

**CITY OF
HIGHLAND VILLAGE, TEXAS**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2006**

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INTRODUCTORY SECTION

CITY OF HIGHLAND VILLAGE

Finance Department

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March 7, 2007

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, 2006.

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, 2006. The independent auditor's 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 2006 population is 14,940, a 34% 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 95% built out, with approximately 400 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 134 single-family residential permits annually. The average assessed value for existing single-family dwellings on the 2005 Tax Roll was \$242,635.

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.

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 \$263,925. There were 64 single-family permits issued during fiscal year 2005/2006 for a total construction value of \$16,891,172. In addition, there were 5,118 water connections, with 4,890 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 fifty-eight (58) commercial permits issued during the year for a total value of \$24,497,111. The increase in commercial development has certainly enhanced the business and economic outlook for the City. Over the past ten 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. 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. A new bank, United Community Bank, opened for business in 1998 with a temporary building - a permanent bank building was completed in 1999. 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.

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. 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. And in late 2004, concept plans for both a 45-acre site and a 12-acre site were approved for mixed retail development, each reflecting the high-quality standards desired by the overlay district.

The remaining principal area for retail development, at the intersection of FM 407 and FM 2499, saw substantial activity 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 is to be 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. The Wal-Mart store was delayed - its opening now expected in late 2007.

On the northwest corner of the intersection, a 45-acre development “lifestyle” center to be known as the Shops at Highland Village was initiated by Regency Centers. The center is planned to include upscale retail shops, office / professional, restaurants and an entertainment component totaling approximately 380,000 sq. ft. Completion of this center is expected in Fall 2007.

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. But approval of the Chapel Springs development with 117 lots in the western portion of the city, will continue to provide sustained residential building activity. The population of the City is expected to approach 16,500 by the year 2009.

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 3.8% as of September 2006.

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, maintaining this rate provided sufficient resources to ensure fund balance requirements and meet increased service delivery objectives.
- The City completed the first section (City Trail) of the Inland Trail system – from Village Parkway to Sellmeyer.
- Highland Village voters approved funding of a new fire station, street improvements, and railroad crossing improvements.
- The Highland Village Business Association celebrated its 10th anniversary.
- Conducted the official groundbreaking for the Shops at Highland Village – a 45-acre lifestyle shopping center.
- The Fire, Police, and Utility departments collectively secured a substantial decrease in the City's Insurance Services Office (ISO) rating, moving from a 5 to a 2 rating. This rating reflects communities' fire suppression and control resources through the Public Protection Classification system – and is used by numerous insurance companies to calculate individual property insurance premiums. The new lower rating will result in lower insurance premiums for residents, effective in April 2006.

- Received the Texas Municipal League (TML) Award of Excellence in Public Safety for a Police Involving Parents (PIP) program. This is the 2nd consecutive year that the Police Department has received this statewide recognition.
- The Police Department also received the International Association of Chiefs of Police (IACP) Community Policing Award that recognizes departments exemplifying successful implementation of community policing philosophies.
- Highland Village received designation for the fifth consecutive year from the FBI as the safest city in North Texas.
- The annual Highland Village Days festival, expanded in 2004 as the Red, White, and Blues Festival -providing music entertainment and a fireworks extravaganza, was again successful with increased attendance. The City previously received the Lone Star Programming Award from the Texas Recreation and Parks Society for this event.
- The nineteenth annual Balloon Festival, a signature event of Highland Village, was successfully held with well over 20,000 patrons.

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, thus facing declining growth in assessed valuation. A stated focus of Council to maintain the current tax rate – coupled with declining growth in assessed valuation provides a challenge to maintain the high level of services provided for in this community. A primary focus over the next few years is to address staffing needs - projected at 140 positions at build-out (currently at 112 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 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.

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 21% in fiscal year 2002-2003, 32% in fiscal year 2003-2004, 28% in fiscal year 2004-2005, and 26% in 2005-2006. 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, 2006. The amount and percentages of increases and decreases in relation to prior year revenues are presented for comparison as follows:

Source	Amount	% of Total	Increase (Decrease) from 2005	% of Increase (Decrease)
Taxes	\$ 8,927,579	74.52%	\$ 570,215	6.82%
Licenses, permits and fees	1,375,390	11.48%	456,691	49.71%
Intergovernmental	804,341	6.71%	604,170	301.83%
Charges for services	103,245	0.86%	25,860	33.42%
Fines and forfeitures	181,200	1.51%	33,440	22.63%
Miscellaneous	588,475	4.91%	299,304	103.50%
 Total revenues	 \$ <u>11,980,230</u>	 <u>100.00%</u>	 \$ <u>1,989,680</u>	 19.92%

- Increases were experienced in all categories. Taxes increased by \$570,215 or 6.82% over 2005. While the majority of this increase resulted from property taxes, reflecting the 4.5% growth in appraised valuation in the City, franchise taxes also increased – primarily due to higher electric franchise taxes resulting from above average temperatures during the summer months. 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 \$456,691. This category represents a combination of building permits, inspection fees, park dedication fees, and park entry fees. Roughly one half of this increase resulted from increased building permits – largely associated with commercial retail development in the western part of the City. The other major component of this increase was collection of \$241,956 park development fees associated with the Chapel Springs development. The Intergovernmental category had an increase of \$604,170 – this associated with grant reimbursements for construction of the Inland Trail project. The increase in the Miscellaneous category resulted from both increased interest earnings stemming from receipt of bond proceeds in the Capital Projects fund, as well as a \$180,000 contribution from area entities for their participation in the Chinn Chapel reconstruction project.

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, 2006 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 2005</u>	<u>% of Increase (Decrease)</u>
City manager	\$ 664,557	4.79%	\$(2,123)	(0.32%)
Finance	922,224	6.65%	92,538	11.15%
Human resources	318,575	2.30%	29,107	10.06%
City secretary	195,981	1.41%	(50,967)	(20.64%)
Police	2,341,749	16.89%	113,777	5.11%
Fire	897,651	6.48%	43,322	5.07%
Community services	547,953	3.95%	36,005	7.03%
Streets and drainage	873,485	6.30%	58,206	7.14%
Maintenance	649,376	4.68%	70,078	12.10%
Parks and recreation	1,366,711	9.86%	102,035	8.07%
Debt service	1,963,943	14.17%	493,043	33.52%
Capital outlay	<u>3,119,733</u>	<u>22.51%</u>	<u>1,552,687</u>	99.08%
 Total revenues	 <u>\$ 13,861,938</u>	 <u>100.00%</u>	 <u>\$ 2,537,708</u>	 22.41%

Expenditures for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Project Fund totaled \$13,861,938 – an increase of \$2,537,708, or 22.41%, from fiscal year 2005. Fluctuations in levels of expenditures for major functions of the City are shown in the table above. Debt Service showed an increase from last year consistent with the debt service schedule. New debt was issued in FY 2006, with associated debt service commencing in FY 2007. The FY 2006 increase is associated with a down payment of \$315,963 for equipment obtained by capital lease (fire truck and gradall), as well as issuance costs of \$66,249 for the debt issue. The increase in Capital Outlay reflected expenditures associated with numerous items: equipment including the previously mentioned fire truck and gradall, a street reconstruction project (Chinn Chapel) emanating from the 2006 Bond Issue, expenditures related to the design of the new fire station – also associated with the 2006 Bond Issue, repairs to the Municipal Complex associated with a settlement of \$950,000 received in FY 2004, and construction of the initial segment of the Inland Trail.

Increased expenditures for services are representative of a growing city with demands for a higher level of service. Of the change in expenditure total of \$2,537,708 listed above, the increase associated with departmental operations was \$491,978. And this increase is primarily associated with increased payroll costs. Two new positions were added – an Assistant City Manager, as well as a system support technician in the City Manager and Finance Departments respectively. In addition, a mid-year increase was implemented in accordance to recommendations provided by an updated compensation study. This overall increase was partially offset by a reduction in legal expenditures, prompted by a mid-year change to provide legal services in-house – the City previously represented by an outside firm. And a decrease in the City Secretary department resulted from a position vacancy for a portion of the year. 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 \$2,505,653 at September 30, 2006, which represents an increase of \$140,776 (6.0%) over fiscal year 2005. The City closed the fiscal year with a General Fund Balance equal to 25.7% 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, 2006, the Debt Service Fund Balance was \$200,334. 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, 2006, general long-term debt outstanding was \$15,960,258 and self-supporting debt in the Enterprise Fund was \$10,335,547 for a total funded principal debt obligation of \$26,295,805. The total debt obligation with principal and interest is \$35,440,272. During fiscal year 2006, the City retired principal on its general long-term debt in the amount of \$941,765 and paid interest on its bonds in the amount of \$638,577. Total debt payments for general purpose were \$1,580,342.

Property taxes collected in the Debt Service Fund for retirement of debt totaled \$1,436,734 in 2005-2006. With interest earnings and other sources, total revenue amounted to \$1,466,250. With a funding requirement for 2005-2006 of \$1,580,342, partially offset by other financing sources of \$169,331 resulting from a bond issuance, the Debt Service Fund balance was effectively increased by \$55,239 to \$200,334.

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 – previously an A+ rating with both Standard and Poor's and Fitch on its General Obligation Bonds, but was upgraded to an AA- with Fitch for the 2006 bond issuance. Standard and Poor's elected to maintain their A+ rating, however proving a positive outlook for the rating.

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, 2006 was \$15,759,924. The ratio of net direct bonded debt to assessed value (100% of market value) is 1.27%. Net bonded debt per capita is \$1,055. The total assessed value per capita was \$83,050 at September 30, 2006. The ratio of debt to total General Fund expenditures is 11.4%.

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 \$6,943,554, which is an increase of \$1,238,903, or 21.7% over fiscal year 2005. This increase primarily resulted from extremely dry weather conditions that facilitated increased water sales. Total operating expenditures less depreciation was \$4,762,710, which is an increase of \$152,702 or 3.3% over fiscal year 2005. This increase was fairly evenly split between wholesale water and sewer treatment costs and increased operations – specifically professional/engineering studies.

Monthly transfers from net revenues are being made to accrue for the next principal and interest payment. This Interest and Sinking Balance was \$63,213 at September 30, 2006. Current rates and charges are sufficient to pay current operating expense and current debt service requirements. A review of the rate schedule was accomplished in FY 2003, resulting in a rate adjustment equating to an overall 18% revenue increase to ensure sufficient revenues for the City to meet working capital needs. These rates were sufficient through FY 2005, with an expectation of being updated in FY 2006 to ensure continued sufficiency of revenues. And a consultant was retained to provide a comprehensive rate analysis in FY 2006. This study is in process – any urgency for an immediate rate adjustment muted by the dry summer in 2006 with considerably above-average water sales. Recommendations from this review will be provided in Spring 2007 as a long-term plan for the utility system as the City transitions to a build-out community.

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 2006 was 4.72%. 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, 2006 was \$16,453,431.

Of the City's idle funds,

- \$4,183,857, or 25.43%, was in the Texas State Treasury Investment Pool (Tex-Pool);
- \$11,287,899, or 68.61% was in the Texas Short Term Asset Reserve Program (TexSTAR);
- \$489,273 or 2.97%, was invested in a Fannie Mae Discount Note (FNDN) – maturation November 2006; and
- \$492,402 or 2.99% was invested in a Fannie Mae Discount Note (FNDN) – maturation October 2006.

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, 2005. This was the 15th 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 2005 – the City's first 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.

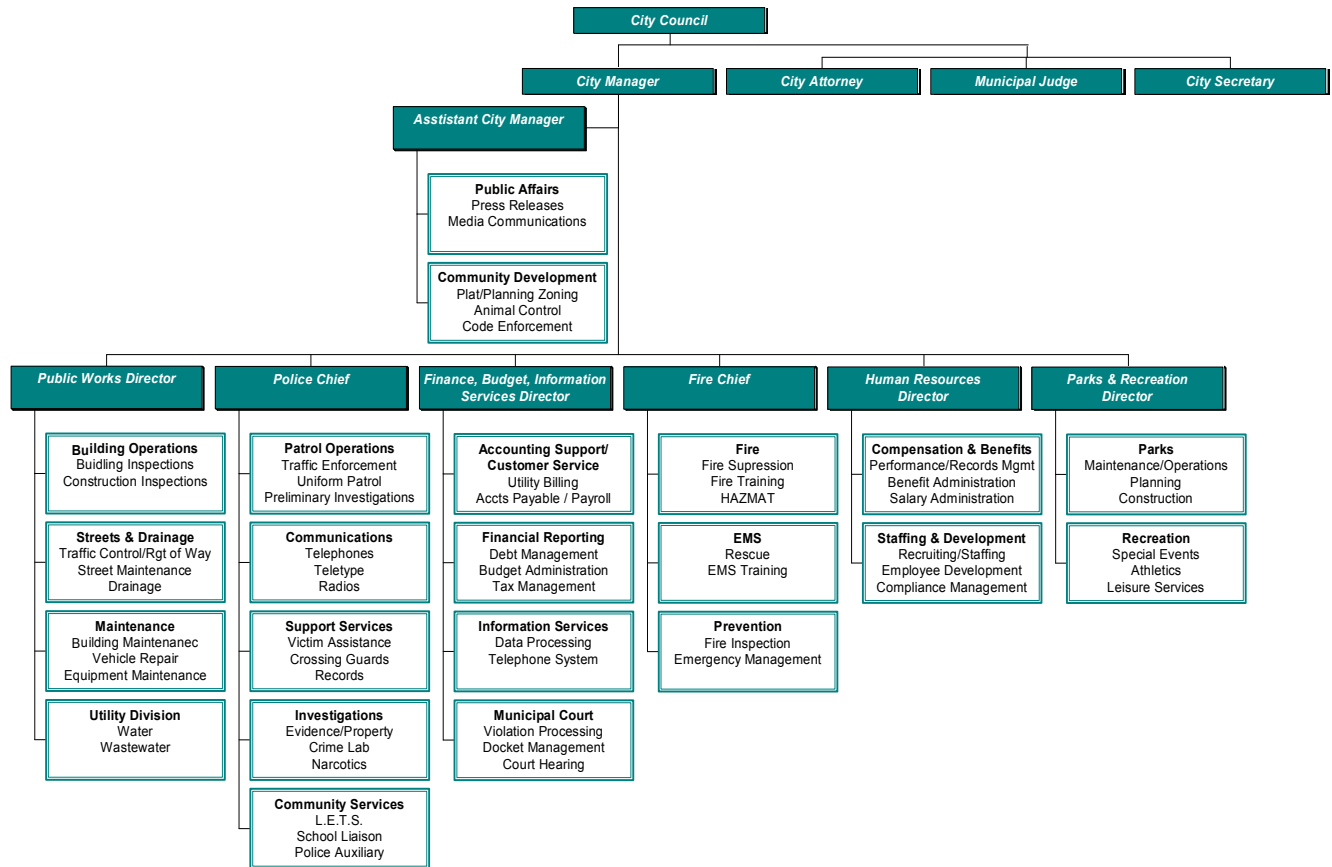
In closing, without the leadership and support of the City Council of the City of Highland Village, preparation of this report would not have been possible.

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 2005 / 2006



Note: The Organizational Chart represents the functional operational structure of the City – subsequent to the addition of the new Assistant City Manager position (refer to Supplemental section). However, the FY 2006 budget was developed with the previous reporting structure. Community Services is shown as a separate division, which includes community development and building operations and their related components, while the Assistant City Manager position and Public Affairs are included in the City Manager Office budget. The FY 2007 Budget will be aligned with the new reporting structure.

City of Highland Village Budgeted Full-Time Positions (History)

Department	-- Fiscal Year --								
	1999	2000	2001	2002	2003	2004	2005	2006	
Administration	6	6	6	8	8	8	8	9	
Finance	7	9	9	9	9	9	9	10	
Public Works	33.5	33.5	34	35	35	36	36	36	
Parks & Recreation	11	12	12	15	15	15	15	15	
Police	27.5	30	32	32	32	32	32	32	
Fire	<u>3</u>	<u>3</u>	<u>3.5</u>	<u>6</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>10</u>	
Total	88	93.5	96.5	105	107	109	110	112	

CITY OF HIGHLAND VILLAGE, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OCTOBER 1, 2005 – SEPTEMBER 30, 2006

HOME RULE, COUNCIL-MANAGER FORM OF GOVERNMENT

MAYOR AND CITY COUNCIL

		<u>Term Expires</u>
Dianne Costa, Mayor	Place 1	05/2008
Fred Busche, Mayor Pro Tem	Place 7	05/2007
Brian Fiorenza, Deputy Mayor Pro Tem	Place 3	05/2007
Austin Adams	Place 5	05/2007
Scott McDearmont	Place 6	05/2008
Don Combs	Place 2	05/2008
Louis E. Robichaux, IV	Place 4	05/2008

ADMINISTRATIVE

Michael Leavitt	City Manager
Alicia Richardson	City Secretary
Dottie Palumbo	City Attorney/Assistant City Manager
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, 2005

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.



President

Executive Director

FINANCIAL SECTION



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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, 2006, 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, 2006, 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 December 21, 2006, 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.

December 21, 2006

**MANAGEMENT'S
DISCUSSION AND ANALYSIS**

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, 2006. 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 \$45,952,414. Of this amount, \$4,079,707 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$2,807,866. A \$1,275,272 increase in net assets related to governmental activities was coupled by an increase of \$1,532,594 of net assets in business-type activities.
- As of September 30, 2006, Highland Village's governmental funds reported combined ending fund balances of \$9,170,437, an increase of \$3,316,312 in comparison with the prior year. Approximately 27 percent of this total amount, \$2,516,083, 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 \$2,467,540, or 25 percent of total General Fund expenditures.
- The City of Highland Village's total debt increased by \$2,368,900 during the current fiscal year. There was new debt of \$8,130,000 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 9 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 6 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 \$45,952,414 as of September 30, 2006. Analyzing the net assets and net expenses of governmental and business-type activities separately, business-type activities' net assets are \$8,736,173. 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 10,712,408	\$ 7,200,613	\$ 8,195,496	\$ 7,481,258	\$ 18,907,904	\$ 14,681,871
Capital assets	44,495,959	43,056,151	11,670,438	11,531,689	56,166,397	54,587,840
Total assets	<u>55,208,367</u>	<u>50,256,764</u>	<u>19,865,934</u>	<u>19,012,947</u>	<u>75,074,301</u>	<u>69,269,711</u>
Long-term liabilities	15,510,702	11,872,304	9,160,404	10,023,091	24,671,106	21,895,395
Other liabilities	2,481,424	2,443,491	1,969,357	1,786,277	4,450,781	4,229,768
Total liabilities	<u>17,992,126</u>	<u>14,315,795</u>	<u>11,129,761</u>	<u>11,809,368</u>	<u>29,121,887</u>	<u>26,125,163</u>
Net assets:						
Invested in capital assets, net of related debt	34,328,243	33,326,678	5,302,838	900,860	39,631,081	34,227,538
Restricted	706,439	-	1,535,187	3,066,063	2,241,626	3,066,063
Unrestricted	<u>2,181,559</u>	<u>2,614,291</u>	<u>1,898,148</u>	<u>3,236,656</u>	<u>4,079,707</u>	<u>5,850,947</u>
Total net assets	<u>\$ 37,216,241</u>	<u>\$ 35,940,969</u>	<u>\$ 8,736,173</u>	<u>\$ 7,203,579</u>	<u>\$ 45,952,414</u>	<u>\$ 43,144,548</u>

The following table (Table 2) provides a summary of the City's operations for the year ended September 30, 2006. Governmental activities increased the City's net assets by \$1,275,272, while business-type activities increased the City's net assets by \$1,532,594, resulting in a net \$2,807,866 increase in total net assets.

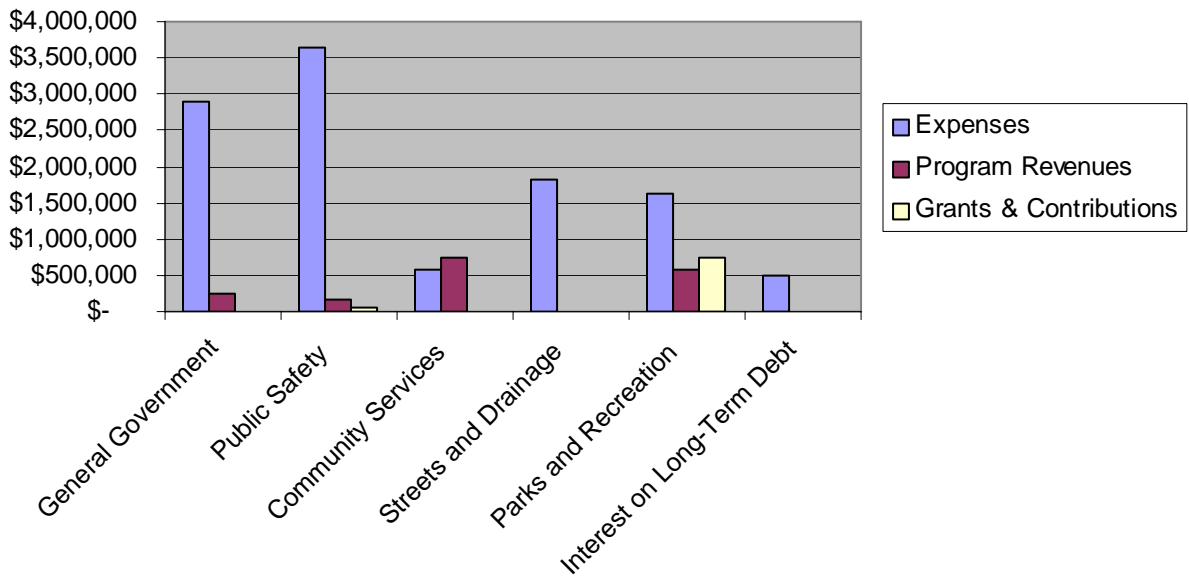
TABLE 2

CITY OF HIGHLAND VILLAGE'S CHANGES IN NET ASSETS

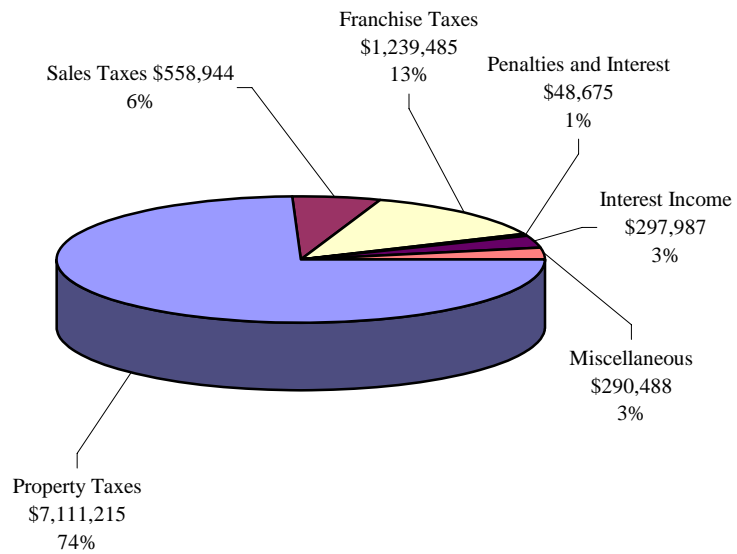
	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 1,740,291	\$ 1,128,656	\$ 6,943,554	\$ 5,704,651	\$ 8,683,845	\$ 6,833,307
Operating grants and contributions	807,528	199,815	-	-	807,528	199,815
Capital grants and contributions	-	-	665,482	175,480	665,482	175,480
General revenues:						
Property taxes	7,111,215	6,759,276	-	-	7,111,215	6,759,276
Sales taxes	558,944	493,420	-	-	558,944	493,420
Franchise taxes	1,239,485	1,042,410	-	-	1,239,485	1,042,410
Penalties and interest	48,675	54,200	-	-	48,675	54,200
Interest income	297,987	103,224	300,804	143,165	598,791	246,389
Miscellaneous	290,488	180,551	-	-	290,488	180,551
Total revenues	12,094,613	9,961,552	7,909,840	6,023,296	20,004,453	15,984,848
Expenses:						
General government	2,889,724	2,704,513	-	-	2,889,724	2,704,513
Public safety	3,628,593	3,344,204	-	-	3,628,593	3,344,204
Community services	572,649	538,430	-	-	572,649	538,430
Streets and drainage	1,830,799	1,646,793	-	-	1,830,799	1,646,793
Parks and recreation	1,627,417	1,435,302	-	-	1,627,417	1,435,302
Interest on long-term debt	510,159	467,537	-	-	510,159	467,537
Water and wastewater	-	-	6,137,246	6,003,259	6,137,246	6,003,259
Total expenses	11,059,341	10,136,779	6,137,246	6,003,259	17,196,587	16,140,038
Increases in net assets before transfers	1,035,272	(175,227)	1,772,594	20,037	2,807,866	(155,190)
Transfers	240,000	(235,242)	(240,000)	235,242	-	-
Change in net assets	1,275,272	(410,469)	1,532,594	255,279	2,807,866	(155,190)
Net assets, beginning	35,940,969	36,351,438	7,203,579	6,948,300	43,144,548	43,299,738
Net assets, ending	\$ 37,216,241	\$ 35,940,969	\$ 8,736,173	\$ 7,203,579	\$ 45,952,414	\$ 43,144,548

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

Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



- Property tax revenue increased \$351,939 resulting from a 4.5% increased valuation, of which about 1.2% is attributed to new growth.
- Franchise taxes increase of \$197,075 was primarily due to increased electric franchise proceeds – attributable largely to above average temperatures during the summer months.
- Increased interest income of \$109,937 was a result of higher yields on investments.
- Charges for Service of \$1,740,291 represented a \$611,635 increase from the prior year.
 - Increased building permits (\$189,564), largely associated with retail development in the FM 407 and FM 2499 corridor
 - Park Development Fees (\$240,985 increase) resulting from the approval of the Chapel Springs development.
 - Increased Municipal Court fines of \$90,013 stemming from an increased number of citations issued.
 - EMS fees increased \$57,329 – consistent with increased ambulance runs and an increasing population.
- Operating Grants/Contributions increased \$607,713 primarily due to receipt of grant reimbursements from the Statewide Transportation Enhancement Program (STEP) for construction of an Inland Trail.

Expenditures increased to a lesser extent, reflecting inflation and increased service demand.

Business-type activities: Business-type activities reflected a \$1,532,594 increase in the City’s net assets. Water / Sewer sales increased \$1,049,782 as a result of an on-going draught. And impact fee collections of \$665,482 were increased over last year’s collection of \$175,480 primarily from the retail development in the western part of the City. Interest income also increased - \$157,639, as a result of higher yields and bond proceeds on hand. The revenue increases were slightly offset by expenditure increases of \$133,987 reflecting increased costs for wholesale water as well as increased professional / engineering costs stemming from various studies initiated in FY 2006.

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 \$9,170,437, an increase of \$3,316,312 in comparison with the prior year. Approximately 27 percent of this total amount, or \$2,516,083, 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 - \$184,895, 2) to pay debt service - \$200,334, 3) to pay for capital projects - \$5,685,065, and 4) reserved for park development - \$581,560.

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 \$2,467,540, while total fund balance was \$2,505,653. 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 25 percent of total General Fund expenditures, while total fund balance represents 26 percent of that same amount.

The original budget for FY 2006 reflected a \$505,496 drawdown of fund balance, to fund capital equipment purchases – while still providing for sufficient reserve balances. However, favorable variances for both revenues and expenditures in FY 2006 mitigated the change in fund balance, instead reflecting an increase of \$140,776. Key factors affecting fund balance are as follows:

- Total General Fund revenues of \$8,936,205 exceeded the FY 2005 revenue total by \$924,640 – also exceeding the original FY 06 budgeted amount by \$520,772.
 - Property tax revenue increased \$357,400 from the previous year primarily due to increased valuation. Total taxable value in the City increased 4.5%.
 - Franchise taxes increased \$190,536 from FY 2005 resulting primarily from higher electric revenues. The increased amounts were received in the summer months – corresponding to an extremely hot summer.
 - Licenses, permits and fees represented the other substantial revenue increase from the previous year, with an additional amount of \$217,074 collected in FY 2006. 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 also increased in FY 2006, reflecting \$1,367,104 of additional operating expenditures. This amount was partially offset by capital lease proceeds of \$713,391 to finance purchase of a fire truck and gradall.
 - Increased personnel costs totaling \$547,684 comprised the majority of the expenditure increase, resulting from the addition of two new positions and mid-year salary adjustments that were identified by compensation plan update.
 - Professional Services expenditures decreased from FY 2005 by \$87,693, largely due to reduced legal expenses. Legal representation from an outside firm was discontinued during the year, with the City now addressing this function in-house.
 - Increases in street maintenance (\$80,995) and fuel / utility cost (\$103,306) accounted for most of the remaining expenditure increase.

The Debt Service Fund has a total fund balance of \$200,334, an increase of \$55,239, 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

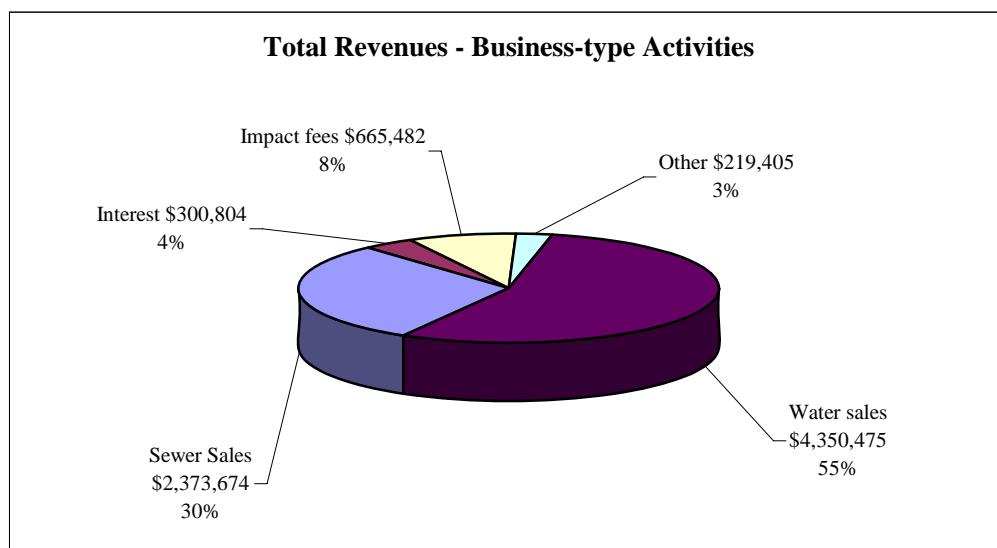
Capital Projects Fund, with an ending balance of \$5,826,836, increased \$3,235,725 during this fiscal year. This increase resulted from a \$4M bond issuance, primarily for the construction of a new fire station, also including street reconstruction and railroad intersection improvements. Expenditures of \$320,000 related to reconstruction of Chinn Chapel road, were partially offset by contributions from participating entities of \$180,000. Expenditures of \$343,694 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. And expenditures of \$261,243 were incurred in FY 2006 related to the fire station construction.

Remaining governmental funds reported a combined ending fund balance of \$637,614, reflecting a decrease of \$115,428. This change was primarily related to an \$184,204 increase in the Park Development Fee Fund, primarily attributable to collection of park development fees associated with approval of the Chapel Springs final plat comprising 117 lots. This was offset by a decrease in the Inland Trail Fund of \$322,410 associated with construction of the inland trail project.

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

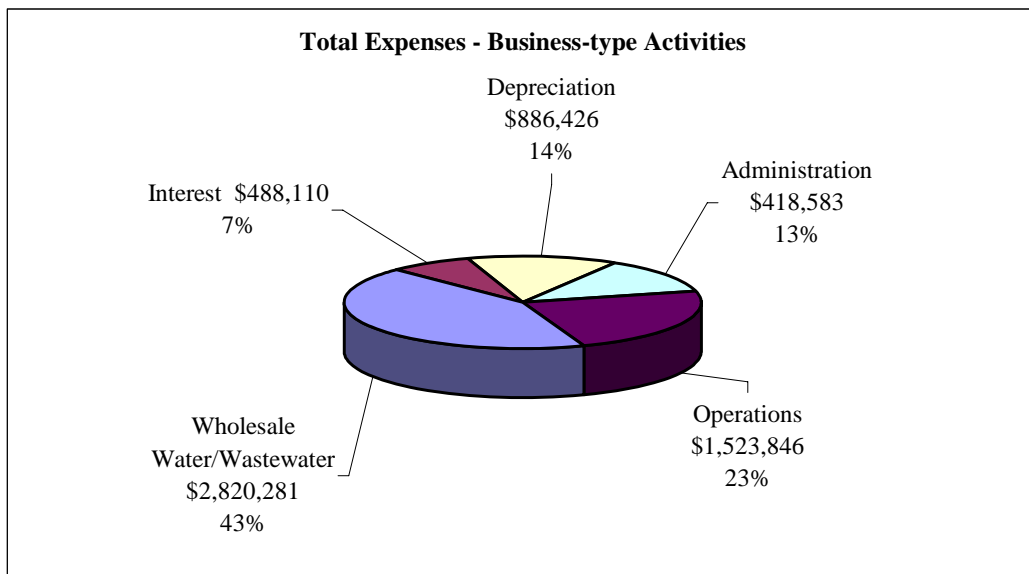
Net assets in the Enterprise Fund totaled \$8,736,173 at the end of the fiscal year 2005-2006, an increase of \$1,532,594, or 21 percent. Included in net assets is \$1,535,187 restricted for capital projects. The remaining net asset balance of \$7,200,986 consists of unrestricted net assets and investments in capital assets, net of related debt.

- Utility operating revenues increased \$1,238,903, or 22%, in FY 2006, primarily as a result of dry weather conditions that facilitated increased water sales.
 - Water sales increased \$953,375
 - Sewer sales increased \$96,406



Utility operating expenses increased \$74,072 or 1%.

- Wholesale water costs increased \$86,810.
 - Water demand cost associated with the City’s subscribed 3 MGD capacity of wholesale water increased by \$102,000.
 - Water volume costs increased \$41,471 due to increased purchases resulting from the higher usage associated with the on-going draught.
 - Sewer volume costs reflected an \$118,478 decrease due to reduced wastewater flows. This reduction is associated with the lack of rainfall during the year – and resultant decrease in inflow and infiltration of storm water in the wastewater system.
 - The City agreed to bear a carrying cost of \$54,716 initiating in FY 2006 for accelerated installation of a water transmission line through a retail development area.
- Operational costs increased \$79,864 primarily due to professional/engineering services. Various studies were conducted in FY 2006 – a utility rate review, restoration study, and storm drainage analysis.
- Depreciation expense decreased in FY 2006 by \$78,650.



GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2005-2006, the City Council of the City of Highland Village amended the budget for the General Fund on several occasions. 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 2005-2006, actual expenditures on a budgetary basis were \$9,760,432, which was more than the original budgeted expenditures of \$9,160,929 by \$599,503, however \$527,046 below the revised budget of \$10,287,478. The supplemental requests approved during the year are summarized following:

- Encumbrances carried over from FY 2004-2005 – \$208,610;
- Supplemental salary adjustments to implement recommendations from an updated compensation study to remain competitive with area cities - \$99,048;
- The initial budget provided for the net outlay (\$302,000) anticipated for capital equipment (fire truck and gradall) obtained by capital lease purchase. Supplemental adjustments were made to record the full purchase price of \$713,391 (with offsetting proceeds for issuance of capital lease);
- Additional appropriation for capital expenditures related to irrigation of Brazos ball fields due to higher than anticipated costs to complete the project - \$5,000;
- Additional appropriation of \$65,000 to address increased fuel costs;
- Appropriation of \$25,000 related to Red, White, & Blues Festival programming; and
- Increase in appropriation anticipating increased overtime in Community Services and Fire departments - \$10,500.

In general, the major factors in the actual expenditures exceeding the original budget were the salary adjustments (\$99,048) coupled with the incremental increase associated with recording of the purchase price of the capital equipment (\$411,391). Encumbrances carried over from the previous year were offset by reduced legal expenditures. (Legal representation from an outside firm was discontinued during the year, with the City now addressing this function in-house).

Actual revenue on a budgetary basis was \$8,936,205 compared to the original budget of \$8,415,433, resulting primarily from increased collection of franchise fees and building permits. The increase in franchise fee was primarily due to the electric franchise (\$176,293) – likely related to the hot summer weather. Permits increased \$189,564 primarily related to increased commercial building permits associated with the retail development in the western part of the City. With both revenues and expenditures respectively showing significant favorable variances, the budgeted General Fund balance drawdown of \$505,496 was mitigated to actually reflect an increase of \$140,776.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets, for its governmental and business-type activities as of September 30, 2006, amount to \$39,631,081 (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
2005 Ford Expedition	\$ 23,242
2006 Ford Crown Victoria (2)	61,070
Fire Engine	497,520
Gradall	215,871
Brazos Blvd improvements	15,750
Brazos irrigation system	29,912
Unity Park improvements	42,455
2006 Ford F-450 truck	18,164
Mower	20,196
Mower	17,546
Mower	17,546
Mower	9,622

TABLE 3

CITY OF HIGHLAND VILLAGE’S CAPITAL ASSETS AT YEAR-END

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Land	\$ 13,121,692	\$ 13,121,692	\$ 75,713	\$ 75,713	\$ 13,197,405	\$ 13,197,405
Land improvements	1,977,522	2,087,890	633	844	1,978,155	2,088,734
Buildings and improvements	3,336,648	3,601,164	-	-	3,336,648	3,601,164
Distribution system	-	-	10,382,513	10,423,090	10,382,513	10,423,090
Equipment and machinery	1,589,227	1,046,147	357,024	332,846	1,946,251	1,378,993
Infrastructure	21,843,943	22,664,357	17,208	17,208	21,861,151	22,681,565
Construction in progress	2,626,927	534,901	837,347	681,988	3,464,274	1,216,889
Total capital assets	<u>\$ 44,495,959</u>	<u>\$ 43,056,151</u>	<u>\$ 11,670,438</u>	<u>\$ 11,531,689</u>	<u>\$ 56,166,397</u>	<u>\$ 54,587,840</u>

Additional information on the City’s capital assets can be found in Note 3 on pages 40 – 41 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonds outstanding of \$26,295,805. Of this amount, \$15,960,257 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	
	2006	2005	2006	2005	2006	2005
General obligations	\$ 14,705,257	\$ 12,687,022	\$ 3,150,547	\$ 3,801,611	\$ 17,855,804	\$ 16,488,633
Combination Tax and Revenue Certificates of Obligation	1,255,000	-	7,185,000	7,420,000	8,440,000	7,420,000
	<u>\$ 15,960,257</u>	<u>\$ 12,687,022</u>	<u>\$ 10,335,547</u>	<u>\$ 11,221,611</u>	<u>\$ 26,295,804</u>	<u>\$ 23,908,633</u>

The City's total debt increased by \$2,387,171 during the current fiscal year, as the City issued additional debt.

The City's tax supported debt is rated "AA-" by both Fitch Ratings and "A+" by Standards & Poor's. This rating was achieved with the September 2006 issue, the City previously rated as "A+" by both Fitch Ratings 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 1.46 percent.

Additional information on the City's long-term debt can be found in the notes to the financial statements on pages 43 – 46.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The fiscal year 2006-2007 budget incorporates no increase in the property tax rate. It remains at \$.56963 per \$100 valuation.

The FY 2007 operating budget increased by 11.27%, or \$1,032,511 over the FY 2006 budget. The major item comprising this increase is personnel increases (\$981,847). The personnel increases reflect the pay plan increases made mid-year FY 2006 with an annual effect of \$200,000, a 6% CPI general increase (\$300,000), four new positions (\$250,000), provision for part time Fire personnel (\$68,000), and increases in various insurance and retirement rates (\$136,000).

Increased funding of \$138,009 for supplies / equipment – primarily higher fuel costs, and increased capital lease payments of \$112,401 for a fire truck and gradall purchased in FY 2006, were partially offset by decreased legal expenditure appropriation of \$150,000. During FY 2006 the City discontinued use of a legal firm for representation, instead opting to provide this service in-house.

Capital expenditures related to equipment replacement decreased \$171,100 from FY 2006 – these purchases reflected targeted equipment to be replaced in the equipment replacement schedule. Anticipated revenue increases of 13.88%, 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 2006 was 25%.

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**

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
ASSETS				
Cash and investments	\$ 9,372,167	\$ 1,254,382	\$ 10,626,549	\$ 292,771
Receivables (net of allowances for uncollectibles)				
Taxes	541,685	-	541,685	51,729
Accounts	178,086	1,165,657	1,343,743	-
Intergovernmental	223,832	-	223,832	-
Other	-	6,807	6,807	-
Inventories and prepaid items	5,025	105,573	110,598	-
Restricted cash and investments:				
Reserved bond debt service	-	63,213	63,213	-
Capital improvements	-	3,551,021	3,551,021	-
Construction	-	1,535,187	1,535,187	-
Customer deposits	-	249,653	249,653	-
Unamortized debt issue cost	391,613	264,003	655,616	-
Capital assets:				
Nondepreciable capital assets	15,748,619	913,060	16,661,679	-
Depreciable capital assets, net of	<u>28,747,340</u>	<u>10,757,378</u>	<u>39,504,718</u>	<u>-</u>
Total capital assets	<u>44,495,959</u>	<u>11,670,438</u>	<u>56,166,397</u>	<u>-</u>
 Total assets	 <u>55,208,367</u>	 <u>19,865,934</u>	 <u>75,074,301</u>	 <u>344,500</u>
LIABILITIES				
Accounts payable	676,692	567,780	1,244,472	7,312
Accrued liabilities	216,524	72,207	288,731	-
Accrued interest	94,568	57,497	152,065	-
Customer deposits	-	249,653	249,653	-
Current portion of long-term obligations	1,493,640	1,022,220	2,515,860	-
Noncurrent portion of long-term obligations	<u>15,510,702</u>	<u>9,160,404</u>	<u>24,671,106</u>	<u>-</u>
Total liabilities	<u>17,992,126</u>	<u>11,129,761</u>	<u>29,121,887</u>	<u>7,312</u>
NET ASSETS				
Invested in capital assets, net of related debt	34,328,243	5,302,838	39,631,081	-
Restricted for:				
Debt service	121,128	-	121,128	-
Capital projects	585,311	1,535,187	2,120,498	-
Unrestricted	<u>2,181,559</u>	<u>1,898,148</u>	<u>4,079,707</u>	<u>337,188</u>
 Total net assets	 <u>\$ 37,216,241</u>	 <u>\$ 8,736,173</u>	 <u>\$ 45,952,414</u>	 <u>\$ 337,188</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, 2006

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities;				
General government	\$ 2,889,724	\$ 244,955	\$ -	\$ -
Public safety	3,628,593	161,162	49,684	-
Community services	572,649	746,043	-	-
Streets and drainage	1,830,799	-	3,525	-
Parks and recreation	1,627,417	588,131	754,319	-
Interest on long-term debt	510,159	-	-	-
Total governmental activities	<u>11,059,341</u>	<u>1,740,291</u>	<u>807,528</u>	<u>-</u>
Business-type activities:				
Water and wastewater	<u>6,137,246</u>	<u>6,943,554</u>	<u>-</u>	<u>665,482</u>
Total business-type activities	<u>6,137,246</u>	<u>6,943,554</u>	<u>-</u>	<u>665,482</u>
Total primary government	<u>\$ 17,196,587</u>	<u>\$ 8,683,845</u>	<u>\$ 807,528</u>	<u>\$ 665,482</u>
Component Unit				
City of Highland Village Economic				
Development Corporation	\$ <u>65,279</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Total component unit	<u>\$ 65,279</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
\$(2,644,769)	\$ -	\$(2,644,769)	\$ -
(3,417,747)	-	(3,417,747)	-
173,394	-	173,394	-
(1,827,274)	-	(1,827,274)	-
(284,967)	-	(284,967)	-
(510,159)	-	(510,159)	-
<u>(8,511,522)</u>	<u>-</u>	<u>(8,511,522)</u>	<u>-</u>
<u>-</u>	<u>1,471,790</u>	<u>1,471,790</u>	<u>-</u>
<u>-</u>	<u>1,471,790</u>	<u>1,471,790</u>	<u>-</u>
<u>(8,511,522)</u>	<u>1,471,790</u>	<u>(7,039,732)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(65,279)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(65,279)</u>
5,715,471	-	5,715,471	-
1,444,419	-	1,444,419	-
1,239,485	-	1,239,485	-
558,944	-	558,944	272,546
297,987	300,804	598,791	8,682
290,488	-	290,488	-
<u>240,000</u>	<u>(240,000)</u>	<u>-</u>	<u>-</u>
<u>9,786,794</u>	<u>60,804</u>	<u>9,847,598</u>	<u>281,228</u>
1,275,272	1,532,594	2,807,866	215,949
<u>35,940,969</u>	<u>7,203,579</u>	<u>43,144,548</u>	<u>121,239</u>
<u>\$ 37,216,241</u>	<u>\$ 8,736,173</u>	<u>\$ 45,952,414</u>	<u>\$ 337,188</u>

CITY OF HIGHLAND VILLAGE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 2,379,668	\$ 200,334	\$ 6,148,776	\$ 643,389	\$ 9,372,167
Receivables (net of allowances for uncollectibles):					
Taxes	526,323	15,362	-	-	541,685
Accounts	178,086	-	-	-	178,086
Intergovernmental	-	-	-	223,832	223,832
Due from other funds	152,775	-	-	-	152,775
Prepaid expenses	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>2,525</u>	<u>5,025</u>
Total assets	<u>3,239,352</u>	<u>215,696</u>	<u>6,148,776</u>	<u>869,746</u>	<u>10,473,570</u>
 LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	351,279	-	312,285	13,128	676,692
Accrued liabilities	140,640	-	9,655	66,229	216,524
Due to other funds	-	-	-	152,775	152,775
Deferred revenue	<u>241,780</u>	<u>15,362</u>	<u>-</u>	<u>-</u>	<u>257,142</u>
Total liabilities	<u>733,699</u>	<u>15,362</u>	<u>321,940</u>	<u>232,132</u>	<u>1,303,133</u>
Fund balances:					
Reserved for:					
Encumbrances	35,613	-	141,771	7,511	184,895
Prepaid expenses	2,500	-	-	-	2,500
Debt service	-	200,334	-	-	200,334
Capital projects	-	-	5,685,065	-	5,685,065
Park development	-	-	-	581,560	581,560
Unreserved, undesignated	2,467,540	-	-	-	2,467,540
Unreserved, reported in non-major:					
Special revenue funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,543</u>	<u>48,543</u>
Total fund balances	<u>2,505,653</u>	<u>200,334</u>	<u>5,826,836</u>	<u>637,614</u>	<u>9,170,437</u>
 Total liabilities and fund balances	 <u>\$ 3,239,352</u>	 <u>\$ 215,696</u>	 <u>\$ 6,148,776</u>	 <u>\$ 869,746</u>	 <u>\$ 10,473,570</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, 2006

Total fund balance, governmental funds \$ 9,170,437

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. 44,495,959

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	\$ 74,685	
Ambulance fees	39,275	
Court fines	108,782	
Franchise taxes	<u>34,400</u>	
		257,142

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	(15,960,257)	
Deferred amount on refunding	263,686	
Issuance cost	391,613	
Issuance premium	(97,126)	
Accreted interest	(151,792)	
Accrued interest payable	(94,568)	
Capital lease obligation	(440,676)	
Compensated absences	<u>(618,177)</u>	
		(16,707,297)

Net assets of governmental activities in the statement of net assets \$ 37,216,241

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, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 7,490,845	\$ 1,436,734	\$ -	\$ -	\$ 8,927,579
Fines and forfeitures	178,013	-	-	3,187	181,200
Licenses, permits and fees	946,702	-	-	428,688	1,375,390
Intergovernmental	-	-	-	804,341	804,341
Charges for services	103,245	-	-	-	103,245
Investment earnings	141,009	29,516	127,462	34,098	332,085
Miscellaneous	76,391	-	179,999	-	256,390
Total revenues	<u>8,936,205</u>	<u>1,466,250</u>	<u>307,461</u>	<u>1,270,314</u>	<u>11,980,230</u>
EXPENDITURES					
Current:					
General government:					
City manager	664,557	-	-	-	664,557
Finance	922,224	-	-	-	922,224
Human resources	318,575	-	-	-	318,575
City secretary	195,981	-	-	-	195,981
Maintenance	649,376	-	-	-	649,376
Public safety:					
Police	2,293,961	-	-	47,788	2,341,749
Fire	897,651	-	-	-	897,651
Community services	547,953	-	-	-	547,953
Streets and drainage	873,485	-	-	-	873,485
Parks and recreation	1,168,628	-	-	198,083	1,366,711
Debt service:					
Principal	315,963	941,765	-	-	1,257,728
Interest and other charges	1,389	638,577	66,249	-	706,215
Capital outlay	910,689	-	1,011,755	1,197,289	3,119,733
Total expenditures	<u>9,760,432</u>	<u>1,580,342</u>	<u>1,078,004</u>	<u>1,443,160</u>	<u>13,861,938</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(824,227)</u>	<u>(114,092)</u>	<u>(770,543)</u>	<u>(172,846)</u>	<u>(1,881,708)</u>
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	4,090,000	4,040,000	-	8,130,000
Premium on debt issuance	-	45,023	35,298	-	80,321
Payment to escrow agent	-	(3,965,692)	-	-	(3,965,692)
Issuance of capital lease	713,391	-	-	-	713,391
Transfers in	291,612	-	-	93,311	384,923
Transfers out	<u>(40,000)</u>	<u>-</u>	<u>(69,030)</u>	<u>(35,893)</u>	<u>(144,923)</u>
Total other financing sources and uses	<u>965,003</u>	<u>169,331</u>	<u>4,006,268</u>	<u>57,418</u>	<u>5,198,020</u>
NET CHANGE IN FUND BALANCES	140,776	55,239	3,235,725	(115,428)	3,316,312
FUND BALANCES, BEGINNING	<u>2,364,877</u>	<u>145,095</u>	<u>2,591,111</u>	<u>753,042</u>	<u>5,854,125</u>
FUND BALANCES, ENDING	<u>\$ 2,505,653</u>	<u>\$ 200,334</u>	<u>\$ 5,826,836</u>	<u>\$ 637,614</u>	<u>\$ 9,170,437</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, 2006

Net change in fund balances - total governmental funds: \$ 3,316,312

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. 1,439,808

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.

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	\$	30,740	
Ambulance fees		29,377	
Court fines		<u>54,266</u>	
			114,383

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		315,963	
Payments on capital lease		927,739	
Issuance of capital lease	(713,391)	
Issuance of bonds	(8,130,000)	
Premium from issuance of bonds	(80,321)	
Payment to escrow agent		3,965,692	
Issuance cost from issuance of bonds		<u>250,107</u>	
			(3,464,211)

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	(90,995)	
Accrued interest	(39,334)	
Accreted interest		14,026	
Bonds issuance cost	(10,502)	
Amortization of deferred loss of refunding bonds	(2,748)	
Amortization of premium on bond issuances	(<u>1,467)</u>	
			(131,020)

Change in net assets of governmental activities \$ 1,275,272

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

CITY OF HIGHLAND VILLAGE, TEXAS
STATEMENT OF NET ASSETS
ENTERPRISE - WATER AND WASTEWATER FUND
SEPTEMBER 30, 2006
(With Comparative Totals as of September 30, 2005)

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,254,382	\$ 1,591,450
Accounts receivable, net	1,165,657	1,101,767
Other receivables	6,807	6,807
Inventories	101,112	75,951
Prepaid items	4,461	-
Restricted cash and investments:		
Reserve bond debt service	63,213	37,054
Capital improvements	3,551,021	3,066,063
Construction	1,535,187	1,154,140
Customer deposits	249,653	228,538
Total current assets	7,931,493	7,261,770
Non-current assets:		
Unamortized debt issue cost	264,003	219,488
Capital assets:		
Nondepreciable capital assets	913,060	757,701
Depreciable capital assets, net of accumulated depreciation	10,757,378	10,773,988
Total capital assets	11,670,438	11,531,689
Total non-current assets	11,934,441	11,751,177
Total assets	\$ 19,865,934	\$ 19,012,947
LIABILITIES		
Current liabilities:		
Accounts payable	567,780	552,984
Accrued expenses	72,207	63,749
Accrued interest payable	57,497	61,409
Customer deposits	249,653	228,538
Current portion of long-term obligations	1,022,220	879,597
Total current liabilities	1,969,357	1,786,277
Non-current liabilities:		
Noncurrent portion of long-term obligations	9,160,404	10,023,091
Total non-current liabilities	9,160,404	10,023,091
Total liabilities	11,129,761	11,809,368
NET ASSETS		
Invested in capital assets, net of related debt	5,302,838	3,914,552
Restricted for capital projects	1,535,187	1,154,140
Unrestricted	1,898,148	2,134,887
Total net assets	\$ 8,736,173	\$ 7,203,579

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

CITY OF HIGHLAND VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

ENTERPRISE - WATER AND WASTEWATER FUND

(With Comparative Totals For the Year Ended September 30, 2005)

	<u>2006</u>	<u>2005</u>
REVENUES		
Charges for services	\$ 6,866,897	\$ 5,627,154
Penalties, fines and forfeits	<u>76,657</u>	<u>77,497</u>
Total operating revenues	<u>6,943,554</u>	<u>5,704,651</u>
OPERATING EXPENSES		
Administration	418,583	432,556
Maintenance and operations	4,344,127	4,177,452
Depreciation	<u>886,426</u>	<u>965,056</u>
Total operating expenses	<u>5,649,136</u>	<u>5,575,064</u>
OPERATING INCOME	<u>1,294,418</u>	<u>129,587</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and investment revenue	300,804	143,165
Interest expense	<u>(488,110)</u>	<u>(428,195)</u>
Total non-operating revenues (expenses)	<u>(187,306)</u>	<u>(285,030)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,107,112	(155,443)
Intergovernmental contributions	-	469,488
Capital contributions	665,482	175,480
Transfers in	-	5,754
Transfers out	<u>(240,000)</u>	<u>(240,000)</u>
CHANGE IN NET ASSETS	1,532,594	255,279
TOTAL NET ASSETS, BEGINNING	<u>7,203,579</u>	<u>6,948,300</u>
TOTAL NET ASSETS, ENDING	<u>\$ 8,736,173</u>	<u>\$ 7,203,579</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, 2006

(With Comparative Totals For the Year Ended September 30, 2005)

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 6,824,122	\$ 5,538,292
Cash paid to suppliers for goods and services	(924,906)	(918,738)
Cash paid to employees for services	(3,759,188)	(3,469,081)
Net cash provided by operating activities	<u>2,140,028</u>	<u>1,150,473</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Payments to other funds	-	(576,511)
Transfers to other funds	(240,000)	(234,246)
Net cash used for noncapital financing activities	<u>(240,000)</u>	<u>(810,757)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	665,482	175,480
Acquisition of capital assets	(1,025,175)	(879,324)
Proceeds from sale of bonds	-	4,855,000
Principal paid on bonds	(886,064)	(1,320,767)
Interest and fiscal charges paid on debt	(378,864)	(536,871)
Net cash provided (used) for capital and related financing activities	<u>(1,624,621)</u>	<u>2,293,518</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	<u>300,804</u>	<u>143,165</u>
Net cash provided by investing activities	<u>300,804</u>	<u>143,165</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	576,211	2,776,399
CASH AND CASH EQUIVALENTS, BEGINNING	<u>6,077,245</u>	<u>3,300,846</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 6,653,456</u>	<u>\$ 6,077,245</u>
(Including \$5,399,074 and \$4,485,795 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, 2006

(With Comparative Totals For the Year Ended September 30, 2005)

	<u>2006</u>	<u>2005</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,294,418	\$ 129,587
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	886,426	965,056
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Customer receivable	(63,890)	(170,649)
Inventories	(25,161)	-
Prepaid and other assets	(4,461)	(10,224)
Increase (decrease) in liabilities:		
Accounts payable	14,796	232,413
Accrued liabilities	8,458	-
Customer deposits	21,115	4,290
Customer deposits	<u>8,327</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 2,140,028</u>	<u>\$ 1,150,473</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, 2006

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.

Police Fund – to account for: 1) property and funds seized in conjunction with drug arrests; 2) funds received from Texas Commission on Law Enforcement Officers Standards and Education (TCLEOSE) for the purpose of providing service training for police officers; 3) funds received from the United States Department of Justice for the purpose of hiring police officers through the Community Oriented Policing Service (COPS) program; and 4) funds received from the Texas Narcotics Control Program for the purpose of hiring narcotics patrol officers.

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.

(continued)

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

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

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.

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, 2006, the City's fund balances were reserved for the following purposes:

<u>Fund Balance</u>	<u>Amount</u>	<u>Purpose</u>
Encumbrances	\$ 184,895	Commitments related to unperformed contracts for goods and services
Debt service	200,334	Property tax revenue levied to repay long-term debt
Capital projects/expenditures	5,685,065	Proceeds of bond issue segregated in a separate capital projects fund
Park development	585,311	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, 2006, expenditures exceed appropriation in the Community Services Department of the General Fund by \$5,095; in the Streets and Drainage Department of the General Fund by \$4,537; in the Maintenance Department of the General Fund by \$2,679; in the debt service interest and other charges of the General Fund by \$1,389. These overruns were funded with greater than anticipated revenues.

D. Deficit Fund Balance and Net Assets

A deficit undesignated fund balance of \$11,476 exists in the Corps Leased Parks Special Revenue Fund. The deficit resulted from a significant decline in entrance fees. Local funds reported in the General Fund will be used to cover deficit fund balance.

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 \$322,177 on September 30, 2006, 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, 2006, was a deficit of \$135,539.

Investments held at year-end are as follows:

	<u>Fair Value</u>
U. S. Government Securities	\$ 981,675
TexPool	4,183,857
TexStar	<u>11,287,899</u>
Total investments	<u>\$ 16,453,431</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.

JP 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 JP 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</u>	<u>Total</u>
Receivables:					
Taxes	\$ 526,323	\$ 15,362	\$ -	\$ -	\$ 541,685
Accounts	411,177	-	979,131	-	1,390,308
Unbilled	-	-	324,964	-	324,964
Grants	-	-	-	223,832	223,832
Other	-	-	6,807	-	6,807
Gross receivables	<u>937,500</u>	<u>15,362</u>	<u>1,310,902</u>	<u>223,832</u>	<u>2,487,596</u>
Less: allowance for uncollectibles	<u>233,091</u>	<u>-</u>	<u>138,438</u>	<u>-</u>	<u>371,529</u>
Net total receivables	<u>\$ 704,409</u>	<u>\$ 15,362</u>	<u>\$ 1,172,464</u>	<u>\$ 223,832</u>	<u>\$ 2,116,067</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 Receivables and Payables, and Transfers

The following is a summary of amounts due from and due to other funds:

	<u>Due to General Fund</u>
Due from:	
Nonmajor funds	<u>\$ 152,775</u>

These interfund balances resulted from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

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	\$ 240,000	\$ -	\$ 240,000
General	-	40,000	40,000
Capital projects	51,612	17,418	69,030
Nonmajor fund	<u>-</u>	<u>35,893</u>	<u>35,893</u>
	<u>\$ 291,612</u>	<u>\$ 93,311</u>	<u>\$ 384,923</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. Transfer from Capital Projects to Inland Trail represent residual equity from the 1996 Park Bonds to be used for the Inland Trail Project. Transfer from park development to Inland Trail represents a transferable balance from Linear Park fees to Inland Trail.

Capital asset activity for the year ended September 30, 2006, 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>534,901</u>	<u>2,134,481</u>	<u>(42,455)</u>	<u>2,626,927</u>
Total assets not being depreciated	<u>13,656,593</u>	<u>2,134,481</u>	<u>(42,455)</u>	<u>15,748,619</u>
Capital assets, being depreciated:				
Land improvements	3,724,332	88,117	-	3,812,449
Buildings and improvements	5,365,097	-	-	5,365,097
Equipment	3,084,658	880,777	(84,278)	3,881,157
Infrastructure	<u>34,938,842</u>	<u>58,813</u>	<u>-</u>	<u>34,997,655</u>
Total capital assets being depreciated	<u>47,112,929</u>	<u>1,027,707</u>	<u>(84,278)</u>	<u>48,056,358</u>
Less accumulated depreciation:				
Land improvements	1,636,442	198,485	-	1,834,927
Buildings and improvements	1,763,933	264,516	-	2,028,449
Equipment	2,038,511	337,697	(84,278)	2,291,930
Infrastructure	<u>12,274,485</u>	<u>879,227</u>	<u>-</u>	<u>13,153,712</u>
Total accumulated depreciation	<u>17,713,371</u>	<u>1,679,925</u>	<u>(84,278)</u>	<u>19,309,018</u>
Total capital assets being depreciated, net	<u>29,399,558</u>	<u>(652,218)</u>	<u>-</u>	<u>28,747,340</u>
Governmental activities capital assets, net	<u>\$ 43,056,151</u>	<u>\$ 1,482,263</u>	<u>\$ (42,455)</u>	<u>\$ 44,495,959</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	681,988	872,729	(717,370)	837,347
Total assets not being depreciated	<u>757,701</u>	<u>872,729</u>	<u>(717,370)</u>	<u>913,060</u>
Capital assets, being depreciated:				
Land improvements	30,348	-	-	30,348
Buildings and improvements	19,697,769	705,760	-	20,403,529
Equipment	907,946	97,918	(31,152)	974,712
Infrastructure	617,553	-	-	617,553
Total capital assets being depreciated	<u>21,253,616</u>	<u>803,678</u>	<u>(31,152)</u>	<u>22,026,142</u>
Less accumulated depreciation:				
Land improvements	29,504	211	-	29,715
Buildings and improvements	9,274,679	746,337	-	10,021,016
Equipment	575,100	72,147	(29,559)	617,688
Infrastructure	600,345	-	-	600,345
Total accumulated depreciation	<u>10,479,628</u>	<u>818,695</u>	<u>(29,559)</u>	<u>11,268,764</u>
Total capital assets being depreciated, net	<u>10,773,988</u>	<u>(15,017)</u>	<u>(1,593)</u>	<u>10,757,378</u>
Business-type activities capital assets, net	<u>\$ 11,531,689</u>	<u>\$ 857,712</u>	<u>\$(718,963)</u>	<u>\$ 11,670,438</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
Police	196,078
Fire	169,536
Community services	19,016
Streets and drainage	948,260
Maintenance	41,243
Parks and recreation	<u>246,539</u>
Total depreciation expense - governmental activities	<u>\$ 1,689,925</u>

(continued)

3. DETAILED NOTES ON ALL FUNDS (Continued)

E. Construction Commitments

The City has two active construction projects as of September 30, 2006. The first project includes construction of additional water and sewer lines in the southwest part of the City to extend the City's water service to F.M. 407 and Village Parkway. At year-end, the City has spent \$721,661 of the total construction costs of \$778,695. The second project is the construction of Brazos/Sellmeyer replacement of asbestos/cement water lines. Construction of these water system improvements will insure a more reliable, dependable water system and comply with current TCEQ guidelines. At year-end, the City has spent \$336,308. The project is near completion with the expected commitment of \$45,352 in construction costs and \$3,240 in engineering fees.

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, 2006.

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>	
2007	\$ 127,753
2008	127,753
2009	112,400
2010	<u>112,400</u>
Total	480,306
Less interest portion	<u>39,630</u>
Obligations under capital leases	<u>\$ 440,676</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	\$ 770,805
General obligation refunding and improvement bonds	3.00 - 4.70	2002	2022	4,916,833	3,607,652
General obligation refunding bonds	3.00 - 4.15	2003	2017	3,940,000	3,451,800
General obligation refunding and improvement bonds	4.00 - 4.25	2006	2027	6,875,000	<u>6,875,000</u>
					<u>14,705,257</u>
Business-type activities:					
General obligation refunding bonds	3.00 - 4.70	2002	2022	3,358,167	1,372,347
General obligation refunding bonds	3.00 - 4.15	2003	2017	2,210,000	<u>1,778,200</u>
					<u>3,150,547</u>
					<u>\$ 17,855,804</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>
2007	\$ 1,044,841	\$ 501,110	\$ 655,159	\$ 166,571
2008	1,049,392	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
2012-2016	4,651,219	1,575,114	948,781	145,230
2017-2021	3,017,700	790,531	117,300	4,868
2022-2026	1,880,000	203,067	-	-
2027	<u>210,000</u>	<u>4,463</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,899,093</u>	<u>\$ 4,865,835</u>	<u>\$ 3,150,547</u>	<u>\$ 725,556</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 \$310,805 and maturity values of \$505,000. The interest on these obligations will be paid upon maturity in the fiscal years ending August 31, 2007 through 2010. The accreted values of these bonds at August 31, 2006, are approximately \$151,792.

Advance Refunding

The City issued \$4,090,000 of General Obligation Refunding Bonds to provide resources to purchase U. S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for a portion of future debt service payments of General Obligation Bonds Series 1996 and 1998. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities in the Statement of Net Assets. The net carrying amount of the old debt exceeded reacquisition price by \$29,629. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to decrease total debt service payments over the next 20 years by \$112,821 and resulted in an economic gain of \$75,498.

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	\$ 2,705,000
Combination tax and revenue certificates of obligation	4.00 - 4.30	2004	2021	4,855,000	<u>4,480,000</u>
					<u>7,185,000</u>
					<u>\$ 8,440,000</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
2007	\$ -	\$ 51,938	\$ 365,000	\$ 293,405
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
2012-2016	270,000	205,615	2,485,000	877,625
2017-2021	335,000	143,598	1,710,000	410,860
2022-2026	415,000	65,770	990,000	88,440
2027	95,000	2,019	-	-
Total	\$ <u>1,255,000</u>	\$ <u>668,491</u>	\$ <u>7,185,000</u>	\$ <u>2,690,750</u>

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, 2006, the following outstanding bonds were legally defeased:

Series	Type	Amount
1976	Combination Tax and Sewer Revenue Certificates of Obligation	\$ 75,000
1986	Combination Tax and Revenue Certificates of Obligation	430,000
1987	Permanent Improvement Bonds	190,000
1988	Permanent Improvement Bonds	225,000
1992	General Obligation Bonds	445,000
1993	Combination Tax and Revenue Refunding Bonds	1,825,000
1994	Combination Tax and Water and Sewer Revenue (Limited Pledge) Certificates of Obligation	1,685,000
1995	Combination Tax and Revenue Certificates of Obligation	400,000
1997	Combination Tax and Revenue Certificates of Obligation	2,950,000
1996	Waterworks and Sewer Revenue Certificates of Obligation	2,910,000
1996	General Obligation Bonds	1,205,000
1998	General Obligation Refunding and Improvement Bonds	<u>2,710,000</u>
		\$ <u>15,050,000</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, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligations	\$ 12,687,022	\$ 6,875,000	\$ 4,856,765	\$ 14,705,257	\$ 1,044,841
Combination tax and revenue CO	-	1,255,000	-	1,255,000	-
Issuance premium	18,272	80,321	1,467	97,126	5,483
Less deferred amount on refunding	(232,701)	(50,692)	(19,707)	(263,686)	(22,689)
Total bonds payable	12,472,593	8,159,629	4,838,525	15,793,697	1,027,635
Accreted interest	165,818	23,145	37,171	151,792	40,471
Capital lease obligations	43,248	713,391	315,963	440,676	97,385
Compensated absences	527,182	232,422	141,427	618,177	328,149
Governmental activities long-term liabilities	<u>\$ 13,208,841</u>	<u>\$ 9,128,587</u>	<u>\$ 5,333,086</u>	<u>\$ 17,004,342</u>	<u>\$ 1,493,640</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	\$ 3,801,611	\$ -	\$ 651,064	\$ 3,150,547	\$ 655,159
Combination tax and revenue CO	7,420,000	-	235,000	7,185,000	365,000
Issuance premium	104,453	47,492	-	151,945	11,699
Less deferred amount on refunding	(475,747)	-	(110,181)	(365,566)	(60,892)
Total bonds payable	10,850,317	47,492	775,883	10,121,926	970,966
Compensated absences	52,371	31,600	23,273	60,698	51,254
Business-type activities long-term liabilities	<u>\$ 10,902,688</u>	<u>\$ 79,092</u>	<u>\$ 799,156</u>	<u>\$ 10,182,624</u>	<u>\$ 1,022,220</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 811 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 1, 2006):

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, 2005 valuation is effective for rates beginning January, 2007.)

The annual pension cost was \$441,657. The City's annual pension cost was equal to the required and actual contributions for the years ended December 31, 2004, 2003, and 2002.

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 811 municipalities having the benefit plan administered by TMRS. Each of the 811 municipalities has an annual, individual actuarial valuation performed. All assumptions for the December 31, 2005, valuations are contained in the 2005 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	12/31/05	12/31/04	12/31/03
Actuarial value of assets	\$ 7,259,305	\$ 6,524,726	\$ 5,592,892
Actuarial accrued liability	7,572,957	6,770,634	6,013,802
Percentage funded	95.9%	96.4%	93.0%
Unfunded (over-funded)			
actuarial accrued liability (UAAL)	318,652	245,908	420,910
Annual covered payroll	4,880,559	4,606,898	4,264,048
UAAL as a percentage of covered payroll	6.5%	5.3%	9.9%
Net pension obligation (NPO) at the beginning of period	-	-	-
Annual Pension Cost:			
Annual required contribution (ARC)	441,657	414,345	372,880
Contributions made	<u>441,657</u>	<u>414,345</u>	<u>372,880</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 \$251,200 annually (increased to \$258,335 for FY 2006) for facilities specific to Highland Village. The volume rate for treatment is \$1.25 per thousand gallons.

(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. An additional 1 MGD was subscribed to by the City 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. A \$180,000 annual demand charge was 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. The UTRWD volume charge for treated water was previously at a rate of \$.78 per thousand gallons, with a demand charge of \$190,000/MGD. Effective October 1, 2004, a modified rate structure was implemented by the UTRWD, increasing the volume charge to \$.86/1,000 gallons – also providing for a reduced volume rate of \$.57/1,000 gallons for the months October – March. Also, the demand charge was increased to \$225,000/MGD. Another rate change was received effective October 1, 2005; the demand charge was increased to \$259,000/MGD with the volume rates changing to \$.76/1,000 gallons (\$.59/1,000 gallons for the months October – March). 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.

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 Political Subdivisions Property/Casualty Joint Self-insurance Fund, 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.

**REQUIRED
SUPPLEMENTARY INFORMATION**

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 7,262,556	\$ 7,421,056	\$ 7,490,845	\$ 69,789
Fines and forfeitures	150,000	168,500	178,013	9,513
Licenses, permits and fees	753,407	753,407	946,702	193,295
Charges for services	86,470	109,018	103,245	(5,773)
Investment earnings	80,000	80,000	141,009	61,009
Miscellaneous	83,000	83,000	76,391	(6,609)
Total revenues	<u>8,415,433</u>	<u>8,614,981</u>	<u>8,936,205</u>	<u>321,224</u>
EXPENDITURES				
Current:				
General government:				
City manager	856,993	802,210	664,557	137,653
Finance	959,917	975,684	922,224	53,460
Human resources	334,640	343,761	318,575	25,186
City secretary	251,182	251,682	195,981	55,701
Maintenance	578,865	646,697	649,376	(2,679)
Public safety:				
Police	2,239,945	2,310,030	2,293,961	16,069
Fire	831,999	921,891	897,651	24,240
Community services	529,432	542,858	547,953	(5,095)
Streets and drainage	853,755	868,948	873,485	(4,537)
Parks and recreation	1,190,101	1,232,907	1,168,628	64,279
Debt service:				
Principal	16,000	318,000	315,963	2,037
Interest and other charges	-	-	1,389	(1,389)
Capital outlay	518,100	1,072,810	910,689	162,121
Total expenditures	<u>9,160,929</u>	<u>10,287,478</u>	<u>9,760,432</u>	<u>527,046</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(745,496)</u>	<u>(1,672,497)</u>	<u>(824,227)</u>	<u>848,270</u>
OTHER FINANCING SOURCES (USES)				
Issuance of capital lease	-	713,391	713,391	-
Transfers in	240,000	291,612	291,612	-
Transfers out	-	(40,000)	(40,000)	-
Total other financing sources and uses	<u>240,000</u>	<u>965,003</u>	<u>965,003</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(505,496)</u>	<u>(707,494)</u>	<u>140,776</u>	<u>(848,270)</u>
FUND BALANCE, BEGINNING	<u>2,364,877</u>	<u>2,364,877</u>	<u>2,364,877</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 1,859,381</u>	<u>\$ 1,657,383</u>	<u>\$ 2,505,653</u>	<u>\$(848,270)</u>

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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.

Police Fund – This fund is used to account for 1) property and funds seized in conjunction with drug arrests; 2) funds received from Texas Commission on Law Enforcement Officers Standards and Education (TCLEOSE) for the purpose of providing service training for police officers; 3) funds received from the United States Department of Justice for the purpose of hiring police officers through the Community Oriented Policing Service (COPS) program; and 4) funds received from the Texas Narcotics Control Program for the purpose of hiring narcotics patrol officers.

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.

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

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

DEBT SERVICE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,447,458	\$ 1,447,458	\$ 1,436,734	\$(10,724)
Investment earnings	<u>13,500</u>	<u>13,500</u>	<u>29,516</u>	<u>16,016</u>
Total revenues	<u>1,460,958</u>	<u>1,460,958</u>	<u>1,466,250</u>	<u>5,292</u>
EXPENDITURES				
Debt service:				
Principal	941,765	941,765	941,765	-
Interest	<u>481,693</u>	<u>481,693</u>	<u>638,577</u>	<u>(156,884)</u>
Total expenditures	<u>1,423,458</u>	<u>1,423,458</u>	<u>1,580,342</u>	<u>(156,884)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>37,500</u>	<u>37,500</u>	<u>(114,092)</u>	<u>162,176</u>
OTHER FINANCING SOURCES (USES)				
Issuance of bonds	-	-	4,090,000	(4,090,000)
Premium on debt issuance	-	-	45,023	(45,023)
Payment to escrow agent	<u>-</u>	<u>-</u>	<u>(3,965,692)</u>	<u>3,965,692</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>169,331</u>	<u>(169,331)</u>
NET CHANGE IN FUND BALANCE	37,500	37,500	55,239	17,739
FUND BALANCE, BEGINNING	<u>145,095</u>	<u>145,095</u>	<u>145,095</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 182,595</u>	<u>\$ 182,595</u>	<u>\$ 200,334</u>	<u>\$ 17,739</u>

CITY OF HIGHLAND VILLAGE, TEXAS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2006

	Special Revenue		
	Corps Leased Parks	Park Development	Police
ASSETS			
Cash and investments	\$ -	\$ 585,311	\$ 38,525
Receivable - intergovernmental	-	-	-
Prepaid expenses	-	-	-
Total assets	\$ -	\$ 585,311	\$ 38,525
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,552	\$ -	\$ 584
Accrued liabilities	1,301	-	-
Due to other funds	4,623	-	-
Total liabilities	11,476	-	584
Fund balances:			
Reserved for:			
Encumbrances	-	3,751	-
Park development	-	581,560	-
Unreserved, undesignated	(11,476)	-	37,941
Total fund balances	(11,476)	585,311	37,941
Total liabilities and fund balances	\$ -	\$ 585,311	\$ 38,525

<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Security Building</u>	<u>Technology</u>	<u>Inland Trails</u>	
\$ 9,700	\$ 9,853	\$ -	\$ 643,389
-	-	223,832	223,832
<u>2,525</u>	<u>-</u>	<u>-</u>	<u>2,525</u>
<u>\$ 12,225</u>	<u>\$ 9,853</u>	<u>\$ 223,832</u>	<u>\$ 869,746</u>
\$ -	\$ -	\$ 6,992	\$ 13,128
-	-	64,928	66,229
-	-	148,152	152,775
<u>-</u>	<u>-</u>	<u>220,072</u>	<u>232,132</u>
-	-	3,760	7,511
-	-	-	581,560
<u>12,225</u>	<u>9,853</u>	<u>-</u>	<u>48,543</u>
<u>12,225</u>	<u>9,853</u>	<u>3,760</u>	<u>637,614</u>
<u>\$ 12,225</u>	<u>\$ 9,853</u>	<u>\$ 223,832</u>	<u>\$ 869,746</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, 2006

	Special Revenue		
	Corps Leased Parks	Park Development	Police
REVENUES			
Fines and forfeitures	\$ -	\$ -	\$ 3,187
Licenses, permits and fees	173,085	242,927	-
Intergovernmental	-	-	50,022
Investment earnings	-	22,946	-
Total revenues	173,085	265,873	53,209
EXPENDITURES			
Current:			
Public safety:			
Police	-	-	42,840
Parks and recreation	192,654	5,429	-
Capital outlay	15,750	40,347	-
Total expenditures	208,404	45,776	42,840
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(35,319)	220,097	10,369
OTHER FINANCING SOURCES (USES)			
Transfers in	40,000	-	-
Transfers out	-	(35,893)	-
Total other financing sources and uses	40,000	(35,893)	-
NET CHANGE IN FUND BALANCES	4,681	184,204	10,369
FUND BALANCES, BEGINNING	(16,157)	401,107	27,572
FUND BALANCES, ENDING	\$(11,476)	\$ 585,311	\$ 37,941

<u>Special Revenue</u>		<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Security Building</u>	<u>Technology</u>	<u>Inland Trails</u>	
\$ -	\$ -	\$ -	\$ 3,187
5,432	7,244	-	428,688
-	-	754,319	804,341
-	-	11,152	34,098
<u>5,432</u>	<u>7,244</u>	<u>765,471</u>	<u>1,270,314</u>
4,948	-	-	47,788
-	-	-	198,083
-	-	1,141,192	1,197,289
<u>4,948</u>	<u>-</u>	<u>1,141,192</u>	<u>1,443,160</u>
<u>484</u>	<u>7,244</u>	<u>(375,721)</u>	<u>(172,846)</u>
-	-	53,311	93,311
-	-	-	<u>(35,893)</u>
-	-	53,311	57,418
484	7,244	(322,410)	(115,428)
<u>11,741</u>	<u>2,609</u>	<u>326,170</u>	<u>753,042</u>
<u>\$ 12,225</u>	<u>\$ 9,853</u>	<u>\$ 3,760</u>	<u>\$ 637,614</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, 2006

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Licenses, permits and fees	\$ 190,614	\$ 190,614	\$ 173,085	\$(17,529)
Total revenues	<u>190,614</u>	<u>190,614</u>	<u>173,085</u>	<u>(17,529)</u>
EXPENDITURES				
Parks and recreation:				
Personnel	190,284	190,933	192,654	(1,721)
Services and supplies	<u>-</u>	<u>20,000</u>	<u>15,750</u>	<u>4,250</u>
Total expenditures	<u>190,284</u>	<u>210,933</u>	<u>208,404</u>	<u>2,529</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>330</u>	<u>(20,319)</u>	<u>(35,319)</u>	<u>(15,000)</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	<u>-</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	330	19,681	4,681	(15,000)
FUND BALANCE, BEGINNING	<u>(16,157)</u>	<u>(16,157)</u>	<u>(16,157)</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$(15,827)</u>	<u>\$ 3,524</u>	<u>\$(11,476)</u>	<u>\$(15,000)</u>

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, 2006

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Park development fees	\$ 250,102	\$ 250,102	\$ 242,927	\$(7,175)
Investment earnings	<u>6,000</u>	<u>6,000</u>	<u>22,946</u>	<u>16,946</u>
Total revenues	<u>256,102</u>	<u>256,102</u>	<u>265,873</u>	<u>9,771</u>
EXPENDITURES				
Parks and recreation:				
Services and supplies	22,000	22,000	5,429	16,571
Capital outlay	<u>411,461</u>	<u>411,461</u>	<u>40,347</u>	<u>371,114</u>
Total expenditures	<u>433,461</u>	<u>433,461</u>	<u>45,776</u>	<u>387,685</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(177,359)</u>	<u>(177,359)</u>	<u>220,097</u>	<u>397,456</u>
OTHER FINANCING SOURCES (USES)				
Transfer out	<u>35,893</u>	<u>(35,893)</u>	<u>(35,893)</u>	<u>-</u>
Total other financing sources (uses)	<u>35,893</u>	<u>(35,893)</u>	<u>(35,893)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(141,466)	(213,252)	184,204	397,456
FUND BALANCE, BEGINNING	<u>401,107</u>	<u>401,107</u>	<u>401,107</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 259,641</u>	<u>\$ 187,855</u>	<u>\$ 585,311</u>	<u>\$ 397,456</u>

CITY OF HIGHLAND VILLAGE, TEXAS

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

POLICE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 2,400	\$ 42,285	\$ 50,022	\$ 7,737
Fines and forfeitures	-	-	3,187	(3,187)
Total revenues	2,400	42,285	53,209	10,924
EXPENDITURES				
Public safety:				
Police:				
Services and supplies	8,000	48,685	42,840	5,845
Total expenditures	8,000	48,685	42,840	5,845
NET CHANGE IN FUND BALANCE	(5,600)	(6,400)	10,369	16,769
FUND BALANCE, BEGINNING	27,572	27,572	27,572	-
FUND BALANCE, ENDING	\$ 21,972	\$ 21,172	\$ 37,941	\$ 16,769

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, 2006

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 3,900	\$ 3,900	\$ 5,432	\$ 1,532
Total revenues	3,900	3,900	5,432	1,532
EXPENDITURES				
Public safety:				
Police:				
Services and supplies	3,100	5,675	4,948	727
Total expenditures	3,100	5,675	4,948	727
NET CHANGE IN FUND BALANCE	800	(1,775)	484	2,259
FUND BALANCE, BEGINNING	11,741	11,741	11,741	-
FUND BALANCE, ENDING	\$ 12,541	\$ 9,966	\$ 12,225	\$ 2,259

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, 2006

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Fines and forfeitures	\$ 5,100	\$ 5,100	\$ 7,244	\$ 2,144
Total revenues	<u>5,100</u>	<u>5,100</u>	<u>7,244</u>	<u>2,144</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	5,100	5,100	7,244	2,144
FUND BALANCE, BEGINNING	<u>2,609</u>	<u>2,609</u>	<u>2,609</u>	<u>-</u>
FUND BALANCE, ENDING	<u>\$ 7,709</u>	<u>\$ 7,709</u>	<u>\$ 9,853</u>	<u>\$ 2,144</u>

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

CITY OF HIGHLAND VILLAGE, TEXAS

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

SEPTEMBER 30, 2006

CAPITAL ASSETS

Land	\$ 13,121,692
Land improvements	3,812,449
Buildings and improvements	5,365,097
Equipment	3,881,157
Infrastructure	34,997,655
Construction in progress	<u>2,626,927</u>
 Total capital assets	 \$ <u>63,804,977</u>

INVESTMENT IN CAPITAL ASSETS

Investment in capital assets	
acquired prior to October 1, 1990	\$ 655,037
General fund	3,013,769
Vehicle replacement fund	670,674
Special revenue funds	2,231,375
Capital projects funds	12,206,856
Donations	<u>45,027,266</u>
 Total investment in capital assets	 \$ <u>63,804,977</u>

CITY OF HIGHLAND VILLAGE, TEXAS

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

SEPTEMBER 30, 2006

<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	\$ -	\$ 16,837	\$ 501,727
Finance	26,652	-	260,126	178,415	-	30,963	496,156
Human resources	8,812	-	86,001	-	-	10,237	105,050
City secretary	41,479	-	404,829	-	-	48,188	494,496
Police	214,495	-	2,093,453	898,328	-	249,190	3,455,466
Fire	41,800	-	1,009,411	1,543,245	-	230,858	2,825,314
Community service	17,855	-	174,266	65,072	-	59,800	316,993
Streets and drainage	11,087,768	46,716	175,963	397,595	34,997,655	15,200	46,720,897
Maintenance	65,609	-	679,942	273,641	-	451,564	1,470,756
Parks and recreation	<u>1,319,384</u>	<u>3,765,733</u>	<u>339,656</u>	<u>479,259</u>	<u>-</u>	<u>1,514,090</u>	<u>7,418,122</u>
Total capital assets	<u>\$ 13,121,692</u>	<u>\$ 3,812,449</u>	<u>\$ 5,365,097</u>	<u>\$ 3,881,157</u>	<u>\$ 34,997,655</u>	<u>\$ 2,626,927</u>	<u>\$ 63,804,977</u>

CITY OF HIGHLAND VILLAGE, TEXAS

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

YEAR ENDED SEPTEMBER 30, 2006

<u>Department</u>	<u>Balance September 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2006</u>
City manager	\$ 489,874	\$ 11,853	\$ -	\$ 501,727
Finance	474,358	21,798	-	496,156
Human resources	97,843	7,207	-	105,050
City secretary	460,572	33,924	-	494,496
Police	3,195,727	259,739	-	3,455,466
Fire	2,132,800	728,378	35,864	2,825,314
Community services	263,334	53,659	-	316,993
Streets and drainage	46,706,275	25,785	11,163	46,720,897
Maintenance	825,885	644,871	-	1,470,756
Parks and recreation	<u>6,122,854</u>	<u>1,332,518</u>	<u>37,250</u>	<u>7,418,122</u>
 Total capital assets	 <u>\$ 60,769,522</u>	 <u>\$ 3,119,732</u>	 <u>\$ 84,277</u>	 <u>\$ 63,804,977</u>

STATISTICAL SECTION

CITY OF HIGHLAND VILLAGE, TEXAS

NET ASSETS BY COMPONENT

LAST FOUR FISCAL YEARS

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities:				
Invested in capital assets, net of related debt	\$ 32,726,239	\$ 33,396,071	\$ 33,326,678	\$ 34,328,243
Restricted:				
Debt service	-	-	-	121,128
Capital projects	617,376	597,532	-	585,311
Unrestricted	<u>1,566,416</u>	<u>2,357,835</u>	<u>2,614,291</u>	<u>2,181,559</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>
Business-type activities:				
Invested in capital assets, net of related debt	\$ 4,533,190	\$ 3,927,416	\$ 900,860	\$ 5,302,838
Restricted:				
Debt service	66,548	-	-	-
Capital projects	2,573,956	1,588,902	3,066,063	1,535,187
Unrestricted	<u>18,226</u>	<u>1,431,982</u>	<u>3,236,656</u>	<u>1,898,148</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>
Primary government:				
Invested in capital assets, net of related debt	\$ 37,259,429	\$ 37,323,487	\$ 34,227,538	\$ 39,631,081
Restricted:				
Debt service	66,548	-	-	121,128
Capital projects	3,191,332	2,186,434	3,066,063	2,120,498
Unrestricted	<u>1,584,642</u>	<u>3,789,817</u>	<u>5,850,947</u>	<u>4,079,707</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>

Note:

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

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET ASSETS
LAST FOUR FISCAL YEARS

	Fiscal Year			
	2006	2004	2005	2006
EXPENSES				
Governmental activities:				
General government	\$ 3,024,964	\$ 2,591,201	\$ 2,704,513	\$ 2,889,724
Public safety	2,940,954	3,107,650	3,344,204	3,628,593
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
Parks and recreation	1,254,471	1,405,342	1,435,302	1,627,417
Interest on long-term debt	635,166	592,077	467,537	510,159
Total governmental activities expenses	<u>10,008,911</u>	<u>9,798,336</u>	<u>10,136,779</u>	<u>11,059,341</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>
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>
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>
PROGRAM REVENUES				
Governmental activities:				
Charges for services:				
General government	\$ 183,681	\$ 216,947	\$ 142,266	\$ 244,955
Public safety	120,930	115,672	108,373	161,162
Community services	758,743	723,764	556,479	746,043
Parks and recreation	349,385	303,582	321,538	588,131
Operating grants and contributions	123,804	130,412	-	-
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>
Business-type activities:				
Charges for services:				
Water and wastewater	4,277,176	5,067,834	5,704,651	6,943,554
Capital grants and contributions	-	223,045	175,480	665,482
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>
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>

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET ASSETS
(Continued)
LAST FOUR FISCAL YEARS

	Fiscal Year			
	2006	2005	2004	2003
NET (EXPENSE) REVENUES				
Governmental activities	\$(7,956,812)	\$(7,868,218)	\$(8,808,308)	\$(8,511,522)
Business-type activities	<u>(653,085)</u>	<u>(59,667)</u>	<u>(123,128)</u>	<u>1,471,790</u>
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>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental activities:				
Taxes				
Property	6,043,566	6,437,289	6,813,476	7,159,890
Franchise	762,175	859,358	1,042,410	1,239,485
Sales	434,578	470,024	493,420	558,944
Unrestricted grants and contributions	92,448	79,388	103,224	297,987
Intergovernmental contributions	-	-	(469,488)	-
Miscellaneous	109,987	273,566	180,551	290,488
Special item	-	950,000	-	-
Transfers	<u>240,000</u>	<u>240,000</u>	<u>234,246</u>	<u>240,000</u>
Total governmental activities	<u>7,682,754</u>	<u>9,309,625</u>	<u>8,397,839</u>	<u>9,786,794</u>
Business-type activities:				
Unrestricted investment earnings	128,593	50,101	143,165	300,804
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>
Total business-type activities	<u>266,361</u>	<u>(183,953)</u>	<u>378,407</u>	<u>60,804</u>
Total primary government	<u>7,949,115</u>	<u>9,125,672</u>	<u>8,776,246</u>	<u>9,847,598</u>
CHANGE IN NET ASSETS				
Governmental activities	(274,058)	1,441,407	(410,469)	1,275,272
Business-type activities	<u>(386,724)</u>	<u>(243,620)</u>	<u>255,279</u>	<u>1,532,594</u>
Total primary government	<u>\$(660,782)</u>	<u>\$ 1,197,787</u>	<u>\$(155,190)</u>	<u>\$ 2,807,866</u>

Note:

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

CITY OF HIGHLAND VILLAGE, TEXAS

FUND BALANCES
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General fund										
Reserved	\$ 37,037	\$ 627,131	\$ 67,821	\$ 124,394	\$ 201,071	\$ 222,728	\$ 78,011	\$ 75,011	\$ 208,610	\$ 38,113
Unreserved	<u>854,946</u>	<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>
Total general fund	<u>\$ 891,983</u>	<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>
All other governmental funds										
Reserved	\$ 4,359,028	\$ 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
Unreserved, reported in:										
Special revenue funds	-	-	-	-	-	-	25,240	24,122	25,765	48,543
Capital projects funds	<u>22,494</u>	<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>
Total all other governmental funds	<u>\$ 4,381,522</u>	<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>

Source: Comprehensive Annual Financial Reports

CITY OF HIGHLAND VILLAGE, TEXAS

**CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

LAST TEN FISCAL YEARS

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
REVENUES										
Taxes	\$ 4,511,540	\$ 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
Fines and forfeitures	143,996	140,074	175,723	184,224	127,694	107,674	163,115	163,328	147,760	181,200
Licenses, permits, fees	1,168,622	736,976	785,324	1,080,817	984,269	713,381	1,192,700	1,073,383	918,699	1,375,390
Charges for services	19,986	35,324	43,001	12,580	65,791	48,322	75,370	80,012	77,385	103,245
Intergovernmental	55,895	85,332	124,736	148,286	145,876	67,011	86,758	130,412	200,171	804,341
Investment earnings	262,910	407,154	265,761	177,406	170,532	122,864	92,448	92,378	193,669	332,086
Miscellaneous	30,047	58,381	76,598	253,487	96,155	-	97,529	211,541	95,502	256,389
Total revenues	<u>6,192,996</u>	<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>
EXPENDITURES										
General government	1,878,028	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
Public safety	1,099,317	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
Community service	63,500	87,001	362,242	381,824	421,744	494,261	474,004	481,196	511,948	547,953
Streets and drainage	631,638	534,775	502,311	530,468	816,384	694,225	820,130	809,151	815,279	873,485
Parks and recreation	470,125	564,126	602,745	1,248,833	801,721	1,046,104	1,048,306	1,171,718	1,264,676	1,366,711
Capital outlay	2,297,109	3,454,785	3,841,308	1,050,300	50,803	231,804	440,775	514,070	1,567,046	3,119,733
Debt service	842,857	1,241,304	1,137,872	1,202,624	1,157,846	-	-	-	-	-
Principal	-	-	-	-	-	578,881	615,250	892,415	970,884	1,257,728
Interest and other charges	-	-	-	-	-	591,039	802,146	485,598	500,016	706,215
Total expenditures	<u>7,282,574</u>	<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>

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

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

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (1,089,578)	\$ (2,611,933)	\$ (3,048,181)	\$ (796,972)	\$ 417,324	\$ (1,060,163)	\$ (466,651)	\$ 100,878	\$ (1,333,680)	\$ (1,881,708)
OTHER FINANCING SOURCES (USES)										
Issuance of bonds	4,090,000	4,041,083	-	-	-	-	8,482,129	-	-	8,130,000
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	323,351	260,000	1,039,000	447,000	324,457	245,688	722,186	341,608	339,348	384,923
Transfers out	(198,351)	(47,000)	(914,000)	(322,000)	(186,238)	(40,688)	(482,186)	(101,608)	(105,102)	(144,923)
Total other financing sources (uses)	<u>4,215,000</u>	<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>
SPECIAL ITEM										
Litigation settlement	-	-	-	-	-	-	-	950,000	-	-
Total special item	-	-	-	-	-	-	-	950,000	-	-
NET CHANGE IN FUND BALANCES	<u>\$ 3,125,422</u>	<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>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	<u>16.9%</u>	<u>22.3%</u>	<u>19.5%</u>	<u>16.8%</u>	<u>16.0%</u>	<u>7.1%</u>	<u>8.6%</u>	<u>5.2%</u>	<u>5.1%</u>	<u>6.6%</u>

Source: Comprehensive Annual Financial Reports

TABLE 5

CITY OF HIGHLAND VILLAGE, TEXAS

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

Fiscal Year	Estimated Market Value		Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
	Residential Property	Commercial Property				
1997	\$ 601,945,386	\$ 35,401,293	\$ 20,092,719	\$ 617,253,960	0.5638	\$ 3,480,078
1998	654,345,787	40,153,853	20,157,192	674,342,448	0.5938	4,004,245
1999	712,928,306	34,550,739	21,110,807	726,368,238	0.5938	4,313,175
2000	758,117,485	69,865,670	23,120,831	804,862,324	0.5696	4,584,496
2001	833,568,825	58,623,058	14,505,713	877,686,170	0.5696	4,999,300
2002	936,202,550	61,806,740	16,036,196	981,973,094	0.5696	5,593,319
2003	976,930,918	80,960,586	14,765,975	1,043,125,529	0.5696	5,941,643
2004	1,059,931,548	82,124,157	16,452,540	1,125,603,165	0.5696	6,411,436
2005	1,122,470,241	86,688,682	22,243,857	1,186,915,066	0.5696	6,760,668
2006	1,154,529,045	94,495,497	24,538,006	1,224,486,536	0.5696	6,975,043

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
1997	\$ 0.4712	\$ 0.1226	\$ 0.5938	\$ 1.44	\$ 0.27
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

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.

TABLE 7

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2006		1997	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value*	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value**
Verizon Southwest	\$ 9,728,380	0.794%	\$ -	- %
Opus West, OP	7,636,578	0.624%	-	- %
Realty Capital Village Creek, Ltd.	4,785,307	0.391%	-	- %
CoServ Electric Co-op	4,373,250	0.357%	-	- %
Center America Prop. Trust, LP	3,968,681	0.324%	-	- %
Tabani Highland, LP P/S	3,829,123	0.313%	-	- %
Beal Dev., Ltd. P/S	3,596,803	0.294%	-	- %
Arian, Jack	2,710,842	0.221%	-	- %
Highland Village Dev., LP	2,178,000	0.178%	-	- %
The Kroger Company	2,139,912	0.175%	-	- %
Highland Shores, Inc.	-	- %	11,333,119	1.836%
Minyard Property, Inc.	-	- %	4,970,823	0.805%
Denton County Electric Co-op	-	- %	3,331,800	0.540%
Sharp & Associates	-	- %	2,450,946	0.397%
Minyard Food Store #83	-	- %	2,449,070	0.397%
Talisman Oil & Gas Co.	-	- %	2,423,548	0.393%
Quivira Homes, Inc.	-	- %	1,845,673	0.299%
Weekley Homes, Inc.	-	- %	1,760,805	0.285%
Arian, Jack	-	- %	1,742,284	0.282%
New Haven Homes Custom	-	- %	1,634,936	0.265%
Total	\$ <u>44,946,876</u>	<u>3.671%</u>	\$ <u>33,943,004</u>	<u>5.50%</u>

Source: Denton county Appraisal District

Notes:

* Total taxable value including real and personal property for tax year 2005 (fiscal year 2006) is \$1,224,486,536.

** Total taxable value including real and personal property for tax year 1996 (fiscal year 1997) is \$617,253,960.

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
1997	\$ 3,690,491	\$ 3,679,219	99.69%	\$ 16,564	\$ 3,695,783	100.14%
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%	39,567	4,608,974	99.20%
2001	5,169,414	5,069,479	98.07%	34,971	5,104,450	98.74%
2002	5,724,341	5,578,918	97.46%	81,459	5,660,377	98.88%
2003	6,162,357	5,966,226	96.82%	67,387	6,033,613	97.91%
2004	6,547,821	6,390,952	97.60%	49,774	6,440,726	98.36%
2005	6,761,024	6,707,448	99.21%	40,728	6,748,176	99.81%
2006	7,080,176	7,030,306	99.30%	-	7,030,306	99.30%

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.

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	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	4.95%	\$ 1,687
2004	11,633,419	1,375,000	180,000	57,412	-	4,837,665	3,270,000	-	21,353,496	4.26%	1,513
2005	11,397,022	1,290,000	-	43,248	7,420,000	3,801,611	-	-	23,951,881	4.45%	1,651
2006	14,705,257	-	1,255,000	440,676	7,185,000	3,150,547	-	-	26,736,480	4.52%	1,790

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			
1997	\$ 2,432,000	\$ 7,743,965	\$ 10,175,965	\$ 218,387	\$ 9,957,578	1.61%	\$ 892
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	1.29%	1,055

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, 2006

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
County of Denton	\$ 174,702,570	3.137%	\$ 5,480,420
Lewisville Independent School District	643,152,208	6.600%	<u>42,448,046</u>
Subtotal overlapping debt			47,928,465
City of Highland Village (direct debt)	25,040,805	100.0%	<u>25,040,805</u>
Total direct and overlapping debt			<u>\$ 72,969,270</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 2006	
Assessed value	\$ 1,209,158,923
Debt limit (\$1.50 per \$100 of assessed value)	18,137,384
Debt applicable to limit:	
General obligation bonds	1,580,342
Less: Amount set aside for repayment of general obligation debt	(200,334)
Total net debt applicable to limit	<u>1,380,008</u>
Legal debt margin	\$ <u>16,757,376</u>

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 9,258,809	\$ 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
Total net debt applicable to limit	<u>624,470</u>	<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>
Legal debt margin	\$ <u>8,634,339</u>	\$ <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>
Total net debt applicable to the limit as a percentage of debt limit.	6.74%	7.90%	9.64%	9.48%	8.17%	7.24%	7.42%	7.48%	7.45%	7.61%

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		
1997	\$ 3,281,760	\$ 2,180,840	\$ 1,100,920	\$ 360,000	\$ 828,726	\$ 1,188,726	0.93
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

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>
1997	11,157	\$ 312,730,710	\$ 28,030	1.9%
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%

Source: U. S. Census Bureau
Texas Workforce Commission
North Central Texas Council of Governments

Note: Population estimates are based on residential sewer connections.

CITY OF HIGHLAND VILLAGE, TEXAS

PRINCIPAL EMPLOYERS

CURRENT AND NINE YEARS AGO

Employer	2006		1997	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
City of Highland Village	130	14.91%	-	- %
Excite! Gymnastics & Cheer LLC	76	8.72%	-	- %
Grotto Steakhouse	61	7.00%	-	- %
Mancha Services Corporation	58	6.65%	-	- %
Pizza Cafes Incorporated	52	5.96%	-	- %
Tutor Time	30	3.44%	-	- %
Marla R Conger MD PA	27	3.10%	-	- %
Wing Stop	21	2.41%	-	- %
Randy Sutton	20	2.29%	-	- %
Jason A Clapp DDS PA	15	1.72%	-	- %
City of Highland Village	-	- %	103	31.02%
Grotto Steakhouse	-	- %	65	19.58%
Marla R Conger MD PA	-	- %	27	8.13%
IASIS Gymnastics Incorporated	-	- %	23	6.93%
Oceans N' Air Travel Incorporated	-	- %	14	4.22%
Bruce Ashley Ousley OD	-	- %	9	2.71%
A & G Computer Service Incorporated	-	- %	9	2.71%
The Colony Enterprises Incorporated	-	- %	8	2.41%
Mexa Logic Incorporated	-	- %	8	2.41%
Matthew C Harden DDS	-	- %	7	2.11%
Total	<u>490</u>	<u>56.19%</u>	<u>273</u>	<u>82.23%</u>

Source: Texas Workforce Commission

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

Function/Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government										
City manager	2	2	2	2	2	3	3	3	2	2
Finance	6	7	9	9	9	9	9	9	9	10
Human resources	2	2	2	2	2	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	25	26	27	30	32	32	32	32	32	32
Fire	2	2	2	3	3	6	8	9	10	10
Community services	6	7	6	6	6	6	6	6	4	5
Streets and drainage	9	9	11	11	11	11	11	12	15	15
Parks and recreation	11	11	12	12	12	15	15	15	15	15
Water and wastewater	12	12	11	12	12	14	14	14	14	14
Total	<u>81</u>	<u>84</u>	<u>88</u>	<u>93</u>	<u>95</u>	<u>105</u>	<u>107</u>	<u>109</u>	<u>110</u>	<u>112</u>

Source: Various City departments

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

CITY OF HIGHLAND VILLAGE, TEXAS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year			
	1997	1998	1999	2000
General government				
Open records requests processed	*	*	*	*
Court cases filed	*	*	*	*
Invoices processed	*	*	*	*
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	224	120	134	134
Field operations work orders completed	*	*	*	*
Peak daily consumption	1,600,000	1,615,405	1,883,480	2,039,188
Maximum daily capacity-water production	7.25 MGD	7.25 MGD	7.25 MGD	7.25 MGD
Number of gallons pumped	642,694,000	589,622,700	730,142,600	715,196,936
Number of gallons sold	568,678,200	778,270,600	728,119,000	540,628,800
Wastewater				
Wastewater work orders completed	*	*	*	*
Wastewater gallons pumped	*	*	*	*

Source: Various City departments

* Not available

TABLE 17

2001	2002	2003	2004	2005	2006
*	*	*	204	201	151
*	*	3,267	2486	2026	3113
*	*	7,501	7899	6018	5564
*	*	17.90	17.40%	10.00%	10.70%
*	*	2	1	5	2
*	*	1,373	1,236	1,121	1,176
*	*	8,050	7,174	6,367	5,051
*	*	219	251	211	200
*	*	*	1,101	1,045	1,082
*	*	452	467	409	371
*	*	270	288	282	292
*	*	4,415	4,239	5,735	6,464
*	*	5,689	6,675	10,681	11,658
*	*	2,519	1,870	1,542	2,331
*	*	2,022	3,259	2,988	2,934
*	*	167	184	172	159
*	*	451	471	533	644
*	*	288	332	441	421
*	*	11,370	8,096	6,216	3,976
*	*	937	1,155	1,445	743
*	*	103	112	81	118
*	*	5,058	4,750	3,875	1,928
*	*	3,420	8,722	6,150	15,390
*	*	555	277	71	137
*	*	1,911	1,698	1,372	952
*	*	*	4,084	7,561	7,421
*	*	1,599	1,949	2,058	1,821
*	*	53,801	50,721	57,753	59,805
*	*	*	*	3,753	2,963
*	*	3,137	3,772	3,234	4,867
*	*	4,139	8,453	11,224	11,160
203	17	175	169	128	57
*	*	4,822	4,760	6,246	4,179
2,194,896	1,927,251	2,319,409	2,319,409	2,446,877	3,258,510
7.25 MGD	7.25 MGD	7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD
801,137,000	716,413,600	894,051,700	828,486,217	977,401,000	1,264,284,000
745,540,200	616,880,500	846,584,300	768,763,700	893,110,040	1,189,356,500
*	*	1,356	1,058	1,150	844
*	*	421,556,000	449,705,000	484,740,000	384,938,000

TABLE 18

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

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Government										
City area (in miles)	5.50	5.50	5.50	5.50	5.50	5.50	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)	65	68	68	68	68	68	75.31	75.31	75.485	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	275	305	305	311	311
Water										
Number of meters in service	3,813	3,987	4,161	4,255	4,458	4,541	4,716	4,885	5,013	5,108
Water mains (in miles)	75	75	79	79	79	79	79	79	81	83
Fire hydrants	398	480	525	525	525	525	620	620	630	630
Wastewater										
Storm sewers (miles)	49	50	50	50	50	50	50	50	50	50
Sanitary sewers (miles)	66	75	75	75	75	75	75	75	77	83
Sewer connections	3,719	3,891	4,004	4,167	4,167	4,167	4588	4,588	4,894	4,952

Source: Various City departments