

**CITY OF
HIGHLAND VILLAGE, TEXAS**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2010**

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, 2010

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INTRODUCTORY SECTION

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FINANCE
1000 Highland Village Road
Highland Village, TX 75077
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www.highlandvillage.org

March 17, 2011

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, 2010.

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 Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart and a list of principal officials. The financial section includes the basic financial statements, the combining and individual fund and account group financial statements and related schedules, as well as the auditor's report on the financial statements and schedules.

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 financial statements for the year ended September 30, 2010. The independent auditor's report is located at the front of the financial section of this report.

In addition, a Management's Discussion and Analysis (MD&A) section, immediately following the independent auditor's 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 2010 population is 16,090, a 32% 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 208 single-family residential homes remaining to be built in platted and unplatted parcels. The estimated build out date is approximately 2016. Over the last seven years, the City has averaged 103 single-family residential permits annually. The average assessed value for existing single-family dwellings on the 2009 Tax Roll was \$278,283.

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 and account groups 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 with 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

With the National economy starting to experience some improvement, although scattered, 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. While local housing values have declined – 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 \$279,656. There were 23 single-family permits issued during fiscal year 2009/2010 for a total construction value of \$6,432,093. In addition, there were 5,314 water connections, with 5,022 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 25 commercial permits issued during the year for a total value of \$10,880,242. 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 will provide additional economic stimulus for the City – particularly now that TXDOT is constructing a segment that will extend this roadway to Denton as an extension of FM 2499, providing an alternate route to DFW Airport. This will in turn, greatly enhance 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 feet extensive care addition completed the following year.

Celebrations, a 12,000 square feet banquet hall, was completed in 2003, and a 17,000 square feet 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 sq. ft. Wal-Mart Super center, also including approximately 280,000 sq. ft. 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 sq ft 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 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 and 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 48 remaining), and Highland Oaks (initially 40 lots, and 37 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 7.1% as of September 2010.

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 addressing staffing needs – projected at 145 positions at build-out (currently at 136 authorized fulltime positions). Additional revenues to be derived from retail economic development are a critical element to address funding for the needed future staffing.

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 expected to be sufficient through build-out.

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. Staffing of four positions has been established, as well as procurement of 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 Dedication 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 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 initiatives and programs relating to general governmental functions are as follows:

- The tax rate remained at \$.56963 from the previous year. Due to increased valuation, as well as increased sales tax revenues due to 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 142 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.
- Continued to receive Department of Homeland Security Safer Grant for the staffing of three additional firefighters with the approved Federal Grant of \$325,140, and on November 16th, 2009 achieved full staffing levels for the first time in department history.
- The Fire Department provided CPR, 1st Aid and Healthcare Provider training to 303 residents, businesses, and employees during FY 2009-2010.
- Received the 2009 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.
- Completed transition to online employment application process. Received 1,273 applications for 25 positions.
- Introduced innovative health insurance features including Insurance Trust and Waiver option resulting in \$75,000 in premium savings for the City.
- Added Health Savings Account (HSA) as a health insurance option allowing greater consumer awareness in health care providers and providing employee savings accounts that can be carried over from year to year.
- Successfully moved the Park Administrative operation from City Hall to The Robert and Lee DuVall Center; established operational procedures for rentals and began facilitating the Senior All Stars in the new facility.
- Automated self pay station installed at Copperas Branch Park which resulted in increased revenue from entry fees.
- Completed the Highland Village Road sidewalk project and Lake Vista Trail connect.
- Recognized as the Safest City in North Texas for the 9th consecutive year.
- The department's Police Involving Parents (PIP) program provided "Less than Strict Enforcement" opportunities to 159 teens in the community who were involved in minor offenses (curfew, alcohol, and tobacco violations, criminal mischief, etc.) during FY2009. Since its inception in 2005 a total of 1,034 community youth have been afforded this opportunity.
- Successfully completed the annual requirements for "Recognized" status in the Texas Police Chiefs Association Best Practices Recognition Program.
- Implemented a radio system upgrade from analog to the new P25 National Standards. This upgrade allows for different agencies to communicate through one channel during specific circumstances. We have completed 100% of the mobile radio upgrade and approximately 50% of the portable radio upgrade to date.

- 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.
- Eleven Utilities employees obtained or maintained certificates above and beyond those required for their job descriptions.
- Constructed Spring Oaks Hammerhead which consists of a 120 ft length wall with a 4-6 ft height variance included a 4x12 sidewalk to meet ADA compliance guidelines.
- Began construction of the new MSC (Municipal Service Center)

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, and 34% in FY 2010. 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, 2009. This was the 19th 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 2010 – the City's fifth 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.

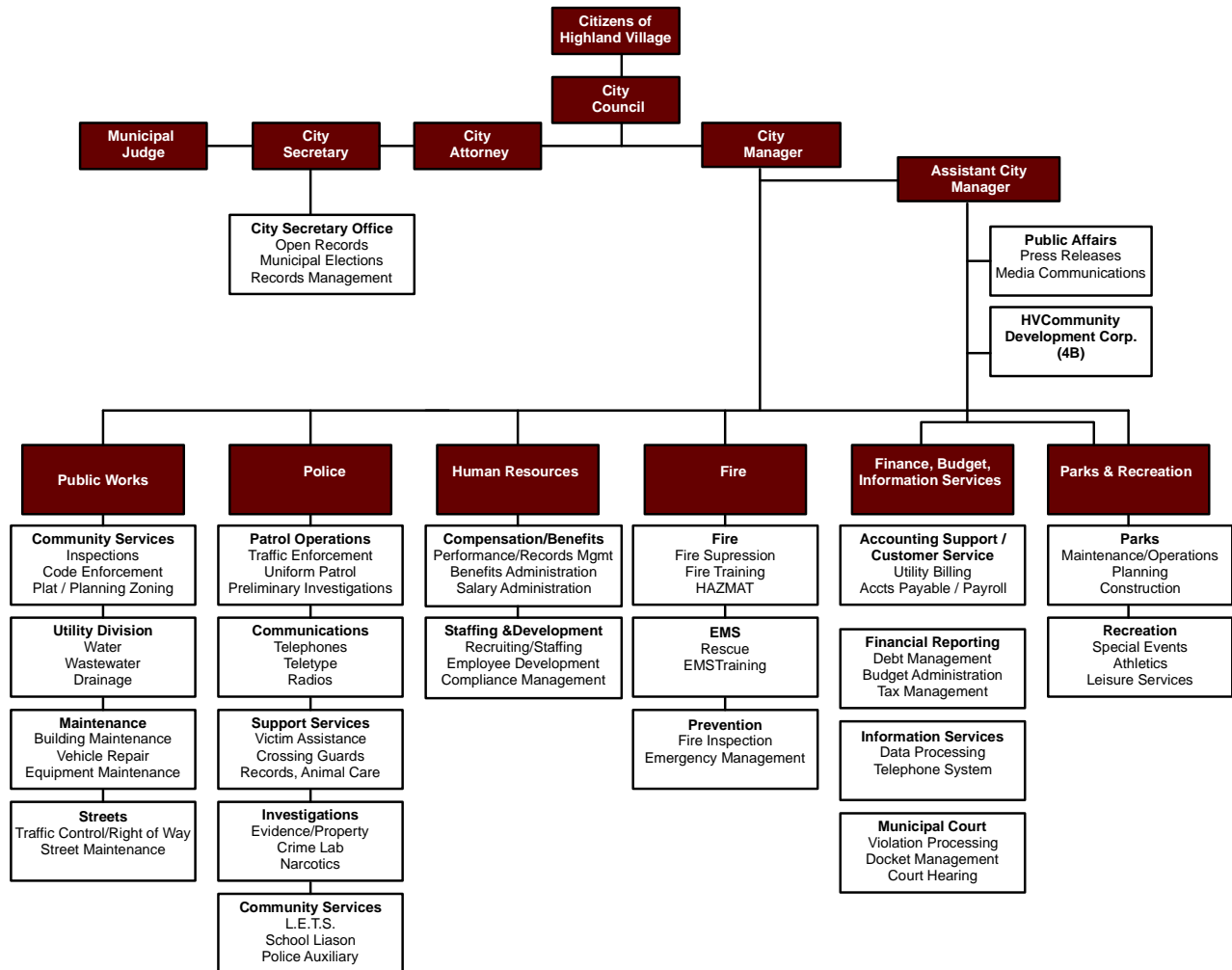
Sincerely,

A handwritten signature in cursive script that reads "Ken Heerman". The signature is written in black ink and is positioned above the typed name and title.

Ken Heerman
Assistant City Manager

City of Highland Village

Organization Chart FY 2009 / 2010



CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OCTOBER 1, 2009 – SEPTEMBER 30, 2010

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	05/2011
Louis E. Robichaux, IV, Mayor Pro Tem	Place 4	05/2012
Patrick Davis	Place 5	05/2011
John McGee	Place 6	05/2012
William Meek	Place 7	05/2011

ADMINISTRATIVE

Michael Leavitt	City Manager
Dottie Palumbo	City Attorney
Diane Callahan	City Secretary
Ken Heerman	Assistant City Manager
Matthew Kite	Director of Public Works
Ed Obara	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, 2009

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



A stylized, handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer".

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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 55 through 56, 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 17, 2011

**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, 2010. 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 \$53,360,190. Of this amount, \$6,970,778 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$498,878. A \$345,130 increase in net assets related to governmental activities was coupled with a decrease of \$844,008 of net assets in business-type activities.
- As of September 30, 2010, Highland Village's governmental funds reported combined ending fund balances of \$9,235,862, a decrease of \$7,906,479 in comparison with the prior year. Approximately 78 percent of this total amount, \$7,181,987, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$4,001,874, or 32 percent of total General Fund expenditures.
- The City of Highland Village's total debt decreased by \$2,550,568 during the current fiscal year as no new debt was issued in this fiscal year.

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, Highland Village Community Development Fund, and Capital Projects Fund, all of which are considered to be major funds. Data from the other 7 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 component of proprietary funds) 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 Internal Service Funds (the other component of proprietary funds) are utilized to report activities that provide supplies and services for the City's other programs and activities. Because these services benefit both governmental and business-type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

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 \$53,360,190 as of September 30, 2010. Analyzing the net assets and net expenses of governmental and business-type activities separately, business-type activities' net assets are \$9,251,975. 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	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 11,358,850	\$ 18,806,195	\$ 10,207,492	\$ 11,314,551	\$ 21,566,342	\$ 30,120,746
Capital assets	<u>58,040,527</u>	<u>49,267,734</u>	<u>13,258,178</u>	<u>13,287,408</u>	<u>71,298,705</u>	<u>62,555,142</u>
Total assets	<u>69,399,377</u>	<u>68,073,929</u>	<u>23,465,670</u>	<u>24,601,959</u>	<u>92,865,047</u>	<u>92,675,888</u>
Long-term liabilities	21,379,441	23,132,203	11,778,723	12,740,192	33,158,164	35,872,395
Other liabilities	<u>3,911,721</u>	<u>3,455,196</u>	<u>2,434,972</u>	<u>1,765,784</u>	<u>6,346,693</u>	<u>5,220,980</u>
Total liabilities	<u>25,291,162</u>	<u>26,587,399</u>	<u>14,213,695</u>	<u>14,505,976</u>	<u>39,504,857</u>	<u>41,093,375</u>
Net assets:						
Invested in capital assets, net of related debt	37,529,766	36,047,885	5,664,677	5,465,933	43,194,443	41,513,818
Restricted	1,737,864	613,889	1,457,105	1,678,094	3,194,969	2,291,983
Unrestricted	<u>4,840,585</u>	<u>4,824,756</u>	<u>2,130,193</u>	<u>2,951,956</u>	<u>6,970,778</u>	<u>7,776,712</u>
Total net assets	<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>

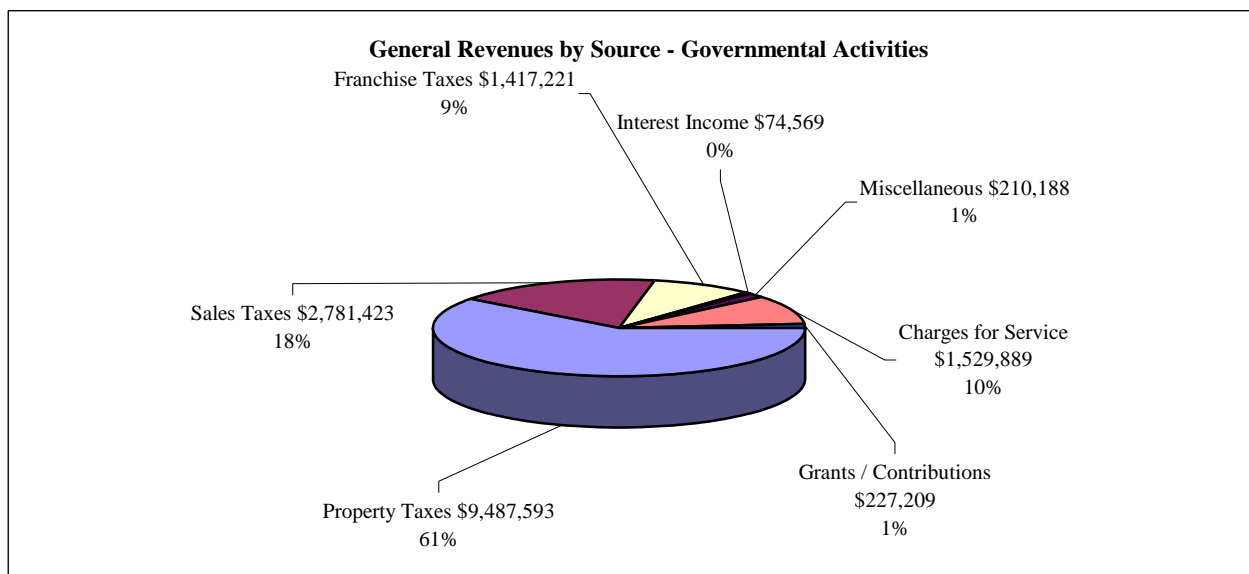
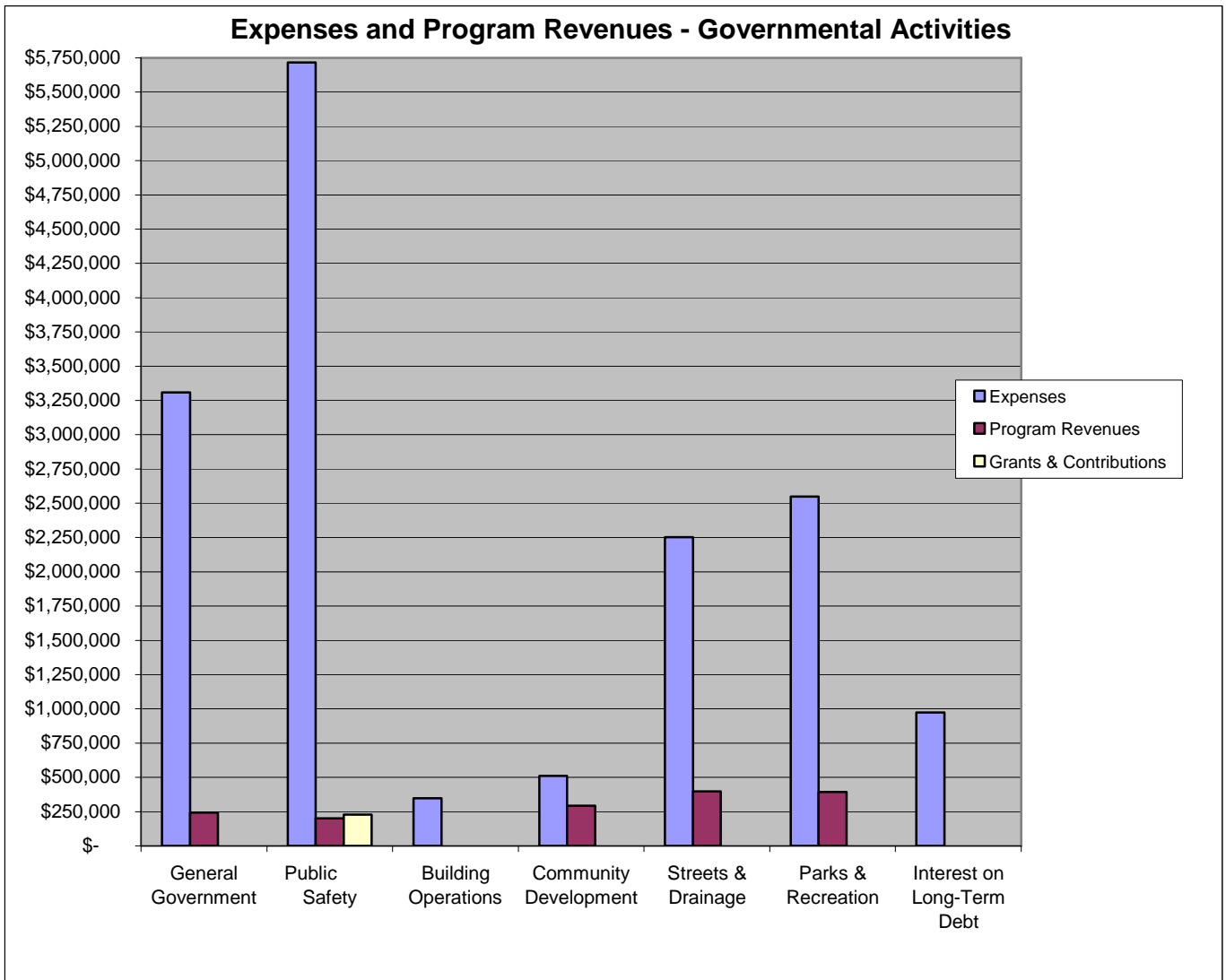
The following table (Table 2) provides a summary of the City's operations for the year ended September 30, 2010. Governmental activities increased the City's net assets by \$345,130 while business-type activities decreased the City's net assets by \$844,008, resulting in a net \$498,878 decrease in total net assets.

TABLE 2

CITY OF HIGHLAND VILLAGE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,529,889	\$ 1,536,861	\$ 7,348,133	\$ 7,643,327	\$ 8,878,022	\$ 9,180,188
Operating grants and contributions	227,209	383,646	-	-	227,209	383,646
Capital grants and contributions	-	2,078,055	106,473	196,340	106,473	2,274,395
General revenues:						
Property taxes	9,487,593	9,410,561	-	-	9,487,593	9,410,561
Sales taxes	2,781,423	1,885,786	-	-	2,781,423	1,885,786
Franchise taxes	1,417,221	1,384,660	-	-	1,417,221	1,384,660
Penalties and interest	-	-	-	-	-	-
Interest income	74,569	340,518	64,597	60,467	139,166	400,985
Gain on sale of asset	-	39,610	-	-	-	39,610
Miscellaneous	210,188	198,299	-	-	210,188	198,299
Total revenues	<u>15,728,092</u>	<u>17,257,996</u>	<u>7,519,203</u>	<u>7,900,134</u>	<u>23,247,295</u>	<u>25,158,130</u>
Expenses:						
General government	3,309,453	3,087,596	-	-	3,309,453	3,087,596
Public safety	5,716,458	5,454,270	-	-	5,716,458	5,454,270
Building operations	347,208	342,084	-	-	-	-
Community development	510,371	506,031	-	-	-	-
Streets and drainage	2,252,522	2,395,655	-	-	2,252,522	2,395,655
Parks and recreation	2,548,972	2,355,359	-	-	2,548,972	2,355,359
Interest on long-term debt	974,478	932,556	-	-	974,478	932,556
Water and wastewater	-	-	8,086,711	7,256,548	8,086,711	7,256,548
Total expenses	<u>15,659,462</u>	<u>15,073,551</u>	<u>8,086,711</u>	<u>7,256,548</u>	<u>23,746,173</u>	<u>22,330,099</u>
Increases in net assets before transfers						
	68,630	2,184,445	(567,508)	643,586	(498,878)	2,828,031
Transfers						
	<u>276,500</u>	<u>240,000</u>	<u>(276,500)</u>	<u>(240,000)</u>	<u>-</u>	<u>-</u>
Change in net assets						
	345,130	2,424,445	(844,008)	403,586	(498,878)	2,828,031
Net assets, beginning						
	<u>41,486,530</u>	<u>39,062,085</u>	<u>10,095,983</u>	<u>9,692,397</u>	<u>51,582,513</u>	<u>48,754,482</u>
Net assets, accounting change and reclassification						
	<u>2,276,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,276,555</u>	<u>-</u>
Net assets, beginning as restated						
	<u>43,763,085</u>	<u>39,062,085</u>	<u>10,095,983</u>	<u>9,692,397</u>	<u>53,859,068</u>	<u>48,754,482</u>
Net assets, ending						
	<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>

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



Net assets associated with governmental activities increased \$345,130 in FY 2010 – this compared to a \$2,424,445 increase in net assets in FY 2009.

- FY 2010 revenues decreased \$1,529,904 from the previous year. In general, the decrease stemmed from a decrease in grants and contributions of \$2,234,492 offset by an \$895,637 increase in sales tax due to an accounting change.
 - Property tax revenue increased \$77,032 resulting from 2.5% increased valuation, of which about 1.1% is attributed to new growth.
 - Sales tax revenue increased by \$895,637 mainly due to an accounting change in which activities associated with the Highland Village Community Development Corporation are blended with those of other governmental funds. In previous years, the activities of the Highland Village Community Development Corporation were discretely and separately presented in these financial statements.
 - Franchise fees increased by \$32,561 while interest earnings decreased \$265,949.
 - Capital grants and contributions of \$227,209 reflected public safety grants, mainly the Safer Grant received by the Fire Department.
- FY 2010 expenses increased \$585,911 from FY 2009, reflecting inflation and increased service demand. The total expenditure amount of \$15,659,462 however, was less than total revenues – providing a \$68,630 increase before transfers. This compares to a \$2,184,445 increase in FY 2009.
 - The Street Department reflected a decrease of \$143,133 primarily resulting from a decrease in Street Maintenance of \$267,499.
 - Parks and recreation expenditures increased by \$193,613 in FY 2010 largely due to an accounting change in which the Highland Village Community Development Corporation is now blended with other governmental funds rather than discretely presented as in previous years.
 - Increases in Public Safety of \$262,188 were primarily personnel related, with increased expenditures of \$305,251 resulting from a full staff of fire personnel, increased overtime, and salary increases.

Business-type activities: Business-type activities reflected an \$844,008 decrease in the City’s net assets – this compared to a \$403,586 increase in net assets in FY 2009. Overall, revenues were exceeded by total expenses / transfers. Decreases in charges for service coupled with increases in operating expenses were the primary drivers behind the decrease in net assets.

- Charges for service decreased \$295,194 from last year’s total of \$7,643,327. A small decrease in water revenues of \$31,594 coupled with reduced sewer sales of \$303,180 from the majority of the decreases.
- A slight offset to the decrease in charges for service was the \$4,130 increase in interest revenue.

- Expenses increased \$803,163, comprised primarily of increased costs for wholesale water/wastewater of \$590,692. The wholesale water / wastewater increases can be primarily attributed to \$220,105 in repairs to the Lakeview Lift Station and an increase of \$326,484 for Sewer Effluent Volume Charges. Increased personnel expenditures of \$105,746 reflected increased benefit costs and pay increases. Depreciation decreased \$39,398, while Utilities Expenses increased by \$28,206 due to increased electricity consumption. Data Processing Equipment increased \$27,271 due to server upgrades and expenses associated with the new Cityworks software such as training and setup costs.

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 \$9,235,862, a decrease of \$7,906,479 in comparison with the prior year. Approximately 78 percent of this total amount, or \$7,181,987, constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period – \$621,068, 2) allow for prepaid items – \$474, 3) to pay debt service – \$341,419, 4) to pay for capital projects – \$851,778, and 5) reserved for park development – \$239,136.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$4,001,874, while total fund balance was \$4,190,734. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 32 percent of total General Fund expenditures, while total fund balance represents 34 percent of that same amount.

The original budget for FY 2010 reflected a \$231,570 drawdown of fund balance, to fund capital equipment purchases – while still providing for sufficient reserve balances. However, while revenues were \$303,122, below the budgeted amount, favorable variances for expenditures in FY 2010 reversed the change in fund balance, instead reflecting an increase of \$273,459. Key factors affecting fund balance are as follows:

- Total General Fund revenues of \$11,956,136 were reduced from FY 2009 by \$249,701.
 - Property tax revenue increased \$58,186 resulting from 2.5% increased valuation, accounting for the majority of the increase.
 - Sales tax revenue decreased \$9,387 while franchise fees increased \$32,561.
 - Building permits decreased \$17,468, with reduced building starts submitted to the City. The difficult economy was clearly a factor, as well as the City approaching build-out, with reduced permits anticipated.

- Intergovernmental revenues of \$8,514 decreased \$295,908 from last year. The decrease resulted from receipt of a Denton County Transportation Authority ELAP grant received in FY 2009.
- Investment earnings decreased \$39,559 from FY 2009 due to decreased yields.
- Total General Fund expenditures decreased in FY 2010 to \$12,352,389, a decrease of \$13,420 from the previous year. The FY 2010 actual expenditures were \$673,234 below the original budgeted amount.
 - Personnel costs increased \$434,314 from FY 2009 resulting from three new fire positions and City pay increases, also including increased benefit costs.
 - Services/Supplies expenditures decreased by \$348,634. The largest decrease came in the Street Department, where Street Maintenance decreased \$267,499.
 - Capital Outlay expenditures decreased by \$99,037 in FY 2010 while maintaining funding for various purchases and projects including a John Deere 310, a stop-light at FM 2499, and street rehabilitation on Highland Shores Blvd.
- Total Other Financing Sources (Uses) reflected a net total of \$669,712 – a \$383,975 increase from FY 2009. The primary elements of this total include a transfer in from the Utility Fund of \$276,500, a transfer in of the residual balance of the Inland Trail Fund of \$173,426, and a transfer out of \$74,477 to the Corps Leased Parks Fund to fund a pay gate and other park equipment.

The Debt Service Fund has a total fund balance of \$341,419, a decrease of \$24,524, all of which is reserved 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 Capital Projects Fund, with an ending fund balance of \$1,053,095, decreased \$4,023,067 during this fiscal year. This decrease resulted primarily from the construction of a new Service Center / Senior Community facility. Total expenditures of \$4,027,673 in FY 2010 relate primarily to one project: Construction of a new Service Center/Senior Community facility (\$3,972,693).

The Highland Village Community Development Fund has a total fund balance of \$2,754,330 of which \$152,998 is reserved for encumbrances and \$2,601,332 is unreserved. This fund reflected a \$334,796 decrease from FY 2009 primarily related to trail construction expenditures.

Remaining governmental funds reported a combined ending fund balance of \$896,284, reflecting a decrease of \$174,063.

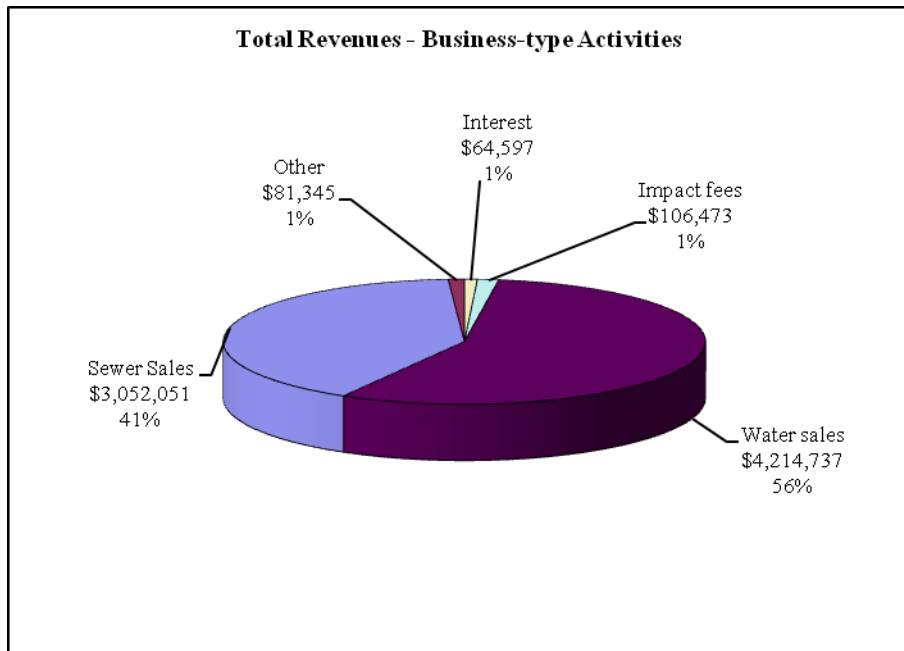
- Revenues for these funds reflected an increase of \$153,339 from the previous year, largely due to an increase of \$161,980 in Intergovernmental Revenue. This increase stemmed primarily from two grants received in the Public Safety Fund – \$112,604 to a SAFER grant which partially funds three fire positions, and \$60,382 related to a JAG grant that funded a license plate recognition program in the Police Department.

- Combined expenditures increased \$144,626. Expenditures of \$323,094 in the Corps Leased Parks Fund increased \$64,504 from FY 2009, with \$34,477 of that amount used for the purchase of an automated gate at Copperas Park. Also reflected is the \$60,382 corresponding expenditure of the JAG grant monies.

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 \$9,251,975 at the end of the fiscal year 2010, a decrease of \$844,008, or 8.4%. Included in net assets is \$1,457,105 restricted for capital projects. The remaining net asset balance of \$7,794,870 consists of unrestricted net assets and investments in capital assets, net of related debt.

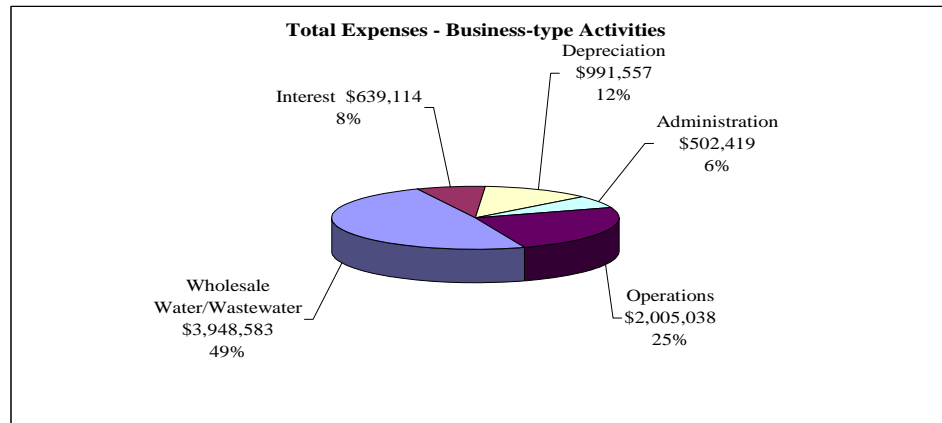
- Utility operating revenues of \$7,348,133 reflected a decrease of \$295,194 or 3.9%, in FY 2010.
 - Water sales decreased \$31,594.
 - Sewer sales increased \$303,180.



Utility operating expenses of \$7,447,597 increased \$754,756, or 11.3%.

- Administration expenses increased \$57,674 in FY 2010 primarily related to increased personnel costs and increases in professional services and maintenance contracts.
- Maintenance and Operations increased \$736,480.

- Wholesale water / sewer treatment cost increased \$590,692. The effect of rate increases in both wholesale water and sewer treatment, and lift station repairs totaling \$220,105 in FY 2010 contributed to the cost increase.
- Increased personnel expenditures of \$83,378 reflected salary and benefit cost increases.
- Maintenance and supplies increased \$71,485, largely related to increased electricity costs and the purchase of data processing equipment, training, and supplies.
- Depreciation increased in FY 2010 by \$39,398.



GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2009-2010, the City Council of the City of Highland Village amended the budget for the General Fund on two occasions, resulting in an increased budget of \$354,949. 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.

For fiscal year 2009-2010, actual expenditures on a budgetary basis were \$12,352,389. This total was less than the original budgeted expenditures of \$13,025,623 by \$673,234, and \$1,028,183 below the revised budget. The supplemental requests approved during the year are summarized following:

- Additional personnel appropriation of \$200,790 – for lump sum payments to employees, market increases, new positions and turnover, and the retirement of a long-time employee.
- Decreased provision for unemployment insurance expenditures of \$35,000;
- Decreased Outside Meetings by \$15,000 due to decreased Council travel and training;

- Decreased Election Expense by \$11,500 due to there not being an election;
- Increased Records Management by \$33,505 with an encumbrance of \$9,005 for codification and \$24,500 for back-scanning;
- Increased Parks capital budget by \$90,000 to allow for Brazos Landscaping carried over from FY 2009 (\$61,700), to enable Calsense (irrigation management system) radio transmission (\$19,169), and to purchase needed equipment for the community center (\$10,000);
- Increased Recreation capital budget by \$6,500 for the purchase of a Floor Scrubber for the Pickle ball Court;
- Increased Services/Supplies budget in the Maintenance Department by \$52,000 of which \$22,000 was for Repair Parts, \$10,000 for Maintenance Contracts related to the short-term lease of trailers at Doubletree, and \$20,000 related to Building and Grounds Maintenance;
- Increased Development Incentive in the City Manager Department by \$88,145 to reflect an encumbrance from FY 2009 in regard to a 380 agreement incentive payment due to Opus (Highland Village Marketplace Development);
- Decreased Contingency Fund in the City Manager Department by \$30,000;
- Increased Streets capital budget by \$447,800 mainly due to the Highland Shores Rehabilitation Project (\$333,504) which was originally budgeted in Street Maintenance and the purchase of a dump truck (\$75,683) that was encumbered in FY 2009. The capital budget increase was offset by a decrease of \$411,650 in Street Maintenance;
- Decreased utilities in the Street Department by \$11,150.

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, with the exception of Community Development. Primary factors in the actual expenditures being reduced from the original budget include: Economic development incentive payments totaling \$170,000 relating to FY 2009 and FY 2010 were held – pending review of contract compliance issues. Unused contingency appropriation totaled \$50,000. Street maintenance reflected a \$170,126 favorable variance. And capital outlay provided a favorable variance of \$278,332 related to delay of two projects – FM 2499 screening walls and street ROW acquisition in the District development.

Actual revenue on a budgetary basis was \$11,956,136 compared to the original budget of \$12,259,258, providing an unfavorable variance of \$303,122. Actual tax revenues were \$296,620 less than the budget amount – primarily related to sales tax collections. Additionally, collected licenses, permits and fees were \$91,788 less than budgeted – due to reduced building permits. Realized intergovernmental revenues of \$8,514 were unbudgeted.

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, 2010, amount to \$71,298,705 (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
2009 Pavement Rehabilitation	\$ 333,657
Brazos Boulevard Landscaping	302,780
Wayside Horns	187,855
Central Fire Station Storage Building	123,176
2010 Backhoe Loader with Bucket and Hammer	77,650
2011 Freightliner Dump Truck	75,683
2010 Ford F450 Service Body	74,398
PIPS Slate Camera Kit	60,382
2009 Ford F250 Animal Control Unit	38,495
Copperas Park Gate System	34,477
2009 Ford Escape Hybrid	28,771
2010 Ford F250 X-Cab 4x2	26,910
Park Irrigation System	25,054
2009 Ford F250	21,660
Toro Workman	20,093
Software – Cityworks	20,000

TABLE 3

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

	Governmental Activities		Business-type Activities		Totals	
	2010	2009	2010	2009	2010	2009
Land	\$ 17,050,743	\$ 14,085,387	\$ 75,713	\$ 75,713	\$ 17,126,456	\$ 14,161,100
Land improvements	5,048,886	3,167,913	30,118	31,855	5,079,004	3,199,768
Buildings and improvements	5,992,206	6,371,567	-	-	5,992,206	6,371,567
Distribution system	-	-	11,708,448	12,534,906	11,708,448	12,534,906
Equipment and machinery	2,086,275	2,110,569	470,671	555,369	2,556,946	2,665,938
Infrastructure	21,822,850	22,458,249	14,749	15,365	21,837,599	22,473,614
Intangibles	65,295	-	40,055	-	105,350	-
Construction in progress	5,974,272	1,074,049	918,424	74,200	6,892,696	1,148,249
Total capital assets	\$ 58,040,527	\$ 49,267,734	\$ 13,258,178	\$ 13,287,408	\$ 71,298,705	\$ 62,555,142

Additional information on the City’s capital assets can be found in Note 3 on page 43 – 45 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonds outstanding of \$35,480,000. Of this amount, \$22,815,590 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	
	2010	2009	2010	2009	2010	2009
General obligations	\$ 15,465,590	\$ 16,653,471	\$ 1,374,410	\$ 1,667,097	\$ 16,840,000	\$ 18,320,568
Combination Tax and Revenue Certificates of Obligation	<u>7,350,000</u>	<u>7,835,000</u>	<u>11,290,000</u>	<u>11,875,000</u>	<u>18,640,000</u>	<u>19,710,000</u>
	<u>\$ 22,815,590</u>	<u>\$ 24,488,471</u>	<u>\$ 12,664,410</u>	<u>\$ 13,542,097</u>	<u>\$ 35,480,000</u>	<u>\$ 38,030,568</u>

The City’s total debt decreased by \$2,550,568 during the current fiscal year, as the City did not issue debt in FY 2010.

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 1.38 percent.

Additional information on the City’s outstanding debt can be found in Note 3 on pages 46 – 49 of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The fiscal year 2010-2011 budget incorporates no increase in the property tax rate. It remains at \$.56963 per \$100 valuation.

The FY 2011 operating budget decreased by 2.2%, or \$282,716, from the FY 2010 budget. In general, personnel related costs increased \$622,310, offset by reductions in both services/supplies, \$(567,393) and capital, \$(337,633).

The personnel increases reflect \$367,933 for salary increases and new positions. The remaining \$254,377 personnel related increase is attributed to benefits, mostly related to TMRS (\$65,000) and medical insurance (\$167,000).

Services/Supplies had reduced expenditures of \$567,393:

- Professional Services \$1,272 increase
- Employee Development – \$15,010 decrease:
 - \$7,000 decrease in Training and Education – primarily in the Fire Department, reflecting decreased number of volunteers, with corresponding reduced training needs.
 - \$10,000 decrease in Outside Meetings – primarily related to decreased Council travel in FY11, with corresponding reduced training needs.

- Supplies/Equipment – \$123,843 decrease
 - \$150,000 was included in last year’s budget for furnishing related to new service center and senior center – which is not repeated this year.
 - \$24,000 increase in Police Communications Expense – initiated replacement program of 10 radios per year.
- Utilities – \$3,479 decrease
 - Anticipated \$18,000 increase in electric/gas costs related to new community center and service center. This is offset by anticipated reduction in water cost with implementation of water management system.
- Other – \$426,333 decrease. 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 2011 are reduced from FY 2010, thus providing a reduction of \$40,000.
 - \$256,000 decrease in street maintenance – last year increased by like amount to fund a large project reconstruction of Highland Shores Blvd. This year is budgeted at typical level.
 - A capital lease (street and fire equipment) was fulfilled in FY 2010. Thus the annual payment of \$112,000 is not repeated.

Capital expenditures totaling \$323,791 are a decrease of \$337,633 from FY 2010. 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 \$170,000. Additional capital expenditures totaling \$100,000 to fund the street connection of Barnett Blvd. and Heritage Elementary were budgeted.

Supplemental funding of \$53,791 was provided for a number of items:

- Thermal imaging camera (\$13,200) – allows firefighters to see through smoke making the search for victims more rapid, also used to locate hot spots on overheated equipment (replacing 10 year old camera).
- Defrib/Monitor (\$40,591) – Medical Control requires Defrib/Monitor be kept on our second medic at all times (previously shared between the engine and medic).

While anticipated revenues are expected to virtually remain the same, further reductions 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 2011 is 27%.

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, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 9,748,100	\$ 1,413,253	\$ 11,161,353
Receivables (net of allowances for uncollectibles)			
Taxes	925,328	-	925,328
Accounts	165,877	1,475,854	1,641,731
Other	24,820	8,557	33,377
Inventories and prepaid items	474	128,145	128,619
Restricted cash and investments:			
Reserved bond debt service	-	106,856	106,856
Capital improvements	-	5,113,906	5,113,906
Construction	-	1,457,105	1,457,105
Customer deposits	-	255,297	255,297
Unamortized debt issue cost	494,251	248,519	742,770
Capital assets:			
Nondepreciable	23,025,015	994,137	24,019,152
Depreciable, net	<u>35,015,512</u>	<u>12,264,041</u>	<u>47,279,553</u>
Total capital assets	<u>58,040,527</u>	<u>13,258,178</u>	<u>71,298,705</u>
 Total assets	 <u>69,399,377</u>	 <u>23,465,670</u>	 <u>92,865,047</u>
LIABILITIES			
Accounts payable	821,430	954,898	1,776,328
Accrued liabilities	571,083	108,901	679,984
Unearned revenue	69,271	-	69,271
Accrued interest	104,765	70,302	175,067
Customer deposits	-	255,297	255,297
Current portion of long-term obligations	2,345,172	1,045,574	3,390,746
Noncurrent portion of long-term obligations	<u>21,379,441</u>	<u>11,778,723</u>	<u>33,158,164</u>
Total liabilities	<u>25,291,162</u>	<u>14,213,695</u>	<u>39,504,857</u>
NET ASSETS			
Invested in capital assets, net of related debt	37,529,766	5,664,677	43,194,443
Restricted for:			
Debt service	236,654	-	236,654
Capital projects	386,322	1,457,105	1,843,427
Community development corporation	1,114,888	-	1,114,888
Unrestricted	<u>4,840,585</u>	<u>2,130,193</u>	<u>6,970,778</u>
 Total net assets	 <u>\$ 44,108,215</u>	 <u>\$ 9,251,975</u>	 <u>\$ 53,360,190</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, 2010

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 3,309,453	\$ 243,938	\$ -	\$ -
Public safety	5,716,458	200,990	227,209	-
Building operations	347,208	-	-	-
Community development	510,371	293,338	-	-
Streets and drainage	2,252,522	397,886	-	-
Parks and recreation	2,548,972	393,737	-	-
Interest on long-term debt	974,478	-	-	-
Total governmental activities	<u>15,659,462</u>	<u>1,529,889</u>	<u>227,209</u>	<u>-</u>
Business-type activities:				
Water and wastewater	<u>8,086,711</u>	<u>7,348,133</u>	<u>-</u>	<u>106,473</u>
Total business-type activities	<u>8,086,711</u>	<u>7,348,133</u>	<u>-</u>	<u>106,473</u>
Total primary government	<u>\$ 23,746,173</u>	<u>\$ 8,878,022</u>	<u>\$ 227,209</u>	<u>\$ 106,473</u>

General revenues:

Taxes:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Franchise taxes

Sales taxes

Unrestricted investment earnings

Miscellaneous

Transfers

 Total general revenues and transfers

 Change in net assets

Net assets - beginning

Net assets - accounting change and reclassification

Net assets - beginning as restated

Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-type Activities	Total
\$(3,065,515)	\$ -	\$(3,065,515)
(5,288,259)	-	(5,288,259)
(347,208)	-	(347,208)
(217,033)	-	(217,033)
(1,854,636)	-	(1,854,636)
(2,155,235)	-	(2,155,235)
(974,478)	-	(974,478)
<u>(13,902,364)</u>	<u>-</u>	<u>(13,902,364)</u>
<u>-</u>	<u>(632,105)</u>	<u>(632,105)</u>
<u>-</u>	<u>(632,105)</u>	<u>(632,105)</u>
<u>(13,902,364)</u>	<u>(632,105)</u>	<u>(14,534,469)</u>
7,563,704	-	7,563,704
1,923,889	-	1,923,889
1,417,221	-	1,417,221
2,781,423	-	2,781,423
74,569	64,597	139,166
210,188	-	210,188
<u>276,500</u>	<u>(276,500)</u>	<u>-</u>
<u>14,247,494</u>	<u>(211,903)</u>	<u>14,035,591</u>
<u>345,130</u>	<u>(844,008)</u>	<u>(498,878)</u>
41,486,530	10,095,983	51,582,513
<u>2,276,555</u>	<u>-</u>	<u>2,276,555</u>
<u>43,763,085</u>	<u>10,095,983</u>	<u>53,859,068</u>
<u>\$ 44,108,215</u>	<u>\$ 9,251,975</u>	<u>\$ 53,360,190</u>

CITY OF HIGHLAND VILLAGE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Community Development Corporation</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and investments	\$ 4,355,463	\$ 341,419	\$ 1,408,414	\$ 2,674,910	\$ 967,894	\$ 9,748,100
Receivables (net of allowances for uncollectibles):						
Taxes	764,179	12,190	-	148,959	-	925,328
Accounts	165,877	-	-	-	-	165,877
Other	-	-	-	-	24,820	24,820
Prepaid items	<u>474</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>474</u>
Total assets	<u>5,285,993</u>	<u>353,609</u>	<u>1,408,414</u>	<u>2,823,869</u>	<u>992,714</u>	<u>10,864,599</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	518,696	-	171,443	46,291	85,000	821,430
Accrued liabilities	352,529	-	183,876	23,248	11,430	571,083
Deferred revenue	<u>224,034</u>	<u>12,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>236,224</u>
Total liabilities	<u>1,095,259</u>	<u>12,190</u>	<u>355,319</u>	<u>69,539</u>	<u>96,430</u>	<u>1,628,737</u>
Fund balances:						
Reserved for:						
Encumbrances	188,386	-	201,317	152,998	78,367	621,068
Prepaid items	474	-	-	-	-	474
Debt service	-	341,419	-	-	-	341,419
Capital projects	-	-	851,778	-	-	851,778
Park development	-	-	-	-	239,136	239,136
Unreserved, undesignated	4,001,874	-	-	-	-	4,001,874
Unreserved, reported in non-major:						
Special revenue funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,601,332</u>	<u>578,781</u>	<u>3,180,113</u>
Total fund balances	<u>4,190,734</u>	<u>341,419</u>	<u>1,053,095</u>	<u>2,754,330</u>	<u>896,284</u>	<u>9,235,862</u>
Total liabilities and fund balances	<u>\$ 5,285,993</u>	<u>\$ 353,609</u>	<u>\$ 1,408,414</u>	<u>\$ 2,823,869</u>	<u>\$ 992,714</u>	<u>\$ 10,864,599</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, 2010

Total fund balance, governmental funds \$ 9,235,862

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. 58,040,527

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	\$ 59,003	
Ambulance fees	32,763	
Court fines	<u>75,187</u>	
		166,953

Some liabilities, (such as Capital Lease Obligations, 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	(22,815,590)	
Deferred amount on refunding	172,930	
Issuance cost	494,251	
Issuance premium	(234,684)	
Accrued interest payable	(104,765)	
Compensated absences	<u>(847,269)</u>	
		(23,335,127)

Net assets of governmental activities in the statement of net assets \$ 44,108,215

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, 2010

	General	Debt Service	Capital Projects	Community Development Corporation	Other Governmental	Total Governmental Funds
REVENUES						
Taxes	\$ 10,867,123	\$ 1,926,381	\$ -	\$ 905,024	\$ -	\$ 13,698,528
Fines and forfeitures	243,880	-	-	-	-	243,880
Licenses, permits and fees	442,773	-	-	-	689,557	1,132,330
Intergovernmental	8,514	-	-	-	216,395	224,909
Charges for services	150,012	-	-	2,500	-	152,512
Investment earnings	32,346	886	56,259	6,700	1,662	97,853
Miscellaneous	211,488	-	-	-	1,000	212,488
Total revenues	<u>11,956,136</u>	<u>1,927,267</u>	<u>56,259</u>	<u>914,224</u>	<u>908,614</u>	<u>15,762,500</u>
EXPENDITURES						
Current:						
General government:						
City manager	603,112	-	-	-	-	603,112
Finance	1,173,818	-	-	-	-	1,173,818
Human resources	355,885	-	-	-	-	355,885
City secretary	240,757	-	-	-	-	240,757
Maintenance	810,878	-	-	-	-	810,878
Public safety:						
Police	3,324,596	-	-	-	13,008	3,337,604
Fire	1,680,327	-	-	-	31,828	1,712,155
Building operations	341,466	-	-	-	-	341,466
Community development	517,773	-	-	-	-	517,773
Streets and drainage	749,680	-	-	-	331,657	1,081,337
Parks and recreation	1,514,304	-	-	233,503	291,485	2,039,292
Debt service:						
Principal	108,442	1,672,881	-	-	-	1,781,323
Interest and other charges	3,959	976,714	-	-	-	980,673
Capital outlay	927,392	-	4,027,673	225,870	164,983	5,345,918
Total expenditures	<u>12,352,389</u>	<u>2,649,595</u>	<u>4,027,673</u>	<u>459,373</u>	<u>832,961</u>	<u>20,321,991</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(396,253)</u>	<u>(722,328)</u>	<u>(3,971,414)</u>	<u>454,851</u>	<u>75,653</u>	<u>(4,559,491)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	760,189	697,804	63,843	-	90,477	1,612,313
Transfers out	<u>(90,477)</u>	<u>-</u>	<u>(115,496)</u>	<u>(789,647)</u>	<u>(340,193)</u>	<u>(1,335,813)</u>
Total other financing sources and uses	<u>669,712</u>	<u>697,804</u>	<u>(51,653)</u>	<u>(789,647)</u>	<u>(249,716)</u>	<u>276,500</u>
NET CHANGE IN FUND BALANCES	273,459	(24,524)	(4,023,067)	(334,796)	(174,063)	(4,282,991)
FUND BALANCES, BEGINNING	3,917,275	365,943	11,788,776	-	1,070,347	17,142,341
FUND BALANCES, RECLASSIFICATION	<u>-</u>	<u>-</u>	<u>(6,712,614)</u>	<u>3,089,126</u>	<u>-</u>	<u>(3,623,488)</u>
FUND BALANCES, BEGINNING AS RESTATED	<u>3,917,275</u>	<u>365,943</u>	<u>5,076,162</u>	<u>3,089,126</u>	<u>1,070,347</u>	<u>13,518,853</u>
FUND BALANCES, ENDING	<u>\$ 4,190,734</u>	<u>\$ 341,419</u>	<u>\$ 1,053,095</u>	<u>\$ 2,754,330</u>	<u>\$ 896,284</u>	<u>\$ 9,235,862</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, 2010

Net change in fund balances - total governmental funds: \$(4,282,991)

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 (\$5,345,918) exceeded depreciation (\$2,473,168) in the current period. 2,872,750

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	\$(12,291)	
Ambulance fees	19,598	
Court fines	(18,431)	
Interest	<u>(23,284)</u>	
		(34,408)

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	1,672,881	
Payments on capital lease	<u>108,442</u>	
		1,781,323

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	2,261	
Accrued interest	(7,289)	
Accreted interest	52,213	
Bonds issuance cost	(35,000)	
Amortization of deferred loss of refunding bonds	(22,689)	
Amortization of premium on bond issuances	<u>18,960</u>	
		<u>8,456</u>

Change in net assets of governmental activities \$ 345,130

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, 2010
(With Comparative Totals as of September 30, 2009)

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,413,253	\$ 1,605,103
Accounts receivable, net	1,475,854	1,503,153
Other receivables	8,557	18,182
Inventories	128,145	122,332
Prepaid items	-	5,313
Restricted cash and investments:		
Reserve bond debt service	106,856	107,539
Capital improvements	5,113,906	5,750,661
Construction	1,457,105	1,678,094
Customer deposits	255,297	254,843
Total current assets	9,958,973	11,045,220
Non-current assets:		
Unamortized debt issue cost	248,519	269,331
Capital assets:		
Nondepreciable capital assets	994,137	149,913
Depreciable capital assets, net of accumulated depreciation	12,264,041	13,137,495
Total capital assets	13,258,178	13,287,408
Total non-current assets	13,506,697	13,556,739
Total assets	23,465,670	24,601,959
LIABILITIES		
Current liabilities:		
Accounts payable	954,898	389,119
Accrued expenses	108,901	70,484
Accrued interest	70,302	111,653
Customer deposits	255,297	254,843
Current portion of long-term obligations	1,045,574	939,685
Total current liabilities	2,434,972	1,765,784
Non-current liabilities:		
Noncurrent portion of long-term obligations	11,778,723	12,740,192
Total non-current liabilities	11,778,723	12,740,192
Total liabilities	14,213,695	14,505,976
NET ASSETS		
Invested in capital assets, net of related debt	5,664,677	5,465,933
Restricted for capital projects	1,457,105	1,678,094
Unrestricted	2,130,193	2,951,956
Total net assets	\$ 9,251,975	\$ 10,095,983

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, 2010

(With Comparative Totals For the Year Ended September 30, 2009)

	<u>2010</u>	<u>2009</u>
REVENUES		
Charges for services	\$ 7,266,788	\$ 7,553,512
Penalties, fines and forfeits	<u>81,345</u>	<u>89,815</u>
Total operating revenues	<u>7,348,133</u>	<u>7,643,327</u>
OPERATING EXPENSES		
Administration	502,419	444,745
Maintenance and operations	5,953,621	5,217,141
Depreciation	<u>991,557</u>	<u>1,030,955</u>
Total operating expenses	<u>7,447,597</u>	<u>6,692,841</u>
OPERATING INCOME (LOSS)	<u>(99,464)</u>	<u>950,486</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	64,597	60,467
Interest expense	<u>(639,114)</u>	<u>(563,707)</u>
Total non-operating revenues (expenses)	<u>(574,517)</u>	<u>(503,240)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(673,981)</u>	447,246
CAPITAL CONTRIBUTIONS	106,473	196,340
TRANSFERS IN	19,250	-
TRANSFERS OUT	<u>(295,750)</u>	<u>(240,000)</u>
CHANGE IN NET ASSETS	<u>(844,008)</u>	403,586
TOTAL NET ASSETS, BEGINNING	<u>10,095,983</u>	<u>9,692,397</u>
TOTAL NET ASSETS, ENDING	<u>\$ 9,251,975</u>	<u>\$ 10,095,983</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, 2010

(With Comparative Totals For the Year Ended September 30, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 7,385,511	\$ 7,491,739
Cash paid to suppliers for goods and services	(4,502,472)	(4,587,531)
Cash paid to employees for services	(1,340,723)	(1,260,177)
Net cash provided by operating activities	<u>1,542,316</u>	<u>1,644,031</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	19,250	-
Transfers to other funds	(295,750)	(240,000)
Net cash used for noncapital financing activities	<u>(276,500)</u>	<u>(240,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	106,473	196,340
Acquisition of capital assets	(962,327)	(338,943)
Proceeds from capital leases	-	128,756
Proceeds from issuance of bonds	-	4,374,290
Principal paid on bonds	(823,421)	(653,507)
Principal paid on capital lease	(41,308)	-
Interest and fiscal charges paid on debt	(659,653)	(572,351)
Net cash provided (used) for capital and related financing activities	<u>(2,380,236)</u>	<u>3,134,585</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	<u>64,597</u>	<u>60,467</u>
Net cash provided by investing activities	<u>64,597</u>	<u>60,467</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,049,823)	4,599,083
CASH AND CASH EQUIVALENTS, BEGINNING	<u>9,396,240</u>	<u>4,797,157</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 8,346,417</u>	<u>\$ 9,396,240</u>
(Including \$6,933,164 and \$7,791,137 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, 2010

(With Comparative Totals For the Year Ended September 30, 2009)

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(99,464)	\$ 950,486
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	991,557	1,030,955
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Customer receivable	27,299	(139,753)
Other receivables	9,625	(12,000)
Inventories	(5,813)	19,230
Prepaid and other assets	5,313	648
Increase (decrease) in liabilities:		
Accounts payable	565,779	(228,065)
Accrued liabilities	38,417	(1,682)
Customer deposits	454	165
Compensated absences	9,149	24,047
Net cash provided by operating activities	<u>\$ 1,542,316</u>	<u>\$ 1,644,031</u>

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, 2010

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.

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

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.

Additionally, the City reports the following nonmajor funds:

Corps Leased Parks Fund – accounts for the operations of Corp Leased Parks. Park admission and usage fees charged to patrons finance operations.

Park Development Fund – utilized to account for development fees charged to property developers, which will be used to develop and maintain City parks.

Public Safety Fund – to account 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 – 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 offenses as a cost of court. These funds will be used to purchase software, PCs and any other technology items needed for the court.

(continued)

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

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

Drainage Utility 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.

Inland Trails Capital Projects Fund – is utilized to account for financial resources to be used for the construction of the Inland Trails project. Resources are derived from proceeds of the 1996 Park Bond funds, a portion of the designated fund balance and linear park fees collected by the City, and grant proceeds from the Statewide Transportation Enhancement Program (STEP).

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.

(continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

Reserves

Reserves on fund balance in the fund financial statements indicate portions of fund equity legally segregated for a specific future use. September 30, 2010, the City's fund balances were reserved for the following purposes:

<u>Fund Balance</u>	<u>Amount</u>	<u>Purpose</u>
Encumbrances	\$ 621,068	Commitments related to unperformed contracts for goods and services
Prepaid items	474	Amount is not available for current spending
Debt service	341,419	Property tax revenue levied to repay long-term debt
Capital projects/expenditures	851,778	Proceeds of bond issue segregated in a separate capital projects fund
Park development	239,136	Proceeds of bond issue and linear park fees segregated in separate special revenue and capital projects fund

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. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. 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 appropriation 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.

B. 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. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

C. Excess of Expenditures Over Appropriations

For the year ended September 30, 2010, expenditures exceed appropriation in Community Development of the General Fund by \$16,260; Debt Service – interest of the General Fund by \$3,959; Parks and Recreation – services and supplies of the Corps Leased Parks Fund by \$2,142; Parks and Recreation – services and supplies of the Park Development Fund by \$2,868; and Public Safety – personnel of the Municipal Court Security Building Fund by \$219.

3. 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)

3. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

The City's entire cash deposits in the bank of \$8,846,567 on September 30, 2010, 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, 2010, was \$217,015 at the City's depository, \$5,010,269 as CDARS (Certificate of Deposit Account Registry Service), \$1,000,000 as certificates of deposit, and \$2,618,422 as NOW (Negotiable Order of Withdrawal).

Investments held at year-end are as follows:

	<u>Fair Value</u>
TexPool	\$ 2,259,505
TexStar	<u>6,988,945</u>
Total investments	<u>\$ 9,248,450</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)

3. 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	\$ 764,179	\$ 12,190	\$ 148,959	\$ -	\$ -	\$ 925,328
Accounts	550,871	-	-	1,282,399	-	1,833,270
Unbilled	-	-	-	404,046	-	404,046
Interest	9,625	-	-	-	-	9,625
Other	-	-	-	8,557	-	8,557
Intergovernmental	-	-	-	-	24,820	24,820
Gross receivables	1,324,675	12,190	148,959	1,695,002	24,820	3,205,646
Less: allowance for uncollectibles	394,619	-	-	210,591	-	605,210
Net total receivables	<u>\$ 930,056</u>	<u>\$ 12,190</u>	<u>\$ 148,959</u>	<u>\$ 1,484,411</u>	<u>\$ 24,820</u>	<u>\$ 2,600,436</u>

(continued)

3. **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	\$ 46,813	\$ -
Franchise taxes	-	39,462
Court fines	75,187	-
Ambulance	32,763	-
Grant	-	29,809
Total general fund	<u>154,763</u>	<u>69,271</u>
Debt service fund:		
Delinquent property taxes	12,190	-
Total debt service fund	<u>12,190</u>	<u>-</u>
Total governmental funds	<u>\$ 166,953</u>	<u>\$ 69,271</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>Capital Projects</u>	<u>Nonmajor</u>	<u>Water and Wastewater</u>	
General	\$ -	\$ -	\$ -	\$ 90,477	\$ -	\$ 90,477
Capital projects	115,496	-	-	-	-	115,496
Community Development Corporation	28,000	697,804	63,843	-	-	789,647
Nonmajor	320,943	-	-	-	19,250	340,193
Water and wastewater	<u>295,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>295,750</u>
	<u>\$ 760,189</u>	<u>\$ 697,804</u>	<u>\$ 63,843</u>	<u>\$ 90,477</u>	<u>\$ 19,250</u>	<u>\$ 1,631,563</u>

The transfer from the Capital Projects Fund to the General Fund is to cover costs on the Highland Shores Blvd. project. The transfer from the Capital Projects Fund to the Debt Service Fund is the portion of the Highland Village Community Development Corporation's (HVCDC) debt service payment on outstanding payments. The transfer from the HVCDC to the General Fund and Capital Projects Fund is for reimbursement for support services and prior year 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.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 17,050,743	\$ -	\$ -	\$ 17,050,743
Construction in progress	<u>2,056,502</u>	<u>4,865,239</u>	<u>(947,469)</u>	<u>5,974,272</u>
Total assets not being depreciated	<u>19,107,245</u>	<u>4,865,239</u>	<u>(947,469)</u>	<u>23,025,015</u>
Capital assets, being depreciated:				
Land improvements	7,588,144	515,690	-	8,103,834
Buildings and improvements	9,401,438	123,176	-	9,524,614
Equipment	5,263,138	447,376	-	5,710,514
Infrastructure	38,350,946	333,657	-	38,684,603
Intangibles	<u>132,544</u>	<u>8,249</u>	<u>-</u>	<u>140,793</u>
Total capital assets being depreciated	<u>60,736,210</u>	<u>1,428,148</u>	<u>-</u>	<u>62,164,358</u>
Less accumulated depreciation:				
Land improvements	2,659,288	395,660	-	3,054,948
Buildings and improvements	3,029,871	502,537	-	3,532,408
Equipment	3,032,301	591,938	-	3,624,239
Infrastructure	15,892,697	969,056	-	16,861,753
Intangibles	<u>61,521</u>	<u>13,977</u>	<u>-</u>	<u>75,498</u>
Total accumulated depreciation	<u>24,675,678</u>	<u>2,473,168</u>	<u>-</u>	<u>27,148,846</u>
Total capital assets being depreciated, net	<u>36,060,532</u>	<u>(1,045,020)</u>	<u>-</u>	<u>35,015,512</u>
Governmental activities capital assets, net	<u>\$ 55,167,777</u>	<u>\$ 3,820,219</u>	<u>\$ (947,469)</u>	<u>\$ 58,040,527</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 75,713	\$ -	\$ -	\$ 75,713
Construction in progress	74,200	844,224	-	918,424
Total assets not being depreciated	<u>149,913</u>	<u>844,224</u>	<u>-</u>	<u>994,137</u>
Capital assets, being depreciated:				
Land improvements	65,098	-	-	65,098
Buildings and improvements	25,001,892	-	-	25,001,892
Equipment	1,410,664	74,399	-	1,485,063
Infrastructure	617,553	-	-	617,553
Intangibles	45,395	36,342	-	81,737
Total capital assets being depreciated	<u>27,140,602</u>	<u>110,741</u>	<u>-</u>	<u>27,251,343</u>
Less accumulated depreciation:				
Land improvements	33,243	1,737	-	34,980
Buildings and improvements	12,466,986	826,458	-	13,293,444
Equipment	855,295	159,097	-	1,014,392
Infrastructure	602,188	616	-	602,804
Intangibles	38,033	3,649	-	41,682
Total accumulated depreciation	<u>13,995,745</u>	<u>991,557</u>	<u>-</u>	<u>14,987,302</u>
Total capital assets being depreciated, net	<u>13,144,857</u>	<u>(880,816)</u>	<u>-</u>	<u>12,264,041</u>
Business-type activities capital assets, net	<u>\$ 13,294,770</u>	<u>\$(36,592)</u>	<u>\$ -</u>	<u>\$ 13,258,178</u>

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

Governmental activities:	
City manager	\$ 13,740
Finance/court	50,634
Human resources	5,582
City secretary	28,119
Community development	6,854
Police	301,093
Fire	336,054
Building operations	4,456
Streets and drainage	1,120,588
Maintenance	47,358
Utility drainage	39,027
Parks	492,786
Recreation	<u>26,877</u>
Total depreciation expense - governmental activities	<u>\$ 2,473,168</u>
Business-type activities:	
Water and wastewater	<u>\$ 991,557</u>
Total depreciation expense - business-type activities	<u>\$ 991,557</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

E. Construction Commitments

The City has active construction projects as of September 30, 2010. 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:		
Service Center and Interim Senior Center -	\$ 4,181,036	\$ 279,001
Repairs to Municipal Complex - engineering only	12,000	4,000
Spring Oak Turnaround - engineering only	2,500	213
Unity Park Restroom	45,111	55,136
KSC Pedestrian Trail - engineering only	17,042	31,828
Copperas Trail - engineering only	86,667	25,713
Castlewood Trail - engineering only	46,861	55,739
Lake Vista and Highland Village Rd Trail	208,849	21,071
Business activities:		
2008 Wastewater restoration - engineering only	34,880	18,290
Oak Street Ground Storage Tank	345,957	174,677
AC Water Line Replacements Phase 2 - engineering only	88,759	30,141
Winding/Oak Sewer Line Replacement - engineering only	41,456	36,794
HV Rd Water Line Project	347,776	184,046

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 \$148,561.

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>
2011	\$ 46,265
2012	46,265
Total	92,530
Less interest portion	5,082
Obligations under capital leases	<u>\$ 87,448</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Debt

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:

	<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	4.70 - 5.00	1998	2024	\$ 4,041,084	\$ 205,000
General obligation refunding and improvement bonds	3.00 - 4.70	2002	2022	4,916,833	2,394,190
General obligation refunding bonds	3.00 - 4.15	2003	2017	3,940,000	2,171,400
General obligation refunding and improvement bonds	4.00 - 4.25	2006	2027	6,875,000	5,955,000
General obligation refunding and improvement bonds	3.50 - 4.00	2008	2028	5,000,000	<u>4,740,000</u>
					<u>15,465,590</u>
Business-type activities:					
General obligation refunding bonds	3.00 - 4.70	2002	2022	3,358,167	255,810
General obligation refunding bonds	3.00 - 4.15	2003	2017	2,210,000	<u>1,118,600</u>
					<u>1,374,410</u>
					<u>\$ 16,840,000</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>
2011	\$ 1,156,671	\$ 581,753	\$ 308,329	\$ 81,340
2012	1,195,319	538,896	314,681	69,659
2013	1,146,200	521,986	193,800	29,489
2014	1,194,400	477,726	200,600	22,222
2015	1,082,500	431,100	127,500	14,448
2016-2020	4,485,500	1,550,477	229,500	14,280
2021-2025	3,760,000	656,061	-	-
2026-2028	<u>1,445,000</u>	<u>80,938</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 15,465,590</u>	<u>\$ 4,838,937</u>	<u>\$ 1,374,410</u>	<u>\$ 231,438</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Debt (Continued)

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:

	<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	\$ 1,725,000	\$ 1,165,000
Combination tax and revenue certificates of obligation	3.50 - 4.00	2008	2028	3,000,000	2,525,000
Combination tax and revenue certificates of obligation	3.00 - 4.50	2009	2029	3,830,000	<u>3,660,000</u>
					<u>\$ 7,350,000</u>
Business-type activities:					
Combination tax and limited pledge revenue refunding bonds	4.00	2004	2017	\$ 2,870,000	\$ 1,880,000
Combination tax and revenue certificates of obligation	4.00 - 4.30	2004	2021	4,855,000	3,740,000
Combination tax and revenue certificates of obligation	3.50 - 4.00	2008	2028	1,500,000	1,420,000
Combination tax and revenue certificates of obligation	3.00 - 4.50	2009	2029	4,365,000	<u>4,250,000</u>
					<u>\$ 11,290,000</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>
2011	\$ 540,000	\$ 256,367	\$ 650,000	\$ 444,668
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
2016-2020	2,655,000	586,451	3,320,000	1,285,730
2021-2025	1,640,000	188,088	2,945,000	649,353
2026-2029	<u>185,000</u>	<u>7,969</u>	<u>1,495,000</u>	<u>128,253</u>
Total	<u>\$ 7,350,000</u>	<u>\$ 1,875,380</u>	<u>\$ 11,290,000</u>	<u>\$ 4,034,025</u>

(continued)

3. 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, 2010, the following outstanding bonds were legally defeased:

<u>Series</u>	<u>Type</u>	<u>Amount</u>
1993	Combination Tax and Revenue Refunding Bonds	\$ 495,000
1994	Combination Tax and Water and Sewer Revenue (Limited Pledge) Certificates of Obligation	950,000
1995	Combination Tax and Revenue Certificates of Obligation	255,000
1997	Combination Tax and Revenue Certificates of Obligation	2,085,000
1996	Waterworks and Sewer Revenue Certificates of Obligation	2,055,000
1996	General Obligation Bonds	805,000
1998	General Obligation Refunding and Improvement Bonds	<u>2,475,000</u>
		<u>\$ 9,120,000</u>

H. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2010, 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	\$ 16,653,471	\$ -	\$ 1,187,881	\$ 15,465,590	\$ 1,156,671
Combination tax and revenue CO	7,835,000	-	485,000	7,350,000	540,000
Issuance premium	253,644	-	18,960	234,684	18,960
Less deferred amount on refunding	(195,619)	-	(22,689)	(172,930)	(22,689)
Total bonds payable	<u>24,546,496</u>	<u>-</u>	<u>1,669,152</u>	<u>22,877,344</u>	<u>1,692,942</u>
Accreted interest	52,213	-	52,213	-	-
Capital lease obligations	108,442	-	108,442	-	-
Compensated absences	<u>849,530</u>	<u>679,145</u>	<u>681,406</u>	<u>847,269</u>	<u>652,230</u>
Governmental activities long-term liabilities	<u>\$ 25,556,681</u>	<u>\$ 679,145</u>	<u>\$ 2,511,213</u>	<u>\$ 23,724,613</u>	<u>\$ 2,345,172</u>

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

(continued)

3. 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	\$ 1,667,097	\$ -	\$ 292,687	\$ 1,374,410	\$ 308,329
Combination tax and revenue CO	11,875,000	-	585,000	11,290,000	650,000
Issuance premium	116,005	-	9,874	106,131	9,874
Less deferred amount on refunding	(214,722)	-	(64,140)	(150,582)	(64,140)
Total bonds payable	13,443,380	-	823,421	12,619,959	904,063
Capital lease obligation	128,756	-	41,308	87,448	42,898
Compensated absences	107,741	100,054	90,905	116,890	98,613
Business-type activities long-term liabilities	<u>\$ 13,679,877</u>	<u>\$ 100,054</u>	<u>\$ 955,634</u>	<u>\$ 12,824,297</u>	<u>\$ 1,045,574</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:

	Plan Year 2009	Plan Year 2010
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating, transfers	100% repeating, transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

I. Retirement Plan (Continued)

Contributions

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

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

	<u>09/30/08</u>	<u>09/30/09</u>	<u>09/30/10</u>
Annual Required Contribution (ARC)	\$ 512,085	\$ 760,773	\$ 912,037
Interest on Net Pension Obligation	-	-	-
Adjustment to the ARC	-	-	-
Annual Pension Cost	512,085	760,773	912,037
Contributions Made (100%)	(512,085)	(760,773)	(912,037)
Increase (Decrease) in Net Pension Obligation	-	-	-
Net Pension Obligation/(Asset), beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Net Pension Obligation/(Asset), ending of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The required contribution rates for fiscal year 2010 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2009, also follows:

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

I. Retirement Plan (Continued)

Contributions (Continued)

Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 equivalent single amortization period	30 years; closed period	29 years; closed period	28 years; closed period
Amortization period for new gains/losses	30 years	30 years	30 years
Asset valuation method	Amortized cost	Amortized cost	10-year smoothed market
Actuarial Assumptions:			
Investment rate of return*	7.0%	7.5%	7.5%
Projected salary increases*	varies by age and service	varies by age and service	varies by age and service
*Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustments	2.1%	2.1%	2.1%

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 liability benefits. The funded status as of December 31, 2009, is the most recent actuarial valuation.

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)
12/31/09	\$ 12,611,227	\$ 17,093,878	\$ 4,482,651	73.78%	\$ 7,413,195	60.47%
12/31/08	10,864,046	14,557,868	3,693,822	74.63%	6,968,771	53.01%
12/31/07	9,409,958	12,269,729	2,859,771	76.69%	6,150,917	46.49%

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)

3. 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 2010 and 2009, were \$745 and \$709, respectively, which equaled the required contributions each year. Fiscal year 2009 is a transition year for the implementation of GASB 45; therefore, two years of contributions are disclosed.

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>
2008	0.01%	0.01%	100%
2009	0.01%	0.01%	100%
2010	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 was 1.65 million gallons per day (MGD). The City is committed to pay facility charges, currently \$447,900/MGD for joint facilities and \$279,268 annually for facilities specific to Highland Village. For FY 2011, the charges for joint facilities will increase to \$482,900/MGD, while facility charges specific to Highland Village will increase to \$352,965. The volume rate for treatment (including transportation charge) is \$1.73 per thousand gallons, increasing to \$1.75 in FY 2011.

(continued)

3. 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 gallons per day (MGD) of treated water. Currently, the volume charge is \$.86/1,000 gallons, with an annual demand charge of \$340,970/MGD. For fiscal year-end 2011, the volume rate will remain at \$.86/1,000 gallons, with the demand charge increasing to \$342,365/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 the 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 the 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 the current year, 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 Highland Village, thus the City is responsible for necessary repairs and improvements. The repair costs associated with this total \$439,732, and will be paid in annual installments 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)

3. DETAILED NOTES ON ALL FUNDS (Continued)

N. Related Party Transaction

The City entered into a contract with a developer in which a former member of the City Council is a principal owner. In the developer agreement, the City agreed (i) waive the Neighborhood Park Fee that would otherwise be payable by the Developer in connection with the development of the Project (ii) to reimburse the Developer for the cost of the design and construction of the hike and bike trail and (iii) to allow the Developer to pay the Linear Park Fee due to the City in connection with the development of the Project out of the reimbursement due to the Developer for the hike and bike trail and (iv) to escrow \$25,000 for the construction of a cul de sac. During the fiscal year, the Developer paid \$3,193 to the City for various fees. Fees due from the Developer at year-end are \$9,084.

O. Accounting Change and Reclassification

The City adopted GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*. Accordingly, beginning net assets of the governmental activities in the Statement of Net Assets were restated by \$71,023 upon implementation of this accounting standard.

The City determined that the Highland Village Community Development Corporation met the requirements for inclusion in the City's financial statements as a blended component unit, instead of a discretely presented component unit. Accordingly, beginning fund balance of the Community Development Corporation Fund increased by \$3,089,126, beginning fund balance in the Capital Projects Fund decreased by \$6,712,614, and net assets of the governmental activities increased by \$5,900,043.

**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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 11,163,743	\$ 11,163,743	\$ 10,867,123	\$(296,620)
Fines and forfeitures	157,500	157,500	243,880	86,380
Licenses, permits and fees	534,561	534,561	442,773	(91,788)
Intergovernmental	-	-	8,514	8,514
Charges for services	144,454	144,454	150,012	5,558
Investment earnings	47,000	47,000	32,346	(14,654)
Miscellaneous	<u>212,000</u>	<u>212,000</u>	<u>211,488</u>	<u>(512)</u>
Total revenues	<u>12,259,258</u>	<u>12,259,258</u>	<u>11,956,136</u>	<u>(303,122)</u>
EXPENDITURES				
Current:				
General government:				
City manager	815,465	885,111	603,112	281,999
Finance	1,198,195	1,214,200	1,173,818	40,382
Human resources	433,352	400,604	355,885	44,719
City secretary	297,322	305,828	240,757	65,071
Maintenance	801,898	886,901	810,878	76,023
Public safety:				
Police	3,317,674	3,341,203	3,324,596	16,607
Fire	1,674,318	1,695,164	1,680,327	14,837
Building operations	349,685	353,438	341,466	11,972
Community development	499,261	501,513	517,773	(16,260)
Streets and drainage	1,335,850	919,806	749,680	170,126
Parks and recreation	1,528,778	1,558,679	1,514,304	44,375
Debt service:				
Principal	112,401	112,401	108,442	3,959
Interest and other charges	-	-	3,959	(3,959)
Capital outlay	<u>661,424</u>	<u>1,205,724</u>	<u>927,392</u>	<u>278,332</u>
Total expenditures	<u>13,025,623</u>	<u>13,380,572</u>	<u>12,352,389</u>	<u>1,028,183</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(766,365)</u>	<u>(1,121,314)</u>	<u>(396,253)</u>	<u>725,061</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	590,795	765,229	760,189	(5,040)
Transfers out	<u>(56,000)</u>	<u>(90,477)</u>	<u>(90,477)</u>	<u>-</u>
Total other financing sources and uses	<u>534,795</u>	<u>674,752</u>	<u>669,712</u>	<u>(5,040)</u>
NET CHANGE IN FUND BALANCE	<u>(231,570)</u>	<u>(446,562)</u>	<u>273,459</u>	<u>720,021</u>
FUND BALANCE, BEGINNING	<u>3,917,275</u>	<u>3,917,275</u>	<u>3,917,275</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 3,685,705</u>	<u>\$ 3,470,713</u>	<u>\$ 4,190,734</u>	<u>\$ 720,021</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, 2010

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 984,656	\$ 984,656	\$ 905,024	\$(79,632)
Charges for services	-	-	2,500	2,500
Investment earnings	<u>23,784</u>	<u>23,784</u>	<u>6,700</u>	<u>(17,084)</u>
Total revenues	<u>1,008,440</u>	<u>1,008,440</u>	<u>914,224</u>	<u>(94,216)</u>
EXPENDITURES				
Parks and recreation:				
Personnel	70,946	71,697	76,514	(4,817)
Services and supplies	120,329	140,143	156,989	(16,846)
Capital outlay	<u>2,222,650</u>	<u>2,222,650</u>	<u>225,870</u>	<u>1,996,780</u>
Total expenditures	<u>2,413,925</u>	<u>2,434,490</u>	<u>459,373</u>	<u>1,975,117</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,405,485)</u>	<u>(1,426,050)</u>	<u>454,851</u>	<u>1,880,901</u>
OTHER FINANCING SOURCES (USES)				
Transfer out	(725,805)	(789,648)	(789,647)	<u>1</u>
Total other financing sources (uses)	<u>(725,805)</u>	<u>(789,648)</u>	<u>(789,647)</u>	<u>1</u>
NET CHANGE IN FUND BALANCE	(2,131,290)	(2,215,698)	(334,796)	1,880,902
FUND BALANCE, BEGINNING	-	-	-	-
FUND BALANCE, RECLASSIFICATION	<u>3,089,126</u>	<u>3,089,126</u>	<u>3,089,126</u>	<u>-</u>
FUND BALANCE, RESTATED	<u>3,089,126</u>	<u>3,089,126</u>	<u>3,089,126</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 957,836</u>	<u>\$ 873,428</u>	<u>\$ 2,754,330</u>	<u>\$ 1,880,902</u>

**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 finance operations.

Park Development Fund – This fund accounts for development fees charged to property developers, which will be used to develop and maintain 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.

Drainage Utility 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.

Inland Trails Capital Projects Fund – This fund accounts for financial resources to be used for the construction of the Inland Trail Project. Resources are derived from proceeds of the 1996 Park Bond funds, a portion of the designated fund balance and linear park fees collected by the City.

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2010

	Special Revenue		
	Corps Leased Parks	Park Development	Public Safety
ASSETS			
Cash and investments	\$ 81,754	\$ 343,261	\$ 6,785
Receivable - intergovernmental	<u>-</u>	<u>-</u>	<u>24,820</u>
Total assets	<u>\$ 81,754</u>	<u>\$ 343,261</u>	<u>\$ 31,605</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 10,791	\$ 48,989	\$ 5,227
Accrued liabilities	<u>4,695</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>15,486</u>	<u>48,989</u>	<u>5,227</u>
Fund balances:			
Reserved for:			
Encumbrances	-	55,136	130
Park development	-	239,136	-
Unreserved, undesignated	<u>66,268</u>	<u>-</u>	<u>26,248</u>
Total fund balances	<u>66,268</u>	<u>294,272</u>	<u>26,378</u>
Total liabilities and fund balances	<u>\$ 81,754</u>	<u>\$ 343,261</u>	<u>\$ 31,605</u>

Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
Security Building	Technology	Utility Drainage	Inland Trails	
\$ 26,437	\$ 34,305	\$ 475,352	\$ -	\$ 967,894
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,820</u>
\$ <u>26,437</u>	\$ <u>34,305</u>	\$ <u>475,352</u>	\$ <u>-</u>	\$ <u>992,714</u>
\$ 733	\$ -	\$ 19,260	\$ -	\$ 85,000
<u>-</u>	<u>-</u>	<u>6,735</u>	<u>-</u>	<u>11,430</u>
<u>733</u>	<u>-</u>	<u>25,995</u>	<u>-</u>	<u>96,430</u>
-	-	23,101	-	78,367
-	-	-	-	239,136
<u>25,704</u>	<u>34,305</u>	<u>426,256</u>	<u>-</u>	<u>578,781</u>
<u>25,704</u>	<u>34,305</u>	<u>449,357</u>	<u>-</u>	<u>896,284</u>
\$ <u>26,437</u>	\$ <u>34,305</u>	\$ <u>475,352</u>	\$ <u>-</u>	\$ <u>992,714</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, 2010

	Special Revenue		
	Corps Leased Parks	Park Development	Public Safety
REVENUES			
Licenses, permits and fees	\$ 273,182	\$ -	\$ -
Intergovernmental	-	-	216,395
Investment earnings	-	707	-
Miscellaneous	-	-	1,000
Total revenues	273,182	707	217,395
EXPENDITURES			
Current:			
Public safety:			
Police	-	-	10,189
Fire	-	-	31,828
Streets and drainage	-	-	-
Parks and recreation	288,617	2,868	-
Capital outlay	34,477	48,989	60,382
Total expenditures	323,094	51,857	102,399
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(49,912)	(51,150)	114,996
OTHER FINANCING SOURCES (USES)			
Transfers in	74,477	-	-
Transfers out	-	-	(131,517)
Total other financing sources and uses	74,477	-	(131,517)
NET CHANGE IN FUND BALANCES	24,565	(51,150)	(16,521)
FUND BALANCES, BEGINNING	41,703	345,422	42,899
FUND BALANCES, ENDING	\$ 66,268	\$ 294,272	\$ 26,378

<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Security Building</u>	<u>Technology</u>	<u>Utility Drainage</u>	<u>Inland Trails</u>	
\$ 7,924	\$ 10,565	\$ 397,886	\$ -	\$ 689,557
-	-	-	-	216,395
-	-	820	135	1,662
-	-	-	-	1,000
<u>7,924</u>	<u>10,565</u>	<u>398,706</u>	<u>135</u>	<u>908,614</u>
2,819	-	-	-	13,008
-	-	-	-	31,828
-	-	331,657	-	331,657
-	-	-	-	291,485
-	-	21,135	-	164,983
<u>2,819</u>	<u>-</u>	<u>352,792</u>	<u>-</u>	<u>832,961</u>
<u>5,105</u>	<u>10,565</u>	<u>45,914</u>	<u>135</u>	<u>75,653</u>
-	-	16,000	-	90,477
-	-	(35,250)	(173,426)	(340,193)
-	-	(19,250)	(173,426)	(249,716)
5,105	10,565	26,664	(173,291)	(174,063)
<u>20,599</u>	<u>23,740</u>	<u>422,693</u>	<u>173,291</u>	<u>1,070,347</u>
<u>\$ 25,704</u>	<u>\$ 34,305</u>	<u>\$ 449,357</u>	<u>\$ -</u>	<u>\$ 896,284</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, 2010

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,935,109	\$ 1,935,109	\$ 1,926,381	\$(8,728)
Investment earnings	<u>5,000</u>	<u>5,000</u>	<u>886</u>	<u>(4,114)</u>
Total revenues	<u>1,940,109</u>	<u>1,940,109</u>	<u>1,927,267</u>	<u>(12,842)</u>
EXPENDITURES				
Debt service:				
Principal	1,672,881	1,672,881	1,672,881	-
Interest	<u>988,945</u>	<u>988,945</u>	<u>976,714</u>	<u>12,231</u>
Total expenditures	<u>2,661,826</u>	<u>2,661,826</u>	<u>2,649,595</u>	<u>12,231</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(721,717)</u>	<u>(721,717)</u>	<u>(722,328)</u>	<u>611</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>697,805</u>	<u>697,805</u>	<u>697,804</u>	<u>1</u>
Total other financing sources and uses	<u>697,805</u>	<u>697,805</u>	<u>697,804</u>	<u>1</u>
NET CHANGE IN FUND BALANCE	(23,912)	(23,912)	(24,524)	(612)
FUND BALANCE, BEGINNING	<u>365,943</u>	<u>365,943</u>	<u>365,943</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 342,031</u>	<u>\$ 342,031</u>	<u>\$ 341,419</u>	<u>\$(612)</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, 2010

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		(Negative)
REVENUES				
Licenses, permits and fees	\$ 213,791	\$ 213,791	\$ 273,182	\$ 59,391
Total revenues	213,791	213,791	273,182	59,391
EXPENDITURES				
Parks and recreation:				
Personnel	164,093	165,594	164,381	1,213
Services and supplies	112,094	122,094	124,236	(2,142)
Capital outlay	-	34,477	34,477	-
Total expenditures	276,187	322,165	323,094	(929)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(62,396)	(108,374)	(49,912)	58,462
OTHER FINANCING SOURCES (USES)				
Transfer in	40,000	74,477	74,477	-
Total other financing sources (uses)	40,000	74,477	74,477	-
NET CHANGE IN FUND BALANCE	(22,396)	(33,897)	24,565	58,462
FUND BALANCE, BEGINNING	41,703	41,703	41,703	-
FUND BALANCE, ENDING	\$ 19,307	\$ 7,806	\$ 66,268	\$ 58,462

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, 2010

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 1,947	\$ 1,947	\$ 707	\$(1,240)
Total revenues	1,947	1,947	707	(1,240)
EXPENDITURES				
Parks and recreation:				
Services and supplies	-	-	2,868	(2,868)
Capital outlay	126,000	126,000	48,989	77,011
Total expenditures	126,000	126,000	51,857	74,143
NET CHANGE IN FUND BALANCE	(124,053)	(124,053)	(51,150)	72,903
FUND BALANCE, BEGINNING	345,422	345,422	345,422	-
FUND BALANCE, ENDING	\$ 221,369	\$ 221,369	\$ 294,272	\$ 72,903

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, 2010

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		(Negative)
REVENUES				
Intergovernmental	\$ 139,645	\$ 217,497	\$ 216,395	\$(1,102)
Miscellaneous	-	-	1,000	1,000
Total revenues	139,645	217,497	217,395	(102)
EXPENDITURES				
Public safety:				
Police:				
Services and supplies	5,200	13,622	10,189	3,433
Fire:				
Services and supplies	15,904	33,583	31,828	1,755
Capital outlay	-	60,382	60,382	-
Total expenditures	21,104	107,587	102,399	5,188
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	118,541	109,910	114,996	5,086
OTHER FINANCING SOURCES (USES)				
Transfer out	(135,405)	(136,045)	(131,517)	4,528
Total other financing sources (uses)	(135,405)	(136,045)	(131,517)	4,528
NET CHANGE IN FUND BALANCE	(16,864)	(26,135)	(16,521)	9,614
FUND BALANCE, BEGINNING	42,899	42,899	42,899	-
FUND BALANCE, ENDING	\$ 26,035	\$ 16,764	\$ 26,378	\$ 9,614

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, 2010

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 4,600	\$ 5,350	\$ 7,924	\$ 2,574
Total revenues	4,600	5,350	7,924	2,574
EXPENDITURES				
Public safety:				
Police:				
Personnel	1,866	1,866	2,085	(219)
Services and supplies	-	750	734	16
Total expenditures	1,866	2,616	2,819	(203)
NET CHANGE IN FUND BALANCE	2,734	2,734	5,105	2,371
FUND BALANCE, BEGINNING	20,599	20,599	20,599	-
FUND BALANCE, ENDING	\$ 23,333	\$ 23,333	\$ 25,704	\$ 2,371

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, 2010

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 6,000	\$ 6,000	\$ 10,565	\$ 4,565
Total revenues	<u>6,000</u>	<u>6,000</u>	<u>10,565</u>	<u>4,565</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	6,000	6,000	10,565	4,565
FUND BALANCE, BEGINNING	<u>23,740</u>	<u>23,740</u>	<u>23,740</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 29,740</u>	<u>\$ 29,740</u>	<u>\$ 34,305</u>	<u>\$ 4,565</u>

CITY OF HIGHLAND VILLAGE, TEXAS

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

DRAINAGE UTILITY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		(Negative)
REVENUES				
Licenses, permits and fees	\$ 400,000	\$ 400,000	\$ 397,886	\$(2,114)
Investment earnings	<u>2,800</u>	<u>2,800</u>	<u>820</u>	<u>(1,980)</u>
Total revenues	<u>402,800</u>	<u>402,800</u>	<u>398,706</u>	<u>(4,094)</u>
EXPENDITURES				
Street and drainage:				
Personnel	200,822	257,297	226,338	30,959
Services and supplies	181,485	168,985	105,319	63,666
Capital outlay	<u>26,000</u>	<u>26,000</u>	<u>21,135</u>	<u>4,865</u>
Total expenditures	<u>408,307</u>	<u>452,282</u>	<u>352,792</u>	<u>99,490</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,507)</u>	<u>(49,482)</u>	<u>45,914</u>	<u>95,396</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	16,000	16,000	16,000	-
Transfer out	<u>(35,250)</u>	<u>(35,250)</u>	<u>(35,250)</u>	<u>-</u>
Total other financing sources (uses)	<u>(19,250)</u>	<u>(19,250)</u>	<u>(19,250)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(24,757)</u>	<u>(68,732)</u>	26,664	95,396
FUND BALANCE, BEGINNING	<u>422,693</u>	<u>422,693</u>	<u>422,693</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 397,936</u>	<u>\$ 353,961</u>	<u>\$ 449,357</u>	<u>\$ 95,396</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, 2010

CAPITAL ASSETS

Land	\$ 17,050,743
Land improvements	8,103,834
Buildings and improvements	9,524,614
Equipment	5,710,514
Infrastructure	38,684,603
Intangibles	140,793
Construction in progress	<u>5,974,272</u>
 Total capital assets	 \$ <u>85,189,373</u>

INVESTMENT IN CAPITAL ASSETS

Investment in general capital assets acquired prior to October 1, 1990	\$ 655,037
General fund	5,377,211
Vehicle replacement fund	670,674
Special revenue funds	9,453,766
Capital projects funds	21,927,363
Donations	<u>47,105,322</u>
 Total investment in capital assets	 \$ <u>85,189,373</u>

CITY OF HIGHLAND VILLAGE, TEXAS

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

SEPTEMBER 30, 2010

<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	\$ -	\$ 162,528	\$ 45,602	\$ -	\$ -	\$ 414	\$ 630,365
Finance	26,652	-	298,888	268,963	98,617	-	3,150	696,270
Human resources	8,812	-	98,816	-	-	-	366	107,994
City secretary	41,479	-	465,154	-	18,446	-	1,184	526,263
Police	214,495	-	2,524,660	1,275,393	6,273	-	6,125	4,026,946
Fire	41,800	-	4,438,500	1,738,967	-	-	-	6,219,267
Community development	8,927	-	87,133	-	-	-	761	96,821
Building operations	8,928	-	113,101	43,693	-	-	-	165,722
Streets and drainage	11,571,914	234,572	202,184	881,412	-	38,629,805	2,036,994	53,556,881
Maintenance	65,609	-	775,361	290,285	-	-	-	1,131,255
Drainage operations	-	-	-	225,543	-	54,798	395,962	676,303
Parks and recreation	<u>4,640,306</u>	<u>7,869,262</u>	<u>358,289</u>	<u>940,656</u>	<u>17,457</u>	<u>-</u>	<u>3,529,316</u>	<u>17,355,286</u>
Total capital assets	<u>\$ 17,050,743</u>	<u>\$ 8,103,834</u>	<u>\$ 9,524,614</u>	<u>\$ 5,710,514</u>	<u>\$ 140,793</u>	<u>\$ 38,684,603</u>	<u>\$ 5,974,272</u>	<u>\$ 85,189,373</u>

CITY OF HIGHLAND VILLAGE, TEXAS

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

SEPTEMBER 30, 2010

<u>Department</u>	<u>Balance September 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2010</u>
City manager	\$ 629,951	\$ 414	\$ -	\$ 630,365
Finance	684,871	11,399	-	696,270
Human resources	107,628	366	-	107,994
City secretary	525,262	1,001	-	526,263
Police	3,923,955	102,991	-	4,026,946
Fire	6,219,267	-	-	6,219,267
Community development	96,821	-	-	96,821
Building operations	150,294	15,428	-	165,722
Streets and drainage	51,450,148	2,106,733	-	53,556,881
Maintenance	1,114,611	16,644	-	1,131,255
Drainage operations	259,206	417,097	-	676,303
Parks and recreation	<u>14,681,441</u>	<u>2,673,845</u>	<u>-</u>	<u>17,355,286</u>
 Total capital assets	 <u>\$ 79,843,455</u>	 <u>\$ 5,345,918</u>	 <u>\$ -</u>	 <u>\$ 85,189,373</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 These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	71
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.	77
Debt Capacity 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.	81
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	86
Operating Information 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.	88

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

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TABLE 1

CITY OF HIGHLAND VILLAGE, TEXAS

NET ASSETS BY COMPONENT

LAST EIGHT FISCAL YEARS

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities:								
Invested in capital assets, net of related debt \$	32,726,239	\$ 33,396,071	\$ 33,326,678	\$ 34,328,243	\$ 34,116,670	\$ 34,619,733	\$ 36,047,885	\$ 37,529,766
Restricted:								
Debt service	-	-	-	121,128	272,324	237,114	268,467	236,654
Capital projects	617,376	597,532	-	585,311	267,715	355,191	345,422	386,322
Community development	-	-	-	-	-	-	-	1,114,888
Unrestricted	<u>1,566,416</u>	<u>2,357,835</u>	<u>2,614,291</u>	<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>
Total governmental activities net assets \$	<u>34,910,031</u>	<u>36,351,438</u>	<u>35,940,969</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>
Business-type activities:								
Invested in capital assets, net of related debt \$	4,533,190	\$ 3,927,416	\$ 900,860	\$ 5,302,838	\$ 5,731,085	\$ 6,111,699	\$ 5,465,933	\$ 5,664,677
Restricted:								
Debt service	66,548	-	-	-	-	-	-	-
Capital projects	2,573,956	1,588,902	3,066,063	1,535,187	2,186,804	1,800,047	1,678,094	1,457,105
Unrestricted	<u>18,226</u>	<u>1,431,982</u>	<u>3,236,656</u>	<u>1,898,148</u>	<u>941,128</u>	<u>1,780,651</u>	<u>2,951,956</u>	<u>2,130,193</u>
Total business-type activities net assets \$	<u>7,191,920</u>	<u>6,948,300</u>	<u>7,203,579</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>
Primary government:								
Invested in capital assets, net of related debt \$	37,259,429	\$ 37,323,487	\$ 34,227,538	\$ 39,631,081	\$ 39,847,755	\$ 40,731,432	\$ 41,513,818	\$ 43,194,443
Restricted:								
Debt service	66,548	-	-	121,128	272,324	237,114	268,467	236,654
Capital projects	3,191,332	2,186,434	3,066,063	2,120,498	2,454,519	2,155,238	2,023,516	1,843,427
Community development	-	-	-	-	-	-	-	1,114,888
Unrestricted	<u>1,584,642</u>	<u>3,789,817</u>	<u>5,850,947</u>	<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>
Total primary government net assets \$	<u>42,101,951</u>	<u>43,299,738</u>	<u>43,144,548</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>

Note:

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

TABLE 2

CITY OF HIGHLAND VILLAGE, TEXAS
CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
EXPENSES								
Governmental activities								
General government	\$ 3,024,964	\$ 2,591,201	\$ 2,704,513	\$ 2,889,724	\$ 3,274,106	\$ 2,920,042	\$ 3,087,596	\$ 3,309,453
Public safety	2,940,954	3,107,650	3,344,204	3,628,593	3,982,151	4,817,750	5,454,270	5,716,458
Building operations	-	-	-	-	314,570	326,715	342,084	347,208
Community development	-	-	-	-	611,356	503,579	506,031	856,091
Community services	480,698	504,792	538,430	572,649	-	-	-	-
Streets and drainage	1,672,658	1,597,274	1,646,793	1,830,799	1,716,177	1,998,304	2,395,655	2,252,522
Parks and recreation	1,254,471	1,405,342	1,435,302	1,627,417	1,660,194	2,061,027	2,355,359	2,203,252
Interest on long-term debt	635,166	592,077	467,537	510,159	617,809	681,888	932,556	974,478
Total governmental activities expenses	<u>10,008,911</u>	<u>9,798,336</u>	<u>10,136,779</u>	<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>
Business-type activities:								
Water and wastewater	4,930,261	5,350,546	6,003,259	6,137,246	6,433,256	6,823,202	7,256,548	8,086,711
Total business-type activities expenses	<u>4,930,261</u>	<u>5,350,546</u>	<u>6,003,259</u>	<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>
Total primary government program expenses	<u>\$ 14,939,172</u>	<u>\$ 15,148,882</u>	<u>\$ 16,140,038</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>
PROGRAM REVENUES								
Governmental activities								
Charges for services:								
General government	\$ 183,681	\$ 216,947	\$ 142,266	\$ 244,955	\$ 188,435	\$ 135,323	\$ 160,388	\$ 243,938
Public safety	120,930	115,672	108,373	161,162	108,830	273,295	288,262	200,990
Community services	758,743	723,764	556,479	746,043	-	-	-	-
Community development	-	-	-	-	928,357	451,730	326,529	293,338
Streets and drainage	-	-	-	-	266,221	393,491	396,519	397,886
Parks and recreation	349,385	303,582	321,538	588,131	303,536	418,924	365,163	393,737
Operating grants and contributions	123,804	130,412	-	-	319,162	190,771	383,646	227,209
Capital grants and contributions	515,556	439,741	199,815	807,528	-	-	2,078,055	-
Total governmental activities program revenues	<u>2,052,099</u>	<u>1,930,118</u>	<u>1,328,471</u>	<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>
Business-type activities:								
Charges for services:								
Water and wastewater	4,277,176	5,067,834	5,704,651	6,943,554	5,462,433	7,551,247	7,643,327	7,348,133
Capital grants and contributions	-	223,045	175,480	665,482	884,296	200,628	196,340	106,473
Total business-type activities program revenues	<u>4,277,176</u>	<u>5,290,879</u>	<u>5,880,131</u>	<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>
Total primary government program revenues	<u>\$ 6,329,275</u>	<u>\$ 7,220,997</u>	<u>\$ 7,208,602</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>

(continued)

TABLE 2

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET ASSETS
(Continued)
LAST SEVEN FISCAL YEARS

	Fiscal Year							
	2003	2004	2005	2006	2007	2008	2009	2010
NET (EXPENSE) REVENUES								
Governmental activities	\$(7,956,812)	\$(7,868,218)	\$(8,808,308)	\$(8,511,522)	\$(10,061,822)	\$(11,445,771)	\$(11,074,989)	\$(13,902,364)
Business-type activities	(653,085)	(59,667)	(123,128)	1,471,790	(86,527)	928,673	583,119	(632,105)
Total primary government net expense	<u>(8,609,897)</u>	<u>(7,927,885)</u>	<u>(8,931,436)</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>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS								
Governmental activities:								
Taxes								
Property	6,043,566	6,437,289	6,813,476	7,159,890	7,775,701	8,454,932	9,410,561	9,487,593
Franchise	762,175	859,358	1,042,410	1,239,485	1,229,270	1,376,666	1,384,660	1,417,221
Sales	434,578	470,024	493,420	558,944	940,009	1,859,946	1,885,786	2,781,423
Unrestricted investment earnings	92,448	79,388	103,224	297,987	571,390	345,422	340,518	74,569
Intergovernmental contributions	-	-	(469,488)	-	-	-	-	-
Miscellaneous	109,987	273,566	180,551	290,488	186,586	253,515	237,909	210,188
Special item	-	950,000	-	-	-	-	-	-
Transfers	<u>240,000</u>	<u>240,000</u>	<u>234,246</u>	<u>240,000</u>	<u>120,000</u>	<u>240,000</u>	<u>240,000</u>	<u>276,500</u>
Total governmental activities	<u>7,682,754</u>	<u>9,309,625</u>	<u>8,397,839</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>
Business-type activities:								
Unrestricted investment earnings	128,593	50,101	143,165	300,804	329,371	144,707	60,467	64,597
Intergovernmental contributions	-	-	469,488	-	-	-	-	-
Miscellaneous	377,768	5,946	-	-	-	-	-	-
Transfers	<u>(240,000)</u>	<u>(240,000)</u>	<u>(234,246)</u>	<u>(240,000)</u>	<u>(120,000)</u>	<u>(240,000)</u>	<u>(240,000)</u>	<u>(276,500)</u>
Total business-type activities	<u>266,361</u>	<u>(183,953)</u>	<u>378,407</u>	<u>60,804</u>	<u>209,371</u>	<u>(95,293)</u>	<u>(179,533)</u>	<u>(211,903)</u>
Total primary government	<u>7,949,115</u>	<u>9,125,672</u>	<u>8,776,246</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>
CHANGE IN NET ASSETS								
Governmental activities	(274,058)	1,441,407	(410,469)	1,275,272	761,134	1,084,710	2,424,445	345,130
Business-type activities	<u>(386,724)</u>	<u>(243,620)</u>	<u>255,279</u>	<u>1,532,594</u>	<u>122,844</u>	<u>833,380</u>	<u>403,586</u>	<u>(844,008)</u>
Total primary government	<u>\$(660,782)</u>	<u>\$ 1,197,787</u>	<u>\$(155,190)</u>	<u>\$ 2,807,866</u>	<u>\$ 883,978</u>	<u>\$ 1,918,090</u>	<u>\$ 2,828,031</u>	<u>\$(498,878)</u>

Note:

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

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CITY OF HIGHLAND VILLAGE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund										
Reserved	\$ 201,071	\$ 222,728	\$ 78,011	\$ 75,011	\$ 208,610	\$ 38,113	\$ 148,757	\$ 97,928	\$ 283,297	\$ 188,860
Unreserved	<u>1,786,614</u>	<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>3,096,512</u>	<u>3,693,582</u>	<u>3,633,978</u>	<u>4,001,874</u>
Total general fund	<u>\$ 1,987,685</u>	<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>
All other governmental funds										
Reserved	\$ 1,652,447	\$ 1,419,695	\$ 3,789,011	\$ 4,329,694	\$ 3,137,313	\$ 6,616,230	\$ 2,835,395	\$ 9,679,618	\$ 12,534,051	\$ 1,865,015
Unreserved, reported in:										
Special revenue funds	-	-	25,240	24,122	25,765	48,543	317,046	474,263	517,724	3,180,113
Capital projects funds	<u>24,170</u>	<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>
Total all other governmental funds	<u>\$ 1,676,617</u>	<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>

CITY OF HIGHLAND VILLAGE, TEXAS

**CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

LAST TEN FISCAL YEARS

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES										
Taxes	\$ 6,120,522	\$ 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
Fines and forfeitures	127,694	107,674	163,115	163,328	147,760	181,200	210,170	128,235	148,806	243,880
Licenses, permits, fees	984,269	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
Intergovernmental	145,876	67,011	86,758	130,412	200,171	804,341	319,162	183,398	358,837	224,909
Charges for services	65,791	48,322	75,370	80,012	77,385	103,245	104,736	204,536	260,508	152,512
Investment earnings	170,532	122,864	92,448	92,378	193,669	332,086	571,390	345,422	317,234	97,853
Miscellaneous	96,155	-	97,529	211,541	95,502	256,389	227,942	259,515	223,108	212,488
Total revenues	<u>7,710,839</u>	<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>
EXPENDITURES										
General government	1,828,526	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
Public safety	2,216,491	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
Building operations	-	-	-	-	-	-	267,648	320,616	336,072	341,466
Community development	-	-	-	-	-	-	590,233	494,528	492,933	751,276
Community service	421,744	494,261	474,004	481,196	511,948	547,953	-	-	-	-
Streets and drainage	816,384	694,225	820,130	809,151	815,279	873,485	758,953	952,526	1,290,052	1,081,337
Parks and recreation	801,721	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
Capital outlay	50,803	231,804	440,775	514,070	1,567,046	3,119,733	4,457,417	2,153,389	1,946,051	5,345,918
Debt service	1,157,846	-	-	-	-	-	-	-	-	-
Principal	-	578,881	615,250	892,415	970,884	1,257,728	1,113,243	1,419,371	1,401,407	1,781,323
Interest and other charges	-	591,039	802,146	485,598	500,016	706,215	632,549	793,504	1,049,888	980,673
Total expenditures	<u>7,293,515</u>	<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>

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

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

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 417,324	\$(1,060,163)	\$(466,651)	\$ 100,878	\$(1,333,680)	\$(1,881,708)	\$(3,070,176)	\$(801,660)	\$(1,118,479)	\$(4,559,491)
OTHER FINANCING SOURCES (USES)										
Issuance of long-term debt	-	-	8,482,129	-	-	8,130,000	300,000	8,000,000	3,830,000	-
Proceeds from capital leases	24,590	-	69,399	74,412	-	713,391	-	-	-	-
Premium on debt issuance	-	-	-	-	-	80,321	-	158,766	33,843	-
Payments to escrow account	-	-	(5,579,964)	-	-	(3,965,692)	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-	-	-	-	39,610	-
Transfers in	324,457	245,688	722,186	341,608	339,348	384,923	730,108	409,676	730,493	1,612,313
Transfers out	(186,238)	(40,688)	(482,186)	(101,608)	(105,102)	(144,923)	(610,108)	(169,676)	(490,493)	(1,335,813)
Total other financing sources (uses)	162,809	205,000	3,211,564	314,412	234,246	5,198,020	420,000	8,398,766	4,143,453	276,500
SPECIAL ITEM										
Litigation settlement	-	-	-	950,000	-	-	-	-	-	-
Total special item	-	-	-	950,000	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	\$ 580,133	\$(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)
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	16.0%	14.1%	15.2%	14.9%	15.1%	18.3%	15.2%	17.3%	17.2%	18.4%

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					
2001	\$ 803,363,818	\$ 89,094,709	\$ 26,077,592	\$ 40,849,949	\$ 877,686,170	0.5696	\$ 4,999,300
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

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
2001	\$ 0.4475	\$ 0.1221	\$ 0.5696	\$ 1.61	\$ 0.23
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

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.

TABLE 7

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2010		2001	
	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	\$ 69,821,864	4.211%	\$ -	- %
Opus Real Estate TX VII HV, LP	32,199,571	1.942%	-	- %
Wal-Mart Stores Texas, LP	21,061,478	1.270%	-	- %
Wal-Mart Stores Texas, LP	9,933,587	0.599%	-	- %
Centeramerica Prop Trust, LP	8,936,765	0.539%	-	- %
Barnett Healthcare Prop, LLC	7,215,000	0.435%	-	- %
HSM Highland Point S/C, LTD	5,900,000	0.356%	-	- %
Happenings, LLC	5,699,407	0.344%	-	- %
CoServe Electric Co-op, Inc.	4,943,610	0.298%	-	- %
OW Commercial, Inc.	4,840,580	0.292%	-	- %
Beal Dev., LTD	-	- %	8,788,795	1.001%
Balfour Village Estates, LP	-	- %	4,521,647	0.515%
CoServ Electric Co-op, Inc.	-	- %	3,389,380	0.386%
Sharp & Associates, Inc.	-	- %	3,221,226	0.367%
Chapel Hill Dev., LTD	-	- %	2,701,244	0.308%
Tabani Highland, LP P/S	-	- %	2,472,195	0.282%
Drees Custom Homes, LP	-	- %	2,467,359	0.281%
Minyard Food Store #83	-	- %	2,449,070	0.279%
Howard Homes, Inc.	-	- %	2,283,514	0.260%
Talisman Oil & Gas Co.	-	- %	2,102,379	0.240%
Total	\$ <u>170,551,862</u>	<u>10.286%</u>	\$ <u>34,396,809</u>	<u>3.919%</u>

Source: Denton County Appraisal District

Notes:

* Total taxable value including real and personal property for tax year 2009 (fiscal year 2010) is \$1,658,121,883.

** Total taxable value including real and personal property for tax year 2000 (fiscal year 2001) is \$877,686,170.

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>
2001	\$ 5,169,414	\$ 5,069,479	98.07%	\$ 98,891	\$ 5,168,370	99.98%
2002	5,724,341	5,578,918	97.46%	144,007	5,722,925	99.95%
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%	154,319	6,545,271	99.97%
2005	6,761,024	6,707,448	99.21%	52,651	6,760,099	99.95%
2006	7,080,176	7,030,306	99.30%	50,714	7,081,020	99.98%
2007	7,630,985	7,585,059	99.40%	46,714	7,631,773	99.98%
2008	8,405,006	8,377,388	99.67%	25,294	8,402,682	99.94%
2009	9,363,873	9,315,842	99.49%	26,831	9,342,673	99.82%
2010	9,449,566	9,409,516	99.58%	-	9,409,516	99.78%

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 EIGHT 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
2009	15,465,590	-	7,350,000	-	-	11,290,000	1,374,410	-	87,448	35,567,448	5.59%	2,211

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 six 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			
2001	\$ 5,767,084	\$ 6,305,000	\$ 12,072,084	\$ 47,708	\$ 12,024,376	1.37%	\$ 924
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

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, 2010

<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	\$ 496,900,000	2.944%	\$ 14,628,736
Lewisville Independent School District	1,105,853,676	6.771%	<u>74,877,352</u>
Subtotal overlapping debt			89,506,088
City of Highland Village (direct debt)	22,474,171	100.0%	<u>22,474,171</u>
Total direct and overlapping debt			<u>\$ 111,980,259</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 2010

Assessed value	\$ 1,658,121,883
Debt limit (\$1.50 per \$100 of assessed value)	24,871,828
Debt applicable to limit:	
General obligation bonds	2,649,596
Less: Amount set aside for repayment of general obligation debt	(341,419)
Total net debt applicable to limit	<u>2,308,177</u>
Legal debt margin	<u>\$ 22,563,651</u>

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	\$ 13,165,293	\$ 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
Total net debt applicable to limit	<u>1,075,920</u>	<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>
Legal debt margin	<u>\$ 12,089,373</u>	<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>
Total net debt applicable to the limit as a percentage of debt limit.	8.17%	7.24%	7.42%	7.48%	7.45%	7.61%	6.20%	6.84%	7.87%	9.28%

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		
2001	\$ 4,368,550	\$ 3,513,069	\$ 855,481	\$ 700,000	\$ 608,286	\$ 1,308,286	0.65
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

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>
2001	13,014	\$ 446,367,186	\$ 34,299	2.9%
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%

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

Note: Population estimates are based on residential sewer connections.

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT AND NINE YEARS AGO

Employer	2010		2001	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
City of Highland Village	173	17.93%	136	17.57%
Personal Neighbor Care, LLC	67	6.94%	-	- %
Excite! Gymnastics & Cheer LLC	65	6.74%	-	- %
Just for Fun of North Texas, Inc.	63	6.53%	-	- %
Salerno Pizza Co.	58	6.01%	65	8.40%
Watauga Keller, LLC	29	3.01%	-	- %
Prime Kids, LLC	26	2.69%	-	- %
John R. Ross Company, Inc.	25	2.59%	42	5.43%
Trinity Wellness Center, PC	21	2.18%	-	- %
Tri Rae Enterprises, LLC	21	2.18%	-	- %
Kid Country, Inc.	-	- %	47	6.07%
Marla R. Conger, MD PA	-	- %	37	4.78%
Masteroot International	-	- %	26	3.36%
The 3 R's Child Care, Inc.	-	- %	26	3.36%
J-P Growing On, Inc.	-	- %	23	2.97%
Cosmic Billiards, LLC	-	- %	20	2.58%
Precision Stamping, Inc.	-	- %	19	2.45%
	<u>548</u>	<u>56.80%</u>	<u>441</u>	<u>56.97%</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>2001</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>
General government										
City manager	2	3	3	3	2	2	2	2	2	2
Finance	9	9	9	9	9	10	10	10	10	10
Human resources	2	3	3	3	3	3	3	3	3	3
City secretary	2	2	2	2	2	2	2	2	2	2
Maintenance	4	4	4	4	4	4	4	4	4	4
Public safety										
Police	32	32	32	32	32	32	35	37	37	37
Fire	3	6	8	9	10	10	11	15	15	18
Community services										
Streets and drainage	6	6	6	6	4	5	5	4	4	3
Parks and recreation	11	11	11	12	15	15	19	19	19	18
Water and wastewater	12	15	15	15	15	15	15	15	15	15
Highland Village Economic Development Corporation	12	14	14	14	14	14	15	17	17	17
Total	<u>95</u>	<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>131</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			
	2001	2002	2003	2004
General government				
Open records requests processed	*	*	*	204
Court cases filed	*	*	3,267	2486
Employee turnover (%)	*	*	17.90	17.40%
Emp safety lost time injuries	*	*	2	1
Building operations				
Permits issued	*	*	1,373	1,236
Inspections performed	*	*	8,050	7,174
Animal impounds	*	*	219	251
Animal registrations	*	*	*	1,101
Police				
Reported offenses	*	*	452	467
Arrests	*	*	270	288
Service	*	*	4,415	4,239
Close patrols	*	*	5,689	6,675
Traffic citations issued	*	*	2,519	1,870
Traffic warnings issued	*	*	2,022	3,259
Motor vehicle accidents	*	*	167	184
Animal care calls	*	*	*	*
Animal registrations	*	*	*	*
Fire				
EMS calls	*	*	451	471
Fires calls	*	*	288	332
Streets and Drainage				
Drainage materials (ft.)	*	*	11,370	8,096
Asphalt (tons)	*	*	937	1,155
Concrete(yards)	*	*	103	112
Cold patch (lbs)	*	*	5,058	4,750
Crack seal (lbs)	*	*	3,420	8,722
Paint (gal)	*	*	555	277
Sod replacement (yards)	*	*	1,911	1,698
Saw cuttings	*	*	*	4,084
Spoils (yards)				
Sign Repairs (hours)				
Work orders completed	*	*	1,599	1,949
Total fuel consumption	*	*	53,801	50,721
Parks and recreation				
Acres of turf mowed	*	*	*	*
Bags of trash disposed (55 gal)	*	*	3,137	3,772
Recreation program admissions	*	*	4,139	8,453
Water				
New connections	203	17	175	169
Field operations work orders completed	*	*	4,822	4,760
Peak daily consumption	2,194,896	1,927,251	2,319,409	2,319,409
Maximum daily capacity-water production	7.25 MGD	7.25 MGD	7.54 MGD	7.54 MGD
Number of gallons pumped	801,137,000	716,413,600	894,051,700	828,486,217
Number of gallons sold	745,540,200	616,880,500	846,584,300	768,763,700
Wastewater				
Wastewater work orders completed	*	*	1,356	1,058
Wastewater gallons pumped	*	*	421,556,000	449,705,000

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						
2005	2006	2007	2008	2009	2010	
201	151	132	136	113	142	
2026	3113	2,367	1,988	2,369	3,282	
10.00%	10.70%	8.00%	10.00%	7.60%	9.80%	
5	2	2	1	-	1	
1,121	1,176	1,658	1,316	1,158	1,083	
6,367	5,051	6,639	4,039	2,468	3,398	
211	200	-	#	-	#	360
1,045	1,082	-	#	-	#	-
409	371	441	422	375	324	
282	292	299	283	298	341	
5,735	6,464	6,972	7,918	7,761	7,329	
10,681	11,658	23,919	9,475	9,119	5,986	
1,542	2,331	1,785	1,381	2,274	3,671	
2,988	2,934	2,393	2,439	3,111	3,857	
172	159	211	264	274	251	
*	*	174	3,104	3,130	3,826	
*	*	1,049	907	844	1,148	
533	644	513	657	691	615	
441	421	437	395	456	400	
6,216	3,976	6,374	5,782	5,924	5,322	
1,445	743	674	656	844	208	
81	118	152	188	68	102	
3,875	1,928	2,875	2,200	4,560	2,732	
6,150	15,390	4,110	9,190	22,583	6,295	
71	137	43	176	221	140	
1,372	952	1,473	-	-	-	
7,561	7,421	3,569	6,535	5,500	1,069	
				2,473	116	
				745	532	
2,058	1,821	2,130	2,286	2,028	713	
57,753	59,805	58,908	65,119	67,225	**47,984	
3,753	2,963	4,867	6,067	6,154	6,154	
3,234	4,867	4,383	5,734	5,800	5,800	
11,224	11,160	12,788	14,083	16,214	23,859	
128	57	105	54	18	28	
6,246	4,179	5,411	5,492	8,001	7,305	
2,446,877	3,258,510	6,375,848	7,393,200	7,427,600	7,235,926	
7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD	
977,401,000	1,264,284,000	858,936,000	1,049,519,800	1,050,873,400	984,344,630	
893,110,040	1,189,356,500	827,602,885	977,399,700	952,105,000	888,988,200	
1,150	844	967	1,209	1,399	1,396	
484,740,000	384,938,000	538,198,300	427,173,000	413,215,000	577,082,000	

TABLE 18

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

Function/Program	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government										
City area (in miles)	5.50	5.50	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	68	75.31	75.31	75.485	76.935	76.935	76.935	79.5	90.0
Traffic signals	1	1	1	1	1	1	1	1	1	1
Parks and recreation										
Acres of parks	275	275	305	305	311	311	318	338	366	366
Trail system (linear miles)	-	-	-	-	-	-	2.7	2.7	6.7	6.7
Water										
Number of meters in service	4,458	4,541	4,716	4,885	5,013	5,108	5,226	5,276	5,294	5,322
Water mains (in miles)	79	79	79	79	81	83	85	93	94	95
Fire hydrants	525	525	620	620	630	630	729	729	739	741
Wastewater										
Storm sewers (miles)	50	50	50	50	50	50	25	25	25	38
Sanitary sewers (miles)	75	75	75	75	77	83	83	90	91	92
Sewer connections	4,167	4,167	4,588	4,588	4,894	4,952	5,054	5,085	5,103	5,121

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, 2010, which collectively comprise the City of Highland Village, Texas' basic financial statements and have issued our report thereon dated March 17, 2011. 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 17, 2011