December 31, 2009 were as follows:

		<u>Due from:</u>		
		<u>Special</u>		
		<u>General</u>	<u>Revenue</u>	<u>Totals</u>
D u e	General	\$		\$ 2,678,664
	Capital Projects		1,294,477	1,294,477
e	Totals	<u>\$</u>	<u>1,294,477</u>	<u>\$ 3,973,141</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 projects time lag between the period in which funds are designated and the period in which projects are completed.

As of December 31, 2009, interfund balances due from the General Fund to the Capital Projects Fund include:

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

<u>Projects</u>	<u>Balance</u>
Waterway camera system	\$ 15,000
Ambassador program	7,136
Patrol vehicles & equipment	83,710
Office equipment and furnishings	28,198
Waterway Square Park	9,220
	<u>143,264</u>
<u>Capital Reserves</u>	<u>Balance</u>
The Woodlands Waterway	104,380
Waterway Square Park	100,000
Waterway Square fountain	100,000
Waterway cameras	6,615
Town Green Park	150,002
Town Center garage	42,170
Wayfinding signage	14,000
Monument signage	95,000
2009 Economic Development reserve allocation	65,934
2009 Capital Reserve allocation	473,112
	<u>1,151,213</u>
Total	<u>\$ 1,294,477</u>

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

NOTE 12 – INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2009 were as follows:

<u>Transfer out:</u>	<u>Transfer in:</u>				
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
General	\$	\$	\$ 3,676,187	\$ 1,293,710	\$ 4,969,897
Special Revenue	11,680,357				11,680,357
Total	<u>\$ 11,680,357</u>	<u>\$</u>	<u>\$ 3,676,187</u>	<u>\$ 1,293,710</u>	<u>\$ 16,650,254</u>
Transfers in	\$ 11,680,357	\$	\$ 3,676,187	\$ 1,293,710	\$ 16,650,254
Transfers out	4,969,897	11,680,357			16,650,254
	<u>\$ 6,710,460</u>	<u>\$ (11,680,357)</u>	<u>\$ 3,676,187</u>	<u>\$ 1,293,710</u>	<u>\$</u>

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

<u>Transfers out from General fund for:</u>	<u>Transfer in:</u>		
	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
Town Center parking garage replacement reserve	\$	\$ 5,562	\$ 5,562
Capital reserves		166,113	166,113
Hotel occupancy tax	3,401,187		3,401,187
Sales tax pledged to service debt	275,000		275,000
Project expenditures		1,122,035	1,122,035
Total	<u>\$ 3,676,187</u>	<u>\$ 1,293,710</u>	<u>\$ 4,969,897</u>

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

Transfers from the Special Revenue Fund to the General Fund of \$11.7 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 Woodlands Township 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 over to 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 as 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.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

As noted, future sales tax revenue collections for The Woodlands Township Economic Development 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.

A. Economic Development Project No. 1

Approved in September of 2000, project costs include the redevelopment, rehabilitation, expansion and enlargement of The Cynthia Woods Mitchell 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 Cynthia Woods Mitchell Pavilion are recorded as economic development expenditures in the tax increment fund for the project. As of December 31, 2009, aggregate net revenue payments excluding one-time capital grants were \$1,114,067.

B. Economic Development Project No. 2

Approved in November of 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 WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

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 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, 2008, aggregate net revenue payments including interest to the developer were \$3,485,598 and priority payments to the Township were \$800,000.

C. Economic Development Project No. 3

Approved in July of 2003 and amended in October of 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 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.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

Payments to the Mall Expansion developer are recorded as capital outlay in the tax increment fund for the project. As of December 31, 2009, aggregate net revenue payments including interest to the developer were \$1,896,159 and priority payments to the Township were \$2,100,000 plus \$2,868 for stub year allocations.

D. Economic Development Project No. 4

Approved in December of 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 Woodlands 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.

Payments to The Woodlands Fire Department are recorded as capital outlay in the tax increment fund for the project. As of December 31, 2009, accrued net revenue payments of \$1.7 million were \$2,870,168.

E. 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 2009 from the Zone and the expanded boundaries was \$14,725,000.

NOTE 14 – GOVERNANCE TRANSITION

A. Regional Participation Agreements

In 2007, the Township executed Regional Participation Agreements 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 WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

More specifically, the agreements 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 ETJ. In addition, the agreements required initial deposits of \$16.3 million which were funded in November 2008 from the proceeds of bond anticipation notes. These deposits are recorded as "Deposits on Regional Participation Projects" on the government-wide Statement of Net Assets. Each year, expenditures and capital outlays from the regional participation fund will be recognized as disbursements are made in accordance with the terms of the RPAs.

B. Transition Agreement

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, The Woodlands Association, The Woodlands Commercial Owners Association); service companies (The Woodlands Community Service Corporation, The Woodlands Fire Department, The Woodlands Recreation Center); and The Woodlands Township.

Financial Implications

Upon the implementation by the Township of an ad valorem tax, all community service functions previously the responsibility of the POAs became the responsibility of the Township.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

Organizational Implications

Beginning in 2008, the Township Board appointed a majority of The Woodlands Fire Department governing body and appointed a majority of the remaining service companies' Boards in 2009. According to provisions of the Transition Agreement, in 2010 the Township will:

- Have a seven-member, fully elected governing body;
- Assume transferred assets, liabilities, and functions of each service company;
- Fully fund The Woodlands Fire Department;
- Fully fund all community services provided by each service company.

NOTE 15 – LONG-TERM LEASE RECEIVABLE

Capital Lease - Convention Center, Sky Bridge and Parking Garage

The Township has leased 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 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. Under the terms of the lease, rental payments commenced on January 1, 2005, with annual base rental amounts as shown on the following table.

<u>Year</u>	<u>Annual Base Rental Amount</u>	<u>Contingent Rental</u>	<u>Total Rental</u>
2004	\$ -	\$ -	\$ -
2005	50,000	-	50,000
2006	100,000	-	100,000
2007	100,000	1,129	101,129
2008	100,000	5,105	105,105

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

Rental payments for year five through the end of the lease term will be adjusted to an amount equal to the annual base rental for the preceding year, increased or decreased in proportion to the increase or decrease in the consumer price index, currently the Consumer Price Index for all Urban Consumers (CPI-U) Houston-Galveston-Brazoria, Texas.

The convention center lease will generate \$9,300,000 in total remaining lease payments from Inland American over the term of the lease. The future minimum lease payments are \$1,877,591, representing the present value of the total remaining rental payments through the end of the lease term 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 for the next five years and in five year increments thereafter through the end of the lease is shown below.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 880	\$ 99,120	\$ 100,000
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
2015-2019	6,325	493,675	500,000
2020-2024	8,180	491,820	500,000
2025-2029	10,579	489,421	500,000
2030-2034	13,683	486,317	500,000
2035-2039	17,696	482,304	500,000
2040-2044	22,887	477,113	500,000
2045-2049	29,601	470,399	500,000
2050-2054	38,283	461,717	500,000
2055-2059	49,513	450,487	500,000
2060-2064	64,037	435,963	500,000
2065-2069	82,821	417,179	500,000
2070-2074	107,116	392,884	500,000
2075-2079	138,537	361,463	500,000
2080-2084	179,174	320,826	500,000
2085-2089	231,732	268,268	500,000
2090-2094	299,707	200,293	500,000
2095-2099	387,622	112,378	500,000
2100-2101	185,208	14,792	200,000
	<u>\$ 1,877,591</u>	<u>\$ 7,322,409</u>	<u>\$ 9,200,000</u>

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

As a result of the convention center lease, the Township has retained all debt associated with building the leased facilities but has not recorded the historical costs associated with the leased assets in accordance with capital lease accounting requirements of generally accepted accounting principles. Township management expects the additional activities related to the convention center lease to benefit the Township generally through expanded economic development. At December 31, 2009, the principal amount of the Township's remaining debt on bonds issued to construct the leased facilities was \$43,570,000.

Operating Lease - Parking Garage

On February 1, 2003, the Township and The Cynthia Woods Mitchell Pavilion entered into a long-term lease whereby The Cynthia Woods Mitchell 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
Garage and signage	3,100,814	78,280	3,022,534
Total	<u>\$ 3,936,527</u>	<u>\$ 78,280</u>	<u>\$ 3,858,247</u>

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.

NOTE 16 – LONG-TERM DEBT

The Township issues revenue bonds and bond anticipation notes for governmental activities. In general, the Township uses the General and Debt Service funds to liquidate governmental long-term liabilities. For governmental activities, compensated absences are liquidated by the general fund.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

Governmental activity revenue bonds payable consists of Series 2001 Sales Tax and Hotel Occupancy Tax Revenue Bonds and Series 2009 Sales Tax and Hotel Occupancy Tax Bonds as follows:

The 2001 bonds were originally issued at \$51.2 million for the Township built Convention Center. The bonds are secured by the Township's pledge of one-half of 1% of general sales and use tax and general hotel occupancy tax of 7% of taxable room revenue. In accordance with the terms of the Bond Resolution, a debt service reserve fund has been established in the amount of \$1,877,188 as security for the payment of the bonds. This amount is equal to one half of the maximum annual debt service on the bonds and was funded from bond proceeds.

In January 2009, additional parity bonds in the amount of \$17,825,000 were issued to partially refund a portion of the redemption price of the Township's \$16,440,000 Bond Anticipation Note, Series 2008, dated November 4, 2008 and set to mature November 4, 2009. The Bond Anticipation Note was issued by the Township to finance the initial deposits into the regional participation funds established with the City of Houston in the amount of \$16,000,000 and the City of Conroe in the amount of \$320,000 pursuant to the Regional Participation Agreements between the Township and each municipality. The bond proceeds paid issuance costs and funded a debt service reserve fund equal to one half of the maximum annual debt service on the bonds or \$701,198.

The following is a summary of long-term debt transactions for the year ended December 31, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
PRIMARY GOVERNMENT					
Governmental activities:					
Revenue bonds	\$ 44,995,000	\$ 17,825,000	\$ (1,425,000)	\$ 61,395,000	\$ 2,165,000
Bond anticipation notes	16,440,000		(16,440,000)		
Capital leases	15,149		(15,149)		
Compensated absences	8,834	16,279		25,113	
	<u>61,458,983</u>	<u>17,841,279</u>	<u>(17,880,149)</u>	<u>61,420,113</u>	<u>2,165,000</u>
Business-type activities:					
Notes payable	28,963		(16,060)	12,903	12,903
Total primary government	<u>\$ 61,487,946</u>	<u>\$ 17,841,279</u>	<u>\$ (17,896,209)</u>	<u>\$ 61,433,016</u>	<u>\$ 2,177,903</u>
COMPONENT UNITS					
Governmental activities:					
Notes payable	<u>\$ 11,104,335</u>	<u>\$ 2,531,225</u>	<u>\$ (16,060)</u>	<u>\$ 13,619,500</u>	<u>\$ 1,383,992</u>

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

Bonds payable at year-end consisted of the following:

Governmental Activities

<u>Series</u>	<u>Amounts Outstanding</u>	<u>Interest Rate</u>	<u>Principal Payments Beginning/ ending</u>	<u>Interest Payment Dates</u>	<u>Callable Date*</u>
2001 Revenue Bonds	\$ 43,570,000	4.00-5.625%	March 1, 2004/2027	September 1/ March 1	2011
2009 Revenue Bonds	17,825,000	1.25-5.10%	March 1, 2010/2028	September 1/ March 1	2014

* or any interest payment date thereafter in accordance with redemption provisions in the bond resolution

Of the \$43.6 million in outstanding debt for the convention center, sky bridge, and parking garage, approximately \$3.5 million relates to operating leases with the Cynthia Woods Mitchell Pavilion and the remainder relates to the capital lease of the convention center.

The debt service requirements on governmental activity bonds outstanding as of December 31, 2009 follows:

<u>Year</u>	<u>Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 2,165,000	2,984,027
2011	2,250,000	2,905,008
2012	2,345,000	2,809,418
2013	2,450,000	2,698,888
2014	2,570,000	2,580,673
2015-2019	14,940,000	10,825,814
2020-2024	19,195,000	6,556,140
2025-2028	15,480,000	1,371,842
	<u>\$ 61,395,000</u>	<u>\$ 32,731,810</u>

Obligations under Capital Leases

In 2007, leases were executed for two new copier units. Each lease is for a period of thirty-six months with combined monthly payments of \$1,299. The cost of each copier has been capitalized for financial reporting. This capital lease debt was retired during the 2009 fiscal year.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

In December 2009, the Township entered into a capital lease agreement for eight copier units. Because delivery of the equipment occurred subsequent to year-end, the liability and related capital assets have not been reported in the accompanying financial statements. The lease period is sixty months with payments totaling \$11,076 per month. Payments over the life of the lease will total \$664,560 and the present value of the minimum lease payments is \$586,924. The following table presents future minimum lease payments as of December 31, 2009:

Governmental Activities			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 96,938	\$ 24,898	\$ 121,836
2011	110,932	21,980	132,912
2012	116,607	16,304	132,911
2013	122,573	10,339	132,912
2014	128,844	4,068	132,912
2015	11,030	46	11,076
	<u>\$ 586,924</u>	<u>\$ 77,635</u>	<u>\$ 664,559</u>

Notes payable

Notes payable at December 31, 2009 are as follows:

The Woodlands Recreation Centers, Inc. (a blended business-type component unit)

A note payable to a bank for the financing of 2001 and 2002 capital purchases, due in 2010, interest at the prime rate less .5% with a floor of 5% (5% at December 31, 2009), collateralized by certain capital assets of the Recreation Center. Balance at December 31, 2009 - \$3,622.

The Woodlands Community Service Corporation (a blended business-type component unit)

A note payable to a bank for the financing of 2001 and 2002 capital purchases, due in 2010, interest at the prime rate less .5% with a floor of 5% (5% at December 31, 2009), collateralized by certain capital assets and accounts receivable. Balance at December 31, 2009 - \$9,281.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

Component Unit Debt

Further information related to discretely presented component unit debt may be found in the notes that follow related to each individual component unit.

Federal Tax Compliance for Tax-Exempt Debt & Arbitrage Rebate Calculations

In accordance with provisions of the Internal Revenue Code of 1986, as amended, (the "Code") the Township's tax-exempt debt obligations must meet certain minimum criteria to be considered and continue to be considered tax-exempt. This tax-exempt status means that interest income earned by purchasers of the Township's long-term debt instruments is not subject to federal income taxes. Any tax-exempt debt issue that does not meet and continue to meet the minimum criteria of the Code and the related Treasury Regulations are not considered tax-exempt.

The Code also provides that in order for tax-exempt debt not to be considered arbitrage debt, certain proceeds require yield restriction meaning that proceeds of such debt must be invested at a yield that is not materially higher than the yield on the debt issued. The yield restriction may be accomplished by making yield reduction payments pursuant to Treasury Regulations. During 2009, the only unexpended debt issuance proceeds were amounts held in the Debt Service fund pursuant to requirements imposed by debt covenants.

The Township's obligations to calculate and make rebate payments (if any) will continue as long as there are gross proceeds allocable to outstanding tax-exempt debt. The Township has performed the fifth year arbitrage rebate calculation for the period July 26, 2001 to July 26, 2006 as required by the Code for the Series 2001 bond issue. Results of this calculation showed no contingent rebatable arbitrage due with respect to the bonds. The Township will perform additional analysis in 2011 to cover the tenth year arbitrage rebate calculation through July 26, 2011.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

NOTE 17 – 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, 2008, are summarized below:

A. 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 ETJ 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.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

B. Board of Directors

The Township Act requires that each director appointed or elected must 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 on 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) a resident of the Township. Directors are not compensated for service on the Board.

C. Bonded Indebtedness

The Township 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.

D. 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 the 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.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

NOTE 18 - 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. Monthly payments for equipment leases are minimal. All other leases are month-to-month and can be cancelled at anytime without penalty. Annual payments under these leases are shown below.

<u>Year</u>	<u>Office</u>	<u>Equipment</u>	<u>Total</u>
2010	\$ 271,674	400	\$ 272,074
2011	271,674		271,674
2012	271,674		271,674
2013	271,674		271,674
2014	203,756		203,756
	<u>\$ 1,290,452</u>	<u>\$ 400</u>	<u>\$ 1,290,852</u>

During the year ended December 31, 2009, the Township incurred office lease expenditures of \$266,450 in the governmental funds and \$252,082 in the government-wide financial statements that included \$114,069 in accrued rent that will be paid over the remaining lease term.

NOTE 19 - PENSION PLAN

The Township established a simplified employee pension plan (SEP) on July 1, 1994, that covers all of the Township's employees. A SEP is a tax-deferred retirement plan providing pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions and forfeitures of other participant's benefits that may be allocated to such participant's account. Contributions made by the Township vest immediately.

An employee who leaves the employment of the Township is entitled to all contributions, plus any accumulated earnings in that employee's account. The provisions and contributions set by the Township to be paid into the plan are determined by the Board of Directors and the rules that govern SEP plans. For the year ended December 31, 2009, the Township contributed 8.7 percent of each covered employee's salary for total contributions of \$135,109. This is a non-participating plan. The plan is fully funded on a current basis and is administered by an independent brokerage firm. The Township does not make contributions to any other type of post employment benefit programs.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

NOTE 20 – RISK MANAGEMENT

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.

NOTE 21 – SUBSEQUENT EVENTS

On April 1, 2010, the Township issued Unlimited Tax Bonds, Series 2010 in the amount of \$34,800,000 maturing in 2030. The purpose of the bonds is to finance (1) fire fighting facilities and equipment, (2) recreational facilities and equipment, (3) refinance certain existing assumed obligations incurred for capital expenditures, and (4) to pay costs of issuance related to the bonds.

A capital lease effective January 2010 was executed for digital reproduction systems. The lease terms call for payments in the amount of \$11,076 for sixty months.

NOTE 22 – THE WOODLANDS FIRE DEPARTMENT

NOTE 1 – ORGANIZATION

The Woodlands Fire Department, Inc. (the Fire Department) is a 501(c)(3) organization which provides fire protection, emergency medical services, and related educational and charitable activities in The Woodlands, a community near Houston, Texas. A board of community leaders, appointed by The Woodlands Township Board of Directors governs the Fire Department and its activities. The Fire Department is a component unit of The Woodlands Township (the Township) because of its board composition.

The Fire Department entered into a Mutual Benefit Agreement (the Agreement) with The Woodlands Community Association, Inc. (WCA), The Woodlands Association, Inc. (TWA), The Woodlands Commercial Owners Association, Inc. (WCOA), collectively referred to as the Associations, and The Woodlands Community Service Corporation (WCSC) to establish a uniform means of providing fire protection and emergency medical services in The Woodlands on a community-wide basis.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

Fire Department Agreement – The Associations and the Fire Department have entered into a Fire Protection and Emergency Medical Services Agreement and an Assignment of Income Agreement which expire in 2014. The Associations collect annual assessments from property owners in The Woodlands to fund community services. Prior to 2008, the Associations provided to the Fire Department cash required to fund its operating expenses, equipment replacement, and working capital requirements. In 2008, the Associations funded only the needs of the Fire Department in excess of the sales tax revenues provided by the Township. Under the terms of the transition agreement (Note 2), the Township is responsible for these services in 2009.

Transactions with Woodlands Development – The Woodlands Development Company (Woodlands Development) conducts development activities in The Woodlands. The Fire Department and Woodlands Development engage in transactions characteristic of the development of a new community, including the transfer of land for construction of fire related facilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in conformity with the accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB). The Fire Department applies all statements issued by the GASB and all Financial Accounting Standards Board statements issued on or before November 30, 1989, except those that conflict with GASB.

Measurement focus and basis of accounting

Measurement focus refers to what is being expressed in reporting financial position and performance, that is, which resources are being measured. The financial resources measurement focus measures only financial resources while the economic resources measurement focus measures both financial and capital resources. The measurement focus determines whether a fund balance sheet or statement of net assets reports financial or economic resources. Basis of accounting refers to when those resources and commitments and uses of those resources should be recognized. It relates to the timing of the measurements made regardless of the measurement focus applied.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

Fund financial statements

Governmental funds in the fund financial statements are accounted for using a current financial resources measurement focus and have been prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when it is measurable and available. "Measurable" means the amount of the transaction is known or reasonably estimable and "available" refers to amounts collected in the current period or expected to be collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Generally, expenditures are recorded when the related liability is incurred.

The Fire Department reports the following major governmental funds:

- The general fund is the Fire Department's primary operating fund. It accounts for all financial resources of the Fire Department, except those required to be accounted for in another fund.
- The debt service fund is used to account for the proceeds of the incremental sales tax revenues received in conjunction with the Economic Development Zone Funding Agreement (EDZ Funding Agreement) that are legally restricted to expenditure related to the debt acquired to fund the construction of a fire station and a training facility.

Both governmental and business-type activities in the government-wide financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

Federal income tax status – The Fire Department is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2).

Cash concentration – The Fire Department maintains its cash accounts at a federally-insured financial institution. At times, bank deposits exceed the federally insured limit per depositor per institution. Management periodically assesses the credit worthiness of this institution and believes that any credit risk is minimal. At December 31, 2009 and 2008, the carrying amounts of the Fire Department's deposits were \$2,343,844 and \$296,086 and the respective bank balances were \$2,479,030 and \$329,532.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

Property, plant and equipment is recorded at cost, if purchased. Property, plant and equipment transferred by WCA or Woodlands Development is recorded at the transferor's cost. The Fire Department capitalizes property, plant and equipment with a cost of more than \$3,000. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 15 years for property, plant and equipment and 15 to 25 years for fire stations and training center and public safety building and leasehold improvements.

Net assets are divided into two components:

- Invested in capital assets, net of related debt – consists of capital assets at cost less accumulated depreciation, and net of any debt that remains outstanding and was used to finance those assets.
- Unrestricted – all other net assets are reported in this category.

Assignment of assessments is reported in the period in which the Fire Department is entitled to such assessments under the Mutual Benefit Agreement.

Sales tax revenues are recognized in the period the underlying transactions occurred.

Contracted fire protection fees are recorded in the period in which services are provided.

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 amounts of revenues and expenses and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 3 – TRANSITION AGREEMENT

At an election on November 6, 2007, registered voters in The Woodlands approved three submitted propositions, including (i) confirmation of the expansion of the boundaries of The Woodlands Township (the Township), (ii) authorization of the reorganization and election of the Board of Directors of the Township, and (iii) authorization of the levy of an ad valorem property tax by the Township. These actions allow the Township, a special purpose district and political subdivision of the State of Texas, to assess property taxes and receive sales tax revenues to fund services currently provided by the Associations. To facilitate the transfer of services from the Associations to the Township, a transition agreement and a conveyance agreement (the Agreements) were approved by the Associations, the Service Companies (WCSC, the Recreation Center, and the Fire Department), and the Township with an effective date of February 1, 2008. Under the terms of the Agreements, the Associations will assign their respective covenants, responsibilities, contracts, and all other operational rights and obligations to the Township, with a delayed effective date of January 1, 2010. Additionally, as of February 1, 2008, the Associations conveyed substantially all of their respective assets to WCSC, with such assets to be held in trust until December 31, 2011,

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

at which time they would transfer to the Township. However, the second amendment to the transition agreement, as discussed below, accelerates the transfer of these assets to the Township on or about January 1, 2010. The agreements state that the Township must obtain certain legislative changes to its governing documents prior to the implementation of a property tax. If the Township is unable to secure such changes by December 31, 2011, the assignments and conveyances include certain reversionary and restrictive rights that could result in the transfer of assets, responsibilities, and liabilities back to the Associations.

The original transition agreement provided that the Service Companies would provide services for the Township through December 31, 2011, pursuant to service agreements, and in September 2011 the Township Board would consider extensions of the service agreements, or dissolution of the Service Companies, and/or direct employment of the staff of the Service Companies in 2012 and subsequent years. However, the first amendment to the transition agreement, approved by the same parties to the Agreements with an effective date of October 15, 2008, provides for an acceleration of the transition process and a consolidation of functions, services, and staff into the Township on or about January 1, 2010.

In February 2009, a second amendment to the transition agreement was approved by the parties to the original transition agreement. The second amendment includes the following provisions: (1) continuation of the Fire Department operations through December 31, 2011 rather than consolidating such operations with the Township on January 1, 2010; (2) the Township will appoint all members to the Service Companies' Board of Directors beginning January 1, 2010; (3) the Township may discontinue the operations of WCSC and the Recreation Center upon transfer of those services to the Township on January 1, 2010; (4) the assets of the Service Companies will be transferred to the Township on January 1, 2010; (5) the assets previously belonging to the Fire Department will be leased back to the Fire Department through December 31, 2011; and (6) the Township may discontinue the Fire Department operations in 2012 after services are transferred to the Township. All other provisions of the Agreements remain the same.

Effective January 1, 2010, in accordance with the second amendment to the transition agreement, the Fire Department conveyed the deeds to all real property as well as transferred title to related equipment and vehicles. The assets were leased back at a nominal amount to the Fire Department to allow the continued delivery of fire protection and related services to the residents of The Woodlands Township.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – RELATED PARTY TRANSACTIONS

Accounts receivable from affiliates ultimately is due from the Township who assumed the related assets and liabilities of the Associations, WCSC and WRC effective January 1, 2010. The receivable is comprised of the following:

The Woodlands Association, Inc.	\$ 215,630
The Woodlands Community Association, Inc.	160,472
The Woodlands Community Service Corporation	(245,488)
The Woodlands Commercial Owners Association, Inc.	<u>37,893</u>
 Total	 <u>\$ 168,507</u>

Accounts payable to affiliates at December 31, 2008 is as follows:

The Woodlands Association, Inc.	\$ 1,370,349
The Woodlands Community Association, Inc.	1,580,760
The Woodlands Community Service Corporation	280,182
The Woodlands Commercial Owners Association, Inc.	<u>270,238</u>
 Total	 <u>\$ 3,501,529</u>

Revenue recognized by the Fire Department from the Associations at December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
The Woodlands Association, Inc.	\$ 939,198	\$ 3,713,731
The Woodlands Community Association, Inc.	731,740	2,912,108
The Woodlands Commercial Owners Association, Inc.	<u>182,758</u>	<u>667,211</u>
 Total	 <u>\$ 1,853,696</u>	 <u>\$ 7,293,050</u>

General and administrative expenses include approximately \$1,180,000 and \$1,130,000 in 2009 and 2008 for management services provided by WCSC.

The Township contracted certain services from the Fire Department in 2008. Revenue from this contract was \$518,222. A receivable from the Township related to these services was recorded at December 31, 2008 in the amount of \$83,833. Additionally, the Fire Department received \$17,687,407 and \$6,100,000 of sales tax revenues from the Township in 2009 and 2008, respectively. At December 31, 2009 a receivable from the Township was recorded in the amount of \$250,086 related to these revenues.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

The Fire Department’s investments in property, plant and equipment at December 31, 2009 consists of the following:

	BALANCE AT <u>JANUARY 1, 2009</u>	<u>ADDITIONS</u>	COMPLETIONS/ <u>DISPOSALS</u>	BALANCE AT <u>DECEMBER 31,</u>
<u>2009</u>				
Depreciable property, plant and equipment:				
Property, plant and equipment	\$ 8,871,333	\$ 2,057,262	\$ (88,345)	\$ 10,840,250
Fire stations and training center	3,940,031	9,079,045		13,019,076
Public safety building and leasehold improvements	<u>894,807</u>	<u>34,740</u>		<u>929,547</u>
Depreciable property, at cost	13,706,171	11,171,047	(88,345)	24,788,873
Accumulated depreciation	<u>(7,948,229)</u>	<u>(1,489,868)</u>	<u>88,345</u>	<u>(9,349,752)</u>
Total depreciable property, plant and equipment, net	<u>5,757,942</u>	<u>9,681,179</u>	<u>0</u>	<u>15,439,121</u>
Nondepreciable property, plant and equipment:				
Land	1,916,192			1,916,192
Construction in progress	<u>9,964,752</u>	<u>1,249,252</u>	<u>(11,171,047)</u>	<u>42,957</u>
Total property, plant and equipment nondepreciable	<u>11,880,944</u>	<u>1,249,252</u>	<u>(11,171,047)</u>	<u>1,959,149</u>
Total property, plant and equipment, net	<u>\$ 17,638,886</u>	<u>\$ 10,930,431</u>	<u>\$ (11,171,047)</u>	<u>\$ 17,398,270</u>

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

The Fire Department's investments in property, plant and equipment at December 31, 2008 consists of the following:

	BALANCE AT		COMPLETIONS/ DISPOSALS	BALANCE AT
	<u>JANUARY 1, 2008</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>DECEMBER 31, 2008</u>
Depreciable property, plant and equipment:				
Property, plant and equipment	\$ 7,010,226	\$ 1,861,999	\$ (892)	\$ 8,871,333
Fire stations	3,940,031			3,940,031
Public safety building and leasehold improvements	<u>894,807</u>			<u>894,807</u>
Depreciable property, at cost	11,845,064	1,861,999	(892)	13,706,171
Accumulated depreciation	<u>(7,081,669)</u>	<u>(866,722)</u>	<u>162</u>	<u>(7,948,229)</u>
Total depreciable property, plant and equipment, net	<u>4,763,395</u>	<u>995,277</u>	<u>(730)</u>	<u>5,757,942</u>
Nondepreciable property, plant and equipment:				
Land	1,916,192			1,916,192
Construction in progress	<u>6,241,324</u>	<u>5,588,758</u>	<u>(1,865,330)</u>	<u>9,964,752</u>
Total property, plant and equipment nondepreciable	<u>8,157,516</u>	<u>5,588,758</u>	<u>(1,865,330)</u>	<u>11,880,944</u>
Total property, plant and equipment, net	<u>\$ 12,920,911</u>	<u>\$ 6,584,035</u>	<u>\$ (1,866,060)</u>	<u>\$ 17,638,886</u>

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – NOTES PAYABLE

Notes payable at December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Note payable to a bank for construction of a training center, interest at LIBOR plus 1.5% (2.3% at December 31, 2009) collateralized by certain real property and an interest in the proceeds of the EDZ Funding Agreement.	\$ 7,117,735	\$ 6,848,941
Note payable to a bank for construction of a fire station, tax-exempt interest at 65% of LIBOR plus 1.3% (1.8% at December 31, 2009) collateralized by certain real property and an interest in the proceeds of the EDZ Funding Agreement.	4,350,342	4,229,042
Note payable to a bank for reimbursement of costs of a fire station, interest at LIBOR plus 3% (3.8% at December 31, 2009).	1,440,640	
Note payable to bank for purchase of a fire truck, interest at LIBOR plus 3% (3.8% at December 31, 2009) collateralized by the fire truck purchased.	700,000	
Note payable to a bank for certain 2001 and 2002 capital additions, interest at prime less .5% with a 5% floor (5.0% at December 31, 2009) collateralized by new and used vehicles, heavy industrial equipment, and accounts receivable.	10,783	24,209
Note payable to a bank for equipment collateralized by certain equipment and an interest in the proceeds of the EDZ Funding Agreement.	<u> </u>	<u>2,143</u>
Total notes payable	<u>\$ 13,619,500</u>	<u>\$ 11,104,335</u>

Interest expense was \$200,592 and \$274,270 in 2009 and 2008, respectively.

The credit agreement relating to the notes payable for fire stations and the training center contains various covenants, the most restrictive of which does not permit the existence of additional liens without approval from the lender.

**THE WOODLANDS TOWNSHIP
NOTES TO FINANCIAL STATEMENTS**

Maturities of notes payable are as follows:

2010	\$ 1,383,992
2011	769,626
2012	769,626
2013	769,626
2014	769,626
2015 and thereafter	<u>9,157,004</u>

Total \$ 13,619,500

NOTE 7 – LEASE AGREEMENT

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 certain fire operations training classes. The facility also will be used by the Fire Department to meet its training needs and in some cases, collaborative training will occur. The noncancelable 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. Rent was not charged in 2008 as completion of the facility did not facilitate classes beginning until January 2009.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

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 statements.

Construction commitments – In 2008, the Fire Department entered into a contract with an architectural company to design a new fire station. At December 31, 2009, outstanding commitments related to this contract totaled \$725,000.

Health benefits – The Fire Department maintains a self-insurance program for its employees’ 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.

Collective bargaining agreement – 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 Woodlands Professional Firefighter Association Local 3846. The agreement extends through December 31, 2011.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

NOTE 9 – RETIREMENT PLAN

Substantially all Fire Department employees are covered by a 401(k) defined contribution plan. Plan funds are held by an insurance company and invested through a regulated investment company. The Fire Department contributed \$1,049,245 and \$976,169 to the plan in 2009 and 2008, respectively. Employees of the Fire Department contributed \$775,215 and \$692,070 to the plan in 2009 and 2008, respectively.

NOTE 10 – EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEETS AND THE STATEMENTS OF NET ASSETS AND THE GOVERNMENTAL STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND THE STATEMENTS OF ACTIVITIES

Total fund balances of the Fire Department differ from net assets of the Fire Department reported in the Statements of Net Assets. This difference primarily results from the long-term economic focus of the Statements of Net Assets versus the current financial resources focus on the Fire Department's governmental fund balance sheets. The provisions of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* imposed this change in focus.

The activities related to the construction, use and financing of fire stations and the training facility are recorded in adjustment columns of the respective statements. Accordingly the capital assets net of depreciation and the related liabilities are recorded on the Statements of Net Assets. Depreciation expense and revenues received related to the financing of capital assets are included in the adjustments on the Statements of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances and Statements of Activities.

NOTE 23 – THE WOODLANDS CONVENTION AND VISITORS BUREAU

The Woodlands Convention and Visitors Bureau (CVB), a 501(c)6 organization, was created in 2006 by The Woodlands Township 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 drive 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 Woodlands Township. Tax revenue generated by the tourism industry is reinvested in community projects and programs.

THE WOODLANDS TOWNSHIP NOTES TO FINANCIAL STATEMENTS

The CVB is a discretely presented component unit of The Woodlands Township due to 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 Woodlands Township or appointed by the CVB Board of Directors. Currently, The Woodlands Township is the only member of the CVB. Annually, the membership elects the CVB's Board of Directors. As of December 31, 2009, 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.

In 2008, the CVB received approximately \$1.5 million of its funding through operating transfers from the Township's General Fund, \$193 thousand from event sponsorships and charges for services which are reported as program revenues on the Statement of Activities. The CVB reports all expenditures in its General Fund; this is the CVB's only major governmental fund type. As of December 31, 2009, the CVB reported no capital assets or long-term debt.

The CVB is funded through quarterly cash transfers from the Township based on the annual budget plan and service agreement approved by the Township Board. As of December 31, 2009, the CVB's demand deposits of \$559,332 were insured by FDIC coverage up to \$250,000. Throughout the year, working capital requirements are monitored to minimize the risk of any uninsured deposits. Receivables in the amount of \$45,579 as of December 31, 2009 consisted of outstanding sponsorships and Ice Rink admissions and sales

OTHER SUPPLEMENTARY INFORMATION

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THE WOODLANDS TOWNSHIP
SPECIAL REVENUE FUND
PROJECT BALANCE SHEETS
December 31, 2009

	<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	\$	\$ 18	\$	\$ 18	\$	\$ 36
Sales tax receivable	21,584	189,387	148,809	214,706	2,678,664	3,253,150
Accrued interest receivable		3	4	1		8
Total assets	<u>\$ 21,584</u>	<u>\$ 189,408</u>	<u>\$ 148,813</u>	<u>\$ 214,725</u>	<u>\$ 2,678,664</u>	<u>\$ 3,253,194</u>
Liabilities and Fund Balances						
Liabilities:						
Accrued expenditures	\$	\$ 4,288,266	\$ 3,361,782	\$ 214,533	\$	\$ 7,864,581
Due to other funds					2,678,664	2,678,664
Total liabilities		<u>4,288,266</u>	<u>3,361,782</u>	<u>214,533</u>	<u>2,678,664</u>	<u>10,543,245</u>
Fund balances:						
Undesignated	21,584	(4,098,858)	(3,212,969)	192		(7,290,051)
Total fund balances	<u>21,584</u>	<u>(4,098,858)</u>	<u>(3,212,969)</u>	<u>192</u>		<u>(7,290,051)</u>
Total liabilities and fund balances	<u>\$ 21,584</u>	<u>\$ 189,408</u>	<u>\$ 148,813</u>	<u>\$ 214,725</u>	<u>\$ 2,678,664</u>	<u>\$ 3,253,194</u>

THE WOODLANDS TOWNSHIP
SPECIAL REVENUE FUND
SCHEDULE OF PROJECT REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2009

	<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>
Revenues						
Sales tax revenues	\$ 212,857	\$ 935,150	\$ 794,942	\$ 1,115,525	\$ 11,680,357	\$ 14,738,831
Investment earnings	1	26	32	192		251
Total Revenues	<u>212,858</u>	<u>935,176</u>	<u>794,974</u>	<u>1,115,717</u>	<u>11,680,357</u>	<u>14,739,082</u>
Expenditures						
Current						
Economic development	191,274	935,150	794,942	1,115,525		3,036,891
Interest and fiscal charges		250,167	210,196			460,363
Total Expenditures	<u>191,274</u>	<u>1,185,317</u>	<u>1,005,138</u>	<u>1,115,525</u>		<u>3,497,254</u>
Excess (deficiency) of revenues over expenditures	<u>21,584</u>	<u>(250,141)</u>	<u>(210,164)</u>	<u>192</u>	<u>11,680,357</u>	<u>11,241,828</u>
Other Financing Sources (Uses)						
Operating transfers out					(11,680,357)	(11,680,357)
Total other financing sources (uses)					<u>(11,680,357)</u>	<u>(11,680,357)</u>
Net change in fund balances	21,584	(250,141)	(210,164)	192		(438,529)
Fund balances - beginning		<u>(3,848,717)</u>	<u>(3,002,805)</u>			<u>(6,851,522)</u>
Fund balances - ending	<u>\$ 21,584</u>	<u>\$ (4,098,858)</u>	<u>\$ (3,212,969)</u>	<u>\$ 192</u>	<u>\$</u>	<u>\$ (7,290,051)</u>

THE WOODLANDS TOWNSHIP
BALANCE SHEETS - GOVERNMENTAL FUNDS (FUND BASIS)
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2009

	The Woodlands Convention and Visitors Bureau	The Woodlands Fire Department			Total Governmental Funds
	General	General	Debt Service	Total Woodlands Fire Department	
Assets					
Cash and Cash Equivalents	\$ 559,332	\$ 2,343,844	\$	\$ 2,343,844	\$ 2,903,176
Due from other funds			2,257,043	2,257,043	2,257,043
Other Receivables	45,579	66,053	250,086	316,139	361,718
Prepaid Items	739	229,858		229,858	230,597
Total assets	\$ 605,650	\$ 2,639,755	\$ 2,507,129	\$ 5,146,884	\$ 5,752,534
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable	\$ 65,930	\$ 284,680	\$ 16,073	\$ 300,753	\$ 366,683
Accrued expenditures	539,720				539,720
Due to other funds		2,257,043		2,257,043	2,257,043
Total liabilities	605,650	2,541,723	16,073	2,557,796	3,163,446
Fund balances:					
Reserved:					
Debt Service			2,491,056	2,491,056	2,491,056
Unreserved:					
Undesignated		98,032		98,032	98,032
Total fund balances		98,032	2,491,056	2,589,088	2,589,088
Total liabilities and fund balances	\$ 605,650	\$ 2,639,755	\$ 2,507,129	\$ 5,146,884	\$ 5,752,534

**THE WOODLANDS TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
December 31, 2009**

	Woodlands Convention and Visitors Bureau	The Woodlands Fire Department	Total Governmental Funds
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Total fund balance, governmental funds	\$	2,589,088	2,589,088
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		17,398,270	17,398,270
Accounts receivable from affiliates ultimately is due from the primary government who assumed the related assets and liabilities of the affiliates effective January 1, 2010.		168,507	168,507
Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.			
Notes payable		(13,619,500)	(13,619,500)
Construction payable		(40,179)	(40,179)
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$</u>	<u>6,496,186</u>	<u>6,496,186</u>

THE WOODLANDS TOWNSHIP
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS (FUND BASIS)
DISCRETELY PRESENTED COMPONENT UNITS
For the Year Ended December 31, 2009

	The Woodlands Convention and Visitors Bureau	The Woodlands Fire Department			Total Governmental Funds
	General	General	Debt Service	Total Woodlands Fire Department	
Revenues					
Intergovernmental revenues	\$ 1,499,075	\$ 14,725,000	\$ 2,962,407	\$ 17,687,407	\$ 19,186,482
Investment earnings	249				249
Miscellaneous revenues	436,140	990,526		990,526	1,426,666
Total Revenues	<u>1,935,464</u>	<u>15,715,526</u>	<u>2,962,407</u>	<u>18,677,933</u>	<u>20,613,397</u>
Expenditures					
Current					
Attractions and events	1,234,586				1,234,586
Destination marketing	496,107				496,107
Market and promotion	204,771				204,771
Fire protection services		13,373,474		13,373,474	13,373,474
General and administrative		1,449,516		1,449,516	1,449,516
Capital outlay		1,000,303		1,000,303	1,000,303
Debt service:					
Principal		13,426		13,426	13,426
Interest and fiscal fees		909	200,043	200,952	200,952
Total Expenditures	<u>1,935,464</u>	<u>15,837,628</u>	<u>200,043</u>	<u>16,037,671</u>	<u>17,973,135</u>
Excess (deficiency) of revenues over expenditures		(122,102)	2,762,364	2,640,262	2,640,262
Net change in fund balances		(122,102)	2,762,364	2,640,262	2,640,262
Fund balances - beginning		220,134	(271,308)	(51,174)	(51,174)
Fund balances - ending	<u>\$</u>	<u>\$ 98,032</u>	<u>\$ 2,491,056</u>	<u>\$ 2,589,088</u>	<u>\$ 2,589,088</u>

THE WOODLANDS TOWNSHIP

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

DISCRETELY PRESENTED COMPONENT UNITS

For the Year Ended December 31, 2009

	<u>Woodlands Convention and Visitors</u>	<u>Woodlands Fire Department</u>	<u>Total Governmental Funds</u>
Net change in fund balances	\$	\$ 2,640,262	\$ 2,640,262

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

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

Capital outlay		1,000,303	1,000,303
Depreciation expense		(1,489,871)	(1,489,871)

Revenues from affiliates are not recognized on the fund basis:

Assignment of assessments		659,017	659,017
Debt forgiven by affiliates		800,383	800,383

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities.

Principal retirement on debt		13,426	13,426
Change in net assets of governmental activities	<u>\$</u>	<u>\$ 3,623,520</u>	<u>\$ 3,623,520</u>

