PRELIMINARY OFFICIAL STATEMENT
DATED JANUARY 5, 2011

NEW ISSUE: BOOK-ENTRY-ONLY

Rating:
S&P: "AA"
(See "RATINGS" herein.)

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" HEREIN FOR A DESCRIPTION OF THE OPINION OF BOND COUNSEL INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

THE BONDS **WILL BE** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

$4,205,000
THE WOODLANDS TOWNSHIP
UNLIMITED TAX BONDS
SERIES 2012

Dated Date: February 1, 2012
Interest Accrual Date: Date of Delivery

Due: March 1, as shown on the inside cover page

The Bonds are issued pursuant to a Bond Resolution by The Woodlands Township (the "Township"), a political subdivision of the State of Texas situated in Montgomery and Harris Counties. The Township is authorized to issue the Bonds pursuant to Chapter 289, Acts of the 73rd Legislature, Regular Session, 1993, as amended (the "Enabling Act"), Chapter 1371, Texas Government Code, as amended, and an election held on November 3, 2009. The Bonds constitute direct obligations of the Township, payable from the collection of a direct and continuing annual ad valorem tax, without limit as to rate to amount, levied on all taxable property within the Township.

The Bonds are being issued (1) to finance fire fighting facilities and equipment, (2) to finance recreational facilities and equipment, and (3) to pay costs of issuance related to the Bonds. See "TABLE 9 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS" herein.

Except for mandatory sinking fund payments on term bonds, principal of the Bonds is payable at maturity or earlier redemption at the principal corporate trust office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas (the "Paying Agent/Registrar"), upon surrender of the Bonds for payment. Mandatory sinking fund payments prior to maturity of a term bond, together with accrued interest, will be payable by check or draft to the registered owners. Interest on the Bonds accrues from date of delivery, and is payable each March 1 and September 1, commencing September 1, 2012, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of $5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown on the inside cover of this Official Statement.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "DESCRIPTION OF THE BONDS – BOOK-ENTRY-ONLY SYSTEM."

Certain of the Bonds are subject to redemption prior to maturity as described herein.

SEE INSIDE COVER PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, REDEMPTION FEATURES, INTEREST RATES AND YIELDS FOR THE BONDS

The Bonds are offered for delivery, when issued and received by the Initial Purchaser (the "Initial Purchaser") thereof, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bond Counsel, Schwartz, Page & Harding, L.L.P., Houston, Texas, as to the validity of the issuance of the Bonds under the Constitution and laws of the State of Texas. The Bonds are expected to be available for delivery in book-entry form through DTC on or about February 7, 2012.

Selling: January 10, 2012, at 10:00 A.M., Central Standard Time, in The Woodlands, Texas.

MATURITY AND PRICING SCHEDULE

$4,205,000
THE WOODLANDS TOWNSHIP
UNLIMITED TAX BONDS
SERIES 2012

Maturity Date [(a)] (March 1)	Principal Amount	Interest Rate	Reoffering Yield	CUSIP[(b)]
2013	$ 175,000			
2014	195,000			
2015	210,000			
2016	220,000			
2017	230,000			
2018	235,000			
2019	235,000			
2020	245,000			
2021	245,000			
2022 (c)	260,000			
2023 (c)	270,000			
2024 (c)	265,000			
2025 (c)	250,000			
2026 (c)	235,000			
2027 (c)	215,000			
2028 (c)	195,000			
2029 (c)	170,000			
2030 (c)	155,000			
2031 (c)	100,000			
2032 (c)	100,000			

(a) Certain of the Bonds may be subject to mandatory sinking fund redemption in the event the Initial Purchaser elects to aggregate one or more maturities as Term Bonds.

(b) CUSIP Numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the Township, the Financial Advisor nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) The Township reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2022, in whole or from time to time in part, in principal amounts of $5,000, or any integral multiple thereof, on March 1, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

MANAGEMENT AND ORGANIZATION OF THE TOWNSHIP

THE WOODLANDS TOWNSHIP BOARD OF DIRECTORS

Director's Name	Position	Occupation	Term Expires
Bruce C. Tough	Chairman	Attorney, Tough Law Firm, PLLC	May 2013
Lloyd W. Matthews	Vice Chairman	Retired, former petrochemical company manager	May 2012
Claude Hunter	Secretary	Retired, Community Volunteer	May 2012
Ed Robb	Treasurer	Senior Pastor, The Woodlands United Methodist Church	May 2012
Nelda Luce Blair	Director	Attorney, The Blair Law Firm, P.C.	May 2013
Thomas Campbell	Director	Retired	May 2012
Peggy S. Hausman	Director	Business Owner	May 2013

THE WOODLANDS TOWNSHIP STAFF

Employee Name	Position	Date of Hire
Don Norrell	President/General Manager	1/1/2006
John Powers	Assistant General Manager - Community Services	7/1/1998
Monique Sharp	Assistant General Manager - Finance & Administration	8/17/1992
Alan Benson	Fire Chief	1/10/2005
Susan Welbes	Director of Human Resources	4/13/1998
Nick Wolda	Director of Community Relations - Convention & Visitors Bureau President	11/16/1999
Miles McKinney	Legislative Affairs & Transporation Manager	3/1/2001
Karen Dempsey	Management Analyst	8/31/1998

CONSULTANTS AND ADVISORS

Bond Counsel	Schwartz, Page & Harding L.L.P.
Disclosure Counsel	Fulbright & Jaworski L.L.P.
Financial Advisor	First Southwest Company

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document constitutes an Official Statement of the Township with respect to the Bonds that has been deemed "final" by the Township as of its date except for the omission of no more than the information permitted by the Rule.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions contained in such Act. The registration or qualification of the Bonds in accordance with applicable provisions of securities law of the states in which the Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof.

In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved. The Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Township.

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the office of The Woodlands Township, 10001 Woodloch Forest Drive, Suite 600, The Woodlands, TX 77380.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Township or other matters described herein since the date hereof. However, the Township has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the Township and, to the extent that relevant information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in "UPDATING OF OFFICIAL STATEMENT."

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PRELIMINARY OFFICIAL STATEMENT

Relating to the

$4,205,000
THE WOODLANDS TOWNSHIP
UNLIMITED TAX BONDS,
SERIES 2012

INTRODUCTION

This Official Statement, which includes the cover page hereof and the Appendices attached hereto, is furnished in connection with the offering by The Woodlands Township, a political subdivision of the State of Texas, situated in Montgomery and Harris Counties (the "Township"), of its Unlimited Tax Bonds, Series 2012 (the "Bonds"), in the aggregate principal amount of $4,205,000. The Bonds are being issued to finance fire fighting and recreational facilities and equipment. A portion of the proceeds will be used to pay cost of issuance related to the Bonds.

The Bonds are issued pursuant to the general laws of the State, including particularly, the Enabling Act, Texas Government Code, Chapter 1371, and election held on November 3, 2009 (the "Election") and the resolution of the Board of Directors of the Township authorizing the issuance of the Bonds (the "Bond Resolution").

The Bonds constitute direct and voted obligations of the Township, payable from the levy and collection of a direct and continuing annual ad valorem tax, without limitation as to rate or amount, on all taxable property located within the Township (See "SECURITY FOR THE BONDS").

Following in this Official Statement are descriptions of the Bonds and the Bond Resolution and certain information regarding the Township and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request and payment of reproduction costs at the office of The Woodlands Township, 10001 Woodloch Forest Drive, Suite 600, The Woodlands, TX 77380.

THE WOODLANDS TOWNSHIP

GENERAL

The Woodlands Township is the successor by name change to the former Town Center Improvement District of Montgomery County, Texas (the "District"), a political subdivision of the State of Texas created, established and operating pursuant to the Enabling Act. Furthermore, pursuant to a Transition Agreement (hereinafter defined) and the execution of conveyance and assignment documents which effectively transferred certain assets, liabilities and functions, The Woodlands Township is successor by assignment to The Woodlands Association, Inc., The Woodlands Commercial Owners Association, Inc., The Woodlands Community Association, Inc., The Woodlands Community Service Corporation, The Woodlands Recreation Center, Inc. and certain assets of The Woodlands Fire Department, Inc.

TRANSITION OF LOCAL GOVERNMENT

As originally organized, the District was created to provide improvement projects, services and facilities to promote, encourage and maintain employment, commerce, economic development and the public welfare within the Town Center area of the 28,000-acre master planned community known as The Woodlands. In particular, the District's services, programs and facilities were focused on public safety and economic development within The Woodlands Town Center and the adjacent impacted areas.

Until November 16, 2007, the District contained less than 1,000 acres of territory in the central business core of The Woodlands, generally bounded on the south by Woodlands Parkway, on the east by Interstate Highway 45, on the north by State Highway 242 and on the west by Grogan's Mill Road. The balance of approximately 27,000 acres of The Woodlands, consisting of residential villages, village shopping centers, educational and institutional facilities, service and retail outlets, and parks, recreational facilities and open spaces, were situated adjacent to, but outside of, the boundaries of the District in both Montgomery and Harris Counties. Substantially all of The Woodlands is unincorporated and situated within the exclusive extraterritorial jurisdiction of the City of Houston, Texas. The remaining unincorporated portion of approximately 800 acres is situated within the exclusive extraterritorial jurisdiction of the City of Conroe, Texas. As such, substantially all of The Woodlands, including the Town Center area, was subject to the general annexation powers of such municipalities.

Following a lengthy review and public discussion of future governance options for The Woodlands, a community consensus was developed in 2006 that The Woodlands should ultimately be released from the extraterritorial jurisdictions of both municipalities and no longer be subject to annexation by such municipalities; that The Woodlands should be afforded an opportunity for self-determination of its future form of local government; and that in consideration for the release by such municipalities from their respective jurisdictions of the territory of The Woodlands in the future, regional participation agreements (RPAs) should be concluded between The Woodlands and the City of Houston and the City of Conroe providing for such release and requiring The Woodlands to financially contribute to regional improvement projects of mutual benefit to The Woodlands and to the City of Houston and the City of Conroe. Pursuant to the authority of Section 42.0751, Texas Local Government Code (the “RPA Act”), the District, on behalf of the entirety of The Woodlands, entered into the RPAs with the City of Houston and the City of Conroe pursuant to which the unincorporated portions of The Woodlands situated within the exclusive extraterritorial jurisdiction of each municipality would be released, upon request of the District, from such jurisdictions on or after May 29, 2014, and for a period of fifty (50) years following the effective date of the RPAs, such territory could not be annexed by either the City of Houston or the City of Conroe without the consent and agreement of the District.

Pursuant to further amendments made to the Enabling Act in 2007, the District was authorized to call an election to be held on November 6, 2007, within the boundaries of the entire unincorporated area of The Woodlands to determine whether the boundaries of the District should be expanded to include all of such territory, to establish the effective date of the RPAs as of November 16, 2007, to give effect to the change of name of the District to The Woodlands Township, to authorize the imposition of the District's previously approved sales tax and hotel occupancy tax within the expanded boundaries of the District, and to authorize the imposition and collection of an ad valorem tax, without limit as to rate or amount, throughout the expanded boundaries of the District. On November 16, 2007, the results of such election were declared to have resulted overwhelmingly in favor of such propositions.

Until recently, all public facilities and services not provided by the Township, and not required by law to be provided by the State of Texas, Montgomery County, Harris County, Conroe Independent School District, Magnolia Independent School District, or Tomball Independent School District, were provided and funded by three community associations in The Woodlands through the imposition and collection of ad valorem property assessments. Pursuant to the authority of the 2007 legislative amendments to the Enabling Act, on February 1, 2008, the Township entered into an agreement (the “Transition Agreement”) with all of the community associations and their affiliated service companies to consolidate the assets, liabilities, functions, facilities and services of such organizations into the Township. In order to accomplish a seamless consolidation of the functions and services provided by the community associations into a single, community-wide governmental organization, the Transition Agreement was subsequently amended to accelerate the transition and consolidation of services to become effective January 1, 2010. As a result, the operations of the existing community associations were curtailed on December 31, 2009. In furtherance of the objectives of the Transition Agreement, an election was held in May, 2010 whereby the Board of Directors of the Township was reduced from eleven (11) appointed and elected members to seven (7) members elected at-large by all eligible voters of the Township.

RECENT LEGISLATIVE AMENDMENTS

The Township’s Enabling Act was further amended in the 81st Texas Legislature, Regular Session, 2009 to provide additional powers and authority relating to tax abatement agreements, the provision of community services, overlapping boundaries, certain administrative powers, an event admissions tax, a supplemental hotel occupancy tax, governance matters for the Township’s Board of Directors and The Woodlands Township Economic Development Zone (“EDZ”), amendments to debt issuance provisions, and ratification of certain governmental acts and proceedings of the Township.

PROGRAMS AND SERVICES

The provision of community services within the Township is currently funded by an ad valorem tax, sales and use tax, hotel occupancy tax, and other program revenues. Services include economic development programs, supplemental law enforcement, covenant enforcement, parks and recreation programs, waste management, streetscape maintenance, environmental services, neighborhood services, community relations, and capital improvements. In addition, services provided by The Woodlands Fire Department and The Woodlands Convention and Visitors Bureau are fully or partially funded by the Township.

In August 2011, the Township adopted its operating, debt and capital budget for the 2012 calendar year and a 2011 ad valorem tax rate of $0.325 per $100 of assessed value. The Township’s total assessed value is $12.5 billion, and the adopted rate of $0.325 will result in a levy of approximately $40.5 million, or 48% of the Township’s total revenue. The 2010 ad valorem tax rate was $0.3274 and resulted in a levy of $39.5 million on assessed values of $12.0 billion. As of August 31, 2011, 100.16% of the 2010 property tax levy had been collected.

In addition to property taxes, the Township’s other principal sources of revenue are a 1% general sales and use tax, a general hotel occupancy tax of 7% of taxable room revenue, a supplemental hotel occupancy tax of 1% of taxable room revenue that became effective on January 1, 2011 and will increase to 2% on January 1, 2012, and the proceeds received from an additional 1% general sales and use tax by The Woodlands Township Economic Development Zone, which is discussed below. The Township has three series of bonds outstanding secured by a portion of these revenue streams (See “TABLE 10 – OTHER OBLIGATIONS – SALES TAX AND HOTEL OCCUPANCY TAX REVENUE BONDS”).

THE WOODLANDS TOWNSHIP ECONOMIC DEVELOPMENT ZONE

Pursuant to Section 11C of the Enabling Act, the Township has created and established over all of the boundaries of the Township, a separate political subdivision known and designated as The Woodlands Township Economic Development Zone ("EDZ"). Pursuant to the Enabling Act and a previous election within the Township, the EDZ is authorized to impose and collect a local sales and use tax of up to one percent (1%) and has entered into an interlocal agreement with the Township to remit the proceeds of such collections to the Township for the continuing funding of public services and facilities essential to the economic development and health of the Township, including fire and emergency medical services. Sales and use tax revenues of the EDZ are not pledged, in whole or in part, to the Bonds. The governing body of the EDZ is appointed by the Board of Directors of the Township, and presently all members of the Board of Directors of the Township serve in an ex-officio capacity as members of the governing body of the EDZ. The duration of the EDZ is unlimited, and in the agreement between the EDZ and the Township, the EDZ has covenanted and agreed that such one percent (1%) sales and use tax will be continued in effect at such rate indefinitely.

BOND ELECTION

Pursuant to the November 3, 2009 bond election (the "Election"), voters authorized the Board of Directors of the Township to issue unlimited tax bonds in connection with the passage and adoption of three propositions. Proposition I passed with 75% voter approval and authorized $17,335,000 in bonds for the construction of three fire stations and the purchase of firefighting equipment. Proposition II passed with 67% voter approval and authorized $12,380,000 in bonds for the construction of parks and pathway improvements and equipment. Proposition III passed with 74% voter approval and authorized $20,225,000 in bonds for the refinancing of certain obligations assumed from the former community associations. Pursuant to such Election, the Township has previously issued its $34,800,000 Unlimited Tax Bonds, Series 2010 and $9,900,000 Unlimited Tax Bonds, Series 2011 (collectively the "Outstanding Bonds").

THE WOODLANDS

GENERAL

The Woodlands is an established community approximately 27 miles north of downtown Houston. Located within a 28,000-acre tract of densely forested land, the community is generally situated adjacent to and west of Interstate Highway 45, south of FM 1488, and along Spring Creek, the boundary line between Montgomery and Harris Counties. Additional acreage, known as The Woodlands Trade Center ("Trade Center"), is adjacent to and east of Interstate Highway 45 between Texas State Highway 242 and FM 1488.

Formal opening of The Woodlands occurred in October, 1974. Substantial development has occurred in the Village of Grogan's Mill, the Village of Panther Creek, the Village of Cochran's Crossing, the Village of Indian Springs, the Village of Alden Bridge, the Village of Sterling Ridge, and the Village of College Park, which are seven of the eight residential villages planned for The Woodlands. The eighth residential village, Creekside Park, is currently being developed. Additionally, the Woodlands has substantial commercial development in the Town Center, Research Forest, and College Park Trade Center. See "APPENDIX C" for a location map of The Woodlands.

ACCESS AND CIRCULATION

Primary access to The Woodlands is provided by Interstate Highway 45, an ten lane limited access highway running in a north/south direction. The Woodlands has direct access by way of five freeway intersections, Woodlands Parkway, Rayford-Sawdust Road, Lake Woodlands Drive, Research Forest Drive (Tamina Road) and College Park Drive (Texas State Highway 242). Additional access between The Woodlands and downtown Houston and the Houston Intercontinental Airport is provided by the Hardy Toll Road, which is owned and operated by the Harris County Toll Road Authority. An alternate access is provided from the Spring and FM 1960 area to The Woodlands via Gosling Road and Kuykendahl Road in the central and westernmost portions of The Woodlands. Texas State Highway 242, a major east-west artery, connects U.S. 59, in southeast Montgomery County, to FM 1488, in the northern portion of The Woodlands.

The internal circulation system within The Woodlands, designed to enhance and preserve the community's natural surroundings, includes arterials, collector and local streets; bicycle paths; and pedestrian walkways.

EDUCATION

The Woodlands is served by three school districts; Conroe Independent School District, Tomball Independent School District and Magnolia Independent School District, along with numerous secular and religiously affiliated private institutions, including the college preparatory John Cooper School and the Woodlands Christian Academy. The public schools in The Woodlands have been recognized for educational excellence by the Texas Education Agency (TEA) and the National Blue Ribbon Schools.

HIGHER EDUCATION

Part of the Lone Star College System, Lone Star College - Montgomery is located on a 100 acre campus in the Township and offers two-year associate degrees and academic transfer courses, as well as certificates in over 30 career programs.

Located adjacent to the Lone Star College - Montgomery campus, the Lone Star College - University Center is a partnership of six Texas universities and the Lone Star College System that offers bachelor's and master's degrees. The Lone Star College - University Center offers upper-level undergraduate and graduate courses, leading to 30 bachelor's degrees and 23 master's degrees. The participating universities are University of Houston, University of Houston-Downtown, Texas A&M University, Texas Southern University, Sam Houston State University, and Prairie View A&M University.

Enrollment at these institutions totals approximately 11,000 students.

COMMERCIAL, INDUSTRIAL AND TECHNOLOGY DEVELOPMENT

Substantially all of The Woodlands is located within the boundaries of the Township. The following information provided by The Woodlands Development Company, L.P. summarizes the current population and status of development of The Woodlands as of January 1, 2011.

Commercial/Industrial	(square footage)
Retail/Hospitality/ General Commercial	9.1 million
Office	6.9 million
Industrial/Technical	4.1 million
Institutional	6.4 million
Total Non-Residential	26.5 million
Residential	
Homes	29,710
Apartments	7,190
Attached Homes	3,650
Total Units	40,550
Other	
Employers	1,712
Employees	77,100
Pathways	190 miles
Parks	121
2010 Census Population	97,023

DESCRIPTION OF THE BONDS

GENERAL

The Bonds will be issued in the original principal amount of $4,205,000 and will be issued as current interest bonds, in denominations of $5,000 principal amount, or any integral multiple thereof.

The Bonds will be dated February 1, 2012, and will bear interest from the date of delivery at the fixed interest rates shown on the inside cover page of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on September 1 and March 1 of each year, commencing September 1, 2012. The Bonds will mature on the dates and in the principal amounts shown on the inside cover page hereto.

The Bonds will mature on their stated dates unless redeemed prior to such dates, as described herein. For as long as the Bonds are book-entry bonds, as described below under "Book-Entry Only System," payment of the principal of and interest on such Bonds shall be made and given in accordance with DTC's operational arrangements. If, in the future, the Bonds cease to be book-entry Bonds, the principal of any Bond, except mandatory redemption payments prior to maturity, will be payable on presentation and surrender of such Bond in lawful money of the United States of America, without exchange or collection charges to the registered owner of such Bond, at the principal payment office of the Paying Agent/Registrar for the Bonds. Mandatory redemption payments and interest accruing prior to maturity on any Bond that ceases to be a book-entry Bond shall be paid by check or draft mailed to the registered holder of such Bond at its address as it appears on the registration books of the Paying Agent/Registrar.

TRANSFER & EXCHANGE

Except as described below under "Book-Entry Only System," the Bonds shall be transferable only upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar, acting in its capacity as bond registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the registered owner or his authorized representative in a form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor, a new Bond or Bonds registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount, and bearing or accruing interest at the same rate as the Bond or the Bonds so presented and surrendered. The Paying Agent/Registrar may require the registered owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond and any legal or unusual costs regarding transfers and exchanges of Bonds.

OWNERSHIP

The Township, the Paying Agent/Registrar, and any other person may treat the person in whose name any Bond is registered as the absolute registered owner of such Bond for the purpose of making payment of the principal of such Bond, and for the further purpose of making payment of interest thereon, for the purpose of giving notice to the holder of such Bond, and for all other purposes, whether or not such Bond is overdue, and neither the Township nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the holder of any Bond in accordance with the Bond Resolution shall be valid and effectual and shall discharge the liability of the Township and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

PAYING AGENT/REGISTRAR

The Bank of New York Mellon Trust Company, N.A. is the initial Paying Agent/Registrar (the "Paying Agent/Registrar") for the Bonds. Except for mandatory redemption payments on any term Bonds prior to maturity, principal of the Bonds is payable upon presentation and surrender thereof at the principal corporate trust office of the Paying Agent/Registrar in Dallas, Texas. Mandatory redemption payments on the term Bonds and, in the event the Book-Entry Only system is discontinued, interest on the Bonds prior to maturity will be payable by check dated as of the applicable Interest Payment Date, and mailed to the registered owners shown on the respective registration books for the Bonds (the "Register") maintained by the Paying Agent/Registrar on the close of business on the 15th day of the calendar month immediately preceding the applicable Interest Payment Date (the "Record Date"). Any accrued interest payable at maturity or redemption of the Bonds will be paid upon presentation and surrender of such Bonds at the principal corporate trust office of the Paying Agent/Registrar in Dallas, Texas.

BOOK-ENTRY ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, ("DTC") while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Township and the Financial Advisor believe the source of such information to be reliable, but neither the Township nor the Financial Advisor take any responsibility for the accuracy or completeness thereof.

The Township cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. ("Registered Owner") (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for

DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Township as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, interest payments and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Township or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the Township, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Township or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Township or the Paying Agent/Registrar. Under such circumstances, and in the event that a successor depository is not obtained, printed certificates for the Bonds are required to be printed and delivered

The Township may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC or its successor. In such event, Term Bonds may be converted, printed and delivered as Serial Bonds to reflect the ownership rights of Beneficial Owners at such time.

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Resolution will be given only to DTC.

The Information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the Township believes to be reliable, but the Township takes no responsibility for the accuracy thereof.

Optional Redemption

The Township reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2022, in whole or from time to time in part, in principal amounts of $5,000, or any integral multiple thereof, on March 1, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Mandatory Redemption

In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule above are combined to create one or more Term Bonds, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on March 1 of the first year which has been combined to form such Term Bond and continuing on March 1 in each year thereafter until the stated maturity date of that Term Bond, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule as shown on inside cover page. Term Bonds to be partially redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by DTC from and among the Term Bonds then subject to redemption. As provided in the Bond Resolution, the principal amount of Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the Township, by the principal amount of Term Bonds of the same maturity which (i) shall have been acquired by the Township and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

Not less than thirty (30) days prior to the date fixed for any optional redemption, the Township shall cause a written notice of such redemption to be sent to the registered owner of each Bond being called for optional redemption by depositing such notice in the United States mail, first class postage prepaid, addressed to each such registered owner at his address shown on the registration books of the Paying Agent/Registrar. Any notice so mailed shall be conclusively presumed to have been duly given, whether or not the registered owner receives such notice. Notice having been so given, the Bonds called for optional redemption shall become due and payable on the specified redemption date, and notwithstanding that any Bond or portion thereof has not been surrendered for payment, interest on such Bond or portion thereof shall cease to accrue. Notice of mandatory redemption of Term Bonds will not be given.

SECURITY FOR THE BONDS

Security and Source of Payment

Pursuant to the November 7, 2007 election and the Election, all taxable property within the Township is subject to a continuing direct annual ad valorem tax, without limit as to rate or amount, levied by the Township for both operations and maintenance and the payment of principal of and interest on all Bonds and the Outstanding Bonds.

Collection of Taxes

In the Bond Resolution, the Township covenants to levy a sufficient ad valorem tax to pay the Bonds and the Outstanding Bonds, and to use all appropriate means to timely collect its ad valorem taxes, but in the event of delinquencies of more than 180 days, the Township agrees to promptly pursue all necessary legal actions, including the filing of suit and tax liens, the levy and execution of judgments and the foreclosure and sale of lien properties, as necessary to achieve a collection rate of at least 95% by the one-year anniversary date of such delinquencies. So long as the Township is not in default on the Bonds, the failure to achieve such collection rate is not a performance default under the Bond Resolution.

Registered Owners Remedies

If the Township defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the registered owners have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the Township and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution, including the covenant to levy and collect a sufficient tax to pay the Bonds. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the registered owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

Statutory language authorizing local governments such as the Township to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislative, a default by the Township in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. Even if a judgment against the Township for money damages could be obtained, it could not be enforced by direct levy and execution against the Township's property. Further, the registered owners cannot themselves foreclose on property within the Township or sell property within the Township to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the Township.

TAX INFORMATION

AD VALOREM TAX LAW

The appraisal of property within the Township is the responsibility of the Montgomery County Appraisal District and the Harris County Appraisal District (the "Appraisal Districts"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal Districts are required under the Texas Property Tax Code to appraise all property within the Appraisal Districts on the basis of 100% of its market value and are prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the Appraisal District is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within each Appraisal District is subject to review by Appraisal Review Boards, consisting of members appointed by the Board of Directors of each Appraisal District. Each Appraisal District is required to review the value of property within the Appraisal District at least every three years. The Township may require annual review at its own expense, and under some circumstances is entitled to challenge the determination of appraised value of property within the Township by petition filed with the appropriate Appraisal Review Board.

Reference is made to the V.T.C.A., Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the Texas Constitution ("Article VIII") and Texas law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation. Certain exemptions that are or may become applicable to the Township are described below.

Under Section 1-b, Article VIII, and Texas law, the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older or the disabled from all ad valorem taxes thereafter levied by the political subdivision; and (2) an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000. In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

Texas law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces. The exemption applies to either real or personal property, with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000. Beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs, or its successor, 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. A proposition to extend this exemption to the surviving spouse of an exempted disabled veteran was approved by Texas voters in November, 2011.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication and transport outside of Texas.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods in transit." "Goods in transit" is defined by a provision in the Tax Code as certain personal property acquired or imported into Texas, stored in Texas in a public warehouse and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas and other petroleum products. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods in transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods in transit exemptions for items of personal property.

The Township may enter into tax abatement agreements to encourage economic development on terms identical to the tax abatement agreement approved by Montgomery County. Under the agreements, a property owner agrees to construct certain improvements on its property. The Township in turn agrees the increased value attributable to the improvements will be abated for ad valorem tax purposes to the extent and for the term provided in the agreement. The abatement agreement could last for a period of up to 10 years. See "TAX ABATEMENT POLICY" and Table 1.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE

By each September 1, or as soon thereafter as practicable, the Township adopts a tax rate per $100 taxable value for the current year. The Township will be required to adopt the annual tax rate for the Township before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the Township. If the Township does not adopt a tax rate by such required date, the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the Township for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service. On August 24, 2011, the Township Board adopted a maintenance and operation tax rate at $0.3046 per $100 of taxable valuation and a debt service tax rate of $0.0204 per $100 of taxable valuation.

Under the Property Tax Code, the Township must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the Township that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirements that notice be posted on the Township's website if the Township owns, operates or controls an internet website and that public notice be given by television if the Township has free access to a television channel) and the Township has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the Township by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

According to Township management, the 2011 tax rate adopted by the Township Board complied with such requirements and did not exceed the rollback rate.

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the Township is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by Texas law to pay taxes on homesteads in four installments, with the first due on February 1 of each year and the final installment due on August 1, or to elect to defer tax payment with continuing interest, until death, sale of the taxed property or cessation of the residence homestead status of the taxed property.

The Township has contracted with the Montgomery County Tax Assessor/Collector to administer and collect the Township's property taxes including mailing tax statements and notices, processing payments/refunds, pursuing collections of delinquent accounts and responding to taxpayer inquiries.

PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty is fixed at 12%, and interest continues at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee may be added to the total tax, penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older accrue interest at a rate of 8% per annum, with no additional penalties or interest assessed. In general, property subject to the Township's tax lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not ensure the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

APPLICATION OF TAX CODE

The Township grants a $25,000 exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

The Township has not granted an additional exemption of up to 20% of the market value of residence homesteads.

See Table 1 for a listing of the amounts of applicable exemptions.

The Township does not tax nonbusiness personal property.

J. R. Moore, Jr., Montgomery County Tax Assessor/Collector, collects taxes for the Township.

The Township does not permit split payments, and discounts are not allowed.

The Township does not tax freeport property.

The Township has elected to tax goods-in-transit.

TAX ABATEMENT POLICY

The Township has established a tax abatement program consistent with the policy of Montgomery County to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. Generally, projects are eligible for a tax abatement from 20-100% for a period of 4-10 years. The value of property currently subject to abatement is shown in Table 1.

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TABLE 1 – VALUATION, EXEMPTIONS AND UNLIMITED TAX DEBT

2011/2012 Market Valuation Established by the Appraisal Districts		$ 13,766,292,638
Less Exemptions/Reductions at 100% Market Value:		
Exempt Property	$ 684,005,670	
Productivity Loss	27,001,776	
Homestead Cap Adjustment	128,873,100	
Over 65 Exemptions	119,940,000	
Veterans	15,154,766	
Disability Exemptions	4,962,500	
Abatement/Freeport Exemptions	110,809,056	
House Bill 366	17,349	
Pollution Control	374,020	
Prorated	106,408	
Lease Vehicles	50,276,642	$ 1,141,521,287
2011/2012 Taxable Assessed Valuation		$ 12,624,771,351
Unlimted Tax Debt Payable from Ad Valorem Taxes (as of January 1, 2012)		
Unlimited Tax Bonds, Series 2010	$33,965,000	
Unlimited Tax Bonds, Series 2011	$9,900,000	
The Bonds	4,205,000	
Total Unlimted Tax Debt Payable from Ad Valorem Taxes		$ 48,070,000
Ratio Unlimited Tax Debt to Taxable Assessed Valuation		0.38%

2012 Estimated Population - 103,410
Per Capita Taxable Assessed Valuation - $122,085
Per Capita Unlimited Tax Debt Payable from Ad Valorem Taxes - $465

TABLE 2 – TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable and Appraised Values for Fiscal Years Ended, December 31,					
	2012		2011		2010	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 10,023,633,256	72.81%	$ 9,563,148,418	72.60%	$ 9,059,479,369	72.39%
Real, Residential, Multi-Family	318,484,545	2.31%	257,307,000	1.95%	240,360,480	1.92%
Real, Vacant Lots/Tracts	229,450,765	1.67%	282,956,738	2.15%	304,875,051	2.44%
Real, Farm and Ranch Improvements	1,044,288	0.01%	78,130	0.00%	500	0.00%
Real, Commercial, Industrial	1,621,963,590	11.78%	2,126,473,485	16.14%	1,534,425,219	12.26%
Real Acreage (Land Only)	52,509,985	0.38%	80,884,931	0.61%	49,613,209	0.40%
Real & Intangible Personal, Utilities	56,326,060	0.41%	59,390,750	0.45%	43,061,445	0.34%
Tangible Personal Business	683,180,871	4.96%	690,795,445	5.24%	666,374,794	5.32%
Real Inventory	91,665,708	0.67%	87,478,647	0.66%	44,283,961	0.35%
Special Inventory	4,027,900	0.03%	3,330,580	0.03%	3,629,560	0.03%
Total Exempt Property	684,005,670	4.97%	20,161,394	0.15%	568,028,401	4.54%
Total Appraised Value Before Exemptions	$ 13,766,292,638	100.00%	$ 13,172,005,518	100.00%	$ 12,514,131,989	100.00%
Less: Total Exemptions/Reductions	1,141,521,287		1,147,799,968		1,109,068,851	
Taxable Assessed Value	$ 12,624,771,351		$ 12,024,205,550		$ 11,405,063,138	

NOTE: Valuations shown are certified taxable assessed values reported by the Montgomery and Harris County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 – VALUATION AND UNLIMITED TAX DEBT HISTORY

Fiscal Year Ended 12/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Unlimited Tax Debt Outstanding at End of Year	Ratio of Unlimted Tax Debt to Taxable Assessed Valuation	Unlimited Tax Debt Per Capita
2010	97,023	$ 11,405,063,138	$ 117,550	$ 34,800,000	0.31%	$ 359
2011	100,125	12,024,205,550	120,092	43,865,000	0.36%	438
2012	103,410	12,624,771,351	122,085	46,735,000 [3]	0.37% [3]	452 [3]

(1) Source: the Township.
(2) As reported by the Montgomery County and Harris County Appraisal Districts, subject to change during ensuing year.
(3) Includes the Bonds.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 12/31	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2010	$ 0.32800	$ 0.32800	$ -	$ 38,136,495	100.20%	100.10%
2011	0.32740	0.30650	0.02090	39,535,097	100.40% [1]	100.00% [1]
2012	0.32500	0.30460	0.02040	40,652,224	[2]	[2]

(1) Collections as of July 11, 2011.
(2) In process of collections.

TABLE 5 – TEN LARGEST TAXPAYERS

Name of Taxpayer	Industry	2011/2012 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Woodlands Land Dev LP	Developer	$ 140,821,706	1.11%
The Woodlands Mall Associates	Retail Stores	137,104,330	1.09%
Hughes Christensen Company	Oil and Gas	71,016,816	0.56%
Lex-Gen Woodlands LP	Chemical Company	57,890,098	0.46%
SSR WM Texas LP	Developer	57,008,487	0.45%
CVS Distribution Center & Regional Offices	Retail Stores	42,247,510	0.33%
Kimco Market Street LLC	Developer	40,970,170	0.32%
Regency Centers LP	Developer	37,761,470	0.30%
JD Warmack Woodlands Limited Partnership	Developer	36,156,556	0.29%
NNN Waterway Plaza LLC	Developer	35,000,000	0.28%
		$ 655,977,143	5.19%

TABLE 6 – TAX ADEQUACY

2012 Principal and Interest Requirements	$	2,822,745 [1]
$0.0231 Tax Rate at 97% Collection Produces	$	2,828,833
Maximum Principal and Interest Requirements (2020)	$	3,460,030 [1]
$0.0283 Tax Rate at 97% Collection Produces	$	3,465,626
Average Principal and Interest Requirements (2012-2030)	$	3,424,288 [1]
$0.0280 Tax Rate at 97% Collection Produces	$	3,428,888

(1) Includes the Bonds.

TABLE 7 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the Township are paid out of ad valorem taxes levied by such entities on properties within the Township. Such entities are independent of the Township and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Township, the Township has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the Township.

Governmental Entity	Debt as of 12/31/2011	Overlapping Percentage	Overlapping Amount
Conroe Independent School District	$ 903,470,000	52.16%	$ 471,249,952
Harris County [1]	2,281,506,628	0.14%	3,194,109
Harris County Department of Education	7,980,000	0.14%	11,172
Harris County Flood Control District	100,020,000	0.14%	140,028
Harris-Montgomery County MUD No. 386	51,005,000	100.00%	51,005,000
Lone Star College System	526,035,000	9.80%	51,551,430
Magnolia Independent School District	162,575,459	2.44%	3,966,841
Montgomery County	456,800,000	32.09%	146,587,120
Montgomery County MUD No. 7	6,545,000	100.00%	6,545,000
Montgomery County MUD No. 39	16,435,000	100.00%	16,435,000
Montgomery County MUD No. 40	2,875,000	100.00%	2,875,000
Montgomery County MUD No. 46	106,360,000	100.00%	106,360,000
Montgomery County MUD No. 47	32,550,000	100.00%	32,550,000
Montgomery County MUD No. 60	22,350,000	100.00%	22,350,000
Montgomery County MUD No. 67	19,185,000	100.00%	19,185,000
Montgomery County WCID No. 1	5,760,000	10.07%	580,032
Port of Houston Authority	750,719,397	0.14%	1,051,007
The Woodlands Metro Center MUD	16,525,000	100.00%	16,525,000
The Woodlands RUD No. 1	81,980,000	100.00%	81,980,000
The Woodlands MUD No. 2	710,000	100.00%	710,000
Tomball Independent School District	275,350,000	7.62%	20,981,670
The Woodlands Township [2]	48,070,000	100.00%	48,070,000
Total Direct and Overlapping Debt			$ 1,103,903,362

2012 Estimated Population	103,410
Per Capita Total Direct and Overlapping Debt	$10,675
Ratio of Total Direct and Overlapping Debt to Taxable Assessed Valuation	8.74%

(1) Does not include Harris County General Obligation debt that is supported by the Harris County Toll Road Authority.
(2) Includes the Bonds.

DEBT INFORMATION

TABLE 8 – PRO-FORMA UNLIMITED TAX DEBT SERVICE REQUIREMENTS

Year Ending 12/31	Outstanding Debt Service	The Bonds[1] Principal	Interest	Total	Total Debt Service Requirements	% of Principal Retired
2012	$ 2,760,705		$ 62,040	$ 62,040	$ 2,822,745	
2013	3,177,329	$ 175,000	104,518	279,518	3,456,846	
2014	3,160,416	195,000	100,633	295,633	3,456,049	
2015	3,152,566	210,000	96,380	306,380	3,458,946	
2016	3,148,085	220,000	91,865	311,865	3,459,950	19.37%
2017	3,141,341	230,000	87,140	317,140	3,458,481	
2018	3,142,666	235,000	82,258	317,258	3,459,924	
2019	3,143,404	235,000	77,323	312,323	3,455,726	
2020	3,142,748	245,000	72,283	317,283	3,460,030	
2021	3,144,063	245,000	67,138	312,138	3,456,201	42.85%
2022	3,138,123	260,000	61,510	321,510	3,459,633	
2023	3,134,885	270,000	54,945	324,945	3,459,830	
2024	3,142,748	265,000	47,824	312,824	3,455,572	
2025	3,165,348	250,000	40,651	290,651	3,455,999	
2026	3,187,798	235,000	33,446	268,446	3,456,244	70.59%
2027	3,215,448	215,000	26,471	241,471	3,456,919	
2028	3,242,638	195,000	20,116	215,116	3,457,754	
2029	3,272,179	170,000	14,459	184,459	3,456,638	
2030	3,293,661	155,000	9,324	164,324	3,457,985	
2031	679,253	100,000	5,150	105,150	784,403	98.39%
2032	686,644	100,000	1,738	101,738	788,381	100.00%
	$61,272,044	$4,205,000	$1,157,210	$5,362,210	$66,634,255	

(1) Interest has been estimated at current market rates for the purpose of illustration.

TABLE 9 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

The Township does not anticipate the issuance of additional unlimited tax debt within the next twelve months.

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Fire Station	11/3/2009	$ 17,335,000	$ 14,845,000	$ 2,490,000	$ -
Parks	11/3/2009	12,380,000	10,665,000	1,715,000	-
Refinance	11/3/2009	20,225,000	19,190,000	-	1,035,000 [1]
		$ 49,940,000	$ 44,700,000	$ 4,205,000	$ 1,035,000

(1) This amount will remain unissued as all transactions related to the refinancing of debt have been completed.

Table 10 – Other Obligations

Sales Tax and Hotel Occupancy Tax Revenue Bonds

In January 2009, the Township issued its $17,825,000 Sales Tax and Hotel Occupancy Tax Bonds, Series 2009 (the "Series 2009 Bonds") to finance the initial deposits into the regional participation funds established with the City of Houston in the amount of $16,000,000 and the City of Conroe in the amount of $320,000 pursuant to the RPAs between the Township and each municipality. The Series 2009 Bonds are secured by the Township's pledge of ½ of 1% of general sales and use tax and the general hotel occupancy tax of 7% of taxable room revenue.. Debt service requirements on the Series 2009 Bonds are noted below.

Series 2009

Year	Principal	Interest	Total
2012	$ 710,000	$ 691,755	$ 1,401,755
2013	725,000	673,625	1,398,625
2014-2018	3,990,000	3,011,523	7,001,523
2019-2023	4,845,000	2,148,346	6,993,346
2024-2028	6,180,000	817,513	6,997,513
Totals	$ 16,450,000	$ 7,342,761	$ 23,792,761

In October 2010, the Township issued its $40,800,000 Sales Tax and Hotel Occupancy Refunding Bonds, Series 2010 (the "Series 2010 Refunding Bonds").to refund the Township's Series 2001 Sales and Hotel Occupancy Tax Revenue Bonds, which were used to build a convention center and adjacent parking garage and hotel meeting rooms. The Series 2010 Refunding Bonds are secured by the Township's pledge of ½ of 1% of general sales and use tax and the general hotel occupancy tax of 7% of taxable room revenue.

Debt service requirements on the Series 2010 Refunding Bonds are as follows:

Series 2010 Refunding Bonds

Year	Principal	Interest	Total
2012	$ 1,830,000	$ 1,551,313	$ 3,381,313
2013	1,885,000	1,495,313	3,380,313
2014	1,975,000	1,408,238	3,383,238
2015-2019	11,340,000	5,579,113	16,919,113
2020-2024	13,735,000	3,168,238	16,903,238
2025-2027	9,575,000	566,581	10,141,581
Totals	$ 40,340,000	$ 13,768,794	$ 54,108,794

In December 2010, the Township issued its $12,175,000 Sales Tax and Hotel Occupancy Tax Bonds, Series 2010 (the "Series 2010 Bonds") to finance the purchase and renovation of an office facility that will be used by the Township for administrative and operational purposes. The Series 2010 Bonds are secured by the Township's pledge of ½ of 1% of general sales and use tax and the general hotel occupancy tax of 7% of taxable room revenue. Debt service requirements on the Series 2010 Bonds are as follows:

Series 2010

Year	Principal	Interest	Total
2012	$ 645,000	$ 480,925	$ 1,125,925
2013	665,000	448,175	1,113,175
2014	685,000	414,425	1,099,425
2015-2019	3,745,000	1,627,031	5,372,031
2020-2024	4,415,000	883,856	5,298,856
2025-2027	2,020,000	86,700	2,106,700
Totals	$ 12,175,000	$ 3,941,112	$ 16,116,112

Operating, Capital, Land Leases

The Township has executed various equipment leases for copiers, telephone systems, and other office equipment totaling approximately $350,000 annually. Generally, these leases renew annually and are cancellable upon adequate termination notice as provided by each agreement. In addition, the Township has entered into long-term non-cancellable leases for three administrative office facilities totaling approximately $700,000 annually with two of the buildings' lease terms ending in December 2011 and the remaining building lease ending in May 2014. The Township has purchased an office building and once renovations are complete in the fourth quarter of 2011, operations will be consolidated into the new office. Of the 10,449 square foot office space being leased through May 2014, 3,826 has been sub-leased, which lowers the Township's annual lease expense from approximately $285,000 to $181,700. The remaining lease space continues to be marketed for sub-lease. In addition, land use and lease agreements have been executed for recreational facilities, a fire station site, vehicle storage facilities, an ice rink site, and non-exclusive usage rights to Lake Woodlands. Projected future annual lease payments for these leases and land use agreements are less than $20,000.

Maintenance and Service Agreements

The Township is a party to many maintenance and service agreements for park and facility maintenance, streetscape maintenance, solid waste services, law enforcement services, information technology support services, transportation, and other interlocal contacted services totaling approximately $26 million annually.

Shared Capital Contribution Agreements

New community parks and pathways are constructed pursuant to a Recreation Facilities Development Agreement and Construction Management Agreement assumed by the Township from The Woodlands Association, Inc. and The Woodlands Commercial Owner's Association, Inc. These agreements provide for the planning, design, construction and shared funding of community amenities by the Township and The Woodlands Land Development Company. Parks and pathway projects constructed under the Recreation Facilities Development Agreement require the Township to 1) fund 50% of the net facility costs after deducting contributions from federal and state grants, 2) accept title to the facility along with the easement or fee ownership of the underlying land upon completion, and 3) provide ongoing annual maintenance thereafter. Similarly, projects constructed under the Construction Management Agreement require the Township to 1) fund 100% of the capital project costs, 2) accept title to the facility along with the easement or fee ownership of the underlying land upon completion, 3) pay a 5% project management fee, and 4) provide ongoing annual maintenance thereafter.

TOWNSHIP RETIREMENT PROGRAM AND OTHER POST-EMPLOYMENT BENEFITS

The Township provides retirement benefits through 401(a) and 457(b) defined contribution plans. Through the 401(a) plan, the Township has agreed to a 2-to-1 ratio contribution match of employee contributions up to 7% of such employee's salary. The current annual cost for employer matching contributions is set at 9.3% of the gross salaries and wages only. In the event that annual costs exceed that percentage, the matching contribution ratio would be decreased to achieve 9.3%. The 457(b) plan allows deferred salary employee contributions. No contribution will be made by the Township to the 457(b) plan.

In addition to providing retirement benefits through a 401a/457b defined contribution plan, the Township has opted to provide eligible employees with retiree medical insurance.

Employees of the Township and its component units whose age plus years of service is at least 75 (69.5 for Fire Department employees who are covered by the collective bargaining agreement) with a minimum of 10 years of service are eligible for a medical subsidy for those who choose to remain enrolled in the Township's self insured medical plan. The Township provides a 50% subsidy of the employee only premium up to a maximum of $300 per month. Additionally, the Township provides retirees with the Health Reimbursement Account (the "HRA") contributions of $1,500 for those having employee only coverage and $3,000 for those having employee plus dependent coverage. The subsidy and HRA contribution end when the retiree becomes eligible for Medicare.

The Township recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. These payments are budgeted annually. At December 31, 2010, there were approximately 250 participants eligible to receive such benefits.

For the fiscal year ended December 31, 2010, the Township has implemented GASB No. 45 which addresses the reporting and disclosure requirements for other post employment benefits (OPEB) and requires the long term cost of retirement health care and obligations for other post employment benefits be determined on an actuarial basis and reported similar to pension plans. GASB No. 45 does not require the prefunding of postemployment benefits liabilities. The Township contracts with an actuarial consultant to provide an actuarial valuation of the Township's OPEB liability under GASB No. 45. The most recent OPEB liability actuarial valuation was completed May 2011 for the year ended December 31, 2010.

Annual OPEB Cost at December 31, 2010	Amount
Normal Cost	$ 39,000
Amortization of Unfunded liability	26,000
Interest	-
Total Annual Required Contribution (ARC)	$ 65,000

Funding Status and Funding Progress	Amount
Total Annual Required Contribution (ARC)	$ 65,000
Actual Contribution	23,612
Percent contributed	41.50%
Net OPEB Obligation	$ 41,388
Actuarial Accrued Liability	643,000
Unfunded Actuarial Accrued Liability	643,000
Covered Payroll	$ 18,820,072
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	3.42%

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MANAGEMENT AND OPERATION OF THE TOWNSHIP

TABLE 11 – BUDGETING AND OPERATIONS

The Township's general fund statement of revenues, expenditures and changes in fund balances for Fiscal Years 2006 through 2010 are summarized below.

	Fiscal Years Ending December 31,				
	2010[1]	2009	2008	2007	2006
Revenues:					
Property Tax	$38,091,288	$ -	$ -	$ -	$ -
Sales Tax	15,793,371	15,075,239	14,686,727	11,874,400	10,543,800
Hotel Occupancy Tax	3,607,297	3,330,819	4,132,397	3,758,367	3,273,005
Marketing and Public Affairs	-	-	25,100	1,192,002	388,894
Intergovernmental Revenues	-	200,548	-	-	-
Operations and Maintenance	-	-	191,612	-	-
Investment Earnings	617,036	914,791	1,109,706	455,121	963,171
Miscellaneous	3,639,405	57,767	12,205	11,497	11,651
Total Revenues	$61,748,397	$19,579,164	$ 20,157,747	$17,291,387	$15,180,521
Expenditures:					
Current:					
General and Administrative	$ 7,938,138	$ 4,502,515	$ 2,603,190	$ 2,221,127	$ 1,668,845
Public Safety	23,610,653	19,013,364 [2]	4,375,103	4,148,784	3,816,702
Community Relations	988,242	396,890	361,119	2,209,028	1,583,192
Economic Development	3,215,477	1,966,503	788,370	684,582	350,586
Parks and Recreation	12,014,668	1,635,935	1,413,445	628,084	266,611
Community Services	11,759,355	-	-	-	-
Capital Outlay	-	37,606	54,613,769 [3]	52,682	58,784
Debt Service:					
Principal	-	15,969	14,372	22,957	5,415
Interest and Fiscal Charges	-	396	1,214	2,036	218
Total Expenditures	$59,526,533	$27,569,178	$ 64,170,582	$ 9,969,280	$ 7,750,353
Revenues over (under) exp	$ 2,221,864	$ (7,990,014)	$ (44,012,835)	$ 7,322,107	$ 7,430,168
Other Financing Sources/Uses					
Transfer In/(Out)	$ (2,684,868)	$ 6,710,460 [2]	$ (2,432,851)	$ (150,513)	$ (4,218,060)
Contributions	-	-	54,601,038 [3]	-	-
Proceeds from Capital Leases	-	-	-	43,019	14,873
Proceeds from other Debt Obligations	-	683,802	-	-	-
Bond/Note Proceeds	-	-	16,440,000	-	-
Other Contractual Obligations	2,253,422	-	(16,440,000)	-	-
Total Other Sources (Uses)	$ (431,446)	$ 7,394,262	$ 52,168,187	$ (107,494)	$ (4,203,187)
Revenues and other financing sources over/(under)	$ 1,790,418	$ (595,752)	$ 8,155,352	$ 7,214,613	$ 3,226,981
Fund balances, beginning of year	$28,530,209	$29,125,961	$ 20,970,609	13,755,996	10,529,015
Ending Fund Balance	$30,320,627	$28,530,209	$ 29,125,961	$20,970,609	$13,755,996

Source: The Woodlands Township, Audited Financial Statements

(1) As noted on page 1 in "Transition of Local Governance," on January 1, 2010, the assets liabilities, functions, facilities and services of the Community Associations of the Woodlands were consolidated with the Township to form a single entity, The Woodlands Township. This consolidation is reflected in the Township's 2010 General Fund revenues, expenditures, and other financing sources/uses. The Township maintains separate funds to record capital assets and debt service.

(2) Includes fire department contracted services from 2006 through 2007; thereafter, fire department contracted services are included in Transfers In/(Out)

(3) The Woodlands Waterway, see Note 10, page 41, Appendix A

INVESTMENTS

The Township is a governmental agency, body politic and corporate and political subdivision of the State of Texas and is subject to the provisions of the Public Funds Investment Act (Texas Government Code, Chapter 2256) and the Public Funds Collateral Act (Texas Government Code, Chapter 2257) with respect to the investment of its funds. The Township invests its funds in investments authorized by Texas law in accordance with investment policies approved by the Board of Directors of the Township. Both State law and the Township's investment policies are subject to change.

TABLE 12 – INVESTED FUNDS

As of September 30, 2011, the Township's consolidated cash balances were invested or deposited in the following categories:

Investment Description	Market Value	Percent of Total
Collateralized Deposits	$5,695,690	9.98%
Demand Deposits	5,638,968	9.88%
TexPool(1)	26,392,470	46.25%
TexSTAR(2)	14,749,374	25.85%
Money Market Funds	4,550,577	7.98%
Other Cash Accounts	33,388	0.06%
Total Investments & Deposits	$57,060,467	100.00%

(1) TexPool is a local government investment pool under the control of the Texas Comptroller of Public Accounts. TexPool currently maintains a AAA rating from Standard & Poor's. The pool's investment objectives include achieving a stable net asset value of $1.00 per share. Daily investment or redemption of funds is allowed by the participants.

(2) TexSTAR is a local government investment pool for which First Southwest Asset Management, Inc., an affiliate of First Southwest Company, provides customer service and marketing. TexSTAR currently maintains a AAAm rating from Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of $1.00 per share. Daily investments or redemptions of funds is allowed by the participants.

LITIGATION

The Township will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the Chairman and Secretary of the Board of Directors of the Township, acting in their official capacities, to the effect that no litigation of any nature is then pending or threatened against the Township, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution, or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the Township or the title of the then present officers and directors of the Board.

LEGAL MATTERS

LEGAL OPINION

The Township will furnish to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the Township payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the Township. The Township will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the Township under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the Township, and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the Township with certain covenants relating to the use and investment of the proceeds of the Bonds. See "TAX EXEMPTION" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the Township. Bond Counsel's opinion will also address the matters described below.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., also serves as counsel to the Township on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Township by Fulbright & Jaworski L.L.P. as Disclosure Counsel.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

LEGAL REVIEW

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "DESCRIPTION OF THE BONDS," "THE WOODLANDS TOWNSHIP—GENERAL," "SECURITY FOR THE BONDS – COLLECTION OF TAXES," "TAX INFORMATION – PROPERTY ASSESSMENT AND TAX PAYMENT and – PENALTIES AND INTEREST" and "LEGAL MATTERS" solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the Township for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

TAX EXEMPTION

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds", the interest on which would be included as an alternative minimum tax preference item under Section 57 (a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon, and assume continuing compliance with, (a) certain information and representations of the Township, including information and representations contained in the Township's federal tax certificate issued in connection with the Bonds, and (b) covenants of the Township contained in the Bond Resolution relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith. Failure by the Township to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law, upon which Bond Counsel has based its opinion, is subject to change by Congress, administrative interpretation by the Department of the Treasury and subsequent judicial interpretation. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner, which would adversely affect the tax treatment of ownership of the Bonds.

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law that could affect the market price or marketability of the Bonds. On September 12, 2011, President Obama submitted to Congress a legislative proposal entitles the "American Jobs Act of 2011" (the "Jobs Act"). If enacted, as proposed, the Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of the Jobs Act being enacted in the form introduced or in some other form cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the forgoing matters.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, certain S corporations with accumulated earnings and profits and excess passive interest income, foreign corporations subject to the branch profits tax, and individuals otherwise allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be included as an adjustment in the "adjusted current earnings" of a corporation (other than an S corporation, a regulated investment company, or REMIC or a REIT) for purposes of computing its alternative minimum tax under Section 55 of the Code.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

STATE, LOCAL AND FOREIGN TAXES

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

QUALIFIED TAX-EXEMPT OBLIGATIONS

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than $10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The Township has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. In furtherance of that designation, the Township will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations."

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM BONDS

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrued period or be in excess of one year (the "Original Issue Discount Bonds"). the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See "TAX EXEMPTION" herein for a discussion of certain collateral federal tax consequences.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

The initial public offering price to be paid for certain maturities of the Bonds may be greater than the amount payable on such Bonds at maturity (the “Premium Bonds”). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

RATINGS

The presently outstanding tax debt of the Township is rated “AA” by Standard & Poor's Ratings Services, a Standard & Poor’s LLC business (“S&P”). The Bonds have been rated “AA” by S&P. The rating reflects only the respective view of such organization, and the Township makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the Township in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Township and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

INITIAL PURCHASER

INITIAL PURCHASER

After requesting competitive bids for the Bonds, the Township accepted the bid of _______________________ (the “Initial Purchaser”) to purchase the Bonds at the interest rates shown on the (inside) cover page of the Official Statement at par. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the Township to the Initial Purchaser. The Township has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

CONTINUING DISCLOSURE

In the Bond Resolution, the Township has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Township is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Township will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS

The Township will provide annually to the MSRB all quantitative financial information and operating data of the general type included in this Official Statement under Tables 1 through 6 and 8 through 12 and Appendix A. The Township will update and provide this information within six (6) months after the end of each of its fiscal years ending in or after 2011.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the Township commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Township will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the Township may be required to employ from time to time pursuant to State law or regulation.

The Township's current fiscal year end is December 31. Accordingly, it must provide updated information by June 30 of the following year, unless the Township changes its fiscal year. If the Township changes its fiscal year, it will notify the MSRB of the change.

MATERIAL EVENT NOTICES

The Township will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The Township will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Township or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the Township or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the Township or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the Township will provide timely notice of any failure by the Township to provide information, data, or financial statements in accordance with its agreement described above under "ANNUAL REPORTS."

AVAILABILITY OF INFORMATION

The Township has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS

The Township has agreed to update information and to provide notices of material events only as described above. The Township has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Township makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Township disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although registered or beneficial owners of Bonds may seek a writ of mandamus to compel the Township to comply with its agreement.

The Township may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Township, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the Township (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The Township may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the Township so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

During the last five years, the Township has complied in all material respects with all continuing disclosure agreements made by the Township in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

All estimates, statements and assumptions in this Official Statement and the Appendices hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

This Official Statement was approved by the Board of Directors of The Woodlands Township, as of the date shown on the cover page.

/s/______________________________
Chairman, Board of Directors
The Woodlands Township

ATTEST:

/s/______________________________
Secretary, Board of Directors
The Woodlands Township

APPENDIX A

THE WOODLANDS TOWNSHIP
AUDITED FINANCIAL STATEMENTS

Fiscal Year End
December 31, 2010

Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
The Woodlands Township:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Woodlands Township (the Township), as of and for the year ended December 31, 2010, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Township. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The Woodlands Township as of December 31, 2010, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise The Township's basic financial statements. The introductory section, supplementary schedules on special revenue funds and component units and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules on special revenue funds and component units have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Blazek & Vetterling

September 12, 2011

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

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The Woodlands Township
Management's Discussion and Analysis
For the year ended December 31, 2010

As management of The Woodlands Township, we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2010. Please read this discussion in conjunction with the transmittal letter at the beginning of the report and the Township's financial statements following this section.

FINANCIAL HIGHLIGHTS

- During 2010, community services previously provided by The Woodlands Community Association, The Woodlands Association, The Woodlands Commercial Owners Association (collectively referred to as the Associations); and The Woodlands Community Service Corporation, The Woodlands Fire Department, The Woodlands Recreation Center (collectively referred to as the Service Companies) were consolidated into the operations of the Township.
- The assets of the Township exceeded its liabilities at December 31, 2010 by $113.2 million. Of this amount, $36.2 million may be used to meet the Township's ongoing obligations to its citizens and creditors.
- The Township's total net assets increased by $77.6 million. Approximately 92% of this increase is the result of the substantial completion of the consolidation of the community services provided by the Township and the Associations.
- As of the close of the current fiscal year, the Township's governmental funds reported combined fund balances of $56.0 million, an increase of $28.5 million in comparison to the prior year. Approximately $15.5 million (28 %) of the fund balance is available for spending at the Township's discretion.
- At December 31, 2010, unreserved fund balance for the general fund was $22.8 million or 38% of the total general fund expenditures.
- On a government-wide basis, the Township's total liabilities, excluding assets held in trust, increased by $46.2 million during the current fiscal year. The key factors in this increase were the issuance of $34.8 million in general obligation bonds for the acquisition of fire department and park assets and the refinancing of debt assumed from the Associations on the transition date, and $12.2 million in revenue bonds for the purchase and renovation of an office facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report also contains other supplementary information as listed in the table of contents.

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how the Township's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis.

In the statement of net assets and the statement of activities, the Township is divided into two kinds of activities:

- *Governmental activities* **–** Most of the Township's basic services are reported here, including general and administrative, public safety, parks and recreation, economic development, community services, and community relations. Property taxes, sales taxes, and program fees fund most of these activities.
- *Component units* **–** The Township includes two separate legal entities in its report - *The Woodlands Convention and Visitors Bureau* and *The Woodlands Fire Department.* Although legally separate, these component units are included because the Township is financially accountable for them.

The government-wide financial statements can be found on pages 26-27 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township are 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 fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The Township maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, the Capital Projects fund, the Debt Service fund, and the Special Revenue fund, all of which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 28-31 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to the financial statements can be found on pages 32-53 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, supplementary information related to the five individual project statements that comprise the Special Revenue fund may be found on pages 56-57. The statements of activities for the discretely presented component units may be found on page 58.

Prior Year Information

In accordance with the Transition Agreement, the assets and liabilities of entities presented in the prior year as blended component units were merged into the General fund. The comparative information provided below has been adjusted to reflect the merged entity. Additionally, effective January 1, 2010, the Township expanded its responsibilities and has expanded its reporting of expenditures. Prior year data has been reclassified to reflect the new reporting.

Additionally, as further explained in Note 2 of the financial statements, there were prior period adjustments. The prior year numbers presented below have been restated to be consistent with the current year presentation.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Township, assets exceeded liabilities by $113.2 million at December 31, 2010.

By far the largest part of the Township's net assets, $73.2 million (65%) reflects its investments in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional $3.8 million (3%) of the Township's net assets represents resources that are subject to external restriction on how they may be utilized. The remaining balance of unrestricted net assets, $36.2 million may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Township reported positive balances in all three categories of net assets, for the government as a whole, as well as for its separate governmental activities.

The following table provides a comparative summary of the Township's net assets as of December 31, 2010 and 2009.

CONDENSED STATEMENTS OF NET ASSETS
(ROUNDED TO 000'S)

	YEAR ENDED DECEMBER 31, 2010	YEAR ENDED DECEMBER 31, 2009
Current and other assets	$ 100,387,000	$ 75,608,000
Long-term receivables and other assets	4,910,000	2,512,000
Capital assets	164,609,000	139,427,000
Total assets	$ 269,906,000	$ 217,547,000
Current and other liabilities	$ 46,026,000	$ 118,062,000
Long-term liabilities outstanding	110,649,000	63,829,000
Total liabilities	156,675,000	181,891,000
Invested in capital assets of outstanding debt	73,219,000	70,290,000
Restricted	3,838,000	3,934,000
Unrestricted	36,174,000	(38,568,000)
Total net assets	113,231,000	35,656,000
Total liabilities and assets	$ 269,906,000	$ 217,547,000

The most significant change in net assets relates to the assumption of all the assets, liabilities and responsibilities of the Woodlands Associations and The Woodlands Fire Department as outlined in Note 1 to the financial statements. This resulted in an addition to net assets of $71.5 million in 2010.

The following table summarizes the changes in the Township's net assets as a result of its activities for the years ended December 31, 2010 and 2009.

CONDENSED STATEMENTS OF CHANGES IN NET ASSETS (ROUNDED TO 000'S)	YEAR ENDED DECEMBER 31, 2010	YEAR ENDED DECEMBER 31, 2009
REVENUE:		
Tax revenue	$ 73,006,000	$ 33,145,000
Program service fees	3,516,000	19,159,000
Grants and contributions	2,341,000	687,000
Investment earnings	420,000	1,063,000
Total revenue	79,283,000	54,054,000
EXPENSES:		
General and administrative	8,541,000	6,913,000
Public safety	25,246,000	22,893,000
Parks and recreation	17,760,000	7,488,000
Economic development	4,662,000	5,952,000
Community services	11,892,000	5,856,000
Community relations	1,055,000	990,000
Interest and debt related expenses	4,031,000	3,539,000
Total expenses	73,187,000	53,631,000
Excess of revenue over expenses before special item	6,096,000	423,000
Special item: Net assets received due to Transition Agreement	71,479,000	
CHANGES IN NET ASSETS	77,575,000	423,000
Net assets, beginning of year	35,656,000	35,233,000
Net assets, end of year	$ 113,231,000	$ 35,656,000

The Township's net assets increased $77.6 million from the 2009 ending balance of $35.6 to the 2010 ending balance of $113.2 million. The reasons for this increase are explained in the following section.

Governmental Activities

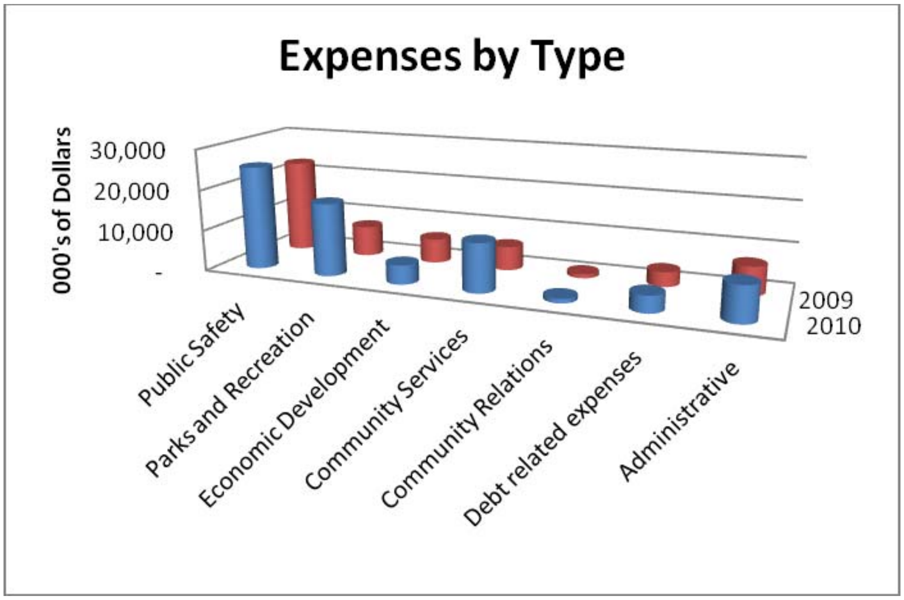
Governmental activities increased the Township's net assets by $77.6 million during the current fiscal year. Key elements of this increase are as follows:

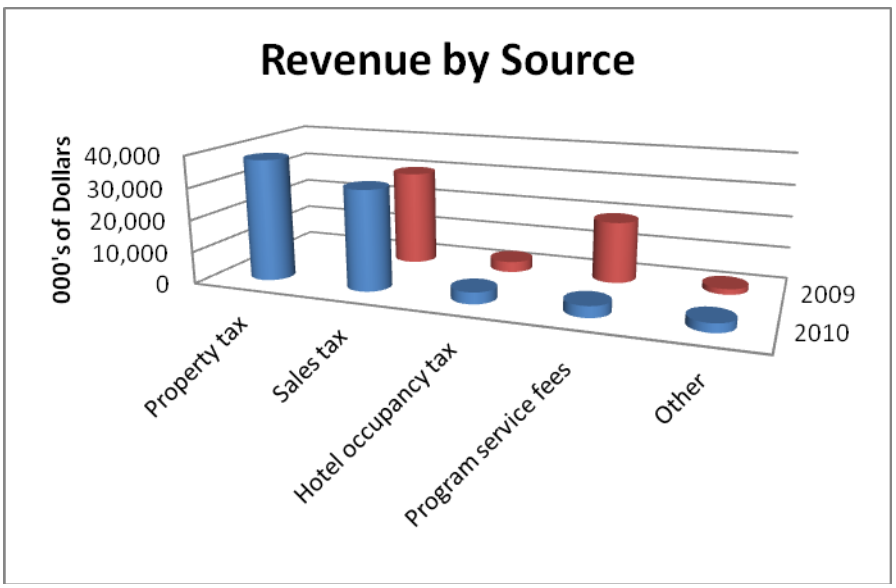
Revenue:

- A one-time $71.5 million increase in net assets due to the addition of the Associations and related service companies in accordance with the Transition Agreement.
- Property tax revenues were earned in 2010 for the first time.

Expenses:

- Expenses in 2010 increased by $19.6 million primarily relating to the Township's assumption of the Associations' responsibilities for parks and recreation and community services.





FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

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

Governmental Funds

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

As of December 31, 2010, the Township's governmental funds reported a combined ending fund balance of $56.0 million, an increase of $28.5 or 104% from the prior year.

	2010	2009	INCREASE (DECREASE)
Fund balances:			
General fund	$ 30,321,000	$ 28,530,000	$ 1,791,000
Capital Projects fund	26,483,000	1,294,000	25,189,000
Debt Service fund	6,459,000	4,944,000	1,515,000
Special Revenue fund	(7,312,000)	(7,290,000)	(22,000)
Total fund balances	$ 55,951,000	$ 27,478,000	$ 28,473,000

Approximately $15.5 million of the $56.0 million total constitutes unreserved and undesignated fund balances, which are available for spending at the Township's discretion. The remaining fund balances are designated or reserved to indicate that funds are not available for new spending because they have already been committed to the following: 1) for authorized capital projects ($26.5 million); 2) to pay debt service ($6.5 million); 3) for receivable of future sales tax revenue from special revenue fund related to repayment of construction costs for Town Green Park and Waterway Square ($6.7 million); and 4) for prepayment of expenses related to fiscal 2011.

General Fund – The General fund is the Township's primary operating fund. It accounts for all financial resources of the Township except those required to be accounted for in another fund. At December 31, 2010, the General fund had an unreserved and undesignated fund balance of $22.8 million and a total fund balance of $30.3 million.

As a measure of the General fund's liquidity, it may be useful to compare both unreserved/undesignated fund balance and total fund balance to total fund expenditures. Unreserved/undesignated fund balance represents 38% of total General fund expenditures, while total fund balance represents 51%. Pursuant to Board policy, the Township maintains an undesignated General fund balance at a minimum amount equal to 20% of the current year's budgeted revenues.

The Township's General fund balance increased $1.8 million or 6% during the current fiscal year. Key factors for this increase are as follows:

- The receipt of current financial resources net of liabilities in the amount of $2.2 million related to the Transition Agreement.
- Property tax revenues were earned and available for use for the first time in 2010.

Capital Projects Fund – The Capital Projects fund accounts for the resources accumulated and payments made for the acquisition or construction of capital assets and projects. Resources are derived from General fund allocations or debt proceeds.

The Township's Capital Projects fund increased $25.2 million during the current fiscal year. This increase is due primarily to the sale of general obligation bonds of $15.6 million, the sale of revenue bonds of $12.2 million, and transfers from other funds of $12 million. These increases were partially offset by capital outlay expenditures of $13.7 million.

At December 31, 2010, the Capital Projects fund had an ending balance of $26.5 million. Of this amount, $9.7 million represents funds that will be carried over to the 2011 fiscal year to pay for certain capital assets not completed in 2010. Pursuant to Board policy, $10.9 million is reserved in the Capital Projects fund for the future refurbishment, replacement of existing assets, and future economic development projects. The remaining $5.9 will be used for capital projects related to the fire department and parks and pathways. These reserve balances are funded from annual favorable budget variances that materialize in the General fund's operating expenditures. The favorable budget variances are used first to ensure that the General fund operating reserve maintains a balance equal to 20% of the current year's operating revenues. The remaining cash generated from favorable budget variances is allocated 75% to the capital reserve and 25% to the economic development reserve.

Additional information on the Township's capital assets can be found in the accompanying notes to the financial statements (pages 41-42) and in the Capital Assets section of this management's discussion and analysis (page 19).

Debt Service Fund – The Debt Service fund accounts for the resources accumulated and payments made for principal and interest on the bonded and non-bonded debt of the Township. Hotel occupancy tax revenues of seven percent and up to one-half of one percent of general sales tax collected by the Township are pledged for the payment of debt service.

The Debt Service fund had a total fund balance of $6.5 million at the end of the fiscal year, all of which is reserved for the payment of debt service.

Additional information on the Township's debt administration can be found in the accompanying notes to the financial statements (pages 47-48) and in the Long-Term Debt section of this management's discussion and analysis (pages 20-21).

Special Revenue Fund – The Special Revenue fund accounts for a one percent of sales and use tax collected within a specific geographic area of the Township defined as The Woodlands Township Economic Development Zone (the Zone). These resources are dedicated to the payment of projects approved and funded by the Zone to promote economic activity throughout the Township. Sales tax proceeds collected in excess of those required to be allocated to the approved projects are transferred to The Fire Department for payment of the department's operations.

For 2010, the Special Revenue fund recorded $15.5 million in sales and use tax revenues. Of this amount, $1.4 million was paid to the authorized Zone projects for the purpose of paying down debt service, and $13.6 million was transferred to the General fund to pay for fire department operations. The year-end deficit balance of $7.3 million in this fund largely is due to a $3.9 million liability related to the Town Green Park project and a $2.7 million liability related to the Waterway Square project. The Zone's liabilities will be repaid from future incremental sales tax revenue collections generated by the Zone in accordance with the approved financing plans for each project.

General Fund Budgetary Highlights

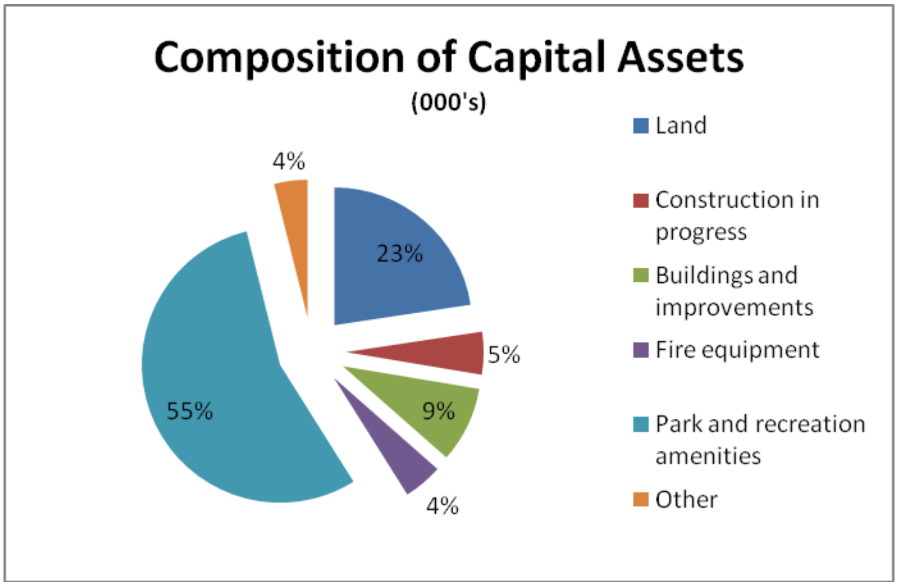
During fiscal year 2010, the Board of Directors of the Township amended the budget for the General fund four times. The amendments related to the Transition Agreement, adjustment of capital expenditures based on mid-year forecasts, and a year-end adjustment of revenue and expenditures based on actuals. The final amended budget indicated the Township would increase its General fund balance by $492,000.

The actual revenues for the year totaled $76.9 million, which were $2.3 million higher than the final budget. The primary reasons for the favorable variance include collections of tax revenues in excess of budgeted amounts offset by a small unfavorable variance in interest earning and program service fees. Actual expenditures for the year were $74.7 million, an amount $1.1 million lower than the final budget. The primary reasons for the favorable variance are savings in salaries and benefits because of open positions throughout the year and less than anticipated expenditures in law enforcement contracted services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township's investment in capital assets for its governmental activities as of December 31, 2010 amounted to $164.6 million (net of accumulated depreciation). This amount represents a net increase (including additions and deductions) of $25.2 million over the prior year. The investment in capital assets includes land, buildings and improvements, park and recreation amenities, fire department equipment, information technology, construction in progress, and other machinery and equipment.



Major capital asset events during the ended December 31, 2010 included:

- Transfer of title of all capital assets of the Woodlands Associations and the related service companies.
- A new building was purchased to become the permanent home of the Township.
- Construction of two new firestations began.

Additional information about capital assets can be found in Note 10 to the financial statements (page 41).

Long-Term Debt

At December 31, 2010, the Township had total debt outstanding of $106.5 million; an increase of $45.0 million from the prior year's ending debt balance. During 2010, the Township issued $34.8 million in general obligation bonds to finance the acquisition of parks and fire department assets and to refinance debt assumed for the community associations on the governance transition date, as previously explained. Additionally, the Township refunded its Series 2001 sales tax and hotel occupancy tax revenue bonds in order to take advantage of favorable interest rates. Revenue bonds totaling $12.2 million also were issued in 2010 to finance the purchase of an office building for the Township's administrative and operational activities. A comparative summary of the components of outstanding debt follows:

	2010	2009
Debt instruments:		
Series 2001 Sales Tax and Hotel Occupancy Tax Bonds	$ 1,555,000	$ 43,570,000
Series 2009 Revenue Bonds	17,145,000	17,825,000
2010 Unlimited Tax Bonds	34,800,000	
2010 Sales Tax and Hotel Occupancy Tax Refunding Bonds	40,800,000	
2010 Sales Tax and Hotel Occupancy Tax Bonds	12,175,000	
Notes payable	90,000	38,000
Total debt instruments	$ 106,565,000	$ 61,433,000

The Series 2009 Revenue Bonds were issued to retire outstanding bond anticipation notes, the proceeds of which were used for the initial deposits required by the regional participation agreements with the Cities of Houston and Conroe.

Current ratings on debt issues are as follows:

BOND ISSUE	RATING AGENCY	UNDERLYING (SPUR)	RATING ACTION	INSURED	RATING ACTION
Series 2001	Moody’s	A2	October 29, 2010	A3	October 17, 2008
Series 2001	S&P	A+/Stable	October 9, 2008	A+ Watch	June 5, 2009
Series 2009	Moody’s	A2	October 29, 2010	A3	October 17, 2008
Series 2009	S&P	A+/Stable	January 16, 2009	Not applicable	
Series 2010 Unlimited tax	Moody’s	A2	October 29, 2010	A3	January 15, 2009
Series 2010 Unlimited tax	S&P	AA/Stable	March 22, 2010	Not applicable	
Series 2010 Sales and hotel occupancy tax refunding	Moody’s	A2	October 29, 2010	A2	September 13, 2010
Series 2010 Sales and hotel occupancy tax refunding	S&P	A+/Stable	October 20, 2010	A++ Negative	October 10, 2009
Series 2010 Sales and hotel occupancy tax	Moody’s	A2	October 29, 2010	Not applicable	
Series 2010 Sales and hotel occupancy tax	S&P	A+/Stable	December 7, 2010	A++ Negative	August 10, 2011

Additional information on the Township’s long-term debt can be found in Note 15 (page 47) to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The Township’s Board of Directors adopts an annual financial plan for each of the governmental funds and component units. The annual financial plans serve as the foundation for the Township’s allocation of resources as well as long-range planning in conjunction with the Township’s strategic plan.

The national, regional and local economies were carefully considered in the development of the 2011 budget. The budget was prepared with the goal of achieving certain key objectives, including:

- Meet the short-term and long-term needs of the community
- Continue to provide high quality services and amenities
- Provide enhancements to services as needed and appropriate
- Maintain and replace capital assets and facilities as necessary
- Create financial flexibility for change conditions and opportunities
- Maintain or lower the property tax rate

Total revenue projections for 2011 equal $81.0 million, which is a 5.2% increase from 2010 revenue of $77 million. The increase is primarily the result of anticipated higher revenues from property taxes, sales taxes and program fees, as well as the implementation of a supplemental one percent hotel occupancy tax. The increase is largely offset by a decrease in contributions as monies transferred from the community associations in the 2010 governance transition represented a one-time revenue source.

Property tax revenue is based on a property tax rate of $0.3274 applied to a taxable property value base of $12.0 billion, an increase of $400 million from last year’s tax base of $11.6 billion. Total property tax revenue is projected to be $39.6 million, an increase of $1.5 million or 4% from 2010. Revenue from property tax comprises 49% of total revenues.

Sales tax revenue for 2011 is projected to be $32.2 million, which is a 3% increase over the $31.3 million collected for 2010. Revenues from an eight percent hotel occupancy tax are anticipated to generate $4.0 million, which is an 11% increase from the 2010 total of $3.6 million that was generated from a seven percent tax rate.

The 2011 budget includes $86.8 million in expenditures, representing a 14.5% increase over the 2010 total of $73.2 million. The increase is primarily related to expenditures for capital projects, which are $4.2 million higher than

2010. The 2011 budget of $12.2 million for capital assets includes expenditures for new parks and pathways as well as renovations to existing amenities. Leasehold improvements for a new office facility and additional patrol vehicles for an enhanced law enforcement program also contribute to the increase. Additionally, capital investments for information technology and the fire department are scheduled in 2011.

Operating expenditures for The Fire Department, a component unit of the Township, increased $937,000 in the budget due primarily to higher salaries and benefits, including six new positions and costs associated with maintenance and operations for a new fire station. As a result of growth in the community, parks and recreation expenses for contracted services, utilities and maintenance increased, as well as costs for the solid waste contract, streetscape maintenance, and street lighting. Continued expansion of the community policing program also has been factored into the budget, including three additional personnel and an increase in targeted overtime.

REQUESTS FOR INFORMATION

This financial report provides a general overview of the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: The Woodlands Township, Attention: Assistant General Manager – Finance and Administration, 10001 Woodloch Forest Drive, Suite 600, The Woodlands, Texas 77380.

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BASIC FINANCIAL STATEMENTS

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The Woodlands Township

Statement of Net Assets as of December 31, 2010

	PRIMARY GOVERNMENT	COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	THE WOODLANDS CONVENTION AND VISITORS BUREAU	THE WOODLANDS FIRE DEPARTMENT
ASSETS			
Cash and cash equivalents	$ 69,988,662	$ 374,203	$ 38,988
Receivables, net	29,517,389	54,234	22,592
Prepaid expenses	880,720		215,005
Due from primary government		26,100	50,029
Capital lease receivable	1,876,711		
Capitalized bond issuance costs, net	3,033,842		
Capital assets not being depreciated	63,636,403		
Capital assets, net of depreciation	100,972,525		
TOTAL ASSETS	$ 269,906,252	$ 454,537	$ 326,614
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued liabilities	$ 5,337,615	$ 163,681	$ 282,495
Due to component unit	76,129		
Accrued interest payable	1,500,341		
Deferred revenue	39,112,148	3,000	22,332
Due to primary government		287,856	4,825
Long-term liabilities:			
Due within one year:			
Bonds payable	3,545,000		
Compensated absences	90,405		16,962
Deferred revenue related to operating lease	177,500		
Due in more than one year:			
Bonds payable	102,930,000		
Net other postemployment benefit liability	41,388		
Deferred revenue related to operating lease	2,041,250		
Unearned financing premiums	1,822,897		
TOTAL LIABILITIES	156,674,673	454,537	326,614
Net assets:			
Invested in capital assets net of related debt	73,219,481		
Restricted for debt retirement	3,038,105		
Restricted for health care obligations	800,011		
Unrestricted	36,173,982		
TOTAL NET ASSETS	$ 113,231,579	$ 0	$ 0

See accompanying notes to financial statements.

The Woodlands Township

Statement of Activities for the year ended December 31, 2010

	PROGRAM REVENUE					
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	COMPONENT UNITS
Functions/Programs						
Primary government:						
Governmental activities:						
General and administrative	$ 8,541,489				$ (8,541,489)	
Public safety	25,246,482				(25,246,482)	
Parks and recreation	17,760,347	$ 2,840,416		$ 2,140,633	(12,779,298)	
Economic development	4,661,526				(4,661,526)	
Community services	11,892,104	636,864	$ 200,997		(11,054,243)	
Community relations	1,055,094	38,636			(1,016,458)	
Interest expense	3,827,202				(3,827,202)	
Debt issuance costs and other	203,311				(203,311)	
Total primary government	$ 73,187,555	$ 3,515,916	$ 200,997	$ 2,140,633	(67,330,009)	
Component units:						
Governmental activities:						
Woodlands Convention and Visitors Bureau	$ 2,660,560	$ 2,660,074				$ (486)
Woodlands Fire Department	14,630,237	14,628,556				(1,681)
Total component units	$ 17,290,797	$ 17,288,630	$ 0	$ 0		(2,167)
General revenue:						
Taxes						
Property					38,091,288	
Sales					31,307,932	
Hotel occupancy					3,607,297	
Investment earnings					419,701	2,167
Total general revenue					73,426,218	2,167
Change in net assets due to Transition Agreement					71,479,090	(6,496,186)
Change in net assets					77,575,299	(6,496,186)
Net assets, beginning of year					35,656,280	6,496,186
Net assets, end of year					$ 113,231,579	$ 0

See accompanying notes to financial statements.

The Woodlands Township

Balance Sheet – Governmental Funds as of December 31, 2010

	GENERAL	CAPITAL PROJECTS	DEBT SERVICE	SPECIAL REVENUE	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	$ 45,589,420	$ 15,085,853	$ 8,213,540	$ 1,099,849	$ 69,988,662
Receivables, net	26,022,276		36,918	3,458,195	29,517,389
Due from other funds	7,020,096	12,458,656			19,478,752
Prepaid expenditures	880,720				880,720
Long-term receivables from other funds	6,665,722				6,665,722
TOTAL ASSETS	$ 86,178,234	$ 27,544,509	$ 8,250,458	$ 4,558,044	$ 126,531,245
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 4,210,675			$ 1,036,886	$ 5,247,561
Due to other funds	12,458,656	$ 1,061,308	$ 1,791,525	4,167,263	19,478,752
Due to component unit	76,129				76,129
Deferred revenue	39,112,148				39,112,148
Long-term payable to other funds				6,665,722	6,665,722
Total liabilities	55,857,608	1,061,308	1,791,525	11,869,871	70,580,312
Fund balances:					
Reserved					
Debt service			6,458,933		6,458,933
Prepaid expenditures	880,720				880,720
Long-term receivables	6,665,722				6,665,722
Unreserved					
Designated for capital projects		26,483,201			26,483,201
Undesignated	22,774,184			(7,311,827)	15,462,357
Total fund balances	30,320,626	26,483,201	6,458,933	(7,311,827)	55,950,933
TOTAL LIABILITIES AND FUND BALANCES	$ 86,178,234	$ 27,544,509	$ 8,250,458	$ 4,558,044	$ 126,531,245

See accompanying notes to financial statements.

The Woodlands Township

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
for the year ended December 31, 2010

Total fund balances, governmental funds	$ 55,950,933
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in government activities are not current financial resources and therefore are not reported in the fund financial statements.	164,608,928
Certain deferred revenue is not earned in the current period and therefore are not reported in fund financial statements.	
Parking garage revenues prepaid	(2,218,750)
Financing premium related to refunding	(1,822,897)
Certain assets included in the statement of net assets are not available to pay current period expenditures and are therefore not reported as assets in the fund financial statements.	
Capital lease receivable	1,876,711
Capitalized bond issuance costs, net	3,033,842
Some liabilities that are not due and payable in the current period are not reported as liabilities in the fund financial statement, but are reported in the governmental activities of the statement of net assets.	
Bonds payable	(106,475,000)
Accrued interest payable	(1,500,341)
Compensated absences	(90,405)
Accrued rent on office space	(90,054)
Net other postemployment benefit liability	(41,388)
Net assets of governmental activities in the statement of net assets	$ 113,231,579

See accompanying notes to financial statements.

The Woodlands Township

Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds for the year ended December 31, 2010

	GENERAL	CAPITAL PROJECTS	DEBT SERVICE	SPECIAL REVENUE	TOTAL GOVERNMENTAL FUNDS
REVENUE:					
Property taxes	$ 38,091,288				$ 38,091,288
Sales taxes	15,793,371			$ 15,514,561	31,307,932
Hotel occupancy taxes	3,607,297				3,607,297
Investment earnings	163,199	$ 21,517	$ 133,710	2,162	320,588
Investment earnings from other funds	453,837				453,837
Program service fees and grants	3,639,405				3,639,405
Total revenue	61,748,397	21,517	133,710	15,516,723	77,420,347
EXPENDITURES:					
General and administrative	7,938,138				7,938,138
Public safety	23,610,653				23,610,653
Parks and recreation	12,014,668				12,014,668
Economic development	3,215,477			1,446,049	4,661,526
Community services	11,759,355				11,759,355
Community relations	988,242				988,242
Capital outlay		13,747,069			13,747,069
Interest expense to other funds				453,837	453,837
Debt service:					
Principal			21,872,403		21,872,403
Interest			3,432,505		3,432,505
Bond issuance costs		690,848	1,117,408		1,808,256
Bond refunding premium paid			795,734		795,734
Bond refunding			40,530,000		40,530,000
Total expenditures	59,526,533	14,437,917	67,748,050	1,899,886	143,612,386
Excess (deficiency) of revenue over (under) expenditures	2,221,864	(14,416,400)	(67,614,340)	13,616,837	(66,192,039)
Other financing sources (uses):					
Operating transfers in	13,638,613	12,017,372	4,864,181		30,520,166
Operating transfers out	(16,323,481)	(558,072)		(13,638,613)	(30,520,166)
Proceeds from issuance of bonds		27,785,000	59,990,000		87,775,000
Financing premium		360,824	1,558,006		1,918,830
Total other financing sources (uses)	(2,684,868)	39,605,124	66,412,187	(13,638,613)	89,693,830
Change in fund balance due to Transition Agreement	2,253,422	0	2,717,417	0	4,970,839
CHANGES IN FUND BALANCES	1,790,418	25,188,724	1,515,264	(21,776)	28,472,630
Fund balances, beginning of year	28,530,208	1,294,477	4,943,669	(7,290,051)	27,478,303
Fund balances, end of year	$ 30,320,626	$ 26,483,201	$ 6,458,933	$ (7,311,827)	$ 55,950,933

See accompanying notes to financial statements.

The Woodlands Township

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities for the year ended December 31, 2010

Changes in fund balances	$ 28,472,630
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report outlays for capital assets as expenditures because such outlays use current financial resources. The statement of activities recognizes the cost of outlays allocated over estimated useful lives as depreciation expense.	
Capital outlay	13,747,069
Depreciation expense	(8,101,795)
Governmental funds do not recognize as revenue contributions of real property and related debt because such contributions do not increase current financial resources.	
Capital assets net of related debt included in Transition Agreement	66,508,251
Donated land from the developer	2,140,633
Governmental funds do not recognize revenue that is not available to pay current obligations.	
Capital lease revenue	176,621
Accrued rent not reflected in governmental funds	24,015
Governmental funds report bond proceeds as current financial resources. The statement of activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. The statement of activities treats such repayments as a reduction in long-term liabilities.	
Principal retirement on debt and bond refunding	62,402,403
Proceeds from debt issuance	(87,775,000)
Financing premiums	(1,918,830)
Bond issuance costs	1,808,256
Bond refunding premiums	795,734
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.	
Accrued interest not reflected in governmental funds	(490,639)
Amortization of bond issuance related costs	(203,311)
Amortization of financing premiums	95,942
Net other postemployment benefit liability	(41,388)
Compensated absences	(65,292)
Change in net assets of governmental activities	$ 77,575,299

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

ORGANIZATION

As an independent political subdivision of the State of Texas, The Woodlands Township (the Township) is considered a Primary Government for financial reporting purposes; its activities are not considered a part of any other governmental or other type of reporting entity. Considerations in determining the Township's financial reporting entity status as a primary government include: a separate elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

In November 2007, the voters of the Township authorized the Township's Board of Directors to assess, levy, and collect an annual ad valorem tax on a uniform basis upon all taxable property included within its expanded boundaries. In February 2008, a Transition Agreement was executed in an effort to consolidate community services into one unified governing body. The agreement and subsequent amendments outline general terms, funding commitments, organizational timelines, and terms of conveyance for certain assets, liabilities, and functions. The seven parties to the Transition Agreement include: property owners associations (The Woodlands Community Association, Inc., The Woodlands Association, Inc., The Woodlands Commercial Owners Association, Inc., collectively referred to as the Associations); service companies (The Woodlands Community Service Corporation, The Woodlands Fire Department, Inc., The Woodlands Recreation Centers, Inc.); and the Township. Upon the implementation by the Township of an ad valorem tax, all community service functions, previously the responsibility of the Associations became the responsibility of the Township.

In accordance with the Transition Agreement, a property tax was assessed on October 1, 2009. The levy of the ad valorem tax initiated the transfer and subsequent assumption by the Township of certain assets, liabilities, and functions previously owned and/or provided by the Associations and the service companies.

Effective January 1, 2010, according to provisions of the Transition Agreement, the Township has:

- A seven-member, fully elected governing body;
- Assumed the assets, liabilities, and responsibilities of each service company;
- Fully funded all community services previously provided by each service company.

As required by generally accepted accounting principles, these statements include the Township and its component units, entities for which the Township is considered to be financially accountable. The component units are included in the Township's reporting entity because of the significance of their operational or financial relationships with the Township. The Township is financially accountable if it appoints a voting majority of an organization's governing board and is able to impose its will on the organization or there is a potential for the organization to provide a specific financial burden on the Township. The Township is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the Township's financial statements to be misleading or incomplete.

Certain component units, although legally separate entities, may be in substance, part of the government's operations and may be combined or blended with the data of the Township while other component units are discretely presented. The Township has no blended component units; however, there are two organizations that are discretely presented component units. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the Township. Discretely presented component units included herein have a December 31 year end. Complete financial statements for the component units may be obtained by written request to the Township's finance and administration department.

Discretely Presented Component Units

The Woodlands Fire Department, Inc. – The Woodlands Fire Department, Inc. (the Fire Department) is a 501(c)(3) organization that provides fire protection, emergency medical services, and related educational and charitable activities in the Township. A seven-member board of community leaders, appointed by the Township's Board of Directors governs the Fire Department and its activities. Effective January 1, 2010, in accordance with the Asset Lease and Service Agreement between the Fire Department and the Township, title to all capital assets of the Fire Department and related debt was transferred to the Township. Assets are leased back to the Fire Department for a nominal amount per year. Additionally, in accordance with the agreement, the Township provides administrative support at no cost to the Fire Department.

***The Woodlands Convention and Visitors Bureau* –** The Woodlands Convention and Visitors Bureau (CVB), a 501(c)(6) organization, was created in 2006 by the Township's Board of Directors. The organization implements programs and produces events to promote local hotels, amenities, attractions, restaurants, and retailers. By attracting visitors to the area, the CVB helps stimulate demand for The Woodlands as a travel destination and stimulates economic development. The CVB provides services to help create new revenue for businesses and enhance sales and hotel occupancy tax collections for the Township. Tax revenue generated by the tourism industry is reinvested in community projects and programs.

The CVB is a discretely presented component unit of the Township because of the composition of its Board of Directors. The CVB's membership is open to three classes (A, B, and C) each with equal voting rights. Members are elected by the Board of Directors of the Township or appointed by the CVB Board of Directors. Currently, the Township is the only member of the CVB. Annually, the membership elects the CVB's Board of Directors. As of December 31, 2008, the CVB's seven-member Board was composed of four Township Directors and three community business leaders. The CVB and Township have executed a service agreement whereby the Township will make staff available and provide administrative support at no cost to the CVB.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present information on all of the activities of the primary government and its component units. Certain eliminations have been made as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34 related to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets have been eliminated. The primary government is reported separately from the legally separated component units for which the primary government is financially responsible.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or activity is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue includes a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or activity, and b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed. None of the government-wide net assets are restricted by the Township's enabling legislation.

The governmental fund financial statements include a Balance Sheet and a Statement of Revenue, Expenditures and Changes in Fund Balances for all governmental funds and non-major aggregated funds (the Township currently reports no non-major funds). An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the government-wide financial statements. The Township considers all funds major funds because the financial position and activities are significant to the Township as a whole.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the donor have been met.

Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property tax, sales and use tax, hotel occupancy tax, program service fees and grants. Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for debt service expenditures which are recognized when due. Investment earnings are recorded on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

Government Fund Types

The Township reports the following major governmental funds as separate columns in the fund financial statements:

The ***General Fund*** is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund.

The ***Capital Projects Fund*** is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction projects, capital reserves, and other capital asset acquisitions.

The ***Debt Service Fund*** accounts for the resources accumulated and payments made for principal and interest on the bonded debt of the Township. The primary source of revenue for debt service is hotel occupancy tax and one-half of one percent of collected sales and use tax collected within the Township.

The ***Special Revenue Fund*** is used to account for the proceeds from specific revenue sources that are designated for special purposes. The Special Revenue Fund includes approved projects funded through The Woodlands Township Economic Development Zone (the Zone). The Zone was established to further the promotion and stimulation of business, commercial and economic activity in the Zone as well as the Township.

ASSETS, LIABILITIES AND FUND BALANCE/NET ASSETS

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit, short-term investments in privately managed public funds investment pools, and sweep accounts.

Prepaid Expenses

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

Capital Assets

Capital assets used in governmental fund types of the government are recorded as expenditures of the appropriate fund and as assets in the government-wide financial statements to the extent the Township's capitalization threshold is met. Depreciation is recorded on capital assets on a government-wide basis. All assets (donated and purchased) are recorded at cost or at the estimated fair value at the date of acquisition or donation. Capital assets and improvements are capitalized as constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at the government-wide level. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available.

The Township does not use the modified approach for infrastructure reporting. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. The Township currently capitalizes additions and transfers of sound system equipment, computer equipment, and wayfinding signs as systems, regardless of each individual component's value in relation to the capitalization threshold. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and the resulting gain or loss is included in the results of operations.

The Township's Board of Directors has adopted a capitalization policy for reporting capital assets which exceed $5,000 in cost and have a useful life greater than one year. The straight-line method of depreciation is applied over the following estimated useful life for the type of assets:

ASSET DESCRIPTION	ESTIMATED USEFUL LIFE
Parks and land improvements	20 to 30 years
Equipment	5 to 20 years
Buildings and garages	20 to 40 years
Leasehold improvements	Lease term
Land	Not applicable
Construction in progress	Not applicable

From time to time, the Township accepts donations of public art, sculptures, and mosaics which are maintained for public enjoyment and not held for resale. These are considered non-depreciable assets.

Interfund Transactions

Interfund transactions are transactions that occur between individual funds during the course of routine operations. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Transactions between funds that would be reported as revenue and expenditures if they involved organizations external to the Township are accounted for as revenue and expenditures in the applicable funds. Transactions that constitute reimbursements to a fund for expenditures initially made from that fund, which are properly attributable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of the expenditures in the fund that is reimbursed. Other legally authorized transfers are treated as operating or residual equity transfers and are included in the results of operations of the governmental funds.

Compensated Absences

Annual paid time off is granted to employees who work in excess of 1,000 hours per year. Any unused paid time off in excess of 40 hours lapses at the end of each fiscal year, unless exception to this policy is approved in writing by the President of the Township. The Township allows employees to be compensated for paid time off upon leaving the employment of the Township. Compensated absences are recorded in the General Fund of the primary government and component units when they become due.

Fund Balances and Net Assets

Reserved fund balances represent those portions of fund balance not available for appropriation for expenditures that represent long-term receivables, or are legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Undesignated fund balances represent available balances for the Township's future use.

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Township or through external restrictions imposed by donors. When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Program Revenue

Program revenue primarily represents fees for services related to the use of the Township's recreational facilities.

Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – RESTATMENT OF BEGINNING NET ASSETS

Effective December 31, 2009, the Township recorded a $17,741,726 adjustment to expense previously capitalized payments to the City of Houston and the City of Conroe. These amounts, previously reported as deposits on regional participation projects, should have been expensed as incurred because they are not expected to result in future economic benefit to the Township. Additionally, the Township recorded an adjustment to defer recognition of a $3,550,000 payment from the Cynthia Woods Mitchell Pavilion (the Pavilion) received by the Township in connection with the construction of the Convention Center parking garage. In connection with the construction of this garage, the Township and the Pavilion entered into a long-term lease whereby the Pavilion has use of the garage for a 20-year period. The unamortized balance at December 31, 2009 of $2,396,250 will be recognized by the Township over the remainder of the original life of the lease. As a result of these adjustments, assets at December 31, 2009 were decreased by $17,741,726, liabilities at December 31, 2009 were increased by $2,396,250, and net assets at December 31, 2010 were decreased by $20,137,976.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

New Accounting Standards

During fiscal year 2010, the Township adopted the following GASB Statements:

Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*. In 2010, as part of the consolidation of the assets, obligations and responsibilities of the POA's, the Township adopted a postemployment benefit plan for certain retirees who have not yet reached the age to be eligible for Medicare benefits. As a result, the Township implemented GASB No. 45 which improves the relevance and usefulness of financial reporting by a) requiring systematic, accrual-basis measurement and recognition of other post employment benefits (OPEB) over a period that approximates employees' years of service and b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. See Note 18.

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. This pronouncement had no impact on current financial statements.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The statement requires that the fair value of financial arrangements called derivatives or derivative instruments be reported in the financial statements of state and local governments. Additional information about derivatives is disclosed in the notes to the financial statements, including identification of the risks to which hedging derivative instruments themselves expose a government. This statement had no impact on current financial statements.

Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. This statement had no impact on current financial statements.

The GASB has issued the following statements which will be effective in future years as described below:

Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for the Township beginning in fiscal year 2011. This statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* which is effective for the Township beginning in fiscal year 2012. This statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer, other postemployment benefit (OPEB) plans and clarifies when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers.

Statement No. 59, *Financial Instruments Omnibus,* which is effective for the Township beginning in fiscal year 2011. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for the Township beginning in fiscal year 2013. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators.

Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, which is effective for the Township beginning in fiscal year 2013. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for the Township beginning in fiscal year 2013. The objective of this statement is to incorporate into the GASB authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contributing to the GASB efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

The Township has not yet determined the impact of implementing the above new pronouncements.

Annual Financial Plan

The Township does not adopt annual appropriated budgets for its funds. However, the Board does adopt annual financial plans for the General fund. The plans are reviewed by management and the Board throughout the year to control and enhance the Township's operating results. The Board generally considers the Township's final annual actual operating results for all funds representative of the Township's annual financial plans for that year. Encumbrances are liquidated or accrued at the close of each fiscal year.

Deficit Fund Balances

The Special Revenue fund has a deficit fund balance of $7.3 million as of December 31, 2010. In accordance with the project and financing plans adopted by the Board of the Zone, this deficit relates specifically to the cost of construction for Town Green Park and Waterway Square. The Township financed the construction of the projects and will receive repayments from future incremental sales tax revenue collections generated by the Zone. The capital outlay expenditures and related interfund liability to the General fund are recorded in the Special Revenue fund. The combined project plans for these two projects allow for the repayment of up to $8.6 million in approved project costs.

NOTE 4 – CASH AND INVESTMENTS

The Township's cash and cash equivalents at December 31, 2010 consist of the following:

	PRIMARY GOVERNMENT	COMPONENT UNITS	TOTAL
Cash on hand	$ 3,800	$ 350	$ 4,150
Demand deposits	12,534,856	412,841	12,947,697
Certificates of deposit	3,779,028		3,779,028
Repurchase agreements	1,877,188		1,877,188
Investments:			
Money market mutual funds	389,932		389,932
TexSTAR	20,141,709		20,141,709
TexPool	31,262,149		31,262,149
Total cash and investments	$ 69,988,662	$ 413,191	$ 70,401,853

These amounts are reported as cash and cash equivalents in the accompanying Statement of Net Assets as of December 31, 2010.

Authorization for Deposits and Investments

The Texas Public Funds Investment Act, as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the Township. In accordance with the Township's Investment Policy, authorized investments include the following:

- Obligations of the United States government or its agencies and instrumentalities;
- Direct obligations of the State of Texas or its agencies;
- Other obligations, of which the principal and interest are unconditionally guaranteed or insured by the State of Texas;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent;
- Certificates of Deposit issued by an approved institution domiciled in the State of Texas;
- Fully collateralized repurchase agreements;
- Collateralized mortgage obligations by a federal agency or instrumentality of the United States;
- Banker's acceptance notes;
- Commercial paper with a stated maturity of 270 days or fewer;
- No-load money market mutual funds;
- Investment pools; and
- Guaranteed investment contracts.

Investments and Interest Rate Risk

The Township's investments are reported at fair value and include short-term investments in privately-managed investment pool accounts and SEC registered money market mutual funds. TexPool and TexSTAR are Texas Local Government Investment Pools, which operate in a manner consistent with SEC Rule 2a7 of the Investment Company Act of 1940 and fully comply with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These investment pools use amortized cost rather than market value to report net assets and to compute share prices. Accordingly, the fair value of the position in TexPool and TexSTAR is the same value as the number of shares owned. The INVESCO AIM MM is a no-load money market mutual fund. As of December 31, 2010, the Township had investments with the following maturities and credit quality:

INVESTMENT	FUND	FAIR VALUE	WAM	S&P RATINGS
TexPool	General	$ 31,262,149	<60 days	AAA
TexSTAR	General	3,259,939	<60 days	AAAm
TexSTAR**	General	800,011	<60 days	AAAm
TexSTAR	Capital projects	15,085,853	<60 days	AAAm
TexSTAR	Debt service	995,906	<60 days	AAAm
INVESCO AIM MM	General	389,932	<60 days	AAAm
Total investments		$ 51,793,790		

**Account restricted for health insurance claims contingency fund.

In accordance with its investment policy, the Township manages its exposure to any decline in fair values by limiting the maturity of each investment to a period no longer than ninety (90) days. Additional authorization is required for periods exceeding ninety (90) days; however, in no event shall the maturity of any individual investment owned by the Township exceed two (2) years, unless otherwise specifically stated in the investment policy.

Deposits and Custodial Credit Risk

State statutes require that all the Township's deposits in financial institutions be fully collateralized by depository insurance or by certain government obligations that have a market value of not less than the principal amount of the deposits. Furthermore, the Township's internal written investment policy further restricts the value of such collateral to not less than 110% of the principal amount of the uninsured deposit. As of December 31, 2010, the Federal Depository Insurance Corporation (FDIC) covered unlimited deposits held in noninterest bearing accounts and up to $250,000 per depositor for interest bearing accounts.

At December 31, 2010, the following time deposits including accrued interest as of December 31, 2010, were properly collateralized or insured in accordance with State requirements:

BANK	TYPE	FUND	FAIR VALUE	MATURITY
Encore Bank	Certificate of Deposit	General	$3,051,905	356 days
Encore Bank	Certificate of Deposit	Debt Service	$727,123	356 days
HypoVereins Bank*	Repurchase Agreements	Debt Service	$1,877,188	6,264 days

*Separately authorized in connection with debt covenants to establish a Debt Service Reserve fund.

The carrying value of demand deposits of the primary government at December 31, 2010 was $12,947,698 and the related bank balances were $14,188,235. The carrying value of demand deposits of the discretely presented component units at December 31, 2010 was $412,842 and the related bank balances were $534,624. Consistent with the Township's policies, all deposits in financial statements are fully collateralized by depository insurance.

NOTE 5 – RECEIVABLES AND DEFERRED REVENUE

Primary Government

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

	GENERAL	CAPITAL PROJECTS	DEBT SERVICE	SPECIAL REVENUE	TOTAL
Property tax	$ 22,132,760				$ 22,132,760
Sales tax	3,540,147			$ 3,458,195	6,998,342
Hotel occupancy tax	215,781				215,781
Due from component units	292,681				292,681
Other receivables	359,113		$ 36,918		396,031
Total receivables	26,540,482		36,918	3,458,195	30,035,595
Less: allowance for uncollectible accounts	(518,206)				(518,206)
Receivables, net	$ 26,022,276	$ 0	$ 36,918	$ 3,458,195	$ 29,517,389

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

Deferred revenues at December 31, 2010 consist of unavailable property tax of $21,626,701 and unearned property tax revenues of $17,485,447.

Discretely Presented Component Units

Other receivables relate to program revenues expected to be collected within 60 days. Deferred revenues represent advance receipts on program fees and are unearned.

NOTE 6 – PROPERTY TAX

Property taxes are levied by October of each year in conformity with subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Montgomery County Appraisal District establishes property values. Taxes are levied by the Township based on the appraised values and operating needs of the Township. Montgomery County performs billing and collection of tax levies.

NOTE 7 – SALES AND USE TAX

On November 2, 1993, the voters of the Township authorized the Board to levy and collect one percent sales and use tax within the Township, subject to the applicable provisions of the Texas Tax Code. Prior to the 2010 fiscal year, the Township relied on this tax for the funding of substantially all of its programs, functions and services. Beginning with the 2010 fiscal year, an ad valorem tax was levied (See Note 6).

On November 6, 2007, the voters of the Township authorized the Board to expand the boundaries of the Township in which the base one percent sales and use tax is collected effective April 1, 2008. In addition, following a public hearing on November 16, 2007, the existing economic development zones were reorganized as the Zone. At that time, the Zone's Board imposed an incremental one percent sales and use tax within the boundaries of the expanded Township, but by order dated March 26, 2008, the Board of the Zone temporarily excluded the Harris County area from its boundaries. Collections of the incremental sales and use tax will be used exclusively to satisfy funding obligations under the Transition Agreement and other improvement projects as approved by the Board.

The Township recorded revenues of $15,793,371 in the General fund and $15,514,561 in the Special Revenue fund from the levy of sales and use tax for the fiscal year ended December 31, 2010.

NOTE 8 – HOTEL OCCUPANCY TAX

The Township Act (as amended by Senate Bill 26) provides for the assessment of a hotel occupancy tax of up to 7% of the price paid for a hotel room. By Board order, the Township has imposed the maximum 7% tax, effective September 1, 1997 (for fiscal period 1997-98 and thereafter). As provided by the Township Act, the Township can apply the proceeds from a hotel occupancy tax for any of the Township's purposes and for purposes described by Section 352.1015 of the Texas Tax Code, to the extent considered appropriate by the Board. Generally, proceeds are used for the costs to advertise and promote tourism and costs related to business development and commerce, including financing and operating improvement projects for conventions, trade shows and similar events.

NOTE 9 – GRANT REVENUE

The Houston-Galveston Area Council (HGAC) awarded the Township an initial intergovernmental contract of $404,760 ($202,380 federal; $202,380 local match) for the amended period June 2007 through June 2008 to provide certain transit services. HGAC renewed the contract for two additional contract periods ending June 2010. Under the renewal, the amount of the award for each period is $388,800 ($194,400 federal; $194,400 local match). Over a three-year period, the program could receive up to $591,000 in federal congestion mitigation and air quality funding. For 2010, $175,097 in actual operating contributions for grant funding is recorded as program revenue under community services on the statement of activities.

The Township has contracted with Brazos Transit District to provide transportation services as required by the grant. The Township has retained The Goodman Corporation as a transportation consultant and advisor on grant reporting and compliance issues as required by federal funding organizations.

NOTE 10 – CAPITAL ASSETS

Primary Government

The Township's investment in capital assets at December 31, 2010 consists of the following:

	BALANCE AT JANUARY 1. 2010	ADDITIONS	COMPLETIONS/ DISPOSALS	BALANCE AT DECEMBER 31, 2010
Depreciable capital assets:				
Parks and pathways	$ 121,727,119	$ 4,735,533		$ 126,462,652
Equipment	8,300,053	11,241,005	$ (113,755)	19,427,303
Building and leasehold improvements	6,195,687	14,176,360		20,372,047
Depreciable capital assets, at cost	136,222,859	30,152,898	(113,755)	166,262,002
Accumulated depreciation:				
Parks and pathways	(40,423,506)	(5,504,863)		(45,928,369)
Equipment	(5,212,944)	(7,254,334)	110,721	(12,356,557)
Building and leasehold improvements	(2,312,773)	(4,691,778)		(7,004,551)
Total depreciable capital assets, net	88,273,636	12,701,923	(3,034)	100,972,525
Nondepreciable capital assets:				
Land	47,439,083	4,563,127		52,002,210
Construction in progress	3,581,209	10,160,496	(2,240,798)	11,500,907
Sculpture and art	133,286			133,286
Total nondepreciable capital assets	51,153,578	14,723,623	(2,240,798)	63,636,403
Total capital assets, net	$ 139,427,214	$ 27,425,546	$ (2,243,832)	$ 164,608,928

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

General and administrative	$ 574,126
Public safety	1,630,243
Parks and recreation	5,719,233
Community services	118,262
Community relations	59,931
Total	$ 8,101,795

In May 2008, the Township assumed management, maintenance, and operational responsibilities of The Woodlands Waterway (the Waterway) in accordance with the Waterway Maintenance, Use and Operations Agreement between The Woodlands Land Development Company (the Development Company) and the Township. The Waterway is considered a significant component of the pedestrian and transit corridor within the Town Center of the Township. Over a fifteen year period, the Waterway will be fully conveyed to the Township by special warranty deed and fee transfers. In accordance with generally accepted accounting principles for capital assets maintained by a governmental entity, the Township has recorded the Waterway based on the estimated fair value of the related easement and infrastructure improvements as of December 31, 2008. From time to time, the Development Company will convey title of developed assets to the Township. Conveyances are recorded at the cost of the project provided by the Development Company that approximates fair value.

NOTE 11 – CAPITAL PROJECTS AND COMMITMENTS

Primary Government

As of December 31, 2010 the Township had the following commitments:

PROJECT	AMOUNT AUTHORIZED	SPENT TO DATE	REMAINING COMMITMENT
Fire Station #7	$2,315,139	$160,157	$2,154,982
Fire Station #8	$2,660,861	$1,078,813	$1,582,048
Aided dispatch system	$495,000	$20,000	$475,000
Township headquarters	$11,400,000	$8,888,887	$2,511,113
Alden Bridge Sports Park	$581,078		$581,078
Improvements	$21,609,741	$19,855,687	$1,754,054

In addition to these projects, the Township Board approved a $100,000 commitment to the Greater Houston Partnership Opportunity Houston program. This contribution is payable over a five-year period with annual contributions of $20,000 a year. Payments for this program began in 2007.

In 2007, the Township executed Regional Participation Agreements (RPAs) with the City of Houston and the City of Conroe. Each agreement established a regional participation fund or escrow account for mutually beneficial projects within the applicable region; defined payment terms, eligible projects, accounting for deposits, annexation deferral terms, as well as other contractual terms and conditions; and, provided an initial list of new improvement projects or those which will enhance existing public works. The RPAs require the Township to remit periodic deposits for an unlimited duration into each regional participation fund in the amount of 1/16th of one percent of the sales and use tax collections from within the boundaries of the Township in each City's extra territorial jurisdiction. In 2010, the Township remitted $973,839 to the funds. This amount is included in the expenditures for economic development.

NOTE 12 – INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables as of December 31, 2010 are as follows:

RECEIVABLE FUND	PAYABLE FUND	RECEIVABLE	PAYABLE
General	Special Revenue	$ 4,167,263	$ 4,167,263
Capital Projects	General	12,458,656	12,458,656
General	Debt Service	1,791,525	1,791,525
General	Capital Projects	1,061,308	1,061,308
Total		$ 19,478,752	$ 19,478,752

The amount due to the General fund from the Special Revenue fund is for sales tax revenues to be transferred.

The outstanding balances between the General and Capital Projects funds result mainly from the time lag between the period in which funds are designated and the period in which projects are completed.

As of December 31, 2010, interfund balances due from the General fund to the Capital Projects fund are as follows:

PROJECT		BALANCE
Fire department dispatch system upgrades	$	475,000
Field lighting for Alden Bridge Sports Park		355,093
Software purchases and upgrades		146,000
Law enforcement vehicles and equipment		124,514
Aquatic facilities improvements		115,000
Computer hardware purchases and upgrades		85,436
Parks and pathways improvements		80,238
Fire department protective gear and systems		69,541
Leasehold improvements		25,512
Total projects	$	1,476,334

CAPITAL RESERVES		BALANCE
Economic Development reserve	$	2,523,711
Waterway improvements		342,195
Town Green Park		150,002
Signage		109,000
Town Center Garage		48,635
Unallocated reserves		7,808,779
Total capital reserves	$	10,982,322

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

The related General fund receivable and interest income, and Special Revenue fund liability and interest expense for Town Green Park and Waterway Square expenditures are recorded in the fund financial statements only. The related interfund activity has been eliminated from the government-wide financials.

Interfund transfers for the year ended December 31, 2010 are as follows:

TRANSFER OUT	GENERAL	CAPITAL PROJECTS	DEBT SERVICE	SPECIAL REVENUE	TOTAL
General		$ 12,017,372	$ 4,306,109		$ 16,323,481
Capital Projects			558,072		558,072
Special Revenue	$ 13,638,613				13,638,613
Total	$ 13,638,613	$ 12,017,372	$ 4,864,181	$ 0	$ 30,520,166
Transfers in	$ 13,638,613	$ 12,017,372	$ 4,864,181		$ 30,520,166
Transfers out	(16,323,481)	(558,072)		$ (13,638,613)	(30,520,166)
Total	$ (2,684,868)	$ 11,459,300	$ 4,864,181	$ (13,638,613)	$ 0

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

	TRANSFERS IN:		
TRANSFERS OUT FROM GENERAL FUND FOR:	CAPITAL PROJECTS	DEBT SERVICE	TOTAL
Town Center parking garage replacement reserve	$ 6,465		$ 6,465
Capital reserves	2,520,626		2,520,626
Hotel occupancy tax		$ 3,607,297	3,607,297
Sales tax pledged to debt service		698,812	698,812
Project expenditures	9,490,281		9,490,281
Total	$ 12,017,372	$ 4,306,109	$ 16,323,481

Transfers from the Special Revenue fund to the General Fund of $13.7 million represent sales tax collections in the expanded Zone which are designated for fire protection services.

NOTE 13 – ECONOMIC DEVELOPMENT ZONE PROJECTS

Created in November 2007 by resolution of the Township's Board of Directors, The Woodlands Township Economic Development Zone's boundaries overlay the expanded boundaries of the Township within Montgomery County in its entirety.

By agreement, the Township and the Zone have agreed that: 1) the Zone will pay the Township all net proceeds derived from the collection of a one percent sales and use tax within the Zone; 2) all amounts received from the Zone by the Township will be applied solely for the improvement projects described below; and 3) in consideration of the payments between entities, the Township will make staff available and provide administrative support at no cost to the Zone.

As noted, future sales tax revenue collections for the Zone have been committed for specific projects to the extent of actual collections. All Zone activity for the year is included in the Special Revenue fund of the financial statements. The terms and obligations of repayment to third-party developers (net revenue payments) and the Township (priority payments) for each project are outlined below. In accordance with each financing plan, payments are contingent upon the actual receipt of sales tax collections within the Zone.

Economic Development Project No. 1

Approved in September 2000, project costs include the redevelopment, rehabilitation, expansion and enlargement of the Pavilion by the Center for the Performing Arts at The Woodlands.

In accordance with the approved financing plan, a one-percent incremental sales tax collected within the entertainment venue, along with any interest earnings, are allocated to the payment of project costs as identified in the project plan until: 1) October 1, 2020, or 2) the aggregate amount of payments for project costs equals $1,350,000, whichever occurs first.

Payments to the Pavilion are recorded as economic development expenditures in the tax increment fund for the project. As of December 31, 2010, aggregate net revenue payments, excluding one-time capital grants, were $1,268,683.

Economic Development Project No. 2

Approved in November 2002, project costs include public enhancements to the mixed-use development located at Market Street within the boundaries of the Township and the development of Town Green Park. Approved reimbursable public enhancement costs of $10,600,000 for the Market Street project include, among other items, improvements to parking facilities, public art and architectural elements, public restrooms, and public plazas. Approved project costs for Town Green Park were $4,336,823.

The approved financing plan has a term effective for fiscal year 2005 and not to exceed thirty years or until the repayment of all project costs, whichever occurs first. The assessed one-percent incremental sales tax collected within the boundaries of the project, along with any interest earnings, are allocated to the payment of project costs as identified in the financing plan as follows: 1) the first $200,000 of annual collections are reimbursed to the Township as a priority payment and applied to Town Green Park project costs, not to exceed $4,336,823, plus interest, and 2) annual collections in excess of the priority payment are reimbursed to the Market Street developer and applied to public enhancement costs, not to exceed $10,600,000, plus interest. During the 24^{th} annual period or fiscal year 2028, the Township's priority payment for subsequent annual periods will be recalculated to fully amortize the outstanding unpaid project costs for the Town Green Park project, and then to the remaining unamortized balance for the Market Street project.

Payments to the Market Street developer are recorded as economic development expenditures in the tax increment fund for the project. As of December 31, 2010, aggregate net revenue payments including interest to the developer were $4,244,964 and priority payments to the Township were $1,000,000.

Economic Development Project No. 3

Approved in July 2003 and amended in October 2004, project costs include public enhancements to the mixed-use development located at The Woodlands Mall expansion within the boundaries of the Township and a portion of the development costs of Waterway Square. Approved reimbursable public enhancement costs of $7,499,111 for the Mall Expansion project include, among other items, costs for utility relocations, landscaping, signage, paving and sidewalks, lighting improvements, and related engineering, surveying, and other soft costs. Approved project costs for the Waterway Square project were $4,343,164.

The approved financing plan has a term effective for fiscal year 2004 and not to exceed thirty years or until the repayment of all project costs, whichever occurs first. The assessed one-percent incremental sales tax collected within the boundaries of the project, along with any interest earnings, are to be used to pay project costs identified in the financing plan as follows: 1) the first $350,000 of annual collections are reimbursed to the Township as a priority payment and applied to the Waterway Square project costs, not to exceed $4,343,164, plus interest; and 2) annual collections in excess of the priority payment are reimbursed to the developer of the Mall Expansion project and applied to public enhancement costs, not to exceed $7,499,111 plus interest.

Payments to the Mall Expansion developer are recorded as capital outlay in the tax increment fund for the project. As of December 31, 2010, aggregate net revenue payments including interest to the developer were $2,279,504 and priority payments to the Township were $2,450,000.

Economic Development Project No. 4

Approved in December 2006, project costs include construction of a new fire station and state-of-the-art training center in the College Park service area of the Township by The Fire Department.

The assessed one-percent incremental sales tax in the College Park service area along with any interest earnings, are to be used to pay project costs identified in the financing plan until: 1) December 27, 2026, or 2) the aggregate amount of payments applied to project costs equals $11,670,000 plus interest, whichever occurs first.

In 2010, the capital assets of The Fire Department and related debt were assumed by the Township.

Community Fire Protection Services

Beginning fiscal year 2008, a portion of the sales and use tax collections from within the Zone, after allowance for the projects noted above, are committed to community fire protection. The amount funded in 2010 from the Zone and the expanded boundaries was $14,232,000.

NOTE 14 – LONG-TERM LEASE RECEIVABLE

Primary Government

Capital Lease – Convention Center, Sky Bridge and Parking Garage

The Township leases the Convention Center, sky bridge and a portion of the adjacent parking garage (500 spaces) for a term of 99 years to Inland American Lodging Woodlands L.P. These facilities were constructed by the Township with bond proceeds in 2001.

The Township reports the Convention Center lease as a capital lease based on the lease terms and the requirements of generally accepted accounting principles. The related capital assets are restricted under the terms of the

Convention Center lease and, as such, the historical cost associated with the leased assets, including the land, has not been recorded by the Township.

Beginning in 2003, the Township recorded and began to amortize the future minimum lease payments under the Convention Center lease over the 99-year lease term. Rental payments under the lease commenced on January 1, 2005. Annual base rental amounts under the lease are equal to the annual base rental for the preceding year increased or decreased based on the change in the Consumer Price Index for all Urban Consumers (CPI-U) Houston-Galveston-Brazoria, Texas.

The Convention Center lease will generate $9,100,000 in total remaining lease payments over the term of the lease. The future minimum lease payments are $1,876,712 at a rate of 5.2791%, without adjustment for future changes in the CPI-U as described above. The amortization of the future minimum lease payments under the Convention Center lease is shown below:

	PRINCIPAL	INTEREST	TOTAL
2011	$ 927	$ 99,073	$ 100,000
2012	975	99,025	100,000
2013	1,027	98,973	100,000
2014	1,081	98,919	100,000
2015	1,138	98,862	100,000
2016-2020	6,659	493,341	500,000
2021-2025	8,612	491,388	500,000
2026-2030	11,138	488,862	500,000
2031-2035	14,405	485,595	500,000
2036-2040	18,630	481,370	500,000
2041-2045	24,095	475,905	500,000
2046-2050	31,163	468,837	500,000
2051-2055	40,304	459,696	500,000
2056-2060	52,127	447,873	500,000
2061-2065	67,418	432,582	500,000
2066-2070	87,194	412,806	500,000
2071-2075	112,771	387,229	500,000
2076-2080	145,850	354,150	500,000
2081-2085	188,633	311,367	500,000
2086-2090	243,966	256,034	500,000
2091-2095	315,529	184,471	500,000
2096-2100	408,084	91,916	500,000
2101	94,986	5,014	100,000
Total	$ 1,876,712	$ 7,223,288	$ 9,100,000

The Township has retained all debt associated with building the leased facilities. Township management expects the additional activities related to the Convention Center lease to benefit the Township generally through expanded economic development. At December 31, 2010, the principal amount of the Township's remaining debt on bonds issued to construct the leased facilities was $42,355,000.

Operating Lease – Parking Garage

On February 1, 2003, the Township and the Pavilion entered into a long-term lease whereby the Pavilion is leasing a portion of the Convention Center parking garage for a term of 20 years. Consideration for the Pavilion Lease was received by the Township prior to construction of the Convention Center parking garage in the amount of $3,550,000. The Township's costs for these facilities and related depreciation are shown below:

CATEGORY	COST	ACCUMULATED DEPRECIATION	BOOK VALUE
Land	$835,713		$835,713
Buildings (Garage)	$3,100,814	$546,566	$2,554,248

The Township reports this lease as an operating lease based on the lease terms and the requirements of generally accepted accounting principles. Accordingly, a portion of the land and facility costs as noted above are recorded in the Township's capital assets. The consideration received in advance of the construction was considered as deferred revenue and is being amortized over the term of the lease. Revenue recognized each year is $177,500.

Discretely Presented Component Units

In 2008, the Fire Department entered into an operating lease agreement with a local community college for their use of the training facility to teach fire operation training classes. In addition to collaborative training opportunities, the facility also will be used by the Fire Department to meet departmental training needs. The non-cancelable portion of the lease provides revenues to the Fire Department of $42,000 per year for the next two years plus a portion of gross revenues from certain defined training classes.

NOTE 15 – LONG-TERM DEBT

The following is a summary of the Township's long-term debt for the year ended December 31, 2010:

	BALANCE DECEMBER 31, 2009	INCREASES	DECREASES	BALANCE DECEMBER 31, 2010	PAYABLE WITHIN ONE YEAR
Primary government:					
Governmental activities:					
Revenue bonds	$ 61,395,000	$ 52,975,000	$ (42,695,000)	$ 71,675,000	$ 6,255,000
General obligation bonds		34,800,000		34,800,000	835,000
Compensated absences	25,113	280,667	(215,375)	90,405	90,405
Total governmental activities	61,420,113	88,055,667	(42,910,375)	106,565,405	7,180,405
Business-type activities:					
Notes payable	12,903		(12,903)		
Total primary government	$ 61,433,016	$ 88,055,667	$ (42,923,278)	$ 106,565,405	$ 7,180,405
Component units:					
Governmental activities:					
Notes payable	$ 13,619,500		$ (13,619,500)		
Compensated absences		$ 335,815	(318,853)	$ 16,962	$ 16,962
Total discretely presented component units	$ 13,619,500	$ 335,815	$ (13,938,353)	$ 16,962	$ 16,962

In April 2010, the Township issued $34,800,000 of Series 2010 Unlimited Tax Bonds to: (1) finance fire fighting facilities and equipment; (2) recreational facilities and equipment; (3) refinance certain existing assumed obligations incurred for capital expenditures; and (4) pay issuance costs related to the bonds. The Series 2010 Unlimited Tax Bonds were issued as current interest term bonds at interest rates ranging from 3% to 4% and are payable from ad valorem tax revenues.

In October 2010, the Township issued $40,800,000 of Series 2010 Sales Tax and Hotel Occupancy Tax Refunding Bonds to refund a portion of the Township's Series 2001 Sales Tax and Hotel Occupancy Tax Bonds. The Series 2001 bonds originally were issued to finance a convention center, an adjacent garage and hotel meeting rooms. The Series 2010 Sales Tax and Hotel Occupancy Tax Refunding Bonds were issued as serial bonds at rates ranging from 2% to 5% and are secured by a lien on pledged revenues that consist of: (1) one half of 1% of sales taxes collected within the Township, and (2) base occupancy tax received from a 7% tax on hotel room rentals within the Township. The proceeds of the bonds also were used to pay bond issuance costs of $349,755, an underwriter's discount of $143,030 and purchase a bond insurance policy for $363,504.

In December 2010, the Township issued $12,175,000 of Series 2010 Sales Tax and Hotel Occupancy Tax Bonds to finance the purchase and renovation of an administrative office facility. The Series 2010 Sales Tax and Hotel Occupancy Tax Bonds were issued as serial bonds at interest rates ranging from 4.25% to 5%. The proceeds of the bonds were used to pay issuance costs and fund a debt service reserve fund of $246,166 and $562,963, respectively.

The following table displays the total principal debt outstanding by issuance as of December 31, 2010:

DESCRIPTION	ISSUANCE DATE	INTEREST RATES	FINAL MATURITY DATE	OUTSTANDING PRINCIPAL AMOUNT
Series 2001 Sales Tax and Hotel Occupancy Tax Bonds	June 1, 2001	4%-5.625%	March 1, 2027	$1,555,000
Series 2009 Revenue Bonds	March 1, 2009	1.25%-5.1%	March 1, 2028	$17,145,000
Series 2010 Unlimited Tax Bonds	April 22, 2010	3%-4.125%	March 1, 2030	$34,800,000
Series 2010 Sales Tax and Hotel Occupancy Tax Refunding Bonds	October 1, 2010	2%-5%	March 1, 2027	$40,800,000
Series 2010 Sales Tax and Hotel Occupancy Tax Bonds	December 1, 2010	3.5%-4.75%	March 1, 2026	$12,175,000

Annual debt service requirements to maturity are as follows:

	PRINCIPAL	INTEREST	TOTAL
2011	$ 3,545,000	$ 6,320,022	$ 9,865,022
2012	4,520,000	3,944,549	8,464,549
2013	4,635,000	3,797,244	8,432,244
2014	4,790,000	3,614,654	8,404,654
2015	4,970,000	3,414,480	8,384,480
2016-2020	27,630,000	14,125,168	41,755,168
2021-2025	33,330,000	8,304,326	41,634,326
2026-2030	23,055,000	1,819,801	24,874,801
Total	$ 106,475,000	$ 45,340,244	$ 151,815,244

At December 31, 2010, the Township had $15,140,000 of authorized but unissued unlimited tax bonds.

Discretely Presented Component Units

The Fire Department debt obligations at December 31, 2009 were transferred to the Township when title of the associated capital assets was transferred to the Township on January 1, 2010.

NOTE 16 – SIGNIFICANT PROVISIONS OF THE TOWNSHIP ACT

The Township's enabling legislation (the Act) is amended from time to time. Certain provisions of the Township Act, in effect as of December 31, 2010, are summarized below:

General and Specific Powers of the Township

The services, projects, and improvements provided by the Township are accomplished under the powers conferred by the Act, Chapter 289, Acts of the 73rd Legislature, Regular Session, 1993 and as thereafter amended. The Township will not act as the agent of any private interests, although many private interests will be benefited by the Township as will the general public.

The Township Board has the authority to: 1) levy, assess, and apply taxes, fees, and charges for Township authorized purposes; 2) add territory on its own motion and without petitions only after notice and public hearing and subject to a confirmation election; 3) conduct public hearings required for certain rules and regulations; 4) enforce rules and ordinances in accordance with Section 54.001, Local Government Code; 5) create an economic development zone on its own motion or upon receipt of a petition of property owners and exercise economic development powers of Chapter 380, Local Government Code; 6) borrow money or issue bonds for the corporate purposes of the Township; 7) undertake separately or joint improvement projects for the Township; 8) contract off-duty peace officers for special event, holiday, or traffic congestion public safety services; 9) contract with any person, entity, or other political subdivision for the accomplishment of any of the Township's purposes with limited exceptions for public safety personnel; and 10) dissolve the Township at any time upon the repayment, discharge, or assumption by other governmental entity of any outstanding indebtedness or contractual obligations.

In addition, the Township Board may call elections for: incorporation as a municipality or the release from the extraterritorial jurisdiction of a municipality; adoption of another form of local government; authorizing or discontinue the levy of taxes; authorizing the issuance of bonds or other indebtedness; election of directors or reorganization of the Board; or the addition or exclusion of territory.

The Township's powers and authority is limited, in that it: 1) does not have the power of eminent domain; 2) may not directly employ peace officers; 3) may not directly employ any fire protection personnel before January 1, 2012; and 4) may not impose an impact fee or assessment on a single family residential property or a residential duplex, triplex, quadruplex, or condominium.

Board of Directors

The Act requires that each director appointed or elected take the oath of office prescribed by the constitution for public officers and execute a bond for $10,000 payable to the Township and conditioned upon the faithful performance of duties. All bonds of the directors shall be approved by the Board. Qualifications to serve as a director include: 1) a person at least 18 years of age and 2) be a resident of the Township. Directors are not compensated for service on the Board.

Bonded Indebtedness

The Act authorizes the Township to issue bonds in accordance with specific sections of the Local Government Code. Bonds issued by the Township for the primary purpose of providing water, sewage or drainage facilities must be approved by the Texas Commission on Environmental Quality in the manner provided by Chapter 49 of the Texas Water Code.

Bonds issued by the Township may be secured and made payable, wholly or partly, by a pledge of any part or combination of: the net proceeds of a specified portion, but not more than one-half percent of the sales tax, the hotel occupancy tax, an ad valorem tax, or any contracted revenues or proceeds including those from the Zone.

Other Provisions

The Township may contract with area municipalities, other political subdivisions, corporations and individuals to achieve its purposes. Contracts for security services and interlocal contracts with area municipalities and other political subdivisions for law enforcement assistance within the Township have been entered into by the Township.

In addition, following a public hearing, the Township may adopt and enforce rules and regulations related to real property owned by the Township or any real property in which the Township has an interest. Any and all fines or other penalties collected for a violation of a Township rule is remitted to Montgomery County.

For purposes of open meetings and records laws and application of related statutes, the Township is considered a municipal utility district. In addition, competitive bids for construction work or the purchase of material or equipment is required for expenditures greater than $25,000.

NOTE 17 – OPERATING LEASE AGREEMENTS

In September 2003, the Township entered into an operating lease agreement for office space starting January 2004. Monthly payments for the office lease began in September 2004 at a monthly base rent of $21,769 through June 2009, and $22,639 per month for the remaining lease term. Pursuant to the Transition Agreement, the Township assumed the responsibility of other office space that was used by the Associations. This office space is currently being used by Township employees and has a monthly base rent of $28,028 through December 31, 2011. Additionally, the Township leases certain office and telephone equipment with non-cancelable terms through 2015. Annual payments under these leases are shown below:

	OFFICE	EQUIPMENT	TOTAL
2011	$ 723,879	$ 242,161	$ 966,040
2012	271,674	211,669	483,343
2013	271,674	164,863	436,537
2014	203,756	147,210	350,966
2015		12,604	12,604
Total	$ 1,470,983	$ 778,507	$ 2,249,490

During the year ended December 31, 2010, the Township incurred lease expenditures of $1,049,045 in governmental funds and $1,025,030 in the government-wide financial statements that included $90,054 in accrued rent that will be paid over the remaining lease term.

Discretely Presented Component Units

CVB and the Fire Department have entered into operating leases for office equipment and a mobile office. Annual payments under these leases are shown below:

2011	$ 55,915
2012	41,405
2013	35,153
2014	20,941
2015	6,892
Total	$ 160,306

During the year ended December 31, 2010, the component units incurred lease expenditures of $90,000.

NOTE 18 – POSTEMPLOYMENT BENEFITS

Primary Government

All Township employees participate in Social Security. The Township contributes 6.2% of eligible wages paid. In 2010, the Township paid $691,729 for Social Security benefits of its employees.

Deferred Compensation Plan

The Township maintains, for its employees, a tax-deferred compensation plan that meets the requirements of Internal Revenue Code Section 457. The plan was originally established by the Township in 2000 and restated in January 2010. Principal Life Insurance Company (Principal) provides administrative, recordkeeping and investment services to the plan and Principal Trust Company serves as the Directed Trustee. The Township serves as the plan administrator. Participants may contribute up to 85% of their compensation to the plan subject to Internal Revenue Code limits. Payments from the plan are not available to employees until termination, retirement, death, or unforeseen emergency. The plan's trust arrangements are established to protect deferred compensation amounts of employees under the plan from any other use other than intended under the plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under plan provisions are disbursed bi-weekly by the Township to Principal. Principal handles all funds in the plan and processes the investment decisions made by participants and disburses funds to participants in accordance with plan provisions. Employees contributed $694,365 to the Section 457 plan in 2010.

Defined Contribution Plan

The Woodlands Community Service Corporation previously established The Woodlands Community Service 401(k) Plan on January 1, 1997. The plan's terms, provisions and conditions were completely restated on January 1, 2010 to a governmental plan. On January 1, 2010, the Township became the plan administrator and the plan name became The Woodlands Township 401(a) plan, a defined contribution plan that meets the requirements of Internal Revenue Code Section 401(a). Principal Life Insurance Company (Principal) provides administrative, recordkeeping and investment services to the plan and Principal Trust Company serves as the Directed Trustee. The Township may make a discretionary matching contribution to the plan at a rate that it determines annually. The contribution rate was 14% of eligible employees' salaries for 2010, provided an employee made salary deferral contributions of 7% of their salary. For the year ended December 31, 2010, the Township's contributions to this plan totaled $978,805. The plan is fully funded on a current basis.

Other Postemployment Benefits

As of January 1, 2010, the Township adopted a policy providing postemployment medical benefits to certain eligible employees. Accordingly, for the fiscal year ended December 31, 2010, the Township has implemented GASB No. 45 which addresses the reporting and disclosure requirements for other postemployment benefits (OPEB). GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions Plans*, requires the long term cost of retirement health care and obligations for other postemployment benefits be determined on an actuarial basis and reported similar to pension plans.

Plan Description – Employees of the Township and its component units whose age plus years of service is at least 75 (69.5 for Fire Department employees who are covered by the collective bargaining agreement) with a minimum of 10 years of service are eligible for a medical subsidy for those who chose to remain enrolled in the Township's self insured medical plan. The Township provides a 50% subsidy of the employee only premium up to a maximum of $300 per month toward all tiers of coverage. Additionally, the Township provides retirees with HRA contributions of $1,500 for those having employee only coverage and $3,000 for those having employee plus dependent coverage. Eligibility for the Retiree Medical Plan and HRA contributions end when the retiree becomes eligible for Medicare.

The Township contracts with an actuarial consultant to provide an actuarial valuation of the Town's OPEB liability under GASB Statement No. 45. The most recent OPEB liability actuarial valuation was completed in May 2011 for the year ended December 31, 2010. A copy of the report may be obtained by contacting the Finance Director of the Township.

Funding Policy – GASB Statement No. 45 does not require the prefunding of postemployment benefit liabilities. The Township currently funds these benefits on a pay as you go basis. No assets have been segregated and restricted to provide postemployment benefits.

Annual OPEB Cost – The annual required contribution (ARC) is an actuarially determined rate representing a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period not to exceed 30 years. OPEB costs for the year ended December 31, 2010 and the annual required contribution is as follows.

Normal cost	$	39,000
Amortization of unfunded liability		26,000
Total ARC	$	65,000

Funding Status and Funding Progress – The Township's annual OPEB, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ending December 31, 2010 is as follows:

ARC	$65,000
Actual contribution	$23,612
Percent contributed	41.5%
Net OPEB obligation	$41,388
Actuarial accrued liability	$643,000
Plan assets	$0
Unfunded actuarial accrued liability	$643,000
Covered payroll	$18,820,072
Unfunded actuarial accrued liability as a percentage of covered payroll	3.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision and as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress is to provide multi-year information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. As this is the first year of the plan and implementation, this schedule is not presented.

Actuarial Methods and Assumptions – Actuarial valuations include projections based on the substantive plan as understood by the employer and eligible employees and include the type of benefits in force at the date of the valuation and the understood cost sharing arrangements between the Township and eligible employees. The actuarial valuation date was January 1, 2010 and utilized the Projected Unit Cost method. It was assumed that postemployment benefits would continue to be paid from general assets that consist of short-term investments. The valuation results were developed assuming a discount rate of 4.5% and assumed a health care cost trend rate assumption of 11% in the year ending December 31, 2010 and grading down by 0.5% each year to an rate of 5% in 2021. The remaining amortization period is considered to be 30 years. The valuation assumes that 10% of future retirees will participate and enroll under this plan. Actual participation results will be monitored in the future as there is no recent data to support this assumption. Employee salary assumptions are not applicable to the valuation.

Discretely Presented Component Units

All Fire Department employees are eligible to participate in a 401(k) defined contribution plan. Plan funds are held by Fidelity Management Trust Company and invested in mutual funds. All investment decisions are self-directed by participants in the plan. The Fire Department contributed $1,138,000 to the plan in 2010 and Fire Department employees contributed $792,500. The plan is administered by the Fidelity Management Trust Company.

NOTE 19 – RISK MANAGEMENT

Primary Government

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; personal injuries; and natural disasters. The risk of loss is covered by commercial insurance carriers and through Texas Municipal League's Intergovernmental Risk Pool (TML-IRP). The participation of the Township in TML-IRP is limited to payment of premiums for real and personal property, errors and omissions, general liability, and workers' compensation coverage. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Discretely Presented Component Unit

Risk Management – The Fire Department and the CVB are covered by specific inclusion in the policies of the primary government.

Litigation – The Fire Department is a defendant in various lawsuits arising in the normal course of its operations which, in the opinion of management, will not have a material adverse impact on the Fire Department's financial position.

Health Benefits – The Fire Department maintains a self-insurance program for its employee's health benefits. Under this program, the Fire Department is responsible for claims of $1,500 per person and $3,000 per family. The Fire Department maintains third-party insurance coverage for any losses in excess of such amounts. The unfunded contingent liability for health benefits was nominal.

Site Remediation – In 2005, the Fire Department entered into a contract with a consulting company to install, operate, and maintain a remediation system to remove phase-separated hydrocarbons and dissolved-phase hydrocarbons at one of the fire stations. Installation of the system was completed in 2005 and certain operation and maintenance procedures were performed in 2006. In August 2006, the operation of the remediation system was terminated until further notification from the State of Texas. In January 2011, the Fire Department was notified that it had met the closure requirements of Title 30, Texas Administrative Code, Chapter 334 and applicable program guidance and that no further corrective action is necessary.

Collective Bargaining Unit – The firefighters and dispatchers of the Fire Department (approximately 79% of total employees) are covered under a collective bargaining agreement between the Fire Department and The Woodlands Professional Firefighters Association Local 3846. The agreement extends through December 31, 2011.

APPENDIX B

SPECIMEN OPINION OF BOND COUNSEL

WE HAVE ACTED AS BOND COUNSEL for The Woodlands Township (the "Township"), which we also represent on certain other matters, in connection with the issuance by the Township of its $4,205,000 Unlimited Tax Bonds, Series 2012, initially dated as of February 1, 2012 (the "Bonds").

WE HAVE ACTED AS BOND COUNSEL for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. In such regard, we have not investigated or verified original proceedings, records, data or other material, but have relied upon certificates executed by officers, agents and representatives of the Township and other public officials. We have assumed no responsibility with respect to the financial condition of the Township or the reporting or disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Township's Official Statement, dated ___________, 2012, has been limited as described therein.

IN OUR CAPACITY AS BOND COUNSEL, we have participated in the preparation of and have examined a transcript of certified materials pertaining to the Bonds which contains certified copies of certain proceedings of the Board of Directors of the Township, including the resolution authorizing the issuance, sale and delivery of the Bonds (the "Bond Resolution"), together with customary certificates of officers, agents and representatives of the Township, and other certified showings relating to the authorization and issuance of the Bonds, and we have examined executed Bond No. IR-13, maturing March 1, 2013.

BASED ON SAID EXAMINATION, IT IS OUR OPINION THAT:

1. The Township has been validly created and organized; the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective; and therefore, the Bonds are valid and legally binding obligations of the Township, and all taxable property in the Township is subject to the levy of ad valorem taxes to pay the same, without legal limitation as to rate or amount.

2. Except as discussed below, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion.

3. The Bonds are not "private activity bonds" within the meaning of Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations.

4. The Bonds are "qualified tax-exempt obligations" under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion.

In providing the foregoing opinions, we have relied upon representations of the Township with respect to matters solely within the knowledge of the Township, which we have not independently verified, and we have assumed the accuracy and completeness of, and the Township's continuing compliance with, the representations and covenants contained in the Bond Resolution and in the Township's federal tax certification, of even date herewith, pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete, or the Township fails to comply with such covenants, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the acquisition, ownership, carrying or disposition of the Bonds, nor do we express any opinion with respect to any legislation, rules or regulations affecting the Bonds which may be enacted or promulgated after the date hereof.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to a "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest, such as interest on the Bonds).

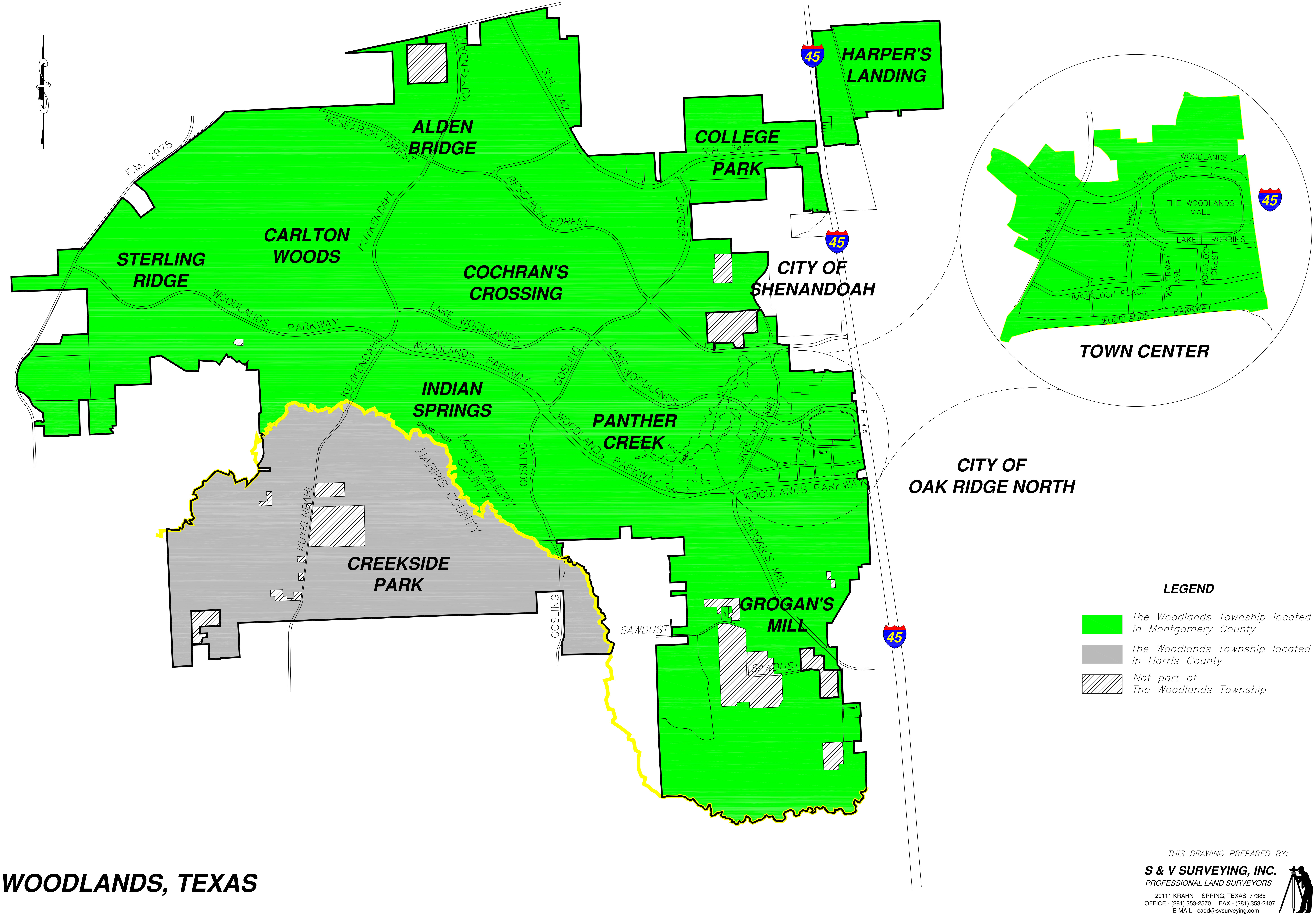
The Township's obligations with respect to the Bonds are subject to limitation by applicable laws relating to bankruptcy or reorganization and other similar laws which may from time to time affect the rights of creditors of political subdivisions generally.

The Bonds are obligations solely of the Township and are not obligations of the State of Texas, Montgomery County or any other entity.

APPENDIX C

MAPS

THE WOODLANDS TOWNSHIP BOUNDARY MAP



THE WOODLANDS, TEXAS

THE WOODLANDS TOWNSHIP LOCATION MAP