

*City of
Highland
Village, Texas*



*Comprehensive
Annual
Financial
Report*



*Fiscal Year Ended
September 30, 2011*



**CITY OF
HIGHLAND VILLAGE, TEXAS**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2011**

Prepared by:

The Finance Department

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CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

TABLE OF CONTENTS

	<u>Page Number</u>
 INTRODUCTORY SECTION	
Letter of Transmittal.....	i – viii
Organization Chart	ix
Principal Officials.....	x
GFOA Certificate of Achievement	xi
 FINANCIAL SECTION	
Independent Auditors’ Report.....	1 – 2
Management’s Discussion and Analysis	3 – 18
Basic Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Assets	19
Statement of Activities	20 – 21
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	23

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011
(Continued)
TABLE OF CONTENTS

Page
Number

FINANCIAL SECTION (Continued)

Basic Financial Statements (Continued)

Fund Financial Statements (Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25
Statement of Net Assets – Enterprise – Water and Wastewater Fund.....	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Enterprise – Water and Wastewater Fund	27
Statement of Cash Flows – Enterprise – Water and Wastewater Fund	28 – 29
Notes to the Financial Statements	30 – 55

Required Supplementary Information:

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....	56
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Community Development Corporation.....	57
Notes to Budgetary Comparison Information	58

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011
(Continued)
TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION (Continued)	
Combining and Individual Fund Statements and Schedules	
Combining Balance Sheet – Nonmajor Governmental Funds	59 – 60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	61 – 62
Combining and Individual Fund Statements and Schedules (Continued)	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Debt Service Fund	63
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Corps Leased Parks Fund	64
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Park Development Fund	65
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Public Safety Fund	66
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Municipal Court Security Building Fund	67
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Technology Fund	68
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Utility Drainage Fund	69

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011
(Continued)
TABLE OF CONTENTS

	<u>Table</u>	<u>Page Number</u>
FINANCIAL SECTION (Continued)		
Capital Assets Used in the Operation of Governmental Funds		
Comparative Schedule by Source		70
Schedule by Function and Activity		71
Schedule of Changes by Function and Activity		72
STATISTICAL SECTION (Unaudited)		
Net Assets by Component	1	73 – 74
Changes in Net Assets	2	75 – 78
Fund Balances – Governmental Funds	3	79
Changes in Fund Balances – Governmental Funds	4	80 – 81
Assessed Value and Estimated Actual Value of Taxable Property	5	82
Direct and Overlapping Property Tax Rates	6	83
Principal Property Taxpayers	7	84
Property Tax Levies and Collections	8	85
Ratios of Outstanding Debt by Type	9	86

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011
(Continued)
TABLE OF CONTENTS

	<u>Table</u>	<u>Page Number</u>
STATISTICAL SECTION (Unaudited) (Continued)		
Ratios of General Bonded Debt Outstanding	10	87
Direct and Overlapping Governmental Activities Debt	11	88
Legal Debt Margin Information	12	89
Pledged Revenue Coverage	13	90
Demographic and Economic Statistics	14	91
Principal Employers – Current and Nine Years Ago	15	92
Fulltime Equivalent City Government Employees by Function/Program	16	93
Operating Indicators by Function/Program	17	94 – 95
Capital Asset Statistics by Function/Program	18	96
 COMPLIANCE		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		97 – 98

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INTRODUCTORY SECTION

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FINANCE
1000 Highland Village Road
Highland Village, TX 75077
972-899-5089 F 972-899-5100
www.highlandvillage.org

March 23, 2012

Honorable Mayor, City Council
City of Highland Village
Highland Village, Texas

The Finance Department of the City of Highland Village is pleased to submit the Comprehensive Annual Financial Report of the City of Highland Village, Texas, for the fiscal year ended September 30, 2011.

The report is published to provide the City Council, management staff, our citizens and other interested parties with detailed information concerning the financial condition and performance of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Highland Village. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The financial statements included in this report were prepared in accordance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB), the National Council on Governmental Accounting (NCGA) and the American Institute of Certified Public Accountants (AICPA). To demonstrate further public accountability, the independent accounting firm of Certified Public Accountants, Pattillo, Brown & Hill, L.L.P. whose report is included herein, has audited the City's financial statements.

Pattillo, Brown & Hill, L.L.P., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Highland Village's financial statements for the year ended September 30, 2011. The independent auditors' report is located at the front of the financial section of this report.

In addition, a Management's Discussion and Analysis (MD&A) section, immediately following the independent auditors' report includes a narrative introduction, overview, and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Highland Village, incorporated in 1963, is located in the southeastern portion of Denton County on Highway 407, west of Lewisville, 20 miles north of Dallas, 34 miles northeast of Fort Worth, 15 miles southeast of Denton and 8 miles north of Dallas-Fort Worth International Airport. The City is primarily residential.

The City's estimated 2011 population is 15,305, an 18% increase over the past 10 years. A reflection of this sustained growth in population is evidenced by a consistent trend in the number of single-family residential permits being issued. The City is currently approximately 96% built out, with approximately 184 single-family residential homes remaining to be built in platted and unplatted parcels. The estimated build out date is approximately 2020. Over the last seven years, the City has averaged 51 single-family residential permits annually. The average assessed value for existing single-family dwellings on the 2010 Tax Roll was \$278,454.

The City of Highland Village operates under a council-manager form of government. Policy-making and legislative authority are vested in a governing council (City Council), consisting of a mayor and six other members, all elected at large. The Council appoints the City Manager, who in turn appoints the heads of the various departments. All council members are elected for two-year terms.

This report includes all funds of the City. The City provides a full range of services. These services include police and fire protection; the construction and maintenance of streets and infrastructure; recreational facilities and cultural events. In addition to general government administrative services, the City provides water, sewer and sanitation services. The City is also financially accountable for a legally separate component unit – the Highland Village Community Development Corporation, which is reported as a blended component unit within the City of Highland Village's financial statements. See Note 1A for additional information.

The Council is required to adopt a final budget by no later than September 30th – the close of the fiscal year. This annual budget serves as the foundation for the City of Highland Village's financial planning and control. The budget is prepared by fund, category (personnel, services/supplies, capital) and department (e.g., police, fire, human resources). Departments may reallocate resources within a category, but reallocation between categories or departments requires council approval.

Local Economy

As the national economy continues to slowly pull itself out of recession, the North Texas economy also reflects this trend. In general, North Texas as a whole has experienced less severe symptoms than most of the country – still grappling with devaluation in the housing market, with accompanying foreclosures. But while some housing values have declined locally – it is less extensive, as the area housing market grew steadily over past years, without the significant appreciation that has contributed to the recent decline in other markets around the country. Increased production of natural gas in the Barnett Shale formation in this area has been a stimulus to the local economy, but has slowed due to depressed gas prices. The close proximity of the Dallas-Fort Worth International Airport and both cities of Dallas and Fort Worth enhance increasing residential development. The average value of new construction residential permits was approximately \$235,599. There were 24 single-family permits issued during fiscal year 2010/2011 for a total construction value of \$5,654,372. In addition, there were 5,347 water connections, with 5,054 being the total residential. Since the City's residential tax base is a significant portion of its annual budget, these increases have the most significant impact on the City's ability to raise revenues to provide the services and conditions for future growth.

There were 41 commercial permits issued during the year for a total construction value of \$9,768,901. Increased commercial development has certainly enhanced the business and economic outlook for the City. Over the past fifteen years, the City has realized gradual economic development, beginning with the completion in 1995 of the 80,000 square foot Highland Village Town Center shopping complex. Kroger's grocery chain is the anchor commercial development in the Town Center complex. Phase II of this development was completed in October 1997, with both developments maintaining a high occupancy. Valley Ridge Center, a professional office complex on FM 407 was also added in 1997. A new bank, United Community Bank, opened for business in 1998 with a temporary building - a permanent bank building was completed in 1999.

In January 1999, the City Council initiated implementation of an overlay ordinance for nonresidential development. This change was enacted to create a unique look for Highland Village by requiring a residential look to nonresidential uses. This effort was seen as an economic development issue to ensure quality future development. The completion of Village Parkway in 1998 in the western part of the City provides additional economic stimulus for the City - particularly now that TXDOT has constructed a segment that will extend this roadway to Denton as an extension of FM 2499, providing an alternate route to DFW Airport. And this, in turn, greatly enhances the commercial value of the developments at the FM 407 and FM 2499 intersection with the resulting increase in traffic.

Village Creek Center, started in the mid 1980's, added three new buildings in 1999 to complete their site plan. This center includes restaurant facilities and professional office space. In 2000, a two-building professional office development was completed and fully leased, with plans to expand by another building. Also in 2000, Tartan Village Retail Center opened with 6,000 square feet of retail space and Barnett Center constructed a childcare facility. The Barnett Center added an animal hospital in 2002 and a 56,000 square foot assisted living facility was added in 2003, with a 35,000 square foot extensive care addition completed the following year.

Celebrations, a 12,000 square foot banquet hall, was completed in 2003, and a 17,000 square foot retail center, Tartan Square, was added in 2004. Highland Village Business Park was completed, with two office / professional buildings totaling 16,000 square feet, in early 2005.

With limited remaining undeveloped commercial property in Highland Village – primarily located along FM 407 and FM 2499, the City focused on the remaining undeveloped property to ensure compatible, high-quality development. An additional overlay district was developed for this area to apply standards that will assure the highest and best use, with the potential for increased sales tax revenues while continuing to maintain the high quality of life in Highland Village.

The remaining principal area for retail development, at the intersection of FM 407 and FM 2499, saw substantial activity beginning in 2006. A development by Opus West Corporation at the northeast corner of this intersection - the Marketplace at Highland Village, a 66-acre retail mixed-use development anchored by a 205,000 square foot Wal-Mart Super center, also including approximately 280,000 square feet of retail, office, and restaurants, saw some of its businesses open in October 2006, with the Wal-Mart store opening in November 2007. The Wal-Mart store is truly one-of-a-kind, with preservation of a 125 year-old pecan tree incorporated into the front entrance of the store.

On the northwest corner of the intersection, The Shops at Highland Village, a 45-acre development by Regency Centers, opened in September 2007. Barnes & Noble and an AMC Theater anchor the 380,000 square foot center, with upscale retail stores including Coldwater Creek, American Eagle, Ann Taylor, Eddie Bauer as well as a number of restaurants. The Shops at Highland Village is a pedestrian friendly, lifestyle shopping experience featuring fountains, outside dining areas, and pedestrian walkways – also connecting to the City's Inland Trail system.

In February, 2008 the site plan for The District at Highland Village was approved for construction. The District is located at the northwest corner of Briarhill Blvd. and FM 407 and is a 15-acre mixed-use development which includes 73 upscale town-homes adjacent to the existing residential neighborhood with retail, office/professional and restaurant uses located along FM 407. Construction of the initial phase of this development is complete, and leasing has begun.

The City is primarily a residential community with a relatively small commercial base. Substantial residential build-out, expected in the near future, will diminish residential growth. Remaining lots associated with the Chapel Springs development (initially 121 lots, with 18 remaining), and Highland Oaks (initially 40 lots, and 29 remaining) in the western portion of the city, is expected to provide modest sustained residential building activity. And the District Development will potentially provide 73 additional homes in the city.

There are shopping areas with major retail department stores, variety stores and chain stores located in the general vicinity of Highland Village. Wholesale firms, distributing automobile parts and supplies, electronics, lumber, meats, plumbing fixtures, petroleum products and boat distributors are also located in the general vicinity. A plentiful supply of skilled labor is available to industry in the Highland Village area. Denton County reflected an unemployment rate of 7.5% as of September 2011.

Long Term Financial Planning

Economic Development, specifically retail development, continues to be a primary objective. This will not only provide desired amenities for residents' immediate access, but also an avenue to diversify the City's revenue stream that is highly dependent on property tax. This is especially pertinent as the City nears substantial residential build-out, and accompanying declining growth in assessed valuation. A stated focus of Council is to maintain the current tax rate. This, coupled with declining growth in assessed valuation, provides a challenge to maintain the high level of services provided for in this community. A continued primary focus over the next few years is to maintain current staffing levels through residential build-out while maintaining the City's excellent level of service.

Future water supply, pumping facilities, and wastewater treatment will also continue to be a focal point of meeting growth demands through build-out. Highland Village has contracted with the Upper Trinity Regional Water District (UTRWD) to take three million gallons of water per day (MGD). This water supply supplements the City's four productive water wells. A utility rate structure was updated to provide a 70/30 mix of surface water and ground water respectively. To meet the City's wastewater needs, a long-term solution was finalized in June, 1995 with a 1.8 million gallons per day treatment contract with the Upper Trinity Regional Water District's Lakeview Wastewater Reclamation Project, which provided for a participatory contract to meet the City's build out wastewater effluent needs. In the initial stage of this contract, developer contributions (Impact Fees) have paid the bulk of the annual commitments with the existing ratepayers paying a minimal portion of the contract cost. The City temporarily reduced its capacity to 1.404 MGD in FY 2002, reapportioning the difference to other participating cities. The City's current capacity is at 1.65, but the City may reinstate the 1.8 MGD capacity at a future date, if needed. The subscribed capacities for both water and sewer are generally expected to be sufficient through build-out. However, within the next year, the City will consider the necessity of additional water capacity to ensure sufficient capacity to withstand significant interruption in provided water.

A municipal drainage utility was formed at the end of FY 2006 to fund a storm water quality program and related drainage projects necessitated by Phase II MS 4 Storm Water Regulations – administered by the Texas Commission on Environmental Quality (TCEQ). A rate of \$1.20 per 1,000 square feet of impervious cover was established to fund this program – averaging just under \$5.00 per month for most City residents. The utility has a staff of five positions and has procured initial equipment. The utility has already achieved great success, already completing a number of needed drainage projects - also achieving substantial cost savings by averting contracting of these projects.

The City continues to address park programs to meet the changing needs of the community. The governing body adopted an ordinance in 1991 to establish Park Development Fees to be paid by the development community. These fees are dedicated to Park Development. This ordinance was revised in 1997 to collect fees for three components – community park, inland trail system, and neighborhood parks. Phase I of the development of Unity Park was completed and was utilized in full for athletic activity in early 1996. In September 1996, \$1,850,000 in General Obligation Bonds was issued to complete Phase II of Community Park and provide improvements to other City parks. Phase II of the Park, completed in April 1997, includes lighting, restrooms and concessions. An inter-local agreement with the Lewisville Independent School District allows the City and Briarhill Middle School (adjacent to Unity Park) to share common facilities. Completion of Village Park in 2005 provided a neighborhood park in the western quadrant of the City. And the Doubletree Ranch property was purchased in 2009 with funds from a certificate of obligation that will be reimbursed to the City with 4B revenues. This property, 36 acres in the eastern portion of the City, will provide open space, trails, and area for soccer fields, in a pristine setting. These projects have been well received in the community. A master plan for this property was approved in 2011.

A number of recreation programs have been initiated. In particular, baseball and soccer associations have experienced consistent participation, and have remained quite successful. An additional primary focus of the City has been the establishment of a comprehensive trail system throughout the City. The initial spine (9.83 miles) of the trail system was initiated with securing a \$1 million TEA-21 grant. This was completed in 2006 with a cost of \$1.7M. Voters approved a ½ cent 4B sales tax in November 2004 – specifically targeted for trail development and a soccer complex. All future development of the trail system is to be funded by the 4B sales tax. A \$3M bond issue in 2008 provided funding for the next section – with another \$3.8M bond issuance in FY 2009 to further expand the trail system in the City. Ultimately, 28 miles of trails are envisioned in the Trail Master Plan.

MAJOR INITIATIVES

The City's staff, following specific directives of the City Council and City Manager, has been involved in a variety of projects throughout the year. These projects reflect the City's commitment to ensuring that its citizens are able to live and work in an enviable environment. The following are initiatives and programs relating to general governmental functions:

- The tax rate remained at \$.56963 from the previous year, due to increased valuation, as well as increased sales tax revenues with realization of economic development. Maintaining this tax rate provided sufficient resources to ensure fund balance requirements and meet increased service delivery objectives.
- Proactively responded to 149 requests from the public for city documents—Public Information Act (Open Record). In an effort to expedite and preserve paper, responsive records are provided electronically, whenever possible to requestors.

- Processed reimbursement for the TIFMAS Wildland Fire Deployments.
- The Fire Department provided CPR, 1st Aid and Healthcare Provider training to 251 residents, businesses, and employees during FY 2010-2011.
- Received the 2011 Life Safety Achievement Award from the Residential Fire Institute in recognition of outstanding service to the community.
- Sponsored and implemented public education programs including fire safety, fire prevention, and fire awareness programs for the students and teachers at Highland Village schools.
- Transitioned external hiring to an on line application system (ERecruiter).
- Introduced 401a deferred compensation option for the City Manager and Department Heads.
- Developed insurance discounts for employees participating in wellness activities.
- Implemented Active Net, a new class, facility, and event registration software system.
- Conducted public input sessions and finalized the Master Plan for the Doubletree Ranch Park Master Plan.
- Moved all City equipment out of Doubletree Ranch Park site, demolished existing buildings and cleaned up the park site so that the greenspace can be enjoyed by the general public.
- Recognized as the Safest City in North Texas for the 10th consecutive year.
- The department's Police Involving Parents (PIP) program provided "Less than Strict Enforcement" opportunities to 172 teens in the community who were involved in minor offenses (curfew, alcohol, and tobacco violations, criminal mischief, etc.) during FY 2009. Since its inception in 2005 a total of 1,184 community youth have been afforded this opportunity.
- The Police Department's Police Auxiliary program provided 2,512 hours of volunteer service for such activities as: Volunteers in Patrol (VIP), traffic control, crowd management, court services, crossing guard, school assistance, etc.
- The LETS (Law Enforcement Teaching Students) Program was acquired from the Dallas Police Department. The Highland Village Police Department is now the hub of distribution for this program and will conduct any training within the State of Texas for departments wishing to utilize this program. We also provided 120 hours of Law Enforcement Teaching Students (LETS) training to over 700 elementary and middle school students.
- Five Utilities employees obtained or maintained certificates above and beyond those required for their job descriptions.
- Installed 100-feet of steel guardrail on Highland Village Road for safety.
- Brought the City Works work order system online and fully implemented a paperless work order system.

Relevant Financial Policies

The City's financial policies address accounting and fiscal operations of the City with emphasis on asset management, operating reserves and fund balances. The City has established policies to maintain a fund balance equivalent to 15% of General Fund expenditures. Accordingly, fund balance levels have remained above this level. Ending fund balance was 33% in FY 2007, 35% in FY 2008, 32% in FY 2009, 34% in FY 2010, and 34% in FY 2011. Financial policies provide for one-time or non-recurring revenues not being used to finance current ongoing operations. Non-recurring revenues should be used only for one-time expenditures such as long-lived capital needs. They will not be used for budget balancing purposes. Fund balance levels are currently higher than anticipated to be necessary on an on-going basis. With recent initiatives realized in diversification of the City's revenue base – specifically a higher percentage of sales tax revenues, the City will likely maintain a fund balance higher than the current policy of 15%, but less than current actual levels. Concurrent with establishing a track record with the expanded sales tax base, is a gradual plan to reduce fund balance levels – specifically by funding capital items with excess reserves. A continuing priority is to ensure sufficient revenues are available for the level of operating expenditures.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Highland Village for its comprehensive annual financial report for the fiscal year ended September 30, 2010. This was the twentieth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City also received the GFOA Distinguished Budget Presentation Award for its annual budget document for fiscal year 2011 – the City's sixth receipt of this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the finance department. Thanks especially to Heather Miller for her hard work toward the completion of this document and continued commitment to excellence in accounting standards. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

In closing, without the leadership and support of the City Council of the City of Highland Village, preparation of this report would not have been possible.

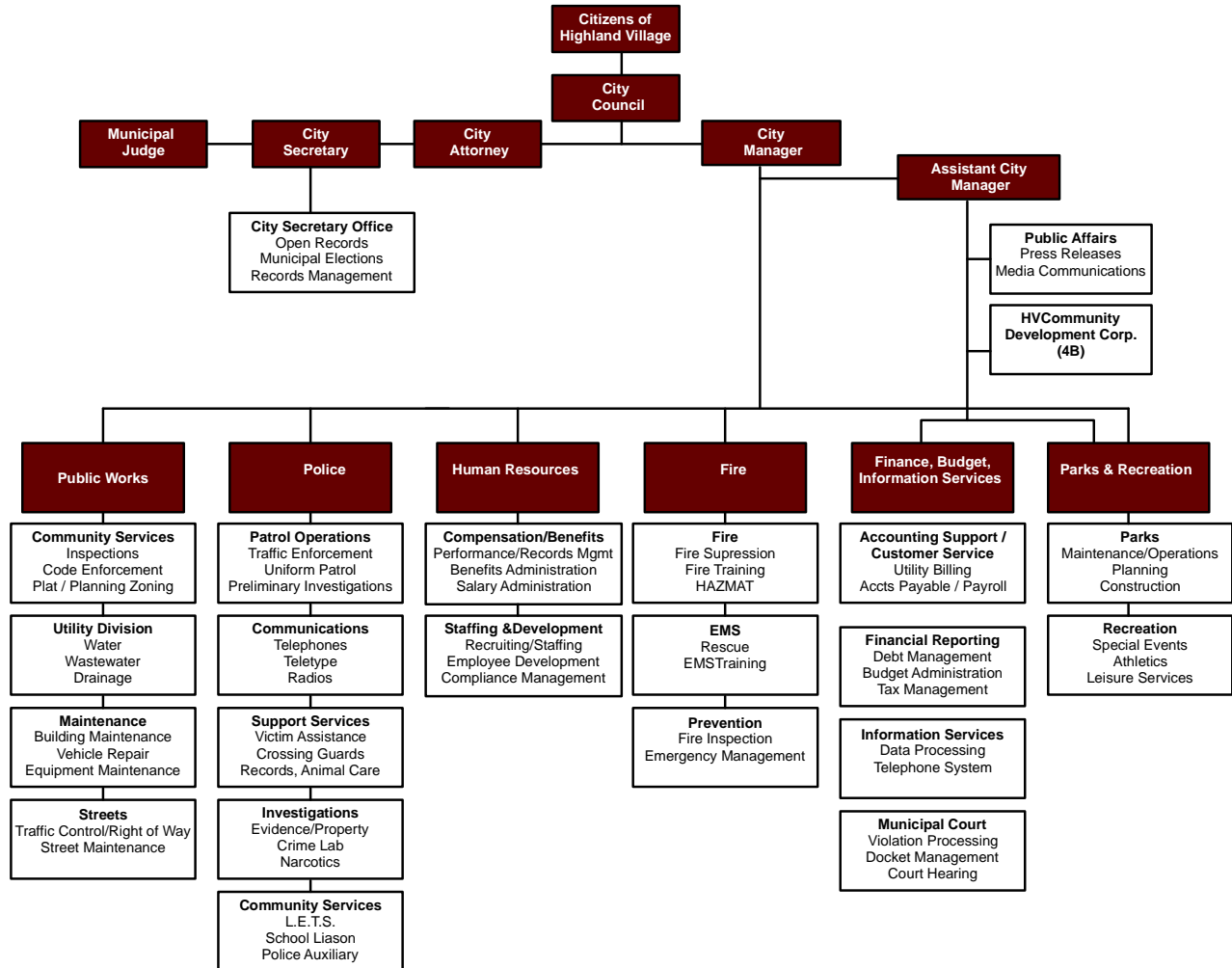
Sincerely,

A handwritten signature in black ink that reads "Ken Heerman". The signature is written in a cursive style with a long horizontal stroke at the end.

Ken Heerman
Assistant City Manager

City of Highland Village

Organization Chart FY 2010 / 2011



CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OCTOBER 1, 2010 – SEPTEMBER 30, 2011

HOME RULE, COUNCIL-MANAGER FORM OF GOVERNMENT

MAYOR AND CITY COUNCIL

		<u>Term Expires</u>
Scott McDearmont, Mayor	Place 1	05/2012
Bill Irwin	Place 2	05/2012
Charlotte Wilcox	Place 3	05/2013
Louis E. Robichaux, IV, Mayor Pro Tem	Place 4	05/2012
Patrick Davis	Place 5	05/2013
John McGee	Place 6	05/2012
William Meek	Place 7	05/2013

ADMINISTRATIVE

Michael Leavitt	City Manager
Diane Callahan	City Secretary
Ken Heerman	Assistant City Manager
Matthew Kite	Director of Public Works
Ed O'Bara	Police Chief
Lonnie Tatum	Fire Chief
Martha Butz	Human Resources Director
Linda Cornelius	Director of Parks and Recreation

Prepared by:
City's Finance Department

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Highland Village
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2010

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.



Linda C. Danson

President

Jeffrey R. Egan

Executive Director

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of City Council
City of Highland Village, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Highland Village, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highland Village, Texas, as of September 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information on pages 3 through 18 and pages 56 through 58, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of the financial statements for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Pattillo, Brown & Hill, L.L.P.

March 23, 2012

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Highland Village, we offer readers of the City of Highland Village's financial statements this narrative overview and analysis of the financial activities of the City of Highland Village for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets of Highland Village exceeded its liabilities at the close of the most recent fiscal year by \$54,207,443. Of this amount, \$7,039,125 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$847,253. A \$1,537,849 decrease in net assets related to governmental activities was coupled with an increase of \$2,385,102 of net assets in business-type activities.
- As of September 30, 2011, Highland Village's governmental funds reported combined ending fund balances of \$8,304,310, a decrease of \$931,552 in comparison with the prior year. Approximately 52 percent of this total amount, \$4,295,895, is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,295,895, or 34 percent of total General Fund expenditures.
- The City of Highland Village's total debt decreased by \$2,765,000 during the current fiscal year as no new debt was issued in this fiscal year. The City did, however, take advantage of a refunding opportunity.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided between two kinds of activities:

Governmental activities. Most of the City's basic services are reported here, including the police, fire, community development, public works, information services, park services, municipal court, and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.

Business-type activities. The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and drainage utilities are reported here.

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. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City Council also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City of Highland Village can be divided into two categories: governmental funds, and proprietary funds.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The City of Highland Village maintains 11 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, Debt Service Fund, and Highland Village Community Development Fund, all of which are considered to be major funds. Data from the other 8 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's Enterprise Fund (a proprietary fund) is identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows.

The City of Highland Village maintains an Enterprise Fund to account for water and sewer services provided to the City's retail and wholesale customers. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

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 funds financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Highland Village's budgetary comparison for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets were \$54,207,443 as of September 30, 2011. Analyzing the net assets and net expenses of governmental and business-type activities separately, business-type activities' net assets are \$11,637,077. This analysis focuses on the net assets (Table 1), and the change in net assets (Table 2).

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

TABLE 1**CITY OF HIGHLAND VILLAGE'S NET ASSETS**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 10,225,380	\$ 11,358,850	\$ 9,344,308	\$ 10,207,492	\$ 19,569,688	\$ 21,566,342
Capital assets	<u>55,796,759</u>	<u>58,040,527</u>	<u>15,301,062</u>	<u>13,258,178</u>	<u>71,097,821</u>	<u>71,298,705</u>
Total assets	<u>66,022,139</u>	<u>69,399,377</u>	<u>24,645,370</u>	<u>23,465,670</u>	<u>90,667,509</u>	<u>92,865,047</u>
Long-term liabilities	19,588,861	21,379,441	10,686,384	11,778,723	30,275,245	33,158,164
Other liabilities	<u>3,862,912</u>	<u>3,911,721</u>	<u>2,321,909</u>	<u>2,434,972</u>	<u>6,184,821</u>	<u>6,346,693</u>
Total liabilities	<u>23,451,773</u>	<u>25,291,162</u>	<u>13,008,293</u>	<u>14,213,695</u>	<u>36,460,066</u>	<u>39,504,857</u>
Net assets:						
Invested in capital assets, net of related debt	36,432,805	37,529,766	7,149,038	5,664,677	43,581,843	43,194,443
Restricted	1,929,359	1,737,864	1,657,116	1,457,105	3,586,475	3,194,969
Unrestricted	<u>4,208,202</u>	<u>4,840,585</u>	<u>2,830,923</u>	<u>2,130,193</u>	<u>7,039,125</u>	<u>6,970,778</u>
Total net assets	<u>\$ 42,570,366</u>	<u>\$ 44,108,215</u>	<u>\$ 11,637,077</u>	<u>\$ 9,251,975</u>	<u>\$ 54,207,443</u>	<u>\$ 53,360,190</u>

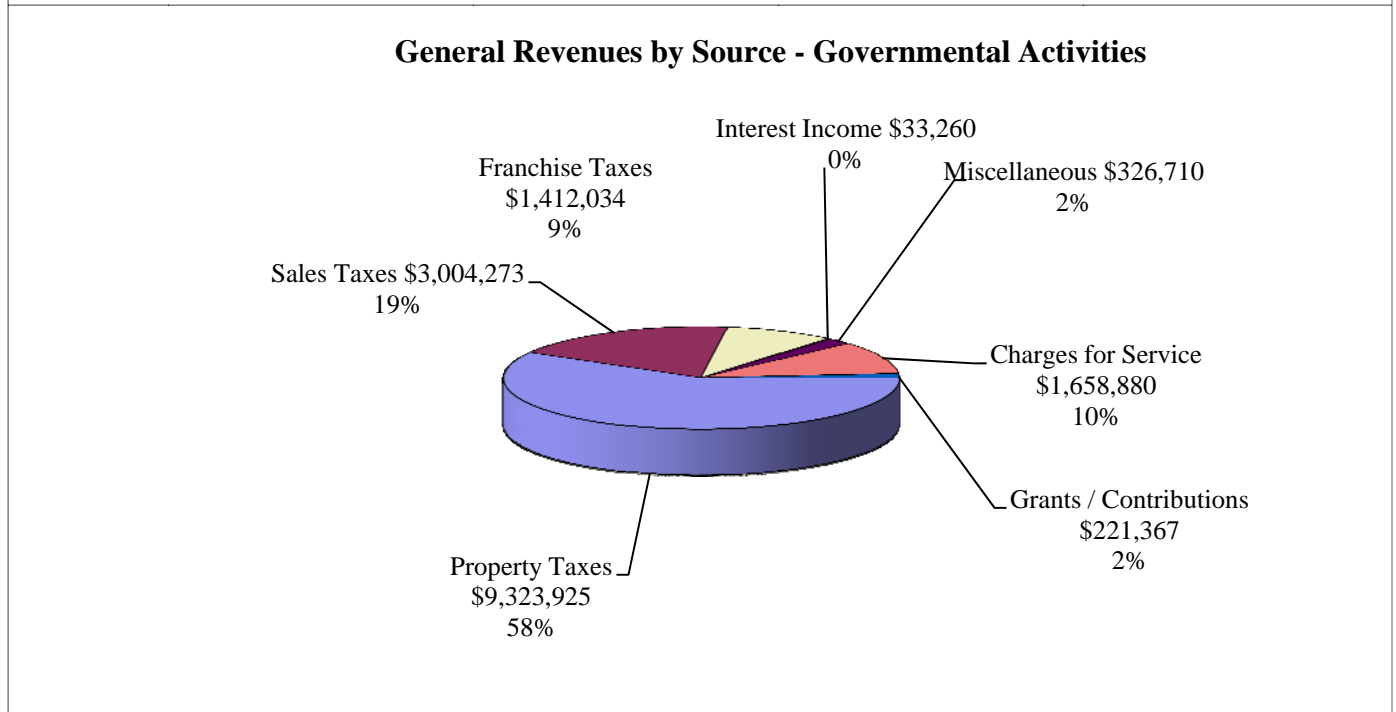
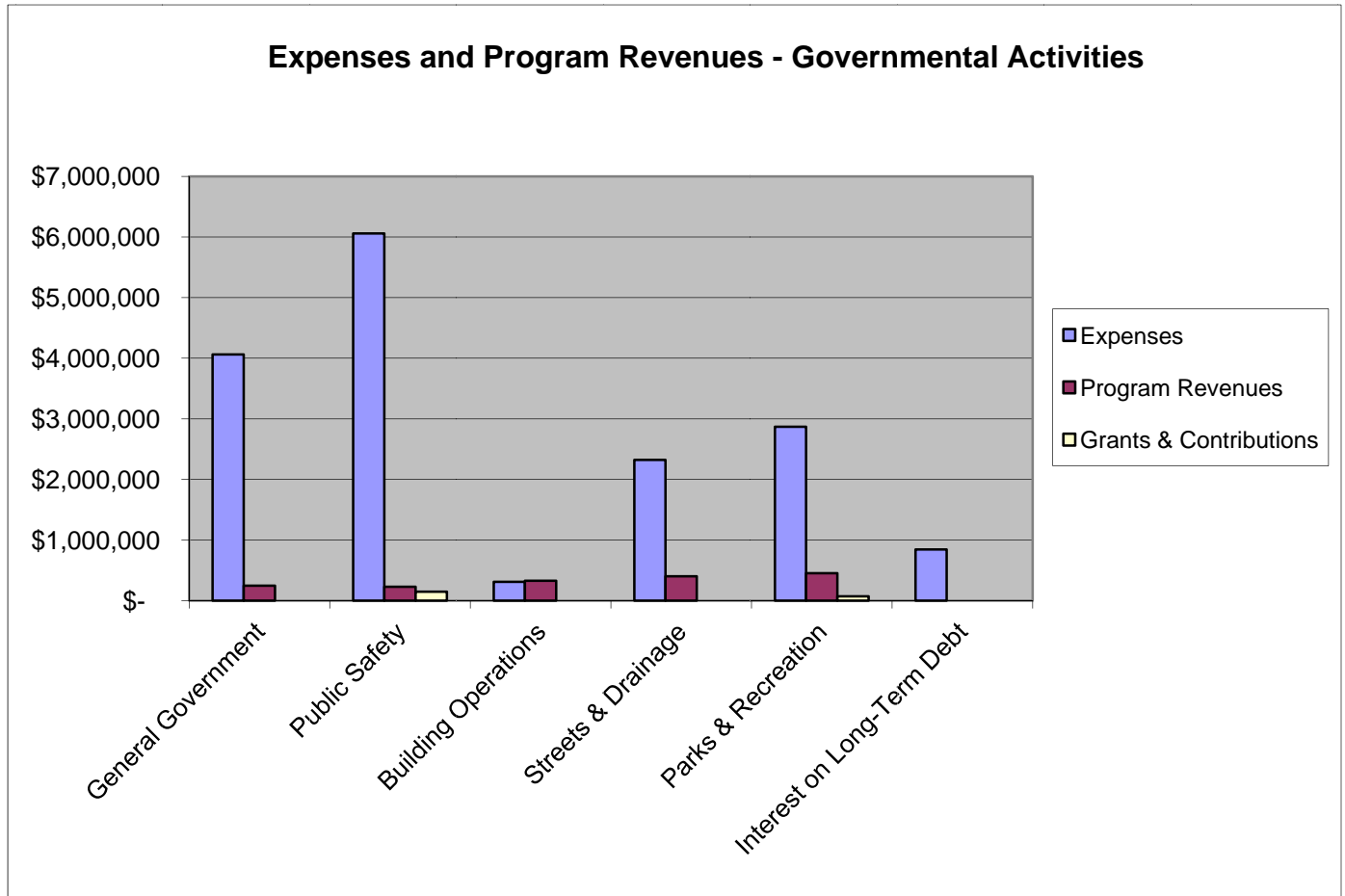
The following table (Table 2) provides a summary of the City's operations for the year ended September 30, 2011. Governmental activities decreased the City's net assets by \$1,537,849 while business-type activities increased the City's net assets by \$2,385,102, resulting in a net \$847,253 increase in total net assets.

TABLE 2

CITY OF HIGHLAND VILLAGE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 1,658,880	\$ 1,529,889	\$ 9,062,987	\$ 7,348,133	\$ 10,721,867	\$ 8,878,022
Operating grants and contributions	148,982	227,209	-	-	148,982	227,209
Capital grants and contributions	72,385	-	193,982	106,473	266,367	106,473
General revenues:						
Property taxes	9,323,925	9,487,593	-	-	9,323,925	9,487,593
Sales taxes	3,004,273	2,781,423	-	-	3,004,273	2,781,423
Franchise taxes	1,412,034	1,417,221	-	-	1,412,034	1,417,221
Penalties and interest	-	-	-	-	-	-
Interest income	45,144	74,569	36,012	64,597	81,156	139,166
Gain on sale of asset	33,260	-	-	-	33,260	-
Miscellaneous	281,566	210,188	-	-	281,566	210,188
Total revenues	<u>15,980,449</u>	<u>15,728,092</u>	<u>9,292,981</u>	<u>7,519,203</u>	<u>25,273,430</u>	<u>23,247,295</u>
Expenses:						
General government	4,061,944	3,309,453	-	-	4,061,944	3,309,453
Public safety	6,057,589	5,716,458	-	-	6,057,589	5,716,458
Building operations	311,579	347,208	-	-	-	-
Community development	-	510,371	-	-	-	-
Streets and drainage	2,323,968	2,252,522	-	-	2,323,968	2,252,522
Parks and recreation	2,869,595	2,548,972	-	-	2,869,595	2,548,972
Interest on long-term debt	844,711	974,478	-	-	844,711	974,478
Water and wastewater	-	-	7,956,791	8,086,711	7,956,791	8,086,711
Total expenses	<u>16,469,386</u>	<u>15,659,462</u>	<u>7,956,791</u>	<u>8,086,711</u>	<u>24,426,177</u>	<u>23,746,173</u>
Increases in net assets before transfers	(488,937)	68,630	1,336,190	(567,508)	847,253	(498,878)
Transfers	(1,048,912)	276,500	1,048,912	(276,500)	-	-
Change in net assets	(1,537,849)	345,130	2,385,102	(844,008)	847,253	(498,878)
Net assets, beginning	<u>44,108,215</u>	<u>41,486,530</u>	<u>9,251,975</u>	<u>10,095,983</u>	<u>53,360,190</u>	<u>51,582,513</u>
Accounting change and reclassification	-	2,276,555	-	-	-	2,276,555
Net assets, beginning as restated	<u>44,108,215</u>	<u>43,763,085</u>	<u>9,251,975</u>	<u>10,095,983</u>	<u>53,360,190</u>	<u>53,859,068</u>
Net assets, ending	<u>\$ 42,570,366</u>	<u>\$ 44,108,215</u>	<u>\$ 11,637,077</u>	<u>\$ 9,251,975</u>	<u>\$ 54,207,443</u>	<u>\$ 53,360,190</u>

Governmental activities. The City’s expenses for governmental activities are detailed below – with associated program revenues.



Net assets associated with governmental activities decreased \$1,537,849 in FY 2011 – this compared to a \$345,130 increase in net assets in FY 2010.

- FY 2011 revenues increased \$252,357 from the previous year. In general, the increase stemmed from an increase in charges for services of \$128,991 and a \$222,850 increase in sales tax, offset by a \$163,668 decrease in property tax revenue.
 - Property tax revenue decreased \$163,668 resulting from 3.2% decreased valuation.
 - Sales tax revenue increased by \$222,850 due to increased consumer spending as the recession slowly dissipates.
 - Franchise fees decreased by \$5,187 while interest earnings decreased \$58,010.
 - Operating grants and contributions of \$148,982 reflected public safety grants, mainly the Safer Grant received by the Fire Department.
 - Capital grants and contributions of \$72,385 reflected a seized property acquired by the City from the Department of Homeland Security.
- FY 2011 expenses increased \$809,924 from FY 2010, reflecting inflation and increased service demand. The total expense amount of \$16,469,386 was more than total revenues – creating a \$488,937 decrease before transfers. This compares to a \$68,630 increase in FY 2010.
 - Street and Drainage expenses reflected an increase of \$71,687 primarily resulting from an increase in street maintenance contracts of \$51,585.
 - Parks and Recreation expenses increased by \$320,623 in FY 2011 largely due to expenses associated with the Highland Village Economic Development Corporation. Professional services increased \$108,922 due to increased trail related expenses and expenses associated with Doubletree Park, while personnel expenses increased \$37,303 from FY 2010 resulting from an additional position funded mid-year in FY 2010.
 - Increases in Public Safety of \$314,131 were primarily personnel related, with increased expenses of \$308,774 resulting from increased overtime, wildfire deployments, and salary increases.

Business-type activities: Business-type activities reflected a \$2,385,102 increase in the City’s net assets – this compared to an \$844,008 decrease in net assets in FY 2010. Overall, revenues exceeded total expenses/transfers. Increases in charges for service coupled with decreases in operating expenses were the primary drivers behind the increase in net assets.

- Charges for service increased \$1,714,854 from last year’s total of \$7,348,133. Severely dry weather conditions resulted in large increase in water revenues of \$1,307,965 coupled with increased sewer sales of \$402,917 form the majority of the increase.
- A slight offset to the increase in charges for service was the \$28,585 decrease in interest revenue.

- Expenses decreased \$129,920, primarily due to decreased expenses associated with the City's water and sewer contract with the Upper Trinity regional Water District of \$50,164. Personnel costs decreased by \$48,788 mainly due to the reorganization of an Administrative Assistant position. Depreciation decreased \$10,978, while Utilities increased by \$16,988 due to increased electricity consumption.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$8,304,310 a decrease of \$931,552 in comparison with the prior year. Approximately 52 percent of this total amount, or \$4,295,895, constitutes unassigned fund balance, which is available for spending at the City's discretion. The remainder of fund balance is restricted to indicate that it is not available for new spending because it has already been committed 1) allow for prepaid items - \$1,073, 2) to pay debt service - \$349,270, 3) to pay for community development (4B) - \$2,539,696, 4) to pay for public safety - \$76,953, 5) to pay for utility drainage - \$433,566, 6) to pay for capital projects - \$371,455, and 7) committed to park development - \$236,402.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$4,295,895, while total fund balance was \$4,296,968. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 34 percent of total General Fund expenditures, while total fund balance represents 34 percent of that same amount.

The original budget for FY 2011 reflected a \$65,798 drawdown of fund balance, to fund capital equipment purchases – while still providing for sufficient reserve balances. However, while revenues were \$71,125, below the budgeted amount, favorable variances for expenditures in FY 2011 reversed the change in fund balance, instead reflecting an increase of \$106,234. Key factors affecting fund balance are as follows:

- Total General Fund revenues of \$12,195,959 were increased from FY 2010 by \$239,823.
 - Property tax revenue decreased \$119,223 resulting from 3.2% decreased valuation.
 - Sales tax revenue increased \$147,211 accounting for the majority of the increase, while franchise fees decreased \$5,188.
 - Building permits increased \$35,975, but as the City approaches build-out reduced permits are anticipated in the future.
 - Investment earnings increased \$970 from FY 2010.
 - Miscellaneous revenue increased \$106,190 primarily due to a property tax forfeiture of \$46,483 and the application of \$25,000 in escrow funds from a developer.

- Total General Fund expenditures increased in FY 2011 to \$12,502,554, an increase of \$150,165 from the previous year. The FY 2011 actual expenditures were \$240,353 below the original budgeted amount.
 - Personnel expenditures increased \$362,695 from FY 2010 resulting from increased benefit and personnel costs, primarily in the Fire Department due to fighting wildfires which was reimbursed by the State of Texas.
 - Services/Supplies expenditures increased by \$127,847. The primary reason for the increase can be attributed to the payment of a development incentive to the Marketplace at Highland Village, totaling \$283,905 for three years total which had been withheld upon meeting the conditions of the 380 agreement they have with the City.
 - Capital Outlay expenditures decreased by \$340,377 in FY 2011 while maintaining funding for various purchases and projects including three fully outfitted police cruisers, a thermal imaging camera, screening walls on FM 2499, and construction of the Barnett connector.
- Total Other Financing Sources (Uses) reflected a net total of \$412,829 – a \$256,883 decrease from FY 2010. The elements of this total include a transfer in from the Utility Fund of \$300,000, a transfer in of \$124,829 from the Public Safety Fund for expenditures related to that fund but paid from the General Fund, transfers in of \$28,000, and \$16,000 respectively, from the Highland Village Economic Development Corporation and Drainage Utility Fund for support functions provided by the General Fund, a transfer out of \$16,000 to the Drainage Utility Fund for the City’s drainage fees, and a transfer out of \$40,000 to the Corps Leased Parks Fund to fund park equipment.

The Debt Service Fund has a total fund balance of \$349,270, an increase of \$7,851, all of which is restricted for the payment of debt service. For the past several years, a plan to gradually build this fund balance has been utilized, with a goal of about one-half year debt service.

The Highland Village Community Development Fund has a total fund balance of \$2,539,696. This fund reflected a \$214,634 decrease from FY 2010 primarily related to trail construction expenditures.

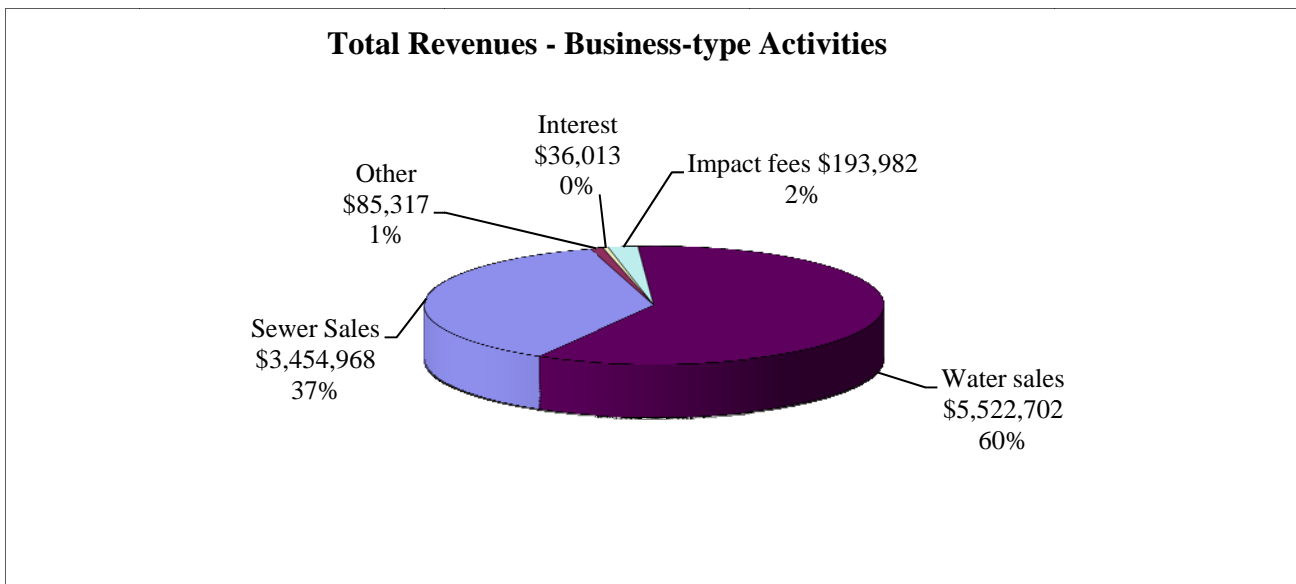
Remaining governmental funds reported a combined ending fund balance of \$1,118,376, reflecting a decrease of \$831,003.

- Revenues for these funds reflected a decrease of \$84,987 from the previous year, largely due to a decrease of \$69,744 in Intergovernmental Revenue and a decrease of \$55,027 in Investment Earnings coupled with an increase of \$40,284 in Licenses, Permits and Fees.
- Combined expenditures decreased \$3,162,751. The Capital Projects Fund can be attributed with \$3,273,039 of the decreased expenditures due to the construction of a Service Center and Community Center completed in FY 2010. Expenditures of \$307,363 in the Corps Leased Parks Fund decreased \$15,731 from FY 2010. Expenditures of \$169,141 in the Park Development Fund increased \$117,284 from FY 2010 due to the development of Village Park. Expenditures in the Public Safety Fund decreased \$66,671, while Expenditures in the Court Building Security Fund increased \$9,288. Expenditures in the Court Technology Fund increased \$180, while expenditures in the Drainage Utility Fund increased \$65,938 primarily due to increased personnel of \$27,602 and supplies/equipment of \$22,345.

Proprietary funds. The City’s proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Net assets in the Enterprise Fund totaled \$11,637,077 at the end of the fiscal year 2011, an increase of \$2,385,102, or 25.8%. Included in net assets is \$1,657,116 restricted for capital projects and unrestricted net assets of \$2,830,923. The remaining net asset balance of \$7,149,038 consists of investments in capital assets, net of related debt.

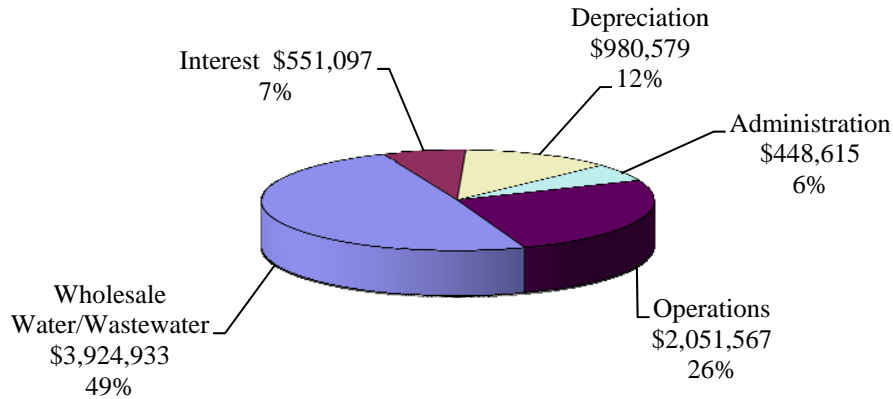
- Utility operating revenues of \$9,062,987 reflected an increase of \$1,714,854 or 23.3%, in FY 2011.
 - Water sales increased \$1,307,965.
 - Sewer sales increased \$402,917.



Utility operating expenses of \$7,405,694 decreased \$41,903, or 0.6%.

- Administration expenses decreased \$53,804 in FY 2011 primarily related to the reorganization of an Administrative Assistant position.
- Maintenance and Operations increased \$22,879.
 - Wholesale water / sewer treatment cost decreased \$23,650.
 - Personnel expenses decreased \$1,893.
 - Services and supplies increased \$48,422 primarily due to increased utilities costs and increased data processing equipment expenses.
- Depreciation decreased in FY 2011 by \$10,978.

Total Expenses - Business-type Activities



GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2010-2011, the City Council of the City of Highland Village amended the budget for the General Fund on two occasions, resulting in an increase in budgeted expenditures of \$428,364. The majority of these appropriations relate to actions taken to fund unbudgeted items during the fiscal year, including the acceptance of grants during the year.

Staff reviewed each supplemental appropriation throughout the year and determined that revenues provided sufficient reserves to recommend their increase. All budget amendments presented had offsetting reductions, except for those that were previously encumbered.

For fiscal year 2010-2011, actual expenditures on a budgetary basis were \$12,502,554. This total was less than the original budgeted expenditures of \$12,742,907 by \$240,353, and \$668,717 below the revised budget. The supplemental requests approved during the year are summarized following:

- Increased City's Contribution in the City Manager Department by \$18,979 due to the approval of a 401a deferred compensation plan for the City Manager.
- Increased Development Incentive in the City Manager Department by \$188,250 due to Opus meeting the conditions of the 380 agreement from which \$186,188 was encumbered from the previous two years.
- Increased Legal Services in the City Manager Department by \$67,714 due to franchise negotiations with CoServ.
- Increased Insurance and Deductibles in the Finance Department by \$31,681.
- Increased Professional Services in the Human Resource Department by \$20,000 to purchase the Compass Cost Comparer.

- Increased Services/Supplies in the Police Department by \$25,000 of which \$5,000 was for Motorola Radio Service Contract, \$10,000 for Equipment Repairs, and \$10,000 for Animal Control.
- Increased Personnel in the Fire Department by \$120,000 of which \$95,000 was for Salaries/Wages and \$25,000 was for Overtime. The increases were primarily due to fighting wild fires and the City was reimbursed its expenditures.
- Increased Salaries/Wages in the Community Service Department by \$15,000 due to the addition of a part-time employee in FY11.
- Increased Services/Supplies in the Parks Department by \$58,350 of which \$13,500 was for Equipment Rental, \$9,850 was for Tools and Supplies, and \$35,000 for Water Usage.
- Increased Streets capital budget by \$225,000 to purchase screening walls for FM2499, which were encumbered in the previous year, and for construction of the Barnett Blvd. Connector.
- Increased Parks capital budget by \$5,000.
- Increased Salaries/Wages in the Streets Department by \$10,000.
- Reapportioned \$30,425 in the Finance Department from Services/Supplies for the purchase of computer software to Capital to comply with GASB 51 and capitalized the software as intangible assets.
- Decreased Personnel by a total of \$136,610 (\$11,610 Streets, \$30,000 Police, \$40,000 City Attorney, \$40,000 Finance, and \$15,000 City Secretary).
- Decreased the Capital budget in the Fire Department by \$30,000.
- Decreased Utilities in the Maintenance Department by \$40,000 due to lower than expected energy costs associated with moving into the new Service Center.
- Decreased Outside Meetings in the City Secretary Department by \$15,000 due to less than expected council travel and training.
- Decreased Street Maintenance Contract in the Streets Department by \$130,000 due to less than expected street overlay projects.

These expenditures were intended to be funded from fund balance. However, actual expenditures were below the original budgeted amount. Actual expenditures in all departments were under their respective budget. Primary factors in the actual expenditures being reduced from the original budget include: Unused contingency appropriation totaling \$58,811. Street maintenance reflected a \$137,151 favorable variance. And capital outlay provided an unfavorable variance of \$32,799 related to projects encumbered from the previous year.

Actual revenue on a budgetary basis was \$12,195,959 compared to the original budget of \$12,267,084, providing an unfavorable variance of \$71,125. Actual tax revenues were \$209,809 less than the budget amount – primarily related to property tax collections. Additionally, collected licenses, permits and fees were \$20,469 more than budgeted – due to increased building permits. Realized intergovernmental revenues of \$531 were unbudgeted. Fines and forfeitures were \$24,942 less than the budget amount, while charges for services were \$25,868 less than the budget amount. Investment earnings were \$7,084 less than the budget amount, while miscellaneous revenue was \$175,578 more than the original budget amount.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets, for its governmental and business-type activities as of September 30, 2011, amount to \$71,097,821 (net of accumulated depreciation). This investment in capital assets includes land, building, park facilities, roads, bridges and water and sewer lines.

Major capital asset events during the current fiscal year included the following:

Project	Amount
Service Center and Robert & Lee Duvall Center	4,871,362
FM 2499 Pedestrian Tunnel	843,857
Oak Street Ground Storage Tank	563,202
Highland Village Rd Water Line Project	542,312
2008 Wastewater System Restoration	288,967
Municipal Complex - HVAC Replacement	246,656
Highland Village Rd and Lake Vista Trail	219,009
Traffic Signal - FM 2499 and Castlewood	155,210
Land - 407 Highland Village Road	133,105
Unity Park Restrooms	104,126
Municipal Complex - Carpet Replacement	73,312
Wayside Horns Installation	71,396
Spring Oaks Turnaround	30,602
2011 Ford Crown Victoria	22,994
2011 Ford Crown Victoria	22,994
2011 Ford Crown Victoria	22,994

TABLE 3

CITY OF HIGHLAND VILLAGE'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 17,183,848	\$ 17,050,743	\$ 75,713	\$ 75,713	\$ 17,259,561	\$ 17,126,456
Land improvements	5,891,683	5,048,886	-	30,118	5,891,683	5,079,004
Buildings and improvements	9,424,711	5,992,206	1,377,291	-	10,802,002	5,992,206
Distribution system	-	-	12,300,519	11,708,448	12,300,519	11,708,448
Equipment and machinery	1,673,377	2,086,275	315,736	470,671	1,989,113	2,556,946
Infrastructure	20,879,925	21,822,850	14,137	14,749	20,894,062	21,837,599
Intangibles	66,556	65,295	35,602	40,055	102,158	105,350
Construction in progress	676,659	5,974,272	1,182,064	918,424	1,858,723	6,892,696
Total capital assets	\$ <u>55,796,759</u>	\$ <u>58,040,527</u>	\$ <u>15,301,062</u>	\$ <u>13,258,178</u>	\$ <u>71,097,821</u>	\$ <u>71,298,705</u>

Additional information on the City's capital assets can be found in Note 3 on page 42-44 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonds outstanding of \$32,715,000. Of this amount, \$21,020,000 is tax-supported debt. The remainder of the City of Highland Village's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

TABLE 4**CITY OF HIGHLAND VILLAGE’S OUTSTANDING DEBT AT YEAR-END**

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
General obligations	\$ 14,210,000	\$ 15,465,590	\$ 1,055,000	\$ 1,374,410	\$ 15,265,000	\$ 16,840,000
Combination Tax and Revenue Certificates of Obligation	<u>6,810,000</u>	<u>7,350,000</u>	<u>10,640,000</u>	<u>11,290,000</u>	<u>17,450,000</u>	<u>18,640,000</u>
	<u>\$ 21,020,000</u>	<u>\$ 22,815,590</u>	<u>\$ 11,695,000</u>	<u>\$ 12,664,410</u>	<u>\$ 32,715,000</u>	<u>\$ 35,480,000</u>

The City’s total debt decreased by \$2,765,000 during the current fiscal year, as the City did not issue debt in FY 2011. The City did, however, take advantage of a refunding opportunity and refunded Series 1998, 2002 and 2003 GO bonds to create Series 2011 GO bonds along with an economic gain of \$320,017.

The City’s tax supported debt is rated “AA+” by Standards & Poor’s and “AA” by Fitch Ratings. The Highland Village City Charter provides that general property taxes are limited to \$1.50 per \$100 of assessed valuation for general governmental services – including the payment of principal and interest on legal debt instruments. The current ratio of tax-supported debt to assessed value of all taxable property is 1.31 percent.

Additional information on the City’s outstanding debt can be found in Note 3 on pages 45 – 49 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The fiscal year 2011-2012 budget incorporates no increase in the property tax rate. It remains at \$.56963 per \$100 valuation.

The FY 2012 operating budget increased by 4.7%, or \$597,600, from the FY 2011 budget. In general, personnel related costs increased \$201,107, services / supplies costs increased \$180,934 and capital costs increased \$215,559.

The personnel increases reflect \$191,358 for salary increases. The remaining \$9,749 personnel related increase is attributed to benefits, mostly related to TMRS, which decreased \$70,764, and medical insurance, which increased \$90,319.

Services / Supplies had increased expenditures of \$180,934:

- Professional Services - \$120,782 increase
 - \$80,328 increase in Professional Services primarily related to design services for FM 2499 landscaping which will be reimbursed by Denton County.
 - \$33,000 increase in Engineering Services primarily related to a traffic signal warrant study and engineering for the intersection of FM 2499 and Live Oak Drive along with design and engineering projects for the overlay of streets.

- Employee Development - \$6,780 increase
 - \$10,007 increase in Training and Education and a \$7,928 increase in Dues and Memberships.
 - \$6,255 decrease in Outside Meetings – primarily related to decreased Council travel in FY12, with corresponding reduced training needs.
 - \$5,400 decrease in Job Advertising due to the discontinuance of one of the City’s weekly recruitment ads.

- Supplies / Equipment - \$5,361 decrease
 - \$27,831 decrease due to a radio contract with Lewisville terminating.
 - \$30,300 increase due to increased municipal complex repairs and the installation of an automatic door at city hall.

- Utilities - \$28,655 decrease
 - Anticipated increases in electric / gas costs related to new community center and service center were lower than expected for FY 2011. Additionally, reductions in water costs with implementation of water management system are expected to improve.

- Other - \$87,388 increase. This category generally contains items that are specific to a department such as street maintenance, animal control, data processing, etc.
 - Incentive payments are associated with 380 agreements with two new developments in the City – the Shops of Highland Village, and the Marketplace at Highland Village. Separate agreements were established with each development to rebate a percentage of collected sales tax over a period of time. Projections for FY 2012 are increased from FY 2011, thus providing an increase of \$7,036.
 - \$50,000 increase in street maintenance – due to the expectation of more overlay projects for FY 2012.
 - \$13,345 increase in Outside Services due to an increase in the funding methodology of these services from .15% of M&O to .25% of M&O.

Capital expenditures of \$539,350 are an increase of \$215,559 from the FY 2011 budget of \$323,791. Capital expenditures generally include equipment costing \$5,000 or greater with a useful life exceeding five years. The City maintains an equipment replacement schedule to target equipment each year in need of replacement based on established replacement criteria – this year totaling \$192,000.

Supplemental funding of \$347,350 was provided for the following items:

- Incode HR Software (\$20,250) – To incorporate overall employee data management system for both HR and Payroll.
- Air Truck (\$184,000) – Scheduled replacement due to age and mileage. The City will apply for a grant and if it is obtained the City’s cost will be \$30,000.
- Materials Storage Site Facility (\$25,000) – To provide covered storage for backhoe, trackhoe, loader, proposed plow, hydraulic hammer, pipe, etc.
- Snow Removal Plow (\$8,100) – To provide a means to remove snow and sleet from City owned parking lots and main thoroughfare streets in the City.
- Road Striping Equipment (\$65,000) – To enhance long striping quality and improve efficiency.

- F-350 Truck (\$35,000) – To provide the Maintenance Department with a work vehicle.
- Stump Grinder (\$10,000) – To remove tree stumps from parks.

While anticipated revenues are expected to increase slightly, only slight increases are planned in expenditures - coupled with utilization of surplus funds on hand for capital purchases, and will thus be sufficient to maintain the City's desired financial position.

The City's financial policies require the City to maintain a fund balance equivalent to 15% of General Fund expenditures. The ending fund balance percentage anticipated for FY 2012 is 26%.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Highland Village, Finance Department, 1000 Highland Village Road, Highland Village, TX, 75077.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 8,591,715	\$ 1,591,956	\$ 10,183,671
Receivables (net of allowances for uncollectibles)			
Taxes	965,351	-	965,351
Accounts	187,269	1,833,394	2,020,663
Intergovernmental	21,993	-	21,993
Other	6,866	13,311	20,177
Inventories and prepaid items	1,073	150,648	151,721
Restricted cash and investments:			
Reserved bond debt service	-	122,384	122,384
Capital improvements	-	3,538,883	3,538,883
Construction	-	1,657,116	1,657,116
Customer deposits	-	250,403	250,403
Unamortized debt issue cost	451,113	186,213	637,326
Capital assets:			
Nondepreciable	17,860,507	1,257,777	19,118,284
Depreciable, net	<u>37,936,252</u>	<u>14,043,285</u>	<u>51,979,537</u>
Total capital assets	<u>55,796,759</u>	<u>15,301,062</u>	<u>71,097,821</u>
 Total assets	 <u>66,022,139</u>	 <u>24,645,370</u>	 <u>90,667,509</u>
LIABILITIES			
Accounts payable	781,816	768,965	1,550,781
Accrued liabilities	405,380	122,309	527,689
Unearned revenue	158,207	-	158,207
Accrued interest	97,611	58,043	155,654
Customer deposits	-	250,403	250,403
Current portion of long-term obligations	2,419,898	1,122,189	3,542,087
Noncurrent portion of long-term obligations	<u>19,588,861</u>	<u>10,686,384</u>	<u>30,275,245</u>
Total liabilities	<u>23,451,773</u>	<u>13,008,293</u>	<u>36,460,066</u>
NET ASSETS			
Invested in capital assets, net of related debt	36,432,805	7,149,038	43,581,843
Restricted for:			
Debt service	262,165	-	262,165
Community development	1,156,675	-	1,156,675
Public safety	76,953	-	76,953
Utility drainage	433,566	-	433,566
Capital projects	-	1,657,116	1,657,116
Unrestricted	<u>4,208,202</u>	<u>2,830,923</u>	<u>7,039,125</u>
 Total net assets	 <u>\$ 42,570,366</u>	 <u>\$ 11,637,077</u>	 <u>\$ 54,207,443</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 4,061,944	\$ 247,160	\$ -	\$ -
Public safety	6,057,589	228,724	148,982	-
Building operations	311,579	328,780	-	-
Streets and drainage	2,323,968	401,583	-	-
Parks and recreation	2,869,595	452,633	-	72,385
Interest on long-term debt	844,711	-	-	-
Total governmental activities	<u>16,469,386</u>	<u>1,658,880</u>	<u>148,982</u>	<u>72,385</u>
Business-type activities:				
Water and wastewater	7,956,791	9,062,987	-	193,982
Total business-type activities	<u>7,956,791</u>	<u>9,062,987</u>	<u>-</u>	<u>193,982</u>
Total primary government	<u>\$ 24,426,177</u>	<u>\$ 10,721,867</u>	<u>\$ 148,982</u>	<u>\$ 266,367</u>

General revenues:

 Taxes:

 Property taxes, levied for general purposes

 Property taxes, levied for debt service

 Franchise taxes

 Sales taxes

 Unrestricted investment earnings

 Gain on sale of assets

 Miscellaneous

Transfers

 Total general revenues and transfers

 Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$(3,814,784) (5,679,883) 17,201 (1,922,385) (2,344,577) (844,711) <u>(14,589,139)</u>	\$ - - - - - - <u>-</u>	\$(3,814,784) (5,679,883) 17,201 (1,922,385) (2,344,577) (844,711) <u>(14,589,139)</u>
-	1,300,178	1,300,178
-	1,300,178	1,300,178
<u>(14,589,139)</u>	<u>1,300,178</u>	<u>(13,288,961)</u>
7,448,303 1,875,622 1,412,034 3,004,273 45,144 33,260 281,566 <u>(1,048,912)</u> <u>13,051,290</u>	- - - - 36,012 - - 1,048,912 <u>1,084,924</u>	7,448,303 1,875,622 1,412,034 3,004,273 81,156 33,260 281,566 - <u>14,136,214</u>
(1,537,849) <u>44,108,215</u>	2,385,102 <u>9,251,975</u>	847,253 <u>53,360,190</u>
<u>\$ 42,570,366</u>	<u>\$ 11,637,077</u>	<u>\$ 54,207,443</u>

CITY OF HIGHLAND VILLAGE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Community Development Corporation</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 4,430,476	\$ 349,270	\$ 2,432,554	\$ 1,379,415	\$ 8,591,715
Receivables (net of allowances for uncollectibles):					
Taxes	790,408	10,506	164,437	-	965,351
Accounts	187,269	-	-	-	187,269
Intergovernmental	-	-	-	21,993	21,993
Other	-	-	-	6,866	6,866
Prepaid items	<u>1,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,073</u>
Total assets	<u>5,409,226</u>	<u>359,776</u>	<u>2,596,991</u>	<u>1,408,274</u>	<u>9,774,267</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	500,384	-	52,401	229,031	781,816
Accrued liabilities	364,861	-	4,894	35,625	405,380
Deferred revenue	<u>247,013</u>	<u>10,506</u>	<u>-</u>	<u>25,242</u>	<u>282,761</u>
Total liabilities	<u>1,112,258</u>	<u>10,506</u>	<u>57,295</u>	<u>289,898</u>	<u>1,469,957</u>
Fund balances:					
Nonspendable - prepaid items	1,073	-	-	-	1,073
Restricted:					
Debt service	-	349,270	-	-	349,270
Community development	-	-	2,539,696	-	2,539,696
Public safety	-	-	-	76,953	76,953
Utility drainage	-	-	-	433,566	433,566
Capital projects	-	-	-	371,455	371,455
Committed - parks	-	-	-	236,402	236,402
Unassigned	<u>4,295,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,295,895</u>
Total fund balances	<u>4,296,968</u>	<u>349,270</u>	<u>2,539,696</u>	<u>1,118,376</u>	<u>8,304,310</u>
Total liabilities and fund balances	\$ <u>5,409,226</u>	\$ <u>359,776</u>	\$ <u>2,596,991</u>	\$ <u>1,408,274</u>	\$ <u>9,774,267</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

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

SEPTEMBER 30, 2011

Total fund balance, governmental funds \$ 8,304,310

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. 55,796,759

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. The details of this difference is as follows:

Property taxes	\$ 51,341	
Ambulance fees	17,577	
Court fines	<u>55,636</u>	
		124,554

Some liabilities, (such as Compensated Absences, and Bonds Payable), 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. The details of this difference is as follows:

Bonds payable	(21,020,000)	
Deferred amount on refunding	302,643	
Issuance cost	451,113	
Issuance premium	(401,073)	
Accrued interest payable	(97,611)	
Compensated absences	<u>(890,329)</u>	
		<u>(21,655,257)</u>

Net assets of governmental activities in the statement of net assets \$ 42,570,366

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General	Debt Service	Community Development Corporation	Other Governmental	Total Governmental Funds
REVENUES					
Taxes	\$ 10,889,925	\$ 1,877,306	\$ 980,663	\$ -	\$ 13,747,894
Fines and forfeitures	216,558	-	-	-	216,558
Licenses, permits and fees	526,623	-	-	729,841	1,256,464
Intergovernmental	531	-	-	146,651	147,182
Charges for services	211,328	-	9,267	-	220,595
Investment earnings	33,316	823	8,111	2,894	45,144
Miscellaneous	317,678	-	-	500	318,178
Total revenues	<u>12,195,959</u>	<u>1,878,129</u>	<u>998,041</u>	<u>879,886</u>	<u>15,952,015</u>
EXPENDITURES					
Current:					
General government:					
City manager	759,667	-	-	-	759,667
Finance	1,454,981	-	-	12,287	1,467,268
Human resources	382,688	-	-	-	382,688
City secretary	236,068	-	-	-	236,068
Maintenance	809,451	-	-	-	809,451
City attorney	222,822	-	-	-	222,822
Public safety:					
Police	3,474,155	-	-	33,472	3,507,627
Fire	1,858,718	-	-	2,256	1,860,974
Building operations	306,349	-	-	-	306,349
Streets and drainage	799,132	-	-	386,125	1,185,257
Parks and recreation	1,611,508	-	362,997	309,092	2,283,597
Debt service:					
Principal	-	1,696,671	-	-	1,696,671
Interest and other charges	-	884,279	-	17,042	901,321
Capital outlay	587,015	-	69,534	937,609	1,594,158
Total expenditures	<u>12,502,554</u>	<u>2,580,950</u>	<u>432,531</u>	<u>1,697,883</u>	<u>17,213,918</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(306,595)</u>	<u>(702,821)</u>	<u>565,510</u>	<u>(817,997)</u>	<u>(1,261,903)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	4,070,000	-	-	4,070,000
Premium on issuance of bonds	-	200,910	-	-	200,910
Payment to escrow agent	-	(4,240,559)	-	-	(4,240,559)
Transfers in	468,829	699,029	18,708	127,823	1,314,389
Transfers out	(56,000)	(18,708)	(798,852)	(140,829)	(1,014,389)
Total other financing sources and uses	<u>412,829</u>	<u>710,672</u>	<u>(780,144)</u>	<u>(13,006)</u>	<u>330,351</u>
NET CHANGE IN FUND BALANCES	<u>106,234</u>	<u>7,851</u>	<u>(214,634)</u>	<u>(831,003)</u>	<u>(931,552)</u>
FUND BALANCES, BEGINNING	<u>4,190,734</u>	<u>341,419</u>	<u>2,754,330</u>	<u>1,949,379</u>	<u>9,235,862</u>
FUND BALANCES, ENDING	<u>\$ 4,296,968</u>	<u>\$ 349,270</u>	<u>\$ 2,539,696</u>	<u>\$ 1,118,376</u>	<u>\$ 8,304,310</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds: \$(931,552)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay (\$1,594,158) exceeded depreciation (\$2,559,847) and capital assets transferred to business-type activities (1,348,912) in the current period. (2,281,341)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (34,812)

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources. 72,385

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. The details of these differences are as follows:

Property taxes	\$(7,662)	
Ambulance fees	(15,186)	
Court fines	<u>(19,551)</u>	
		(42,399)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. The details of these differences are as follows:

Payments on bonds	1,696,671	
Issuance of bonds	(4,070,000)	
Premium from issuance of bonds	(200,910)	
Payment to escrow agent	4,240,559	
Issuance cost from issuance of bonds	<u>83,383</u>	
		1,749,703

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:

Compensated absences	(43,060)	
Accrued interest	7,154	
Bonds issuance cost	(34,027)	
Amortization of deferred loss of refunding bonds	(24,459)	
Amortization of premium on bond issuances	<u>24,559</u>	
		(69,833)

Change in net assets of governmental activities \$(1,537,849)

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS
STATEMENTS OF NET ASSETS
ENTERPRISE - WATER AND WASTEWATER FUND
SEPTEMBER 30, 2011
(With Comparative Totals as of September 30, 2010)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,591,956	\$ 1,413,253
Accounts receivable, net	1,833,394	1,475,854
Other receivables	13,311	8,557
Inventories	150,648	128,145
Restricted cash and investments:		
Reserve bond debt service	122,384	106,856
Capital improvements	3,538,883	5,113,906
Construction	1,657,116	1,457,105
Customer deposits	250,403	255,297
Total current assets	9,158,095	9,958,973
Non-current assets:		
Unamortized debt issue cost	186,213	248,519
Capital assets:		
Nondepreciable capital assets	1,257,777	994,137
Depreciable capital assets, net of accumulated depreciation	14,043,285	12,264,041
Total capital assets	15,301,062	13,258,178
Total non-current assets	15,487,275	13,506,697
Total assets	24,645,370	23,465,670
LIABILITIES		
Current liabilities:		
Accounts payable	768,965	954,898
Accrued expenses	122,309	108,901
Accrued interest	58,043	70,302
Customer deposits	250,403	255,297
Current portion of long-term obligations	1,122,189	1,045,574
Total current liabilities	2,321,909	2,434,972
Non-current liabilities:		
Noncurrent portion of long-term obligations	10,686,384	11,778,723
Total non-current liabilities	10,686,384	11,778,723
Total liabilities	13,008,293	14,213,695
NET ASSETS		
Invested in capital assets, net of related debt	7,149,038	5,664,677
Restricted for capital projects	1,657,116	1,457,105
Unrestricted	2,830,923	2,130,193
Total net assets	\$ 11,637,077	\$ 9,251,975

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

(With Comparative Totals For the Year Ended September 30, 2010)

	<u>2011</u>	<u>2010</u>
REVENUES		
Charges for services	\$ 8,977,670	\$ 7,266,788
Penalties, fines and forfeits	<u>85,317</u>	<u>81,345</u>
Total operating revenues	<u>9,062,987</u>	<u>7,348,133</u>
OPERATING EXPENSES		
Administration	448,615	502,419
Maintenance and operations	5,976,500	5,953,621
Depreciation	<u>980,579</u>	<u>991,557</u>
Total operating expenses	<u>7,405,694</u>	<u>7,447,597</u>
OPERATING INCOME (LOSS)	<u>1,657,293</u>	<u>(99,464)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	36,012	64,597
Interest expense	<u>(551,097)</u>	<u>(639,114)</u>
Total non-operating revenues (expenses)	<u>(515,085)</u>	<u>(574,517)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,142,208	<u>(673,981)</u>
CAPITAL CONTRIBUTIONS	1,542,894	106,473
TRANSFERS IN	-	19,250
TRANSFERS OUT	<u>(300,000)</u>	<u>(295,750)</u>
CHANGE IN NET ASSETS	2,385,102	<u>(844,008)</u>
TOTAL NET ASSETS, BEGINNING	<u>9,251,975</u>	<u>10,095,983</u>
TOTAL NET ASSETS, ENDING	<u>\$ 11,637,077</u>	<u>\$ 9,251,975</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENTS OF CASH FLOWS

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

(With Comparative Totals For the Year Ended September 30, 2010)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 8,695,799	\$ 7,385,511
Cash paid to suppliers for goods and services	(5,294,049)	(4,502,472)
Cash paid to employees for services	(1,325,313)	(1,340,723)
Net cash provided by operating activities	<u>2,076,437</u>	<u>1,542,316</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	-	19,250
Transfers to other funds	(300,000)	(295,750)
Net cash used for noncapital financing activities	<u>(300,000)</u>	<u>(276,500)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	193,982	106,473
Acquisition of capital assets	(1,674,551)	(962,327)
Principal paid on bonds	(962,526)	(823,421)
Principal paid on capital lease	(42,898)	(41,308)
Interest and fiscal charges paid on debt	(512,131)	(659,653)
Net cash used for capital and related financing activities	<u>(2,998,124)</u>	<u>(2,380,236)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	<u>36,012</u>	<u>64,597</u>
Net cash provided by investing activities	<u>36,012</u>	<u>64,597</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,185,675)	(1,049,823)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>8,346,417</u>	<u>9,396,240</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 7,160,742</u>	<u>\$ 8,346,417</u>
(Including \$2,255,238 and \$6,933,164 reported as restricted cash and investments)		

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF CASH FLOWS

ENTERPRISE - WATER AND WASTEWATER FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

(With Comparative Totals For the Year Ended September 30, 2010)

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 1,657,293	\$(99,464)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	980,579	991,557
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Customer receivable	(357,540)	27,299
Other receivables	(4,754)	9,625
Inventories	(22,503)	(5,813)
Prepaid and other assets	-	5,313
Increase (decrease) in liabilities:		
Accounts payable	(185,933)	565,779
Accrued liabilities	13,408	38,417
Customer deposits	(4,894)	454
Compensated absences	<u>781</u>	<u>9,149</u>
Net cash provided by operating activities	<u>\$ 2,076,437</u>	<u>\$ 1,542,316</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Refunding bonds issued	\$ 1,055,000	\$ -
Capital contributions from governmental funds	1,348,912	-

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City of Highland Village adopted a Home Rule Charter in April 1985, and operates under a Council-Manager form of government. All powers of the City are vested in an elected Council, which enacts local legislation, adopts budgets, determines policies and appoints the City Manager. The City Manager is responsible for executing the laws and administering the government of the City. The City Council consists of seven members, a mayor and six Councilpersons elected by the City's residents.

The City's Comprehensive Annual Financial Report presents the financial position, changes in financial position and cash flows where applicable of the City. The reporting entity is the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either the ability to impose its will by the primary government or the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

City of Highland Village voters, in November 2004, approved, in a special election, the creation of the Highland Village Community Development Corporation. The Corporation was formed for the purpose of funding public parks, recreation, and projects from revenues derived from a one-half cent sales tax within the City of Highland Village. The City Council appoints a board and board members are removable by the City Council, for cause or at will. Four out of seven board members are on City Council. In the event of dissolution, title of all assets transfer to the City. The Community Development Corporation is reported as a Special Revenue Fund. Financial statement information can be obtained by contacting the Highland Village Community Development Corporation, 1000 Highland Village Rd., Highland Village, Texas 75077.

B. Government-wide and Fund Financial Statements

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

(continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments, are recorded when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All revenue items are considered to be measurable and available only when the cash is received by the government within a 60-day period.

The City reports the following major governmental funds:

General Fund – is the operating fund of the City. It is utilized to account for all financial resources except those required to be accounted for in other funds.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

Debt Service Fund – is utilized to account for the accumulation of financial resources for, and the payment of general long-term debt principal, interest, and related costs arising from general obligation bonds.

Community Development Corporation – is utilized to account for the use of 4B sales tax revenues that must be used in compliance with statutory restrictions set forth by the state legislature.

The City reports the following major proprietary fund:

Enterprise – Water and Wastewater Fund – is used to account for the water and wastewater operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City is that costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

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 City has elected not to follow subsequent private-sector guidance.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund include administration, maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

(continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

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

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined financial statements as cash and investments or restricted cash and investments. The City's cash and investments are considered as cash equivalents as they can be readily converted to cash at their carrying value.

For the purposes of the statement of cash flows, cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less.

Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All trade receivables are shown net of allowance for uncollectible accounts based on an analysis of historical trends.

Property Taxes

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of levy, on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available. Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City's availability period is 60 days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

(continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Property Taxes (Continued)

Current taxes are due on October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. On January 1 of each year, a tax lien attaches to property to secure all taxes, penalties and interest ultimately imposed.

Unbilled Services

Utility operating revenues (water, sewer and refuse collection) are billed on monthly cycles. Customers are billed for periods ending the 15th of each month on the last day of the month. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "reserve bond debt service" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments. The "construction funds" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction.

Impact fees collected from developers to cover, in whole or in part, the anticipated costs of improvements that will be necessary as a result of the development are set aside in the "capital improvements" account.

Deposits collected from utility customers are set aside until repayment.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets within an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Assets, Liabilities, and Net Assets or Equity** (Continued)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation expense is calculated principally on the straight-line method. Depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. Estimated useful lives of major categories of property are as follows:

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Buildings	30
Distribution system	20
Machinery and equipment	5 - 10

Accrued Vacation

It is the City's policy to grant employees vacation leave earned at the rate of 10 days a year for at least one but less than 5 years continuous service, 15 days for at least 5 but less than 10 years continuous service, and 20 days for at least 10 years continuous service. Upon termination, the employee shall be paid at the hourly rate of pay such employee was earning on the effective date of termination.

The City also grants employees sick leave earned at the rate of 12 days a year. Upon termination, employees are paid for one-half of the actual number of days earned up to a maximum of 45 days. Obligations under compensated absence arrangements are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City utilizes the last-in first-out method of recognizing the use of compensated absences. Thus, unless it is anticipated that compensated absences of governmental fund types will be used/paid in excess of a normal year's accumulation, no amount is classified as current.

Long-term Obligations

In the government-wide financial statements and the proprietary fund in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as unamortized debt issue costs and amortized over the term of the related debt.

(continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed.
- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council. The City does not have assigned fund balance at year-end.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Assets, Liabilities, and Net Assets or Equity** (Continued)

Fund Balance (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Assets

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

Estimates

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

Comparative Data and Reclassifications

Comparative total data for the prior year have been presented only for individual Enterprise Funds in the fund financial statements in order to provide an understanding of changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits and investments are made in accordance with the provisions of the bank depository agreement or in any negotiable instrument the Council has authorized under the City's approved investment policy and the provisions of the Public Funds Investment Act of 1987, as amended. Deposits and investments may be made with or through the following institutions:

- a. Federally insured banks domiciled in the State of Texas; and
- b. Primary or regional brokers or security dealers that qualify under Securities and Exchange Commission Rule 15C 3-1.

City funds may be invested in the following:

- a. Obligations of the United States or its agencies and instrumentalities;
- b. Direct obligations of the State of Texas or its agencies;
- c. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States;
- d. Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.
- e. Certificates of deposit issued by state and national banks domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successors or secured with collateral.
- f. Fully collateralized direct repurchase agreements having a defined termination date, secured by approved obligations, pledged with a third party selected or approved by the political entity, and placed through a primary government securities dealer, as domiciled in this state; or a public fund investment pool.

In addition to investment in obligations, certificates or agreements described above, City bond proceeds may be invested in common trust funds or comparable investment devices owned or administered by banks domiciled in Texas.

The City's investment policies are governed by state statutes and City ordinance. Collateral is required for all deposits and investments not covered by federal deposit insurance in accordance with the Public Funds Collateral Act.

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

The City's entire cash deposits in the bank of \$9,286,805 on September 30, 2011, were covered by federal depository insurance or by collateral held by the City's agent in the City's name. The carrying amount of cash balances at September 30, 2011, was \$347,768 at the City's depository, \$2,206,323 in Negotiable Order of Withdrawal, \$4,714,408 as certificates of deposit, and \$1,000,552 in a money market account.

Investments held at year-end are as follows:

	<u>Fair Value</u>
TexPool	\$ 3,079,341
TexStar	<u>3,503,884</u>
Total investments	<u>\$ 6,583,225</u>

Cash and investments are reported as restricted assets as required by debt issues and City ordinance. The monies in government investment pools represent investments in TexPool and TexStar, investment pools for state and local governments in Texas. The State Comptroller of Public Accounts exercises oversight responsibilities over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

J.P. Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexStar under an agreement with the TexStar board of directors. JPMFAM provides investment service and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by J.P. Morgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. TexStar bylaws provide for a five-member board of directors consisting of three representatives of participants and one member designated by each of the co-administrators.

Both TexPool and TexStar are rated AAAM by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review. TexPool and TexStar operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and TexStar use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value is the same as the value of shares.

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investments are with TexPool and TexStar with maturities of less than one year.

Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All investment pools' policies require a rating of AA or better from a nationally recognized rating agency.

Concentration of Credit Risk. The City's investments are issued or explicitly guaranteed by external investment pools, which are not considered to provide a concentration of credit risk.

Custodial Credit Risk. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local government entities by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least the bank balances less FDIC insurance at all times.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor governmental funds, including the applicable allowance for estimated uncollectible accounts, are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Community Development Corporation</u>	<u>Enterprise</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:						
Taxes	\$ 790,408	\$ 10,506	\$ 164,437	\$ -	\$ -	\$ 965,351
Accounts	629,995	-	-	1,604,991	6,703	2,241,689
Unbilled	-	-	-	491,144	-	491,144
Interest	544	-	-	6,454	163	7,161
Other	-	-	-	6,857	-	6,857
Intergovernmental	-	-	-	-	21,993	21,993
Gross receivables	<u>1,420,947</u>	<u>10,506</u>	<u>164,437</u>	<u>2,109,446</u>	<u>28,859</u>	<u>3,734,195</u>
Less: allowance for uncollectibles	<u>443,270</u>	<u>-</u>	<u>-</u>	<u>262,741</u>	<u>-</u>	<u>706,011</u>
Net total receivables	<u>\$ 977,677</u>	<u>\$ 10,506</u>	<u>\$ 164,437</u>	<u>\$ 1,846,705</u>	<u>\$ 28,859</u>	<u>\$ 3,028,184</u>

(continued)

2. **DETAILED NOTES ON ALL FUNDS** (Continued)

B. Receivables (Continued)

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

	<u>Unavailable</u>	<u>Unearned</u>
General fund:		
Delinquent property taxes	\$ 40,835	\$ -
Franchise taxes	-	43,229
Court fines	55,636	-
Ambulance	17,577	-
Park fees	-	1,178
Grant	-	88,558
Total general fund	<u>114,048</u>	<u>132,965</u>
Debt service fund:		
Delinquent property taxes	<u>10,506</u>	-
Total debt service fund	<u>10,506</u>	-
Nonmajor governmental fund:		
Parks fees	-	25,242
Total nonmajor governmental fund	<u>-</u>	<u>25,242</u>
Total governmental funds	<u>\$ 124,554</u>	<u>\$ 158,207</u>

C. Interfund Transfers

The following is a summary of transfers:

<u>Transfers out</u>	<u>Transfers in</u>				<u>Total</u>
	<u>General</u>	<u>Debt Service</u>	<u>Community Development Corporation</u>	<u>Nonmajor Governmental</u>	
General	\$ -	\$ -	\$ -	\$ 56,000	\$ 56,000
Water and wastewater	300,000	-	-	-	300,000
Debt service	-	-	18,708	-	18,708
Nonmajor governmental	140,829	-	-	-	140,829
Community Development Corporation	<u>28,000</u>	<u>699,029</u>	<u>-</u>	<u>71,823</u>	<u>798,852</u>
	<u>\$ 468,829</u>	<u>\$ 699,029</u>	<u>\$ 18,708</u>	<u>\$ 127,823</u>	<u>\$ 1,314,389</u>

(continued)

2. **DETAILED NOTES ON ALL FUNDS** (Continued)

C. **Interfund Transfers** (Continued)

The transfer from a nonmajor governmental fund to the General Fund is to subsidize costs related to public safety grants. The transfer from the Community Development Corporation Fund to the Debt Service Fund is the portion of the Highland Village Community Development Corporation's (HVCDC) debt service payment on outstanding bonds. The transfer from the HVCDC to the General Fund and Capital Projects Fund is for reimbursement for support services and issuance costs. Transfer from the Water and Wastewater Fund to the General Fund represents an annual transfer for support services. The remainder of the transfers is for various projects.

D. **Capital Assets**

Capital asset activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 17,050,743	\$ 133,105	\$ -	\$ 17,183,848
Construction in progress	<u>5,974,272</u>	<u>1,322,090</u>	<u>(6,619,703)</u>	<u>676,659</u>
Total assets not being depreciated	<u>23,025,015</u>	<u>1,455,195</u>	<u>(6,619,703)</u>	<u>17,860,507</u>
Capital assets, being depreciated:				
Land improvements	8,103,834	-	1,293,645	9,397,479
Buildings and improvements	9,524,614	-	3,946,544	13,471,158
Equipment	5,710,514	193,688	(216,646)	5,687,556
Infrastructure	38,684,603	-	30,602	38,715,205
Intangibles	<u>140,793</u>	<u>17,660</u>	<u>-</u>	<u>158,453</u>
Total capital assets being depreciated	<u>62,164,358</u>	<u>211,348</u>	<u>5,054,145</u>	<u>67,429,851</u>
Less accumulated depreciation:				
Land improvements	3,054,948	450,848	-	3,505,796
Buildings and improvements	3,532,408	514,039	-	4,046,447
Equipment	3,624,239	605,034	(215,094)	4,014,179
Infrastructure	16,861,753	973,527	-	17,835,280
Intangibles	<u>75,498</u>	<u>16,399</u>	<u>-</u>	<u>91,897</u>
Total accumulated depreciation	<u>27,148,846</u>	<u>2,559,847</u>	<u>(215,094)</u>	<u>29,493,599</u>
Total capital assets being depreciated, net	<u>35,015,512</u>	<u>(2,348,499)</u>	<u>5,269,239</u>	<u>37,936,252</u>
Governmental activities capital assets, net	<u>\$ 58,040,527</u>	<u>\$ (893,304)</u>	<u>\$ (1,350,464)</u>	<u>\$ 55,796,759</u>

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 75,713	\$ -	\$ -	\$ 75,713
Construction in progress	<u>918,424</u>	<u>1,658,122</u>	<u>(1,394,482)</u>	<u>1,182,064</u>
Total assets not being depreciated	<u>994,137</u>	<u>1,658,122</u>	<u>(1,394,482)</u>	<u>1,257,777</u>
Capital assets, being depreciated:				
Buildings	65,098	1,348,912	-	1,414,010
Improvements other than buildings	25,001,892	-	1,394,482	26,396,374
Equipment	1,485,063	16,429	-	1,501,492
Infrastructure	617,553	-	-	617,553
Intangibles	<u>81,737</u>	<u>-</u>	<u>-</u>	<u>81,737</u>
Total capital assets being depreciated	<u>27,251,343</u>	<u>1,365,341</u>	<u>1,394,482</u>	<u>30,011,166</u>
Less accumulated depreciation:				
Buildings	34,980	1,739	-	36,719
Improvements other than buildings	13,293,444	802,411	-	14,095,855
Equipment	1,014,392	171,364	-	1,185,756
Infrastructure	602,804	612	-	603,416
Intangibles	<u>41,682</u>	<u>4,453</u>	<u>-</u>	<u>46,135</u>
Total accumulated depreciation	<u>14,987,302</u>	<u>980,579</u>	<u>-</u>	<u>15,967,881</u>
Total capital assets being depreciated, net	<u>12,264,041</u>	<u>384,762</u>	<u>1,394,482</u>	<u>14,043,285</u>
Business-type activities capital assets, net	<u>\$ 13,258,178</u>	<u>\$ 2,042,884</u>	<u>\$ -</u>	<u>\$ 15,301,062</u>

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

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

Governmental activities:	
City manager	\$ 14,000
Finance	51,263
Human resources	5,811
City secretary	28,861
Maintenance	67,931
City attorney	6,854
Building operations	4,933
Police	308,204
Fire	337,092
Streets and drainage	1,163,572
Park and recreation	<u>571,326</u>
 Total depreciation expense - governmental activities	 \$ <u>2,559,847</u>
Business-type activities:	
Water and wastewater	\$ <u>980,579</u>
 Total depreciation expense - business-type activities	 \$ <u>980,579</u>

E. Construction Commitments

The City has active construction projects as of September 30, 2011. At year-end the City's commitments with contractors are as follows:

<u>Projects</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Governmental activities:		
Repairs to Municipal Complex	\$ 7,500	\$ 141,751
FM 2499 Screening Walls	135,415	14,526
Barnett Blvd. Connector	84,241	31,489
2011 Asphalt Reconstruction	5,470	44,780
Village Park Ph II – Playground	106,883	57,409
KSC Pedestrian Trail – Engineering only	17,042	31,828
Copperas/Highland Village Rd. Trail		
Ph II-B – Engineer only	88,567	28,563
Castlewood Trail – Engineering only	59,461	126,989
Marauder Park Trail – Engineering only	3,890	1,110
FM 2499 Sidewalk (Market Place) – Engineering only	4,988	7,512
Business activities:		
AC Water Line Replacements Phase II	766,339	210,781
Winding/Oak Sewer Line Replacement	332,833	555,147
Lake Vista Water Line Replacement – Engineering only	24,450	9,550

(continued)

2. **DETAILED NOTES ON ALL FUNDS** (Continued)

F. Capital Leases

The City has entered into lease agreements as lessee for equipment. These leases qualify as capital leases and therefore have been recorded at the present value of the future minimum lease payments as of the date of their inception. The equipment's carrying value for the business-type activities is \$61,181.

The following is a schedule of the future minimum lease payment under these agreements, and the present value of the net minimum lease payments at September 30:

<u>Year Ending September 30,</u>	<u>Business-type Activities</u>
2012	\$ 46,265
Total	46,265
Less interest portion	<u>1,715</u>
Obligations under capital leases	<u>\$ 44,550</u>

G. Long-term Debt

The City issued \$5,125,000 of general obligation refunding bonds to provide resources to purchase U. S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$5,235,000 of general obligation refunding and improvement bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities and business type activities columns of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$383,401. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to decrease total debt service payments over the next 13 years by \$445,298 and resulted in an economic gain of \$320,017.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Debt (Continued)

General Obligation Bonds (Continued)

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding</u>
Governmental activities:					
General obligation refunding and improvement bonds	4.00 - 4.25	2006	2027	\$ 6,875,000	\$ 5,590,000
General obligation refunding and improvement bonds	3.50 - 4.00	2008	2028	5,000,000	4,550,000
General obligation refunding and improvement bonds	2.00 - 4.00	2011	2022	4,070,000	<u>4,070,000</u>
					<u>14,210,000</u>
Business-type activities:					
General obligation refunding bonds	2.00 - 4.00	2011	2022	1,055,000	<u>1,055,000</u>
					<u>1,055,000</u>
					<u>\$ 15,265,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,215,000	\$ 516,158	\$ 320,000	\$ 25,800
2013	1,160,000	478,833	195,000	19,675
2014	1,205,000	438,220	200,000	13,750
2015	1,085,000	398,545	125,000	8,875
2016	1,085,000	359,889	105,000	5,425
2017-2021	4,195,000	1,284,469	110,000	1,925
2022-2026	3,350,000	491,356	-	-
2027-2028	<u>915,000</u>	<u>32,963</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,210,000</u>	<u>\$ 4,000,433</u>	<u>\$ 1,055,000</u>	<u>\$ 75,450</u>

Combination Tax and Revenue Certificates of Obligation

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Combination tax and revenue certificates of obligation have been issued for both governmental and business-type activities. Combination tax and revenue certificates of obligation outstanding at year-end are as follows:

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Debt (Continued)

Combination Tax and Revenue Certificates of Obligation (Continued)

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding</u>
Governmental activities:					
Combination tax and revenue certificates of obligation	4.00 - 4.25	2006	2027	\$ 1,255,000	\$ 1,115,000
Combination tax and revenue certificates of obligation	3.50 - 4.00	2008	2028	3,000,000	2,245,000
Combination tax and revenue certificates of obligation	3.00 - 4.50	2009	2029	3,830,000	<u>3,450,000</u>
					<u>\$ 6,810,000</u>
Business-type activities:					
Combination tax and limited pledge revenue refunding bonds	4.00	2004	2017	\$ 2,870,000	\$ 1,650,000
Combination tax and revenue certificates of obligation	4.00 - 4.30	2004	2021	4,855,000	3,535,000
Combination tax and revenue certificates of obligation	3.50 - 4.00	2008	2028	1,500,000	1,365,000
Combination tax and revenue certificates of obligation	3.00 - 4.50	2009	2029	4,365,000	<u>4,090,000</u>
					<u>\$ 10,640,000</u>

Combination tax and revenue certificates of obligation debt service requirements to maturity are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 550,000	\$ 238,104	\$ 675,000	\$ 420,380
2013	575,000	219,267	705,000	395,255
2014	595,000	199,667	735,000	368,893
2015	610,000	179,467	765,000	341,493
2016	635,000	158,517	800,000	312,868
2017-2021	2,385,000	495,963	3,125,000	1,156,573
2022-2026	1,365,000	126,010	2,715,000	522,984
2027-2029	<u>95,000</u>	<u>2,019</u>	<u>1,120,000</u>	<u>70,913</u>
Total	<u>\$ 6,810,000</u>	<u>\$ 1,619,014</u>	<u>\$ 10,640,000</u>	<u>\$ 3,589,359</u>

(continued)

2. **DETAILED NOTES ON ALL FUNDS** (Continued)

G. Long-term Debt (Continued)

Combination Tax and Revenue Certificates of Obligation (Continued)

In previous years, the City has legally defeased general obligation bonds. Accordingly, the liability for these bonds is not included in the City's financial statements. As of September 30, 2011, the following outstanding bonds were legally defeased:

<u>Series</u>	<u>Type</u>	<u>Amount</u>
1993	Combination Tax and Revenue Refunding Bonds	\$ 250,000
1994	Combination Tax and Water and Sewer Revenue (Limited Pledge) Certificates of Obligation	735,000
1995	Combination Tax and Revenue Certificates of Obligation	210,000
1997	Combination Tax and Revenue Certificates of Obligation	1,840,000
1996	Waterworks and Sewer Revenue Certificates of Obligation	1,810,000
1996	General Obligation Bonds	690,000
1998	General Obligation Bonds	2,350,000
1998	General Obligation Refunding and Improvement Bonds	195,000
2002	General Obligation Refunding and Improvement Bonds	2,280,000
2003	General Obligation Refunding and Improvement Bonds	<u>2,760,000</u>
		<u>\$ 13,120,000</u>

H. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable:					
General obligations	\$ 15,465,590	\$ 4,070,000	\$ 5,325,590	\$ 14,210,000	\$ 1,215,000
Combination tax and revenue CO	7,350,000	-	540,000	6,810,000	550,000
Issuance premium	234,684	200,910	34,521	401,073	35,758
Less deferred amount on refunding	<u>(172,930)</u>	<u>(275,197)</u>	<u>(145,484)</u>	<u>(302,643)</u>	<u>(28,000)</u>
Total bonds payable	22,877,344	3,995,713	5,754,627	21,118,430	1,772,758
Compensated absences	<u>847,269</u>	<u>658,901</u>	<u>615,841</u>	<u>890,329</u>	<u>647,140</u>
Governmental activities long-term liabilities	<u>\$ 23,724,613</u>	<u>\$ 4,654,614</u>	<u>\$ 6,370,468</u>	<u>\$ 22,008,759</u>	<u>\$ 2,419,898</u>

The General Fund has typically been used to liquidate governmental activities compensated absences liabilities.

(continued)

2. **DETAILED NOTES ON ALL FUNDS** (Continued)

H. Changes in Long-term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 1,374,410	\$ 1,055,000	\$ 1,374,410	\$ 1,055,000	\$ 320,000
Combination tax and revenue CO	11,290,000	-	650,000	10,640,000	675,000
Issuance premium	106,131	52,078	41,390	116,819	18,554
Less deferred amount on refunding	(150,582)	(108,204)	(93,324)	(165,462)	(30,379)
Total bonds payable	12,619,959	998,874	1,972,476	11,646,357	983,175
Capital lease obligation	87,448	-	42,898	44,550	44,550
Compensated absences	116,890	94,618	93,842	117,666	94,464
Business-type activities long-term liabilities	<u>\$ 12,824,297</u>	<u>\$ 1,093,492</u>	<u>\$ 2,109,216</u>	<u>\$ 11,808,573</u>	<u>\$ 1,122,189</u>

I. Retirement Plan

Plan Description

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

I. Retirement Plan (Continued)

Plan Description (Continued)

	<u>Plan Year 2010</u>	<u>Plan Year 2011</u>
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation/(asset) are as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution Made</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
09/30/09	\$ 760,773	\$ 760,773	100%	-
09/30/10	912,037	912,037	100%	-
09/30/11	1,026,751	1,026,751	100%	-

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

I. Retirement Plan (Continued)

Contributions (Continued)

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Actuarial Valuation Date	12/31/2008	12/31/2009	12/31/2010 - prior to restructuring	12/31/2010 Restructured
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	29 years; closed period	28.4 years; closed period	27.2 years; closed period	27.1 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years	30 years
Asset valuation method	Amortized cost	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial Assumptions:				
Investment rate of return*	7.5%	7.5%	7.5%	7.0%
Projected salary increases*	varies by age and service	varies by age and service	varies by age and service	varies by age and service
*Includes inflation at	3.0%	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%	2.1%

Funded Status and Funding Progress

In June, 2011, SB 350, was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May, 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

I. Retirement Plan (Continued)

Funded Status and Funding Progress (Continued)

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities benefits. The funded status as of December 31, 2010, under the two separate actuarial valuations, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2010 ¹	\$ 13,455,397	\$ 17,752,866	\$ 4,297,469	75.8%	\$ 7,547,041	56.9%
12/31/2010 ²	15,965,506	20,247,710	4,282,204	78.9%	7,547,041	56.7%
12/31/2009	12,611,227	17,093,878	4,482,651	73.8%	7,413,195	60.5%
12/31/2008	10,864,046	14,557,868	3,693,822	74.6%	6,968,771	53.0%

⁽¹⁾ Actuarial valuation performed under the original fund structure.

⁽²⁾ Actuarial valuation performed under the new fund structure

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

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

J. Other Post Employee Benefits

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

(continued)

2. **DETAILED NOTES ON ALL FUNDS** (Continued)

J. Other Post Employee Benefits (Continued)

The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

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

The City's contributions to the TMRS SDBF for the fiscal year ended 2011, 2010, and 2009 were \$768, \$745, and \$709, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates

(Retiree-only portion of the rate)

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2009	0.01%	0.01%	100%
2010	0.01%	0.01%	100%
2011	0.01%	0.01%	100%

K. Commitments

Upper Trinity Regional Water District ("UTRWD")

The City of Highland Village entered into a contract with the Upper Trinity Regional Water District Lakeview Regional Water Reclamation System (sewer plant), in June 1995, to meet its long-term wastewater treatment needs. The UTRWD has issued a series of bonds to provide for capital funding for the expansion and refurbishment of the Lakeview Sewer Plant and to construct the regional sewer system with all of said bonds to be payable from and secured by annual payments made by participating members. The City's subscribed capacity in the regional system is 1.65 million gallons per day (MGD). The City is committed to pay facility charges, currently \$482,900/MGD for joint facilities and \$352,965 annually for facilities specific to the Highland Village. For FY 2012, the charges for joint facilities will increase to \$500,000/MGD, while facility charges specific to the Highland Village will increase to \$354,080. The volume rate for treatment (including transportation charge) is \$1.75 per thousand gallons, increasing to \$1.82 in FY 2012.

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

K. Commitments (Continued)

Upper Trinity Regional Water District (“UTRWD”) (Continued)

The City has a commitment with the UTRWD to take 3 million gallon per day (MGD) of treated water. Currently, the volume charge is \$.86/1,000 gallons, with an annual demand charge of \$342,365/MGD. For FYE 2012, the volume rate will remain at \$.86/1,000 gallons, with the demand charge increasing to \$355,935/MGD.

In FY 2004-2005, the City executed an agreement with the UTRWD to provide for construction of a water transmission main ahead of schedule to coordinate with construction of a retail development at the northeast corner of FM 407 and FM 2499. Although the transmission line was not planned by UTRWD until 2010-2012, it was determined that installation of the main before construction of the development would prevent additional cost and disruption that would occur if the main were to be installed after the development was in place. The City agreed to pay UTRWD a proportionate share of the carrying cost of the project (estimated project cost of \$1.6 million) annually through FY 2012, or such time the transmission line is placed in service, if sooner than FY 2012.

In FY 2010-2011, the City executed an agreement with the UTRWD for repairs to Lift Station #1, the City’s point of entry to the UTRWD system for wastewater treatment. While the lift station is part of the UTRWD Lakeview Regional Water Reclamation System, the operation of this component is specific to the Highland Village, thus the City is responsible for necessary repairs and improvements. The repair cost associated with this total \$439,732, and will be paid in annual installment to the UTRWD through FY 2012.

L. Contingent Liabilities

The City has been named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City’s counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

M. Risk Management

The City is exposed to various risks or loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City’s general liability and property coverage is insured by the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool. The City’s only responsibility to the Fund is to pay premiums for insurance and related deductible amounts of these policies. Other risk of loss is covered by commercial insurance. Settlements of claims have not exceeded coverage in the past three years.

(continued)

2. DETAILED NOTES ON ALL FUNDS (Continued)

N. Change in Accounting Principles

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the City reclassifying fund balances of its governmental funds.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 11,099,734	\$ 11,099,734	\$ 10,889,925	\$(209,809)
Fines and forfeitures	241,500	241,500	216,558	(24,942)
Licenses, permits and fees	506,154	506,154	526,623	20,469
Intergovernmental	-	-	531	531
Charges for services	237,196	237,196	211,328	(25,868)
Investment earnings	40,400	40,400	33,316	(7,084)
Miscellaneous	142,100	234,276	317,678	83,402
Total revenues	<u>12,267,084</u>	<u>12,359,260</u>	<u>12,195,959</u>	<u>(163,301)</u>
EXPENDITURES				
Current:				
General government:				
City manager	584,474	859,417	759,667	99,750
Finance	1,616,677	1,577,933	1,454,981	122,952
Human resources	388,320	408,320	382,688	25,632
City secretary	294,660	264,660	236,068	28,592
Maintenance	911,867	871,867	809,451	62,416
City attorney	275,503	235,503	222,822	12,681
Public safety:				
Police	3,547,627	3,542,627	3,474,155	68,472
Fire	1,779,574	1,899,574	1,858,718	40,856
Building operations	314,502	324,502	306,349	18,153
Streets and drainage	1,098,403	978,403	799,132	179,271
Parks and recreation	1,607,509	1,654,249	1,611,508	42,741
Capital outlay	323,791	554,216	587,015	(32,799)
Total expenditures	<u>12,742,907</u>	<u>13,171,271</u>	<u>12,502,554</u>	<u>668,717</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(475,823)</u>	<u>(812,011)</u>	<u>(306,595)</u>	<u>505,416</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	466,025	466,025	468,829	2,804
Transfers out	(56,000)	(56,000)	(56,000)	-
Total other financing sources and uses	<u>410,025</u>	<u>410,025</u>	<u>412,829</u>	<u>2,804</u>
NET CHANGE IN FUND BALANCE	<u>(65,798)</u>	<u>(401,986)</u>	<u>106,234</u>	<u>508,220</u>
FUND BALANCE, BEGINNING	<u>4,190,734</u>	<u>4,190,734</u>	<u>4,190,734</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 4,124,936</u>	<u>\$ 3,788,748</u>	<u>\$ 4,296,968</u>	<u>\$ 508,220</u>

CITY OF HIGHLAND VILLAGE, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)**

COMMUNITY DEVELOPMENT CORPORATION

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 967,916	\$ 967,916	\$ 980,663	\$ 12,747
Charges for services	-	-	9,267	9,267
Investment earnings	<u>5,850</u>	<u>5,850</u>	<u>8,111</u>	<u>2,261</u>
Total revenues	<u>973,766</u>	<u>973,766</u>	<u>998,041</u>	<u>24,275</u>
EXPENDITURES				
Parks and recreation:				
Personnel	95,930	120,930	113,817	7,113
Services and supplies	228,439	298,439	249,180	49,259
Capital outlay	<u>187,150</u>	<u>187,150</u>	<u>69,534</u>	<u>117,616</u>
Total expenditures	<u>511,519</u>	<u>606,519</u>	<u>432,531</u>	<u>173,988</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>462,247</u>	<u>367,247</u>	<u>565,510</u>	<u>198,263</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	18,708	(18,708)
Transfer out	<u>(727,029)</u>	<u>(727,029)</u>	<u>(798,852)</u>	<u>71,823</u>
Total other financing sources (uses)	<u>(727,029)</u>	<u>(727,029)</u>	<u>(780,144)</u>	<u>(53,115)</u>
NET CHANGE IN FUND BALANCE	(264,782)	(359,782)	(214,634)	145,148
FUND BALANCE, BEGINNING	<u>2,754,330</u>	<u>2,754,330</u>	<u>2,754,330</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 2,489,548</u>	<u>\$ 2,394,548</u>	<u>\$ 2,539,696</u>	<u>\$ 145,148</u>

CITY OF HIGHLAND VILLAGE, TEXAS

NOTES TO BUDGETARY COMPARISON INFORMATION

SEPTEMBER 30, 2011

BUDGETS AND BUDGETARY ACCOUNTING

The City Manager submits to the City Council, not later than 45 days prior to the end of the fiscal year, a proposed budget for the ensuing fiscal year. At the meeting of the City Council at which the budget is submitted, the City Council fixes the time and place of the public hearing on the budget and causes to be published a notice of the budget hearing. After the budget hearing, the budget may be adopted by a favorable vote of the majority vote of the Council. Upon adoption, the budget is filed with the City Secretary and the County Clerk of Denton County.

During the fiscal year, the City Council may transfer funds allocated to a department to another department or re-estimate revenues or expenditures. The City Manager may transfer part or all of the encumbered appropriations balance within a departmental budget as long as transfer does not exceed \$1,000. Expenditures should not exceed appropriations at the department level, the classification level as reported in the financial statements. Unused appropriations lapse at the end of each fiscal year.

ENCUMBRANCES

Budgets for the General Fund, Special Revenue Funds, and Debt Service Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). The amendments or supplemental appropriations were not material in relation to the originally adopted budgets. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations, is employed as an extension of formal budgeting integration.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended September 30, 2011, expenditures exceed appropriation in Capital Outlay of the General Fund by \$32,799; Parks and Recreation – services and supplies of the Corps Leased Parks Fund by \$19,106; Parks and Recreation – services and supplies of the Park Development Fund by \$1,729; Fire – services and supplies of the Public Safety Fund by \$2,256; and Street and drainage – services and supplies of the Drainage Utility Fund by \$1,091.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Corps Leased Parks Fund – This fund is used to account for the operations of Corp Leased Parks. Park admission and usage fees charged to patrons are committed to finance operations.

Park Development Fund – This fund accounts for development fees charged to property developers, which are committed for development and maintenance of City parks.

Public Safety Fund – This fund accounts for funds received from local, state and federal sources for the purpose of supporting the City’s Police and Fire programs.

Municipal Court Security Building Fund – The security building fund provides for the collection of court fees with each fine that is to be utilized for the security of the court. Expenditures are restricted to security systems, bailiffs, metal detectors, locks, electronic identification systems, etc.

Municipal Court Technology Fund – The state legislature has allowed for the creation of a Municipal Court Technology Fund to defray the costs related to technology in the court system. This fund accounts for the collection of technology fees charged to defendants for misdemeanor offences as a cost of court. These funds will be used to purchase software, PCs and any other technology items needed for the court.

Utility Drainage Fund – This fund is used to account for fees collected for the purpose of improving, upgrading and maintaining the City’s drainage system. The City is mandated by the Texas Commission on Environmental Quality (TCEQ) to develop and maintain a Storm Water Management Plan in order to address capacity and quality issues and protect its residents and their properties from possible flooding and pollution problems. Drainage fees are collected by residents to fund the activities required to comply TCEQ regulations.

CAPITAL PROJECTS FUND

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of capital improvements (other than those financed by property funds). Such resources are derived from proceeds of general obligation debt, other sources designated for capital improvements and interest earned on such monies.

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	Special Revenue		
	Corps Leased Parks	Park Development	Public Safety
ASSETS			
Cash and investments	\$ 152,920	\$ 179,984	\$ 2,757
Receivable:			
Intergovernmental	-	-	21,993
Other	<u>6,703</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 159,623</u>	<u>\$ 179,984</u>	<u>\$ 24,750</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 18,546	\$ 48,530	\$ 11,778
Accrued liabilities	5,495	5,392	-
Deferred revenue	<u>25,242</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>49,283</u>	<u>53,922</u>	<u>11,778</u>
Fund balances:			
Restricted for:			
Public safety	-	-	12,972
Utility drainage	-	-	-
Capital projects	-	-	-
Committed - parks	<u>110,340</u>	<u>126,062</u>	<u>-</u>
Total fund balances	<u>110,340</u>	<u>126,062</u>	<u>12,972</u>
Total liabilities and fund balances	<u>\$ 159,623</u>	<u>\$ 179,984</u>	<u>\$ 24,750</u>

<u>Special Revenue</u>				<u>Total Nonmajor Governmental Funds</u>
<u>Security Building</u>	<u>Technology</u>	<u>Utility Drainage</u>	<u>Capital Projects</u>	
\$ 22,798	\$ 43,416	\$ 446,907	\$ 530,633	\$ 1,379,415
-	-	-	-	21,993
<u>-</u>	<u>-</u>	<u>163</u>	<u>-</u>	<u>6,866</u>
<u>\$ 22,798</u>	<u>\$ 43,416</u>	<u>\$ 447,070</u>	<u>\$ 530,633</u>	<u>\$ 1,408,274</u>
\$ 2,233	\$ -	\$ 5,808	\$ 142,136	\$ 229,031
-	-	7,696	17,042	35,625
-	-	-	-	25,242
<u>2,233</u>	<u>-</u>	<u>13,504</u>	<u>159,178</u>	<u>289,898</u>
20,565	43,416	-	-	76,953
-	-	433,566	-	433,566
-	-	-	371,455	371,455
-	-	-	-	236,402
<u>20,565</u>	<u>43,416</u>	<u>433,566</u>	<u>371,455</u>	<u>1,118,376</u>
<u>\$ 22,798</u>	<u>\$ 43,416</u>	<u>\$ 447,070</u>	<u>\$ 530,633</u>	<u>\$ 1,408,274</u>

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Special Revenue		
	Corps Leased Parks	Park Development	Public Safety
REVENUES			
Licenses, permits and fees	\$ 311,435	\$ 564	\$ -
Intergovernmental	-	-	146,651
Investment earnings	-	367	-
Miscellaneous	-	-	500
Total revenues	311,435	931	147,151
EXPENDITURES			
Current:			
General government:			
Finance	-	-	-
Public safety:			
Police	-	-	33,472
Fire	-	-	2,256
Streets and drainage	-	-	-
Parks and recreation	307,363	1,729	-
Debt service:			
Interest and other charges	-	-	-
Capital outlay	-	167,412	-
Total expenditures	307,363	169,141	35,728
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,072	(168,210)	111,423
OTHER FINANCING SOURCES (USES)			
Transfers in	40,000	-	-
Transfers out	-	-	(124,829)
Total other financing sources and uses	40,000	-	(124,829)
NET CHANGE IN FUND BALANCES	44,072	(168,210)	(13,406)
FUND BALANCES, BEGINNING	66,268	294,272	26,378
FUND BALANCES, ENDING	\$ 110,340	\$ 126,062	\$ 12,972

<u>Special Revenue</u>				Total Nonmajor Governmental Funds
<u>Security Building</u>	<u>Technology</u>	<u>Utility Drainage</u>	<u>Capital Projects</u>	
\$ 6,968	\$ 9,291	\$ 401,583	\$ -	\$ 729,841
-	-	-	-	146,651
-	-	1,356	1,171	2,894
-	-	-	-	500
<u>6,968</u>	<u>9,291</u>	<u>402,939</u>	<u>1,171</u>	<u>879,886</u>
12,107	180	-	-	12,287
-	-	-	-	33,472
-	-	-	-	2,256
-	-	386,125	-	386,125
-	-	-	-	309,092
-	-	-	17,042	17,042
-	-	32,605	737,592	937,609
<u>12,107</u>	<u>180</u>	<u>418,730</u>	<u>754,634</u>	<u>1,697,883</u>
(5,139)	9,111	(15,791)	(753,463)	(817,997)
-	-	16,000	71,823	127,823
-	-	(16,000)	-	(140,829)
-	-	-	71,823	(13,006)
(5,139)	9,111	(15,791)	(681,640)	(831,003)
<u>25,704</u>	<u>34,305</u>	<u>449,357</u>	<u>1,053,095</u>	<u>1,949,379</u>
<u>\$ 20,565</u>	<u>\$ 43,416</u>	<u>\$ 433,566</u>	<u>\$ 371,455</u>	<u>\$ 1,118,376</u>

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,858,761	\$ 1,858,761	\$ 1,877,306	\$ 18,545
Investment earnings	810	810	823	13
Total revenues	<u>1,859,571</u>	<u>1,859,571</u>	<u>1,878,129</u>	<u>18,558</u>
EXPENDITURES				
Debt service:				
Principal	1,696,671	1,696,671	1,696,671	-
Interest	841,120	841,120	884,279	(43,159)
Total expenditures	<u>2,537,791</u>	<u>2,537,791</u>	<u>2,580,950</u>	<u>(43,159)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(678,220)</u>	<u>(678,220)</u>	<u>(702,821)</u>	<u>(24,601)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of bonds	-	-	4,070,000	(4,070,000)
Premium on issuance of bonds	-	-	200,910	(200,910)
Payment to escrow agent	-	-	(4,240,559)	4,240,559
Transfers in	699,029	699,029	699,029	-
Transfers out	-	-	(18,708)	18,708
Total other financing sources and uses	<u>699,029</u>	<u>699,029</u>	<u>710,672</u>	<u>(11,643)</u>
NET CHANGE IN FUND BALANCE	20,809	20,809	7,851	(12,958)
FUND BALANCE, BEGINNING	<u>341,419</u>	<u>341,419</u>	<u>341,419</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 362,228</u>	<u>\$ 362,228</u>	<u>\$ 349,270</u>	<u>\$(12,958)</u>

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CORPS LEASED PARKS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Licenses, permits and fees	\$ 277,843	\$ 277,843	\$ 311,435	\$ 33,592
Total revenues	277,843	277,843	311,435	33,592
EXPENDITURES				
Parks and recreation:				
Personnel	177,932	177,932	149,480	28,452
Services and supplies	133,255	138,777	157,883	(19,106)
Total expenditures	311,187	316,709	307,363	9,346
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	(33,344)	(38,866)	4,072	42,938
OTHER FINANCING SOURCES (USES)				
Transfer in	40,000	40,000	40,000	-
Total other financing sources (uses)	40,000	40,000	40,000	-
NET CHANGE IN FUND BALANCE	6,656	1,134	44,072	42,938
FUND BALANCE, BEGINNING	66,268	66,268	66,268	-
FUND BALANCE, ENDING	\$ 72,924	\$ 67,402	\$ 110,340	\$ 42,938

CITY OF HIGHLAND VILLAGE, TEXAS

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

PARK DEVELOPMENT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Park development fees	\$ -	\$ -	\$ 564	\$ 564
Investment earnings	<u>318</u>	<u>318</u>	<u>367</u>	<u>49</u>
Total revenues	<u>318</u>	<u>318</u>	<u>931</u>	<u>613</u>
EXPENDITURES				
Parks and recreation:				
Services and supplies	-	-	1,729	(1,729)
Capital outlay	<u>162,950</u>	<u>220,000</u>	<u>167,412</u>	<u>52,588</u>
Total expenditures	<u>162,950</u>	<u>220,000</u>	<u>169,141</u>	<u>50,859</u>
NET CHANGE IN FUND BALANCE	(162,632)	(219,682)	(168,210)	51,472
FUND BALANCE, BEGINNING	<u>294,272</u>	<u>294,272</u>	<u>294,272</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 131,640</u>	<u>\$ 74,590</u>	<u>\$ 126,062</u>	<u>\$ 51,472</u>

CITY OF HIGHLAND VILLAGE, TEXAS

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

PUBLIC SAFETY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 126,625	\$ 126,625	\$ 146,651	\$ 20,026
Miscellaneous	-	-	500	500
Total revenues	126,625	126,625	147,151	20,526
EXPENDITURES				
Public safety:				
Police:				
Services and supplies	3,600	35,000	33,472	1,528
Fire:				
Services and supplies	-	-	2,256	(2,256)
Total expenditures	3,600	35,000	35,728	(728)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	123,025	91,625	111,423	19,798
OTHER FINANCING SOURCES (USES)				
Transfer out	(123,025)	(123,025)	(124,829)	(1,804)
Total other financing sources (uses)	(123,025)	(123,025)	(124,829)	(1,804)
NET CHANGE IN FUND BALANCE	-	(31,400)	(13,406)	17,994
FUND BALANCE, BEGINNING	26,378	26,378	26,378	-
FUND BALANCE, ENDING	\$ 26,378	\$(5,022)	\$ 12,972	\$ 17,994

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MUNICIPAL COURT SECURITY BUILDING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 8,775	\$ 8,775	\$ 6,968	\$(1,807)
Total revenues	8,775	8,775	6,968	(1,807)
EXPENDITURES				
General government:				
Finance:				
Personnel	1,866	2,366	2,323	43
Services and supplies	-	20,000	9,784	10,216
Total expenditures	1,866	22,366	12,107	10,259
NET CHANGE IN FUND BALANCE	6,909	(13,591)	(5,139)	8,452
FUND BALANCE, BEGINNING	25,704	25,704	25,704	-
FUND BALANCE, ENDING	\$ 32,613	\$ 12,113	\$ 20,565	\$ 8,452

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
TECHNOLOGY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 11,700	\$ 11,700	\$ 9,291	\$(2,409)
Total revenues	11,700	11,700	9,291	(2,409)
EXPENDITURES				
General government:				
Finance:				
Services and supplies	20,000	20,000	180	19,820
Total expenditures	20,000	20,000	180	19,820
NET CHANGE IN FUND BALANCE	(8,300)	(8,300)	9,111	17,411
FUND BALANCE, BEGINNING	34,305	34,305	34,305	-
FUND BALANCE, ENDING	\$ 26,005	\$ 26,005	\$ 43,416	\$ 17,411

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
UTILITY DRAINAGE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Licenses, permits and fees	\$ 400,000	\$ 400,000	\$ 401,583	\$ 1,583
Investment earnings	<u>825</u>	<u>825</u>	<u>1,356</u>	<u>531</u>
Total revenues	<u>400,825</u>	<u>400,825</u>	<u>402,939</u>	<u>2,114</u>
EXPENDITURES				
Street and drainage:				
Personnel	255,712	265,712	253,940	11,772
Services and supplies	131,094	131,094	132,185	(1,091)
Capital outlay	<u>45,000</u>	<u>45,000</u>	<u>32,605</u>	<u>12,395</u>
Total expenditures	<u>431,806</u>	<u>441,806</u>	<u>418,730</u>	<u>23,076</u>
NET CHANGE IN FUND BALANCE	(30,981)	(40,981)	(15,791)	25,190
FUND BALANCE, BEGINNING	<u>449,357</u>	<u>449,357</u>	<u>449,357</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 418,376</u>	<u>\$ 408,376</u>	<u>\$ 433,566</u>	<u>\$ 25,190</u>

**CAPITAL ASSETS USED IN THE
OPERATION OF GOVERNMENTAL FUNDS**

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CITY OF HIGHLAND VILLAGE, TEXAS

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS BY SOURCE**

SEPTEMBER 30, 2011

CAPITAL ASSETS

Land	\$ 17,183,848
Land improvements	9,397,479
Buildings and improvements	13,471,158
Equipment	5,687,556
Other capital assets	158,453
Infrastructure	38,715,205
Construction in progress	<u>676,659</u>
 Total capital assets	 \$ <u><u>85,290,358</u></u>

INVESTMENT IN CAPITAL ASSETS

Investment in general capital assets acquired prior to October 1, 1990	\$ 655,037
General fund	5,747,581
Vehicle replacement fund	670,674
Special revenue funds	9,723,316
Capital projects funds	21,316,043
Donations	<u>47,177,707</u>
 Total investment in capital assets	 \$ <u><u>85,290,358</u></u>

CITY OF HIGHLAND VILLAGE, TEXAS

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS BY FUNCTION AND ACTIVITY**

SEPTEMBER 30, 2011

<u>Department</u>	<u>Land</u>	<u>Land Improvements</u>	<u>Building Improvements</u>	<u>Equipment</u>	<u>Other Assets</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
City Manager	\$ 421,821	\$ -	\$ 173,562	\$ 45,602	\$ -	\$ -	\$ 259	\$ 641,244
Finance	26,652	-	376,165	281,601	116,277	-	1,811	802,506
Human resources	8,812	-	108,571	-	-	-	229	117,612
City secretary	41,479	-	496,735	-	18,446	-	740	557,400
City attorney	8,927	-	87,133	-	-	-	-	96,060
Police	214,495	-	2,687,976	1,215,987	6,273	-	3,828	4,128,559
Fire	41,800	-	4,438,500	1,750,338	-	-	-	6,230,638
Building operations	8,928	-	133,394	43,693	-	-	476	186,491
Streets and drainage	11,571,914	465,351	857,323	841,155	-	38,660,407	342,050	52,738,200
Maintenance	65,609	-	775,361	290,285	-	-	-	1,131,255
Drainage operations	-	-	426,544	258,148	-	54,798	-	739,490
Parks and recreation	<u>4,773,411</u>	<u>8,932,128</u>	<u>2,909,894</u>	<u>960,747</u>	<u>17,457</u>	<u>-</u>	<u>327,266</u>	<u>17,920,903</u>
Total capital assets	<u>\$ 17,183,848</u>	<u>\$ 9,397,479</u>	<u>\$ 13,471,158</u>	<u>\$ 5,687,556</u>	<u>\$ 158,453</u>	<u>\$ 38,715,205</u>	<u>\$ 676,659</u>	<u>\$ 85,290,358</u>

CITY OF HIGHLAND VILLAGE, TEXAS

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS - CHANGES BY FUNCTION AND ACTIVITY**

SEPTEMBER 30, 2011

<u>Department</u>	<u>Balance September 30, 2010</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance September 30, 2011</u>
City manager	\$ 630,365	\$ 10,879	\$ -	\$ 641,244
Finance	696,270	106,236	-	802,506
Human resources	107,994	9,618	-	117,612
City secretary	526,263	31,137	-	557,400
City attorney	96,060	-	-	96,060
Police	4,026,946	278,001	176,388	4,128,559
Fire	6,219,267	11,371	-	6,230,638
Building operations	166,483	20,008	-	186,491
Streets and drainage	53,556,881	570,489	1,389,170	52,738,200
Maintenance	1,131,255	-	-	1,131,255
Drainage operations	676,303	63,187	-	739,490
Parks and recreation	<u>17,355,286</u>	<u>565,617</u>	<u>-</u>	<u>17,920,903</u>
 Total capital assets	 <u>\$ 85,189,373</u>	 <u>\$ 1,666,543</u>	 <u>\$ 1,565,558</u>	 <u>\$ 85,290,358</u>

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STATISTICAL SECTION

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

Contents

	Page
Financial Trends	73
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	79
These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.	
Debt Capacity	83
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Demographic and Economic Information	88
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	90
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	

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

CITY OF HIGHLAND VILLAGE, TEXAS

NET ASSETS BY COMPONENT

LAST NINE FISCAL YEARS

	Fiscal Year		
	2003	2004	2005
Governmental activities:			
Invested in capital assets, net of related debt	\$ 32,726,239	\$ 33,396,071	\$ 33,326,678
Restricted:			
Debt service	-	-	-
Community development	-	-	-
Public safety	-	-	-
Utility drainage	-	-	-
Capital projects	617,376	597,532	-
Unrestricted	<u>1,566,416</u>	<u>2,357,835</u>	<u>2,614,291</u>
Total governmental activities net assets	<u>\$ 34,910,031</u>	<u>\$ 36,351,438</u>	<u>\$ 35,940,969</u>
Business-type activities:			
Invested in capital assets, net of related debt	\$ 4,533,190	\$ 3,927,416	\$ 900,860
Restricted:			
Debt service	66,548	-	-
Capital projects	2,573,956	1,588,902	3,066,063
Unrestricted	<u>18,226</u>	<u>1,431,982</u>	<u>3,236,656</u>
Total business-type activities net assets	<u>\$ 7,191,920</u>	<u>\$ 6,948,300</u>	<u>\$ 7,203,579</u>
Primary government:			
Invested in capital assets, net of related debt	\$ 37,259,429	\$ 37,323,487	\$ 34,227,538
Restricted:			
Debt service	66,548	-	-
Community development	-	-	-
Public safety	-	-	-
Utility drainage	-	-	-
Capital projects	3,191,332	2,186,434	3,066,063
Unrestricted	<u>1,584,642</u>	<u>3,789,817</u>	<u>5,850,947</u>
Total primary government net assets	<u>\$ 42,101,951</u>	<u>\$ 43,299,738</u>	<u>\$ 43,144,548</u>

Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

TABLE 1

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 34,328,243	\$ 34,116,670	\$ 34,619,733	\$ 36,047,885	\$ 37,529,766	\$ 36,432,805
121,128	272,324	237,114	268,467	236,654	262,165
-	-	-	-	1,114,888	1,156,675
-	-	-	-	-	76,953
-	-	-	-	-	433,566
585,311	267,715	355,191	345,422	386,322	-
<u>2,181,559</u>	<u>3,320,666</u>	<u>3,850,047</u>	<u>4,824,756</u>	<u>4,840,585</u>	<u>4,208,202</u>
<u>\$ 37,216,241</u>	<u>\$ 37,977,375</u>	<u>\$ 39,062,085</u>	<u>\$ 41,486,530</u>	<u>\$ 44,108,215</u>	<u>\$ 42,570,366</u>
\$ 5,302,838	\$ 5,731,085	\$ 6,111,699	\$ 5,465,933	\$ 5,664,677	\$ 7,149,038
-	-	-	-	-	-
1,535,187	2,186,804	1,800,047	1,678,094	1,457,105	1,657,116
<u>1,898,148</u>	<u>941,128</u>	<u>1,780,651</u>	<u>2,951,956</u>	<u>2,130,193</u>	<u>2,830,923</u>
<u>\$ 8,736,173</u>	<u>\$ 8,859,017</u>	<u>\$ 9,692,397</u>	<u>\$ 10,095,983</u>	<u>\$ 9,251,975</u>	<u>\$ 11,637,077</u>
\$ 39,631,081	\$ 39,847,755	\$ 40,731,432	\$ 41,513,818	\$ 43,194,443	\$ 43,581,843
121,128	272,324	237,114	268,467	236,654	262,165
-	-	-	-	1,114,888	1,156,675
-	-	-	-	-	76,953
-	-	-	-	-	433,566
2,120,498	2,454,519	2,155,238	2,023,516	1,843,427	1,657,116
<u>4,079,707</u>	<u>4,261,794</u>	<u>5,630,698</u>	<u>7,776,712</u>	<u>6,970,778</u>	<u>7,039,125</u>
<u>\$ 45,952,414</u>	<u>\$ 46,836,392</u>	<u>\$ 48,754,482</u>	<u>\$ 51,582,513</u>	<u>\$ 53,360,190</u>	<u>\$ 54,207,443</u>

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET ASSETS

LAST NINE FISCAL YEARS

	Fiscal Year		
	2003	2004	2005
EXPENSES			
Governmental activities:			
General government	\$ 3,024,964	\$ 2,591,201	\$ 2,704,513
Public safety	2,940,954	3,107,650	3,344,204
Building operations	-	-	-
Community development	-	-	-
Community services	480,698	504,792	538,430
Streets and drainage	1,672,658	1,597,274	1,646,793
Parks and recreation	1,254,471	1,405,342	1,435,302
Interest on long-term debt	635,166	592,077	467,537
Total governmental activities expenses	10,008,911	9,798,336	10,136,779
Business-type activities:			
Water and wastewater	4,930,261	5,350,546	6,003,259
Total business-type activities expenses	4,930,261	5,350,546	6,003,259
Total primary government program expenses	\$ 14,939,172	\$ 15,148,882	\$ 16,140,038
PROGRAM REVENUES			
Governmental activities:			
Charges for services:			
General government	\$ 183,681	\$ 216,947	\$ 142,266
Public safety	120,930	115,672	108,373
Building operations	-	-	-
Community services	758,743	723,764	556,479
Community development	-	-	-
Streets and drainage	-	-	-
Parks and recreation	349,385	303,582	321,538
Operating grants and contributions	123,804	130,412	-
Capital grants and contributions	515,556	439,741	199,815
Total governmental activities program revenues	2,052,099	1,930,118	1,328,471
Business-type activities:			
Charges for services:			
Water and wastewater	4,277,176	5,067,834	5,704,651
Capital grants and contributions	-	223,045	175,480
Total business-type activities program revenues	4,277,176	5,290,879	5,880,131
Total primary government program revenues	\$ 6,329,275	\$ 7,220,997	\$ 7,208,602

TABLE 2

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$ 2,889,724	\$ 3,274,106	\$ 2,920,042	\$ 3,087,596	\$ 3,309,453	\$ 4,061,944
3,628,593	3,982,151	4,817,750	5,454,270	5,716,458	6,057,589
-	314,570	326,715	342,084	347,208	311,579
-	611,356	503,579	506,031	856,091	-
572,649	-	-	-	-	-
1,830,799	1,716,177	1,998,304	2,395,655	2,252,522	2,323,968
1,627,417	1,660,194	2,061,027	2,355,359	2,203,252	2,869,595
510,159	617,809	681,888	932,556	974,478	844,711
<u>11,059,341</u>	<u>12,176,363</u>	<u>13,309,305</u>	<u>15,073,551</u>	<u>15,659,462</u>	<u>16,469,386</u>
6,137,246	6,433,256	6,823,202	7,256,548	8,086,711	7,956,791
<u>6,137,246</u>	<u>6,433,256</u>	<u>6,823,202</u>	<u>7,256,548</u>	<u>8,086,711</u>	<u>7,956,791</u>
<u>\$ 17,196,587</u>	<u>\$ 18,609,619</u>	<u>\$ 20,132,507</u>	<u>\$ 22,330,099</u>	<u>\$ 23,746,173</u>	<u>\$ 24,426,177</u>
\$ 244,955	\$ 188,435	\$ 135,323	\$ 160,388	\$ 243,938	\$ 247,160
161,162	108,830	273,295	288,262	200,990	228,724
-	-	-	-	-	328,780
746,043	-	-	-	-	-
-	928,357	451,730	326,529	293,338	-
-	266,221	393,491	396,519	397,886	401,583
588,131	303,536	418,924	365,163	393,737	452,633
-	319,162	190,771	383,646	227,209	148,982
807,528	-	-	2,078,055	-	72,385
<u>2,547,819</u>	<u>2,114,541</u>	<u>1,863,534</u>	<u>3,998,562</u>	<u>1,757,098</u>	<u>1,880,247</u>
6,943,554	5,462,433	7,551,247	7,643,327	7,348,133	9,062,987
665,482	884,296	200,628	196,340	106,473	193,982
<u>7,609,036</u>	<u>6,346,729</u>	<u>7,751,875</u>	<u>7,839,667</u>	<u>7,454,606</u>	<u>9,256,969</u>
<u>\$ 10,156,855</u>	<u>\$ 8,461,270</u>	<u>\$ 9,615,409</u>	<u>\$ 11,838,229</u>	<u>\$ 9,211,704</u>	<u>\$ 11,137,216</u>

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

**CHANGES IN NET ASSETS
(Continued)
LAST NINE FISCAL YEARS**

	Fiscal Year		
	2003	2004	2005
NET (EXPENSE) REVENUES			
Governmental activities	\$(7,956,812)	\$(7,868,218)	\$(8,808,308)
Business-type activities	(653,085)	(59,667)	(123,128)
Total primary government net expense	<u>(8,609,897)</u>	<u>(7,927,885)</u>	<u>(8,931,436)</u>
 GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS			
Governmental activities:			
Taxes			
Property	6,043,566	6,437,289	6,813,476
Franchise	762,175	859,358	1,042,410
Sales	434,578	470,024	493,420
Unrestricted investment earnings	92,448	79,388	103,224
Intergovernmental contributions	-	-	(469,488)
Miscellaneous	109,987	273,566	180,551
Special item	-	950,000	-
Transfers	<u>240,000</u>	<u>240,000</u>	<u>234,246</u>
Total governmental activities	<u>7,682,754</u>	<u>9,309,625</u>	<u>8,397,839</u>
Business-type activities:			
Unrestricted investment earnings	128,593	50,101	143,165
Intergovernmental contributions	-	-	469,488
Miscellaneous	377,768	5,946	-
Transfers	<u>(240,000)</u>	<u>(240,000)</u>	<u>(234,246)</u>
Total business-type activities	<u>266,361</u>	<u>(183,953)</u>	<u>378,407</u>
Total primary government	<u>7,949,115</u>	<u>9,125,672</u>	<u>8,776,246</u>
 CHANGE IN NET ASSETS			
Governmental activities	(274,058)	1,441,407	(410,469)
Business-type activities	<u>(386,724)</u>	<u>(243,620)</u>	<u>255,279</u>
Total primary government	<u>\$(660,782)</u>	<u>\$ 1,197,787</u>	<u>\$(155,190)</u>

Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

TABLE 2

Fiscal Year					
2006	2007	2008	2009	2010	2011
\$(8,511,522)	\$(10,061,822)	\$(11,445,771)	\$(11,074,989)	\$(13,902,364)	\$(14,589,139)
<u>1,471,790</u>	<u>(86,527)</u>	<u>928,673</u>	<u>583,119</u>	<u>(632,105)</u>	<u>1,300,178</u>
<u>(7,039,732)</u>	<u>(10,148,349)</u>	<u>(10,517,098)</u>	<u>(10,491,870)</u>	<u>(14,534,469)</u>	<u>(13,288,961)</u>
7,159,890	7,775,701	8,454,932	9,410,561	9,487,593	9,323,925
1,239,485	1,229,270	1,376,666	1,384,660	1,417,221	1,412,034
558,944	940,009	1,859,946	1,885,786	2,781,423	3,004,273
297,987	571,390	345,422	340,518	74,569	45,144
-	-	-	-	-	-
290,488	186,586	253,515	237,909	210,188	314,826
-	-	-	-	-	-
<u>240,000</u>	<u>120,000</u>	<u>240,000</u>	<u>240,000</u>	<u>276,500</u>	<u>(1,048,912)</u>
<u>9,786,794</u>	<u>10,822,956</u>	<u>12,530,481</u>	<u>13,499,434</u>	<u>14,247,494</u>	<u>13,051,290</u>
300,804	329,371	144,707	60,467	64,597	36,012
-	-	-	-	-	-
-	-	-	-	-	-
<u>(240,000)</u>	<u>(120,000)</u>	<u>(240,000)</u>	<u>(240,000)</u>	<u>(276,500)</u>	<u>1,048,912</u>
<u>60,804</u>	<u>209,371</u>	<u>(95,293)</u>	<u>(179,533)</u>	<u>(211,903)</u>	<u>1,084,924</u>
<u>9,847,598</u>	<u>11,032,327</u>	<u>12,435,188</u>	<u>13,319,901</u>	<u>14,035,591</u>	<u>14,136,214</u>
1,275,272	761,134	1,084,710	2,424,445	345,130	(1,537,849)
<u>1,532,594</u>	<u>122,844</u>	<u>833,380</u>	<u>403,586</u>	<u>(844,008)</u>	<u>2,385,102</u>
<u>\$ 2,807,866</u>	<u>\$ 883,978</u>	<u>\$ 1,918,090</u>	<u>\$ 2,828,031</u>	<u>\$ (498,878)</u>	<u>\$ 847,253</u>

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CITY OF HIGHLAND VILLAGE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund										
Nonspendable - prepaid items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,073
Unassigned	-	-	-	-	-	-	-	-	-	4,295,895
Reserved	222,728	78,011	75,011	208,610	38,113	60,967	97,928	283,297	188,860	-
Unreserved	<u>1,134,664</u>	<u>1,496,007</u>	<u>2,339,291</u>	<u>2,156,267</u>	<u>2,467,540</u>	<u>3,184,302</u>	<u>3,693,582</u>	<u>3,633,978</u>	<u>4,001,874</u>	<u>-</u>
Total general fund	<u>\$ 1,357,392</u>	<u>\$ 1,574,018</u>	<u>\$ 2,414,302</u>	<u>\$ 2,364,877</u>	<u>\$ 2,505,653</u>	<u>\$ 3,245,269</u>	<u>\$ 3,791,510</u>	<u>\$ 3,917,275</u>	<u>\$ 4,190,734</u>	<u>\$ 4,296,968</u>
All other governmental funds										
Restricted, for the purpose of:										
Debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 349,270
Community development	-	-	-	-	-	-	-	-	-	2,539,696
Public safety	-	-	-	-	-	-	-	-	-	76,953
Utility drainage	-	-	-	-	-	-	-	-	-	433,566
Capital projects	-	-	-	-	-	-	-	-	-	371,455
Reserved	1,419,695	3,789,011	4,329,694	3,137,313	6,616,230	2,686,284	9,679,618	12,534,051	1,865,015	-
Unreserved, reported in:										
Special revenue funds	-	25,240	24,122	25,765	48,543	466,157	474,263	517,724	3,180,113	-
Capital projects funds	<u>32,052</u>	<u>200,000</u>	<u>185,441</u>	<u>326,170</u>	<u>-</u>	<u>122,551</u>	<u>171,976</u>	<u>173,291</u>	<u>-</u>	<u>-</u>
Total all other governmental funds	<u>\$ 1,451,747</u>	<u>\$ 4,014,251</u>	<u>\$ 4,539,257</u>	<u>\$ 3,489,248</u>	<u>\$ 6,664,773</u>	<u>\$ 3,274,992</u>	<u>\$ 10,325,857</u>	<u>\$ 13,225,066</u>	<u>\$ 5,045,128</u>	<u>\$ 4,007,342</u>

Note:

The City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" in fiscal year ended 2011.

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES										
Taxes	\$ 6,418,320	\$ 7,613,792	\$ 8,132,454	\$ 8,357,364	\$ 8,927,579	\$ 9,930,351	\$ 11,759,504	\$ 12,665,467	\$ 13,698,528	\$ 13,747,894
Fines and forfeitures	107,674	163,115	163,328	147,760	181,200	210,170	128,235	148,806	243,880	216,558
Licenses, permits, fees	713,381	1,192,700	1,073,383	918,699	1,375,390	1,538,951	1,303,368	1,127,547	1,132,330	1,256,464
Intergovernmental	67,011	86,758	130,412	200,171	804,341	319,162	183,398	358,837	224,909	147,182
Charges for services	48,322	75,370	80,012	77,385	103,245	104,736	204,536	260,508	152,512	220,595
Investment earnings	122,864	92,448	92,378	193,669	332,086	571,390	345,422	317,234	97,853	45,144
Miscellaneous	-	97,529	211,541	95,502	256,389	227,942	259,515	223,108	212,488	318,178
Total revenues	<u>7,477,572</u>	<u>9,321,712</u>	<u>9,883,508</u>	<u>9,990,550</u>	<u>11,980,230</u>	<u>12,902,702</u>	<u>14,183,978</u>	<u>15,101,507</u>	<u>15,762,500</u>	<u>15,952,015</u>
EXPENDITURES										
General government	2,344,455	2,812,222	2,576,727	2,612,080	2,750,713	3,172,948	2,795,110	2,951,409	3,184,450	3,877,964
Public safety	2,556,966	2,775,530	2,851,755	3,082,301	3,239,400	3,599,342	4,361,246	4,789,474	5,049,759	5,368,601
Building operations	-	-	-	-	-	267,648	320,616	336,072	341,466	306,349
Community development	-	-	-	-	-	590,233	494,528	492,933	751,276	-
Community service	494,261	474,004	481,196	511,948	547,953	-	-	-	-	-
Streets and drainage	694,225	820,130	809,151	815,279	873,485	758,953	952,526	1,290,052	1,081,337	1,185,257
Parks and recreation	1,046,104	1,048,306	1,171,718	1,264,676	1,366,711	1,380,545	1,695,348	1,962,700	1,805,789	2,283,597
Capital outlay	231,804	440,775	514,070	1,567,046	3,119,733	4,457,417	2,153,389	1,946,051	5,345,918	1,594,158
Debt service										
Principal	578,881	615,250	892,415	970,884	1,257,728	1,113,243	1,419,371	1,401,407	1,781,323	1,696,671
Interest and other charges	<u>591,039</u>	<u>802,146</u>	<u>485,598</u>	<u>500,016</u>	<u>706,215</u>	<u>632,549</u>	<u>793,504</u>	<u>1,049,888</u>	<u>980,673</u>	<u>901,321</u>
Total expenditures	<u>8,537,735</u>	<u>9,788,363</u>	<u>9,782,630</u>	<u>11,324,230</u>	<u>13,861,938</u>	<u>15,972,878</u>	<u>14,985,638</u>	<u>16,219,986</u>	<u>20,321,991</u>	<u>17,213,918</u>

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

**CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
LAST TEN FISCAL YEARS**

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (1,060,163)	\$ (466,651)	\$ 100,878	\$ (1,333,680)	\$ (1,881,708)	\$ (3,070,176)	\$ (801,660)	\$ (1,118,479)	\$ (4,559,491)	\$ (1,261,903)
OTHER FINANCING SOURCES (USES)										
Issuance of long-term debt	-	8,482,129	-	-	8,130,000	300,000	8,000,000	3,830,000	-	4,070,000
Proceeds from capital leases	-	69,399	74,412	-	713,391	-	-	-	-	-
Premium on debt issuance	-	-	-	-	80,321	-	158,766	33,843	-	200,910
Payments to escrow account	-	(5,579,964)	-	-	(3,965,692)	-	-	-	-	(4,240,559)
Proceeds from sale of capital assets	-	-	-	-	-	-	-	39,610	-	-
Transfers in	245,688	722,186	341,608	339,348	384,923	730,108	409,676	730,493	1,612,313	1,314,389
Transfers out	(40,688)	(482,186)	(101,608)	(105,102)	(144,923)	(610,108)	(169,676)	(490,493)	(1,335,813)	(1,014,389)
Total other financing sources (uses)	<u>205,000</u>	<u>3,211,564</u>	<u>314,412</u>	<u>234,246</u>	<u>5,198,020</u>	<u>420,000</u>	<u>8,398,766</u>	<u>4,143,453</u>	<u>276,500</u>	<u>330,351</u>
SPECIAL ITEM										
Litigation settlement	-	-	950,000	-	-	-	-	-	-	-
Total special item	-	-	950,000	-	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	\$ (855,163)	\$ 2,744,913	\$ 1,365,290	\$ (1,099,434)	\$ 3,316,312	\$ (2,650,176)	\$ 7,597,106	\$ 3,024,974	\$ (4,282,991)	\$ (931,552)
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<u>14.1%</u>	<u>15.2%</u>	<u>14.9%</u>	<u>15.1%</u>	<u>18.3%</u>	<u>15.2%</u>	<u>17.3%</u>	<u>17.2%</u>	<u>18.4%</u>	<u>16.6%</u>

TABLE 5

CITY OF HIGHLAND VILLAGE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Estimated Market Value		Personal Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
	Residential Property	Commercial Property					
2002	\$ 893,273,521	\$ 100,146,454	\$ 32,471,761	\$ 43,918,642	\$ 981,973,094	0.5696	\$ 5,593,319
2003	956,719,363	96,109,405	32,482,820	42,186,059	1,043,125,529	0.5696	5,941,643
2004	1,045,041,076	104,165,418	23,002,619	46,605,948	1,125,603,165	0.5696	6,411,436
2005	1,105,661,932	102,439,022	26,234,611	47,153,693	1,187,181,872	0.5696	6,762,188
2006	1,155,004,979	103,324,968	32,671,282	50,228,446	1,240,772,783	0.5696	7,067,814
2007	1,230,372,823	124,967,535	25,619,835	52,545,296	1,328,414,897	0.5696	7,567,050
2008	1,307,427,681	195,882,733	31,996,149	56,731,754	1,478,574,809	0.5696	8,422,406
2009	1,367,695,704	254,564,950	63,406,709	68,338,327	1,617,329,036	0.5696	9,212,791
2010	1,392,011,109	272,382,720	63,385,404	69,657,350	1,658,121,883	0.5696	9,445,160
2011	1,401,737,552	225,092,872	53,733,486	75,046,468	1,605,517,442	0.5696	9,145,509

Source: Denton County Appraisal District

Note: Estimated actual taxable value is calculated by dividing taxable assessed value by those percentages. Tax rates are per \$100 of assessed value.

Residential: single family, vacant lots, acreage, farm/ranch and personal property.

Commercial: Includes real and personal commercial, personal industrial and utilities.

CITY OF HIGHLAND VILLAGE, TEXAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates	
	Operating/ General Rate	Debt Service Rate	Total Direct Rate	Lewisville Independent School District	Denton County
2002	\$ 0.4549	\$ 0.1146	\$ 0.5695	\$ 1.77	\$ 0.25
2003	0.4550	0.1146	0.5696	1.77	0.25
2004	0.4460	0.1236	0.5696	1.77	0.25
2005	0.4455	0.1241	0.5696	1.77	0.25
2006	0.4549	0.1147	0.5696	1.64	0.23
2007	0.4488	0.1208	0.5696	1.37	0.24
2008	0.4410	0.1287	0.5696	1.37	0.24
2009	0.4543	0.1153	0.5696	1.38	0.24
2010	0.4541	0.1155	0.5696	1.41	0.25
2011	0.4550	0.1146	0.5696	1.43	0.27

Source: Denton County Tax Collector's Office
Lewisville Independent School District Budget Office

Note: A typical property tax bill would consist of the City, School District and County taxes.

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2011		2002	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value*	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value**
Shops at Highland Village Dev., LTD	\$ 36,750,000	2.289%	\$ -	- %
Opus Real Estate TX VII HV, LP	28,613,205	1.782%	-	- %
Wal-Mart Stores Texas, LP	19,900,000	1.239%	-	- %
Wal-Mart Stores Texas, LP	8,665,488	0.540%	-	- %
Centeramerica Prop Trust, LP	7,719,557	0.481%	-	- %
Barnett Healthcare Prop, LLC	6,739,918	0.420%	-	- %
HHSG, LLC	5,836,913	0.364%	-	- %
HSM Highland Point S/C. LTD	4,673,053	0.291%	-	- %
Cutting, Joan L Trustee	4,401,128	0.274%	-	- %
Happenings, LLC	4,256,978	0.265%	-	- %
	-	- %	9,667,255	0.984%
Beal Dev., LTD	-	- %	7,222,327	0.735%
Balfour Village Estates, LP	-	- %	5,563,813	0.567%
61R-H P/S, LTD	-	- %	3,956,330	0.403%
CoServ Electric Co-op, Inc.	-	- %	3,832,981	0.390%
Centeramerica Prop Trust, LP	-	- %	3,272,454	0.333%
Sharp & Associates, Inc.	-	- %	2,713,412	0.276%
Tabani Highland LP P/S	-	- %	2,533,194	0.258%
Drees Custom Homes LP	-	- %	2,398,900	0.244%
Chapel Hill Dev LTD	-	- %	2,371,352	0.241%
Minyard Food Store #83				
Total	\$ <u>127,556,240</u>	<u>7.945%</u>	\$ <u>43,532,018</u>	<u>4.433%</u>

Source: Denton County Appraisal District

Notes:

* Total taxable value including real and personal property for tax year 2010 (fiscal year 2011) is \$1,605,517,442

** Total taxable value including real and personal property for tax year 2001 (fiscal year 2002) is \$981,973,094

TABLE 8

CITY OF HIGHLAND VILLAGE, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

<u>Fiscal Year Ended</u>	<u>Taxes Levied for the Fiscal Year</u>	<u>Collected With the Fiscal Year of the Levy</u>		<u>Collections in Subsequent Years</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2002	\$ 5,724,341	\$ 5,578,918	97.46%	\$ 144,036	\$ 5,722,954	99.98%
2003	6,162,357	5,966,226	96.82%	192,361	6,158,587	99.94%
2004	6,547,821	6,390,952	97.60%	155,208	6,546,160	99.97%
2005	6,761,024	6,707,448	99.21%	53,149	6,760,597	99.96%
2006	7,080,176	7,030,306	99.30%	51,294	7,081,600	99.99%
2007	7,630,985	7,585,059	99.40%	48,039	7,633,098	100.00%
2008	8,405,006	8,377,388	99.67%	28,568	8,405,956	99.98%
2009	9,363,873	9,315,842	99.49%	35,712	9,351,554	99.91%
2010	9,449,566	9,409,516	99.58%	31,194	9,440,710	99.91%
2011	9,331,792	9,311,956	99.79%	-	9,311,956	99.79%

Sources: Denton County Appraisal District and Denton County Tax office.

Notes: Tax levy includes adjustments and supplements made to the property roll during the fiscal year.
Delinquent collections do not include penalty and interest.

TABLE 9

CITY OF HIGHLAND VILLAGE, TEXAS

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST NINE FISCAL YEARS

Fiscal Year	Governmental Activities					Business-type Activities				Total Primary Government	Percentage of Personal Income*	Per Capita*
	General Obligation Bonds	Certificates of Obligation	Contributions Tax and Revenue Bonds	Capital Lease Obligations	Tax Note	Combination Tax and Revenue Bonds	General Obligation Bonds	Water and Sewer Revenue Certificates of Obligation	Other Obligations			
2003	\$ 12,195,834	\$ 1,455,000	\$ 430,000	\$ 42,356	\$ -	\$ -	\$ 5,430,250	\$ 3,440,000	\$ -	\$ 22,993,440	5.08%	\$ 1,687
2004	11,633,419	1,375,000	180,000	57,412	-	-	4,837,665	3,270,000	-	21,353,496	4.68%	1,513
2005	11,397,022	1,290,000	-	43,248	-	7,420,000	3,801,611	-	-	23,951,881	5.17%	1,651
2006	14,705,257	-	1,255,000	440,676	-	7,185,000	3,150,547	-	-	26,736,480	5.39%	1,790
2007	13,703,811	-	1,255,000	328,880	300,000	6,820,000	2,495,388	-	-	24,903,079	4.75%	1,628
2008	17,700,254	-	4,255,000	213,066	-	7,935,000	1,950,140	-	-	32,053,460	5.39%	2,035
2009	16,653,471	-	7,835,000	108,442	-	11,875,000	1,667,097	-	128,756	38,267,766	6.14%	2,414
2010	15,465,590	-	7,350,000	-	-	11,290,000	1,374,410	-	87,448	35,567,448	5.59%	2,211
2011	14,210,000	-	6,810,000	-	-	10,640,000	1,055,000	-	44,550	32,759,550	5.47%	2,140

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

The City began to report governmental and business-type activities information when it implemented GASB Statement 34 in fiscal year 2003, therefore, only nine years of information is presented.

* See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

CITY OF HIGHLAND VILLAGE, TEXAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding				Total	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificate of Obligation Bonds	General Bonded Debt Outstanding	Less Debt Service Resources Available			
2002	\$ 5,584,084	\$ 5,950,000	\$ 11,534,084	\$ 61,389	\$ 11,472,695	1.17%	\$ 872
2003	17,626,084	1,455,000	19,081,084	76,378	19,004,706	1.82%	1,395
2004	16,471,084	1,375,000	17,846,084	115,028	17,731,056	1.58%	1,257
2005	15,198,633	1,290,000	16,488,633	145,095	16,343,538	1.38%	1,127
2006	14,705,258	1,255,000	15,960,258	200,334	15,759,924	1.27%	1,055
2007	13,703,811	1,255,000	14,958,811	320,939	14,637,872	1.10%	957
2008	17,700,254	4,255,000	21,955,254	371,198	21,584,056	1.46%	1,370
2009	16,653,471	7,835,000	24,488,471	365,943	24,122,528	1.49%	1,522
2010	16,840,000	7,350,000	24,190,000	448,275	23,741,725	1.43%	1,476
2011	14,210,000	6,810,000	21,020,000	349,270	20,670,730	1.29%	1,351

Notes:

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

See Table 5 for property value data.

See Table 14 for population data.

CITY OF HIGHLAND VILLAGE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2011

<u>Government Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes			
County of Denton	\$ 477,705,000	2.909%	\$ 13,896,438
Lewisville Independent School District	1,014,778,488	6.704%	<u>68,030,750</u>
Subtotal overlapping debt			81,927,188
City of Highland Village (direct debt)	20,670,730	100.0%	<u>20,670,730</u>
Total direct and overlapping debt			<u>\$ 102,597,918</u>

Sources:

Assessed value data used to estimate applicable percentages provided by the Denton County Appraisal District.
Debt outstanding data provided by each governmental unit.

Notes:

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

CITY OF HIGHLAND VILLAGE, TEXAS

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

Legal Debt Margin Calculation for Fiscal Year 2011	
Assessed value	\$ 1,605,517,442
Debt limit (\$1.50 per \$100 of assessed value)	24,082,762
Debt applicable to limit:	
General obligation bonds	2,580,950
Less: Amount set aside for repayment of general obligation debt	(349,270)
Total net debt applicable to limit	<u>2,231,680</u>
Legal debt margin	<u>\$ 21,851,082</u>

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$ 14,729,596	\$ 15,646,883	\$ 16,884,047	\$ 17,803,726	\$ 18,137,384	\$ 19,926,223	\$ 22,178,622	\$ 24,259,936	\$ 24,871,828	\$ 24,082,762
Total net debt applicable to limit	<u>1,066,813</u>	<u>1,160,280</u>	<u>1,262,985</u>	<u>1,325,805</u>	<u>1,380,008</u>	<u>1,234,670</u>	<u>1,517,857</u>	<u>1,909,108</u>	<u>2,308,177</u>	<u>2,231,680</u>
Legal debt margin	<u>\$ 13,662,783</u>	<u>\$ 14,486,603</u>	<u>\$ 15,621,062</u>	<u>\$ 16,477,921</u>	<u>\$ 16,757,376</u>	<u>\$ 18,691,553</u>	<u>\$ 20,660,765</u>	<u>\$ 22,350,828</u>	<u>\$ 22,563,651</u>	<u>\$ 21,851,082</u>
Total net debt applicable to the limit as a percentage of debt limit.	7.24%	7.42%	7.48%	7.45%	7.61%	6.20%	6.84%	7.87%	9.28%	9.27%

Note:

According to The State of Texas Constitution, Article II, Section 5, provides in part that, "...no tax for any purpose shall ever be lawful for any one year, which shall exceed 2.5% of the taxable property of such city." As a home rule city, the City of Highland Village is not limited in the amount of debt it may issue. The City's Charter provides that general property taxes are limited to \$1.50 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on legal debt instruments.

CITY OF HIGHLAND VILLAGE, TEXAS

PLEDGED REVENUE COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	Water and Wastewater System Revenue Bonds						Coverage
	Total Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service		Total	
				Principal	Interest		
2002	\$ 4,042,998	\$ 3,814,913	\$ 228,085	\$ 739,000	\$ 564,423	\$ 1,303,423	0.17
2003	4,649,773	3,966,325	683,448	824,750	493,102	1,317,852	0.52
2004	5,346,926	5,120,228	226,698	762,585	400,897	1,163,482	0.19
2005	6,498,538	5,649,136	849,402	566,566	412,950	979,516	0.87
2006	7,909,840	6,377,246	1,532,594	886,064	378,864	1,264,928	1.21
2007	5,791,804	5,154,652	637,152	1,020,159	459,975	1,480,134	0.43
2008	7,695,954	5,658,275	2,037,679	930,248	416,634	1,346,882	1.51
2009	7,703,794	5,901,886	1,801,908	708,043	450,115	1,158,158	1.56
2010	7,510,645	6,954,602	556,043	877,687	599,289	1,476,976	0.38
2011	9,098,999	6,751,115	2,347,884	958,329	499,271	1,457,600	1.61

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

CITY OF HIGHLAND VILLAGE, TEXAS

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
2002	13,152	\$ 446,628,768	\$ 33,959	3.9%
2003	13,626	464,769,234	34,109	4.1%
2004	14,109	500,897,718	35,502	3.0%
2005	14,505	537,772,875	37,075	3.8%
2006	14,940	591,011,460	39,559	3.3%
2007	15,300	523,887,300	34,241	4.2%
2008	15,750	595,035,000	37,780	5.0%
2009	15,850	623,158,600	39,316	7.5%
2010	16,090	636,713,480	39,572	7.1%
2011	*15,305	598,930,565	39,133	7.5%

Source: U. S. Census Bureau
Texas Workforce Commission
Bureau of Economic Analysis

Note: Population estimates are based on residential sewer connections.
*2011 population estimates are based on 2010 census

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT AND NINE YEARS AGO

Employer	2011		2002	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
City of Highland Village	159	15.19%	130	11.61%
Excite! Gymnastics & Cheer LLC	53	5.06%	50	4.46%
Personal Neighbor Care LLC	49	4.68%	-	- %
Marla R Conger MD PA	25	2.39%	-	- %
John R. Ross Company, Inc.	24	2.29%	35	3.13%
Borad Enterprises LLC	23	2.20%	-	- %
Loubel Inc.	23	2.20%	-	- %
Himesh Kana DDS PLLC	22	2.10%	-	- %
Salerno Pizza Co.	21	2.01%	67	5.98%
Prime Kids LLC	21	2.01%	-	- %
Kid Country, Inc.	-	- %	46	4.11%
Iasis Gymnastics Inc.	-	- %	41	3.66%
Triangle Foodservice Corp	-	- %	40	3.57%
TDW-Christie LLC	-	- %	40	3.57%
Randy Sutton	-	- %	34	3.04%
The 3R's Child Care Inc.	-	- %	31	2.77%
	<u>420</u>	<u>40.11%</u>	<u>514</u>	<u>45.89%</u>

Source: Texas Workforce Commission

TABLE 16

CITY OF HIGHLAND VILLAGE, TEXAS
FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>Function/Program</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General government										
City manager	3	3	3	2	2	2	2	2	2	2
Finance	9	9	9	9	10	10	10	10	11	12
Human resources	3	3	3	3	3	3	3	3	3	3
City secretary	2	2	2	2	2	2	2	2	2	2
City Attorney	-	-	-	-	-	3	3	3	3	2
Maintenance	4	4	4	4	4	4	4	4	4	4
Public safety										
Police	32	32	32	32	32	35	37	37	37	38
Fire	6	8	9	10	10	11	15	15	18	18
Community services	6	6	6	4	5	5	4	4	4	4
Streets and drainage	11	11	12	15	15	16	16	16	17	16
Parks and recreation	15	15	15	15	15	15	15	15	15	16
Water and wastewater	14	14	14	14	14	15	17	17	17	17
Highland Village Community Development Corporation	-	-	-	-	-	1	1	1	2	2
Total	<u>105</u>	<u>107</u>	<u>109</u>	<u>110</u>	<u>112</u>	<u>122</u>	<u>129</u>	<u>129</u>	<u>135</u>	<u>136</u>

Source: Various City departments

Notes: A fulltime employee is scheduled to work 40 hours per week (including vacation and sick leave).

CITY OF HIGHLAND VILLAGE, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year			
	2002	2003	2004	2005
General government				
Open records requests processed	*	*	204	201
Court cases filed	*	3,267	2486	2026
Employee turnover (%)	*	17.90	17.40%	10.00%
Emp safety lost time injuries	*	2	1	5
Building operations				
Permits issued	*	1,373	1,236	1,121
Inspections performed	*	8,050	7,174	6,367
Animal impounds	*	219	251	211
Animal registrations	*	*	1,101	1,045
Police				
Reported offenses	*	452	467	409
Arrests	*	270	288	282
Service	*	4,415	4,239	5,735
Close patrols	*	5,689	6,675	10,681
Traffic citations issued	*	2,519	1,870	1,542
Traffic warnings issued	*	2,022	3,259	2,988
Motor vehicle accidents	*	167	184	172
Animal care calls	*	*	*	*
Animal registrations	*	*	*	*
Fire				
EMS calls	*	451	471	533
Fires calls	*	288	332	441
Streets and Drainage				
Drainage materials (ft.)	*	11,370	8,096	6,216
Asphalt (tons)	*	937	1,155	1,445
Concrete(yards)	*	103	112	81
Cold patch (lbs)	*	5,058	4,750	3,875
Crack seal (lbs)	*	3,420	8,722	6,150
Paint (gal)	*	555	277	71
Sod replacement (yards)	*	1,911	1,698	1,372
Saw cuttings	*	*	4,084	7,561
Spoils (yards)				
Sign Repairs (hours)				
Work orders completed	*	1,599	1,949	2,058
Total fuel consumption	*	53,801	50,721	57,753
Parks and recreation				
Acres of turf mowed	*	*	*	3,753
Bags of trash disposed (55 gal)	*	3,137	3,772	3,234
Recreation program admissions	*	4,139	8,453	11,224
Water				
New connections	17	175	169	128
Field operations work orders completed	*	4,822	4,760	6,246
Peak daily consumption	1,927,251	2,319,409	2,319,409	2,446,877
Maximum daily capacity-water production	7.25 MGD	7.54 MGD	7.54 MGD	7.54 MGD
Number of gallons pumped	716,413,600	894,051,700	828,486,217	977,401,000
Number of gallons sold	616,880,500	846,584,300	768,763,700	893,110,040
Wastewater				
Wastewater work orders completed	*	1,356	1,058	1,150
Wastewater gallons pumped	*	421,556,000	449,705,000	484,740,000

Source: Various City departments

* Not available

** During Fiscal Year 2009-2010, the City's Fuel Station was not in use due to Facility Construction, therefore, Total Fuel Consumption does not include 4 months.

TABLE 17

Fiscal Year						
2006	2007	2008	2009	2010	2011	
151	132	136	113	142	149	
3113	2,367	1,988	2,369	3,282	2,704	
10.70%	8.00%	10.00%	7.60%	9.80%	14.00%	
2	2	1	-	1	2	
1,176	1,658	1,316	1,158	1,083	1,250	
5,051	6,639	4,039	2,468	3,398	2,911	
200	-	-	-	360	216	
1,082	-	-	-	-	*	
371	441	422	375	324	340	
292	299	283	298	341	321	
6,464	6,972	7,918	7,761	7,329	7,022	
11,658	23,919	9,475	9,119	5,986	4,331	
2,331	1,785	1,381	2,274	3,671	2,480	
2,934	2,393	2,439	3,111	3,857	4,626	
159	211	264	274	251	197	
*	174	3,104	3,130	3,826	2,105	
*	1,049	907	844	1,148	580	
644	513	657	691	615	566	
421	437	395	456	400	504	
3,976	6,374	5,782	5,924	5,322	9,268	
743	674	656	844	208	402	
118	152	188	68	102	937	
1,928	2,875	2,200	4,560	2,732	3,000	
15,390	4,110	9,190	22,583	6,295	21,558	
137	43	176	221	140	301	
952	1,473	-	-	-	-	
7,421	3,569	6,535	5,500	1,069	10,578	
			2,473	116	577	
			745	532	700	
1,821	2,130	2,286	2,028	713	534	
59,805	58,908	65,119	67,225	**47,984	65,789	
2,963	4,867	6,067	6,154	6,154	4,686	
4,867	4,383	5,734	5,800	5,800	4,898	
11,160	12,788	14,083	16,214	23,859	26,075	
57	105	54	18	28	33	
4,179	5,411	5,492	8,001	7,305	5,379	
3,258,510	6,375,848	7,393,200	7,427,600	7,235,926	7,220,700	
7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD	6.46MGD	
1,264,284,000	858,936,000	1,049,519,800	1,050,873,400	984,344,630	1,236,291,896	
1,189,356,500	827,602,885	977,399,700	952,105,000	888,988,200	1,188,799,975	
844	967	1,209	1,399	1,396	1,148	
384,938,000	538,198,300	427,173,000	413,215,000	577,082,000	462,414,000	

TABLE 18

CITY OF HIGHLAND VILLAGE, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
City area (in miles)	5.50	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38	6.38
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire										
Stations	1	1	1	1	1	1	1	1	1	1
Streets and Drainage										
Streets (miles)	68	75.31	75.31	75.485	76.935	76.935	76.935	79.5	90.0	100.0
Traffic signals	1	1	1	1	1	1	1	1	1	3
Parks and recreation										
Acres of parks	275	305	305	311	311	318	338	366	366	335
Trail system (linear miles)	-	-	-	-	-	2.7	2.7	6.7	6.7	6.7
Water										
Number of meters in service	4,541	4,716	4,885	5,013	5,108	5,226	5,276	5,294	5,322	5,357
Water mains (in miles)	79	79	79	81	83	85	93	94	95	100
Fire hydrants	525	620	620	630	630	729	729	739	741	754
Wastewater										
Storm sewers (miles)	50	50	50	50	50	25	25	25	38	23
Sanitary sewers (miles)	75	75	75	77	83	83	90	91	92	98
Sewer connections	4,167	4588	4,588	4,894	4,952	5,054	5,085	5,103	5,121	5,119

Source: Various City departments

COMPLIANCE

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Members of the City Council
City of Highland Village, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City of Highland Village, Texas' basic financial statements and have issued our report thereon dated March 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, and management of the City of Highland Village, and is not intended to be and should not be used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

March 23, 2012