



February 1, 2007

The Honorable Mayor and Members of the City Council
City of The Colony, Texas

The Finance Department of the City of The Colony is pleased to submit the complete Comprehensive Annual Financial Report of the City of The Colony, Texas, for the fiscal year ended September 30, 2006.

This report is published to provide the City Council, Management Staff, our Citizens and other interested parties with detailed information concerning the financial condition and performance of the City Government. Responsibility for the accuracy and completeness of the presented data and the fairness of the presentation, including all disclosures, rests with the City of The Colony.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of the operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

THE REPORT

The Comprehensive Annual Financial Report is presented in three major sections: Introductory, Financial, and Statistical. The Introductory Section includes a list of principal City Officials, this transmittal letter, and an organizational chart of the City Government. The Financial Section includes the Management's Discussion and Analysis (MD&A) and the basic financial statements. This section also includes the independent auditor's report on the basic financial statements. The MD&A provides narrative introduction, overview, and analysis. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Statistical Section includes selected tables of comparative economic and financial data, generally presented on a multi-year basis, as well as demographic and other pertinent miscellaneous and operational statistics.

The Financial Statements included in this report were prepared in accordance with accounting principles generally accepted in the United States of America for local governments as prescribed by the Governmental Accounting Standards Board (GASB), The National Council on Governmental Accounting (NCGA), and the American Institute of Certified Public Accountants (AICPA). The financial statements have been audited by the independent accounting firm of Certified Public Accountants, Weaver & Tidwell L.L.P., whose report is included herein.

PROFILE OF THE GOVERNMENT

The City was incorporated in 1977 and operates under a Home Rule Charter, adopted by voters in 1979, with a Council – Manager form of government. The City Council is comprised of a Mayor and six Council Members who enact local legislation, determine policies, and adopt the City’s annual budget. The Mayor and Council Members are elected for three-year staggered terms. The City Manager is appointed by the City Council and is responsible to them for the management and proper administration of the affairs of the City. All funds and accounts included in the financial section of this report are under the control of, and dependent on, the City and its elected officials.

A full range of municipal services provided by the City includes general administrative services, public safety (police, fire, and emergency medical services), municipal court, public works, library, parks and recreation, planning and zoning, public improvements, code enforcement, and water and wastewater utilities. Sanitation collection services are provided through private contractors with sanitation fees added to municipal utility bills. Elementary and secondary education services within the City are provided by the Lewisville Independent School District. The City Council has no oversight responsibility over the school district, and accordingly financial data for this entity are not included in the basic financial statements in this report.

The City is accountable for The Colony Economic Development Corporation and The Colony Community Development Corporation and their financial data are included as its component units in the City’s Comprehensive Annual Financial Report. The functions of these two Corporations are covered under the Component Units section of this letter.

ECONOMIC CONDITION AND OUTLOOK

Located along State Highway 121, the “Golden Corridor”, The Colony offers easy access to one of the fastest growing major urban areas in the U.S. – the Dallas/Fort Worth Metroplex. Strategically located just 35 minutes north of Dallas and 25 minutes from the Dallas/Fort Worth International Airport, The Colony is poised to enjoy the booming growth in the area. At 15.8 square miles, The Colony is home to middle and upper class families, most of which commute and work in the North Dallas corridor and the Dallas / Fort Worth Airport area.

The Colony is a destination point:

- The City is located on 23 miles of beautiful Lake Lewisville’s shoreline.
- In 2005, over 971,000 people visited Lake Lewisville.
- The City hosts over 322,000 visitors per year in the City’s two parks located on Lake Lewisville.
- Blue Sky Sports Center attracts over 345,000 people annually to its soccer fields.
- Hawaiian Falls attracts more than 140,000 guests per year.
- Over 72,000 people visit the two famous golf courses in the City each year.
- More than 12,000 people attend the City’s annual 4th of July celebration.
- Over 50,000 people attend baseball/basketball/soccer tournaments annually.
- Over 800,000 people visit the City annually.

The City has been experiencing rapid and accelerated economic expansion for several years. Residential and commercial development started on the rise in 1996, as evidenced by the increase in

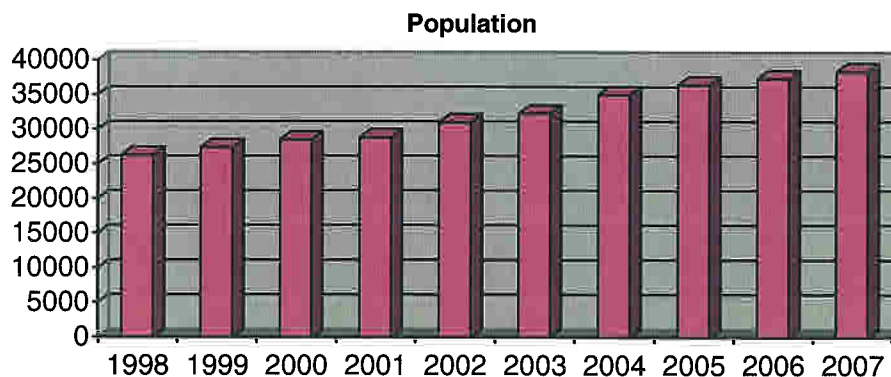
the number of building permits issued. The explosive growth slowed in 2003 and 2004, due to the slow down of the national and regional economies. Growth has resumed slightly in fiscal year 2005-06 as seen by the increase in building permits and property valuation from the Denton Central Appraisal District. Predictions have been upbeat and The Colony is poised to reap benefits from the expanding economy.

Building Permits

Fiscal Year	New Commercial & Industrial		New Residential		Total Amount
	Number	Amount	Number	Amount	
1993	1	\$100,000	15	\$1,379,850	\$1,479,850
1994	5	1,190,715	20	2,370,622	3,561,337
1995	8	4,507,358	57	8,490,834	12,998,192
1996	6	3,910,369	127	14,972,600	18,882,969
1997	98	5,326,894	214	22,511,823	27,838,717
1998	15	10,865,057	280	33,861,329	44,726,386
1999	9	12,700,157	336	50,269,028	62,969,185
2000	131	12,334,194	643	107,369,220	119,703,414
2001	8	12,179,085	822	131,903,373	144,082,458
2002	10	5,258,230	547	85,247,936	90,506,166
2003	56	47,883,338	68	11,624,830	59,508,368
2004	12	10,734,166	11	1,558,644	12,292,810
2005	27	21,804,016	12	2,776,121	24,580,137
2006	20	15,711,130	41	57,149,603	72,860,733

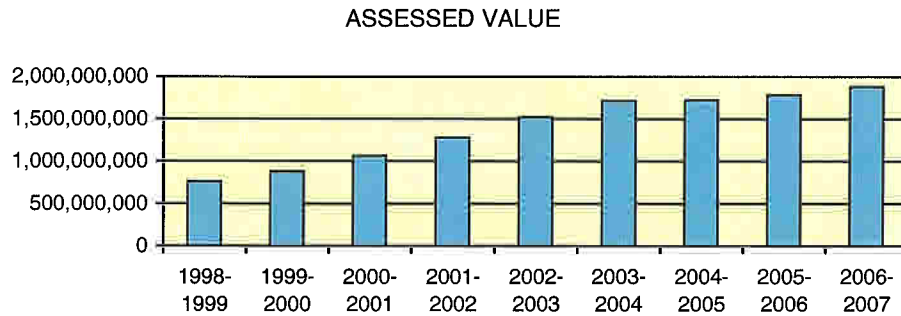
POPULATION

Over the past five years the City experienced population growth averaging 5% annually. The City's population as of January 2007 is estimated at 38,400. The Colony's population continues to increase annually with growth expected as a result from continued development at Wynwood Peninsula, Austin Ranch and along State Highway 121.



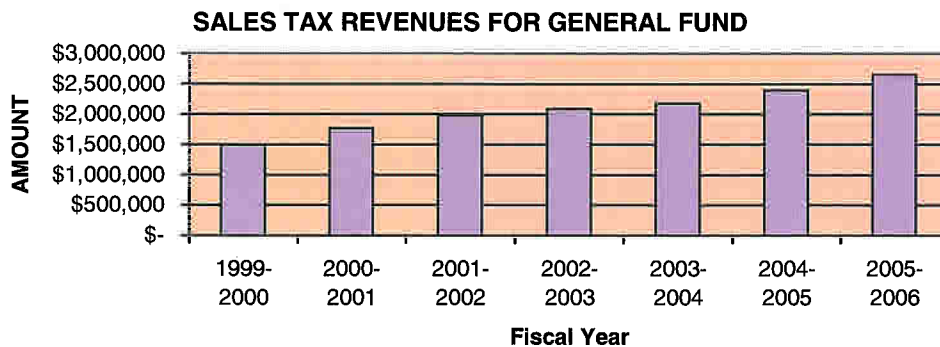
The City's fiscal year 2006-2007 Ad Valorem tax base is \$1,877,873,846 while for 2005-2006 the tax base is valued at \$1,778,538,568. This is an increase of \$99,335,278 or 5.59% from the 2005-2006 certified roll. Of this increase, new growth made up \$40.047 million. Revaluation of existing

properties accounts for \$59 million. As the economy continues to expand, the Colony will enjoy the rapid growth it has seen for the past few years.



The City continues to have impressive growth in ad valorem, franchise, sales taxes, fines and forfeitures, and charges for services in 2006. Franchise fee revenues increased by \$584,155 or 34.34%. The majority of the growth was due to a change in payment methods by the City’s largest electricity provider, TXU. Instead of an annual payment, TXU agreed to pay the City on a quarterly basis. This, combined with an extremely hot summer, has caused revenues to grow substantially. Other revenues have also seen increases due to the growth of local economy.

An excellent indicator of local economic conditions has traditionally been sales tax receipts. Sales tax revenues in the General Fund increased in 2006 by \$331,626 or 13.82% from the previous year. The growth in sales tax attributed mainly to the opening of Edward Don & Company in Austin Ranch. Edward Don & Company relocated its regional distributing center to The Colony in 2005. Sales taxes represent approximately 15.94% of the City’s General Fund total income (excluding transfers in). The sales tax rate is 8.25% of taxable sales. The City receives 1% for its General Fund, .5% for the Economic Development – 4A Fund and .5% for the Community Development – 4B Fund. The State keeps 6.25% and remits the City’s share of sales tax to the City monthly. The continued increase in sales tax collections each year is a direct result of an ever growing and strong local economy.



These higher than anticipated revenues, and tight control on costs of services, resulted in an increase of 28.32% or 1,240,598 of the fund balance of the City’s general operating fund.

PROSPECTS FOR THE FUTURE

The Colony's prospects for the future are promising and very optimistic. The State Highway 121 corridor encompasses approximately 800 acres of prime developable land zoned for commercial, retail, and business park developments. With the location of a Super Wal-Mart, Kroger, Home Depot, Edward Don's regional distribution center, and Pizza Inn's corporate headquarters, the framework is in place for new corporate relocations and commercial developments to occur in the future. City officials and the business community strongly believe that the North Central Texas economy will keep growing in the near future. Major developers continue to be leaders in residential construction and sales in the North Dallas area. Three major areas are identified for future development:

1. State Highway 121, the "Golden Corridor" runs through the heart of the City. The State is constructing State Highway 121 as an uninterrupted tollway from Frisco through The Colony to near the north entrance of the Dallas/Fort Worth International Airport. The tollway provides access to I 35E, IH 635, and the Dallas North Tollway in addition to the Dallas/Fort Worth International Airport. In exchange for Highway 121 becoming a tollway, the Texas Department of Transportation (TxDOT) has agreed to fund certain street projects in The Colony. The total funding includes \$30 million for the reconstruction of FM423 (Main Street) and \$18.3 million for other listed projects. Expansion of State Highway 121 as a Tollway and other street projects spur tremendous economic activities and attract new businesses to The Colony. The expanded roadways ease traffic congestion and improve accessibility.
2. Wynnwood Peninsula is a 600-acre mixed-use development around the 18 hole Tribute Golf Course and Country Club on the eastern shore of Lake Lewisville. This development will accommodate 1,800 single-family units, town homes and multi-family apartments, along with an integrated town center and marina. Water and wastewater services are available at the Peninsula. Construction was completed in 2006 on a 24" water main, ground storage tank and wastewater lift station. A one million gallon elevated storage tank is slated to be built within 3 to 5 years, depending on population growth.
3. Austin Ranch is a 1900 acre mixed-use development planned for multi-family residential, retail, corporate and commercial offices located south of State Highway 121. Approximately 989 acres of Austin Ranch are inside The Colony city limits. Phases one through three are complete with 1,457 apartments and homes. Phase four has just added an additional 484 units, and the introduction of home ownership. Austin Square provides 50 condominium units and more than 20,000 square feet of retail/office space. This development has won several awards, including the National Association of Home Builders; "Pillars of the Industry" award for its Phase I development. Many nearby corporate headquarters and office parks employ Austin Ranch tenants. At build-out, Austin Ranch will accommodate a population in excess of 20,000. Austin Ranch's residential community was master-planned by Peter Calthorpe, an internationally recognized land planner.

The offices at Austin Ranch are master planned for 700 acres of corporate and 200 acres of build-to-suit offices and office parks. Ultimately this area is planned to have 16 million square feet of office space and to accommodate an employee roster of 43,000. Already on site in The Colony are Pizza Inn and Edward Don.

As a contribution to The Colony's public infrastructure, the Austin Ranch developer constructed a four-lane divided road and underpass. This developer also contributed a significant amount of parkland to the City and created a private nature preserve adjacent to the parks.

MAJOR INITIATIVES FOR THE YEAR

The Colony continues enriching its community with a wide variety of outstanding recreational opportunities offered through public/private partnerships and the Community Development Corporation (CDC). New for 2007 will be the development of the Hidden Cove Marina with over 500 wet slips and the first "valet-style" 300 unit dry stack storage facility for boats in north central Texas. Cabins, group bunkhouses, a ships store and restaurant will also be added to that park this year.

Additionally, expansion of the Hawaiian Falls Waterpark will take place at the Five Star complex with a new Veggie Tales water playground, additional water slides, a stage and group activity area, and additional cabanas and shade structures.

The CDC plans to begin construction on the first phase of a 4 mile trail along the shoreline of Lake Lewisville in the fall of 2007. Trails in Austin Ranch are also being planned for construction this year, creating the first connection to a neighboring city's extensive trail system.

In addition, the City of The Colony initiated and completed several other new programs and major projects during this fiscal year.

Homeland Security Grants

In the 2005-2006 budget, the fire department received \$67,880 in homeland security funding for the implementation of a rope rescue program and the Code Red emergency telephone notification system. In addition, the fire department was awarded \$218,087 through the Assistance to Firefighter grant program. The funding was used to purchase additional portable radios, and thermal imaging cameras, install diesel exhaust removal system at each station, and implement a fitness and wellness program that included physical exams, immunizations, fitness equipment and training.

Economic Development Corporation

A non-profit corporation established to promote economic and business development continues the initiative in promoting the City of The Colony. A select group of citizens is appointed by the City Council as the board of directors to provide resources and assistance to this specialized organization. A ½ cent sales tax is collected to provide funding for economic development in the City. The budget includes a \$1.5 million dollar appropriation to fund economic development incentives. With new commercial growth, the City reaps the benefits of higher property taxes, increases in sales taxes, and concentration of employment centers. Each year, The Colony Economic Development Corporation (TCEDC) partners with the Dallas Chapter of the National Association of Office and Industrial Properties (NAIOP) as title sponsor of their annual golf tournament held at The Tribute Golf Club located in The Colony. This tournament brings brokers, developers and site selectors from all over the Dallas area to The Colony. As a participant in this

event TCEDC places a display in The Tribute's lobby, is present at one of the hotels and makes a presentation promoting the City to the tournament golfers at the evening dinner, TCEDC's involvement with NAIOP in this event introduces the NAIOP membership to development opportunities in The Colony.

TCEDC conducts an ongoing multilevel marketing program designed to attract commercial development. In 2006 this program received national recognition from the International Economic Development Council who awarded the program first place in their paid publication advertisement category. In addition to published advertisements, this program also consists of the TCEDC staff representing the City at local, state and national trade shows, and within professional organizations whose membership consists of commercial developers, brokers and site selectors.

Since inception in 1998, TCEDC has been instrumental in using its sales tax fund to attract new business to the City and will continue to play a major role in expanding the commercial side of the City's tax base.

New Corporate Citizens and Development

Edward Don & Company (Edward Don), a distributor of food service equipment and supplies, is one of the newest additions to the Austin Ranch commercial development in The Colony, bringing 100 employees to the area. The Chicago-based company, formed in 1921, is a supplier of restaurants, health care providers, country clubs, schools and universities, and government institutions. The new 187,000 square foot warehouse spans approximately 11 acres of land in Austin Ranch. Edward Don serves more than 70,000 customers throughout the world and employs more than 1,200 people. In 2002, the company won the Better Business Bureau business ethics award.

A developer, Jackson-Shaw/Cascades Limited Partnership is developing and constructing a mixed-use development on 92 acres of land located at the northeast corner of State Highway 121 and Morningstar Drive in the City of The Colony. It includes town homes, patio homes, retail, office and flexible industrial space. The Colony Economic Development Corporation is providing approximately \$3.6 million in economic incentives for infrastructure constructed by Jackson-Shaw. The development will serve as a catalyst for increased economic activities. The City will benefit from the additional tax revenues and increased daytime population.

Phase IV Austin Ranch has completed the construction of three-story town homes and upscale apartments. The development is located in the southeast portion of The Colony on Windhaven Parkway. The site plan and final plat for Phase V is currently under review by staff and consist of 20.99 acres, located at the southeast corner of Windhaven and Saintsbury. Retail, restaurant, bank uses, and 500 multi-family units are being planned for the site.

Upgrade of Wastewater Treatment Plant

Work is substantially complete on upgrading the City's 25 year old Stewart Creek Wastewater Treatment Plant, which costs \$14 million. The Colony increases the City's wastewater treatment capacity from 3.4 million to 4.5 million gallons per day, which is treated and discharged into Lake Lewisville. The upgrade will remove nitrogen, as required by the Texas Commission on

Environmental Quality, as well as increase the treatment capacity, while allowing the aerators to run non-stop, thereby reducing odor considerably. The upgrade provides needed wastewater treatment capacity to 2015.

Water and Sewer Rates

On September 18, 2006, the City Council voted to increase the water and sewer rates by 9.75% in order to maintain services and to finance various water and sewer infrastructure projects. These projects will provide for future growth as well as insure compliance with EPA regulations. The water and sewer rates went into effect as of October 1, 2006.

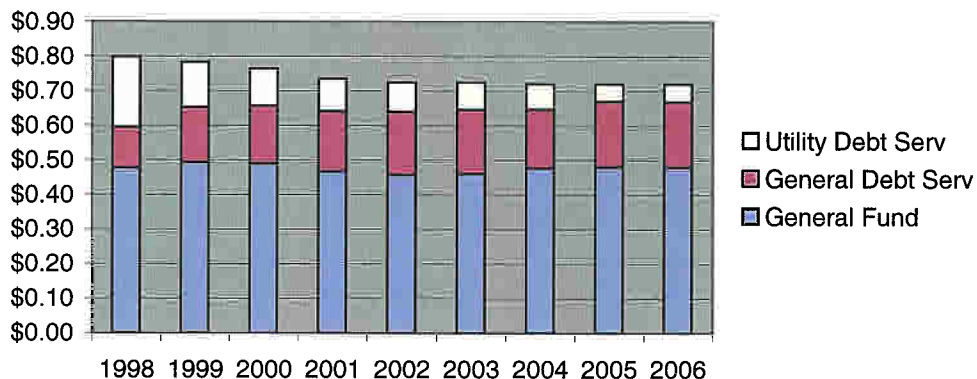
Capital Improvements and Debt Services

Various enhancements including streets, construction of municipal buildings, vehicles, equipment, computer hardware and software, improvements and extensions on the City’s water and sewer system are provided for in the budget. All these capital improvements are going to be financed by the issuance of approximately \$16.25 million of Certificates of Obligation in August 2007. The City’s general obligation bonds are rated “A+” by Standard & Poor’s and “A2” by Moody’s. The City’s Revenue Bond ratings are “A3” by Moody’s and “A-” by Standard and Poor’s. The bond rating agencies cited the City’s strong financial performance, moderate debt burden, and tax base growth as strong positive factors for the City. Due to growth in assessed value and a healthy fund balance, the debt issuance does not affect the City’s Ad Valorem tax rate, and provides additional stimulus to the local economy and quality of life.

Ad Valorem Tax

The ad valorem tax rate stood at \$.72 per \$100 valuation for fiscal year 2005-2006. The City’s expectation is to gradually reduce the rate upon new growth in property value.

TAX RATE CHART



Fleet and Vehicle Replacement

The City continues to analyze the entire vehicle inventory in an effort to manage its aging fleet and to coordinate the purchasing of replacement items. Some of the vehicle fleet will be replaced with

part of the proceeds from the August 2007 Certificates of Obligation sales. Long range planning and coordination are utilized since the replacement of appropriate vehicles is a multi-year endeavor.

FOR THE FUTURE

Several challenges and opportunities face the City of The Colony in the future years and they are itemized below:

Strategic and Long-Range Planning

The City has entered into a higher phase of planning for the near future and beyond, starting in the early part of 1998 and continuing into the present. All departments provide five-year forecasts of projected goal enhancements and capital needs. The purpose is to start strategically planning for growth in the City's operational and capital budgets. The strategic planning includes long-range mission statements as well as major future goals and anticipated programs.

These include extra personnel needs, extra operational expenses, and ties to a long-range capital improvement program, which includes future capital projects. This phase of planning allows the City to focus further into the future than one year at a time. This process also formalizes the City's long-term policies and goals.

Infrastructure

The City Council has prioritized the repairing of streets and other infrastructure as the most important objectives in moving the City into the future. The City has issued over \$18.5 millions in debt the past few years for street improvements. With the January 2006 sales of the \$21 million Certificates of Obligation, the City is using \$2.94 million for incentives for street projects. The plan is to issue \$3 to \$5 million debt a year to repair streets and other infrastructure for the next few years. Such commitment is essential to draw business and residential development to the City.

Technologies

The municipal facilities are located in various parts of the City with their own computers and software. One of the City's goals is to link up, with the aid of computers, all City facilities and operations. This will allow better communications and faster coordination between departments. The City has been making great strides to provide increased quality of service to the employees and residents of The Colony, by taking advantage of a number of technological advancements; all of which are critical to the successful completion of our current long-range initiatives. The City has successfully completed the installation of a new core switch, increasing the throughput and reliability of the network at City Hall. Another significant project was the successful wireless connection to various city locations which greatly increased download speed. The design, installation and configuration of a new network (EMC) data storage device will significantly increase the security and speed at which data can be retrieved by city personnel while increasing the redundancy and integrity of the data. The City is planning on leasing all computer equipment in fiscal year 2006-2007. This will provide new equipment with up-to-date technologies and a standard platform which will simplify the management of all computer equipment. The continuous upgrading with newer technologies allows the City to take giant steps in facing the future.

Salary Adjustments and Upgrades

Different positions and departments are continuously being reviewed and analyzed for appropriate salary levels and adequate personnel. Through the Human Resources office, the City has adjusted various positions for salary adjustments and will continue to evaluate each department on an as needed basis. The Human Resources Department has been successful in keeping the City competitive in wages with the surrounding cities.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The City's accounting records for general government operations are maintained on a modified accrual basis with revenues being recorded when available and measurable, and expenditures being recorded when the goods or services are received and the liabilities are incurred. Accounting records for the City's Water and Wastewater Utility Fund and the Fleet Service Fund are maintained on an accrual basis.

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable, but not absolute, assurance regarding:

The safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that:

The cost of a control should not exceed the benefits likely to be derived and the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe the City's internal accounting controls are designed to adequately safeguard loss of assets from unauthorized use or disposition and provide reasonable assurance of proper recording of financial transactions and maintaining accountability for assets.

The Home Rule Charter of the City of The Colony provides for the preparation and submission of the budget covering the next fiscal year by the City Manager. The preliminary budget shall be submitted to the City Council prior to the thirty-first day of July each year. The fiscal year begins on the first day of October of each calendar year and ends on the thirtieth day of September of the following year. The fiscal year is also the accounting and budget year.

The City Council is required to select a date and place for a public hearing. A notice of the public hearing date must be published not less than ten days prior to the hearing. At this formal public hearing, the City Council gives all interested citizens an opportunity to express their opinions concerning the proposed budget.

The City Charter mandates the City Council to adopt the budget submitted, making such changes as in their judgment, the law warrants, and is in the best interests of the taxpayers' demand. The City Council usually adopts the budget ordinance and approves the ad valorem tax rate during the same council meeting.

Budgetary control is maintained and emphasized by the issuance of monthly financial statements, which reflect current and cumulative fiscal year expenditures in comparison to appropriated budget amounts. One of the main objectives of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget adopted by the City Council. Financial activities of the General Fund, Special Revenue Fund, Debt Service Fund, the Enterprise Fund and Internal Service Fund are included in the annual appropriated budget.

Financial plans for Capital Project funds are reviewed and approved by the City Council. The level of budgetary control at which expenditures cannot legally exceed the appropriated amount is established by departmental appropriation within an individual fund. Unencumbered budgeted amounts lapse at the end of the fiscal year.

At the close of each fiscal year, any unencumbered balance of appropriation reverts to the fund from which appropriated, and becomes available for re-appropriation for the next fiscal year.

The Council may transfer an unencumbered appropriation balance or portion thereof from one office, department, or agency to another, at anytime. The City Manager has authority, with Council approval, to transfer appropriation balance from one expenditure account to another within a single office, department, or agency of the City.

COMPONENT UNITS

The City of The Colony has initiated both a 4A and a 4B sales tax programs for the benefit of the community. The 4A program is called the Economic Development Corporation and is geared around bringing in new businesses and commercial establishments. It is also geared to motivate and assist already established businesses within the City through set criteria. The 4B program is called the Community Development Program, which is geared to create new parks and recreation facilities. The primary goal of this program is to improve our current parks and park equipment. Both corporations are managed by their own boards, which report to the City Council. Their budgets as well as their expenditures are approved first by the individual board and then approved by the Council.

FINANCIAL MANAGEMENT

The Colony, like all other north Texas cities, is in the midst of economic uncertainties. Managing The Colony in such current competitive economic climate requires prudent financial management.

The City Council formally adopted Financial Management Policies in November 2002 to guide the City's financial operations. Its purpose statement reads in part:

“The overriding goal of the Financial Management Policies is to enable the City to achieve a long-term stable and positive financial condition... The watchwords of the City's financial management include integrity, prudent stewardship, planning, accountability, and full disclosure. The purpose of the Financial Management Policies is to provide guidelines for the financial management staff in planning and directing the City's day-to-day financial affairs and in developing recommendations to the City Manager. The scope of the policies spans accounting, auditing, financial reporting, internal control, operating and capital budgeting, revenue management, cash management, expenditure control, and debt management.”

CASH MANAGEMENT

The City Council has adopted a written investment policy which complies with all legal requirements of Texas House Bill 1488 regarding governmental investment practices and policies. This policy is reviewed, modified, and approved by the Council annually. The foremost overriding objective in the City of The Colony Investment Policy is the safety of principal in the management of financial assets. The total investment portfolio is designed to remain liquid to meet all financial operating requirements while maintaining a market average rate of return throughout budgeting and economic cycles.

Cash is deposited on a daily basis into an interest demand account. The City's investments were comprised of Texas State Government Investment Pool (TEXPOOL), Local Government Investment Cooperative (LOGIC), and US agencies notes. The average yield on investments was 5.26% for TexPool and 5.29% for LOGIC. Investment income includes appreciation in the fair value of investments. Increases in fair value during the current year, however, do not necessarily represent trends that will continue nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

DEBT MANAGEMENT

In November 2002, the City Council approved Debt Management Policies for the City. The Debt Management Policies set forth comprehensive guidelines for the financing of capital expenditures.

The ratio of net bonded debt to assessed valuation and the amount of bonded debt per capita are useful indicators of the City's debt position relative to other taxing entities for municipal management, citizens, and investors. This data for the City of The Colony for fiscal years ended September 30, 2006 and 2005, is presented below:

	<u>2006</u>	<u>2005</u>
Net Bonded Debt	\$41,297,219	\$42,286,527
Ratio of Debt to Assessed Value	2.32%	2.45%

RISK MANAGEMENT

The City of The Colony participated in the Texas Municipal League Joint Insurance Fund for employee health, vehicle damage and liability, fire, casualty, general liability, police liability, and workers compensation insurance. Premiums had been paid monthly or annually from budgeted insurance expense accounts in the General and Enterprise funds. Losses are paid out of the pooled statewide insurance fund. Periodically the City invites its insurance carriers, Texas Municipal League, to conduct training classes on safety issues.

EMPLOYEES' RETIREMENT SYSTEM

The City provides retirement benefits for all of its full-time employees through a statewide nontraditional, joint contributory defined contribution plan in the Texas Municipal Retirement System (TMRS). TMRS is an agent multiple-employer public employee retirement system composed of municipalities whose memberships are on a voluntary basis.

The retirement contribution rate for all full-time employees is seven percent (7%), which the City matches with monetary credit at the rate of 2 to 1 as adopted by the City Council. Under the State law governing the Texas Municipal Retirement System, the actuary annually determines the City's contribution rate. The City's actuarial rate of 12.84% effective January 1, 2006, is sufficient to fund current year's cost and to amortize the unfunded pension benefit obligation over a 25-year period.

DEFERRED COMPENSATION PLAN

The City participates in a deferred compensation plan available to all employees, which falls under Internal Revenue Code Section 457. The deferred compensation plan is no longer included in the financial statements as an Agency fund per GASB 32. The City has only fiduciary responsibilities in making timely deposits of employee contributions and selection of the plan manager. The assets in this plan are considered assets of the employee. The International City Management Association (ICMA) is the current provider of the deferred compensation.

SINGLE AUDIT

As a recipient of state assistance, the City is responsible for ensuring that an adequate internal control structure is in place for compliance with applicable laws and regulations related to the state programs. This internal control structure is subject to periodic evaluation by management and the external auditors of the City's financial statements.

As a part of the City's single audit, tests are completed to determine the adequacy of the internal control structure including that portion related to the state financial assistance programs and determine if the City has complied with applicable state laws and regulations.

INDEPENDENT AUDIT

Chapter X, Section 13, of the Home Rule City Charter of the City of The Colony requires an annual independent audit of accounts be made by certified public accountants at the close of each fiscal year. The accounting firm of Weaver and Tidwell L.L.P. performed the annual audit for the fiscal year ended September 30, 2006, which is in compliance with the City Charter requirement. The auditor's report on the basic financial statements is included in the financial section of this comprehensive annual financial report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of The Colony, Texas, for its comprehensive annual financial report for the fiscal year ended September 30, 2005. (This was the seventeenth consecutive year that The Colony has achieved this prestigious award.) In order to be awarded a Certificate of Achievement, a government must publish an easily readable

and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the year beginning October 1, 2005. The City has received the award annually since the budget year beginning on October 1, 1993. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operation guide, and a communications device.

ACKNOWLEDGEMENTS

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We would like to express our sincere appreciation individually to Gwen Mansfield, Accounting Manager; Alice Pitts, Accountant; Becky Betancourt, Accounts Technician; and Betty Pamplin, Finance Administrative Assistant, who assisted and contributed to the accurate preparation of this Comprehensive Annual Financial Report. We would also like to thank the Mayor and City Council for their interest and leadership in planning and conducting the financial operations of the City of The Colony in a responsible and progressive manner.

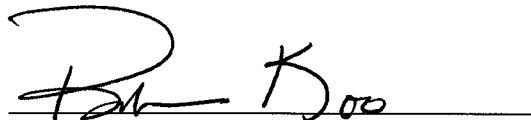
Respectfully submitted,



Dale A. Cheatham, City Manager



Antonio Johnston, Assistant City Manager



Rebecca Koo, Finance Director