

ANNUAL FINANCIAL REPORT

of the

**CITY OF PINEY POINT VILLAGE,
TEXAS**

For the Year Ended
December 31, 2011

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CITY OF PINEY POINT VILLAGE, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Piney Point Village, Texas:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the City of Piney Point 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, each major fund, and the remaining fund information of the City as of December 31, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis, budgetary comparison information, and the schedule of funding progress are not a required part 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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Governmental
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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.

*B*ELT *H*ARRIS *P*ECHACEK, LLLP

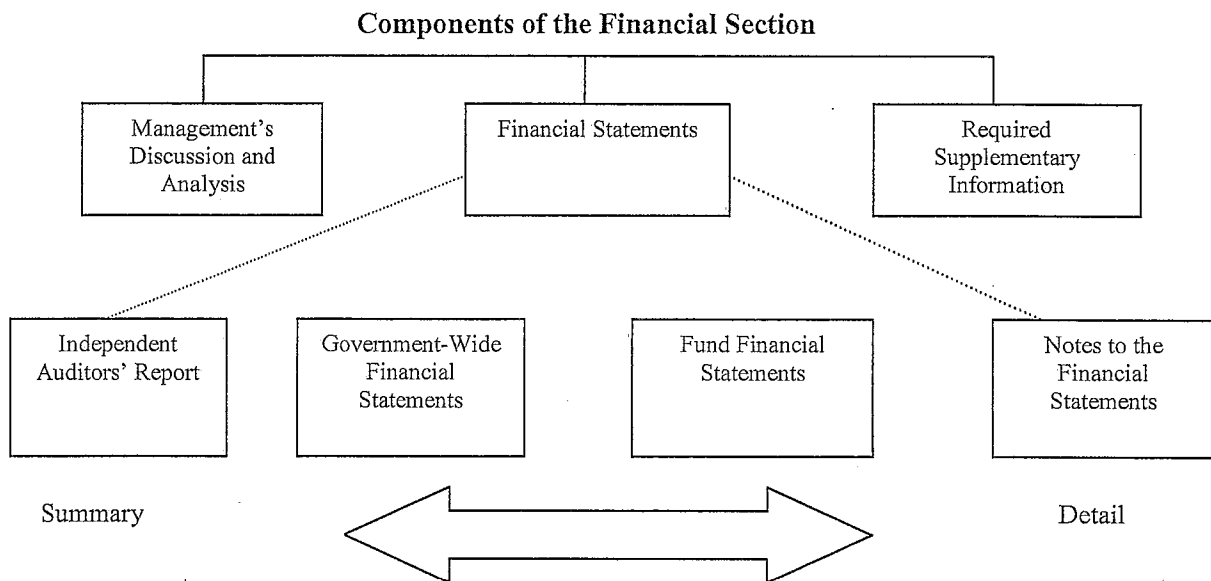
Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
March 27, 2012

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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For the Year Ended December 31, 2011

THE STRUCTURE OF OUR ANNUAL REPORT



Government-Wide Statements

The Statement of Net Assets presents information on all 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, 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.

CITY OF PINEY POINT VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2011

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 the modified accrual method that is used in the fund level statements.

The Statement of Net Assets and the Statement of Activities include one class of activity:

1. Governmental Activities – All of the City's basic services are reported here including public safety (police, fire, EMS), public works (streets and park maintenance), municipal court, and general government. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.

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 only category of City funds is governmental.

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 five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, the METRO projects fund, the capital projects fund and special revenue fund, all of which are considered to be major funds for reporting purposes, with the exception of the special revenue fund.

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

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.

CITY OF PINEY POINT VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2011

Other Information

In addition to financial statements, this MD&A, and accompanying notes, this report also presents certain RSI. The RSI that GASB Statement No. 34 requires includes the budgetary comparison schedules for the general fund, and a schedule of funding progress for the Texas Municipal Retirement System.

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 exceeded liabilities by \$23,319,169 as of year end.

A large portion of the City's net assets, \$11,778,632 or 51 percent, reflects its investments in capital assets (e.g., land, infrastructure, and streets), less any 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 assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

	Governmental Activities	
	2011	2010
Current and other assets	\$ 17,018,078	\$ 16,788,853
Capital assets, net	17,273,476	16,082,662
Total Assets	34,291,554	32,871,515
Long-term liabilities	5,506,877	5,875,000
Other liabilities	5,465,508	4,223,947
Total Liabilities	10,972,385	10,098,947
Net Assets:		
Invested in capital assets, net of related debt	11,778,632	10,207,662
Restricted	9,858,521	8,998,274
Unrestricted	1,682,016	3,566,632
Total Net Assets	\$ 23,319,169	\$ 22,772,568

A portion of the City's net assets, \$9,858,521, or 42 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$1,682,016, may be used to meet the City's ongoing obligation to citizens and creditors. The overall condition of the City improved in the current year with an increase in net assets of \$546,601.

CITY OF PINEY POINT 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	\$	725,905	\$ 706,842
Operating grants and contributions		128,972	-
General revenues:			
Property taxes		3,622,328	3,762,510
Franchise and other taxes		527,650	533,635
Investment income		5,514	10,047
Other revenue		243,265	225,190
Total Revenues		5,253,634	5,238,224
Expenses			
General government		1,153,908	1,031,685
Public safety		3,075,887	2,882,942
Municipal court		144,859	149,006
Public works		203,272	483,125
Interest and fees on long-term debt		129,107	266,015
Total Expenses		4,707,033	4,812,773
Change in Net Assets		546,601	425,451
Beginning net assets		22,772,568	22,347,117
Ending Net Assets	\$	23,319,169	\$ 22,772,568

For the year, revenues from governmental activities totaled \$5,253,634 which is an increase of \$15,410 from the 2010 fiscal year. Property taxes are the City's largest revenue sources. Property taxes totaled \$3,622,328 for the year. This represents a decrease of \$140,182 or four percent for property tax revenue compared to the previous year.

For the year, expenses for governmental activities decreased by \$105,740. In total, expenses for the year were \$4,707,033, a two percent decrease from the prior year. This decrease was the result of lower expenses for public works and interest and fees on long-term debt.

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 PINEY POINT VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2011

The City's governmental funds reflect a combined fund balance of \$11,298,503. Of this, \$126,496 is restricted for debt service, \$9,627,723 is restricted for capital projects, and \$56,564 is restricted for enabling legislation.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$1,487,720. This represents an increase of \$186,095 from 2010. 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 and total fund balance represents 34 percent of total general fund expenditures.

There was a decrease of \$9,860 in debt service fund balance for a total of \$126,496 at year end. The City levied approximately the same amount of property tax for debt service as was expended during the year.

There was a decrease of \$1,314,934 in the METRO project fund balance for a total of \$7,487,498 at year end. A majority of this decrease is due to the completion of various projects during the year.

There was a decrease of \$34,109 in the capital projects fund balance for a total of \$2,140,225 at year end. This is a result of completion of various construction projects during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Actual general fund revenues were more than original and final budgeted revenues by \$289,007 during 2011. This variance includes negative variances of \$16,800 for property tax revenue and \$2,843 for investment revenue, and positive variances of \$128,972 for intergovernmental and \$74,941 for licenses and permits revenue.

Actual expenditures were greater than budgeted amounts by \$20,250 for the fiscal year. The greatest negative variance was in general government.

CAPITAL ASSETS

At the end of the year, the City's governmental activities funds had invested \$17,273,476 in capital assets and infrastructure, net of accumulated depreciation. This represents a net increase of \$1,190,814 compared to the prior year.

Capital asset events during the current year include the following:

- Various construction in progress projects in the amount of \$1,419,012.
- Completion of the Hermosa Court drainage in the amount of \$128,972.

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

LONG-TERM DEBT

At the end of the current year, the City had total general obligation bonds outstanding of \$5,450,000.

More detailed information about the City's long-term liabilities is presented in the notes to the financial statements.

CITY OF PINEY POINT VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended December 31, 2011

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

- The City is continuing work on the procedures manual, capital projects section, with more in-depth discussion on drainage.
- Periodic destruction of obsolete records continued.

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 Terri Johnson, City Administrator, City of Piney Point Village, 7676 Woodway, Suite 300, Houston, TX 77063.

FINANCIAL STATEMENTS

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CITY OF PINEY POINT VILLAGE, TEXAS

STATEMENT OF NET ASSETS

December 31, 2011

	Primary Government Governmental Activities
<u>Assets</u>	
Current Assets	
Cash and cash equivalents	\$ 14,091,114
Cash with fiscal agent	260,895
Receivables	2,566,671
Due from other governments	20,513
Total Current Assets	16,939,193
Non-Current Assets	
Deferred charges	78,885
Capital assets (net of accumulated depreciation)	
Non-depreciable	1,419,012
Net depreciable capital assets	15,854,464
Total Non-Current Assets	17,352,361
Total Assets	34,291,554
<u>Liabilities</u>	
Accounts payable and accrued liabilities	1,487,887
Unearned revenue	3,710,785
Deposits	217,148
Accrued interest payable	49,688
Total Current Liabilities	5,465,508
Noncurrent liabilities:	
Long-term liabilities due within one year	500,830
Long-term liabilities due in more than one year	5,006,047
Total Non-Current Liabilities	5,506,877
Total Liabilities	10,972,385
<u>Net Assets</u>	
Invested in capital assets, net of related debt	11,778,632
Restricted for:	
Debt service	174,234
Enabling legislation	56,564
Construction	9,627,723
Unrestricted	1,682,016
Total Net Assets	\$ 23,319,169

See Notes to Financial Statements.

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CITY OF PINEY POINT 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	Operating Grants and Contributions	
Primary Government				
Governmental Activities				
General government	\$ 1,153,908	\$ -	\$ -	\$ (1,153,908)
Public safety	3,075,887	-	-	(3,075,887)
Municipal court	144,859	315,964	-	171,105
Public works	203,272	409,941	128,972	335,641
Interest and fees on long-term debt	129,107	-	-	(129,107)
Total Governmental Activities	<u>\$ 4,707,033</u>	<u>\$ 725,905</u>	<u>\$ 128,972</u>	<u>(3,852,156)</u>
General Revenues				
Taxes:				
				3,622,328
				527,650
				5,514
				243,265
			Total General Revenues	<u>4,398,757</u>
			Change in Net Assets	546,601
			Beginning net assets	<u>22,772,568</u>
			Ending Net Assets	<u>\$ 23,319,169</u>

See Notes to Financial Statements.

CITY OF PINEY POINT VILLAGE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

December 31, 2011

	Major Funds			
	General	Debt Service	METRO Projects	Capital Projects
Assets				
Cash and cash equivalents	\$ 2,818,276	\$ 314,611	\$ 8,730,352	\$ 2,171,311
Cash with fiscal agent	218,220	42,675	-	-
Receivables	2,135,279	431,392	-	-
Due from other governments	20,513	-	-	-
Total Assets	\$ 5,192,288	\$ 788,678	\$ 8,730,352	\$ 2,171,311
Liabilities				
Accounts payable	\$ 213,947	\$ -	\$ 1,242,854	\$ 31,086
Deferred property tax revenue	3,250,373	662,182	-	-
Deferred revenue	23,100	-	-	-
Deposits	217,148	-	-	-
Total Liabilities	3,704,568	662,182	1,242,854	31,086
Fund Balances				
Restricted:				
Debt service	-	126,496	-	-
Enabling legislation	-	-	-	-
Capital projects	-	-	7,487,498	2,140,225
Unassigned:				
General fund	1,487,720	-	-	-
Total Fund Balances	1,487,720	126,496	7,487,498	2,140,225
Total Liabilities and Fund Balances	\$ 5,192,288	\$ 788,678	\$ 8,730,352	\$ 2,171,311

Adjustments for the Statement of Net Assets:

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

Capital assets - non-depreciable

Capital assets - net depreciable

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

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest payable

Non-current liabilities due within one year

Non-current liabilities due in more than one year

Deferred charges for issuance costs

See Notes to Financial Statements.

<u>Nonmajor Fund</u>		<u>Total</u>
<u>Special</u>		<u>Governmental</u>
<u>Revenue</u>		<u>Funds</u>
\$ 56,564	\$	14,091,114
-		260,895
-		2,566,671
-		20,513
<u>\$ 56,564</u>	<u>\$</u>	<u>16,939,193</u>

\$ -	\$	1,487,887
-		3,912,555
-		23,100
-		217,148
<u>-</u>		<u>5,640,690</u>

-		126,496
56,564		56,564
-		9,627,723
-		1,487,720
<u>56,564</u>		<u>11,298,503</u>

\$ 56,564

1,419,012
15,854,464

224,870

(49,688)
(500,830)
(5,006,047)
78,885
\$ 23,319,169

CITY OF PINEY POINT VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended December 31, 2011

	Major Funds			
	General	Debt Service	METRO Projects	Capital Projects
<u>Revenues</u>				
Property taxes	\$ 2,965,722	\$ 616,315	\$ -	\$ -
Franchise and other taxes	527,650	-	-	-
Licenses and permits	409,941	-	-	-
Fines and forfeitures	312,392	-	-	-
Intergovernmental	128,972	-	-	-
Investment income	3,157	172	-	2,142
Other revenue	243,265	-	-	-
Total Revenues	4,591,099	616,487	-	2,142
<u>Expenditures</u>				
Current:				
General government	1,132,299	-	-	-
Public safety	3,075,887	-	-	-
Municipal court	140,651	-	-	-
Public works	56,167	-	-	-
Capital outlay	-	-	1,314,934	32,561
Debt service:				
Principal	-	385,000	-	-
Interest and fiscal charges	-	246,191	-	-
Total Expenditures	4,405,004	631,191	1,314,934	32,561
Excess(Deficiency) of Revenues				
Over (Under) Expenditures	186,095	(14,704)	(1,314,934)	(30,419)
<u>Other Financing Sources (Uses)</u>				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	(3,690)
Bonds issued	-	5,450,000	-	-
Premium	-	83,850	-	-
Payment to refunded bond escrow agent	-	(5,529,006)	-	-
Total Other Financing Sources (Uses)	-	4,844	-	(3,690)
Net Change in Fund Balances	186,095	(9,860)	(1,314,934)	(34,109)
Beginning fund balances	1,301,625	136,356	8,802,432	2,174,334
Ending Fund Balances	\$ 1,487,720	\$ 126,496	\$ 7,487,498	\$ 2,140,225

See Notes to Financial Statements.

<u>Nonmajor Fund</u>		<u>Total</u>	
<u>Special</u>		<u>Governmental</u>	
<u>Revenue</u>		<u>Funds</u>	
\$ -	\$	3,582,037	
-		527,650	
-		409,941	
3,572		315,964	
-		128,972	
43		5,514	
-		243,265	
<u>3,615</u>		<u>5,213,343</u>	
-		1,132,299	
-		3,075,887	
4,208		144,859	
-		56,167	
-		1,347,495	
-		385,000	
-		246,191	
<u>4,208</u>		<u>6,387,898</u>	
<u>(593)</u>		<u>(1,174,555)</u>	
3,690		3,690	
-		(3,690)	
-		5,450,000	
-		83,850	
-		(5,529,006)	
<u>3,690</u>		<u>4,844</u>	
3,097		(1,169,711)	
53,467		12,468,214	
<u>\$ 56,564</u>	<u>\$</u>	<u>11,298,503</u>	

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CITY OF PINEY POINT 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 changes in fund balances - total governmental funds	\$ (1,169,711)
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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.

Capital outlay	1,645,365
Depreciation expense	(454,551)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	40,291
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt principal repayments	385,000
Debt issued	(5,450,000)
Payment to refund bond escrow agent	5,529,006
Bonds issuance costs	69,346
Premium on bonds	(83,850)

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.

	35,705
Change in Net Assets of Governmental Activities	\$ 546,601

See Notes to Financial Statements.

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CITY OF PINEY POINT 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 Piney Point Village, Texas (the "City") was organized in 1954 to provide municipal services such as police protection, fire protection, water, sewer, and sanitation services for its residents. The City operates under general laws of the State of Texas.

The City is an independent political subdivision of the State of Texas governed by an elected five-member council and mayor and is considered a primary government. As required by accounting principles generally accepted in the United States of America, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the City's financial reporting entity. No other entities, organizations or functions have been included in the City's financial 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 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 Activities) report information about the City as a whole. These statements include all 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. 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.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. 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

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

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

General Fund

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

Debt Service Fund

The debt service fund is used to account for the payment of interest and principal on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Funds

The capital project funds are used to account for the expenditures of resources accumulated from general obligation bonds, tax notes, related interest earnings, and other sources for capital improvement projects. The METRO fund is used for the resources granted to the City from the Metropolitan Transit Authority ("METRO"). These funds are spent only on projects approved by METRO. If the funds are not spent, then they must be returned to METRO with accrued interest. The capital projects fund is a City fund reserved for the use of capital projects within the City. These projects are approved by City Council. The METRO project fund and the capital projects fund are considered major funds for reporting purposes.

Special Revenue Fund

The special revenue fund is used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted, committed, or assigned for specified activities. The special revenue fund is a nonmajor 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, 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. Revenues are recorded when earned and measurable. Expenses are recorded when a liability is incurred and measurable, regardless of the timing of the related cash flows.

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

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

focus, 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 sources) 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, franchise taxes, and interest 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.

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, 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 Governmental Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government

- Fully collateralized certificates of deposit and money market accounts

- Statewide investment pools

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statement.

Advances between funds are offset by an assigned fund balance account in an applicable governmental fund to indicate they are not available for appropriation and are not expendable, available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

Property Taxes

Taxes are generally levied in October and are due upon receipt of the tax bill by the property owner. Penalty and interest are charged if taxes are not paid by the succeeding January 31.

3. 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) are recognized as expenditures when utilized.

4. 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. Capital assets, other than personal property, are defined by the government as assets with an initial, individual cost of more than \$10,000 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 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, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Furniture and equipment	5 to 10 years
Infrastructure	20 to 65 years

5. Compensated Employee Absences

It is the City's policy to permit regular full-time employees to accumulate earned but unused vacation up to a maximum of thirty (30) days. Vacation amounts accumulated may be paid to employees upon termination of employment or at retirement. New employees are ineligible for

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

vacation benefits during the first six months of employment, and vacation amounts will not be paid upon separation during this period. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources are reported as expenditures and a fund liability of the governmental fund that will pay it when it becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

6. 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. The long-term debt consists primarily of bonds and notes payable as well as compensated absences.

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 are 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.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

7. 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, 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.

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

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

8. 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted a basis consistent with generally accepted accounting principles (GAAP) except for 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 is the object and purpose stated in the approved budget. Encumbrance accounting is not utilized.

A. Excess of Expenditures Over Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

General:	
General government	\$ 125,929
Public safety	\$ 75,173

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of December 31, 2011, the City had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
External investment pool (TexPool)	\$ 13,543,147	-

Credit risk. State law and the City's investment policy limits 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.

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, market values of pledged securities and FDIC insurance exceeded bank balances.

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

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

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. Further, 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.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility 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. Finally, Standard & Poor's rate TexPool AAAm. 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 operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

B. Receivables

The following comprises receivable balances at year end:

	General	Debt Service	Total
Property taxes	\$ 2,114,088	\$ 431,392	\$ 2,545,480
Sales tax	21,191	-	21,191
	<u>\$ 2,135,279</u>	<u>\$ 431,392</u>	<u>\$ 2,566,671</u>

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

C. Capital Assets

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

	Primary Government			Ending Balance
	Beginning Balance	Increases	(Decreases)	
Governmental Activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 1,419,012	\$ -	\$ 1,419,012
Total capital assets not being depreciated	-	1,419,012	-	1,419,012
Other capital assets:				
Infrastructure	17,299,100	226,353	-	17,525,453
Equipment	71,420	-	-	71,420
Total other capital assets	17,370,520	226,353	-	17,596,873
Less accumulated depreciation for:				
Infrastructure	(1,254,742)	(444,976)	-	(1,699,718)
Equipment	(33,116)	(9,575)	-	(42,691)
Total accumulated depreciation	(1,287,858)	(454,551)	-	(1,742,409)
Other capital assets, net	16,082,662	(228,198)	-	15,854,464
Totals	\$ 16,082,662	\$ 1,190,814	\$ -	17,273,476
			Less associated debt	(5,494,844)
			Invested in capital assets, net of related debt	\$ 11,778,632

Depreciation was charged to governmental functions as follows:

General government	\$ 9,576
Public works	444,975
Total Governmental Activities Depreciation Expense	\$ 454,551

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

D. Long-Term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds, series 2001	\$ 3,370,000	\$ -	\$ (3,370,000)	\$ -	\$ -
Tax notes, series 2005	2,505,000	-	(2,505,000)	-	-
General obligation refunding, series 2011	-	5,450,000	-	5,450,000 *	490,000
Less deferred amounts:					
On refunding	-	(39,006)	-	(39,006) *	-
For premiums and/or discounts	-	83,850	-	83,850 *	-
	<u>5,875,000</u>	<u>5,494,844</u>	<u>(5,875,000)</u>	<u>5,494,844</u>	<u>490,000</u>
Other liabilities:					
Compensated absences	- **	30,101	(18,068)	12,033	10,830
Total Governmental Activities	<u>\$ 5,875,000</u>	<u>\$ 5,524,945</u>	<u>\$ (5,893,068)</u>	<u>\$ 5,506,877</u>	<u>\$ 500,830</u>
Long-term liabilities due in more than one year				<u>\$ 5,006,047</u>	
* Debt associated with capital assets				<u>\$ 5,494,844</u>	

** Compensated absences policy was enacted during the year. Beginning balance is \$0 for reporting purposes.

The City issued \$5,450,000 of general obligation refunding bonds, series 2011, for a current refunding of \$5,490,000 of portions of various outstanding long-term debt issues, including \$3,130,000 in general obligation bonds, series 2001 and \$2,360,000 in tax notes, series 2005. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$39,006. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the life of the old debt. The transaction also resulted in an economic gain of \$398,693 and a reduction of \$165,879 in future debt service payments.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Long-term debt was comprised of the following debt issues:

Description	Interest Rates	Balance
General obligation refunding bonds Series 2011	2.0%-3.0%	\$ 5,450,000
Total Long-Term Debt		<u>\$ 5,450,000</u>

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Dec. 31	General Obligation Refunding Bonds 2011		
	Principal	Interest	Total
2012	\$ 490,000	\$ 127,600	\$ 617,600
2013	500,000	117,700	617,700
2014	515,000	107,550	622,550
2015	520,000	97,200	617,200
2016	530,000	86,700	616,700
2017-2021	2,895,000	219,650	3,114,650
Total	\$ 5,450,000	\$ 756,400	\$ 6,206,400

The City is not obligated in any manner for special assessment debt.

E. Leases

Operating Leases

The City's operating lease obligation is for the rental of office space to house City Hall. Basic rent shall be payable monthly in advance commencing on the Commencement Date of August 1, 2007 and continuing throughout the Term and shall be accompanied by all applicable state and local sales or use taxes. The first monthly installment of Basic Rent shall be payable contemporaneously with the execution of the Lease; thereafter, Basic Rent shall be payable on the first day of each month beginning on the first day of the second full calendar month of the Term. The monthly Basic Rent for any partial month at the beginning of the Term shall equal the product of 1/365 of the annual Basic Rent in effect during the partial month and the number of days in the partial month from and after the Commencement date. The contract expires August 1, 2012, 60 months after the Commencement Date. The City paid \$105,577 in rental expense during the year. The City's lease obligations are as follows:

Period ending:	<u>Operating Leases</u>
December 31, 2012	\$ 58,462
Total Minimum Lease Payments	\$ 58,462

F. Interfund Transactions

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

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amounts</u>
Capital projects	Special revenue	\$ 3,690
		<u>\$ 3,690</u>

Transfers to the special revenue fund were a result of expenditures being reclassified from the capital projects fund in the prior year.

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 2,596

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

other entities in the Texas Municipal League's General Liability Fund. In addition, the City participates in the Texas Municipal League's Workers' Compensation Fund to insure the City for workers' compensation. The City has no additional risk or responsibility to the Funds outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the year.

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.

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.

C. Pension Plan

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 Required Supplementary Information (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	5.00%	5.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/25	60/5, 0/25
Updated service credit	0%	0%
Annuity increase (to retirees)	0% of CPI	0% of CPI

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

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.

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 25-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).

The annual pension cost and the net pension obligation (asset) are as follows:

	2011
Annual Req. Contrib. (ARC)	\$ 13,680
Contributions Made	13,680
NPO at the End of Period	<u>\$ -</u>

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

The required contribution rates for calendar 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	23.7 Years - Closed	24.8 years - Closed	26.1 Years - Closed	24 Years - Closed
Amortization period for New				
Gains/Losses	11 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	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	0.00%	0.00%	0.00%	0.00%

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, under the two separate actuarial valuations, is presented as follows:

	2011	2011
Actuarial Valuation Date	12/31/2010 (2)	12/31/2010 (1)
Actuarial Value of Assets	\$ 291,075	\$ 198,949
Actuarial Accrued Liability	\$ 314,261	\$ 216,382
Percentage Funded	92.6%	91.9%
Unfunded Actuarial Accrued		
Liability (UAAL)	\$ 23,186	\$ 17,433
Annual Covered Payroll	\$ 303,092	\$ 303,092
UAAL as a Percentage of		
Covered Payroll	7.6%	5.8%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

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

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

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

D. Other Post Employment Benefits

TMRS – Supplemental Death Benefit Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the 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.

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 post employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended December 31, 2011, the City offered the supplemental death benefit to both active and retired employees.

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 contribution to the TMRS SDBF for the years ended 2011, 2010 and 2009 were \$1,231, \$1,431, and \$1,316 respectively. The City's contribution rate to the TMRS SDBF, for the retiree portion, for the years ended December 31, 2011, 2010, and 2009 are shown below.

	2011	2010	2009
Annual Req. Contrib. (Rate)	0.09%	0.10%	0.08%
Actual Contribution Made	0.09%	0.10%	0.08%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

CITY OF PINEY POINT VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2011

E. Related Organizations and Joint Ventures

The City has entered into an interlocal agreement with the cities of Hunters Creek Village, Hedwig Village, Hilshire Village, Bunker Hill Village, and Spring Valley to create the Village Fire Department ("VFD"). The agreement automatically renews for a period of five years unless terminated by at least one of the contracting cities. Under the terms of the agreement, the City is liable for 21 percent of VFD's budget.

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

	VFD Total		City's Portion (21%)	
	Net Assets	Balance Sheet	Net Assets	Balance Sheet
Total assets	\$ 2,262,637	\$ 637,723	\$ 475,154	\$ 133,922
Total liabilities	601,369	67,231	126,287	14,119
Total participants' equity	<u>\$ 1,661,268</u>	<u>\$ 570,492</u>	<u>\$ 348,867</u>	<u>\$ 119,803</u>
	Change in Net Assets	Revenues and Expenditures	Change in Net Assets	Revenues and Expenditures
Total revenues	\$ 5,338,959	\$ 5,338,959	\$ 1,121,181	\$ 1,121,181
Total expenditures/expenses	5,183,893	5,012,342	1,088,618	1,052,593
Revenues over expenditures/expenses	155,066	326,617	32,563	68,588
Surplus refund to cities	(113,698)	(113,698)	(23,875)	(23,875)
Beginning participants' equity	1,619,900	357,573	340,179	75,090
Ending participants' equity	<u>\$ 1,661,268</u>	<u>\$ 570,492</u>	<u>\$ 348,867</u>	<u>\$ 119,803</u>
Unfunded actuarial accrued liability at 12/31/09 with TMRS	<u>\$ 2,355,073</u>		<u>\$ 494,565</u>	

The City has also entered into an interlocal agreement with the cities of Bunker Hill Village and Hunters Creek Village to create the Memorial Village Police Department (MVPD). Under the terms of the agreement, the City is liable for 33 ⅓ percent of MVPD's budget. Separate financial statements may be obtained directly from MVPD.

CITY OF PINEY POINT 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, are as follows:

	Total MVPD		City's Portion (33.3%)	
	Net Assets	Balance Sheet	Balance Sheet	Balance Sheet
Total assets	\$ 2,176,286	\$ 459,394	\$ 725,429	\$ 153,131
Total liabilities	622,763	245,866	207,588	81,955
Total participants' equity	\$ 1,553,523	\$ 213,528	\$ 517,841	\$ 71,176
	Change in Net Assets	Revenues and Expenditures	Revenues and Expenditures	Revenues and Expenditures
Total revenues	\$ 3,952,999	\$ 3,831,239	\$ 1,317,666	\$ 1,277,080
Total expenditures/expenses	4,246,045	3,912,077	1,415,348	1,304,026
Revenues (under) expenditures/expenses	(293,046)	(80,838)	(97,682)	(26,946)
Proceeds from sale of assets	-	11,700	-	3,900
Beginning participants' equity	1,846,569	282,666	615,523	94,222
Ending participants' equity	\$ 1,553,523	\$ 213,528	\$ 517,841	\$ 71,176
Unfunded Actuarial Accrued				
Liability at 12/31/09 with TMRS	\$ 3,040,423		\$ 1,012,461	

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF PINEY POINT VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2011

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Property taxes	\$ 2,982,522	\$ 2,965,722	\$ (16,800)
Franchise and other taxes	504,270	527,650	23,380
Licenses and permits	335,000	409,941	74,941
Fines and forfeitures	250,000	312,392	62,392
Intergovernmental	-	128,972	128,972
Investment income	6,000	3,157	(2,843)
Other revenue	224,300	243,265	18,965
Total Revenues	<u>4,302,092</u>	<u>4,591,099</u>	<u>289,007</u>
<u>Expenditures</u>			
General government	1,006,370	1,132,299	(125,929) *
Public safety	3,000,714	3,075,887	(75,173) *
Municipal court	173,670	140,651	33,019
Public works	204,000	56,167	147,833
Total Expenditures	<u>4,384,754</u>	<u>4,405,004</u>	<u>(20,250)</u>
Revenues Over (Under) Expenditures	<u>(82,662)</u>	<u>186,095</u>	<u>268,757</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	82,662	-	82,662
Net Change in Fund Balance	<u>\$ -</u>	<u>186,095</u>	<u>\$ 186,095</u>
Beginning fund balance		<u>1,301,625</u>	
Ending Fund Balance		<u><u>\$ 1,487,720</u></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 PINEY POINT VILLAGE, TEXAS

SCHEDULE OF FUNDING PROGRESS

TEXAS MUNICIPAL RETIREMENT SYSTEM

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 (2)	2011 (1)	2010	2009
Actuarial Valuation Date	12/31/2010	12/31/2010	12/31/2009	12/31/2008
Actuarial Value of Assets	\$ 291,075	\$ 198,949	\$ 169,781	\$ 188,218
Actuarial Accrued Liability	\$ 314,261	\$ 216,382	\$ 183,813	\$ 183,908
Percentage Funded	92.6%	91.9%	92.4%	102.3%
Unfunded Actuarial				
Accrued Liability	\$ 23,186	\$ 17,433	\$ 14,032	\$ (4,310)
Annual Covered Payroll	\$ 303,092	\$ 303,092	\$ 253,063	\$ 220,831
Unfunded Actuarial Accrued Liability				
(UAAL) % of Covered Payroll	7.6%	5.8%	5.5%	(2.0%)
Net Pension Obligation (NPO)				
at the Beginning of Period	\$ -	\$ -	\$ -	\$ -
Annual Req. Contrib. (ARC)	13,680	13,680	14,306	16,449
Contributions Made	13,680	13,680	14,306	16,449
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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