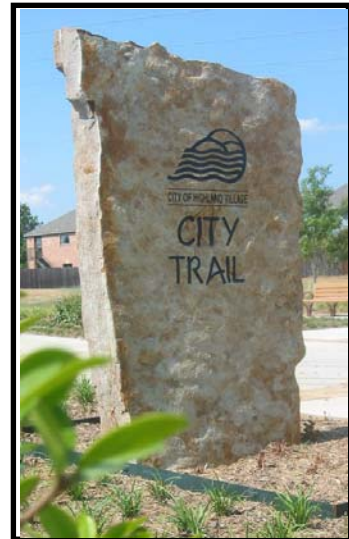


Fiscal Year Ended September 30, 2007

Comprehensive Annual Financial Report

City of Highland Village, Texas



FY 2006-2007



1000 Highland Village Rd
Highland Village, TX.
75077

"A Quality Lakeside Community"

**CITY OF
HIGHLAND VILLAGE, TEXAS**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2007**

Prepared by:

**Department of Finance, Budget
and Information Services**

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

TABLE OF CONTENTS

	<u>Page Number</u>
 INTRODUCTORY SECTION	
Letter of Transmittal.....	i - xii
Organization Chart	xiii
Principal Officials.....	xiv
GFOA Certificate of Achievement	xv
 FINANCIAL SECTION	
Independent Auditor’s Report.....	1 – 2
Management’s Discussion and Analysis	3 – 16
 Basic Financial Statements	
<u>Government-wide Financial Statements</u>	
Statement of Net Assets	17
Statement of Activities	18 – 19
 <u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	21

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007
(Continued)
TABLE OF CONTENTS

**Page
Number**

FINANCIAL SECTION (Continued)

Basic Financial Statements (Continued)

Fund Financial Statements (Continued)

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Net Assets – Enterprise – Water and Wastewater Fund.....	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Enterprise – Water and Wastewater Fund	25
Statement of Cash Flows – Enterprise – Water and Wastewater Fund	26 – 27
Notes to the Financial Statements	28 – 51

Required Supplementary Information:

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.....	52
--	----

Combining and Individual Fund Statements and Schedules

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Debt Service Fund	53
--	----

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007
(Continued)
TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION (Continued)	
Combining and Individual Fund Statements and Schedules (Continued)	
Combining Balance Sheet – Nonmajor Governmental Funds	54 – 55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	56 – 57
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Corps Leased Parks Fund	58
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Park Development Fund	59
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Public Safety Fund	60
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Municipal Court Security Building Fund	61
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Technology Fund	62
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Drainage Utility Fund	63
Capital Assets Used in the Operation of Governmental Funds	
Comparative Schedule by Source	64
Schedule by Function and Activity	65
Schedule of Changes by Function and Activity	66

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007
(Continued)
TABLE OF CONTENTS

	<u>Table</u>	<u>Page Number</u>
STATISTICAL SECTION (Unaudited)		
Net Assets by Component.....	1	67
Changes in Net Assets.....	2	68 – 69
Fund Balances – Governmental Funds.....	3	70
Changes in Fund Balances – Governmental Funds.....	4	71 – 72
Assessed Value and Estimated Actual Value of Taxable Property.....	5	73
Direct and Overlapping Property Tax Rates.....	6	74
Principal Property Taxpayers.....	7	75
Property Tax Levies and Collections.....	8	76
Ratios of Outstanding Debt by Type.....	9	77
Ratios of General Bonded Debt Outstanding.....	10	78
Direct and Overlapping Governmental Activities Debt.....	11	79
Legal Debt Margin Information.....	12	80
Pledged Revenue Coverage.....	13	81
Demographic and Economic Statistics.....	14	82
Principal Employers – Current and Nine Years Ago.....	15	83

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007
(Continued)
TABLE OF CONTENTS

	<u>Table</u>	<u>Page</u> <u>Number</u>
STATISTICAL SECTION (Unaudited) (Continued)		
Fulltime Equivalent City Government Employees by Function/Program.....	16	84
Operating Indicators by Function/Program	17	85 – 86
Capital Asset Statistics by Function/Program	18	87

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INTRODUCTORY SECTION

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CITY OF HIGHLAND VILLAGE

Finance Department

1000 Highland Village Rd., Highland Village, Texas 75077
Phone: (972) 899-5089 FAX: (972) 317-0237



March 11, 2008

Honorable Mayor, City Council
City of Highland Village
Highland Village, Texas

The Finance Department of the City of Highland Village is pleased to submit the Comprehensive Annual Financial Report of the City of Highland Village, Texas, for the fiscal year ended September 30, 2007.

The report is published to provide the City Council, management staff, our citizens and other interested parties with detailed information concerning the financial condition and performance of the City government. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City of Highland Village. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. We also believe that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart and a list of principal officials. The financial section includes the basic financial statements, the combining and individual fund statements and schedules, as well as the auditors' report on the financial statements and schedules.

The financial statements included in this report were prepared in accordance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB), the National Council on Governmental Accounting (NCGA) and the American Institute of Certified Public Accountants (AICPA). To demonstrate further public accountability, the independent accounting firm of Certified Public Accountants, Pattillo, Brown & Hill, L.L.P. whose report is included herein, has audited the City's financial statements.

Pattillo, Brown & Hill, L.L.P., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Highland Village financial statements for the year ended September 30, 2007. The independent auditors' report is located at the front of the financial section of this report.

In addition, a Management's Discussion and Analysis (MD&A), immediately following the independent auditors' report includes a narrative introduction, overview, and analysis of the financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

Profile of the Government

The City of Highland Village, incorporated in 1963, is located in the southeastern portion of Denton County on Highway 407, west of Lewisville, 20 miles north of Dallas, 34 miles northeast of Fort Worth, 15 miles southeast of Denton and 8 miles north of Dallas-Fort Worth International Airport. The City is primarily residential.

The City's estimated 2007 population is 15,300 a 37% increase over the past 10 years. A reflection of this sustained growth in population is evidenced by a consistent trend in the number of single-family residential permits being issued. The City is currently approximately 93% built out, with approximately 375 single-family residential homes remaining to be built in platted and unplatted parcels. The estimated build out date is approximately 2010. Over the last six years, the City has averaged 116 single-family residential permits annually. The average assessed value for existing single-family dwellings on the 2006 Tax Roll was \$252,934.

The City of Highland Village operates under a council-manager form of government. Policy-making and legislative authority are vested in a governing council (City Council), consisting of a mayor and six other members, all elected at large. The Council appoints the City Manager, who in turn appoints the heads of the various departments. All council members are elected for two-year terms.

This report includes all funds and account groups of the City. The City provides a full range of services. These services include police and fire protection; the construction and maintenance of streets and infrastructure; recreational facilities and cultural events. In addition to general government administrative services, the City provides water, sewer and sanitation services. The City is also financially accountable for a legally separate component unit – the Highland Village Community Development Corporation, which is reported separately with the City of Highland Village's financial statements. See Note 1A for additional information.

The Council is required to adopt a final budget by no later than September 30th – the close of the fiscal year. This annual budget serves as the foundation for the City of Highland Village's financial planning and control. The budget is prepared by fund, category (personnel, services/supplies, capital) and department (e.g., police, fire, human resources). Departments may reallocate resources within a category, but reallocation between categories or departments requires council approval.

Local Economy

While both the National and Texas economy display mixed signals, the local economy remains fairly steady with sustained growth. The City is experiencing moderate growth as part of the Dallas-Fort Worth Metroplex. This area has been somewhat affected by downturns in certain sectors of the economy over the past few years, as there are strong ties in the local workforce to both the airline and technology industries. However, the housing market remains relatively strong, with continued growth expected in Denton County. The close proximity of the Dallas-Fort Worth International Airport and both cities of Dallas and Fort Worth enhance increasing residential development. The average value of new construction residential permits was approximately \$267,581. There were 64 single-family permits issued during fiscal year 2006/2007 for a total construction value of \$17,125,201. In addition, there were 5,211 water connections, with 4,942 being the total residential. Since the City's residential tax base is a significant portion of its annual budget, these increases have the most significant impact on the City's ability to raise revenues to provide the services and conditions for future growth.

There were 120 commercial permits issued during the year for a total value of \$55,919,880. Increased commercial development has certainly enhanced the business and economic outlook for the City. Over the past thirteen years, the City has realized gradual economic development, beginning with the completion in 1995 of the 80,000 square foot Highland Village Town Center shopping complex. Kroger's grocery chain is the anchor commercial development in the Town Center complex. Phase II of this development was completed in October 1997, with both developments now at near 100% occupancy. Valley Ridge Center, a professional office complex on FM 407 was also added in 1997. A new bank, United Community Bank, opened for business in 1998 with a temporary building - a permanent bank building was completed in 1999.

In January 1999, the City Council initiated implementation of an overlay ordinance for nonresidential development. This change was enacted to create a unique look for Highland Village by requiring a residential look to nonresidential uses. This effort was seen as an economic development issue to ensure quality future development. The completion of Village Parkway in 1998 is expected to provide additional economic stimulus for the western portion of the City – particularly now that TxDOT is soon to construct a segment that will extend this roadway to Denton as an extension of FM 2499, providing an alternate route to DFW Airport. A resulting increase in traffic is expected. And this will in turn, greatly enhance the commercial value of the undeveloped land at the FM 407 and FM 2499 intersection. The FM 407 Commercial Corridor was enhanced with the widening of this major thoroughfare in 2002. As expected, there has been sustained interest in commercial development along FM 407, the City's main commercial corridor.

With limited remaining undeveloped commercial property in Highland Village, the City is of the opinion that attention needs to be focused on the remaining undeveloped property to ensure compatible, high-quality development. An additional overlay district was developed for this area to apply standards that will assure the highest and best use, with the potential for increased sales tax revenues while continuing to maintain the high quality of life in Highland Village.

Village Creek Center, started in the mid 1980's, added three new buildings in 1999 to complete their site plan. This center includes restaurant facilities and professional office space. In 2000, a two-building professional office development was completed and fully leased, with plans to expand by another building. Also in 2000, Tartan Village Retail Center opened with 6,000 square feet of retail space and Barnett Center constructed a childcare facility. The Barnett Center added an animal hospital in 2002. And a 56,000 square foot assisted living facility was added in 2005 – with plans to add a 35,000 square feet extensive care addition in 2006.

Celebrations, a 12,000 square feet banquet hall, was completed in 2003, and a 17,000 square feet retail center, Tartan Square, was added in 2004. Highland Village Business Park was completed, with two office / professional buildings totaling 16,000 square feet, in early 2005.

The remaining principal area for retail development, at the intersection of FM 407 and FM 2499, saw substantial activity beginning in 2006. A development by Opus West Corporation at the northeast corner of this intersection – the Marketplace at Highland Village, a 66-acre retail mixed-use development anchored by a 205,000 sq. ft. Wal-Mart Supercenter, also including approximately 280,000 sq. ft. of retail, office, and restaurants, saw some of its businesses open in October 2006, with the Wal-Mart store opening in November 2007. The Wal-Mart store is truly one-of-a-kind, with preservation of a 125 year-old pecan tree incorporated into the front entrance of the store.

On the northwest corner of the intersection, The Shops at Highland Village, a 45-acre development by Regency Centers, opened in September 2007. Barnes & Noble and an AMC Theater anchor the 380,000 sq ft center, with upscale retail stores including Coldwater Creek, American Eagle, Ann Taylor, Eddie Bauer as well as a number of restaurants. The Shops at Highland Village is pedestrian friendly, lifestyle shopping experience featuring fountains, outside dining areas, and pedestrian walkways – also connecting to the City’s Inland Trail system.

The City is primarily a residential community with a relatively small commercial base. Substantial residential build-out, expected in the near future, will diminish residential growth. Remaining lots associated with the Chapel Springs development (initially 121 lots) in the western portion of the City will continue to provide sustained residential building activity. Additionally, the concept plan for a 15-acre planned development district, known as The District of Highland Village, was approved. This development will include 77 upscale town homes along FM 407, and is expected to commence in 2008. The population of the City is expected to approach 16,500 by the year 2010.

There are shopping areas with major retail department stores, variety stores and chain stores located in the general vicinity of Highland Village. Wholesale firms, distributing automobile parts and supplies, electronics, lumber, meats, plumbing fixtures, petroleum products and boat distributors are also located in the general vicinity. A plentiful supply of skilled labor is available to industry in the Highland Village area. Denton County reflected an unemployment rate of 4.2% as of September 2007.

MAJOR INITIATIVES

For the Year. The City's staff, following specific directives of the City Council and City Manager, have been involved in a variety of projects throughout the year. These projects reflect the City's commitment to ensuring that its citizens are able to live and work in an enviable environment. The following initiatives and programs relating to general governmental functions are as follows:

- The tax rate remained at \$.56963 from the previous year. Due to increased valuation, as well as increased sales tax revenues due to realization of economic development, maintaining this tax rate provided sufficient resources to ensure fund balance requirements and meet increased service delivery objectives.
- Brazos Boulevard reconstruction was completed.
- Completion of a joint street reconstruction project on Chinn Chapel Road between the City of Highland Village and the Town of Flower Mound.
- Construction began on the new fire station.
- DCTA Board of Directors selected the Garden Ridge site as the preferred location for the North Lewisville/Highland Village proposed Train Stop.
- Implementation of an emergency call back system, Connect-CTY, was unveiled to assist staff on the notification of residents during emergencies and special events.
- Conducted a citizen survey with the assistance of a citizen panel, the “Blue Ribbon Capital Committee,” to understand the community’s desires as it relates to capital expenditures.

- As skills have increased, so has employee tenure. Average employee tenure is now 5 years 8 months compared to less than 2 years in 2000.
- Working with the Board of Ethics and the City Council, the Highland Village Code of Ethics Ordinance 07-1025 was revised to reflect requirements in Local Government Code 171. These revisions aid in maintaining consistency with state law.
- Established a link from the City Website for residents to access their utility account information, also including the ability to pay on-line. In addition, a Court link was established to pay citations on-line (for offenses not requiring a Court appearance).
- Coordinated meetings between the City Council and the following Homeowner Association's to discuss concerns related to the association and their neighborhood: Brooks Court, Chapel Hills, Highland Shores, Castlewood, and Rolling Hills.
- An electronic document imaging system has been implemented in the City Secretary Office, Finance and Police Department. This allows each department to electronically index and store public documents on the City's server that would otherwise be filed with a designated employee. Upon completion of conversion, the public will be able to access these public documents via the City's website.
- The Fire Department received the 2006 Life Safety Achievement Award from the Residential Fire Institute in recognition of outstanding service to the community.
- Provided CPR and HealthCare Provider training courses to over 190 residents, employees and medical professionals.
- Not only recognized as the Safest City in North Texas for the sixth consecutive year, but as the safest City in Texas with a population over 10,000.
- Received the Texas Municipal League (TML) Award of Excellence in the Communications Category for our Severe Weather Analysis and Response Model (SWARM). This is the third consecutive year that the Police Department has received this statewide recognition.
- The Police Department's Auxiliary program provided 1,525 hours of volunteer service. This is a 48% increase over FY2006. Activities include: Volunteers in Patrol (VIP), traffic control, crowd management, court services, crossing guard, and school assistance to name just a few.
- Worked with the Inland Trail Steering Committee, BW2 Engineers, the Parks and Recreation Advisory Board and community at large to review and complete construction drawings for Highland Village Road Trail, Village Park Trail, Market Trail, and Victoria Trail.
- Expanded programming for the annual Easter Egg hunt to include a can drive supported by the volunteer efforts of a local Girl Scout and benefiting Christian Community Action;

- Enhanced the Spring Clean Up to include recyclables and paper shredding and worked with over 500 volunteers from the Church of Jesus Christ of Latter Day Saints cleaning up and planting new vegetation at Village Park and the Marketplace along the northernmost trail and waters of the U S; and
- Enhanced Highland Village Days Red, White and Blue Festival by adding the 1K/5K run working with the Marcus Cross Country and Track Booster Club (over 200 runners participated in this first year event). Over 9,000 attended this year's Highland Village Days Red, White and Blue Festival and it is considered the most successful event thus far.

Long-term Financial Planning

Economic Development, specifically retail development, continues to be a primary objective. This will not only provide desired amenities for residents' immediate access, but also an avenue to diversify the City's revenue stream that is highly dependent on property tax. This is especially pertinent as the City nears substantial residential build-out, and accompanying declining growth in assessed valuation. A stated focus of Council is to maintain the current tax rate. This, coupled with declining growth in assessed valuation, provides a challenge to maintain the high level of services provided for in this community. A continued primary focus over the next few years is addressing staffing needs - projected at 140 positions at build-out (currently at 122 full-time employees). Additional revenues to be derived from retail economic development are a critical element to address funding for the needed future staffing.

Future water supply, pumping facilities, and wastewater treatment will also continue to be a focal point of meeting growth demands through build-out. Highland Village has contracted with the Upper Trinity Regional Water District (UTRWD) to take three million gallons of water per day (MGD). This water supply supplements the City's four productive water wells. A utility rate structure was updated to provide a 70/30 mix of surface water and ground water respectively. To meet the City's wastewater needs, a long-term solution was finalized in June, 1995 with a 1.8 million gallons per day treatment contract with the Upper Trinity Regional Water District's Lakeview Wastewater Reclamation Project, which provided for a participatory contract to meet the City's build out wastewater effluent needs. In the initial stage of this contract, developer contributions (Impact Fees) have paid the bulk of the annual commitments with the existing ratepayers paying a minimal portion of the contract cost. The City temporarily reduced its capacity to 1.404 MGD in FY 2002, reapportioning the difference to other participating cities. The City's current capacity is at 1.65, but the City may reinstate the 1.8 MGD capacity, if needed, with the next UTRWD plant expansion (expected in FY 2010). The subscribed capacities for both water and sewer are expected to be sufficient through build-out.

The City continues to address park programs to meet the changing needs of the community. The governing body adopted an ordinance in 1991 to establish Park Dedication Fees to be paid by the development community. These fees are dedicated to Park Development. This ordinance was revised in 1997 to collect fees for three components – community park, inland trail system, and neighborhood parks. Phase I of the development of Unity Park was completed and was utilized in full for athletic activity in early 1996. In September 1996, \$1,850,000 in General Obligation Bonds was issued to complete Phase II of Community Park and provide improvements to other City parks. Phase II of the Park, completed in April 1997, includes lighting, restrooms and concessions. An inter-local agreement with the Lewisville Independent School District allows the City and Briarhill Middle School (adjacent to Unity Park) to share common facilities. Completion of Village Park in 2005 provided a neighborhood park in the western quadrant of the City. These projects have been well received in the community.

A number of recreation programs have been initiated. In particular, baseball and soccer associations have experienced consistent participation, and have remained quite successful. In November 2002, the City acquired a four-acre tract adjacent to Unity Park for \$363,000, purchased with Park Development Fees. This will allow greater flexibility in utilization of the heavily utilized community park. The City, having secured a \$1 million TEA-21 grant to be applied to the first phase of an inland trail system, completed the initial 9.83 mile phase in 2006 with a cost of \$1.7M. Future development of the trail system is to be funded by the ½ cent 4B sales tax. A bond issue is anticipated in 2008 for construction of the next section of the trail.

Relevant Financial Policies

The City's financial policies address accounting and fiscal operations of the City with emphasis on asset management, operating reserves and fund balances. The City has established policies to maintain a fund balance equivalent to 15% of General Fund expenditures. Accordingly, fund balance levels have remained above this level. Ending fund balance was 32% in fiscal year 2003-2004, 28% in fiscal year 2004-2005, 26% in 2005-2006, and 33% in 2006-2007. The City's financial policies are reviewed annually to comply with internal accounting issues, Federal and State Laws, and the governing body's directives. Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls. The City maintains budgetary controls as outlined in its Financial Policies. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the General, Special Revenue and Debt Service Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the category level, the categories being Personnel, Services/Supplies, and Capital within each department. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management with the recognition of the reality of maintaining its General Operating Reserve Balances at 15% of operating expenditures.

General Government Functions. The following schedule presents a summary of actual General Fund, Special Revenue Fund, Debt Service Fund and Capital Projects Fund revenues for the fiscal year ending September 30, 2007. The amount and percentages of increases and decreases in relation to prior year revenues are presented for comparison as follows:

<u>Source</u>	<u>Amount</u>	<u>% of Total</u>	<u>Increase (Decrease) from 2006</u>	<u>% of Increase (Decrease)</u>
Taxes	\$ 9,930,351	76.96%	\$ 1,002,772	11.23%
Fines and forfeitures	210,170	1.63%	28,970	15.99%
Licenses, permits and fees	1,538,951	11.93%	163,561	11.89%
Intergovernmental	319,162	2.47%	(485,179)	(60.32%)
Charges for services	104,736	0.81%	1,491	1.44%
Investment earnings	571,390	4.43%	239,305	72.06%
Miscellaneous	<u>227,942</u>	<u>1.77%</u>	<u>(28,448)</u>	(11.10%)
Total revenues	<u>\$ 12,902,702</u>	<u>100.00%</u>	<u>\$ 922,472</u>	7.70%

Increases were experienced in all categories except for intergovernmental. Taxes increased by \$1,002,772 or 11.23% over 2006. This increase was split between from property taxes, reflecting the 7.1% growth in appraised valuation in the City, and sales taxes (increasing \$362,339) – this reflecting increased economic development in the City. Current tax collections are at 99% and the City has experienced an excellent tax collection rate for the past ten (10) years. Licenses, permits, and fees increased \$163,561. This category represents a combination of building permits, inspection fees, park dedication fees, and park entry fees. The majority of this increase resulted from increased building permits – largely associated with commercial retail development in the western part of the City. The Intergovernmental category had a decrease of \$485,179. This represents a \$635,765 decrease from last year’s collection of \$754,319 of received grant reimbursements for construction of the Inland Trail project, partially offset by a \$122,586 increase in public safety grants. The bulk of the Inland Trail project was constructed in 2006, with the project substantially completed in 2007. Likewise, the majority of the grants were received last year. Investment earnings were increased primarily due to increased yields associated with higher rates.

The following schedule presents a summary of General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Fund expenditures for the fiscal year ending September 30, 2007, and the percentage of increases and decreases in relation to prior year amounts.

<u>Expenditures</u>	<u>Amount</u>	<u>% of Total</u>	<u>Increase (Decrease) from 2006</u>	<u>% of Increase (Decrease)</u>
City manager	\$ 902,603	5.65%	\$ 238,046	35.82%
Finance	997,752	6.25%	75,528	8.19%
Human resources	308,138	1.93%	(10,437)	(3.28%)
City secretary	277,489	1.74%	81,508	41.59%
Police	2,534,073	15.86%	192,324	8.21%
Fire	1,065,269	6.67%	167,618	18.67%
Community services	-	- %	(547,953)	- %
Community development	590,233	3.70%	590,233	- %
Building operations	267,648	1.68%	267,648	- %
Streets and drainage	758,953	4.75%	(114,532)	(13.11%)
Maintenance	686,966	4.30%	37,590	5.79%
Parks and recreation	1,380,545	8.64%	13,834	1.01%
Debt service	1,745,792	10.93%	(218,151)	(11.11%)
Capital outlay	<u>4,457,417</u>	<u>27.91%</u>	<u>1,337,684</u>	42.88%
Total revenues	<u>\$ 15,972,878</u>	<u>100.00%</u>	<u>\$ 2,110,940</u>	15.23%

Note: A department reallocation in FY 2007 eliminated the Community Services Department. Services previously included in this department (inspection, planning) are now distributed to the Building Operations and Community Development respectively. Additionally, the City attorney and public affairs functions were also reallocated, now reflected in the Community Development department (previously included in General government). The animal control function was retained in Community Development, however reallocated to the Police Department in FY 2008.

Expenditures for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Project Fund totaled \$15,972,878 – an increase of \$2,110,940, or 15.23%, from fiscal year 2006. Fluctuations in levels of expenditures for major functions of the City are shown in the table above. Debt Service showed a decrease from last year consistent with the debt service schedule, coupled with FY 2006 reflecting an initial down payment of \$252,000 regarding a lease purchase for a fire truck and gradall. The increase in Capital Outlay reflected expenditures primarily associated with two major projects: design and construction of the new fire station (associated with the 2006 Bond Issue), and reconstruction of Brazos Blvd. (associated with the 2002 Bond Issue). The Brazos Blvd project essentially exhausted the remaining bond proceeds from the 2002 Issue, and the fire station is expected to be completed in Spring 2008. This increase was partially offset by reduced capital outlay for construction of the initial segment of the Inland Trail – as the bulk of this project was constructed in FY 2006.

Increased expenditures for services are representative of a growing city with demands for a higher level of service. Of the total change in expenditures (\$2,110,940) listed above, the increase associated with departmental operations was \$991,407. An increase in the City Manager Department was attributable to a payment made to the Town of Flower Mound of \$448,000 regarding improvements made to the intersection of FM 407 and Chinn Chapel Road – the City participating jointly with Flower Mound. This was partially offset by a decrease in payroll cost resulting from a reorganization in which the City Attorney and Public Affairs Manager are now accounted for in the Community Services Department. Both the Police and Fire Department expenditures increased – each adding new positions mid-year (Police – 3 positions, Fire – 1 position). Street Department expenditures were reduced in FY 2007 because of delaying a street overlay project – the City choosing to combine with another project in FY 2008 to take advantage of economies of scale. Those functions reflecting a decrease in expenditures do not equate to a decrease in services to the citizens of the City.

General Fund Balance. Total fund balances in the major operating funds were maintained at adequate levels. The designated and undesignated fund balance of the General Fund totaled \$3,245,269 at September 30, 2007, which represents an increase of \$739,616 (29.5%) over fiscal year 2006. The City closed the fiscal year with a General Fund Balance equal to 32.9% of General Fund operating expenditures.

Debt Administration. The Debt Service Fund contains monies, which are set aside to retire debt incurred principally through the sale of bonds. These bonds have been issued to finance long-term capital improvements and or additions to the City's infrastructure.

At September 30, 2007, the Debt Service Fund Balance was \$320,939. This reserve is adequate to pay debt service payments on General Obligation and Certificate of Obligations that are due prior to tax collections. As of September 30, 2007, general long-term debt outstanding was \$14,958,811 and self-supporting debt in the Enterprise Fund was \$9,315,388 for a total funded principal debt obligation of \$24,274,199. The total debt obligation with principal and interest is \$32,362,608. During fiscal year 2007, the City retired principal on its general long-term debt in the amount of \$1,001,447 and paid interest on its bonds in the amount of \$596,562. Total debt payments for general purpose were \$1,567,435.

Property taxes collected in the Debt Service Fund for retirement of debt totaled \$1,646,333 in 2006-2007. With interest earnings and other sources, total revenue amounted to \$1,688,040. With a funding requirement for 2006-2007 of \$1,567,435, the Debt Service Fund balance was effectively increased by \$120,605 to \$320,939.

The financial disclosure notes for the Comprehensive Annual Financial Report in the financial section of this report present more detailed information about the debt position of the City. The City has maintained an above average investment grade credit rating. A rating of AA- with Fitch was obtained with the 2006 bond issuance, and an A+ rating with Standard and Poor's (also upgraded to AA- after year-end, in early 2008).

The ratio of net bonded debt to assessed valuation is a useful indicator of the City's debt position to management, our citizens and investors. The net direct bonded debt outstanding as of September 30, 2007 was \$14,637,872. The ratio of net direct bonded debt to assessed value (100% of market value) is 1.1%. Net bonded debt per capita is \$957. The total assessed value per capita was \$86,825 at September 30, 2007. The ratio of debt to total General Fund expenditures is 9.8%.

The City has never been in default on any of its bonds and maintains adequate reserves to cover debt payments in the event of short falls in revenues. Financial policies have been adopted to assure adequate reserves to pay debt in the event of reserve shortfalls.

Water and Sewer Fund. The Water and Sewer Fund is organized as an enterprise fund, based on the premise that it should be self-supporting through equitable fees and charges. Total operating revenues of the fund were \$5,462,433, which is a decrease of \$1,481,121, or 21.3% over fiscal year 2006. This decrease primarily resulted from significantly decreased water sales, resulting from record rainfall. Total operating expenditures less depreciation was \$5,034,652, which is an increase of \$271,942 or 5.7% over fiscal year 2006. This increase was primarily related to wholesale sewer treatment costs. Sewer effluent treatment increased substantially in FY 2007 because of the abundant rainfall (inflow and infiltration of rainfall into the system resulting in increased wastewater volume). The demand charge associated with the wholesale water subscription increased in FY 2007, but was offset by decreased water purchases.

Monthly transfers from net revenues are being made to accrue for the next principal and interest payment. This Interest and Sinking Balance was \$98,471 at September 30, 2007. When last updated, it was anticipated that current rates and charges would only be sufficient through FY 2007, especially in light of the extremely wet weather experienced in 2007. In turn, a rate analysis was conducted in 2007, resulting in an overall 18% rate increase to be implemented effective with the new year (FY 2008). This increase is expected to ensure sufficient revenues for the City to meet working capital needs, as well as debt service related to capital expenditures.

Cash Management. Cash temporarily idle during the year was invested in Federal Agency Notes, and the Texas Local Government Investment Pool. The monthly average yield on all City investments for September 2007 was 5.25%. All investment transactions and types were made in accordance with State Laws and Investment Policies as adopted by City Council. The City's demand deposits and certificates of deposits were all fully collateralized and such securities were held by a third party bank for safekeeping. The City's total investment portfolio at September 30, 2007 was \$12,567,836.

Of the City's idle funds,

- \$4,382,875, or 34.87%, was in the Texas State Treasury Investment Pool (Tex-Pool);
- \$7,158,736, or 56.96% was in the Texas Short Term Asset Reserve Program (TexSTAR); and
- \$1,026,225 or 8.17%, was invested in a Fannie Mae Discount Note (FNDN) – maturation October 2007.

In total, 100% of the City's idle funds were invested.

Risk Management. The City is a member of the Texas Municipal League Intergovernmental Risk Pool. Management's strategic plans call for a risk analysis to assess current risk exposures to prioritize risk management opportunities including but not limited to risk assumption, risk transfer and risk reduction programs. The management of the City's fixed assets includes coverage of potential property losses.

The Texas Municipal League Intergovernmental Risk Pool insures the City's general liability and property coverage, while Texas Political Subdivisions carries the City's Workers' Compensation coverage. The City reviews its exposures annually for liability and estimated replacement values.

Independent Audit. The City Charter requires an annual audit of the financial records and other evidence of financial transactions of the City by an independent certified public accountant selected by the governing body. This requirement has been complied with as presented in the following annual financial statements and Independent Auditors' Report.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Highland Village for its comprehensive annual financial report for the fiscal year ended September 30, 2006. This was the 16th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City also received the GFOA Distinguished Budget Presentation Award for its annual budget document for fiscal year 2006 – the City's second receipt of this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the finance department. Thanks especially to Marty Coursey for her hard work toward the completion of this document and continued commitment to excellence in accounting standards. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report.

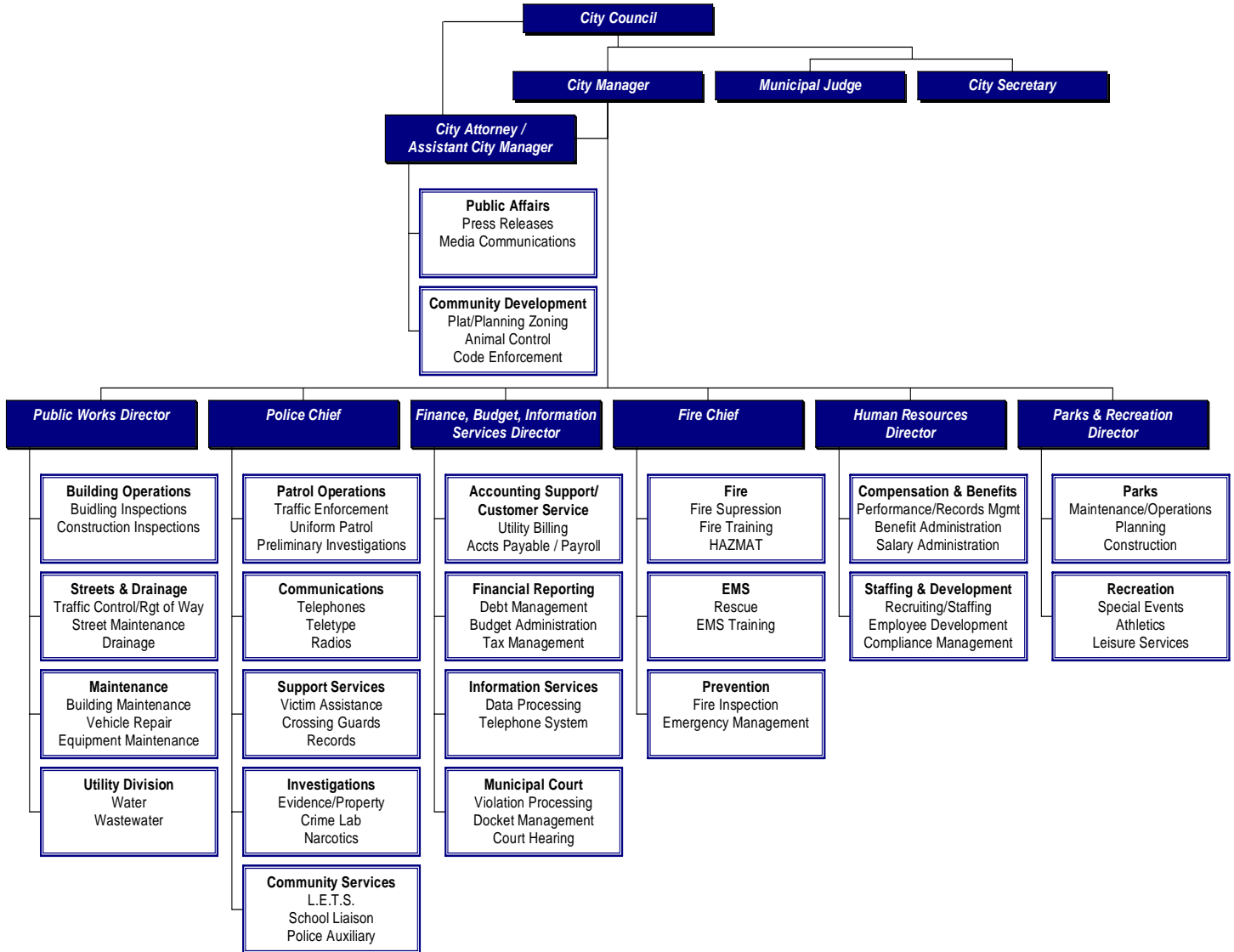
In closing, without the leadership and support of the City Council of the City of Highland Village, preparation of this report would not have been possible.

Sincerely,

A handwritten signature in black ink that reads "Ken Heerman". The signature is written in a cursive style with a long horizontal stroke at the end.

Ken Heerman
Director of Finance, Budget,
and Information Services

City of Highland Village Organization Chart FY 2006/2007



Note: An Assistant City Manager position was added in FY 2006 – this position also appointed as City Attorney. Previous to this addition, City Attorney services were contracted. Also, functions of Community Development and Public Affairs, previously contained in the Community Services Division (under Public Works) and City Manager Office respectively, were placed under this position. Inspections, also included previously in Community Services, are now shown as Building Operations under Public Works. Previous year's expenditure history for Community Services will be included in the Building Operations budget.

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OCTOBER 1, 2006 – SEPTEMBER 30, 2007

HOME RULE, COUNCIL-MANAGER FORM OF GOVERNMENT

MAYOR AND CITY COUNCIL

		<u>Term Expires</u>
Dianne Costa, Mayor	Place 1	05/2008
Brian Fiorenza, Mayor Pro Tem	Place 3	05/2009
Don Combs, Deputy Mayor Pro Tem	Place 2	05/2008
Austin Adams	Place 5	05/2009
Scott McDearmont	Place 6	05/2008
Louis E. Robichaux, IV	Place 4	05/2008
Jon Calvin	Place 7	05/2009

ADMINISTRATIVE

Michael Leavitt	City Manager
Dottie Palumbo	City Attorney
Alicia Richardson	City Secretary
Ken Heerman	Director of Finance, Budget and Information Services
Matthew Kite	Director of Public Works
Ed Obara	Police Chief
Lonnie Tatum	Fire Chief
Martha Butz	Human Resources Director
Rhoda Savage	Director of Parks and Recreation

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Highland Village
Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

President

Jeffrey R. Emmer

Executive Director

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of City Council
City of Highland Village, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Highland Village, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the City of Highland Village, Texas, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, of those activities and funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 15 and the budgetary comparison information on page 50 as described in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Highland Village, Texas' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, capital asset schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pattillo, Brown & Hill, L.L.P.

March 11, 2008

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Highland Village, we offer readers of the City of Highland Village's financial statements this narrative overview and analysis of the financial activities of the City of Highland Village for the fiscal year ended September 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets of Highland Village exceeded its liabilities at the close of the most recent fiscal year by \$46,836,392. Of this amount, \$4,261,794 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$883,978. A \$761,134 increase in net assets related to governmental activities was coupled by an increase of \$122,844 of net assets in business-type activities.
- As of September 30, 2007, Highland Village's governmental funds reported combined ending fund balances of \$6,520,261, a decrease of \$2,650,176 in comparison with the prior year. Approximately 54 percent of this total amount, \$3,536,109, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,096,512, or 32 percent of total General Fund expenditures.
- The City of Highland Village's total debt decreased by \$2,021,605 during the current fiscal year. There was no new debt issued in this fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The management's discussion and analysis are intended to serve as an introduction to the City of Highland Village's basic financial statements. The City of Highland Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net assets presents information on all of Highland Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Highland Village 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 of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided between two kinds of activities:

Governmental activities. Most of the City's basic services are reported here, including the police, fire, community development, public works, information services, park services, municipal court, and general administration. Property taxes, sales taxes, and franchise fees finance most of these activities.

Business-type activities. The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer and drainage utilities are reported here.

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. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City Council also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City of Highland Village can be divided into two categories: governmental funds, and proprietary funds.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationship or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

The City of Highland Village maintains 10 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, Debt Service Fund, and Capital Projects Fund, all of which are considered to be major funds. Data from the other 7 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary funds. The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's Enterprise Fund (a component of proprietary funds) is identical to the business-type activities that are reported in the government-wide statements, but provide more detail and additional information, such as cash flows. The Internal Service Funds (the other component of proprietary funds) are utilized to report activities that provide supplies and services for the City's other programs and activities. Because these services benefit both governmental and business-type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

The City of Highland Village maintains an Enterprise Fund to account for water and sewer services provided to the City's retail and wholesale customers. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Highland Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City of Highland Village does not currently have any fiduciary funds.

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 funds financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Highland Village's progress in funding its obligation to provide pension benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets were \$46,836,392 as of September 30, 2007. Analyzing the net assets and net expenses of governmental and business-type activities separately, business-type activities' net assets are \$8,859,017. This analysis focuses on the net assets (Table 1), and the change in net assets (Table 2).

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

TABLE 1**CITY OF HIGHLAND VILLAGE'S NET ASSETS**

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2006	2006	2007	2006
Current and other assets	\$ 8,246,204	\$ 10,712,408	\$ 5,920,030	\$ 8,195,496	\$ 14,166,234	\$ 18,907,904
Capital assets	<u>47,254,767</u>	<u>44,495,959</u>	<u>13,379,612</u>	<u>11,670,438</u>	<u>60,634,379</u>	<u>56,166,397</u>
Total assets	<u>55,500,971</u>	<u>55,208,367</u>	<u>19,299,642</u>	<u>19,865,934</u>	<u>74,800,613</u>	<u>75,074,301</u>
Long-term liabilities	14,320,461	15,510,702	8,218,520	9,160,404	22,538,981	24,671,106
Other liabilities	<u>3,203,135</u>	<u>2,481,424</u>	<u>2,222,105</u>	<u>1,969,357</u>	<u>5,425,240</u>	<u>4,450,781</u>
Total liabilities	<u>17,523,596</u>	<u>17,992,126</u>	<u>10,440,625</u>	<u>11,129,761</u>	<u>27,964,221</u>	<u>29,121,887</u>
Net assets:						
Invested in capital assets, net of related debt	34,116,670	34,328,243	5,731,085	5,302,838	39,847,755	39,631,081
Restricted	540,039	706,439	2,186,804	1,535,187	2,726,843	2,241,626
Unrestricted	<u>3,320,666</u>	<u>2,181,559</u>	<u>941,128</u>	<u>1,898,148</u>	<u>4,261,794</u>	<u>4,079,707</u>
Total net assets	<u>\$ 37,977,375</u>	<u>\$ 37,216,241</u>	<u>\$ 8,859,017</u>	<u>\$ 8,736,173</u>	<u>\$ 46,836,392</u>	<u>\$ 45,952,414</u>

The following table (Table 2) provides a summary of the City's operations for the year ended September 30, 2007. Governmental activities increased the City's net assets by \$761,134, while business-type activities increased the City's net assets by \$122,844, resulting in a net \$883,978 increase in total net assets.

TABLE 2

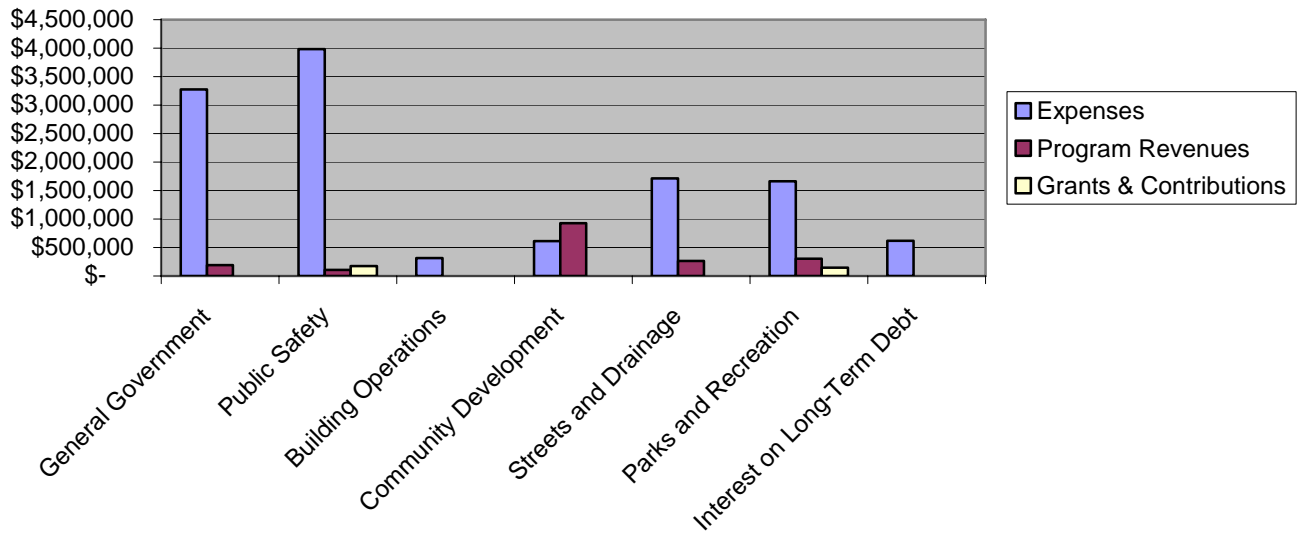
CITY OF HIGHLAND VILLAGE'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 1,795,379	\$ 1,740,291	\$ 5,462,433	\$ 6,943,554	\$ 7,257,812	\$ 8,683,845
Operating grants and contributions	319,162	807,528	-	-	319,162	807,528
Capital grants and contributions	-	-	884,296	665,482	884,296	665,482
General revenues:						
Property taxes	7,775,701	7,111,215	-	-	7,775,701	7,111,215
Sales taxes	940,009	558,944	-	-	940,009	558,944
Franchise taxes	1,229,270	1,239,485	-	-	1,229,270	1,239,485
Penalties and interest	-	48,675	-	-	-	48,675
Interest income	571,390	297,987	329,371	300,804	900,761	598,791
Miscellaneous	186,586	290,488	-	-	186,586	290,488
Total revenues	12,817,497	12,094,613	6,676,100	7,909,840	19,493,597	20,004,453
Expenses:						
General government	3,274,106	2,889,724	-	-	3,274,106	2,889,724
Public safety	3,982,151	3,628,593	-	-	3,982,151	3,628,593
Building operations	314,570	-	-	-	314,570	-
Community development	611,356	-	-	-	611,356	-
Community services*	-	572,649	-	-	-	572,649
Streets and drainage	1,716,177	1,830,799	-	-	1,716,177	1,830,799
Parks and recreation	1,660,194	1,627,417	-	-	1,660,194	1,627,417
Interest on long-term debt	617,809	510,159	-	-	617,809	510,159
Water and wastewater	-	-	6,433,256	6,137,246	6,433,256	6,137,246
Total expenses	12,176,363	11,059,341	6,433,256	6,137,246	18,609,619	17,196,587
Increases in net assets before transfers						
	641,134	1,035,272	242,844	1,772,594	883,978	2,807,866
Transfers						
	120,000	240,000	(120,000)	(240,000)	-	-
Change in net assets						
	761,134	1,275,272	122,844	1,532,594	883,978	2,807,866
Net assets, beginning						
	37,216,241	35,940,969	8,736,173	7,203,579	45,952,414	43,144,548
Net assets, ending						
	\$ 37,977,375	\$ 37,216,241	\$ 8,859,017	\$ 8,736,173	\$ 46,836,392	\$ 45,952,414

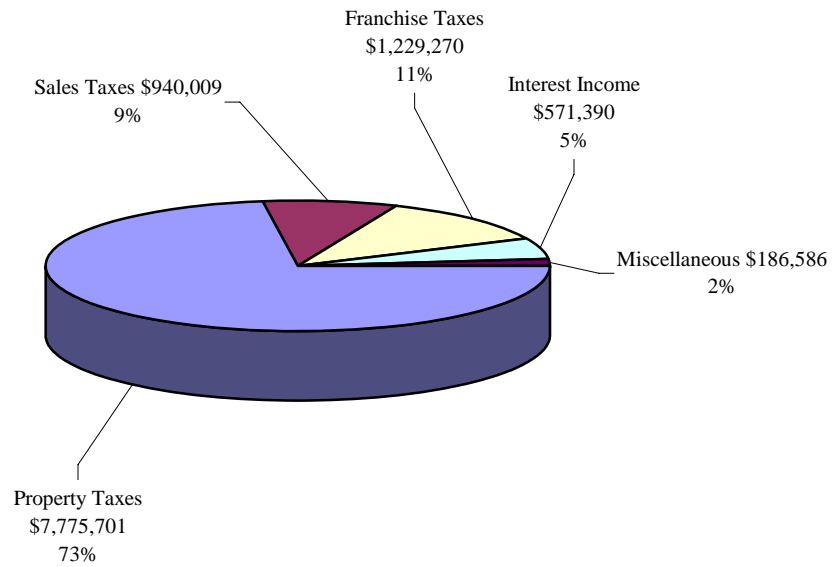
* Note: A department reallocation in fiscal year 2007 eliminated the Community Services Department. Services previously included in this department (inspection, planning) are now distributed to the Building Operations and Community Development respectively. Additionally, the City attorney and public affairs functions were also reallocated, now reflected in the Community Development department (previously included in General government). The animal control function was retained in Community Development, however reallocated to the Police Department in FY 2008.

Governmental activities. The City's expenses for governmental activities are detailed below – with associated program revenues.

Expenses and Program Revenues - Governmental Activities



General Revenues by Source - Governmental Activities



Net assets associated with governmental activities increased \$761,134 from FY 2006.

- FY 2007 revenues increased \$722,884 from the previous year. In general, increased property and sales tax revenues were partially offset by reduced grants/contributions.
 - Property tax revenue increased \$664,486 resulting from a 7.1% increased valuation, of which about 3.8% is attributed to new growth. A large portion of the new growth is associated with the retail development in the western portion of the City.
 - Sales tax revenue increased \$381,065 (68%) from FY 2006 – this associated with the opening of the Marketplace at Highland Village development.
 - Investment interest income of \$571,390 was reflective of a \$273,403 increase from FY 2006, primarily resulting from higher yields.
 - Operating grants/contributions decreased \$488,366 primarily related to grant reimbursements from the Statewide Transportation Enhancement Program (STEP) for construction of an Inland Trail. With the bulk of construction for this project occurring in FY 2006, the majority of grants were received last year (\$754,319 received in FY 2006, with only \$118,554 received in FY 2007). This decrease was partially offset by receipt of \$172,608 in public safety grants – an increase of \$122,924 from FY 2006.
- FY 2007 expenses increased \$1,117,022 from FY 2006, reflecting inflation and increased service demand. The total expense amount of \$12,176,363 however, was less than total revenues – providing a \$641,134 increase before transfers.
 - Personnel costs increased \$679,954, which reflected City pay increases, and increased benefits costs, as well as 8 additional authorized positions.
 - A one-time expense of \$488,388 was incurred in FY 2007 – participation with the Town of Flower Mound for improvements to the intersection of FM 407 and Chinn Chapel Road.
- Transfers from the Utility Fund to reimburse the General Fund for support services, typically \$240,000, was reduced to \$120,000 one time only in FY 2007 – to ensure the Utility Fund maintain an adequate working capital balance, offsetting significantly diminished water sales resulting from record rainfall in 2007.

Business-type activities: Business-type activities reflected a \$122,844 increase in the City's net assets. Despite decreased charges for services – specifically, water/sewer sales, revenues in total exceeded expenses and transfers, resulting in the increase in net assets.

- Charges for service decreased \$1,481,121 from last year's total of \$6,943,554, as record rainfall resulted in reduced water sales. (The decrease is further compounded in that FY 2006 represented a significant increase from the previous year due to extremely dry weather conditions).
- Partially offsetting the decrease in water sales was impact fee collections of \$884,296 – increased over last year's collection of \$665,482.

- Expenses increased \$296,010, mostly reflecting increased costs for wholesale wastewater treatment. The increased rainfall, with flooding in certain areas of the City, resulted in higher effluent volume and correspondingly higher treatment costs.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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 the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,520,261, a decrease of \$2,650,176 in comparison with the prior year. Approximately 54 percent of this total amount, or \$3,536,109, constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period – \$1,564,944, 2) to pay debt service – \$320,939, 3) to pay for capital projects – \$815,587, and 4) reserved for park development – \$267,715.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,096,512, while total fund balance was \$3,245,269. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 32 percent of total General Fund expenditures, while total fund balance represents 33 percent of that same amount.

- Total General Fund revenues of \$10,142,978 exceeded the FY 2006 revenue total by \$1,206,773 – also exceeding the original FY 07 budgeted amount by \$559,667.
 - Property tax revenue increased \$425,570 from the previous year primarily due to increased valuation. Total taxable value in the City increased 7.1% - the largest increase since FY 2004.
 - Sales tax revenues of \$907,430, an increase of \$362,338 from FY 2006, were largely derived from the opening of the Marketplace at Highland Village development.
 - Licenses, permits and fees represented the other substantial revenue increase from the previous year, with an additional amount of \$167,095 collected in FY 2007. Increased numbers of building permits were issued - largely related to the two large retail developments in the western part of the City.
- Total General Fund expenditures increased slightly in FY 2007 to \$9,856,470, an increase of \$96,038 from the previous year. Compared to the original budgeted amount, this total reflected a decrease of \$336,970.
 - Personnel costs increased \$649,724 from FY 2006, resulting from city pay increases, increased benefit costs, and the addition of four new public safety positions (added mid-year).

- Streets and drainage expenditures decreased \$136,204 from FY 2006 due to delay of a street overlay project until FY 2008 to combine with another project to effect cost efficiencies.
- Capital Outlay expenditures decreased by \$677,070 in FY 2007 – as FY 2006 included the recording of a fire truck and gradall obtained by capital lease.
- Total Other Financing Sources (Uses) reflected a net total of \$453,108. The primary elements of this total include a transfer in from the Utility Fund (reduced to \$120,000 from the budgeted amount of \$240,000 to offset reduced water sales), a transfer in from Capital Projects of \$488,388 corresponding to an expenditure made to the Town of Flower Mound for joint participation on a street project, and a transfer out of \$100,000 to the Corps Leased Parks Fund to provide assistance of funding needed park improvements. While this total for FY 2007 reflects a decrease of \$511,895 from FY 2006, the FY 2006 total included \$713,391 related to issuance of the capital lease for the fire truck and gradall.

The Debt Service Fund has a total fund balance of \$320,939, an increase of \$120,605, all of which is reserved for the payment of debt service. For the past several years, a plan to gradually build this fund balance has been utilized, with a goal of about one-half year debt service.

Capital Projects Fund, with an ending balance of \$2,097,630, decreased \$3,729,206 during this fiscal year. This decrease resulted from expenditures relating to two major capital projects: \$1,434,530 related to the remaining street reconstruction project (Brazos Blvd) funded from the 2002 \$2.8M street bond issuance, and \$1,973,272 related to construction of a new fire station, funded by issuance in 2006 totaling \$4M. Additionally, expenditures of \$115,867 were incurred related to repairs of the City's Municipal Complex, stemming from a settlement obtained by the City in FY 2004 related to deficiencies in the construction of the building.

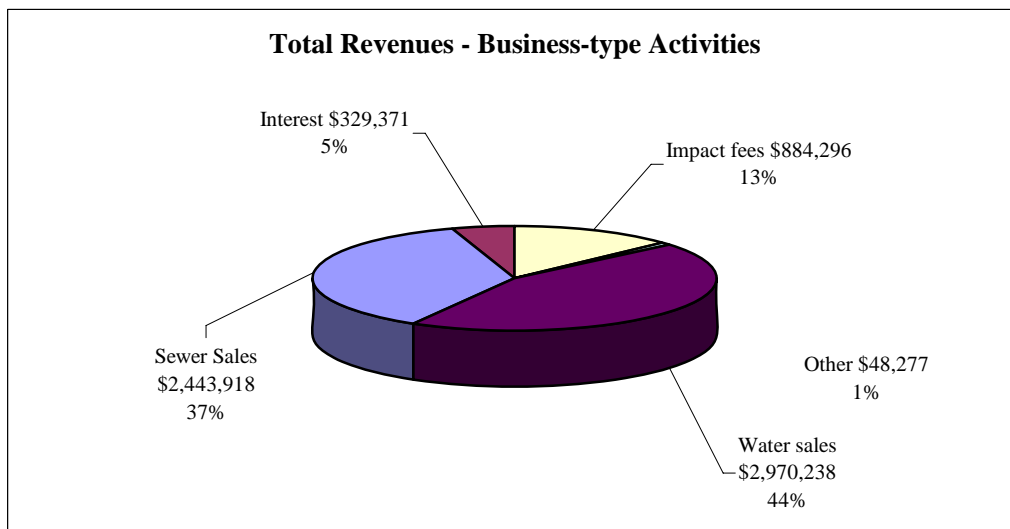
Remaining governmental funds reported a combined ending fund balance of \$856,423, reflecting an increase of \$218,809.

- Revenues for these funds decreased \$522,065 primarily due to a reduction of grant proceeds associated with the Inland Trail project (\$754,319 proceeds received in FY 2006, vs. receipt of \$118,554 in FY 2007 – reflective of substantial completion of the project in FY 2006), partially offset by collection of \$266,221 from assessed drainage fees. A drainage fee was established effective with FY 2007 to maintain a storm water management plan for the City.
- A decrease of \$498,440 in combined expenditures generally offset the reduction in revenues. This change was also largely attributable to the Inland Trail project, with \$1.1M of expenditures in FY 2006 not repeated in FY 2007. Offsetting this reduction were expenditures related to improvements to Unity Park of \$335,067 (funded with Park Development Fees), and the purchase of \$163,399 of capital equipment for the newly established Drainage Utility. A tax note of \$300,000 issued in FY 2007 provided funding for the drainage capital equipment.

Proprietary funds. The City’s proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

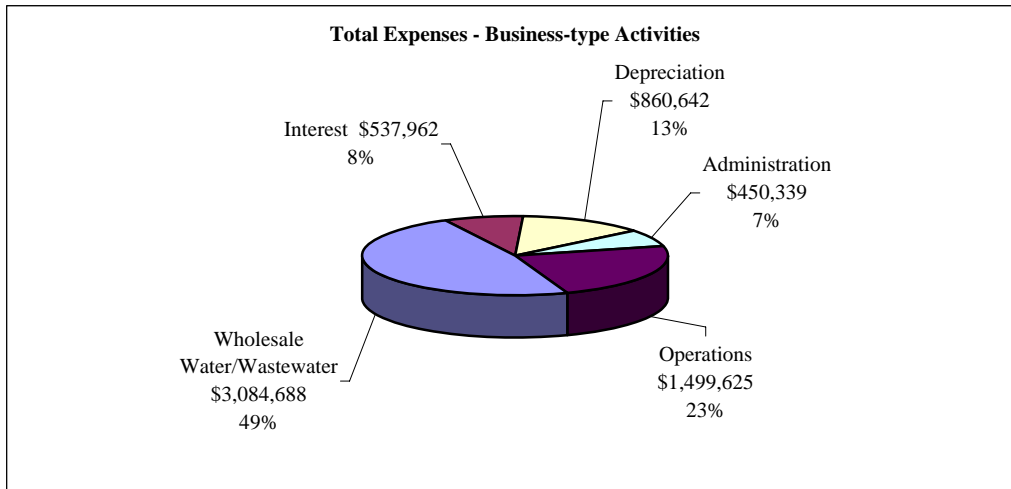
Net assets in the Enterprise Fund totaled \$8,859,017 at the end of the fiscal year 2007, an increase of \$122,844, or 1.4 percent. Included in net assets is \$2,186,804 restricted for capital projects. The remaining net asset balance of \$6,672,213 consists of unrestricted net assets and investments in capital assets, net of related debt.

- Utility operating revenues of \$5,462,433 reflected a decrease of \$1,481,121, or 21%, in FY 2007, primarily as a result of extremely wet weather conditions that facilitated the decreased water sales.
 - Water sales decreased \$1,380,238
 - Sewer sales increased \$70,244
 - Miscellaneous revenue decreased \$188,003 largely due to receipt of \$141,706 reimbursement from the Upper Trinity Regional Water District in FY 2006 for a proportionate share of installation of a transmission line.



Utility operating expenses of \$5,895,294 increased \$246,158, or 5%.

- Wholesale water costs represented the majority of the increase - \$264,407.
 - Of the \$264,407 increase in wholesale costs, \$248,324 was attributed to sewer effluent treatment costs. The volume of sewer effluent increased significantly with above-average rainfall and flooding in the City.
 - An increased rate for the water demand cost associated with the City’s subscribed 3 MGD capacity provided a \$45,000 increase, but was offset by a reduction in purchased water affected by reduced water consumption.
- Depreciation expense decreased in FY 2007 by \$25,784.



GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2006-2007, the City Council of the City of Highland Village amended the budget for the General Fund on just one occasion. The majority of these appropriations relate to actions taken to fund unbudgeted items during the fiscal year, including the acceptance of grants during the year.

Staff reviewed each supplemental appropriation throughout the year and determined that increased revenues provided sufficient reserves to recommend their increase.

For fiscal year 2006-2007, actual expenditures on a budgetary basis were \$9,856,470. This total was less than the original budgeted expenditures of \$10,193,440 by \$336,970, however \$1,120,970 below the revised budget of \$10,977,440. The supplemental requests approved during the year are summarized following:

- Provision of appropriation for payment of \$448,388 (remaining portion of \$500,000 commitment of participation with Town of Flower Mound for Chinn Chapel Rd project), offset by transfer from the Capital Projects Fund (identified project in FY 2006 bond issue);
- Additional appropriation for potential purchase of parkland under consideration in the amount of \$100,000;
- Council Chamber/Training Room upgrades of \$40,000 (utilizing proceeds from Comcast Audit settlement as offset);
- Increased transfer to \$100,000 (from \$40,000) to Corps Leased Parks Fund to address shortfall in revenues caused by flooding and associated park closure;
- Provided additional \$22,500 as remaining portion of funding for Police Skywatch Tower via transfer to Public Safety Fund; and
- Various personnel/contract labor provisions including salary adjustment and construction inspection in Community Development Department totaling \$50,000, contract labor provision of \$20,000 in City Secretary office for data entry of initial setup of document imaging system, additional \$40,000 overtime provision in Fire Department, and \$15,000 for plan review/health inspection services associated with retail development in Building Operations.

In general, major factors in the actual expenditures being reduced from the original budget were the delay in hiring of the four new public safety positions and delay of a street overlay project. Soon after the start of the fiscal year, it was learned that opening of a new Wal-Mart – originally anticipated with a May 2007 opening, would be delayed until Fall 2007. In turn, hiring of the new budgeted positions was delayed to compensate for the loss of revenue – providing savings of about \$115,000. Additionally, a street overlay project expected to total about \$140,000 was delayed to FY 2008 to combine with another project and achieve cost efficiency.

Actual revenue on a budgetary basis was \$10,142,978 compared to the original budget of \$9,583,311. Despite sales tax revenues being less than anticipated (resulting from the Wal-Mart opening delay), actual revenues exceeded the budget amount by \$559,667. The majority of the favorable variance resulted from increased collection of building permits and related plan review fees. This component provided \$449,171 more than anticipated in the original budget - primarily related to increased commercial building permits associated with the retail development in the western part of the City. Smaller favorable variances of most of the revenue categories accounted for the remainder of the increase.

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, amount to \$60,634,379 (net of accumulated depreciation). This investment in capital assets includes land, building, park facilities, roads, bridges and water and sewer lines.

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

Description	Amount
Inland Trail - TxDot Grant	\$ 1,143,376
Utility Park	409,886
Village Park	271,403
Hydraulic excavator	118,160
Backhoe loader	104,055
Motorola BC Interop project	80,314
Sky Watch Eagle Tower	56,522
2007 Ford Crown Victoria	44,339
Hydraulic excavator	41,695
2007 Ford Crown Victoria	30,734
2007 Ford Crown Victoria	30,734
2007 Ford Crown Victoria	30,734
Stone, TR34, Trench Roller Remote	26,347
2007 Ford F150	19,533
2007 F150	19,533
65 HP Floor Saw	14,876
2007 Kubota, RTV 900W6-A Utility Vehicle	12,661
Shade covers - Unity Park	12,130
27 HP Diesel ZRT 72" - Mower	11,444

TABLE 3**CITY OF HIGHLAND VILLAGE'S CAPITAL ASSETS AT YEAR-END**

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Land	\$ 13,121,692	\$ 13,121,692	\$ 75,713	\$ 75,713	\$ 13,197,405	\$ 13,197,405
Land improvements	3,590,781	1,977,522	422	633	3,591,203	1,978,155
Buildings and improvements	3,072,133	3,336,648	-	-	3,072,133	3,336,648
Distribution system	-	-	9,606,678	10,382,513	9,606,678	10,382,513
Equipment and machinery	1,792,311	1,589,227	429,111	357,024	2,221,422	1,946,251
Infrastructure	20,964,715	21,843,943	16,595	17,208	20,981,310	21,861,151
Construction in progress	4,713,135	2,626,927	3,251,093	837,347	7,964,228	3,464,274
Total capital assets	\$ 47,254,767	\$ 44,495,959	\$ 13,379,612	\$ 11,670,438	\$ 60,634,379	\$ 56,166,397

Additional information on the City's capital assets can be found in Note 3 on pages 41 – 42 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonds outstanding of \$24,274,199. Of this amount, \$14,958,811 is tax-supported debt. The remainder of the City of Highland Village's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

TABLE 4**CITY OF HIGHLAND VILLAGE'S OUTSTANDING DEBT AT YEAR-END**

	Governmental Activities		Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
General obligations	\$ 13,703,811	\$ 14,705,257	\$ 2,495,388	\$ 3,150,547	\$ 16,199,199	\$ 17,855,804
Combination Tax and Revenue Certificates of Obligation	1,255,000	1,255,000	6,820,000	7,185,000	8,075,000	8,440,000
	\$ 14,958,811	\$ 15,960,257	\$ 9,315,388	\$ 10,335,547	\$ 24,274,199	\$ 26,295,804

The City's total debt decreased by \$2,021,605 during the current fiscal year, as the City did not issue additional debt.

The City's tax supported debt is rated "AA-" by Fitch Ratings, with Standards & Poor's reflecting a "A+" rating. This rating was achieved with the September 2006 issue, the City previously rated as "A+" by both Fitch and Standard & Poor's. The Highland Village City Charter provides that general property taxes are limited to \$1.50 per \$100 of assessed valuation for general governmental services – including the payment of principal and interest on legal debt instruments. The current ratio of tax-supported debt to assessed value of all taxable property is 1.13 percent.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2007-2008 budget incorporates no increase in the property tax rate. It remains at \$.56963 per \$100 valuation.

The FY 2008 operating budget increased by 12.46%, or \$1,270,505 over the FY 2007 budget. The major item comprising this increase is personnel increases (\$788,501). The personnel increases reflect a 5.5% Merit / CPI general increase (\$307,000), five new positions (an assistant fire chief, three firefighter / paramedic positions and one police officer totaling \$337,000), and increases in various insurance and retirement rates (\$144,000).

Increased funding of \$451,504 for supplies / equipment, reflects a 12.8% increase from FY 2007, now totaling \$3,069,107. This increase is comprised of the following elements:

- Increased street maintenance of \$161,000 – with \$140,000 of this amount as a project carried over from FY 2007.
- Utilities increased \$61,724, with \$20,000 related to higher cost for gas and electric service. The remaining increase amount reflects a change in policy for the City to pay for water usage using rates equivalent to those charged for commercial irrigation (the City previously paying rates equivalent to the wholesale volume rate).
- A total of \$66,000 was budgeted for the Fire Department to furnish the new fire department building (expected to be completed in March 2008).
- An \$83,000 supplemental program was funded – a fence replacement along Brazos Blvd. to address fencing located on City right-of-way.
- An additional \$25,000 was budgeted associated with the public safety radio trunking system obtained through the City of Lewisville, as Highland Village committed to a proportionate share of upgrading this system.
- An additional \$20,000 was added to the Contingency budget – now reflecting a total of \$100,000.

Capital expenditures totaling \$377,500 related to equipment replacement were slightly increased (\$30,500) from FY 2007 – these purchases reflected targeted equipment to be replaced in the equipment replacement schedule. Anticipated revenue increases of 13.32%, coupled with utilization of surplus funds on hand for capital purchases, will be sufficient to fund the increased expenditures.

The City's financial policies require the City to maintain a fund balance equivalent to 15% of General Fund expenditures. The ending fund balance percentage for FY 2007 was 33%.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Highland Village, Finance Department, 1000 Highland Village Road, Highland Village, TX, 75077.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
ASSETS				
Cash and investments	\$ 7,111,326	\$ 548,143	\$ 7,659,469	\$ 448,896
Receivables (net of allowances for uncollectibles)				
Taxes	645,050	-	645,050	104,674
Accounts	133,982	1,235,894	1,369,876	-
Intergovernmental	11,543	-	11,543	-
Other	-	6,453	6,453	-
Inventories and prepaid items	14,967	95,579	110,546	-
Restricted cash and investments:				
Reserved bond debt service	-	98,471	98,471	-
Capital improvements	-	1,307,166	1,307,166	-
Construction	-	2,186,804	2,186,804	-
Customer deposits	-	251,768	251,768	-
Unamortized debt issue cost	329,336	189,752	519,088	-
Capital assets:				
Nondepreciable capital assets	17,834,827	3,326,806	21,161,633	128,255
Depreciable capital assets, net of	<u>29,419,940</u>	<u>10,052,806</u>	<u>39,472,746</u>	<u>37,550</u>
Total capital assets	<u>47,254,767</u>	<u>13,379,612</u>	<u>60,634,379</u>	<u>165,805</u>
 Total assets	 <u>55,500,971</u>	 <u>19,299,642</u>	 <u>74,800,613</u>	 <u>719,375</u>
LIABILITIES				
Accounts payable	853,341	753,386	1,606,727	10,087
Accrued liabilities	329,973	237,947	567,920	740
Accrued interest	66,766	52,079	118,845	-
Customer deposits	-	251,768	251,768	-
Current portion of long-term obligations	2,075,193	998,863	3,074,056	-
Noncurrent portion of long-term obligations	<u>14,198,323</u>	<u>8,146,582</u>	<u>22,344,905</u>	<u>-</u>
Total liabilities	<u>17,523,596</u>	<u>10,440,625</u>	<u>27,964,221</u>	<u>10,827</u>
NET ASSETS				
Invested in capital assets, net of related debt	34,116,670	5,731,085	39,847,755	165,805
Restricted for:				
Debt service	272,324	-	272,324	-
Capital projects	267,715	2,186,804	2,454,519	-
Unrestricted	<u>3,320,666</u>	<u>941,128</u>	<u>4,261,794</u>	<u>542,743</u>
 Total net assets	 <u>\$ 37,977,375</u>	 <u>\$ 8,859,017</u>	 <u>\$ 46,836,392</u>	 <u>\$ 708,548</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	\$ 3,274,106	\$ 188,435	\$ -	\$ -
Public safety	3,982,151	108,830	172,608	-
Building operations	314,570	-	-	-
Community development	611,356	928,357	-	-
Streets and drainage	1,716,177	266,221	-	-
Parks and recreation	1,660,194	303,536	146,554	-
Interest on long-term debt	617,809	-	-	-
Total governmental activities	<u>12,176,363</u>	<u>1,795,379</u>	<u>319,162</u>	<u>-</u>
Business-type activities:				
Water and wastewater	<u>6,433,256</u>	<u>5,462,433</u>	<u>-</u>	<u>884,296</u>
Total business-type activities	<u>6,433,256</u>	<u>5,462,433</u>	<u>-</u>	<u>884,296</u>
Total primary government	<u>\$ 18,609,619</u>	<u>\$ 7,257,812</u>	<u>\$ 319,162</u>	<u>\$ 884,296</u>
Component Unit				
City of Highland Village Economic Development Corporation				
	<u>\$ 102,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total component unit	<u>\$ 102,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:
 Property taxes, levied for general purposes
 Property taxes, levied for debt service
 Franchise taxes
 Sales taxes
 Unrestricted investment earnings
 Miscellaneous
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets - beginning

 Net assets - ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$(3,085,671)	\$ -	\$(3,085,671)	\$ -
(3,700,713)	-	(3,700,713)	-
(314,570)	-	(314,570)	-
317,001	-	317,001	-
(1,449,956)	-	(1,449,956)	-
(1,210,104)	-	(1,210,104)	-
(617,809)	-	(617,809)	-
<u>(10,061,822)</u>	<u>-</u>	<u>(10,061,822)</u>	<u>-</u>
<u>-</u>	<u>(86,527)</u>	<u>(86,527)</u>	<u>-</u>
<u>-</u>	<u>(86,527)</u>	<u>(86,527)</u>	<u>-</u>
<u>(10,061,822)</u>	<u>(86,527)</u>	<u>(10,148,349)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(102,448)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(102,448)</u>
6,126,579	-	6,126,579	-
1,649,122	-	1,649,122	-
1,229,270	-	1,229,270	-
940,009	-	940,009	454,576
571,390	329,371	900,761	19,232
155,982	-	155,982	-
<u>120,000</u>	<u>(120,000)</u>	<u>-</u>	<u>-</u>
<u>10,792,352</u>	<u>209,371</u>	<u>11,001,723</u>	<u>473,808</u>
730,530	122,844	853,374	371,360
<u>37,216,241</u>	<u>8,736,173</u>	<u>45,952,414</u>	<u>337,188</u>
<u>\$ 37,946,771</u>	<u>\$ 8,859,017</u>	<u>\$ 46,805,788</u>	<u>\$ 708,548</u>

CITY OF HIGHLAND VILLAGE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 3,131,131	\$ 320,939	\$ 2,625,499	\$ 1,033,757	\$ 7,111,326
Receivables (net of allowances for uncollectibles):					
Taxes	626,899	18,151	-	-	645,050
Accounts	133,982	-	-	-	133,982
Intergovernmental	-	-	-	11,543	11,543
Prepaid expenses	<u>14,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,967</u>
Total assets	<u>3,906,979</u>	<u>339,090</u>	<u>2,625,499</u>	<u>1,045,300</u>	<u>7,916,868</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	316,860	-	352,502	183,979	853,341
Accrued liabilities	149,708	-	175,367	4,898	329,973
Deferred revenue	<u>195,142</u>	<u>18,151</u>	<u>-</u>	<u>-</u>	<u>213,293</u>
Total liabilities	<u>661,710</u>	<u>18,151</u>	<u>527,869</u>	<u>188,877</u>	<u>1,396,607</u>
Fund balances:					
Reserved for:					
Encumbrances	133,790	-	1,282,043	149,111	1,564,944
Prepaid expenses	14,967	-	-	-	14,967
Debt service	-	320,939	-	-	320,939
Capital projects	-	-	815,587	-	815,587
Park development	-	-	-	267,715	267,715
Unreserved, undesignated	3,096,512	-	-	-	3,096,512
Unreserved, reported in non-major:					
Special revenue funds	-	-	-	317,046	317,046
Capital projects fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,551</u>	<u>122,551</u>
Total fund balances	<u>3,245,269</u>	<u>320,939</u>	<u>2,097,630</u>	<u>856,423</u>	<u>6,520,261</u>
 Total liabilities and fund balances	 <u>\$ 3,906,979</u>	 <u>\$ 339,090</u>	 <u>\$ 2,625,499</u>	 <u>\$ 1,045,300</u>	 <u>\$ 7,916,868</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

SEPTEMBER 30, 2007

Total fund balance, governmental funds \$ 6,520,261

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 47,254,767

Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. The details of this difference is as follows:

Property taxes	\$ 86,068	
Ambulance fees	13,890	
Court fines	75,689	
Franchise taxes	<u>37,646</u>	
		213,293

Some liabilities, (such as Capital Lease Obligations, Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. The details of this difference is as follows:

Bonds payable	(14,958,810)	
Deferred amount on refunding	240,997	
Issuance cost	329,336	
Issuance premium	(91,643)	
Accreted interest	(126,727)	
Accrued interest payable	(66,766)	
Tax notes	(300,000)	
Capital lease obligation	(328,880)	
Compensated absences	<u>(708,453)</u>	
		(16,010,946)

Net assets of governmental activities in the statement of net assets \$ 37,977,375

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 8,284,018	\$ 1,646,333	\$ -	\$ -	\$ 9,930,351
Fines and forfeitures	210,170	-	-	-	210,170
Licenses, permits and fees	1,113,797	-	-	425,154	1,538,951
Intergovernmental	28,000	-	-	291,162	319,162
Charges for services	104,736	-	-	-	104,736
Investment earnings	215,671	41,707	282,079	31,933	571,390
Miscellaneous	186,586	30,604	10,752	-	227,942
Total revenues	<u>10,142,978</u>	<u>1,718,644</u>	<u>292,831</u>	<u>748,249</u>	<u>12,902,702</u>
EXPENDITURES					
Current:					
General government:					
City manager	902,603	-	-	-	902,603
Finance	997,752	-	-	-	997,752
Human resources	308,138	-	-	-	308,138
City secretary	277,489	-	-	-	277,489
Maintenance	686,966	-	-	-	686,966
Public safety:					
Police	2,523,796	-	-	10,277	2,534,073
Fire	1,056,592	-	-	8,677	1,065,269
Building operations	267,648	-	-	-	267,648
Community development	590,233	-	-	-	590,233
Streets and drainage	737,281	-	-	21,672	758,953
Parks and recreation	1,146,600	-	-	233,945	1,380,545
Debt service:					
Principal	111,796	1,001,447	-	-	1,113,243
Interest and other charges	15,957	596,592	-	20,000	632,549
Capital outlay	233,619	-	3,573,649	650,149	4,457,417
Total expenditures	<u>9,856,470</u>	<u>1,598,039</u>	<u>3,573,649</u>	<u>944,720</u>	<u>15,972,878</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>286,508</u>	<u>120,605</u>	<u>(3,280,818)</u>	<u>(196,471)</u>	<u>(3,070,176)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of long-term debt	-	-	-	300,000	300,000
Transfers in	591,608	-	-	138,500	730,108
Transfers out	(138,500)	-	(448,388)	(23,220)	(610,108)
Total other financing sources and uses	<u>453,108</u>	<u>-</u>	<u>(448,388)</u>	<u>415,280</u>	<u>420,000</u>
NET CHANGE IN FUND BALANCES	739,616	120,605	(3,729,206)	218,809	(2,650,176)
FUND BALANCES, BEGINNING	<u>2,505,653</u>	<u>200,334</u>	<u>5,826,836</u>	<u>637,614</u>	<u>9,170,437</u>
FUND BALANCES, ENDING	<u>\$ 3,245,269</u>	<u>\$ 320,939</u>	<u>\$ 2,097,630</u>	<u>\$ 856,423</u>	<u>\$ 6,520,261</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Net change in fund balances - total governmental funds: \$(2,650,176)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay (\$3,119,733) exceeded depreciation (\$1,679,925) in the current period. 2,768,597

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (9,789)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. The details of these differences are as follows:

Property taxes	\$ 11,383	
Ambulance fees	(25,385)	
Court fines	(33,093)	
Franchise fees	<u>3,246</u>	
		(43,849)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. The details of these differences are as follows:

Payments on bonds	1,001,447	
Payments on capital lease	111,796	
Issuance of tax notes	<u>(300,000)</u>	
		813,243

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Compensated absences	(90,276)	
Accrued interest	27,802	
Accreted interest	25,065	
Bonds issuance cost	(62,277)	
Amortization of deferred loss of refunding bonds	(22,689)	
Amortization of premium on bond issuances	<u>5,483</u>	
		(116,892)

Change in net assets of governmental activities \$ 761,134

The accompanying notes are an integral part of these financial statements.

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CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF NET ASSETS

ENTERPRISE - WATER AND WASTEWATER FUND

SEPTEMBER 30, 2007

(With Comparative Totals as of September 30, 2006)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 548,143	\$ 1,254,382
Accounts receivable, net	1,235,894	1,165,657
Other receivables	6,453	6,807
Inventories	90,424	101,112
Prepaid items	5,155	4,461
Restricted cash and investments:		
Reserve bond debt service	98,471	63,213
Capital improvements	1,307,166	3,551,021
Construction	2,186,804	1,535,187
Customer deposits	<u>251,768</u>	<u>249,653</u>
Total current assets	<u>5,730,278</u>	<u>7,931,493</u>
Non-current assets:		
Unamortized debt issue cost	189,752	264,003
Capital assets:		
Nondepreciable capital assets	3,326,806	913,060
Depreciable capital assets, net of accumulated depreciation	<u>10,052,806</u>	<u>10,757,378</u>
Total capital assets	<u>13,379,612</u>	<u>11,670,438</u>
Total non-current assets	<u>13,569,364</u>	<u>11,934,441</u>
Total assets	<u>19,299,642</u>	<u>19,865,934</u>
LIABILITIES		
Current liabilities:		
Accounts payable	753,386	567,780
Accrued expenses	237,947	72,207
Accrued interest payable	52,079	57,497
Customer deposits	251,768	249,653
Current portion of long-term obligations	<u>998,863</u>	<u>1,022,220</u>
Total current liabilities	<u>2,294,043</u>	<u>1,969,357</u>
Non-current liabilities:		
Noncurrent portion of long-term obligations	<u>8,146,582</u>	<u>9,160,404</u>
Total non-current liabilities	<u>8,146,582</u>	<u>9,160,404</u>
Total liabilities	<u>10,440,625</u>	<u>11,129,761</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,731,085	5,302,838
Restricted for capital projects	2,186,804	1,535,187
Unrestricted	<u>941,128</u>	<u>1,898,148</u>
Total net assets	<u>\$ 8,859,017</u>	<u>\$ 8,736,173</u>

The accompanying notes are an integral part of these financial statements.

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CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2007

(With Comparative Totals For the Year Ended September 30, 2006)

	<u>2007</u>	<u>2006</u>
REVENUES		
Charges for services	\$ 5,391,362	\$ 6,866,897
Penalties, fines and forfeits	<u>71,071</u>	<u>76,657</u>
Total operating revenues	<u>5,462,433</u>	<u>6,943,554</u>
OPERATING EXPENSES		
Administration	450,339	418,583
Maintenance and operations	4,584,313	4,344,127
Depreciation	<u>860,642</u>	<u>886,426</u>
Total operating expenses	<u>5,895,294</u>	<u>5,649,136</u>
OPERATING INCOME	<u>(432,861)</u>	<u>1,294,418</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	329,371	300,804
Interest expense	<u>(537,962)</u>	<u>(488,110)</u>
Total non-operating revenues (expenses)	<u>(208,591)</u>	<u>(187,306)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(641,452)</u>	1,107,112
CAPITAL CONTRIBUTIONS	884,296	665,482
TRANSFERS OUT	<u>(120,000)</u>	<u>(240,000)</u>
CHANGE IN NET ASSETS	122,844	1,532,594
TOTAL NET ASSETS, BEGINNING	<u>8,736,173</u>	<u>7,203,579</u>
TOTAL NET ASSETS, ENDING	<u>\$ 8,859,017</u>	<u>\$ 8,736,173</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF CASH FLOWS

ENTERPRISE - WATER AND WASTEWATER FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2007

(With Comparative Totals For the Year Ended September 30, 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 5,319,010	\$ 6,824,122
Cash paid to suppliers for goods and services	(976,257)	(924,906)
Cash paid to employees for services	(3,601,397)	(3,759,188)
Net cash provided by operating activities	<u>741,356</u>	<u>2,140,028</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to other funds	(120,000)	(240,000)
Net cash used for noncapital financing activities	<u>(120,000)</u>	<u>(240,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	884,296	665,482
Acquisition of capital assets	(2,569,816)	(1,025,175)
Principal paid on bonds	(948,221)	(886,064)
Interest and fiscal charges paid on debt	(578,090)	(378,864)
Net cash provided (used) for capital and related financing activities	<u>(3,211,831)</u>	<u>(1,624,621)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	<u>329,371</u>	<u>300,804</u>
Net cash provided by investing activities	<u>329,371</u>	<u>300,804</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,261,104)	576,211
CASH AND CASH EQUIVALENTS, BEGINNING	<u>6,653,456</u>	<u>6,077,245</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 4,392,352</u>	<u>\$ 6,653,456</u>
(Including \$3,844,209 and \$5,399,074 reported as restricted cash and investments)		

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF CASH FLOWS

ENTERPRISE - WATER AND WASTEWATER FUND

(Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2007

(With Comparative Totals For the Year Ended September 30, 2006)

	<u>2007</u>	<u>2006</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ (432,861)	\$ 1,294,418
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	860,642	886,426
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Customer receivable	(70,237)	(63,890)
Other receivables	354	-
Inventories	10,688	(25,161)
Prepaid and other assets	(694)	(4,461)
Increase (decrease) in liabilities:		
Accounts payable	185,606	14,796
Accrued liabilities	165,740	8,458
Customer deposits	2,115	21,115
Compensated absences	<u>20,003</u>	<u>8,327</u>
Net cash provided by operating activities	<u>\$ 741,356</u>	<u>\$ 2,140,028</u>

The notes to the financial statements are an integral part of this statement.

CITY OF HIGHLAND VILLAGE, TEXAS

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2007

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies.

A. Reporting Entity

The City of Highland Village adopted a Home Rule Charter in April 1985, and operates under a Council-Manager form of government. All powers of the City are vested in an elected Council, which enacts local legislation, adopts budgets, determines policies and appoints the City Manager. The City Manager is responsible for executing the laws and administering the government of the City. The City Council consists of seven members, a mayor and six Councilpersons elected by the City's residents.

The City's Comprehensive Annual Financial Report presents the financial position, changes in financial position and cash flows where applicable of the City. The reporting entity is the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either the ability to impose its will by the primary government or the possibility that the component unit will provide a financial benefit or impose a financial burden on the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

City of Highland Village voters, in November 2004, approved, in a special election, the creation of the Highland Village Community Development Corporation. The Corporation was formed for the purpose of funding public parks, recreation, and projects from revenues derived from a one-half cent sales tax within the City of Highland Village. The City Council appoints a board and board members are removable by the City Council, for cause or at will. In the event of dissolution, title of all assets transfer to the City. Financial statement information can be obtained by contacting the Highland Village Community Development Corporation, 1000 Highland Village Rd., Highland Village, Texas 75077.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity 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.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. Government-wide and Fund Financial Statements (Continued)

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments, are recorded when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All revenue items are considered to be measurable and available only when the cash is received by the government within a 60-day period.

The City reports the following major governmental funds:

General Fund is the operating fund of the City. It is utilized to account for all financial resources except those required to be accounted for in other funds.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation** (Continued)

Debt Service Fund is utilized to account for the accumulation of financial resources for, and the payment of general long-term debt principal, interest, and related costs arising from general obligation bonds.

Capital Projects Fund is utilized to account for financial resources to be used for the acquisition or construction of capital improvements (other than those financed by proprietary funds). Such resources are derived from proceeds of general obligation debt, other sources designated for capital improvements and interest earned on such monies.

The City reports the following major proprietary fund:

Enterprise – Water and Wastewater Fund is used to account for the water and wastewater operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City is that costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

Additionally, the City reports the following nonmajor funds:

Corps Leased Parks Fund – accounts for the operations of Corp Leased Parks. Park admission and usage fees charged to patrons finance operations.

Park Development Fund – utilized to account for development fees charged to property developers, which will be used to develop and maintain City parks.

Public Safety Fund – to account for funds received from local, state and federal sources for the purpose of supporting the City’s Police and Fire programs.

Municipal Court Security Building Fund – provides for the collection of court fees with each fine that is to be utilized for the security of the court. Expenditures are restricted to security systems, bailiffs, metal detectors, locks, electronic identification systems, etc.

Municipal Court Technology Fund – The State Legislature has allowed for the creation of a Municipal Court Technology Fund to defray the costs related to technology in the court system. This fund accounts for the collection of technology fees charged to defendants for misdemeanor offences as a cost of court. These funds will be used to purchase software, PCs and any other technology items needed for the court.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation** (Continued)

Drainage Utility Fund – This fund is used to account for fees collected for the purpose of improving, upgrading and maintaining the City’s drainage system. The City is mandated by the Texas Commission on Environmental Quality (TCEQ) to develop and maintain a Storm Water Management Plan in order to address capacity and quality issues and protect its residents and their properties from possible flooding and pollution problems. Drainage fees are collected by residents to fund the activities required to comply TCEQ regulations.

Inland Trails Capital Projects Fund – is utilized to account for financial resources to be used for the construction of the Inland Trails project. Resources are derived from proceeds of the 1996 Park Bond funds, a portion of the designated fund balance and linear park fees collected by the City, and grant proceeds from the Statewide Transportation Enhancement Program (STEP).

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City’s water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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. The principal operating revenues of the City’s Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund includes administration, maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(continued)

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined financial statements as cash and investments or restricted cash and investments. The City's cash and investments are considered as cash equivalents as they can be readily converted to cash at their carrying value.

For the purposes of the statement of cash flows, cash equivalents are defined as short-term highly liquid investments with an original maturity of three months or less.

Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as internal balances.

All trade receivables are shown net of allowance for uncollectible accounts based on an analysis of historical trends.

Property Taxes

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of levy, on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available. Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City's availability period is 60 days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Property Taxes (Continued)

Current taxes are due on October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. On January 1 of each year, a tax lien attaches to property to secure all taxes, penalties and interest ultimately imposed.

Unbilled Services

Utility operating revenues (water, sewer and refuse collection) are billed on monthly cycles. Customers are billed for periods ending the 15th of each month on the last day of the month. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories in governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the City's Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "reserve bond debt service" account is used to report resources set aside to subsidize potential deficiencies from the City's operation that could adversely affect debt service payments. The "construction funds" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction.

Impact fees collected from developers to cover, in whole or in part, the anticipated costs of improvements that will be necessary as a result of the development are set aside in the "capital improvements" account.

Deposits collected from utility customers are set aside until repayment.

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. Capital assets are defined by the City as assets within an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Assets, Liabilities, and Net Assets or Equity** (Continued)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation expense is calculated principally on the straight-line method. Depreciation methods are designed to amortize the cost of the assets over their estimated useful lives. Estimated useful lives of major categories of property are as follows:

<u>Assets</u>	<u>Years</u>
Infrastructure	40
Buildings	30
Distribution system	20
Machinery and equipment	5 - 10

Accrued Vacation

It is the City's policy to grant employees vacation leave earned at the rate of 10 days a year for at least one but less than 5 years' continuous service, 15 days for at least 5 but less than 10 years continuous service, and 20 days for at least 10 years continuous service. Upon termination, the employee shall be paid at the hourly rate of pay such employee was earning on the effective date of termination.

The City also grants employees sick leave earned at the rate of 12 days a year. Upon termination, employees are paid for one-half of the actual number of days earned up to a maximum of 45 days. Obligations under compensated absence arrangements are accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The City utilizes the last-in first-out method of recognizing the use of compensated absences. Thus, unless it is anticipated that compensated absences of governmental fund types will be used/paid in excess of a normal year's accumulation, no amount is classified as current.

Long-term Obligations

In the government-wide financial statements and the proprietary fund in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as unamortized debt issue costs and amortized over the term of the related debt.

(continued)

1. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

D. **Assets, Liabilities, and Net Assets or Equity** (Continued)

Long-term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Reserves

Reserves on fund balance in the fund financial statements indicate portions of fund equity legally segregated for a specific future use. September 30, 2007, the City's fund balances were reserved for the following purposes:

<u>Fund Balance</u>	<u>Amount</u>	<u>Purpose</u>
Encumbrances	\$ 1,564,944	Commitments related to unperformed contracts for goods and services
Debt service	320,939	Property tax revenue levied to repay long-term debt
Capital projects/expenditures	2,097,630	Proceeds of bond issue segregated in a separate capital projects fund
Park development	267,715	Proceeds of bond issue and linear park fees segregated in separate special revenue and capital projects fund

Comparative Data and Reclassifications

Comparative total data for the prior year have been presented only for individual Enterprise Funds in the fund financial statements in order to provide an understanding of changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The City Manager submits to the City Council, not later than 45 days prior to the end of the fiscal year, a proposed budget for the ensuing fiscal year. At the meeting of the City Council at which the budget is submitted, the City Council fixes the time and place of the public hearing on the budget and causes to be published a notice of the budget hearing. After the budget hearing, the budget may be adopted by a favorable vote of the majority vote of the Council. Upon adoption, the budget is filed with the City Secretary and the County Clerk of Denton County.

During the fiscal year, the City Council may transfer funds allocated to a department to another department or re-estimate revenues or expenditures. The City Manager may transfer budgeted funds within a department or may transfer part or all of the balances in encumbered appropriation balance within a departmental budget as long as transfer does not exceed \$1,000. Expenditures should not exceed appropriations at the department level, the classification level as reported in the financial statements. Unused appropriations lapse at the end of each fiscal year.

B. Encumbrances

Budgets for the General Fund, Special Revenue Funds, and Debt Service Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). The amendments or supplemental appropriations were not material in relation to the originally adopted budgets. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations, is employed as an extension of formal budgeting integration. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

C. Excess of Expenditures Over Appropriations

For the year ended September 30, 2007, expenditures exceed appropriation in the debt service interest and other charges of the General Fund by \$15,957; in the debt service – principal of the Debt Service Fund by \$20,000; in the Parks and Recreation – services and supplies of the Park Development Fund by \$10,487; in the Public Safety – Police- services and supplies of the Public Safety Fund by \$677. These overruns were funded with greater than anticipated revenues.

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Deposits and investments are made in accordance with the provisions of the bank depository agreement or in any negotiable instrument the Council has authorized under the City's approved investment policy and the provisions of the Public Funds Investment Act of 1987, as amended. Deposits and investments may be made with or through the following institutions:

- a. Federally insured banks domiciled in the State of Texas; and
- b. Primary or regional brokers or security dealers that qualify under Securities and Exchange Commission Rule 15C 3-1.

City funds may be invested in the following:

- a. Obligations of the United States or its agencies and instrumentalities;
- b. Direct obligations of the State of Texas or its agencies;
- c. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States;
- d. Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.
- e. Certificates of deposit issued by state and national banks domiciled in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successors or secured with collateral.
- f. Fully collateralized direct repurchase agreements having a defined termination date, secured by approved obligations, pledged with a third party selected or approved by the political entity, and placed through a primary government securities dealer, as domiciled in this state; or a public fund investment pool.

In addition to investment in obligations, certificates or agreements described above, City bond proceeds may be invested in common trust funds or comparable investment devices owned or administered by banks domiciled in Texas.

The City's investment policies are governed by state statutes and City ordinance. Collateral is required for all deposits and investments not covered by federal deposit insurance in accordance with the Public Funds Collateral Act.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

The City's entire cash deposits in the bank of \$538,039 on September 30, 2007, were covered by federal depository insurance or by collateral held by the City's agent in the City's name. The carrying amount of cash balances at September 30, 2007, was a deficit of \$615,982.

Investments held at year-end are as follows:

	<u>Fair Value</u>
U. S. Government Securities	\$ 1,026,225
TexPool	4,382,875
TexStar	<u>7,158,736</u>
Total investments	<u>\$ 12,567,836</u>

Cash and investments are reported as restricted assets as required by debt issues and City ordinance. The monies in government investment pools represent investments in TexPool and TexStar, investment pools for state and local governments in Texas. The State Comptroller of Public Accounts exercises oversight responsibilities over TexPool. 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. The Advisory Board members review the investment policy and management fee structure.

J.P. Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexStar under an agreement with the TexStar board of directors. JPMFAM provides investment service and FSAM provides participant services and marketing.

Custodial, transfer agency, fund accounting and depository services are provided by J.P. Morgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. TexStar bylaws provide for a five-member board of directors consisting of three representatives of participants and one member designated by each of the co-administrators.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

A. Deposits and Investments (Continued)

Both TexPool and TexStar are rated AAAm by Standard & Poor's. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as the office of the Comptroller of Public Accounts for review. TexPool and TexStar operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and TexStar use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value is the same as the value of shares.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investments are with TexPool with maturities of less than one year or in U. S. Government Securities that are not highly sensitive to changes in interest rates.

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. All investment pools' policies require a rating of AA or better from a nationally recognized rating agency. Government agency securities are not considered to have credit risk in that they are explicitly guaranteed by the U. S. Government.

Concentration of Credit Risk. The City's investments are issued or explicitly guaranteed by the U. S. Government or in external investment pools, which are not considered to provide a concentration of credit risk.

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 requires that a financial institution secure deposits made by state or local government entities by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least the bank balances less FDIC insurance at all times.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor governmental funds, including the applicable allowance for estimated uncollectible accounts, are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:					
Taxes	\$ 626,899	\$ 18,151	\$ -	\$ -	\$ 645,050
Accounts	416,355	-	954,397	-	1,370,752
Unbilled	-	-	416,915	-	416,915
Intergovernmental	-	-	-	11,543	11,543
Gross receivables	<u>1,043,254</u>	<u>18,151</u>	<u>1,371,312</u>	<u>11,543</u>	<u>2,444,260</u>
Less: allowance for uncollectibles	<u>282,373</u>	<u>-</u>	<u>135,418</u>	<u>-</u>	<u>417,791</u>
Net total receivables	<u>\$ 760,881</u>	<u>\$ 18,151</u>	<u>\$ 1,235,894</u>	<u>\$ 11,543</u>	<u>\$ 2,026,469</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to available to liquidate liabilities of the current period. At the end of the current fiscal year, the deferred revenue reported in the governmental funds relates to delinquent property taxes, franchise fees, ambulance fees and court fines receivable.

C. Interfund Transfers

The following is a summary of transfers:

<u>Transfers out</u>	<u>Transfers in</u>		
	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Enterprise	\$ 120,000	\$ -	\$ 120,000
General	-	138,500	138,500
Capital projects	448,388	-	448,388
Nonmajor fund	<u>23,220</u>	<u>-</u>	<u>23,220</u>
	<u>\$ 591,608</u>	<u>\$ 138,500</u>	<u>\$ 730,108</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Transfer from the Enterprise Fund to the General Fund represents an annual maintenance transfer. Transfer from General Fund to nonmajor governmental funds represents funding for park development. Transfer from the Capital Projects to they General Fund represent initial payment of the Chin Chapel Flower Mound Project.

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

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 13,121,692	\$ -	\$ -	\$ 13,121,692
Construction in progress	<u>2,626,927</u>	<u>3,910,901</u>	<u>1,824,693</u>	<u>4,713,135</u>
Total assets not being depreciated	<u>15,748,619</u>	<u>3,910,901</u>	<u>1,824,693</u>	<u>17,834,827</u>
Capital assets, being depreciated:				
Land improvements	3,812,449	1,824,693	-	5,637,142
Buildings and improvements	5,365,097	-	-	5,365,097
Equipment	3,881,157	556,715	123,021	4,314,851
Infrastructure	<u>34,997,655</u>	<u>-</u>	<u>-</u>	<u>34,997,655</u>
Total capital assets being depreciated	<u>48,056,358</u>	<u>2,381,408</u>	<u>123,021</u>	<u>50,314,745</u>
Less accumulated depreciation:				
Land improvements	1,834,927	211,434	-	2,046,361
Buildings and improvements	2,028,449	264,515	-	2,292,964
Equipment	2,291,930	343,842	113,232	2,522,540
Infrastructure	<u>13,153,712</u>	<u>879,228</u>	<u>-</u>	<u>14,032,940</u>
Total accumulated depreciation	<u>19,309,018</u>	<u>1,699,019</u>	<u>113,232</u>	<u>20,894,805</u>
Total capital assets being depreciated, net	<u>28,747,340</u>	<u>682,389</u>	<u>9,789</u>	<u>29,419,940</u>
Governmental activities capital assets, net	<u>\$ 44,495,959</u>	<u>\$ 4,593,290</u>	<u>\$ 1,834,482</u>	<u>\$ 47,254,767</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 75,713	\$ -	\$ -	\$ 75,713
Construction in progress	837,347	2,459,170	45,424	3,251,093
Total assets not being depreciated	<u>913,060</u>	<u>2,459,170</u>	<u>45,424</u>	<u>3,326,806</u>
Capital assets, being depreciated:				
Land improvements	30,348	-	-	30,348
Buildings and improvements	20,403,529	-	-	20,403,529
Equipment	974,712	156,070	-	1,130,782
Infrastructure	617,553	-	-	617,553
Total capital assets being depreciated	<u>22,026,142</u>	<u>156,070</u>	<u>-</u>	<u>22,182,212</u>
Less accumulated depreciation:				
Land improvements	29,715	211	-	29,926
Buildings and improvements	10,021,016	775,835	-	10,796,851
Equipment	617,688	83,983	-	701,671
Infrastructure	600,345	613	-	600,958
Total accumulated depreciation	<u>11,268,764</u>	<u>860,642</u>	<u>-</u>	<u>12,129,406</u>
Total capital assets being depreciated, net	<u>10,757,378</u>	<u>(704,572)</u>	<u>-</u>	<u>10,052,806</u>
Business-type activities capital assets, net	<u>\$ 11,670,438</u>	<u>\$ 1,754,598</u>	<u>\$ 45,424</u>	<u>\$ 13,379,612</u>

Depreciation expense charged to function of the primary government as follows:

Governmental activities:	
City manager	\$ 11,633
Finance	33,079
Human resources	4,300
City secretary	20,241
Maintenance	41,242
Police	218,540
Fire	140,889
Building operations	11,011
Community development	4,432
Streets and drainage	948,170
Parks and recreation	<u>265,482</u>
Total depreciation expense - governmental activities	<u>\$ 1,699,019</u>
Business-type activities:	
Water and wastewater	<u>\$ 860,642</u>
Total depreciation expense - business-type activities	<u>\$ 860,642</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

E. Construction Commitments

The City has active construction projects as of September 30, 2007. At year-end the City's commitments with contractors are as follows:

<u>Projects</u>	<u>Spend to Date</u>	<u>Remaining Commitment</u>
Elevated storage tank	\$ 1,564,361	\$ 543,873
Water and wastewater improvements for southwest part of City	203,908	17,339
A/C water lines and Highland Shores Blvd. water line replacement	850,094	80,769
Highland Shores ground storage reservoir replacement	539,260	43,460
Inland Trail Phase II - engineering only	126,505	196,851
Brazos Boulevard reconstruction	1,570,813	56,153
Fire station construction	2,168,265	1,130,639
Practice soccer fields - engineering only	1,750	7,000

F. Capital Leases

The City has entered into lease agreements as lessee for equipment. These leases qualify as capital leases and therefore have been recorded at the present value of the future minimum lease payments as of the date of their inception. The equipment's carrying value is \$783,362 as of September 30, 2007.

The following is a schedule of the future minimum lease payment under these agreements, and the present value of the net minimum lease payments at September 30:

<u>Year Ending September 30,</u>	
2008	\$ 127,753
2009	112,400
2010	<u>112,400</u>
Total	352,553
Less interest portion	<u>23,673</u>
Obligations under capital leases	<u>\$ 328,880</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Debt

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds currently outstanding are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding</u>
Governmental activities:					
General obligation refunding and improvement bonds	4.70 - 5.00	1998	2024	\$ 4,041,084	\$ 569,199
General obligation refunding and improvement bonds	3.00 - 4.70	2002	2022	4,916,833	3,221,412
General obligation refunding bonds	3.00 - 4.15	2003	2017	3,940,000	3,148,200
General obligation refunding and improvement bonds	4.00 - 4.25	2006	2027	6,875,000	<u>6,765,000</u>
					<u>13,703,811</u>
Business-type activities:					
General obligation refunding bonds	3.00 - 4.70	2002	2022	3,358,167	873,588
General obligation refunding bonds	3.00 - 4.15	2003	2017	2,210,000	<u>1,621,800</u>
					<u>2,495,388</u>
					<u>\$ 16,199,199</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 1,049,752	\$ 479,889	\$ 545,248	\$ 137,828
2009	1,021,957	469,349	283,043	99,354
2010	1,057,313	438,233	292,687	90,365
2011	966,671	404,079	308,329	81,340
2012	1,000,319	367,960	314,681	69,659
2013-2017	4,388,600	1,420,261	751,400	80,439
2018-2022	2,915,000	657,979	-	-
2023-2027	<u>1,455,000</u>	<u>126,975</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 13,854,612</u>	<u>\$ 4,364,725</u>	<u>\$ 2,495,388</u>	<u>\$ 558,985</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Debt (Continued)

Accretion on Premium Capital Appreciation Bonds

A portion of the bonds sold in the General Obligation Refunding and Improvement Bonds Series 1998 was premium capital appreciation bonds. These obligations have par values of \$224,199 and maturity values of \$375,000. The interest on these obligations will be paid upon maturity in the fiscal years ending September 30, 2008 through 2010. The accreted values of these bonds at September 30, 2007, are approximately \$126,727.

Combination Tax and Revenue Certificates of Obligation

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Combination tax and revenue certificates of obligation have been issued for both governmental and business-type activities. Combination tax and revenue certificates of obligation outstanding at year-end are as follows: Combination tax and revenue certificates of obligations debt service requirements to maturity are as follows:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding</u>
Governmental activities:					
Combination tax and revenue certificates of obligation	4.00 - 4.25	2006	2027	\$ 1,725,000	\$ <u>1,255,000</u>
					<u>1,255,000</u>
Business-type activities:					
Combination tax and limited pledge revenue refunding bonds	4.00	2004	2017	\$ 2,870,000	\$ 2,515,000
Combination tax and revenue certificates of obligation	4.00 - 4.30	2004	2021	4,855,000	<u>4,305,000</u>
					<u>6,820,000</u>
					<u>\$ 8,075,000</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-term Debt (Continued)

Combination Tax and Revenue Certificates of Obligation (Continued)

Combination tax and revenue certificates of obligation debt service requirements to maturity are as follows:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ -	\$ 51,938	\$ 385,000	\$ 278,805
2009	45,000	51,038	400,000	263,405
2010	45,000	49,237	415,000	247,405
2011	50,000	47,338	435,000	230,805
2012	50,000	45,338	450,000	213,405
2013-2017	280,000	194,390	2,605,000	778,225
2018-2022	350,000	129,567	1,455,000	340,415
2023-2027	435,000	47,707	675,000	44,880
Total	\$ 1,255,000	\$ 616,553	\$ 6,820,000	\$ 2,397,345

In previous years, the City has legally defeased general obligation bonds. Accordingly, the liability for these bonds is not included in the City's financial statements. As of September 30, 2007, the following outstanding bonds were legally defeased:

Series	Type	Amount
1976	Combination Tax and Sewer Revenue Certificates of Obligation	\$ 40,000
1986	Combination Tax and Revenue Certificates of Obligation	225,000
1988	Permanent Improvement Bonds	135,000
1992	General Obligation Bonds	230,000
1993	Combination Tax and Revenue Refunding Bonds	1,295,000
1994	Combination Tax and Water and Sewer Revenue (Limited Pledge) Certificates of Obligation	1,520,000
1995	Combination Tax and Revenue Certificates of Obligation	365,000
1997	Combination Tax and Revenue Certificates of Obligation	2,750,000
1996	Waterworks and Sewer Revenue Certificates of Obligation	2,715,000
1996	General Obligation Bonds	1,115,000
1998	General Obligation Refunding and Improvement Bonds	2,710,000
		<u>\$ 13,100,000</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

H. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligations	\$ 14,705,257	\$ -	\$ 1,001,446	\$ 13,703,811	\$ 1,049,752
Combination tax and revenue CO	1,255,000	-	-	1,255,000	-
Issuance premium	97,126	-	5,484	91,642	5,483
Less deferred amount on refunding	(263,686)	-	(22,689)	(240,997)	(22,689)
Total bonds payable	15,793,697	-	984,241	14,809,456	1,032,546
Accreted interest	151,792	18,329	43,394	126,727	122,130
Capital lease obligations	440,676	-	111,796	328,880	115,814
Tax notes	-	300,000	-	300,000	300,000
Compensated absences	618,177	530,333	440,057	708,453	504,703
Governmental activities long-term liabilities	<u>\$ 17,004,342</u>	<u>\$ 848,662</u>	<u>\$ 1,579,488</u>	<u>\$ 16,273,516</u>	<u>\$ 2,075,193</u>

The General Fund has typically been used to liquidate governmental activities compensated absences liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable:					
General obligation bonds	\$ 3,150,547	\$ -	\$ 655,159	\$ 2,495,388	\$ 545,248
Combination tax and revenue CO	7,185,000	-	365,000	6,820,000	385,000
Issuance premium	151,945	-	59,590	92,355	7,768
Less deferred amount on refunding	(365,566)	-	(22,567)	(342,999)	(11,091)
Total bonds payable	10,121,926	-	1,057,182	9,064,744	926,925
Compensated absences	60,698	74,110	54,107	80,701	71,938
Business-type activities long-term liabilities	<u>\$ 10,182,624</u>	<u>\$ 74,110</u>	<u>\$ 1,111,289</u>	<u>\$ 9,145,445</u>	<u>\$ 998,863</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

I. Employees' Retirement System

Plan Description

The City provides pension benefits for all of its fulltime employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits

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 at least 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 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.

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 statutes. Plan provisions for the City were as follows (as of April 4, 2007):

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 yrs/age 60, 20 yrs/any age.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

I. Employees' Retirement System (Continued)

Contributions

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 cost 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 (overfunded) 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. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, 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, 2006 valuation is effective for rates beginning January, 2008.)

The annual pension cost was \$451,176. The City's annual pension cost was equal to the required and actual contributions for the years ended December 31, 2005, 2004, and 2003.

Actuarial Cost Method	Unit Credit
Amortization Method	Level percent of Payroll
Remaining Amortization Period	25 Years - Open Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation At	3.5%
Cost-of-Living Adjustments	None

The City is one of 821 municipalities having the benefit plan administered by TMRS. Each of the 821 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2006, valuations are contained in the 2006 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

I. Employees' Retirement System (Continued)

Contributions (Continued)

Schedule of Actuarial Liabilities and Funding Progress

Actual valuation date	12/31/06	12/31/05	12/31/04
Actuarial value of assets	\$ 8,311,928	\$ 7,259,305	\$ 6,524,726
Actuarial accrued liability	8,951,210	7,572,957	6,770,634
Percentage funded	92.9%	95.9%	96.4%
Unfunded (over-funded)			
actuarial accrued liability (UAAL)	629,282	318,652	245,908
Annual covered payroll	5,427,312	4,880,559	4,606,898
UAAL as a percentage of covered payroll	11.6%	6.5%	5.3%
Net pension obligation (NPO) at the beginning of period	-	-	-
Annual Pension Cost:			
Annual required contribution (ARC)	451,176	441,657	414,345
Contributions made	<u>451,176</u>	<u>441,657</u>	<u>414,345</u>
NPO at the end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

J. Commitments

Upper Trinity Regional Water District (“UTRWD”)

The City of Highland Village entered into a contract with the Upper Trinity Regional Water District Lakeview Regional Water Reclamation System (sewer plant), in June 1995, to meet its long-term wastewater treatment needs. The UTRWD has issued a series of bonds to provide for capital funding for the expansion and refurbishment of the Lakeview Sewer Plant and to construct the regional sewer system with all of said bonds to be payable from and secured by annual payments made by participating members. The City, as a participating member, has agreed to pay its proportion share. The City’s subscribed capacity in the regional system was 1.8 million gallons per day (MGD). However, the subscribed capacity was reduced to 1.404 MGD, temporarily reapportioning .396 MGD to other participating cities. The City currently subscribes to 1.65 MDG, with plans to increase their subscription capacity back to 1.8 MGD upon completion of the next UTRWD plant expansion now expected in FY 2009-2010. The City is committed to pay facility charges, currently \$350,000/MGD for joint facilities and \$262,441 annually for facilities specific to Highland Village. For FY 2008, the charges for joint facilities will increase to \$390,000, while facility charges specific to Highland Village will decrease to \$248,618. The volume rate for treatment is \$1.34 per thousand gallons, increasing to \$1.42 in FY 2008.

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

J. Commitments (Continued)

Upper Trinity Regional Water District (“UTRWD”) (Continued)

The City had contracted with the UTRWD to take 2 million gallons per day (MGD), paying the UTRWD \$180,000 annually for each of the 2 MGD to pay its proportionate share of debt service on the water system. The City subscribed to an additional 1 MGD in February 1999, to be available in June 2001. The City paid the UTRWD \$45,000 MGD for this additional demand from June 2000 to June 2001. An \$180,000 annual demand charge commenced in June 2001 for the additional subscription. On December 2, 1999, the UTRWD Board approved a credit for one-half of the demand charge for one year for a new subdivision under contract prior to October 1, 1999. This waiver applied to the City 1.0 MGD expansion capacity through May 2002. At that time, the UTRWD volume charge for treated water was at a rate of \$.78 per thousand gallons, with a demand charge of \$190,000/MGD. The City had 1.0 MGD ownership in the water rights of Lake Chapman water, with availability expected in 2003. However, the UTRWD acquired these rights from the City at the City’s request, in October 2002, reimbursing the City for previous expenditures and interest totaling \$226,941. Currently, the volume charge is \$.76/1,000 gallons, with an annual demand charge of \$274,000/MGD. For FY 2008, the volume rate remains at \$.76/1,000 gallons, while the demand charge increases to \$290,000/MGD.

In FY 2005, the City executed an agreement with the UTRWD to provide for construction of a water transmission main ahead of schedule to coordinate with construction of a retail development at the northeast corner of FM 407 and FM 2499. Although the transmission line was not planned by the UTRWD until 2010 - 2012, it was determined that installation of the main before construction of the development would prevent additional cost and disruption that would occur if the main were to be installed after the development was in place. The City agreed to pay the UTRWD a proportionate share of the carrying cost of the project (estimated at \$1.6M) annually through FY 2012, or such time the transmission line is placed in service, if sooner than FY 2012.

K. Contingent Liabilities

The City has been named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City’s counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

L. Risk Management

The City is exposed to various risks or loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City’s general liability and property coverage is insured by the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool. The City’s only responsibility to the Fund is to pay premiums for insurance and related deductible amounts of these policies. Other risk of loss is covered by commercial insurance. Settlements of claims have not exceeded coverage in the past three years.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

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CITY OF HIGHLAND VILLAGE, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS)**

GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 8,442,960	\$ 8,442,960	\$ 8,284,018	\$(158,942)
Fines and forfeitures	175,000	175,000	210,170	35,170
Licenses, permits and fees	625,951	875,951	1,113,797	237,846
Intergovernmental	-	-	28,000	28,000
Charges for services	104,900	104,900	104,736	(164)
Investment earnings	170,000	170,000	215,671	45,671
Miscellaneous	64,500	149,512	186,586	37,074
Total revenues	<u>9,583,311</u>	<u>9,918,323</u>	<u>10,142,978</u>	<u>224,655</u>
EXPENDITURES				
Current:				
General government:				
City manager	474,972	964,972	902,603	62,369
Finance	1,071,466	1,093,466	997,752	95,714
Human resources	328,823	338,823	308,138	30,685
City secretary	266,841	286,841	277,489	9,352
Maintenance	728,427	733,427	686,966	46,461
Public safety:				
Police	2,710,937	2,722,937	2,523,796	199,141
Fire	1,027,676	1,067,676	1,056,592	11,084
Building operations	274,698	289,698	267,648	22,050
Community development	587,750	637,750	590,233	47,517
Streets and drainage	926,463	936,463	737,281	199,182
Parks and recreation	1,319,986	1,319,986	1,146,600	173,386
Debt service:				
Principal	128,401	128,401	111,796	16,605
Interest and other charges	-	-	15,957	(15,957)
Capital outlay	347,000	457,000	233,619	223,381
Total expenditures	<u>10,193,440</u>	<u>10,977,440</u>	<u>9,856,470</u>	<u>1,120,970</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(610,129)</u>	<u>(1,059,117)</u>	<u>286,508</u>	<u>1,345,625</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	291,220	740,208	591,608	148,600
Transfers out	(109,600)	(138,500)	(138,500)	-
Total other financing sources and uses	<u>181,620</u>	<u>601,708</u>	<u>453,108</u>	<u>148,600</u>
NET CHANGE IN FUND BALANCE	<u>(428,509)</u>	<u>(457,409)</u>	<u>739,616</u>	<u>(1,197,025)</u>
FUND BALANCE, BEGINNING	<u>2,505,653</u>	<u>2,505,653</u>	<u>2,505,653</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 2,077,144</u>	<u>\$ 2,048,244</u>	<u>\$ 3,245,269</u>	<u>\$(1,197,025)</u>

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,629,345	\$ 1,629,345	\$ 1,646,333	\$ 16,988
Investment earnings	30,000	30,000	41,707	11,707
Miscellaneous	-	-	30,604	30,604
Total revenues	<u>1,659,345</u>	<u>1,659,345</u>	<u>1,718,644</u>	<u>59,299</u>
EXPENDITURES				
Debt service:				
Principal	886,447	981,447	1,001,447	(20,000)
Interest	715,950	623,898	596,592	27,306
Total expenditures	<u>1,602,397</u>	<u>1,605,345</u>	<u>1,598,039</u>	<u>7,306</u>
NET CHANGE IN FUND BALANCE	56,948	54,000	120,605	66,605
FUND BALANCE, BEGINNING	<u>200,334</u>	<u>200,334</u>	<u>200,334</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 257,282</u>	<u>\$ 254,334</u>	<u>\$ 320,939</u>	<u>\$ 66,605</u>

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Corps Leased Parks Fund – This fund is used to account for the operations of Corp Leased Parks. Park admission and usage fees charged to patrons finance operations.

Park Development Fund – This fund accounts for development fees charged to property developers, which will be used to develop and maintain City parks.

Public Safety Fund – This fund accounts for funds received from local, state and federal sources for the purpose of supporting the City’s Police and Fire programs.

Municipal Court Security Building Fund – The security building fund provides for the collection of court fees with each fine that is to be utilized for the security of the court. Expenditures are restricted to security systems, bailiffs, metal detectors, locks, electronic identification systems, etc.

Municipal Court Technology Fund – The state legislature has allowed for the creation of a Municipal Court Technology Fund to defray the costs related to technology in the court system. This fund accounts for the collection of technology fees charged to defendants for misdemeanor offences as a cost of court. These funds will be used to purchase software, PCs and any other technology items needed for the court.

Drainage Utility Fund – This fund is used to account for fees collected for the purpose of improving, upgrading and maintaining the City’s drainage system. The City is mandated by the Texas Commission on Environmental Quality (TCEQ) to develop and maintain a Storm Water Management Plan in order to address capacity and quality issues and protect its residents and their properties from possible flooding and pollution problems. Drainage fees are collected by residents to fund the activities required to comply TCEQ regulations.

CAPITAL PROJECTS FUND

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of capital improvements (other than those financed by property funds). Such resources are derived from proceeds of general obligation debt, other sources designated for capital improvements and interest earned on such monies.

Inland Trails Capital Projects Fund – This fund accounts for financial resources to be used for the construction of the Inland Trail Project. Resources are derived from proceeds of the 1996 Park Bond funds, a portion of the designated fund balance and linear park fees collected by the City.

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Special Revenue		
	Corps Leased Parks	Park Development	Public Safety
ASSETS			
Cash and investments	\$ 18,593	\$ 300,449	\$ 32,957
Receivable - intergovernmental	-	-	11,543
Total assets	\$ 18,593	\$ 300,449	\$ 44,500
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 6,044	\$ 32,734	\$ 429
Accrued liabilities	2,247	-	-
Total liabilities	8,291	32,734	429
Fund balances:			
Reserved for:			
Encumbrances	-	-	-
Park development	-	267,715	-
Unreserved, undesignated	10,302	-	44,071
Total fund balances	10,302	267,715	44,071
Total liabilities and fund balances	\$ 18,593	\$ 300,449	\$ 44,500

Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
Security Building	Technology	Utility Drainage	Inland Trails	
\$ 14,400	\$ 16,343	\$ 528,464	\$ 122,551	\$ 1,033,757
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,543</u>
\$ <u>14,400</u>	\$ <u>16,343</u>	\$ <u>528,464</u>	\$ <u>122,551</u>	\$ <u>1,045,300</u>
\$ -	\$ -	\$ 144,772	\$ -	\$ 183,979
<u>-</u>	<u>-</u>	<u>2,651</u>	<u>-</u>	<u>4,898</u>
<u>-</u>	<u>-</u>	<u>147,423</u>	<u>-</u>	<u>188,877</u>
-	-	149,111	-	149,111
-	-	-	-	267,715
<u>14,400</u>	<u>16,343</u>	<u>231,930</u>	<u>122,551</u>	<u>439,597</u>
<u>14,400</u>	<u>16,343</u>	<u>381,041</u>	<u>122,551</u>	<u>856,423</u>
\$ <u>14,400</u>	\$ <u>16,343</u>	\$ <u>528,464</u>	\$ <u>122,551</u>	\$ <u>1,045,300</u>

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Special Revenue		
	Corps Leased Parks	Park Development	Public Safety
REVENUES			
Licenses, permits and fees	\$ 144,662	\$ 2,913	\$ -
Intergovernmental	-	-	172,608
Investment earnings	-	25,619	-
Total revenues	144,662	28,532	172,608
EXPENDITURES			
Current:			
Public safety:			
Police	-	-	7,584
Fire	-	-	8,677
Streets and drainage	-	-	-
Parks and recreation	222,884	11,061	-
Debt service:			
Interest and other charges	-	-	-
Capital outlay	-	335,067	149,497
Total expenditures	222,884	346,128	165,758
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(78,222)	(317,596)	6,850
OTHER FINANCING SOURCES (USES)			
Issuance of long-term debt	-	-	-
Transfers in	100,000	-	22,500
Transfers out	-	-	(23,220)
Total other financing sources and uses	100,000	-	(720)
NET CHANGE IN FUND BALANCES	21,778	(317,596)	6,130
FUND BALANCES, BEGINNING	(11,476)	585,311	37,941
FUND BALANCES, ENDING	\$ 10,302	\$ 267,715	\$ 44,071

<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Security Building</u>	<u>Technology</u>	<u>Utility Drainage</u>	<u>Inland Trails</u>	
\$ 4,868	\$ 6,490	\$ 266,221	\$ -	\$ 425,154
-	-	-	118,554	291,162
-	-	3,891	2,423	31,933
<u>4,868</u>	<u>6,490</u>	<u>270,112</u>	<u>120,977</u>	<u>748,249</u>
2,693	-	-	-	10,277
-	-	-	-	8,677
-	-	21,672	-	21,672
-	-	-	-	233,945
-	-	20,000	-	20,000
-	-	<u>163,399</u>	<u>2,186</u>	<u>650,149</u>
<u>2,693</u>	<u>-</u>	<u>205,071</u>	<u>2,186</u>	<u>944,720</u>
<u>2,175</u>	<u>6,490</u>	<u>65,041</u>	<u>118,791</u>	<u>(196,471)</u>
-	-	300,000	-	300,000
-	-	16,000	-	138,500
-	-	-	-	(23,220)
-	-	<u>316,000</u>	<u>-</u>	<u>415,280</u>
2,175	6,490	381,041	118,791	218,809
<u>12,225</u>	<u>9,853</u>	<u>-</u>	<u>3,760</u>	<u>637,614</u>
<u>\$ 14,400</u>	<u>\$ 16,343</u>	<u>\$ 381,041</u>	<u>\$ 122,551</u>	<u>\$ 856,423</u>

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CORPS LEASED PARKS FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Licenses, permits and fees	\$ 178,300	\$ 178,300	\$ 144,662	\$(33,638)
Total revenues	178,300	178,300	144,662	(33,638)
EXPENDITURES				
Parks and recreation:				
Personnel	218,739	241,839	222,884	18,955
Total expenditures	218,739	241,839	222,884	18,955
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(40,439)	(63,539)	(78,222)	(14,683)
OTHER FINANCING SOURCES (USES)				
Transfer in	40,000	100,000	100,000	-
Total other financing sources (uses)	40,000	100,000	100,000	-
NET CHANGE IN FUND BALANCE	(439)	36,461	21,778	(14,683)
FUND BALANCE, BEGINNING	(11,476)	(11,476)	(11,476)	-
FUND BALANCE, ENDING	\$(11,915)	\$ 24,985	\$ 10,302	\$(14,683)

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
PARK DEVELOPMENT FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	<u>Budget</u>		<u>Actual</u>	Variance With Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Park development fees	\$ -	\$ -	\$ 2,913	\$ 2,913
Investment earnings	<u>12,500</u>	<u>12,500</u>	<u>25,619</u>	<u>13,119</u>
Total revenues	<u>12,500</u>	<u>12,500</u>	<u>28,532</u>	<u>16,032</u>
EXPENDITURES				
Parks and recreation:				
Services and supplies	-	574	11,061	(10,487)
Capital outlay	<u>383,220</u>	<u>383,220</u>	<u>335,067</u>	<u>48,153</u>
Total expenditures	<u>383,220</u>	<u>383,794</u>	<u>346,128</u>	<u>37,666</u>
NET CHANGE IN FUND BALANCE	(370,720)	(371,294)	(317,596)	53,698
FUND BALANCE, BEGINNING	<u>585,311</u>	<u>585,311</u>	<u>585,311</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 214,591</u>	<u>\$ 214,017</u>	<u>\$ 267,715</u>	<u>\$ 53,698</u>

CITY OF HIGHLAND VILLAGE, TEXAS

**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

PUBLIC SAFETY FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 15,900	\$ 155,798	\$ 172,608	\$ 16,810
Total revenues	15,900	155,798	172,608	16,810
EXPENDITURES				
Public safety:				
Police:				
Services and supplies	2,000	8,000	7,584	416
Fire:				
Services and supplies	-	6,765	8,677	(1,912)
Capital outlay	-	162,314	149,497	12,817
Total expenditures	2,000	177,079	165,758	11,321
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	13,900	(21,281)	6,850	28,131
OTHER FINANCING SOURCES (USES)				
Transfer in	-	22,500	22,500	-
Transfer out	-	-	(23,220)	(23,220)
Total other financing sources (uses)	-	22,500	(720)	(23,220)
NET CHANGE IN FUND BALANCE	13,900	1,219	6,130	4,911
FUND BALANCE, BEGINNING	37,941	37,941	37,941	-
FUND BALANCE, ENDING	\$ 51,841	\$ 39,160	\$ 44,071	\$ 4,911

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MUNICIPAL COURT SECURITY BUILDING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 5,000	\$ 5,000	\$ 4,868	\$(132)
Total revenues	5,000	5,000	4,868	(132)
EXPENDITURES				
Public safety:				
Police:				
Services and supplies	3,267	3,267	2,693	574
Total expenditures	3,267	3,267	2,693	574
NET CHANGE IN FUND BALANCE	1,733	1,733	2,175	442
FUND BALANCE, BEGINNING	12,225	12,225	12,225	-
FUND BALANCE, ENDING	\$ 13,958	\$ 13,958	\$ 14,400	\$ 442

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
TECHNOLOGY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 6,600	\$ 6,600	\$ 6,490	\$(110)
Total revenues	<u>6,600</u>	<u>6,600</u>	<u>6,490</u>	<u>(110)</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	6,600	6,600	6,490	(110)
FUND BALANCE, BEGINNING	<u>9,853</u>	<u>9,853</u>	<u>9,853</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 16,453</u>	<u>\$ 16,453</u>	<u>\$ 16,343</u>	<u>\$(110)</u>

CITY OF HIGHLAND VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DRAINAGE UTILITY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Licenses, permits and fees	\$ -	\$ 286,457	\$ 266,221	\$(20,236)
Investment earnings	-	8,000	3,891	(4,109)
Total revenues	<u>-</u>	<u>294,457</u>	<u>270,112</u>	<u>(24,345)</u>
EXPENDITURES				
Street and drainage:				
Services and supplies	169,850	169,850	21,672	148,178
Debt service:				
Interest and other charges	-	24,000	20,000	4,000
Capital outlay	<u>276,000</u>	<u>276,000</u>	<u>163,399</u>	<u>112,601</u>
Total expenditures	<u>445,850</u>	<u>469,850</u>	<u>205,071</u>	<u>264,779</u>
NET CHANGE IN FUND BALANCE	(445,850)	(175,393)	65,041	240,434
FUND BALANCE, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$(445,850)</u>	<u>\$(175,393)</u>	<u>\$ 65,041</u>	<u>\$ 240,434</u>

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**CAPITAL ASSETS USED IN THE
OPERATION OF GOVERNMENTAL FUNDS**

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CITY OF HIGHLAND VILLAGE, TEXAS

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS BY SOURCE**

SEPTEMBER 30, 2007

CAPITAL ASSETS

Land	\$ 13,121,692
Land improvements	5,637,142
Buildings and improvements	5,365,097
Equipment	4,314,851
Infrastructure	34,997,655
Construction in progress	<u>4,713,135</u>
 Total capital assets	 \$ <u>68,149,572</u>

INVESTMENT IN CAPITAL ASSETS

Investment in general capital assets acquired prior to October 1, 1990	\$ 655,037
General fund	3,134,566
Vehicle replacement fund	670,674
Special revenue funds	2,881,524
Capital projects funds	15,780,505
Donations	<u>45,027,266</u>
 Total investment in capital assets	 \$ <u>68,149,572</u>

CITY OF HIGHLAND VILLAGE, TEXAS

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS BY FUNCTION AND ACTIVITY**

SEPTEMBER 30, 2007

<u>Department</u>	<u>Land</u>	<u>Land Improvements</u>	<u>Building Improvements</u>	<u>Equipment</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
City manager	\$ 297,838	\$ -	\$ 141,450	\$ 45,602	\$ -	\$ 20,833	\$ 505,723
Finance	26,652	-	260,126	178,415	-	38,312	503,505
Human resources	8,812	-	86,001	-	-	12,666	107,479
City secretary	41,479	-	404,829	-	-	59,624	505,932
Police	214,495	-	2,093,453	1,178,325	-	308,330	3,794,603
Fire	41,800	-	1,009,411	1,555,906	-	2,204,130	4,811,247
Community development	8,927	-	87,133	23,823	-	32,361	152,244
Building operations	8,928	-	87,133	41,249	-	32,362	169,672
Streets and drainage	11,087,768	46,716	175,963	515,057	34,997,655	1,504,681	48,327,840
Maintenance	65,609	-	679,942	273,641	-	469,654	1,488,846
Parks and recreation	<u>1,319,384</u>	<u>5,590,426</u>	<u>339,656</u>	<u>502,833</u>	<u>-</u>	<u>30,182</u>	<u>7,782,481</u>
Total capital assets	<u>\$ 13,121,692</u>	<u>\$ 5,637,142</u>	<u>\$ 5,365,097</u>	<u>\$ 4,314,851</u>	<u>\$ 34,997,655</u>	<u>\$ 4,713,135</u>	<u>\$ 68,149,572</u>

CITY OF HIGHLAND VILLAGE, TEXAS

**CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS - CHANGES BY FUNCTION AND ACTIVITY**

SEPTEMBER 30, 2007

<u>Department</u>	<u>Balance September 30, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2007</u>
City manager	\$ 501,727	\$ 3,996	\$ -	\$ 505,723
Finance	496,156	7,349	-	503,505
Human resources	105,050	2,429	-	107,479
City secretary	494,496	11,436	-	505,932
Police	3,455,466	350,883	11,746	3,794,603
Fire	2,825,314	1,985,933	-	4,811,247
Community development	158,496	2,461	-	160,957
Building operations	158,497	2,462	-	160,959
Streets and drainage	46,720,897	1,718,218	111,275	48,327,840
Maintenance	1,470,756	18,090	-	1,488,846
Parks and recreation	<u>7,418,122</u>	<u>364,359</u>	<u>-</u>	<u>7,782,481</u>
 Total capital assets	 <u>\$ 63,804,977</u>	 <u>\$ 4,467,616</u>	 <u>\$ 123,021</u>	 <u>\$ 68,149,572</u>

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STATISTICAL SECTION

This part of the City of Highland Village, Texas' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

	Page
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	67
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.	73
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	77
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	82
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	84

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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TABLE 1

CITY OF HIGHLAND VILLAGE, TEXAS

NET ASSETS BY COMPONENT

LAST FIVE FISCAL YEARS

	Fiscal Year				
	2003	2004	2005	2006	2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ 32,726,239	\$ 33,396,071	\$ 33,326,678	\$ 34,328,243	\$ 34,116,670
Restricted:					
Debt service	-	-	-	121,128	272,324
Capital projects	617,376	597,532	-	585,311	267,715
Unrestricted	<u>1,566,416</u>	<u>2,357,835</u>	<u>2,614,291</u>	<u>2,181,559</u>	<u>3,320,666</u>
Total governmental activities net assets	<u>\$ 34,910,031</u>	<u>\$ 36,351,438</u>	<u>\$ 35,940,969</u>	<u>\$ 37,216,241</u>	<u>\$ 37,977,375</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 4,533,190	\$ 3,927,416	\$ 900,860	\$ 5,302,838	\$ 5,731,085
Restricted:					
Debt service	66,548	-	-	-	-
Capital projects	2,573,956	1,588,902	3,066,063	1,535,187	2,186,804
Unrestricted	<u>18,226</u>	<u>1,431,982</u>	<u>3,236,656</u>	<u>1,898,148</u>	<u>941,128</u>
Total business-type activities net assets	<u>\$ 7,191,920</u>	<u>\$ 6,948,300</u>	<u>\$ 7,203,579</u>	<u>\$ 8,736,173</u>	<u>\$ 8,859,017</u>
Primary government:					
Invested in capital assets, net of related debt	\$ 37,259,429	\$ 37,323,487	\$ 34,227,538	\$ 39,631,081	\$ 39,847,755
Restricted:					
Debt service	66,548	-	-	121,128	272,324
Capital projects	3,191,332	2,186,434	3,066,063	2,120,498	2,454,519
Unrestricted	<u>1,584,642</u>	<u>3,789,817</u>	<u>5,850,947</u>	<u>4,079,707</u>	<u>4,261,794</u>
Total primary government net assets	<u>\$ 42,101,951</u>	<u>\$ 43,299,738</u>	<u>\$ 43,144,548</u>	<u>\$ 45,952,414</u>	<u>\$ 46,836,392</u>

Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

TABLE 2

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET ASSETS

LAST FIVE FISCAL YEARS

	Fiscal Year				
	2003	2004	2005	2006	2007
EXPENSES					
Governmental activities:					
General government	\$ 3,024,964	\$ 2,591,201	\$ 2,704,513	\$ 2,889,724	\$ 3,274,106
Public safety	2,940,954	3,107,650	3,344,204	3,628,593	3,982,151
Building operations	-	-	-	-	314,570
Community development	-	-	-	-	611,356
Community services	480,698	504,792	538,430	572,649	-
Streets and drainage	1,672,658	1,597,274	1,646,793	1,830,799	1,716,177
Parks and recreation	1,254,471	1,405,342	1,435,302	1,627,417	1,660,194
Interest on long-term debt	635,166	592,077	467,537	510,159	617,809
Total governmental activities expenses	<u>10,008,911</u>	<u>9,798,336</u>	<u>10,136,779</u>	<u>11,059,341</u>	<u>12,176,363</u>
Business-type activities:					
Water and wastewater	<u>4,930,261</u>	<u>5,350,546</u>	<u>6,003,259</u>	<u>6,137,246</u>	<u>6,433,256</u>
Total business-type activities expenses	<u>4,930,261</u>	<u>5,350,546</u>	<u>6,003,259</u>	<u>6,137,246</u>	<u>6,433,256</u>
Total primary government program expenses	<u>\$ 14,939,172</u>	<u>\$ 15,148,882</u>	<u>\$ 16,140,038</u>	<u>\$ 17,196,587</u>	<u>\$ 18,609,619</u>
PROGRAM REVENUES					
Governmental activities:					
Charges for services:					
General government	\$ 183,681	\$ 216,947	\$ 142,266	\$ 244,955	\$ 188,435
Public safety	120,930	115,672	108,373	161,162	108,830
Community services	758,743	723,764	556,479	746,043	-
Community development	-	-	-	-	928,357
Streets and drainage	-	-	-	-	266,221
Parks and recreation	349,385	303,582	321,538	588,131	303,536
Operating grants and contributions	123,804	130,412	-	-	319,162
Capital grants and contributions	515,556	439,741	199,815	807,528	-
Total governmental activities program revenues	<u>2,052,099</u>	<u>1,930,118</u>	<u>1,328,471</u>	<u>2,547,819</u>	<u>2,114,541</u>
Business-type activities:					
Charges for services:					
Water and wastewater	4,277,176	5,067,834	5,704,651	6,943,554	5,462,433
Capital grants and contributions	-	223,045	175,480	665,482	884,296
Total business-type activities program revenues	<u>4,277,176</u>	<u>5,290,879</u>	<u>5,880,131</u>	<u>7,609,036</u>	<u>6,346,729</u>
Total primary government program revenues	<u>\$ 6,329,275</u>	<u>\$ 7,220,997</u>	<u>\$ 7,208,602</u>	<u>\$ 10,156,855</u>	<u>\$ 8,461,270</u>

(continued)

TABLE 2

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET ASSETS
(Continued)
LAST FIVE FISCAL YEARS

	Fiscal Year				
	2003	2004	2005	2006	2007
NET (EXPENSE) REVENUES					
Governmental activities	\$(7,956,812)	\$(7,868,218)	\$(8,808,308)	\$(8,511,522)	\$(10,061,822)
Business-type activities	(653,085)	(59,667)	(123,128)	1,471,790	(86,527)
Total primary government net expense	<u>(8,609,897)</u>	<u>(7,927,885)</u>	<u>(8,931,436)</u>	<u>(7,039,732)</u>	<u>(10,148,349)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS					
Governmental activities:					
Taxes					
Property	6,043,566	6,437,289	6,813,476	7,159,890	7,775,701
Franchise	762,175	859,358	1,042,410	1,239,485	1,229,270
Sales	434,578	470,024	493,420	558,944	940,009
Unrestricted investment earnings	92,448	79,388	103,224	297,987	571,390
Intergovernmental contributions	-	-	(469,488)	-	-
Miscellaneous	109,987	273,566	180,551	290,488	186,586
Special item	-	950,000	-	-	-
Transfers	<u>240,000</u>	<u>240,000</u>	<u>234,246</u>	<u>240,000</u>	<u>120,000</u>
Total governmental activities	<u>7,682,754</u>	<u>9,309,625</u>	<u>8,397,839</u>	<u>9,786,794</u>	<u>10,822,956</u>
Business-type activities:					
Unrestricted investment earnings	128,593	50,101	143,165	300,804	329,371
Intergovernmental contributions	-	-	469,488	-	-
Miscellaneous	377,768	5,946	-	-	-
Transfers	<u>(240,000)</u>	<u>(240,000)</u>	<u>(234,246)</u>	<u>(240,000)</u>	<u>(120,000)</u>
Total business-type activities	<u>266,361</u>	<u>(183,953)</u>	<u>378,407</u>	<u>60,804</u>	<u>209,371</u>
Total primary government	<u>7,949,115</u>	<u>9,125,672</u>	<u>8,776,246</u>	<u>9,847,598</u>	<u>11,032,327</u>
CHANGE IN NET ASSETS					
Governmental activities	(274,058)	1,441,407	(410,469)	1,275,272	761,134
Business-type activities	<u>(386,724)</u>	<u>(243,620)</u>	<u>255,279</u>	<u>1,532,594</u>	<u>122,844</u>
Total primary government	<u>\$(660,782)</u>	<u>\$ 1,197,787</u>	<u>\$(155,190)</u>	<u>\$ 2,807,866</u>	<u>\$ 883,978</u>

Note:

The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

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CITY OF HIGHLAND VILLAGE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General fund										
Reserved	\$ 627,131	\$ 67,821	\$ 124,394	\$ 201,071	\$ 222,728	\$ 78,011	\$ 75,011	\$ 208,610	\$ 38,113	\$ 148,757
Unreserved	<u>992,389</u>	<u>1,139,013</u>	<u>1,620,880</u>	<u>1,786,614</u>	<u>1,134,664</u>	<u>1,496,007</u>	<u>2,339,291</u>	<u>2,156,267</u>	<u>2,467,540</u>	<u>3,096,512</u>
Total general fund	<u>\$ 1,619,520</u>	<u>\$ 1,206,834</u>	<u>\$ 1,745,274</u>	<u>\$ 1,987,685</u>	<u>\$ 1,357,392</u>	<u>\$ 1,574,018</u>	<u>\$ 2,414,302</u>	<u>\$ 2,364,877</u>	<u>\$ 2,505,653</u>	<u>\$ 3,245,269</u>
All other governmental funds										
Reserved	\$ 4,914,601	\$ 2,404,136	\$ 1,310,466	\$ 1,652,447	\$ 1,419,695	\$ 3,789,011	\$ 4,329,694	\$ 3,137,313	\$ 6,616,230	\$ 2,835,395
Unreserved, reported in:										
Special revenue funds	-	-	-	-	-	25,240	24,122	25,765	48,543	317,046
Capital projects funds	<u>30,077</u>	<u>30,047</u>	<u>28,429</u>	<u>24,170</u>	<u>32,052</u>	<u>200,000</u>	<u>185,441</u>	<u>326,170</u>	<u>-</u>	<u>122,551</u>
Total all other governmental funds	<u>\$ 4,944,678</u>	<u>\$ 2,434,183</u>	<u>\$ 1,338,895</u>	<u>\$ 1,676,617</u>	<u>\$ 1,451,747</u>	<u>\$ 4,014,251</u>	<u>\$ 4,539,257</u>	<u>\$ 3,489,248</u>	<u>\$ 6,664,773</u>	<u>\$ 3,274,992</u>

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
REVENUES										
Taxes	\$ 4,953,012	\$ 5,158,000	\$ 5,543,041	\$ 6,120,522	\$ 6,418,320	\$ 7,613,792	\$ 8,132,454	\$ 8,357,364	\$ 8,927,579	\$ 9,930,351
Fines and forfeitures	140,074	175,723	184,224	127,694	107,674	163,115	163,328	147,760	181,200	210,170
Licenses, permits, fees	736,976	785,324	1,080,817	984,269	713,381	1,192,700	1,073,383	918,699	1,375,390	1,538,951
Charges for services	35,324	43,001	12,580	65,791	48,322	75,370	80,012	77,385	103,245	104,736
Intergovernmental	85,332	124,736	148,286	145,876	67,011	86,758	130,412	200,171	804,341	319,162
Investment earnings	407,154	265,761	177,406	170,532	122,864	92,448	92,378	193,669	332,086	571,390
Miscellaneous	58,381	76,598	253,487	96,155	-	97,529	211,541	95,502	256,389	227,942
Total revenues	<u>6,416,253</u>	<u>6,629,143</u>	<u>7,399,841</u>	<u>7,710,839</u>	<u>7,477,572</u>	<u>9,321,712</u>	<u>9,883,508</u>	<u>9,990,550</u>	<u>11,980,230</u>	<u>12,902,702</u>
EXPENDITURES										
General government	1,845,481	1,443,622	1,838,086	1,828,526	2,344,455	2,812,222	2,576,727	2,612,080	2,750,713	3,172,948
Public safety	1,300,714	1,787,224	1,944,678	2,216,491	2,556,966	2,775,530	2,851,755	3,082,301	3,239,400	3,599,342
Building operations	-	-	-	-	-	-	-	-	-	267,648
Community development	-	-	-	-	-	-	-	-	-	590,233
Community service	87,001	362,242	381,824	421,744	494,261	474,004	481,196	511,948	547,953	-
Streets and drainage	534,775	502,311	530,468	816,384	694,225	820,130	809,151	815,279	873,485	758,953
Parks and recreation	564,126	602,745	1,248,833	801,721	1,046,104	1,048,306	1,171,718	1,264,676	1,366,711	1,380,545
Capital outlay	3,454,785	3,841,308	1,050,300	50,803	231,804	440,775	514,070	1,567,046	3,119,733	4,457,417
Debt service	1,241,304	1,137,872	1,202,624	1,157,846	-	-	-	-	-	-
Principal	-	-	-	-	578,881	615,250	892,415	970,884	1,257,728	1,113,243
Interest and other charges	-	-	-	-	591,039	802,146	485,598	500,016	706,215	632,549
Total expenditures	<u>9,028,186</u>	<u>9,677,324</u>	<u>8,196,813</u>	<u>7,293,515</u>	<u>8,537,735</u>	<u>9,788,363</u>	<u>9,782,630</u>	<u>11,324,230</u>	<u>13,861,938</u>	<u>15,972,878</u>

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

**CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
(Continued)
LAST TEN FISCAL YEARS**

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EXCESS OF REVENUES OVER (UNDER)										
EXPENDITURES	\$(2,611,933)	\$(3,048,181)	\$(796,972)	\$ 417,324	\$(1,060,163)	\$(466,651)	\$ 100,878	\$(1,333,680)	\$(1,881,708)	\$(3,070,176)
OTHER FINANCING SOURCES (USES)										
Issuance of long-term debt	4,041,083	-	-	-	-	8,482,129	-	-	8,130,000	300,000
Proceeds from capital leases	-	-	115,124	24,590	-	69,399	74,412	-	713,391	-
Premium on debt issuance	-	-	-	-	-	-	-	-	80,321	-
Payments to escrow account	(351,457)	-	-	-	-	(5,579,964)	-	-	(3,965,692)	-
Transfers in	260,000	1,039,000	447,000	324,457	245,688	722,186	341,608	339,348	384,923	730,108
Transfers out	(47,000)	(914,000)	(322,000)	(186,238)	(40,688)	(482,186)	(101,608)	(105,102)	(144,923)	(610,108)
Total other financing sources (uses)	<u>3,902,626</u>	<u>125,000</u>	<u>240,124</u>	<u>162,809</u>	<u>205,000</u>	<u>3,211,564</u>	<u>314,412</u>	<u>234,246</u>	<u>5,198,020</u>	<u>420,000</u>
SPECIAL ITEM										
Litigation settlement	-	-	-	-	-	-	950,000	-	-	-
Total special item	-	-	-	-	-	-	950,000	-	-	-
NET CHANGE IN FUND BALANCES	<u>\$ 1,290,693</u>	<u>\$(2,923,181)</u>	<u>\$(556,848)</u>	<u>\$ 580,133</u>	<u>\$(855,163)</u>	<u>\$ 2,744,913</u>	<u>\$ 1,365,290</u>	<u>\$(1,099,434)</u>	<u>\$ 3,316,312</u>	<u>\$(2,650,176)</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<u>22.3%</u>	<u>19.5%</u>	<u>16.8%</u>	<u>16.0%</u>	<u>14.1%</u>	<u>15.2%</u>	<u>14.9%</u>	<u>15.1%</u>	<u>18.3%</u>	<u>15.2%</u>

CITY OF HIGHLAND VILLAGE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Estimated Market Value		Personal Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
	Residential Property	Commercial Property					
1998	\$ 613,682,309	\$ 59,110,806	\$ 21,706,525	\$ 20,157,192	674,342,448	0.5938	\$ 4,004,245
1999	668,153,298	64,537,206	14,788,541	21,110,807	726,368,238	0.5938	4,313,175
2000	730,763,743	74,151,354	23,068,058	23,120,831	804,862,324	0.5696	4,584,496
2001	803,363,818	89,094,709	26,077,592	40,849,949	877,686,170	0.5696	4,999,300
2002	893,273,521	100,146,454	32,471,761	43,918,642	981,973,094	0.5696	5,593,319
2003	956,719,363	96,109,405	32,482,820	42,186,059	1,043,125,529	0.5696	5,941,643
2004	1,045,041,076	104,165,418	23,002,619	46,605,948	1,125,603,165	0.5696	6,411,436
2005	1,105,661,932	102,439,022	26,234,611	47,153,693	1,187,181,872	0.5696	6,762,188
2006	1,155,004,979	103,324,968	32,671,282	50,228,446	1,240,772,783	0.5696	7,067,814
2007	1,230,372,823	124,967,535	25,619,835	52,545,296	1,328,414,897	0.5696	7,567,050

Source: Denton County Appraisal District

Note: Estimated actual taxable value is calculated by dividing taxable assessed value by those percentages. Tax rates are per \$100 of assessed value.

Residential: single family, vacant lots, acreage, farm/ranch and personal property.

Commercial: Includes real and personal commercial, personal industrial and utilities.

CITY OF HIGHLAND VILLAGE, TEXAS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

Fiscal Year	City Direct Rates			Overlapping Rates	
	Operating/ General Rate	Debt Service Rate	Total Direct Rate	Lewisville Independent School District	Denton County
1998	\$ 0.4577	\$ 0.1361	\$ 0.5938	\$ 1.52	\$ 0.26
1999	0.4583	0.1355	0.5938	1.61	0.25
2000	0.4392	0.1304	0.5696	1.57	0.24
2001	0.4475	0.1221	0.5696	1.61	0.23
2002	0.4549	0.1146	0.5695	1.77	0.25
2003	0.4550	0.1146	0.5696	1.77	0.25
2004	0.4460	0.1236	0.5696	1.77	0.25
2005	0.4455	0.1241	0.5696	1.77	0.25
2006	0.4549	0.1147	0.5696	1.64	0.23
2007	0.4488	0.1208	0.5696	1.37	0.24

Source: Denton County Tax Collector's Office
Lewisville Independent School District Budget Office

Note: A typical property tax bill would consist of the City, School District and County taxes.

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2007		1998	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value*	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value**
Opus West, LP	\$ 12,846,688	0.967%	\$ -	- %
Barnett Healthcare Prop., LLC	6,554,385	0.493%	-	- %
Shops at Highland Village Dev., LTD	5,967,083	0.449%	-	- %
Wal-Mart Stores Texas, LP	5,658,911	0.426%	-	- %
CoServe Electric Co-op	4,536,180	0.341%	-	- %
Celebrations Management, Inc.	4,458,228	0.336%	-	- %
Tabani Highland, LP P/S	4,243,480	0.319%	-	- %
CenterAmerica Prop, Trust, LP	4,143,101	0.312%	-	- %
Verizon Southwest	3,148,350	0.237%	-	- %
Realty Capital Village Creek, LTD	3,021,730	0.227%	-	- %
Westerra Highland Shores, LP	-	- %	7,809,066	1.158%
Bellaire Capital P/S, LP	-	- %	4,947,680	0.734%
Denton County Electric Co-op	-	- %	3,882,060	0.576%
Balfour Village Est., LP P/S	-	- %	3,550,348	0.526%
BLI Highland Village Land, LTD	-	- %	2,994,462	0.444%
Pierce Homes	-	- %	2,535,527	0.376%
Minyard Food Store #83	-	- %	2,449,070	0.363%
Talisman Oil & Gas Co.	-	- %	2,423,565	0.359%
Sharp & Assoc., Inc.	-	- %	2,199,278	0.326%
Arian, Jack	-	- %	1,852,118	0.275%
Total	\$ <u>54,578,136</u>	<u>4.109%</u>	\$ <u>34,643,174</u>	<u>5.14%</u>

Source: Denton County Appraisal District

Notes:

* Total taxable value including real and personal property for tax year 2006 (fiscal year 2007) is \$1,328,414,897.

** Total taxable value including real and personal property for tax year 1997 (fiscal year 1998) is \$674,342,448

TABLE 8

CITY OF HIGHLAND VILLAGE, TEXAS

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected With the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1998	\$ 4,068,697	\$ 4,024,648	98.92%	\$ 19,704	\$ 4,044,352	99.40%
1999	4,411,274	4,354,984	98.72%	26,593	4,381,577	99.33%
2000	4,646,356	4,569,407	98.34%	39,596	4,609,003	99.20%
2001	5,169,414	5,069,479	98.07%	47,614	5,117,093	98.99%
2002	5,724,341	5,578,918	97.46%	94,239	5,673,157	99.11%
2003	6,162,357	5,966,226	96.82%	78,949	6,045,175	98.10%
2004	6,547,821	6,390,952	97.60%	61,520	6,452,472	98.54%
2005	6,761,024	6,707,448	99.21%	57,512	6,764,960	100.06%
2006	7,080,176	7,030,306	99.30%	53,713	7,084,019	100.05%
2007	7,630,985	7,585,059	99.40%	-	7,585,059	99.40%

Sources: Denton County Appraisal District and Denton County Tax office.

Notes: Tax levy includes adjustments and supplements made to the property roll during the fiscal year.
Delinquent collections do not include penalty and interest.

TABLE 9

CITY OF HIGHLAND VILLAGE, TEXAS

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities					Business-type Activities				Total Primary Government	Percentage of Personal Income*	Per Capita*
	General Obligation Bonds	Certificates of Obligation	Contributions Tax and Revenue Bonds	Capital Lease Obligations	Tax Note	Combination Tax and Revenue Bonds	General Obligation Bonds	Water and Sewer Revenue Certificates of Obligation	Other Obligations			
2003	\$ 12,195,834	\$ 1,455,000	\$ 430,000	\$ 42,356	\$ -	\$ -	\$ 5,430,250	\$ 3,440,000	\$ -	\$ 22,993,440	5.08%	\$ 1,687
2004	11,633,419	1,375,000	180,000	57,412	-	-	4,837,665	3,270,000	-	21,353,496	4.68%	1,513
2005	11,397,022	1,290,000	-	43,248	-	7,420,000	3,801,611	-	-	23,951,881	5.17%	1,651
2006	14,705,257	-	1,255,000	440,676	-	7,185,000	3,150,547	-	-	26,736,480	5.39%	1,790
2007	13,703,811	-	1,255,000	328,880	300,000	6,820,000	2,495,388	-	-	24,903,079	4.75%	1,628

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

The City began to report governmental and business-type activities information when it implemented GASB Statement 34 in fiscal year 2003, therefore, only four years of information is presented.

* See Table 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

CITY OF HIGHLAND VILLAGE, TEXAS
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Bonded Debt Outstanding				Total	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificate of Obligation Bonds	General Bonded Debt Outstanding	Less Debt Service Resources Available			
1998	\$ 6,635,000	\$ 6,852,775	\$ 13,487,775	\$ 205,045	\$ 13,282,730	1.97%	\$ 1,136
1999	6,139,083	6,950,000	13,089,083	87,782	13,001,301	1.79%	1,094
2000	5,947,083	6,635,000	12,582,083	3,556	12,578,527	1.56%	1,033
2001	5,767,084	6,305,000	12,072,084	47,708	12,024,376	1.37%	924
2002	5,584,084	5,950,000	11,534,084	61,389	11,472,695	1.17%	872
2003	17,626,084	1,455,000	19,081,084	76,378	19,004,706	1.82%	1,395
2004	16,471,084	1,375,000	17,846,084	115,028	17,731,056	1.58%	1,257
2005	15,198,633	1,290,000	16,488,633	145,095	16,343,538	1.38%	1,127
2006	14,705,258	1,255,000	15,960,258	200,334	15,759,924	1.27%	1,055
2007	13,703,811	1,255,000	14,958,811	320,939	14,637,872	1.10%	957

Notes:

Details regarding the City's outstanding debt can be found in the notes to the financial statements.

See Table 5 for property value data.

See Table 14 for population data.

CITY OF HIGHLAND VILLAGE, TEXAS

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2007

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
County of Denton	\$ 273,559,740	2.993%	\$ 8,187,643
Lewisville Independent School District	710,033,354	6.566%	<u>46,620,790</u>
Subtotal overlapping debt			54,808,433
City of Highland Village (direct debt)	14,637,872	100.0%	<u>14,637,872</u>
Total direct and overlapping debt			<u>\$ 69,446,305</u>

Sources:

Assessed value data used to estimate applicable percentages provided by the Denton County Appraisal District.
Debt outstanding data provided by each governmental unit.

Notes:

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Highland Village, Texas. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt of each overlapping government.

CITY OF HIGHLAND VILLAGE, TEXAS

LEGAL DEBT MARGIN INFORMATION

LAST TEN FISCAL YEARS

Legal Debt Margin Calculation for Fiscal Year 2007	
Assessed value	\$ 1,328,414,897
Debt limit (\$1.50 per \$100 of assessed value)	19,926,223
Debt applicable to limit:	
General obligation bonds	1,555,609
Less: Amount set aside for repayment of general obligation debt	(320,939)
Total net debt applicable to limit	<u>1,234,670</u>
Legal debt margin	\$ <u>18,691,553</u>

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt limit	\$ 10,115,137	\$ 10,895,524	\$ 12,072,935	\$ 13,165,293	\$ 14,729,596	\$ 15,646,883	\$ 16,884,047	\$ 17,803,726	\$ 18,137,384	\$ 19,926,223
Total net debt applicable to limit	<u>799,317</u>	<u>1,050,090</u>	<u>1,144,068</u>	<u>1,075,920</u>	<u>1,066,813</u>	<u>1,160,280</u>	<u>1,262,985</u>	<u>1,325,805</u>	<u>1,380,008</u>	<u>1,234,670</u>
Legal debt margin	\$ <u>9,315,820</u>	\$ <u>9,845,434</u>	\$ <u>10,928,867</u>	\$ <u>12,089,373</u>	\$ <u>13,662,783</u>	\$ <u>14,486,603</u>	\$ <u>15,621,062</u>	\$ <u>16,477,921</u>	\$ <u>16,757,376</u>	\$ <u>18,691,553</u>
Total net debt applicable to the limit as a percentage of debt limit.	7.90%	9.64%	9.48%	8.17%	7.24%	7.42%	7.48%	7.45%	7.61%	6.20%

Note:

According to The State of Texas Constitution, Article II, Section 5, provides in part that, "...no tax for any purpose shall ever be lawful for any one year, which shall exceed 2.5% of the taxable property of such city." As a home rule city, the City of Highland Village is not limited in the amount of debt it may issue. The City's Charter provides that general property taxes are limited to \$1.50 per \$100 of assessed valuation for general governmental services including the payment of principal and interest on legal debt instruments.

CITY OF HIGHLAND VILLAGE, TEXAS

PLEDGED REVENUE COVERAGE

LAST TEN FISCAL YEARS

Fiscal Year	Water and Wastewater System Revenue Bonds						Coverage
	Total Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service		Total	
				Principal	Interest		
1998	\$ 4,278,480	\$ 2,833,677	\$ 1,444,803	\$ 765,585	\$ 696,185	\$ 1,461,770	0.99
1999	4,301,966	3,420,636	881,330	668,001	661,755	1,329,756	0.66
2000	4,935,038	3,200,108	1,734,930	698,000	627,853	1,325,853	1.31
2001	4,368,550	3,513,069	855,481	700,000	608,286	1,308,286	0.65
2002	4,042,998	3,814,913	228,085	739,000	564,423	1,303,423	0.17
2003	4,649,773	3,966,325	683,448	824,750	493,102	1,317,852	0.52
2004	5,346,926	5,120,228	226,698	762,585	400,897	1,163,482	0.19
2005	6,498,538	5,649,136	849,402	566,566	412,950	979,516	0.87
2006	7,909,840	6,377,246	1,532,594	886,064	378,864	1,264,928	1.21
2007	5,791,804	5,154,652	637,152	1,020,159	459,975	1,480,134	0.43

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Gross revenues do not include impact fees. Operating expenses do not include interest, depreciation, or amortization expenses.

CITY OF HIGHLAND VILLAGE, TEXAS

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
1998	11,691	\$ 350,846,910	\$ 30,010	1.6%
1999	11,880	371,143,080	31,241	1.6%
2000	12,173	413,541,156	33,972	1.7%
2001	13,014	446,367,186	34,299	2.9%
2002	13,152	446,628,768	33,959	3.9%
2003	13,626	464,769,234	34,109	4.1%
2004	14,109	500,897,718	35,502	3.0%
2005	14,505	537,772,875	37,075	3.8%
2006	14,940	591,011,460	39,559	3.3%
2007	15,300	523,887,300	34,241	4.2%

Source: U. S. Census Bureau
Texas Workforce Commission
Bureau of Economic Analysis

Note: Population estimates are based on residential sewer connections.

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT AND NINE YEARS AGO

Employer	2007		1998	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
Lifes a Beach, Inc.	174	12.87%	-	- %
City of Highland Village	158	11.69%	106	13.43%
Excite! Gymnastics & Cheer, Inc.	71	5.25%	-	- %
Salerno Pizza Co.	59	4.36%	74	9.38%
Pizza Cafes, Inc. Et Al	51	3.77%	-	- %
Kid Country, Inc.	46	3.40%	36	4.56%
New Hemisphere Investments, Inc.	45	3.33%	-	- %
Prime Kids, L.L.C.	41	3.03%	-	- %
Marla R. Conger MD PA	37	2.74%	29	3.68%
John R. Ross Company, Inc.	30	2.22%	25	3.17%
Joseph Locurto	-	- %	78	9.89%
IASIS Gymnastics, Inc.	-	- %	45	5.70%
Pierce Homes, Inc.	-	- %	37	4.69%
A & G Computer Service, Incorporated	-	- %	28	3.55%
Half Price Computers, Inc.	-	- %	24	3.04%
Total	<u>712</u>	<u>52.66%</u>	<u>482</u>	<u>61.09%</u>

Source: Texas Workforce Commission

TABLE 16

CITY OF HIGHLAND VILLAGE, TEXAS
FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>Function/Program</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General government										
City manager	2	2	2	2	3	3	3	2	2	2
Finance	7	9	9	9	9	9	9	9	10	10
Human resources	2	2	2	2	3	3	3	3	3	3
City secretary	2	2	2	2	2	2	2	2	2	2
Maintenance	4	4	4	4	4	4	4	4	4	4
Public safety										
Police	26	27	30	32	32	32	32	32	32	35
Fire	2	2	3	3	6	8	9	10	10	11
Community services										
Streets and drainage	7	6	6	6	6	6	6	4	5	5
Parks and recreation	9	11	11	11	11	11	12	15	15	19
Water and wastewater	11	12	12	12	15	15	15	15	15	15
Highland Village Economic Development Corporation	12	11	12	12	14	14	14	14	14	15
Highland Village Economic Development Corporation	-	-	-	-	-	-	-	-	-	1
Total	84	88	93	95	105	107	109	110	112	122

Source: Various City departments

Notes: A fulltime employee is scheduled to work 40 hours per week (including vacation and sick leave).

CITY OF HIGHLAND VILLAGE, TEXAS

**OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year			
	1998	1999	2000	2001
General government				
Open records requests processed	*	*	*	*
Court cases filed	*	*	*	*
Employee turnover (%)	*	*	*	*
Emp safety lost time injuries	*	*	*	*
Community service				
Permits issued	*	*	*	*
Inspections performed	*	*	*	*
Animal impounds	*	*	*	*
Animal registrations	*	*	*	*
Police				
Reported offenses	*	*	*	*
Arrests	*	*	*	*
Service	*	*	*	*
Close patrols	*	*	*	*
Traffic citations issued	*	*	*	*
Traffic warnings issued	*	*	*	*
Motor vehicle accidents	*	*	*	*
Fire				
EMS calls	*	*	*	*
Fires calls	*	*	*	*
Streets and Drainage				
Drainage materials (ft.)	*	*	*	*
Asphalt (tons)	*	*	*	*
Concrete(yards)	*	*	*	*
Cold patch (lbs)	*	*	*	*
Crack seal (lbs)	*	*	*	*
Paint (gal)	*	*	*	*
Sod replacement (yards)	*	*	*	*
Saw cuttings	*	*	*	*
Work orders completed	*	*	*	*
Total fuel consumption	*	*	*	*
Parks and recreation				
Acres of turf mowed	*	*	*	*
Bags of trash disposed (55 gal)	*	*	*	*
Recreation program admissions	*	*	*	*
Water				
New connections	120	134	134	203
Field operations work orders completed	*	*	*	*
Peak daily consumption	1,615,405	1,883,480	2,039,188	2,194,896
Maximum daily capacity-water production	7.25 MGD	7.25 MGD	7.25 MGD	7.25 MGD
Number of gallons pumped	589,622,700	730,142,600	715,196,936	801,137,000
Number of gallons sold	778,270,600	728,119,000	540,628,800	745,540,200
Wastewater				
Wastewater work orders completed	*	*	*	*
Wastewater gallons pumped	*	*	*	*

Source: Various City departments

* Not available

TABLE 17

2002	2003	2004	2005	2006	2007
*	*	204	201	151	132
*	3,267	2486	2026	3113	2,367
*	17.90	17.40%	10.00%	10.70%	13.90%
*	2	1	5	2	2
*	1,373	1,236	1,121	1,176	1,658
*	8,050	7,174	6,367	5,051	6,639
*	219	251	211	200	174
*	*	1,101	1,045	1,082	1,049
*	452	467	409	371	441
*	270	288	282	292	299
*	4,415	4,239	5,735	6,464	6,972
*	5,689	6,675	10,681	11,658	23,919
*	2,519	1,870	1,542	2,331	1,785
*	2,022	3,259	2,988	2,934	2,393
*	167	184	172	159	211
*	451	471	533	644	513
*	288	332	441	421	437
*	11,370	8,096	6,216	3,976	6,374
*	937	1,155	1,445	743	674
*	103	112	81	118	152
*	5,058	4,750	3,875	1,928	2,875
*	3,420	8,722	6,150	15,390	4,110
*	555	277	71	137	43
*	1,911	1,698	1,372	952	1,473
*	*	4,084	7,561	7,421	3,569
*	1,599	1,949	2,058	1,821	2,130
*	53,801	50,721	57,753	59,805	58,908
*	*	*	3,753	2,963	4,867
*	3,137	3,772	3,234	4,867	4,383
*	4,139	8,453	11,224	11,160	12,788
17	175	169	128	57	105
*	4,822	4,760	6,246	4,179	5,411
1,927,251	2,319,409	2,319,409	2,446,877	3,258,510	6,375,848
7.25 MGD	7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD
716,413,600	894,051,700	828,486,217	977,401,000	1,264,284,000	858,936,000
616,880,500	846,584,300	768,763,700	893,110,040	1,189,356,500	827,602,885
*	1,356	1,058	1,150	844	967
*	421,556,000	449,705,000	484,740,000	384,938,000	538,198,300

TABLE 18

**CITY OF HIGHLAND VILLAGE, TEXAS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government										
City area (in miles)	5.50	5.50	5.50	5.50	5.50	6.38	6.38	6.38	6.38	6.38
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Fire										
Stations	1	1	1	1	1	1	1	1	1	1
Streets and Drainage										
Streets (miles)	68	68	68	68	68	75.31	75.31	75.485	76.935	76.935
Traffic signals	1	1	1	1	1	1	1	1	1	1
Parks and recreation										
Acres of parks	275	275	275	275	275	305	305	311	311	318
Trail system (linear miles)	-	-	-	-	-	-	-	-	-	2.7
Water										
Number of meters in service	3,987	4,161	4,255	4,458	4,541	4,716	4,885	5,013	5,108	5,226
Water mains (in miles)	75	79	79	79	79	79	79	81	83	85
Fire hydrants	480	525	525	525	525	620	620	630	630	729
Wastewater										
Storm sewers (miles)	50	50	50	50	50	50	50	50	50	25
Sanitary sewers (miles)	75	75	75	75	75	75	75	77	83	83
Sewer connections	3,891	4,004	4,167	4,167	4,167	4,588	4,588	4,894	4,952	5,054

Source: Various City departments