

BASIC FINANCIAL STATEMENTS



**GOVERNMENT - WIDE
FINANCIAL STATEMENTS**



**CITY OF THE COLONY, TEXAS
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2006**

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Cash and cash equivalents	\$ 12,084,176	\$ 2,701,380	\$ 14,785,556	\$ 5,075,752
Investments	4,655,478	2,290,192	6,945,670	2,293,545
Receivables (net of allowance for uncollectibles)	1,769,455	1,775,096	3,544,551	528,483
Internal balances	59,661	(59,661)		
Other assets	52		52	
Inventories	95,292	52,450	147,742	
Prepaid expenses		1,636	1,636	
Restricted cash and cash equivalents		15,835,169	15,835,169	
Capital assets:				
Non-depreciable	30,910,773	28,207,362	59,118,135	
Depreciable (net of depreciation)	107,334,835	28,436,137	135,770,972	
Deferred charges	334,285	830,213	1,164,498	67,721
TOTAL ASSETS	\$ 157,244,007	\$ 80,069,974	\$ 237,313,981	\$ 7,965,501
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,961,541	\$ 697,200	\$ 2,658,741	\$ 67,663
Accrued interest payable	334,396		334,396	
Retainage payable	66,876		66,876	
Unearned revenue	25,594		25,594	
Payable from restricted assets:				
Accounts payable and accrued liabilities		1,179,097	1,179,097	
Accrued interest payable		243,353	243,353	16,263
Customer meter deposits		607,814	607,814	
Non-current liabilities:				
Due within one year	3,639,364	2,539,010	6,178,374	24,081
Due in more than one year	39,914,454	43,246,976	83,161,430	2,949,993
TOTAL LIABILITIES	45,942,225	48,513,450	94,455,675	3,058,000
NET ASSETS				
Invested in capital assets (net of related debt)	99,646,935	26,584,212	126,231,147	
Restricted for:				
Debt service	649,790	2,146,469	2,796,259	
Unrestricted	11,005,057	2,825,843	13,830,900	4,907,501
TOTAL NET ASSETS	\$ 111,301,782	\$ 31,556,524	\$ 142,858,306	\$ 4,907,501

The Notes to the Financial Statements
are and integral part of this statement.

**CITY OF THE COLONY, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Program Activities				
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	\$ 4,076,007	\$ 969,908	\$ 304,317	\$
Public safety	8,718,968	1,527,570		
Public works	6,800,501	475,321	3,829,112	1,764,383
Culture and recreation	3,491,239	668,477	1,188,801	
Interest on Long-term Debt	2,036,915			
Total governmental activities	25,123,630	3,641,276	5,322,230	1,764,383
Business-type Activities:				
Water and sewer	9,894,712	12,424,630		2,542,627
Total business-type activities	9,894,712	12,424,630		2,542,627
TOTAL PRIMARY GOVERNMENT	\$ 35,018,342	\$ 16,065,906	\$ 5,322,230	\$ 4,307,010
COMPONENT UNITS:				
The Colony Economic Development Corporation	\$ 1,710,423			
The Colony Municipal Economic Development Corporation	1,034,721		40,000	
TOTAL COMPONENT UNITS	\$ 2,745,144	\$	\$ 40,000	\$

General revenues:

Taxes:

Property taxes, levied for general purposes

Sales taxes

Franchise taxes

Hotel motel taxes

Penalties and interest

Interest on investments

Impact fees

Miscellaneous

Transfers

Total general revenues and transfers

CHANGE IN NET ASSETS

NET ASSETS, beginning of year

NET ASSETS, end of year

The Notes to the Financial Statements
are and integral part of this statement.

EXHIBIT 2

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			COMPONENT UNITS
Governmental Activities	Business - Type Activities	TOTAL	
\$ (2,801,782)	\$	\$ (2,801,782)	\$
(7,191,398)		(7,191,398)	
(731,685)		(731,685)	
(1,633,961)		(1,633,961)	
(2,036,915)		(2,036,915)	
<u>(14,395,741)</u>		<u>(14,395,741)</u>	
	5,072,545	5,072,545	
	5,072,545	5,072,545	
<u>\$ (14,395,741)</u>	<u>\$ 5,072,545</u>	<u>\$ (9,323,196)</u>	<u>\$</u>
\$		\$	\$ (1,710,423)
			(994,721)
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (2,705,144)</u>
11,887,846	929,179	12,817,025	
2,731,402		2,731,402	2,659,116
1,914,347		1,914,347	
140,229		140,229	
110,336		110,336	
806,866	1,040,660	1,847,526	310,359
48,480	347,619	396,099	
112,149	134,833	246,982	13,932
1,381,091	(1,381,091)		
<u>19,132,746</u>	<u>1,071,200</u>	<u>20,203,946</u>	<u>2,983,407</u>
4,737,005	6,143,745	10,880,750	278,263
<u>106,564,777</u>	<u>25,412,779</u>	<u>131,977,556</u>	<u>4,629,238</u>
<u>\$ 111,301,782</u>	<u>\$ 31,556,524</u>	<u>\$ 142,858,306</u>	<u>\$ 4,907,501</u>

**CITY OF THE COLONY, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006**

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$ 2,348,987	\$ 230,723	\$ 8,649,002	\$ 855,464	\$ 12,084,176
Investments	3,103,534	758,480	643,599	148,558	4,654,171
Receivables, net of allowances for uncollectibles:					
Ad valorem taxes	155,068	60,365			215,433
Service accounts receivable	105,818				105,818
Franchise taxes	486,821				486,821
Sales taxes	497,186				497,186
Interest	42,356	10,349	8,782	2,027	63,514
Other	200,639		151,291	45,083	397,013
Due from other funds	414,074			19,136	433,210
Other assets	52				52
TOTAL ASSETS	\$ 7,354,535	\$ 1,059,917	\$ 9,452,674	\$ 1,070,268	\$ 18,937,394
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 1,483,475	\$	\$ 366,418	\$ 65,603	\$ 1,915,496
Retainage payable			66,876		66,876
Due to other funds	19,136			400,176	419,312
Deferred revenue	230,154	42,534	38,670		311,358
TOTAL LIABILITIES	1,732,765	42,534	471,964	465,779	2,713,042
FUND BALANCES					
Reserved for encumbrances	215,241			7,711	222,952
Reserved for capital projects			8,980,710		8,980,710
Reserved for debt service		1,017,383			1,017,383
Reserved for court security and technology				246,230	246,230
Designated	398,000				398,000
Unreserved and undesignated-special revenue funds				350,548	350,548
Unreserved and undesignated	5,008,529				5,008,529
TOTAL FUND BALANCES	5,621,770	1,017,383	8,980,710	604,489	16,224,352
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,354,535	\$ 1,059,917	\$ 9,452,674	\$ 1,070,268	\$ 18,937,394

The Notes to the Financial Statements
are an integral part of this statement.

**CITY OF THE COLONY, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

Total fund balances - governmental funds	\$ 16,224,352
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. (\$138,245,608 less \$14,801 in net fixed assets reported in internal service funds below).	138,230,807
Costs associated with the issuance of governmental long term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements. This amount represents the unamortized portion of bond issue costs.	334,285
Interest payable on long term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(334,396)
Internal service funds are used by management to charge the cost of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net assets. This amount is inclusive of the portion attributable to business-type activities of \$59,661 included in internal balances.	78,456
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	285,764
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. (\$43,553,818 less \$36,332 in compensated absences reported as liabilities in internal service funds above)	<u>(43,517,486)</u>
Net assets of governmental activities	<u>\$ 111,301,782</u>

CITY OF THE COLONY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Ad valorem taxes, penalties and interest	\$ 8,589,075	\$ 3,402,957	\$	\$	\$ 11,992,032
Franchise taxes	2,285,150			16,180	2,301,330
Municipal sales tax	2,731,402				2,731,402
Licenses and permits	520,880			537,784	1,058,664
Charges for services	1,030,023				1,030,023
Fines and forfeitures	1,136,985			69,009	1,205,994
Grants	209,436			9,704	219,140
Gifts and contributions		726,546	1,011,582	99,720	1,837,848
Hotel / motel fees				140,229	140,229
Recreation fees				10,696	10,696
Capital recovery fees			3,265,837		3,265,837
Interest earned	326,482	89,622	354,728	35,941	806,773
Miscellaneous	273,087		714,790	108,521	1,096,398
Total revenues	17,102,520	4,219,125	5,346,937	1,027,784	27,696,366
EXPENDITURES					
Current					
General government	3,899,887				3,899,887
Public safety	8,288,502			32,774	8,321,276
Public works	1,958,485		526,460	684,259	3,169,204
Cultural and recreation	2,763,142		47,878	358,314	3,169,334
Capital outlay			4,469,999		4,469,999
Debt service:					
Principal retirement		2,073,677			2,073,677
Interest and fiscal charges		2,179,081			2,179,081
Contractual obligations					
Total expenditures	16,910,016	4,252,758	5,044,337	1,075,347	27,282,458
Excess (deficiency) of revenues over (under) expenditures	192,504	(33,633)	302,600	(47,563)	413,908
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	11,646				11,646
Deposit to escrow account		(9,280,273)			(9,280,273)
Premiums from issuance of bonds		24,032	22,758		46,790
Proceeds from issuance of bonds		9,340,000	694,604		10,034,604
Transfers from other funds	1,396,178	126,870	890,734	349,183	2,762,965
Transfers to other funds	(359,730)		(734,667)	(287,477)	(1,381,874)
Total other financing sources (uses)	1,048,094	210,629	873,429	61,706	2,193,858
NET CHANGE IN FUND BALANCES	1,240,598	176,996	1,176,029	14,143	2,607,766
FUND BALANCES, BEGINNING OF YEAR	4,381,172	840,387	7,804,681	590,346	13,616,586
FUND BALANCES, END OF YEAR	\$ 5,621,770	\$ 1,017,383	\$ 8,980,710	\$ 604,489	\$ 16,224,352

The Notes to the Financial Statements
are an integral part of this statement.

**CITY OF THE COLONY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Net change in fund balances - total governmental funds	\$ 2,607,766
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	4,584,128
Governmental funds do not recognize assets contributed by developers. However, in the statement of activities the fair market value of those assets are recognized as revenue, then allocated over their estimated useful lives and reported as depreciation expense.	1,130,843
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(4,594,530)
The net book value of capital assets sold or disposed of are not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect on the change in net assets is to derecognize proceeds received on sales of capital assets (\$11,646) and to reflect the gain on the sale and disposal of capital assets (\$148,894).	137,248
Transfers of capital assets into the governmental activities is not reflected as a transfer in the governmental funds as it does not require the use of current financial resources.	24,904
Current year principal payments on long-term debt are recorded as expenditures in the fund financial statements, but are reflected as reductions in the liability for long-term debt in the government-wide financial statements.	2,073,677
Current year changes in long term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. Amount does not include change in compensated absences in internal service funds which decrease net assets by \$7,984.	(179,334)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	132
Current year amortization of the costs of bond issuance, premiums and deferred loss on refunding do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(54,423)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net revenue of the internal service funds is reported with governmental activities net of amount allocated to business-type activities.	(16,080)
Current year accretion on capital appreciation bonds is not reflected in the fund financial statements, but is shown as an increase in the accreted interest on the government-wide financial statements. Payments of accreted interest on capital appreciation bonds are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	(34,328)
Current year payment to escrow agent for refunded debt are expenditures in the fund financial statements, but are shown as an decrease in the liabilities in the government wide financial statements.	9,280,273
Current year bond proceeds for debt issued (including premiums from the issuance of bonds) are proceeds in the fund financial statements but are shown as an increase in the liabilities in the government wide financial statements.	(10,081,394)
Current year debt issuance cost for debt issued are expenditures in the fund financial statements but are shown as a deferred charge in the assets in the government wide financial statements.	230,785
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	<u>(372,662)</u>
Change in Net Assets of Governmental activities	<u>\$ 4,737,005</u>

The Notes to the Financial Statements
are an integral part of this statement.



PROPRIETARY FUNDS



**CITY OF THE COLONY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006**

	BUSINESS TYPE ACTIVITIES WATER AND SEWER ENTERPRISE FUND	GOVERNMENTAL ACTIVITIES FLEET SERVICES INTERNAL SERVICE FUND
	<u>FUND</u>	<u>FUND</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,701,380	\$
Investments	2,290,192	1,307
Receivables, net of allowance for uncollectibles:		
Ad valorem taxes	22,416	
Accounts	1,594,228	
Other	158,452	3,670
Inventories	52,450	95,292
Prepaid expenses	1,636	
Restricted cash and cash equivalents	<u>15,835,169</u>	
Total current assets	<u>22,655,923</u>	<u>100,269</u>
NONCURRENT ASSETS		
CAPITAL ASSETS		
Land	1,749,366	
Water system	21,419,906	
Sanitary sewer system	18,132,186	
Buildings	446,005	
Machinery and equipment	1,135,238	217,461
Engineering fees	2,473,213	
Organizational costs	5,718,467	
Construction in progress	<u>26,457,996</u>	
Total capital assets	77,532,377	217,461
Less: accumulated depreciation	<u>(20,888,878)</u>	<u>(202,660)</u>
Capital assets, net of accumulated depreciation	56,643,499	14,801
DEFERRED CHARGES		
Bond issuance costs, net of amortization of \$38,143	<u>830,213</u>	
Total noncurrent assets	<u>57,473,712</u>	<u>14,801</u>
TOTAL ASSETS	<u><u>\$ 80,129,635</u></u>	<u><u>\$ 115,070</u></u>

The Notes to the Financial Statements
are an integral part of this statement.

**CITY OF THE COLONY, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2006**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 697,200	\$ 46,045
Due to other funds	-	13,898
Accreted interest payable	1,560,381	
Accrued compensated absences	177,674	17,328
Payable from restricted assets:		
Accounts payable and accrued expenses	1,179,097	
Unamortized bond premium	45,182	
Revenue bonds payable	755,773	
Accrued interest payable	243,353	
Customer meter deposits	607,814	
	<u>5,266,474</u>	<u>77,271</u>
Total current liabilities		
	<u>5,266,474</u>	<u>77,271</u>
NON-CURRENT LIABILITIES		
Revenue bonds payable	42,408,660	
Unamortized bond premium	820,319	
Accrued compensated absences	17,997	19,004
	<u>43,246,976</u>	<u>19,004</u>
Total non-current liabilities		
	<u>43,246,976</u>	<u>19,004</u>
TOTAL LIABILITIES	<u>48,513,450</u>	<u>96,275</u>
NET ASSETS		
Invested in capital assets, net of related debt	26,584,212	
Restricted for:		
Revenue bond principal and interest	2,146,469	
Unrestricted	2,885,504	18,795
	<u>2,885,504</u>	<u>18,795</u>
TOTAL NET ASSETS	<u>\$ 31,616,185</u>	<u>\$ 18,795</u>

**CITY OF THE COLONY, TEXAS
RECONCILIATION OF THE STATEMENT OF NET ASSETS
OF PROPRIETARY FUNDS TO THE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2006**

Amounts reported for business-type activities in the statement of net assets are different because:

Total net assets per statement of net assets	\$ 31,616,185
Internal service funds are used by management to charge the costs of fleet management to individual funds	
The assets and liabilities of internal service funds are included in the governmental activities in the government-wide statement of net assets. The amount shown is allocated to business-type activities as the net receivable from internal service funds which is reported within business-type activities.	
	<u>(59,661)</u>
Total net assets of business-type activities	<u><u>\$ 31,556,524</u></u>

**CITY OF THE COLONY, TEXAS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	BUSINESS TYPE ACTIVITIES WATER AND SEWER ENTERPRISE FUND	GOVERNMENTAL ACTIVITIES FLEET SERVICES INTERNAL SERVICE FUND
	<u>FUND</u>	<u>FUND</u>
OPERATING REVENUES		
Charges for sales and services:		
Water service	\$ 7,256,333	\$
Wastewater treatment service	3,594,068	
Other fees and penalties	1,574,229	
Service charges		477,835
Miscellaneous	<u>134,833</u>	<u>24,926</u>
Total operating revenues	<u>12,559,463</u>	<u>502,761</u>
OPERATING EXPENSES:		
Personnel services	2,520,860	281,289
Contractual services	1,788,522	11,946
Supplies	330,887	100,590
Maintenance	432,312	120,374
Water purchases	1,573,493	
Depreciation	<u>1,256,021</u>	<u>16,500</u>
Total operating expenses	<u>7,902,095</u>	<u>530,699</u>
OPERATING INCOME (LOSS)	<u>4,657,368</u>	<u>(27,938)</u>
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	929,179	
Interest income	1,040,660	93
Interest expense	(1,980,852)	
Development fees	<u>2,256,055</u>	
Total non-operating revenues	<u>2,245,042</u>	<u>93</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	<u>6,902,410</u>	<u>(27,845)</u>
CAPITAL CONTRIBUTIONS AND TRANSFERS		
Capital contributions	634,191	
Transfers from other funds	749,758	7,628
Transfers to other funds	<u>(2,130,849)</u>	
Total capital contributions and transfers	<u>(746,900)</u>	<u>7,628</u>
CHANGE IN NET ASSETS	6,155,510	(20,217)
NET ASSETS, BEGINNING OF YEAR	<u>25,460,675</u>	<u>39,012</u>
NET ASSETS, END OF YEAR	<u>\$ 31,616,185</u>	<u>\$ 18,795</u>

The Notes to the Financial Statements
are an integral part of this statement.

**CITY OF THE COLONY, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENSES AND CHANGES IN NET ASSETS
 OF PROPRIETARY FUNDS TO THE GOVERNMENT – WIDE
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Amounts reported for business-type activities in the statement of activities
 are different because:

Net change in fund net assets- total enterprise funds	\$ 6,155,510
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Internal service funds are used by management to charge the costs of fleet
 management to individual funds

The net expenses of certain activities of internal service funds is reported within
 business-type activities.

(11,765)

Change in net assets of business-type activities	<u><u>\$ 6,143,745</u></u>
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**CITY OF THE COLONY, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	BUSINESS TYPE ACTIVITIES WATER AND SEWER ENTERPRISE FUND	GOVERNMENTAL ACTIVITIES FLEET SERVICES INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 12,258,382	\$
Cash received from transactions with other funds		477,835
Cash paid in transactions with other funds		
Cash received from other sources		40,852
Cash paid to employees for services	(2,548,953)	(273,606)
Cash paid for goods and services	(5,937,995)	(244,473)
Net cash provided by operating activities	3,771,434	608
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property taxes	930,996	
Transfers from other funds	749,758	
Transfers to other funds	(2,103,124)	
Net cash used in non-capital financing activities	(422,370)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on revenue bond maturities	(838,721)	
Premium on issuance of bonds	563,168	
Cost of bond issuance	(398,613)	
Proceeds from issuance of bonds	17,047,560	
Interest paid	(3,785,530)	
Acquisition of capital assets	(14,857,758)	
Contributions from developers	2,256,055	
Net cash provided by capital and related financial activities	(13,839)	
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,103,709)	(701)
Interest on investments	1,025,725	93
Net cash used in investing activities	(77,984)	(608)
NET DECREASE IN CASH AND CASH EQUIVALENTS	3,257,241	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,279,308	
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 18,536,549	\$
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income (loss)	\$ 4,657,368	\$ (27,938)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,256,021	16,500
Amortization	51,485	
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(321,318)	4,854
(Increase) decrease in inventories	5,680	4,002
(increase) decrease in prepaid expenses	8,258	
Increase (decrease) in accounts payable and accrued liabilities	(1,878,204)	(15,565)
Increase (decrease) in due to other funds		11,072
Increase (decrease) in compensated absences	(28,093)	7,683
Decrease in customer deposits	20,237	
Total adjustments	(885,934)	28,546
Net cash provided by operating activities	\$ 3,771,434	\$ 608
NON-CASH FINANCING ACTIVITIES:		
Contributions of capital assets from developers	634,191	\$
Contributions of fixed assets from governmental activities	\$	\$ 7,628
Reconciliation of total cash to the statement of net assets:		
Cash and cash equivalents - current	\$ 2,701,380	\$
Restricted cash and cash equivalents	15,835,169	
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 18,536,549	\$

The Notes to the Financial Statements
are an integral part of this statement.

COMPONENT UNITS

**CITY OF THE COLONY, TEXAS
BALANCE SHEET
COMPONENT UNITS
SEPTEMBER 30, 2006**

	<u>THE COLONY ECONOMIC DEVELOPMENT CORPORATION</u>	<u>THE COLONY MUNICIPAL ECONOMIC DEVELOPMENT CORPORATION</u>	<u>TOTALS</u>
ASSETS			
Cash and cash equivalents	\$ 4,963,288	\$ 112,464	\$ 5,075,752
Investments	1,547,763	745,782	2,293,545
Sales tax receivable	248,593	248,593	497,186
Interest receivable	21,121	10,176	31,297
TOTAL ASSETS	<u><u>\$ 6,780,765</u></u>	<u><u>\$ 1,117,015</u></u>	<u><u>\$ 7,897,780</u></u>
LIABILITIES AND FUND BALANCES			
Accounts payable	<u>\$ 63,937</u>	<u>\$ 3,726</u>	<u>\$ 67,663</u>
TOTAL LIABILITIES	<u>63,937</u>	<u>3,726</u>	<u>67,663</u>
FUND BALANCES			
Unreserved and undesignated	<u>6,716,828</u>	<u>1,113,289</u>	<u>7,830,117</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 6,780,765</u></u>	<u><u>\$ 1,117,015</u></u>	<u><u>\$ 7,897,780</u></u>

**CITY OF THE COLONY, TEXAS
RECONCILIATION OF THE COMPONENT UNITS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
COMPONENT UNITS
SEPTEMBER 30, 2006**

Total fund balances - governmental funds		\$ 7,830,117
Amounts reported for governmental activities in the statement of net assets are different because:		
Costs associated with the issuance of governmental long term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements. This amount represents the unamortized portion of bond issue costs.		67,721
Interest payable on long term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.		(16,263)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements.		(2,974,074)
		<hr/>
Net assets of governmental activities		<u><u>\$ 4,907,501</u></u>

**CITY OF THE COLONY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
COMPONENT UNITS
FOR YEAR ENDED SEPTEMBER 30, 2006**

	THE COLONY ECONOMIC DEVELOPMENT CORPORATION	THE COLONY MUNICIPAL ECONOMIC DEVELOPMENT CORPORATION	TOTAL COMPONENT UNITS
REVENUES			
Municipal sales tax	\$ 1,329,558	\$ 1,329,558	\$ 2,659,116
Interest earned	254,726	55,633	310,359
Contributions		40,000	40,000
Miscellaneous	13,932		13,932
Total revenues	<u>1,598,216</u>	<u>1,425,191</u>	<u>3,023,407</u>
EXPENDITURES			
Current			
Economic Development	1,691,932	1,051,002	2,742,934
Debt service:			
Interest and fiscal charges	70,056		70,056
Total expenditures	<u>1,761,988</u>	<u>1,051,002</u>	<u>2,812,990</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(163,772)</u>	<u>374,189</u>	<u>210,417</u>
OTHER FINANCING SOURCES (USES)			
Premiums on issuance of bonds	94,244		94,244
Proceeds from issuance of bonds	2,852,836		2,852,836
Total other financing sources (uses)	<u>2,947,080</u>		<u>2,947,080</u>
NET CHANGE IN FUND BALANCES	2,783,308	374,189	3,157,497
FUND BALANCES, BEGINNING OF YEAR (as previously reported)	<u>3,906,712</u>	<u>722,526</u>	<u>4,629,238</u>
Prior period adjustment	26,808	16,574	43,382
FUND BALANCES, BEGINNING OF YEAR (as adjusted)	<u>3,933,520</u>	<u>739,100</u>	<u>4,672,620</u>
FUND BALANCES, END OF YEAR	<u>\$ 6,716,828</u>	<u>\$ 1,113,289</u>	<u>\$ 7,830,117</u>

The Notes to the Financial Statements
are an integral part of this statement.

**CITY OF THE COLONY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
COMPONENT UNITS TO THE STATEMENT
OF ACTIVITIES – COMPONENT UNITS
YEAR ENDED SEPTEMBER 30, 2006**

Net change in fund balances - total governmental funds	\$ 3,157,497
Amounts reported for governmental activities in the statement of activities are different because:	
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(16,263)
Current year amortization of the costs of bond issuance and premiums on debt issuance costs do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	806
Current year changes in accrued compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	13,247
Current year bond proceeds for debt issued (including premiums on the bond issuance of bonds) are other financing sources in the fund financial statements but are shown as an increase in the liabilities in the government wide financial statements.	(2,947,080)
Current year debt issuance cost for debt issued are expenditures in the fund financial statements but are shown as a deferred charge in the assets in the government wide financial statements.	70,056
	<hr/>
Change in Net Assets of Governmental activities	<u><u>\$ 278,263</u></u>