

CITY OF THE COLONY
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2006

Pursuant to Generally Accepted Accounting Principles, the City of The Colony is providing this narrative overview and analysis of its financial activities for the fiscal year ended September 30, 2006. This Management's Discussion and Analysis (MD&A) provides additional information that was not contained in the Letter of Transmittal. Readers are advised to read both in order to gain understanding of the financial picture of the City. This discussion and analysis includes prior year data for comparison purposes.

Financial Highlights

- The City's total assets exceeded the City's total liabilities at the close of the most recent fiscal year by \$142,858,306. Of this amount \$13,830,900 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$10,880,750, due mainly to increases in net assets of \$4,737,005 in governmental activities and \$6,143,745 in business-type activities.
- As of the close of the current fiscal year, The Colony's governmental funds reported combined ending fund balances of \$16,224,352, an increase of \$2,607,766. \$4,469,999 are capital expenditures for streets, storm drainage, and municipal building renovations. The general fund has an increase in fund balance of \$1,240,598. The other special revenue, debt service, and capital projects funds comprised of the differences in the governmental fund balances. Out of the \$16,224,352 fund balances in the governmental funds, \$5,008,529 is available for spending at the government's discretion (unreserved and undesignated fund balance).
- At the end of the current fiscal year, unreserved and undesignated fund balance for the general fund was also \$5,008,529 or 29.61 percent of total general fund expenditures.
- The City's total long-term debt increased by \$13,824,395 (18.4 percent) during the current fiscal year. The key factor in this increase was the annual retirement of long-term debts and debt issuance of \$20,595,000.

Overview of the Financial Statements

The MD&A serves as an introduction to The Colony's basic financial statements. The Colony's basic financial statements comprise three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

The MD&A also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

The statement of net assets presents information on all of The Colony's assets and liabilities, with the difference as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of The Colony is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as incurred regardless of when cash is received or paid. Thus, revenues and expenses are reported on accrual basis even though cash flows occur in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of The Colony that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of The Colony include general government, public safety, streets, sanitation, and culture and recreation. The business-type activities of the City of The Colony include a water and sewerage operation.

The government-wide financial statements include not only the City of The Colony itself (known as the primary government), but also a legally separate Economic Development Corporation and a legally separate Community Development Corporation for which the City of The Colony is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 15-17 of this report.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental Activities – Most of the City's basic services are reported as governmental activities, including the general government, public safety, municipal court, public works, culture and recreation, planning and zoning, public improvements, and code enforcement. Taxes and intergovernmental revenues principally support these services.
- Business-type Activities – Functions that are intended to recover all or a significant portion of their costs through user fees and charges are considered as business-type activities. The business-type activity of The Colony includes Water and Wastewater Utility.
- Component Units – The City includes two separate legal entities, The Economic Development Corporation and the Community Development Corporation in its report. Although they are legally separate, they are included as the component units because the City is accountable for them. Financial information for these primary component units is reported separately from the financial information presented for the primary government.

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 Colony, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of The Colony can be divided into three categories:

1. 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of The Colony maintains twenty-six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, which are considered to be major funds. Non-major governmental funds are aggregated in total.

The City of The Colony adopts annual appropriated budgets for its General fund, Debt Service fund, Stewart Creek Park fund, Environmental fund, Hidden Cove Park fund, Special Events fund, and Hotel/Motel Taxes fund. The budgeted comparison statement has been provided for the general fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 18-21 of this report.

2. Proprietary funds – The City of The Colony maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of The Colony uses enterprise funds to account for its water and sewer operation. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of The Colony's various functions. The Colony uses an internal service fund to account for its fleet maintenance services. Because the fleet maintenance services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water sewer utility fund is considered to be a major fund of The Colony.

3. Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The city does not have a fiduciary fund.

The basic proprietary fund financial statements can be found on pages 22-27 of the 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 fund financial statements. The notes to the financial statements can be found on pages 32-57 of this report.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of The Colony. This Management's Discussions and Analysis is part of the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of the close of the 2005-2006 fiscal year, The Colony's net assets (assets exceeding liabilities) totaled \$142,858,306.

The largest portion of The Colony's net assets (88.4 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of The Colony uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of The Colony'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 generate revenues to liquidate these liabilities.

An additional portion of the City's net assets (1.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$13,830,900) may be used to meet the government's ongoing obligations to citizens and creditors.

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 18,998,399	\$ 16,386,181	\$ 23,426,475	\$ 18,409,664	\$ 42,424,874	\$ 34,795,845
Capital assets	138,245,608	136,979,515	56,643,499	42,435,296	194,889,107	179,414,811
Total assets	<u>\$157,244,007</u>	<u>\$153,365,696</u>	<u>\$80,069,974</u>	<u>\$60,844,960</u>	<u>\$237,313,981</u>	<u>\$214,210,656</u>
Long-term liabilities outstanding	43,553,818	44,570,357	45,785,986	30,945,052	89,339,804	75,515,409
Other liabilities	2,388,407	2,230,562	2,727,464	4,487,129	5,115,871	6,717,691
Total liabilities	<u>\$45,942,225</u>	<u>\$46,800,919</u>	<u>\$48,513,450</u>	<u>\$35,432,181</u>	<u>\$94,455,675</u>	<u>\$82,233,100</u>
Net assets:						
Invested in capital assets, net of related debt	99,646,935	99,960,918	26,584,212	25,114,313	126,231,147	125,075,231
Restricted	649,790	520,709	2,146,469	1,982,120	2,796,259	2,502,829
Unrestricted	<u>11,005,057</u>	<u>6,083,150</u>	<u>2,825,843</u>	<u>(1,683,654)</u>	<u>13,830,900</u>	<u>4,399,496</u>
Total net assets	<u>\$111,301,782</u>	<u>\$106,564,777</u>	<u>\$31,556,524</u>	<u>\$25,412,779</u>	<u>\$142,858,306</u>	<u>\$131,977,556</u>

At the end of the current fiscal year, the City has positive balances in all three categories of net assets, for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$10,880,750 during the current fiscal year. About all of this increase represents increases in ongoing revenues outstripping similar increases in ongoing expenses.

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Revenues:</u>						
Program revenues:						
Charges for services	\$ 3,641,276	\$ 2,903,418	\$ 12,424,630	\$ 10,058,890	\$ 16,065,906	\$ 12,962,308
Operating grants and contributions	5,322,230	1,504,198			5,322,230	1,504,198
Capital grants and contributions	1,764,383	2,036,404	2,542,627	1,043,481	4,307,010	3,079,885
General revenues:						
Property taxes	11,887,846	11,577,048	929,179	886,779	12,817,025	12,463,827
Sales taxes	2,731,402	2,399,776			2,731,402	2,399,776
Franchise taxes	1,914,347	1,703,519			1,914,347	1,703,519
Other taxes	140,229	126,585			140,229	126,585
Interest	806,866	463,229	1,040,660	623,604	1,847,526	1,086,833
Miscellaneous	270,965	74,523	482,452	18,824	753,417	93,347
Total revenues	<u>\$28,479,544</u>	<u>\$22,788,700</u>	<u>\$17,419,548</u>	<u>\$12,631,578</u>	<u>\$45,899,092</u>	<u>\$35,420,278</u>
<u>Expenses:</u>						
General government	4,076,007	3,702,048			4,076,007	3,702,048
Public safety	8,718,968	7,905,278			8,718,968	7,905,278
Public works	6,800,501	6,226,189			6,800,501	6,226,189
Culture and recreation	3,491,239	3,299,020			3,491,239	3,299,020
Interest on long-term debt	2,036,915	2,135,725	1,980,852	1,553,785	4,017,767	3,689,510
Water and sewer			7,913,860	7,041,297	7,913,860	7,041,297
Total expenses	<u>\$25,123,630</u>	<u>\$23,268,260</u>	<u>\$9,894,712</u>	<u>\$8,595,082</u>	<u>\$35,018,342</u>	<u>\$31,863,342</u>
Increase in net assets before transfers	3,355,914	(479,560)	7,524,836	4,036,496	10,880,750	3,556,936
Transfers	1,381,091	1,781,034	(1,381,091)	(1,781,034)	-	-
Increase in net assets	<u>4,737,005</u>	<u>1,301,474</u>	<u>6,143,745</u>	<u>2,255,462</u>	<u>10,880,750</u>	<u>3,556,936</u>
Beginning net assets (October 1)	<u>106,564,777</u>	<u>105,263,303</u>	<u>25,412,779</u>	<u>23,157,317</u>	<u>131,977,556</u>	<u>128,420,620</u>
Ending net assets (September 30)	<u>\$111,301,782</u>	<u>\$106,564,777</u>	<u>\$31,556,524</u>	<u>\$25,412,779</u>	<u>\$142,858,306</u>	<u>\$131,977,556</u>

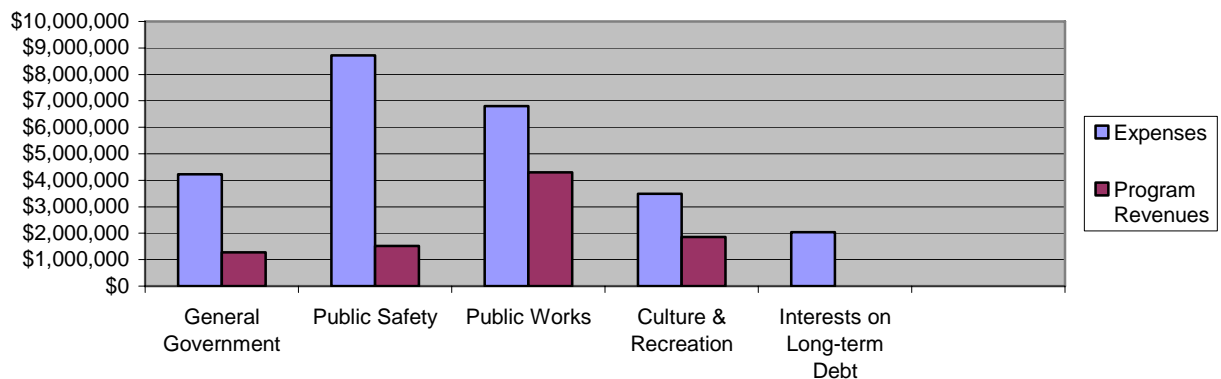
Governmental Activities. Governmental activities increased the City's net assets by \$4,737,005, thereby accounting for 43.5 percent of the total growth in the net assets of The Colony. Key elements of this increase are as follows:

Total Property taxes (including collections in the Utility Tax Supported Debt) increased by \$353,198 during the year. This increase was due to commercial and residential new development. The certified roll for 2006 went up by \$55,443,526 or 3.22%. Development of formerly zoned agricultural uses also contributed to the rise in property tax collections. General Fund sales tax collection has increased by \$331,626, while licenses and permits increased by \$186,730. Retail sales in The Colony are strong resulting in the increase in sales tax collection. The relocation of Edward Don & Company's regional distributing center accounts for the majority of the sales tax increases.

The local economy is showing signs of recovery as building permits increased from last year. Fines and forfeitures increased by \$225,646 from last fiscal year. The number of citations went up contributing to the increase in municipal court revenues. Interest earnings increased by \$343,570 due to the rising interest rates. The Federal Reserve is gradually increasing interest rates to fight inflation. In January 2005, the City is taking a more active role in investing some of its rainy day funds and funds for payment of debt service in US government agencies. In the past, all available funds were invested in pools. Franchise fees increased by \$584,794 primarily due to the change in payment methods by the City's largest utility provider TXU and the extreme weather condition in North Texas. There were also increases in other revenue sources.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. The Fire Department has used additional over-time to adequately staff both fire stations. Debt service payments have increased by \$88,968 or 4.48% to pay for the principal and interests. Multiple capital projects in streets, parks and recreations and others are underway. The projects were financed by prior and current debt issuances. In February 2006, \$20.6 millions of Certificates of Obligation was issued to finance water and wastewater infrastructure, equipment enhancements and incentives for road construction.

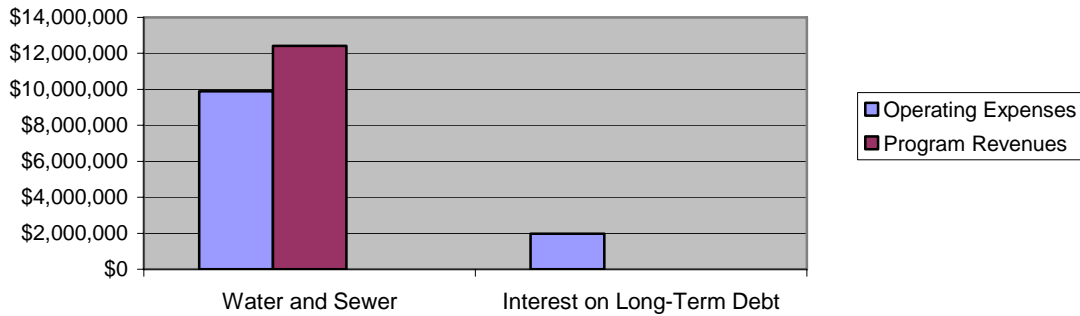
EXPENSE AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



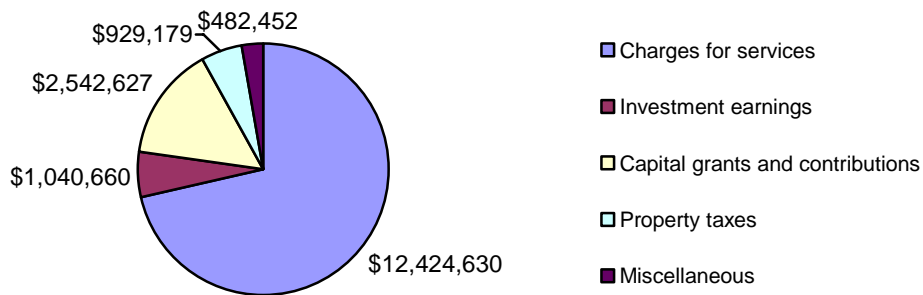
Business-type activities. Business-type activities increased the City's net assets by \$6,143,745, accounting for sixty-three percent (56.5%) of the total growth in the government's net assets. Key elements of this increase are as follows:

- Charges for services for water and sewer services increased by \$2,365,740 or 23.52 percent, resulted from a dry summer and the implementation of a 9.75% rate increase as of October 1, 2005.
- Investment earnings increased by \$417,056 or 67 percent because of the rising interest rates and earnings from unspent debt issuance to finance the water and sewer infrastructure.

Operation Expense and Program Revenues Business-type Activities



Revenue By Source - Business-Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,224,352 an increase of \$2,607,766 in comparison with the prior year. Approximately 33.0 percent of this total amount (\$5,359,007) constitutes the unreserved and undesignated fund balance, which is available for spending at the City's discretion. The remainder of the fund balance is reserved and designated to indicate that it is not available for new spending because it has already been committed to:

1. Liquidate contracts and purchase orders of the prior period (\$284,458),
2. Reserve for capital projects (\$8,980,710),
3. Pay debt service (\$1,017,383), or
4. Satisfy a variety of other restricted purposes (\$596,778)
5. Is designated to liquidate deficit at Hidden Cove Park (\$398,000).

The general fund is the chief operating fund of The Colony. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$5,008,529, while total fund balance reached \$5,621,770. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and undesignated fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 29.22 percent of total general fund expenditures (excluding operating transfers to other funds), while total fund balance represents 33.25 percent of that same amount.

The fund balance of the City's general fund increased by \$1,240,598 during the current fiscal year. Key factors in this growth are as follows:

- An increase in current property tax revenues of \$140,604 is due to increase in assessed values because of growth.
- Sales tax increased by \$331,626 due to relocation of Edward Don & Co.'s regional distributing center to The Colony.
- Fines and forfeitures increased by \$219,098 due to increases in citations.
- Charges for services increased by \$219,214 due to increase in use of city facilities.
- Franchise fees increased by \$584,155 due to extreme weather condition and change from annual payments to quarterly payments by TXU.
- All other revenues increased by \$402,165.
- Expenditures in the general fund increased by \$1,046,154 due to the addition of five new positions to staff the animal shelter; merit increases, increase in energy and utility costs, increase in transfers to other funds and inflation factors.

The debt service fund has a total fund balance of \$1,017,383, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$176,996 due to increase in revenue collections. The City has a dedicated property tax for general debt service. The property tax produced revenues of \$3,402,957 in the current fiscal year. Debt service payments have increased by \$43,847.

There was a \$20.6 million debt issuance in fiscal year 2005-2006, of which \$17 million belongs to the Utility Fund and \$2.9 million is being paid for by the City's Economic Development Corporation.

Proprietary funds. The City's proprietary funds provide the same type of information found in the governmental-wide financial statements, but in more detail.

Increase in unrestricted net assets of the Utility Fund at the end of the year amounted to \$4,521,260. The increase was mainly due to increase in revenues because of a dry summer and an increase in water and sewer rates approved by the Council. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year, there was a \$534,675 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- Prior Year Encumbrance roll forward
(\$89,550)
- Increase in energy and utility costs
(\$274,950)
- Increase in transfers to other funds
(\$183,860)
- Miscellaneous decreases
(\$13,685)

The increase in revenues between final budget and actual was possible because of additional anticipated revenues. Those revenues included an upturn in sales tax collections (\$100,000), and increase in revenues from licenses and permits (\$43,772), an increase in fines and forfeitures (\$68,445), an increase in franchise fees (\$103,000), an increase in various user charges (\$23,733), and greater investment returns resulting from positive market conditions (\$220,000). The decrease in expenditures between the final budget and actual was due to tight management control of expenditures.

In the original budget, salary increases were included in the non-departmental budget. The budget for these salary adjustments was reallocated to individual departments in the final amended budget. During the year, revenues exceeded budgetary estimates and expenditures were less than budgetary estimates resulting in an increase in the general fund balance of \$1,240,598.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of September 30, 2006, amounts to \$194,889,107 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, water and sewer system infrastructure improvements, machinery and equipment, park facilities, and roads. The City's investment in capital assets for the current fiscal year increased by 0.9 percent (a .3 percent decrease for governmental activities and a 5.9 percent increase for business-type activities).

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

- **Phase IIIA Streets Reconstruction** – Eight streets in the worst condition are first being designed as part of the Phase III Street Reconstruction Projects. The eight streets are Yager Drive, Strickland Avenue 1, Treese Street, Lemmon Court, Mayes Place, Underwood Drive, Hetherington Drive, and Pemberton Lane. The estimated project cost is \$4.1 million. This project is in the construction phase.
- **Phase IIIB Residential Streets** – The second eight streets are being considered for reconstruction. This project is in the engineering phase.
- **New Fire Station** – Construction of the North Colony Fire Station with three bays and a clock tower. This project is in the construction phase. The estimated project cost is 3.5 million.
- **Interlocal Agreements with Denton County**
 - Widen Memorial Drive (Paige to Worley) – This project is complete, cost 2.3 million.
 - Improve and extend the two southbound lanes of South Colony from Memorial Drive to State HWY 121. The estimated project cost is 1.2 million.
 - Engineering to improve and widen Paige Rd from South Colony to North Colony and two sections of Memorial Drive. The estimated cost of the project is \$707,480.

- **Ammonia Feed System and Chlorination Improvements, Associated SCADA improvements for Water Well Sites and Control Valve Replacement for Well Site No. 3** – This project comprises of removal and replacement of the chlorine feed system, and installs a new ammonia building and ammonia feed system at the three well sites. This project is in the construction phase. The estimated project cost is \$1.48 million.
- **Office Creek Pump Station Improvements** – The improvements include new pump and air-conditioning units and modifying the discharge pipes for Pump No. 1 and Pump No. 2 to optimize system operation. This project is in the construction phase. The estimated project cost is \$379,000.
- **Carrollton Waterline** – Team with Carrollton and Lewisville to construct a waterline from DWU's Elm Fork Water Treatment Plant near Keller Springs and Old Denton Road to Carrollton's Northside Pump Station near Parker and Josey. This project is currently in the construction phase. The estimated project cost is \$10 million.
- **Aquifer Storage Recovery (ASR) Well at Well Site #3** – Construction of a 1 MG ASR well as part of the water system improvements. This project is currently in the engineering phase. The estimated project cost is \$3.5 million.
- **Wynnwood Wastewater Lift Station and Force Main** – The improvements include a 4.35 MGD wastewater lift station and force main that will convey wastewater from Wynnwood Peninsula to The Colony Wastewater Treatment Plant. This project is in the construction phase. The estimated project cost is \$3.1 million.
- **Wynnwood Water System** – Construction of a 1MG ground storage tank, pump station with a capacity of 3.2MG per day, 10,000-gallon hydro pneumatic tank and other improvements. The installation of 11,139 linear feet of a 24-inch water transmission line. The estimated project cost is \$5.3 million.
- **Wastewater Treatment Plant Expansion and Improvements** – Improvements necessary to increase the plant capacity from 3.4 to 4.5 MGD with nitrification. Construction should be completed in May 2006. The estimated project cost is \$13.5 million.

**CAPITAL ASSETS
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Capital Assets Being Depreciated						
Water systems	\$ -	\$ -	\$ 15,150,837	\$ 14,790,752	\$ 15,150,837	\$ 14,790,752
Sanitary sewer systems			9,752,226	9,955,149	9,752,226	9,955,149
Drainage system			526,775	567,376	526,775	567,376
Buildings	6,609,208	6,882,465	69,878	82,080	6,679,086	6,964,545
Improvements other than building	7,975,916	8,194,665			7,975,916	8,194,665
Aquatic Park	1,029,616	867,294			1,029,616	867,294
Machinery and equipment	2,507,257	2,331,136	132,932	199,708	2,640,189	2,530,844
Organization costs				3,001,695		3,001,695
Infrastructure	89,212,838	88,204,054	2,803,489		92,016,327	88,204,054
Total	<u>\$ 107,334,835</u>	<u>\$ 106,479,614</u>	<u>\$ 28,436,137</u>	<u>\$ 28,596,760</u>	<u>\$ 135,770,972</u>	<u>\$ 135,076,374</u>
Capital Assets Not Being Depreciated:						
Land and Inad improvements	\$ 4,358,020	\$ 4,203,519	\$ 1,732,064	\$ 653,226	\$ 6,090,084	\$ 4,856,745
Right-of-ways	24,682,941	24,682,941			24,682,941	24,682,941
Construction in progress	1,869,812	1,613,441	26,475,298	13,185,310	28,345,110	14,798,751
Total	<u>\$ 30,910,773</u>	<u>\$ 30,499,901</u>	<u>\$ 28,207,362</u>	<u>\$ 13,838,536</u>	<u>\$ 59,118,135</u>	<u>\$ 44,338,437</u>

Additional information on the City's capital assets can be found in note 4 on pages 44-45 to the basic financial statements.

**OUTSTANDING DEBT
GENERAL OBLIGATION AND REVENUE BONDS**

	Government Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$ 15,317,798	\$ 6,046,175			\$ 15,317,798	\$ 6,046,175
Certificates of Obligation	27,000,043	37,080,739	19,705,000	2,812,200	46,705,043	39,892,939
Tax Notes			244,373	603,394	244,373	603,394
Revenue Bonds			23,215,000	23,540,000	23,215,000	23,540,000
	<u>\$ 42,317,841</u>	<u>\$ 43,126,914</u>	<u>\$ 43,164,373</u>	<u>\$ 26,955,594</u>	<u>\$ 85,482,214</u>	<u>\$ 70,082,508</u>

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$85,237,841. Of this amount, \$62,022,841 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt \$23,215,000 represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

The City's total debt increased by \$15,155,333 during the current fiscal year. The key factor in this increase was issuance of Certificate of Obligations to finance water and wastewater infrastructure (\$17 millions) equipment enhancements (\$700,000) and economic development road constructions (\$2.9 millions). Additional information on the City's long-term debt can be found in note 5 to the basic financial statements.

During the current fiscal year, the government refinanced some of its existing debt to take advantage of favorable interest rates. The City issued Certificates of Obligations to refinance previously outstanding Certificates of Obligations. The result is expected to be a decrease in future debt service payments of \$505,519.

The City's general and revenue obligations maintain an A+ and A- rating respectively from Standard & Poor's and an A2 and A3 rating respectively from Moody's Investors Service.

State Statues limit the amount of general obligation debt a governmental entity may issue to \$2.50 per \$100 of its total assessed valuation. The current debt limitation for the City is \$44,463,464, which is in excess of the City's outstanding general obligation debt. The revenue supported debt in the Utility Fund is limited to the net revenues equaling to at least 1.10 times the maximum annual principal and interest requirements and 1.25 times the average annual principal and interest requirements of all parity bonds to be outstanding. The net revenues in the Utility Fund are higher than the required limitations and are monitored each year for appropriate coverage.

In February 2006, the City issued \$20.6 millions of Certificates of Obligations to finance water and wastewater infrastructure (\$17 millions) equipment enhancements (\$700,000) and economic development road constructions (\$2.9 millions).

Additional information on the City's long-term debt can be found in note 5 on pages 46-52 of this report.

Economic Factors and Next Year's Budgets and Rates

- As of December 2006, the unemployment rate for the City is at 2.2 percent, which is a decrease from a rate of 3.5 percent a year ago. The City's unemployment rate is better than the state's average unemployment rate at 4 percent and the national average rate at 5 percent.
- License and Permits is budgeted to increase by \$501,307 due to development at Wynnwood Peninsula, Austin Ranch and Cascades. New fees and new programs also made up part of the increase.
- Ad valorem tax base also increased by \$99,335,278 for 2006.
All of these factors were considered in preparing the City's budget for the 2006-2007 fiscal year.

During the current fiscal year, unreserved and undesignated fund balance in the general fund increased to \$5,008,529. There is a designation of \$398,000 to cover the Hidden Cove Park deficit. The City has also appropriated \$215,241 in encumbrances for spending in the 2005-2006 fiscal year budget. Due to the growth in revenues, tax rate for 2006-2007 was reduced by half a cent.

The Council approved a 9.75 percent increase in the water and sewer rates for all customers effective October 1, 2006. The rate increase is necessary to finance debt service on new debts to improve the aging water and sewer infrastructure and to provide enough revenues to meet increasing costs. About \$13 million is allocated to upgrade and expand capacity of the wastewater treatment plant. Another \$8 million is spent on extending a major water line from Carrollton to The Colony in conjunction with the cities of Carrollton and Lewisville. Such improvement to the City's water and wastewater infrastructure will position the city to meet its population growth.

Requests for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, The City of The Colony, 6800 Main Street, The Colony, Texas 75056.