

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

CITY OF THE COLONY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2007

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, 2007. 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 \$156,392,971. Of this amount \$14,571,305 (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 \$13,534,665, due mainly to increases in net assets of \$9,501,800 in governmental activities and \$4,032,865 in business-type activities.
- As of the close of the current fiscal year, The Colony's governmental funds reported combined ending fund balances of \$19,941,786, an increase of \$3,717,434. \$3,207,286 is capital expenditures for streets, storm drainage, and municipal building renovations. The general fund has an increase in fund balance of \$400,565. The other special revenue and debt service comprised of the differences in the governmental fund balances. Out of the \$19,941,786 fund balances in the governmental fund, \$5,478,517 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 \$5,478,517 or 29.10 percent of total general fund expenditures.
- The City's total long-term debt increased by \$10,175,870 (11.7 percent) during the current fiscal year. The key factor in this increase was the annual retirement of long-term debts and debt issuance of \$14,515,000.

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 report 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 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 14 to 16 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 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 16 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.

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.

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 30 to 54 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 2006-2007 fiscal year, The Colony's net assets (assets exceeding liabilities) totaled \$156,392,971.

The largest portion of The Colony's net assets (90.3 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 (1.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$14,571,305) may be used to meet the government's ongoing obligations to citizens and creditors.

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 23,635,943	\$ 18,998,399	\$ 20,362,680	\$ 23,426,475	\$ 43,998,623	\$ 42,424,874
Capital assets	148,877,679	138,245,608	68,532,835	56,643,499	217,410,514	194,889,107
Total assets	\$ 172,513,622	\$ 157,244,007	\$ 88,895,515	\$ 80,069,974	\$ 261,409,137	\$ 237,313,981
Long-term liabilities outstanding	48,701,870	43,553,818	51,085,429	45,785,986	99,787,299	89,339,804
Other liabilities	3,008,170	2,388,407	2,220,697	2,727,464	5,228,867	5,115,871
Total liabilities	\$ 51,710,040	\$ 45,942,225	\$ 53,306,126	\$ 48,513,450	\$ 105,016,166	\$ 94,455,675
Net assets:						
Invested in capital assets, net of related debt	\$ 110,759,032	\$ 99,646,935	\$ 28,799,583	\$ 26,584,212	\$ 141,256,437	\$ 126,231,147
Restricted	275,435	649,790	1,987,616	2,146,469	2,263,051	2,796,259
Unrestricted	9,769,115	11,005,057	4,802,190	2,825,843	14,571,305	13,830,900
Total net assets	\$ 120,803,582	\$ 111,301,782	\$ 35,589,389	\$ 31,556,524	\$ 158,090,793	\$ 142,858,306

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 activities.

The City's net assets increased by \$13,534,665 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

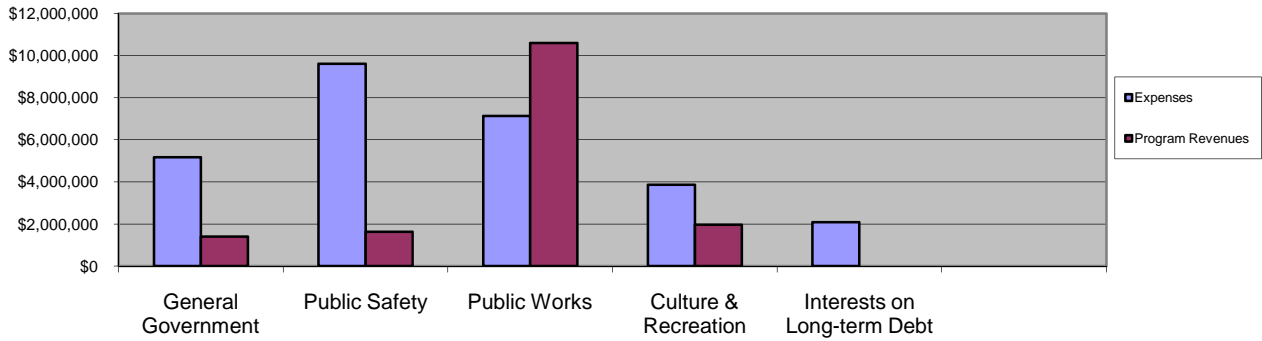
	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 3,917,649	\$ 3,641,276	\$ 11,340,679	\$ 12,424,630	\$ 15,258,328	\$ 16,065,906
Operating grants and contributions	3,426,207	5,322,230	170,058	-	3,596,265	5,322,230
Capital grants and contributions	8,226,536	1,764,383	3,404,723	2,542,627	11,631,259	4,307,010
General revenues:						
Property taxes	12,774,611	11,887,846	764,062	929,179	13,538,673	12,817,025
Sales taxes	2,880,852	2,731,402	-	-	2,880,852	2,731,402
Franchise taxes	1,939,565	1,914,347	-	-	1,939,565	1,914,347
Other taxes	141,496	140,229	-	-	141,496	140,229
Interest	843,217	806,866	864,807	1,040,660	1,708,024	1,847,526
Miscellaneous	806,175	270,965	155,429	482,452	961,604	753,417
Total revenues	<u>\$ 34,956,308</u>	<u>\$ 28,479,544</u>	<u>\$ 16,699,758</u>	<u>\$ 17,419,548</u>	<u>\$ 51,656,066</u>	<u>\$ 45,899,092</u>
Expenses:						
General government	5,174,718	4,076,007	-	-	5,174,718	4,076,007
Public safety	9,615,093	8,718,968	-	-	9,615,093	8,718,968
Public works	7,138,705	6,800,501	-	-	7,138,705	6,800,501
Culture and recreation	3,869,375	3,491,239	-	-	3,869,375	3,491,239
Interest on long-term debt	2,113,208	2,036,915	1,950,634	1,980,852	4,063,842	4,017,767
Water and sewer	-	-	8,259,668	7,913,860	8,259,668	7,913,860
Total expenses	<u>\$ 27,911,099</u>	<u>\$ 25,123,630</u>	<u>\$ 10,210,302</u>	<u>\$ 9,894,712</u>	<u>\$ 38,121,401</u>	<u>\$ 35,018,342</u>
Increase in net assets before transfers	7,045,209	3,355,914	6,489,456	7,524,836	13,534,665	10,880,750
Transfers	2,456,591	(1,381,091)	(2,456,591)	(1,381,091)	-	-
Increase in net assets	<u>9,501,800</u>	<u>1,974,823</u>	<u>4,032,865</u>	<u>6,143,745</u>	<u>13,534,665</u>	<u>10,880,750</u>
Beginning net assets (October 1)	111,301,782	106,564,777	31,556,524	25,412,779	142,858,306	131,977,556
Ending net assets (September 30)	<u>\$ 120,803,582</u>	<u>\$ 108,539,600</u>	<u>\$ 35,589,389</u>	<u>\$ 31,556,524</u>	<u>\$ 156,392,971</u>	<u>\$ 142,858,306</u>

Governmental Activities. Governmental activities increased the City's net assets by \$9,501,800, thereby accounting for 70.2 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 \$721,648 during the year. This increase was due to commercial and residential new development. The certified roll for 2007 went up by \$128,373,684 or 6.84%. General Fund sales tax collection has increased by \$149,450, licenses and permits increased by \$179,156 due to increase in development activities. Sales in The Colony and at Edward Don & Company's regional distributing center at Austin Ranch are strong resulting in the increase in sales tax collection.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. The Fire Department has hired six firefighters/paramedics to adequately staff the new fire station scheduled to be open at the end of 2007. Debt service payments have increased by \$239,610 or 5.63 percent 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 August 2007, \$14.515 millions of Certificates of Obligation was issued to finance water and wastewater infrastructure, equipment enhancements and road construction and construction of new fire station and municipal buildings.

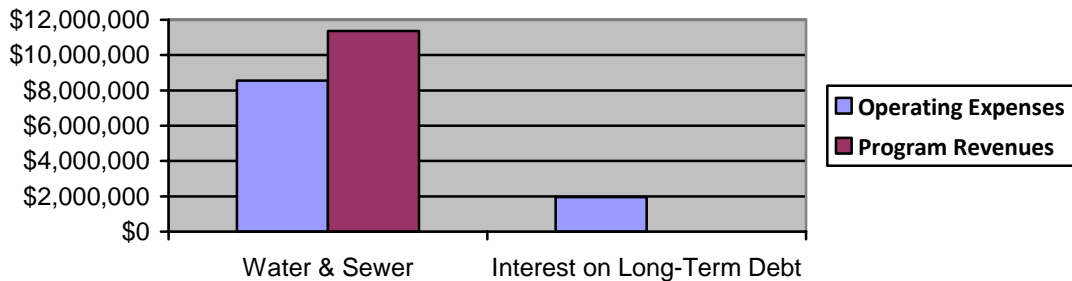
EXPENSE AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



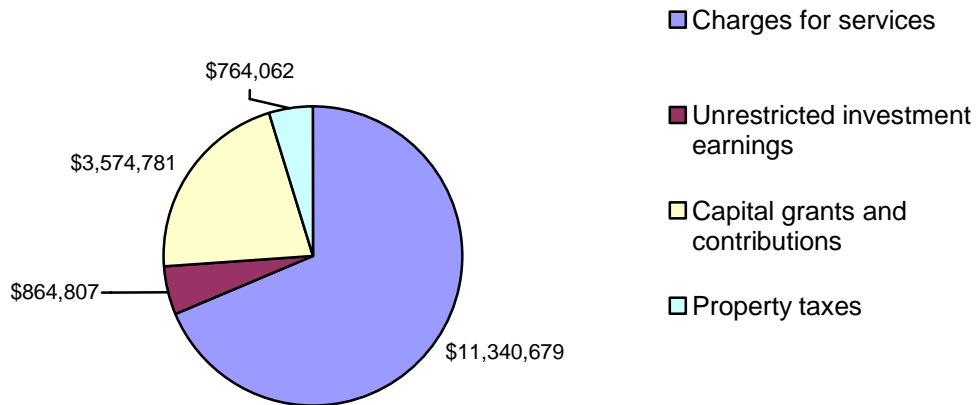
Business-type activities. Business-type activities increased the City's net assets by \$4,032,865, accounting for twenty-nine and eight-tenth percent (29.8%) of the total growth in the government's net assets. Key elements of this increase are as follows:

A majority of the increase is due to the \$3,574,781 capital contributions to the Utility Fund which represents water mains and sanitation sewers built by developers at the new development.

**Operating 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 \$19,941,786 an increase of \$3,717,434 in comparison with the prior year. Approximately 27.1 percent of this total amount (\$5,478,517) 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 (\$161,632),
2. Reserve for capital projects (\$12,187,996),
3. Pay debt service (\$965,997),
4. Reserved for court security and technology (\$302,728)
5. Designated to liquidate deficit at Hidden Cove Park (\$392,000).
6. Restricted for Special Revenue Funds (\$452,916)

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 \$5,478,517, while total fund balance reached \$6,022,335. 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 29.47 percent of total general fund expenditures (excluding operating transfers to other funds), while total fund balance represents 32.40 percent of that same amount.

The fund balance of the City's general fund increased by \$400,565 during the current fiscal year. Key factors in this growth are as follows:

- An increase in current property tax revenues of \$755,992 is due to increase in assessed values because of growth and decrease in allocation to General Debt Service Fund.
- Sales tax increased by \$149,450 due to growth in local economy and Edward Don & Co.'s regional distributing center.
- Increase in transfers from other funds by \$167,022.
- Expenditures in the general fund increased by \$1,679,107 due to the addition of six new positions to staff the new fire station; two police officers, one building inspector and other new personnel and position upgrade increases, increase in energy and utility costs, and inflation factors.

The debt service fund has a total fund balance of \$965,997, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$51,386 due to budgeted draw-down of fund balance. The City has a dedicated property tax for general debt service. The property tax produced revenues of \$3,429,495 in the current fiscal year. Debt service payments have increased by \$239,610.

There was a \$14.515 million debt issuance in fiscal year 2006-2007, of which \$7.37 million belongs to the Utility Fund and \$7.145 million is being paid for by the City's general taxes.

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 \$246,163. The increase was mainly due to revenues exceeding expenditures. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

During the year, there was a \$253,421 increase in appropriations between the original and final amended budget. Following are the main components of the increase:

- Prior Year Encumbrance roll forward
\$215,241
- Increase in transfers to other funds
(\$551,068)
- Miscellaneous decreases
\$82,406

The decrease in revenues of \$175,554 between final budget and actual was due to better projections of anticipated revenues.

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 fund balance of \$400,565.

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, 2007, amounts to \$217,410,514 (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 11.56 percent (a 7.7 percent increase for governmental activities and a 21.0 percent increase for business-type activities).

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

- **Phase IIIB Streets Reconstruction** – Reconstruction of eight residential streets including sidewalk and driveway returns and street right-of-ways. Drainage will be improved as needed and new water and wastewater lines will be installed within the right-of-ways. This project is in the construction phase. Estimated cost is \$6.8M.
- **Fires Station #3** – The new fire station at North Colony and FM 423 is near completion. The estimated project cost is \$3.2M.
- **Police & Courts Facility** – The design and expansion of the existing police and courts building. This project is in the architectural phase with an estimated cost at \$275K.
- **Austin Ranch Fire Station** – Design for a new fire station at Austin Ranch. This project is in the architectural phase. Estimated cost \$233K.

- **Public Services Station** – Design and construction for a new Public Services Station. This project is in the architectural phase. Estimated cost \$482K.
- **Interlocal Agreements with Denton County**
 - **Paige Road** – improve and widen Paige Road from S. Colony to N. Colony as a six lane divided roadway, including drainage, utility improvements, signs, street lights, and landscaping. Estimated cost \$6.7M.
 - **Memorial Drive** – improve and widen Memorial Drive from Blair Oaks to Paige Road, including drainage, utility improvements, signs, street lights and landscaping. Estimated cost \$1.5M.
- **Park Improvements**
 - **Hike & Bike** – design and construction of a shoreline trail. Estimated design cost \$178K.
 - **Miscellaneous Parks Improvements** – includes playground equipment, ROW/ADA sidewalks, estimated cost \$150K.
 - **Kids Colony and Lions Club Park playground improvements** – Estimated cost \$225K.
- **Well Site #3** – Construction of a new water well at well site #3. Estimated cost \$2M.
- **Interlocal Agreement with the City of Carrollton & Lewisville** – Construct a waterline from DWU's Elm Fork Water Treatment Plant near Keller Springs and Old Denton Road to Carrollton's North side Pump Station near Parker and Josey. This project is near completion. Estimated Cost \$8M.
- **Office Creek Pump Station & Well Site #1 Improvement** – Improvements include a new pump, air conditioning units and optimizing the system operation by modifying the discharge pipes for pumps 1 & 2. This project is near completion. Estimated cost \$1.3M.
- **Wynnwood Pump Station** – 1.0 million gallon elevated storage tank at the Wynnwood pump station. This project is in the design phase. Estimated cost \$205K.
- **Expansion of Master Lift Station #1** – Expansion from the existing 4.5 million gallons per day (MGD) to 10.0 MGD. This project is in the design phase. Estimated cost \$300K.

CAPITAL ASSETS
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
<u>Capital Assets Being</u>						
<u>Depreciated:</u>						
Water systems	\$ -	\$ -	\$ 24,310,382	\$ 15,150,837	\$ 24,310,382	\$ 15,150,837
Sanitary sewer systems	-	-	25,221,013	9,752,226	25,221,013	9,752,226
Drainage system	-	-	486,174	526,775	486,174	526,775
Buildings	6,333,542	6,609,208	57,676	69,878	6,391,218	6,679,086
Improvements other than buildings	7,465,140	7,975,916	-	-	7,465,140	7,975,916
Aquatic Park	1,068,798	1,029,616	-	-	1,068,798	1,029,616
Machinery and equipment	3,573,344	2,507,257	194,914	132,932	3,768,258	2,640,189
Organization costs	-	-	-	-	-	-
Infrastructure	94,095,317	89,212,838	2,605,281	2,803,489	96,700,598	92,016,327
Total	<u>\$ 112,536,141</u>	<u>\$ 107,334,835</u>	<u>\$ 52,875,440</u>	<u>\$ 28,436,137</u>	<u>\$ 165,411,581</u>	<u>\$ 135,770,972</u>
<u>Capital Assets Not</u>						
<u>Being Depreciated:</u>						
Land & Land Improvements	4,358,020	\$ 4,358,020	\$ 1,749,366	\$ 1,732,064	\$ 6,107,386	\$ 6,090,084
Right-of-Ways	24,682,941	24,682,941	-	-	24,682,941	24,682,941
Construction in Progress	7,300,577	1,869,812	13,908,029	26,475,298	21,208,606	28,345,110
Total	<u>\$ 36,341,538</u>	<u>\$ 30,910,773</u>	<u>\$ 15,657,395</u>	<u>\$ 28,207,362</u>	<u>\$ 51,998,933</u>	<u>\$ 59,118,135</u>

Additional information on the City's capital assets can be found in note 4 on pages 42-43 to the basic financial statements.

**OUTSTANDING DEBT
GENERAL OBLIGATION AND REVENUE BONDS**

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	\$ 15,103,742	\$ 15,317,798	\$ -	\$ -	\$ 15,103,742	\$ 15,317,798
Certificates of Obligation	31,889,682	27,000,043	26,903,660	19,705,000	58,793,342	46,705,043
Tax Notes	-	-	-	244,373	-	244,373
Revenue Bonds	-	-	22,875,000	23,215,000	22,875,000	23,215,000
Total	\$ 46,993,424	\$ 42,317,841	\$ 49,778,660	\$ 43,164,373	\$ 96,772,084	\$ 85,482,214

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$96,772,084. Of this amount, \$73,897,084 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt (\$22,875,000) represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

The City's total debt increased by \$11,289,270 during the current fiscal year. The key factor in this increase was issuance of Certificate of Obligations to finance water and wastewater infrastructure (\$7.37 millions) equipment enhancements (\$750,000) and road constructions and municipal buildings (\$6.395 millions). Additional information on the City's long-term debt can be found in note 5 to the basic financial statements.

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 \$36,162,612, 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.

Economic Factors and Next Year's Budgets and Rates

- As of December 2007, the unemployment rate for the City is at 3.8 percent, which is an increase from a rate of 2.2 percent a year ago. The City's unemployment rate is better than the state's average unemployment rate at 4.3 percent and the national average rate at 4.8 percent.
- Ad valorem tax base also increased by \$128,373,684 for 2007.
- Sales tax is projected to increase by \$100,000 due to the growth of retail sales.
- Franchise fees are budgeted to grow by \$120,000 because of increase in households and commercial establishments.
- Fines and forfeitures will increase by \$306,205 due to increase in citations with more patrol officers on the street.

- Transfers from other funds are budgeted at \$692,448 higher than 2006-2007 with \$350,000 as one time infusion from the SIB loan refunds.

All of these factors were considered in preparing the City's budget for the 2007-2008 fiscal year.

During the current fiscal year, unreserved and undesignated fund balance in the general fund increased to \$5,478,517. There is a designation of \$392,000 to cover the Hidden Cove Park deficit. The City has also appropriated \$151,818 in encumbrances for spending in the 2006-2007 fiscal year budget. Due to the growth in revenues, tax rate for 2007-2008 was reduced by 1.75 cents.

The Council approved a 6.5 percent increase in the water and sewer rates for all customers effective October 1, 2007. 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. Such improvements 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.