

ANNUAL FINANCIAL REPORT

of the

**CITY OF
HUNTERS CREEK VILLAGE,
TEXAS**

For the Year Ended
December 31, 2011

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CITY OF HUNTERS CREEK VILLAGE, TEXAS

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December 31, 2011

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Hunters Creek Village, Texas:

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Hunters Creek Village, Texas (the "City"), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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 and each major fund of the City as of December 31, 2011.

The respective changes in financial position for the year then ended were in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis, the budgetary comparison information, and the schedule of funding progress, identified as Required Supplementary Information on the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
April 27, 2012

*MANAGEMENT'S DISCUSSION
AND ANALYSIS*

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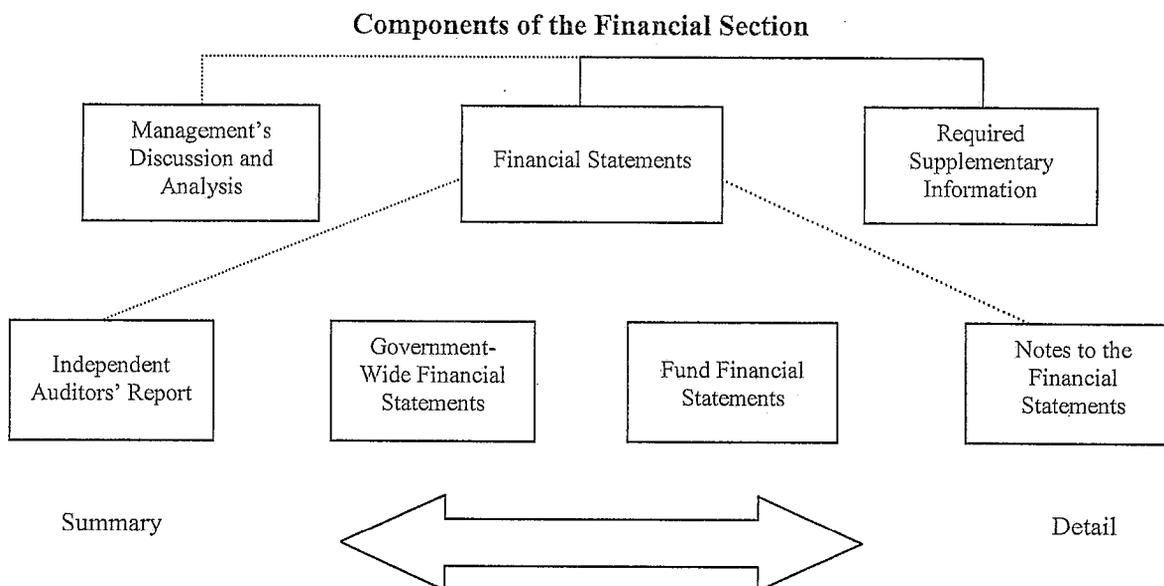
CITY OF HUNTERS CREEK VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2011

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Hunters Creek Village, Texas (the "City") for the year ending December 31, 2011. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for the MD&A. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results and financial position of the City as an economic entity. The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Assets presents information on all of the City's assets and liabilities. The difference between the two is reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors,

CITY OF HUNTERS CREEK VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2011

such as the City's property tax base and the condition of the City's infrastructure, need to be considered to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities present the City in one class of activities:

1. Governmental Activities – All of the City's basic services are reported here including general government, municipal court, public safety (including police, fire, and emergency medical services on a contract basis), and public works. Property taxes, sales tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.

The government-wide financial statements can be found after the MD&A within this report.

Fund Financial Statements

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The City has one category of governmental funds.

Governmental Funds

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

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

The City maintains two individual governmental funds. Information is presented in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and capital projects fund.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2011

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found after the financial statements within this report.

Other Information

This report also presents certain Required Supplementary Information (RSI) in addition to the basic financial statements, the MD&A, and accompanying notes. The RSI that GASB Statement No. 34 requires include a budgetary comparison schedule for the general fund and schedule of funding progress for the Texas Municipal Retirement System. The RSI can be found after the notes to the financial statements within this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. For the City, assets exceed liabilities by \$29,327,102 as of December 31, 2011.

The largest portion of the City's net assets, 88 percent, reflects its investments in capital assets (e.g. land, City hall, equipment, and streets). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets:

	Governmental Activities	
	2011	2010
Current and other assets	\$ 7,780,181	\$ 9,961,811
Capital assets, net	25,684,424	23,037,265
Total Assets	33,464,605	32,999,076
Long-term liabilities	12,122	22,013
Other liabilities	4,125,381	4,017,155
Total Liabilities	4,137,503	4,039,168
Net assets:		
Invested in capital assets	25,684,424	23,037,265
Restricted	47,020	378,389
Unassigned	3,595,658	5,544,254
Total Net Assets	29,327,102	28,959,908

A portion of the City's net assets, \$47,020, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$3,595,658, may be used to meet the City's ongoing obligations to citizens and creditors. The overall condition of the City improved with a \$367,194 increase to ending net assets despite a decline in total revenue and increase in total expenses.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2011

Statement of Activities

The following table provides a summary of the City's changes in net assets:

	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 563,853	\$ 794,712
Grants and contributions	432,964	330,056
General revenues:		
Property taxes	3,369,720	3,386,424
Sales taxes	292,916	271,978
Franchise and local taxes	453,659	475,266
Investment income	16,340	76,725
Other	129,017	52,571
Total Revenues	<u>5,258,469</u>	<u>5,387,732</u>
Expenses		
General government	985,636	862,707
Municipal court	96,424	141,661
Public safety	2,439,306	2,462,291
Public works	1,369,909	1,308,837
Total Expenses	<u>4,891,275</u>	<u>4,775,496</u>
Change in Net Assets	367,194	612,236
Beginning net assets	<u>28,959,908</u>	<u>28,347,672</u>
Ending Net Assets	<u>29,327,102</u>	<u>28,959,908</u>

For the year, revenues from governmental activities totaled \$5,258,469, a decrease of \$129,263 or two percent in comparison to 2010. This decrease is primarily the result of a decrease in charges for services and less investment income revenue for 2011. Property taxes continue to be the City's largest revenue source. Revenues from property taxes totaled \$3,369,720, which decreased less than one percent compared to the prior year as a result of a slight decrease in property tax rates.

For the year, expenses for governmental activities totaled \$4,891,275, an increase of two percent compared to the prior year due to an increase in general government and public works.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

CITY OF HUNTERS CREEK VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2011

As of year end, the City's general fund had a total fund balance of \$3,479,480. Of this, \$47,020 is restricted for enabling legislation, \$1,181,237 is assigned to capital projects, and \$66,837 is assigned to Memorial Village Police Department TMRS. The remaining balance of \$2,184,386 is unassigned.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 52 percent of the total general fund expenditures, while total fund balance represents 82 percent of the total general fund expenditures. There was a decrease in the general fund balance of \$2,075,470 from the prior year. This decrease is mainly due to a large transfer out to the capital projects fund.

As of year end, the City's capital projects fund had a total fund balance of \$131,165, all of which is assigned to capital projects. There was a decrease in fund balance of \$200,204 from the prior year, which was due to a large amount of capital outlay to be used for various infrastructure projects. Please see capital asset section below for more detailed information.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual revenues were more than budgeted revenues by \$35,073. This variance was the result of more revenue than anticipated for property taxes, sales taxes, licenses and permits, and other revenues. Actual expenditures were less than planned expenditures by \$842,143 due to positive variances across all departments.

CAPITAL ASSETS

At the end of the year, the City's governmental activities had invested \$25,684,424 in a variety of capital assets and infrastructure. This represents a net increase of \$2,647,160 from the prior year. Governmental capital assets are reported net of accumulated depreciation as required by GASB Statement No. 34.

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

- Completion of Kemwood paving and drainage
- Completion of Bryn Mawr paving and drainage
- Completion of Voss Road Curve Barrier Wall Maintenance
- Construction in progress related to the construction of Wellesley/Saddlewood paving and drainage project

More detailed information about the City's capital assets are presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

In preparing the 2012 fiscal year budget, management considered certain economic factors:

- Property tax rates were maintained at .1825/\$100 and property values increased, resulting in an overall increase in total property tax revenue compared to the prior year
- Commitments to improving existing City infrastructure
- Prevailing interest rates on the City's investments

CITY OF HUNTERS CREEK VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2011

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Deborah Loesch, City Administrator/City Secretary, One Hunters Creek Place, Houston, Texas, 77024, telephone (713) 465-2150.

FINANCIAL STATEMENTS

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CITY OF HUNTERS CREEK VILLAGE, TEXAS

STATEMENT OF NET ASSETS

December 31, 2011

	<u>Primary Government Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 5,811,381
Receivables	<u>1,968,800</u>
	<u>7,780,181</u>
Capital assets:	
Non-depreciable	2,182,150
Net depreciable	<u>23,502,274</u>
	<u>25,684,424</u>
Total Assets	<u><u>33,464,605</u></u>
<u>Liabilities</u>	
Accounts payable and accrued liabilities	718,420
Deferred taxes	<u>3,406,961</u>
	<u>4,125,381</u>
Long-term liabilities due within one year	10,910
Long-term liabilities due in more than one year	<u>1,212</u>
	<u>12,122</u>
Total Liabilities	<u><u>4,137,503</u></u>
<u>Net Assets</u>	
Invested in capital assets	25,684,424
Restricted for:	
Enabling legislation	47,020
Unrestricted	<u>3,595,658</u>
Total Net Assets	<u><u>\$ 29,327,102</u></u>

See Notes to Financial Statements.

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CITY OF HUNTERS CREEK VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Capital Grants and Contributions	Primary Governmental Activities
Primary Government				
Governmental Activities				
General government	\$ 985,636	\$ -	\$ -	\$ (985,636)
Municipal court	96,424	185,820	-	89,396
Public safety	2,439,306	37,614	-	(2,401,692)
Public works	1,369,909	340,419	432,964	(596,526)
Total Governmental Activities	\$ 4,891,275	\$ 563,853	\$ 432,964	(3,894,458)
		General Revenues:		
		Taxes		
				3,369,720
				292,916
				453,659
				16,340
				129,017
			Total General Revenues	4,261,652
			Change in Net Assets	367,194
			Beginning Net Assets	28,959,908
			Ending Net Assets	\$ 29,327,102

See Notes to Financial Statements.

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CITY OF HUNTERS CREEK VILLAGE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

December 31, 2011

	General	Capital Projects	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 5,320,050	\$ 491,331	\$ 5,811,381
Receivables	1,968,800	-	1,968,800
Total Assets	\$ 7,288,850	\$ 491,331	\$ 7,780,181
Liabilities			
Accounts payable and accrued liabilities	358,254	360,166	718,420
Deferred property tax revenue	3,451,116	-	3,451,116
Total Liabilities	3,809,370	360,166	4,169,536
Fund Balances			
Restricted for:			
Enabling legislation	47,020	-	47,020
Assigned to:			
Capital projects	1,181,237	131,165	1,312,402
MVPD-TMRS	66,837	-	66,837
Unassigned	2,184,386	-	2,184,386
Total Fund Balances	3,479,480	131,165	3,610,645
Total Liabilities and Fund Balances	\$ 7,288,850	\$ 491,331	

Adjustments for the Statement of Net Assets:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in governmental funds.

Capital assets - non-depreciable

2,182,150

Capital assets - net depreciable

23,502,274

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in governmental funds.

44,155

Some liabilities are not reported as liabilities in governmental funds.

Compensated absences

(12,122)

\$ 29,327,102

See Notes to Financial Statements.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN

FUND BALANCES GOVERNMENTAL FUND

For the Year Ended December 31, 2011

	General	Capital Projects	Total Governmental Funds
Revenues			
Property taxes	\$ 3,383,903	\$ -	\$ 3,383,903
Sales taxes	292,916	-	292,916
Franchise and local taxes	453,659	-	453,659
Fines and forfeitures	185,820	-	185,820
Licenses and permits	340,419	-	340,419
Charges for services	37,614	-	37,614
Intergovernmental	150,000	282,964	432,964
Investment income	16,340	-	16,340
Other	129,017	-	129,017
Total Revenues	4,989,688	282,964	5,272,652
Expenditures			
Current:			
General government	898,278	-	898,278
Municipal court	93,121	-	93,121
Public safety	2,435,269	-	2,435,269
Public works	785,981	-	785,981
Capital outlay	12,717	3,322,960	3,335,677
Total Expenditures	4,225,366	3,322,960	7,548,326
Other Financing Sources (Uses)			
Transfers in	-	2,839,792	2,839,792
Transfers (out)	(2,839,792)	-	(2,839,792)
Total Other Financing Sources (Uses)	(2,839,792)	2,839,792	-
Net Change in Fund Balances	(2,075,470)	(200,204)	(2,275,674)
Beginning Fund Balances	5,554,950	331,369	5,886,319
Ending Fund Balances	\$ 3,479,480	\$ 131,165	\$ 3,610,645

See Notes to Financial Statements.

CITY OF HUNTERS CREEK 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 December 31, 2011

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

Net change in fund balance - governmental funds	\$ (2,275,674)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	3,247,236
Depreciation expense	(600,076)
<p>Revenues in the Statement of Activities that do not provide current financial resources are are not reported as revenues in the funds.</p>	
	(14,183)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
Compensated absences	9,891
Change in Net Assets of Governmental Activities	\$ 367,194

See Notes to Financial Statements.

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CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Hunters Creek Village, Texas (the "City") was incorporated under the laws of the State of Texas in 1954. The City operates as a "General Law" city, which provides for a "Mayor-Council" form of government.

The City provides the following services: general government, municipal court, public safety (including police, fire, and emergency medical services on a contract basis), and public works.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City has no business-type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

Separate financial statements are provided for governmental funds. In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The City maintains two governmental funds, the general fund and the capital projects fund.

Governmental funds are those funds through which most governmental functions are typically financed.

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include property taxes, sales and use taxes, franchise taxes, licenses and permits, charges for services and fines and forfeitures. Expenditures include general government, municipal court, public safety, and public works. The general fund is always considered a major fund for reporting purposes.

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

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

The government-wide Statements of Net Assets and Statements of Activities are accounted for on a flow of economic resources measurement focus, the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Government-wide equity consists of net assets. Operating statements present increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus, the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes, sales taxes, and franchise taxes associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

D. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool and TexSTAR, are reported using the pools' share price.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in direct obligations of the U.S. government, fully collateralized certificates of deposit and money market accounts, and statewide investment pools.

2. Receivables

All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements. All trade receivables are shown net of an allowance for uncollectibles.

3. Property Taxes

All taxes due to the City on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31 of the subsequent year, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest as the Council may provide by ordinance.

Property taxes attach as an enforceable lien on property as of January 1 each year. Spring Branch Independent School District Tax Assessor-Collector bills and collects taxes on behalf of the City.

4. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) and are recognized as expenditures when utilized.

5. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets (e.g., roads and similar items) are reported in the applicable governmental activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets, other than personal property, are defined by the City as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of one year. Personal property is capitalized if the individual asset cost is greater than \$5,000. Such assets are

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property and equipment of the City are depreciated using the straight-line method over the following estimated useful years:

<u>Asset</u>	<u>Years</u>
Buildings	5-40
Machinery and equipment	5-15
Vehicles	9-18
Computer equipment	5

6. Estimates

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest is reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

8. Fund Equity

Fund balances of governmental funds are classified as follows:

Nonspendable fund balance – represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

Committed fund balance – represents amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed,

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The commitment must be made prior to year end.

Assigned fund balance – represents amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. Assignments can be made at any time.

Unassigned fund balance – represents amounts that are available for any purpose. Positive amounts are reported only in the general fund. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

The City Council is the government's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget is the department level in the general fund and all others are the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year ended.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective market value of at least 102 percent. As of December 31, 2011, bank balances exceeded FDIC insurance market values of pledged securities of \$124,214.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all securities bought be held in safekeeping by either the City, the City's designated depository, a City account in an independent third-party financial institution, or with the Federal Reserve Bank. Furthermore, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

Credit risk. State law and the City's investment policy provide limits for investments to obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

B. Receivables

The following comprises receivable balances at year end:

	General
Property taxes	\$ 1,707,748
Sales/franchise taxes	116,471
Due from tax assessor	144,581
	\$ 1,968,800

C. Capital Assets

A summary of changes in capital assets at year end was as follows:

	Primary Government			
	Restated Beginning Balances	Increases	(Decreases)	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 500,000	\$ -	\$ -	\$ 500,000
Construction in progress	599,775	3,247,236	(2,164,861)	1,682,150
Total capital assets not being depreciated	1,099,775	3,247,236	(2,164,861)	2,182,150
Other capital assets:				
Infrastructure	23,552,025	2,164,861	-	25,716,886
Buildings and improvements	443,583	-	-	443,583
Furniture and equipment	279,532	-	-	279,532
Total other capital assets	24,275,140	2,164,861	-	26,440,001
Less accumulated depreciation for:				
Infrastructure	(1,964,730)	(571,486)	-	(2,536,216)
Buildings and improvements	(166,472)	(8,945)	-	(175,417)
Furniture and equipment	(206,449)	(19,645)	-	(226,094)
Total accumulated depreciation	(2,337,651)	(600,076)	-	(2,937,727)
Other capital assets, net	21,937,489	1,564,785	-	23,502,274
Totals	\$ 23,037,264	4,812,021	(2,164,861)	25,684,424

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

Depreciation was charged to governmental functions as follows:

General government	\$	8,808
Municipal court		3,303
Public safety		4,037
Public works		583,928
Total Governmental Activities Depreciation Expense	\$	600,076

D. Long-Term Liabilities

The following is a summary of changes in the City's total governmental long-term liabilities for the year.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities					
Compensated absences	\$ 22,013	\$ 15,429	\$ 25,320	\$ 12,122	\$ 10,910
Total Governmental Activities	\$ 22,013	\$ 15,429	\$ 25,320	\$ 12,122	\$ 10,910
Long-term liabilities due in more than one year				\$ 1,212	

The City is not obligated for special assessment debt.

E. Interfund Transactions

Transfers between the primary government funds during the year were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$ 2,839,792

The amount transferred relates to revenue from the general fund to the capital projects fund for the City's construction projects.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

F. Fund Equity

Change in Beginning Net Assets/Fund Balance

The City has restated beginning net assets for governmental activities and fund balance in the general fund to correct capital assets as a result of a physical inventory, revised cost estimates, and deposits for inspections from contractors that were previously recorded as a liability and later determined non-refundable.

	<u>Governmental Activities Net Assets</u>	<u>General Fund</u>
Prior year ending net assets/fund balance as reported	\$ 28,673,357	\$ 5,368,254
Increase capital assets	183,089	-
Increase in accumulated depreciation	(83,234)	-
Increase in revenue due to contractors deposits	186,696	186,696
New beginning net assets/fund balance	<u>\$ 28,959,908</u>	<u>\$ 5,554,950</u>

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,539 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City is a defendant in a lawsuit. Although the outcome of the lawsuit is not presently determinable, it is the opinion of the City's management that resolution of the matter will not have a material adverse effect of the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

C. Pension Plans

1. Texas Municipal Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide 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 RSI for TMRS. The report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by TMRS. This report may be obtained from 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:

	<u>2011</u>	<u>2010</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Benefits

Upon retirement, benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. City-financed monetary credits are composed of three sources: prior service credits, current service credits, and updated service credits. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit. This is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence, and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

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 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 remainder of the plan's 30-year amortization period. 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 (i.e., December 31, 2009 valuation is effective for rates beginning January 2011).

Three-year trend information for the annual pension cost (APC) is as follows:

	2011	2010	2009
Annual Req. Contrib. (ARC)	\$ 49,807	\$ 44,775	\$ 33,896
Contributions Made	49,807	44,775	33,896
NPO at the End of Period	\$ -	\$ -	\$ -

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

	2011	2011	2010	2009
Actuarial Valuation Date	12/31/2010 - Restructured	12/31/2010-Prior to restructuring	12/31/2009	12/31/2008
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll	Level % of Payroll
Remaining Amortization Period	22.5 Years - Closed period	22.4 Years - Closed period	23.3 Years - Closed period	24 Years - Closed period
Amortization Period for new gains/losses	13 years	25 years	25 years	25 years
Asset Valuation Method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market	Amortized cost
Investment Rate of Return	7.0%	7.5%	7.5%	7.5%
Projected Salary Increases	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
Includes Inflation at Cost of Living Adjustments	3.00% 0.00%	3.00% 0.00%	3.00% 0.00%	3.00% 0.00%

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

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

The funded status as of December 31, 2010, the most recent valuation date, is as follows:

	2011	2011
Actuarial Valuation Date	12/31/2010 ²	12/31/2010 ¹
Actuarial Value of Assets	\$ 564,294	\$ 289,917
Actuarial Accrued Liability	\$ 926,851	\$ 639,864
Percentage Funded	60.9%	45.3%
Unfunded Actuarial Accrued Liability (UAAL)		
Annual Covered Payroll	\$ 389,689	\$ 389,689
UAAL as a Percentage of Covered Payroll	93.0%	89.8%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

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

Actuarial amounts are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

D. Related Organizations and Joint Ventures

On December 20, 1978, the City entered into an interlocal cooperation agreement with the cities of Bunker Hill Village, Hilshire Village, Hedwig Village, Piney Point Village, and Spring Valley Village, Texas, creating the Village Fire Department (the "Department"). The agreement ran for a period of twelve years beginning January 1, 1979 and ended December 31, 1990. Effective January 1, 1991, the agreement automatically renewed for a period of five years and will continue to renew on each expiration date unless terminated by at least one of the contracting cities. Under the terms of this agreement, the City is liable for 22.25 percent of the Department's approved budget.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

Consolidated financial information extracted from the Department's audited financial statement for the year ended December 31, 2010 on which the Department's auditors expressed an unqualified opinion, is as follows:

	Village Fire Department		City's Portion (22.25%)	
	Net Assets	Balance Sheet	Net Assets	Balance Sheet
Total assets	\$ 2,475,794	\$ 798,776	\$ 550,864	\$ 177,728
Total liabilities	439,136	35,337	97,708	7,862
Total participants' equity	<u>\$ 2,036,658</u>	<u>\$ 763,439</u>	<u>\$ 453,156</u>	<u>\$ 169,866</u>
	Change in	Revenues and	Change in	Revenues and
	Net Assets	Expenditures	Net Assets	Expenditures
Total revenues	\$ 5,138,161	\$ 5,153,443	\$ 1,143,241	\$ 1,146,641
Total expenditures/expenses	<u>4,867,390</u>	<u>4,960,496</u>	<u>1,082,994</u>	<u>1,103,710</u>
Revenues over (under) expenditures/expenses	270,771	192,947	60,247	42,931
Beginning participants' equity	1,765,887	570,492	392,910	126,934
Ending participants' equity	<u>\$ 2,036,658</u>	<u>\$ 763,439</u>	<u>\$ 453,157</u>	<u>\$ 169,865</u>
Unfunded Actuarial Accrued				
Liability at 12/31/10 with TMRS	\$ 840,595		\$ 187,032	
Actuarial Accrued Liability				
at 1/1/11 for OPEB	\$ 147,392		\$ 32,795	

The City has also entered into an interlocal agreement with the cities of Piney Point Village and Bunker Hill Village to create the Memorial Village Police Department (MVPD). Under the terms of the agreement, the City is liable for 33 percent of MVPD's budget. Separate financial statements may be obtained directly from MVPD.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

Consolidated financial information of the MVPD extracted from the MVPD's audited financial statement for the year ended December 31, 2010, on which the MVPD's auditors expressed an unqualified opinion, is as follows:

	Memorial Village Police Department		City's Portion (33%)	
	Net Assets	Balance Sheet	Net Assets	Balance Sheet
Total assets	\$ 2,176,286	\$ 459,394	\$ 718,174	\$ 151,600
Total liabilities	622,763	245,866	205,512	81,136
Total participants' equity	\$ 1,553,523	\$ 213,528	\$ 512,662	\$ 70,464
	Change in Net Assets	Revenues and Expenditures	Revenues and Expenditures	Revenues and Expenditures
Total revenues	\$ 3,952,999	\$ 3,842,939	\$ 1,304,491	\$ 1,268,170
Total expenditures/expenses	4,246,045	3,912,077	1,401,195	1,290,986
Revenues over (under) expenditures/expenses	(293,046)	(69,138)	(96,704)	(22,816)
Beginning participants' equity	1,846,569	282,666	609,368	93,280
Ending participants' equity	\$ 1,553,523	\$ 213,528	\$ 512,664	\$ 70,464
Unfunded Actuarial Accrued Liability at 12/31/11 with TMRS	\$ 2,088,882		\$ 1,012,461	
Actuarial Accrued Liability at 10/01/08 for OPEB	\$ 1,112,966		\$ 370,618	

In September 2007, the City entered into an agreement (the "Insurance Agreement") by and between the Memorial Villages Water Authority, the cities of Hedwig Village and Spring Valley Village, and the Village Fire Department to provide employee health insurance for the participants. The Insurance Agreement expired on December 31, 2008, and was automatically renewed for successive one year terms on January 1 of each succeeding year. Under the terms of the Insurance Agreement, each party is responsible for the monthly premiums covering that entity's employees and no entity is liable for any losses or damages caused by another participant.

E. Revenue Agreements

Revenue Allocation Agreement

On August 3, 1999, the City entered into a Congestion Mitigation/Traffic Management Agreement (the "Agreement") with the Metropolitan Transit Authority of Harris County (METRO). Under the terms of the Agreement, METRO is to provide the City annual funding of \$150,000 for eligible transportation projects through September 30, 2014. During the current year, the City received a total of \$150,000 from METRO under this agreement which was spent on eligible projects.

CITY OF HUNTERS CREEK VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

Transportation Improvement Agreements with METRO

On February 2, 2007, the City entered into an agreement with METRO for paving improvements on Memorial Drive from west of Creekside to east of Lindenwood, including the reconstruction of approximately 2,200 feet of the existing two lane asphalt open ditch section into a two lane reclaimed asphalt roadway with storm sewers (the "Project"). The total construction cost of the Project is estimated to be \$2,633,412. METRO will contribute up to \$1,750,000 toward the total cost. The City is willing to administer construction and contribute up to \$883,412 toward the cost of the Project.

On February 19, 2008, the City entered into an agreement with METRO for roadway improvements on Creekside, Long Shadows, Smithdale, Inwood Oaks, April Way, Kempwood, Saddlewood, and Wellesley Roads. METRO will contribute up to \$5,250,000 towards the total cost of these projects.

Upon completion of the projects, the City shall render to METRO all interest earned upon the sum paid by Harris County (the "County") to the City. If the sum paid by the County exceeds the total construction costs, the City shall pay over such excess to METRO. Any costs that exceed the total estimated costs shall be paid by the City.

Paving and Drainage Improvements Agreement with Memorial Villages Water Authority

On August 4, 2009, the City entered into a paving and drainage improvement agreement with Memorial Villages Water Authority (the "Authority") for the mutual benefit of obtaining certain paving, drainage, water system and sanitary sewer system improvements within the right-of-ways of the City. The City is responsible for administering all aspects of the Project and the Authority will reimburse the City its share of the cost of the water system and sanitary sewer system improvements of the Project plus ten percent for administrative costs and other customary costs incurred solely because of the construction of the Project.

Upon completion of the Project, the City shall assign any rights that they may have under the warranties of the construction contract and the Authority shall assume full ownership of and responsibility for the maintenance and repair of its facilities. The City shall have no responsibility for the condition or maintenance of the Authority's facilities.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF HUNTERS CREEK VILLAGE, TEXAS

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original Budget	Budget as Amended		
Revenues				
Property taxes	\$ 3,327,115	\$ 3,327,115	\$ 3,383,903	\$ 56,788
Sales taxes	280,000	280,000	292,916	12,916
Franchise and local taxes	468,000	468,000	453,659	(14,341)
Fines and forfeitures	239,500	239,500	185,820	(53,680)
Licenses and permits	300,000	300,000	340,419	40,419
Charges for services	40,000	40,000	37,614	(2,386)
Intergovernmental	150,000	150,000	150,000	-
Investment income	85,000	85,000	16,340	(68,660)
Other	65,000	65,000	129,017	64,017
Total Revenues	<u>4,954,615</u>	<u>4,954,615</u>	<u>4,989,688</u>	<u>35,073</u>
Expenditures				
Current:				
General government	859,177	1,026,177	898,278	127,899
Municipal court	142,500	142,500	93,121	49,379
Public safety	2,513,332	2,513,332	2,435,269	78,063
Public works	1,139,500	1,167,500	785,981	381,519
Capital outlay	218,000	218,000	12,717	205,283
Total Expenditures	<u>4,872,509</u>	<u>5,067,509</u>	<u>4,225,366</u>	<u>842,143</u>
Revenues Over (Under) Expenditures	<u>82,106</u>	<u>(112,894)</u>	<u>764,322</u>	<u>877,216</u>
Other Financing Sources (Uses)				
Transfers (out)	(600,000)	(600,000)	(2,839,792)	(2,239,792) *
Net Change in Fund Balance	<u>\$ (517,894)</u>	<u>\$ (712,894)</u>	<u>(2,075,470)</u>	<u>\$ (1,362,576)</u>
Beginning Fund Balance			<u>5,554,950</u>	
Ending Fund Balance			<u>\$ 3,479,480</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- 2.* Expenditures exceeded appropriations at the legal level of control.

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CITY OF HUNTERS CREEK VILLAGE, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

For the Year Ended December 31, 2011

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal Year	2011	2011	2010	2009
Actuarial Valuation Date	12/31/2010 ²	12/31/2010 ¹	12/31/2009	12/31/2008
Actuarial Value of Assets	\$ 564,294	\$ 289,917	\$ 221,748	\$ 200,941
Actuarial Accrued Liability	\$ 926,851	\$ 639,864	\$ 541,531	\$ 472,237
Percentage Funded	60.9%	45.3%	40.9%	42.6%
Unfunded Actuarial				
Accrued Liability	\$ 362,557	\$ 349,947	\$ 319,783	\$ 271,296
Annual Covered Payroll	\$ 389,689	\$ 389,689	\$ 336,669	\$ 322,312
Unfunded Actuarial Accrued Liability				
(UAAL) % of Covered Payroll	93%	89.8%	95%	84%
Net Pension Obligation (NPO)				
at the Beginning of Period	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	49,807	49,807	44,775	33,896
Contributions Made	49,807	49,807	44,775	33,896
NPO at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

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