

## **NOTES TO FINANCIAL STATEMENTS**

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General Statement**

The City of The Colony (the "City"), originally incorporated in 1977, is a municipal corporation incorporated under Article XI of the Constitution of the State of Texas (Home Rule Amendment). The City operates under a Council-Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety and convenience of the City and its inhabitants.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

**Financial Reporting Entity**

The City is governed by an elected mayor and a six-member council and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity", as amended by GASB 39 "Determining Whether Certain Organizations Are Component Units".

Under GASB 14 component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Financial Reporting Entity – continued**

The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. GASB 39 added clarification to GASB 14 by including entities which meet all three of the following requirements:

1. The economic resources received or held by the separate organization are entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

GASB 39 did not add any component units to the reporting entity as previously presented during the current fiscal year.

The financial information of the following component units have been “discretely presented” in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City:

The Colony Economic Development Corporation (TCEDC) - The TCEDC was organized exclusively for the public purposes of the promotion and development of new and expanded business enterprises to provide and encourage employment in the furtherance of public welfare.

The Colony Municipal Economic Development Corporation (TCMEDC) - The TCMEDC is responsible for promoting economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City by developing, implementing, providing and financing projects under the Development Corporation Act of 1979. This includes the construction, renovation and operation of municipal buildings, the acquisition and improvement of parks as well as the promotion and expansion of manufacturing and industrial facilities, and other economic development purposes.

A majority of the members of both the TCEDC’s and TCMEDC’s Boards of Directors are appointed by the City Council. Both the TCEDC and TCMEDC are fiscally dependent upon the City as the City Council approves their budgets and must approve any debt issuance. However, the component units do not qualify for blending because the component services directly benefit the community rather than the City itself. The TCEDC and TCMEDC are presented as governmental fund types and do not issue separate financial statements.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Basis of Presentation**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the City, except for fiduciary funds. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements:**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental funds and proprietary funds. These statements present each major fund as a separate column in the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balances of current financial resources. The City has presented the following major governmental funds:

**General Fund –**

The General Fund is the general operating fund of the City. It is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

**Debt Service Fund –**

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Financial Statements – continued**

**Capital Projects Fund –**

The Capital Projects Fund is used to account for the acquisition and construction of capital assets financed primarily through the issuance of general obligation debt.

The City also reports the following non-major governmental funds:

All of the following funds are Special Revenue Funds. Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trust or capital projects) that are legally restricted to expenditures for specific purposes.

**Stewart Creek Park Fund** – To account for revenue generated by fees and permits to enter and utilize the park area and facilities located on the eastern shore of Lake Lewisville.

**Recycling Fund** – To account for recycling fees from residents as well as donated proceeds and State grants for use in recycling.

**Hidden Cove Park Fund** – To account for revenue generated by fees and permits to enter and utilize the park area and facilities located on Lake Lewisville, northwest of The Colony.

**Special Events Fund** – To account for various special events of the City including Christmas decorations and a 4<sup>th</sup> of July fireworks display.

**Hotel/Motel Taxes Fund** – To account for the receipt and allocation of the City's hotel/motel occupancy tax.

**Library Grants Fund** – To account for proceeds received from various State grants received for the Library.

**Police Confiscated Fund** – To account for the funds seized by the Police Department that have been awarded by the court.

**Police Seized Fund** – To account for funds seized by the Police Department that are awaiting disposition by the court.

**Storm Water Utility Fund** – To account for the revenue and expenses associated with drainage projects within the City.

**Court Security Fund** – To account for the revenue and expenditures associated with the portion of traffic tickets that have been designated for the security of the Municipal Court.

**Court Technology Fund** – To account for the revenue and expenditures associated with the portion of traffic tickets designated for upgrading the technology in the Municipal Court.

**Community Center Fund** – To account for revenues and expenditures for the operation of the Community Center.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Fund Financial Statements – continued**

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included in the Statement of Net Assets. The City has presented the following major proprietary fund:

**Water and Sewer Enterprise Fund –**

Water and Sewer Enterprise Fund is used to account for the acquisition, operation and maintenance of a municipal water and sewer utility, supported primarily by user charges to the public.

Additionally, the City reports an Internal Service Fund which is used to account for vehicle replacement provided to departments of the City.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies, maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Measurement Focus and Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included in the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers all revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for non-matured interest on long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Measurement Focus and Basis of Accounting – continued**

Property taxes, sales taxes, franchise taxes and interest are susceptible to accrual. Other receipts become measurable and available when cash is received by the City and are recognized as revenue at that time.

**Cash, Cash Equivalents and Investments**

State statutes and policy as established by the City Council authorize the City to invest in certificates of deposit, direct obligations of the U.S. Treasury, investment pools consisting of such U.S. Treasury obligations, repurchase agreements, commercial paper and mutual funds. Substantially all operating cash and cash equivalents are maintained in pooled cash and time deposit accounts. Interest income relating to pooled deposits is allocated to the individual funds based on each fund's pro rata share of total pooled deposits.

Restricted cash and investments is classified separately in the balance sheet for proprietary funds and represents cash and investments restricted for the payment of long-term debt and for the acquisition of capital assets.

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents, as they are available for withdrawal on demand.

Investments are accounted for in accordance with GASB No. 31 – *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments are recorded at amortized cost when original maturity at the time of purchase is less than one year or at market if greater than one year.

**Property Taxes**

The City's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and certain personal property located within the City. Property taxes attach as an enforceable lien on property as of January 1 after they are levied. The assessed value upon which the 2007 levy was based was \$1,878,308,397. Taxes are due on October 1 and are delinquent after the following January 31. Current tax collections for the year ended September 30, 2007 were 99% of the tax levy.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. The combined tax rate to finance general governmental services including the payment of principal and interest on long-term debt for the year ended September 30, 2007 was \$0.715 per \$100 of assessed valuation.

The ordinance levying the ad valorem taxes specifies the percentage of the taxes applicable to the General Fund, and Debt Service Fund (the City allocates debt service taxes between the Governmental and Enterprise Debt Service Funds); therefore, ad valorem tax revenues are recorded as revenues in the respective funds.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Property Taxes – continued**

In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values.

The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

**Internal Balances**

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

**Transactions Between Funds and Component Units**

Interfund services are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/ expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund reimbursed. All other interfund transactions, except interfund services and reimbursements, are recorded as transfers.

Transactions between the component units and the primary government are accounted for as external transactions. During the year ended September 30, 2007, the TCEDC contributed \$179,398 to the Debt Service Fund. Additionally, the TCMEDC contributed \$435,000 to the Capital Projects Fund, \$20,000 to the General Fund, \$3,120 to Nonmajor Funds and \$610,469 to the Debt Service Fund. The General Fund contributed \$375,000 to the TCMEDC. The revenues were reflected as grants and contributions for the primary government in the statement of activities.

**Inventories**

Inventories, which are expended when consumed, are stated at the lower of cost or market on a first-in, first-out basis.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at fair market value on the date donated. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the asset lives are not capitalized. Renewals and betterments are capitalized. Interest costs incurred during the construction period have been capitalized in the amount of \$173,462 in the current year in the enterprise fund.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Capital Assets – continued**

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	30 Years
Towers, tanks, and pump stations	40 Years
Infrastructure	40 Years
Machinery and equipment	5 - 10 Years
Vehicles	5 Years

The City has established the Fleet Services Internal Service Fund to account for all City-owned vehicles. Charges for repairs and maintenance of the vehicle are made by the City departments to the Fleet Services Internal Service Fund.

**Vacation and Sick Leave (Compensated Absences)**

In the event of termination, an employee is reimbursed for up to a maximum of twenty-five vacation days. An employee may accumulate up to one hundred thirty days of sick leave; however, upon termination, qualified employees may be reimbursed for up to a maximum of thirty sick days. All vacation and qualifying sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**NOTE 2. CASH AND INVESTMENTS**

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

At September 30, 2007 the carrying amount of the City's deposits was \$776,352, the bank balance was \$1,238,534. The City's cash deposits at September 30, 2007 and during the year ended September 30, 2007 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

**Legal and Contractual Provisions Governing Deposits and Investments**

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes and the City's investment policy authorized the City to invest in the following investments as summarized in the table below:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Government Securities	5 Years	100%	None
State of Texas States, Agencies, Counties, Cities and Other	5 Years	25%	None
Repurchase Agreements	90 Days	100%	None
Certificates of Deposits	5 Years	25%	None
Commercial Paper	270 Days	25%	None
No-Load Money Market Mutual Funds	90 Days	25%	None
Eligible Investment Pools	90 Days	100%	None

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Cash and investments as of September 30, 2007 are classified in the accompanying financial statements as follows:

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

Statement of net assets:

Cash and cash equivalents – primary government	\$ 17,387,825
Investments – primary government	7,666,022
Restricted cash and cash equivalents – primary government	13,271,697
Cash and cash equivalents – component units	2,771,741
Investments – component units	<u>3,870,866</u>
	<u><u>\$ 44,968,151</u></u>

Cash and investments as of September 30, 2007 consist of the following:

Cash on hand	\$ 778,376
Investments	<u>44,189,775</u>
	<u><u>\$ 44,968,151</u></u>

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2007, the City had the following investments:

Investment Type	Amount	Weighted Average Maturity
Government agency securities	\$ 11,536,888	310 Days
LOGIC	21,930,506	1 Day
TexPool	<u>10,722,381</u>	1 Day
	<u><u>\$ 44,189,775</u></u>	

As of September 30, 2007 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
Government agency securities	\$ 11,536,888	N/A	Not rated
LOGIC	21,930,506	N/A	AAAm
TexPool	<u>10,722,381</u>	N/A	AAAm
	<u>\$ 44,189,775</u>		

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2007 other than external investment pools the City did not have 5% or more of its investment with one issuer.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of September 30, 2007 the City deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

**Investment in State Investment Pools**

The City is a voluntary participant in two investment pools: LOGIC and Texpool. Each of these pools operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. Each uses amortized costs rather than market value to report the net assets to compute share prices. Accordingly, the value of the City’s position in the pools is the same as the value of the shares in the pool.

The State Comptroller of Public Accounts exercises responsibility over TexPool. This oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool.

LOGIC’s governing body is a five-member board of directors comprised of individuals who are employees, officers, or elected officials of participants in the fund or who do not have a business relationship with the fund and are qualified to advise. A maximum of two advisory board members will supplement the board and will be employees or members of the firm providing managerial services to the fund and will represent the general manager of the fund. Day to day administration of the fund is performed by SWS Capital Corporation, a subsidiary of SWS Group, Inc.

**NOTE 3. RECEIVABLES**

Government-wide receivables at September 30, 2007, including the applicable allowances for uncollectible accounts, consist of the following:

	General	Debt Service	Capital Projects	Non-Major Governmental Funds	Water and Sewer Enterprise	Internal Service	Component Units
Receivables							
Property taxes	\$ 255,484	\$ 97,168	\$	\$	32,180	\$	\$
Franchise taxes	439,271						
Sales and mixed beverage taxes	507,667						507,668
Trade accounts	244,147				1,779,322		
Interest	44,314	10,417	9,374	2,187	23,101		33,502
Miscellaneous	198,848		699,651	59,092	18,061	33	
Gross receivables	1,689,731	107,585	709,025	61,279	1,852,664	33	541,170
Allowance for uncollectibles	(133,973)	(11,659)			(93,848)		
Net total receivables	<u>\$ 1,555,758</u>	<u>\$ 95,926</u>	<u>\$ 709,025</u>	<u>\$ 61,279</u>	<u>\$ 1,758,816</u>	<u>\$ 33</u>	<u>\$ 541,170</u>

The Water and Sewer Fund accounts receivable include unbilled charges for services rendered through September 30, 2007 in the amount of \$804,095.

**CITY OF THE COLONY, TEXAS  
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**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2007, was as follows:

	Balance September 30, 2006	Capital Acquisitions	Sales or Other Dispositions	Adjustments/ Transfers	Balance September 30, 2007
<b>Governmental Activities:</b>					
Capital assets not being depreciated					
Land & Land Improvements	\$ 4,358,020	\$	\$	\$	\$ 4,358,020
Right-of-ways	24,682,941				24,682,941
Construction in Progress	1,869,812	15,601,264	(129,205)	(10,041,294)	7,300,577
<b>Total capital assets not being depreciated</b>	<b>30,910,773</b>	<b>15,601,264</b>	<b>(129,205)</b>	<b>(10,041,294)</b>	<b>36,341,538</b>
Capital assets being depreciated					
Buildings	8,562,659			6,932	8,569,591
other than buildings	9,660,628			98,900	9,759,528
Swimming pool	1,394,259			84,386	1,478,645
Machinery and equipment	6,723,128			1,228,662	7,951,790
Infrastructure	139,259,931			8,576,611	147,836,542
<b>Total capital assets being depreciated</b>	<b>165,600,605</b>			<b>9,995,491</b>	<b>175,596,096</b>
Less: accumulated depreciation for:					
Buildings	(1,953,451)	(282,598)			(2,236,049)
Improvements					
other than buildings	(1,684,712)	(609,676)			(2,294,388)
Swimming pool	(364,643)	(45,204)			(409,847)
Machinery and equipment	(4,220,372)	(184,041)		25,967	(4,378,446)
Infrastructure	(50,047,093)	(3,694,132)			(53,741,225)
<b>Total accumulated depreciation</b>	<b>(58,270,271)</b>	<b>(4,815,651)</b>		<b>25,967</b>	<b>(63,059,955)</b>
<b>Total capital assets being depreciated, net</b>	<b>107,330,334</b>	<b>(4,815,651)</b>		<b>10,021,458</b>	<b>112,536,141</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 138,241,107</b>	<b>\$ 10,785,613</b>	<b>\$ (129,205)</b>	<b>\$ (19,836)</b>	<b>\$ 148,877,679</b>

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4. CAPITAL ASSETS – CONTINUED**

	Balance September 30, 2006	Capital Acquisitions	Sales of Other Dispositions	Adjustments/ Transfers	Balance September 30, 2007
<b>Business-Type Activities:</b>					
Capital assets not being depreciated					
Land	\$ 1,749,366	\$	\$	\$	\$ 1,749,366
Construction in progress	26,457,996	13,679,471	(296,098)	(25,933,340)	13,908,029
Total capital assets not being depreciated	<u>28,207,362</u>	<u>13,679,471</u>	<u>(296,098)</u>	<u>(25,933,340)</u>	<u>15,657,395</u>
Capital assets being depreciated:					
Building	446,005				446,005
Water System	21,419,906			9,825,749	31,245,655
Sanitary System	16,447,822			15,982,640	32,430,462
Drainage System	1,684,364				1,684,364
Machinery and Equipment	1,135,238			170,753	1,305,991
Organizational Cost	8,191,680				8,191,680
Total capital assets being depreciated	<u>49,325,015</u>			<u>25,979,142</u>	<u>75,304,157</u>
Less: Accumulated depreciation for:					
Building	(376,127)	(12,202)			(388,329)
Water System	(6,269,069)	(666,204)			(6,935,273)
Sanitary System	(6,695,596)	(513,853)			(7,209,449)
Drainage System	(1,157,589)	(40,601)			(1,198,190)
Machinery & Equipment	(1,002,306)	(82,805)		(25,966)	(1,111,077)
Organizational Cost	(5,388,191)	(198,208)			(5,586,399)
Total accumulated depreciation	<u>(20,888,878)</u>	<u>(1,513,873)</u>		<u>(25,966)</u>	<u>(22,428,717)</u>
Total capital assets being depreciated, net	<u>28,436,137</u>	<u>(1,513,873)</u>		<u>25,953,176</u>	<u>52,875,440</u>
Business-Type activities capital assets, net	<u>\$ 56,643,499</u>	<u>\$ 12,165,598</u>	<u>\$ (296,098)</u>	<u>\$ 19,836</u>	<u>\$ 68,532,835</u>

Depreciation expense was charged as direct expense to programs of the primary government as follows: Governmental activities:

General government	\$ 620,315
Public safety	435,880
Public works	3,508,380
Culture and recreation	251,076
Total depreciation expense-Governmental activities	<u>\$ 4,815,651</u>
Business-type activities:	
Water and Sewer	\$ 1,513,873
Total depreciation expense-Business-type activities	<u>\$ 1,513,873</u>

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. LONG-TERM DEBT**

At September 30, 2007, bonds payable consisted of the following individual issues:

<b>Certificate Obligations:</b>	<u>Governmental</u>	<u>Business-type</u>	<u>Component Unit</u>
Combination Tax and Revenue Certificates of Obligation, Series 1998, 4.25% to 5.25%, maturing in annual installments of \$140,000 to \$230,000 through 2012	\$ 1,055,000	\$	\$
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 1999, 5.00% to 7.00%, maturing in installments of \$80,000 to \$135,000 through 2009	260,000		
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2000, 4.875% to 5.75%, maturing in installments of \$60,000 to \$160,000 through 2010	450,000		
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2000A, 4.50% to 6.00%, maturing in installments of \$110,000 and \$165,000 through 2009	320,000		
Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2001, 4.35% to 5.75%, maturing in installments of \$205,000 and \$545,000, through 2022	5,865,000		
Combination Tax and Revenue Certificates of Obligation, Series 2002, 3.50% to 5.00%, maturing in installments of \$480,000 to \$935,000 through 2022	7,720,000	2,495,000	
Combination Tax and Revenue Certificates of Obligation, Series 2003, 3.00% to 4.10%, maturing in installments of \$170,000 to \$375,000 through 2017	3,790,000		
Combination Tax and Revenue Certificates of Obligation, Series 2004, 3.60% to 4.81%, maturing in annual installments of \$215,000 to \$380,000 through 2024.	4,730,000		
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2006, 3.5% to 5.00% maturing in installments of \$140,000 to \$1,630,000 through 2026.	564,682	17,038,660	2,851,657
Combination Tax and Surplus Revenue Certificates of Obligation, Series 2007, 3.5% to 5.00% maturing in installments of \$510,000 to \$1,055,000 through 2027.	7,145,000	7,370,000	
	<u>\$31,899,682</u>	<u>\$ 26,903,660</u>	<u>\$ 2,851,657</u>
<b>General Obligation:</b>			
General Obligation Refunding Bonds, Series 1998, 0.00% to 5.00%, maturing in annual installments of \$68,377 to \$1,380,000 through 2012	\$ 5,828,742		
General Obligation Refunding Bonds, Series 2005, 3.00% to 4.125%, maturing in annual installments of \$65,000 to \$1,050,000 through 2021	9,275,000		
	<u>\$15,103,742</u>	<u>\$</u>	<u>\$</u>

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. LONG-TERM DEBT – CONTINUED**

	<u>Governmental</u>	<u>Business-type</u>
<b>Revenue Bonds:</b>		
Waterworks and Sewer System Revenue Bonds, Series 1996A, 4.15% to 5.35%, maturing in annual installments of \$30,000 to \$65,000 though 2016	\$	\$ 470,000
Waterworks and Sewer System Revenue Bonds, Series 1996B, 5.45% to 7.50%, maturing in annual installments of \$20,000 to \$40,000 though 2016		305,000
Waterworks and Sewer System Revenue Bonds, Series 1998, 4.25% to 5.25%, maturing in annual installments of \$105,000 to \$230,000 through 2018		2,050,000
Waterworks and Sewer System Revenue Bonds, Series 1991, 5.50%, maturing in annual installments \$15,000 to \$90,000 through 2011		210,000
Waterworks and Sewer System Revenue Bonds, Series 1995, 3.70% to 5.10%, maturing in annual installments of \$40,000 to \$80,000 through 2015		525,000
Water and Sewer System Revenue Bonds, Series 2004, 3.00% to 5.25%, maturing in annual installments of \$865,000 to \$1,550,000 beginning in 2008 through 2024.		<u>19,315,000</u>
	<u>\$</u>	<u>\$ 22,875,000</u>

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. LONG-TERM DEBT – CONTINUED**

The following is a summary of long-term debt transactions, including current portion, of the City for the year ended September 30, 2007:

	Balance Beginning of Year	Increases	Decreases	Refunding	Balance End of Year	Due Within One Year
<b>Governmental Activities</b>						
Certificate obligations	\$ 27,000,043	\$ 7,145,000	\$ (2,245,361)	\$	\$ 31,899,682	\$ 2,269,221
General obligation	15,317,798		(214,056)		15,103,742	778,743
Unamortized bond premium	45,014	256,085	(4,316)		296,783	15,153
Deferred loss on refunding	(473,825)		36,448		(437,377)	(36,448)
Compensated absences	1,227,287	1,684,683	(1,490,467)		1,421,503	1,139,401
Accreted interest	437,501		(19,964)		417,537	417,537
Governmental activity						
Long-term debt	<u>\$ 43,553,818</u>	<u>\$ 9,085,768</u>	<u>\$ (3,937,716)</u>	<u>\$</u>	<u>\$ 48,701,870</u>	<u>\$ 4,583,607</u>
<b>Business-Type Activities</b>						
Certificate obligation	\$ 19,705,060	\$ 7,370,000	\$ (171,400)		\$ 26,903,660	\$ 418,318
Revenue bonds	23,215,000		(340,000)		22,875,000	1,385,000
Tax and revenue bond	244,373		(244,373)			
Unamortized bond premium	865,501	264,148	(46,078)		1,083,571	45,182
Compensated absences	195,671	101,864	(74,337)		223,198	77,310
Accreted interest	1,560,381		(1,560,381)			
Business-type activity						
Long-term debt	<u>\$ 45,785,986</u>	<u>\$ 7,736,012</u>	<u>\$ (2,436,569)</u>	<u>\$</u>	<u>\$ 51,085,429</u>	<u>\$ 1,925,810</u>
<b>Component Units</b>						
Certificate obligations	2,852,836		(1,179)		2,851,657	1,179
Unamortized bond premium	91,103		(4,712)		86,391	4,712
Compensated absences	<u>\$ 30,135</u>	<u>\$ 25,236</u>	<u>\$ (15,684)</u>		<u>39,687</u>	<u>\$ 15,215</u>
Component Units						
Long-Term Debt	<u>\$ 2,974,074</u>	<u>\$ 25,236</u>	<u>\$ (21,575)</u>	<u>\$</u>	<u>\$ 2,977,735</u>	<u>\$ 21,106</u>

The City intends to retire all of its general long-term liabilities, plus accrued interest, from ad valorem taxes and other current revenues from the Debt Service Fund as has been done in prior years. The proprietary fund type long-term debt, plus accrued interest, will be repaid from operating revenues of the Water and Sewer Enterprise Fund. The general fund has typically been used to liquidate the liability for compensated absences for governmental activities.

In September 2007, the City issued \$14.5 million of Certificates of Obligations to finance water and wastewater infrastructure of approximately \$7,370,000, equipment enhancements of approximately \$750,000 and road constructions and municipal buildings of approximately \$6,395,000.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. LONG-TERM DEBT – CONTINUED**

**Description to Debt Indentures**

**Certificate Obligation Bonds**

The City issues certificate obligation bonds to provide funds for the acquisition and construction of major capital facilities and infrastructure. The City is required by ordinance to create from ad valorem tax revenues a sinking fund sufficient to pay the current interest and principal installments as they become due.

**Revenue Bonds**

The City issues revenue bonds to construct water and sewer system improvements. The City is required by the applicable revenue bond indentures to pledge the net revenues of the Water and Sewer Enterprise Fund for the retirement of its outstanding revenue bonds, including interest thereon, and is required to maintain debt service funds and bond reserve funds for all such bonds outstanding.

**Bond Compliance**

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions at September 30, 2007.

**Annual Requirements to Retire Debt Obligations**

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2007, are as follows:

**Certificate Obligation Bonds**

Annual debt service requirements to maturity for certificate obligation bonds, including interest of \$14,857,995 for governmental activities, \$14,800,644 for business-type activities and \$1,689,286 for component unit activities are as follows:

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. LONG-TERM DEBT – CONTINUED**

**Annual Requirements to Retire Debt Obligations – continued**

**Certificate Obligation Bonds – continued**

Fiscal Year Ending September 30	Government Activities		
	Principal	Interest	Total
2008	\$ 2,269,221	\$ 1,443,021	\$ 3,712,242
2009	2,162,809	1,362,432	3,525,241
2010	1,894,782	1,262,016	3,156,798
2011	1,820,295	1,174,613	2,994,908
2012	2,864,519	2,328,403	5,192,922
2013 – 2017	8,527,485	4,786,795	13,314,280
2018 – 2022	10,794,967	2,352,506	13,147,473
2023 – 2027	1,565,604	148,209	1,713,813
Total	<u>\$ 31,899,682</u>	<u>\$ 14,857,995</u>	<u>\$ 46,757,677</u>

Fiscal Year Ending September 30	Business-Type Activities		
	Principal	Interest	Total
2008	\$ 418,318	\$ 1,250,362	\$ 1,668,680
2009	436,012	1,234,273	1,670,285
2010	1,138,654	1,217,167	2,355,821
2011	1,178,912	1,172,055	2,350,967
2012	2,390,762	2,220,988	4,611,750
2013 – 2017	6,892,169	4,420,473	11,312,642
2018 – 2022	8,666,210	2,658,092	11,324,302
2023 – 2027	5,782,623	627,234	6,409,857
Total	<u>\$ 26,903,660</u>	<u>\$ 14,800,644</u>	<u>\$ 41,704,304</u>

Fiscal Year Ending September 30	Component-Unit Activities		
	Principal	Interest	Total
2008	\$ 1,179	\$ 130,062	\$ 131,241
2009	1,179	130,022	131,201
2010	116,564	129,976	246,540
2011	120,793	125,606	246,399
2012	124,719	119,566	244,285
2013 – 2017	715,346	507,676	1,223,022
2018 – 2022	893,823	328,460	1,222,283
2023 – 2027	878,054	217,918	1,095,972
Total	<u>\$ 2,851,657</u>	<u>\$ 1,689,286</u>	<u>\$ 4,540,943</u>

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. LONG-TERM DEBT – CONTINUED**

**Annual Requirements to Retire Debt Obligations – continued**

**General Obligation Bond**

Annual debt service requirements to maturity for general obligation bonds, including interest of \$4,352,579 are as follows:

Fiscal Year Ending September 30	Government Activities		
	Principal	Interest	Total
2008	\$ 778,743	\$ 1,058,726	\$ 1,837,469
2009	1,255,000	580,744	1,835,744
2010	1,630,000	517,894	2,147,894
2011	1,885,000	440,544	2,325,544
2012	1,975,000	353,169	2,328,169
2013 – 2017	4,665,000	1,150,432	5,815,432
2018 – 2022	2,915,000	251,070	3,166,070
Total	<u>\$ 15,103,743</u>	<u>\$ 4,352,579</u>	<u>\$ 19,456,322</u>

**Revenue Bonds**

Revenue bond debt service requirements to maturity, including interest of \$9,892,467 are as follows:

Fiscal Year Ending September 30	Business-Type Activities		
	Principal	Interest	Total
2008	\$ 1,385,000	\$ 1,004,880	\$ 2,389,880
2009	1,425,000	956,715	2,381,715
2010	1,175,000	906,985	2,081,985
2011	1,240,000	865,223	2,105,223
2012	1,250,000	818,965	2,068,965
2013 – 2017	6,780,000	3,287,385	10,067,385
2018 – 2022	6,595,000	1,812,126	8,407,126
2023 – 2027	3,025,000	240,188	3,265,188
Total	<u>\$ 22,875,000</u>	<u>\$ 9,892,467</u>	<u>\$ 32,767,467</u>

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. INTERFUND RECEIVABLES AND PAYABLES**

**Due to/from other funds:**

Due to/from other funds at September 30, 2007 consisted of the following individual fund receivables and payables:

Fund	Receivable	Payable
<b><u>General</u></b>		
Non-major Governmental Funds	\$ 394,492	\$
<b><u>Non-major Governmental Funds</u></b>		
General Fund		394,492
	<u>\$ 394,492</u>	<u>\$ 394,492</u>

The purpose of interfund receivables and payables is to loan cash between funds. All balances are expected to be settled within one year.

**NOTE 7. INTERFUND TRANSFERS**

All interfund transfers between the various funds are approved supplements to the operations of those funds. Individual fund operating transfers for fiscal year 2007 were as follows:

Transfer Fund	Transfer In	Transfer Out	Purpose of Transfer
General:			
Water and Sewer Enterprise	\$ 1,375,000		Budgetary
Debt Service		\$ 100,000	Debt Service
Capital Projects		176,068	Capital Projects
Non-major governmental	188,200	153,000	Budgetary
Debt Service:			
General Fund	100,000		Debt Service
Capital Projects:			
General Fund	176,068		Capital Projects
Non-major governmental	89,627		Capital Projects
Water and Sewer Enterprise	2,519,626	1,438,035	Capital Projects
Water and Sewer Enterprise:			
General Fund		1,375,000	Budgetary
Capital Projects	1,438,035	2,519,626	Capital Projects

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. INTERFUND TRANSFERS – CONTINUED**

Transfer Fund	Transfer In	Transfer Out	Purpose of Transfer
Non-major Governmental:			
General Fund	153,000	188,200	Budgetary
Capital Projects Fund		89,627	Capital Projects
Non-major governmental	148,779	148,779	Budgetary
	<u>\$6,188,335</u>	<u>\$ 6,188,335</u>	

Budgetary transfers were to move unrestricted funds to finance various programs that the City must account for in other funds in accordance with budgetary authorizations.

**NOTE 8. RETIREMENT PLAN**

**Plan Description**

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 811 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The pension plan does not issue separate reports on the pension plan. However, TMRS does issue a publicly available report that includes financial statements and supplementary information for the plan as a whole, but not for individual employers. That report can be obtained by writing to: Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8. RETIREMENT PLAN – CONTINUED**

**Contributions**

The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (over funded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2004 valuation is effective for rates beginning January 2006).

**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date	December 31,					
	2006	2005	2004	2003	2002	2001
Actuarial value of assets	\$ 20,909,428	\$ 19,000,483	\$ 19,261,795	\$ 17,518,052	\$ 15,174,402	\$ 13,628,453
Actuarial accrued liability	28,269,908	25,437,893	25,184,003	23,470,205	19,831,617	17,332,290
Percentage funded	74%	75%	76%	75%	77%	79%
Unfunded (Over-funded) Actuarial						
Accrued Liability (UAAL)	7,360,480	6,437,410	5,922,208	5,952,153	4,657,215	3,703,837
Annual covered payroll	12,150,264	10,854,747	10,985,426	9,319,686	9,355,312	7,733,032
UAAL as a percentage of covered payroll	61%	59%	54%	64%	50%	48%
Net Pension Obligation (NPO) at the beginning of period						
Annual pension cost (1):						
Annual Required Contribution (ARC)	1,498,285	1,525,218	1,460,123	1,286,738	1,260,716	969,867
Interest on NPO						
Adjustment to ARC						
Contributions made	1,498,285	1,525,218	1,460,123	1,286,738	1,260,716	969,870
Increase in NPO						
NPO at the end of the period	\$	\$	\$	\$	\$	\$

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8. RETIREMENT PLAN – CONTINUED**

Annual City TMR pension cost and related information for the last three years is as follows:

	2007	2006	2005
Annual required contribution (ARC)	\$ 1,498,285	\$ 1,525,218	\$ 1,460,123
Actual contribution	1,498,285	1,525,218	1,460,123
Net pension obligation			

Actuarial cost method	Unit Credit	Unit Credit	Unit Credit
Amortization method	Level Percent of Payroll	Level of Percent of Payroll	Level of Percent of Payroll
Remaining amortization period	25 Years – Open Period	25 Years – Open Period	25 Years – Open Period
Asset valuation method	Amortized Cost (to accurately reflect the requirements of GASB Stmt, No. 25, paragraphs 36e and 138)	Amortized Cost (to accurately reflect the requirements of GASB Stmt, No. 25, paragraphs 36e and 138)	Amortized Cost (to accurately reflect the requirements of GASB Stmt, No. 25, paragraphs 36e and 138)

Actuarial Assumptions:

Investment Rate of Return	7%	7%	8%
Projected Salary Increases	None	None	None
Includes Inflation At	3.50%	None	None
Cost of Living Adjustments	None	None	None

**NOTE 9. DEFERRED COMPENSATION PLAN**

The City participates in a deferred compensation plan, which falls under Internal Revenue Code Section 457. Virtually all employees are eligible to participate in the plan. The deferred compensation plan allows the deferral of individual Federal income taxes until funds are withdrawn. Funds may be withdrawn at termination, retirement, death or unforeseeable emergency. Employees may contribute a maximum of 100% of compensation included in gross income or \$15,500 whichever is less.

As a result of legislative changes, all amounts of compensation deferred, all property and rights purchased, and all income, property or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries, whereas, prior to these legislative changes, these amounts were solely the property and rights of the City subject only to the claims of the City's general creditors. As a result, at September 30, 2007, the deferred compensation investments in the amount of \$1,821,904 are not reported in the City's financial statements.

**CITY OF THE COLONY, TEXAS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time although the City expects such amounts, if any, to be immaterial to the basic financial statements.

At September 30, 2007, certain claims and litigation against the City are pending with respect to matters arising in the normal course of the City's operations. City management is of the opinion that the settlement of these matters will not have a material adverse effect on the City's financial statements.

At September 30, 2007, the City had authorized construction contract commitments of approximately \$25,700,000.

**NOTE 11. DEFICIT FUND BALANCE**

The following fund had a deficit fund balance at September 30, 2007:

Hidden Cove Park – This is a non-major governmental fund. The deficit is a result of expenditures allocated to a state park which was abandoned by the State of Texas. The City had the opportunity to invest in the park, located on property within the City's jurisdiction. The deficit fund balance will be recovered through future operations and operating transfers from other funds. The current deficit is (\$391,592), or a decrease in the deficit of \$5,684 for the year ended September 30, 2007. The City has designated fund balance in the General Fund in the amount of \$392,000 to cover this deficit fund balance.

**NOTE 12. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 1996, the City purchased commercial insurance to cover these liabilities. Additionally, the City purchases commercial insurance to cover employee health benefits. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in the past three years.