

## **NOTES TO FINANCIAL STATEMENTS**



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

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

**General Statement**

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

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

**Financial Reporting Entity**

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

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

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

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

**Financial Reporting Entity – Continued**

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

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

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

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

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

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

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

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

**Basis of Presentation**

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

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

**Fund Financial Statements:**

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

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

**General Fund –**

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

**Debt Service Fund –**

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

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

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

**Fund Financial Statements – Continued**

**Capital Projects Fund –**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Fund Financial Statements – Continued**

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

**Water and Sewer Enterprise Fund –**

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

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

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

**Measurement Focus and Basis of Accounting**

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

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

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

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

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

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

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

**Cash, Cash Equivalents and Investments**

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

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

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

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

**Property Taxes**

The City's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and certain personal property located within the City. Property taxes attach as an enforceable lien on property as of January 1 after they are levied. The assessed value upon which the fiscal year 2008 levy was based was \$2,006,247,530. Taxes are due on October 1 and are delinquent after the following January 31. Current tax collections for the year ended September 30, 2008 were 99% of the tax levy.

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. The combined tax rate to finance general governmental services including the payment of principal and interest on long-term debt for the year ended September 30, 2008 was \$0.6975 per \$100 of assessed valuation.

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

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

**Property Taxes – Continued**

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

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

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

**Internal Balances**

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

**Transactions Between Funds and Component Units**

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

Transactions between the component units and the primary government are accounted for as external transactions. During the year ended September 30, 2008, the TCEDC contributed \$179,079 to the Debt Service Fund. Additionally, the TCCDC contributed \$535,093 to the Capital Projects Fund, \$180,648 to the General Fund, \$601,574 to the Debt Service Fund and \$27,417 to non-major funds. The revenues were reflected as grants and contributions for the primary government in the statement of activities.

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

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

**Inventories**

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

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at fair market value on the date donated. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the asset lives are not capitalized. Renewals and betterments are capitalized. Interest costs incurred during the construction period have been capitalized in the amount of \$60,670 in the current year in the enterprise fund.

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

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

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

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

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

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

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

**Net Assets**

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

**NOTE 2. CASH AND INVESTMENTS**

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

At September 30, 2008 the carrying amount of the City's deposits was \$1,055,996 the bank balance was \$1,117,263. The City's cash deposits at September 30, 2008 and during the year ended September 30, 2008 were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name. The City had petty cash totaling \$2,692 at September 30, 2008.

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

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

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

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

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

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

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

Cash and investments as of September 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:

|   |                             |
|---|-----------------------------|
| Cash and cash equivalents – primary government            | \$ 18,023,491               |
| Investments – primary government                          | 7,445,004                   |
| Restricted cash and cash equivalents – primary government | 7,642,544                   |
| Cash and cash equivalents – component units               | 5,564,311                   |
| Investments – component units                             | <u>1,654,287</u>            |
|   | <u><u>\$ 40,329,637</u></u> |

Cash and investments as of September 30, 2008 consist of the following:

|              |                             |
|--------------|-----------------------------|
| Cash on hand | \$ 1,058,688                |
| Investments  | <u>39,270,949</u>           |
|              | <u><u>\$ 40,329,637</u></u> |

**Disclosures Relating to Interest Rate Risk**

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

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

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

**Disclosures Relating to Interest Rate Risk – Continued**

As of September 30, 2008, the City had the following investments:

| <u>Investment Type</u>       | <u>Amount</u>        | <u>Weighted<br/>Average<br/>Maturity</u> |
|------------------------------|----------------------|--|
| Government agency securities | \$ 9,099,294         | 310 Days                                 |
| LOGIC                        | 633,135              | 1 Day                                    |
| TexasTERM                    | 1,031,108            | 1 Day                                    |
| TexPool                      | <u>28,507,412</u>    | 1 Day                                    |
|                              | <u>\$ 39,270,949</u> |  |

As of September 30, 2008 the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

**Disclosures Relating to Credit Risk**

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

| <u>Investment Type</u>       | <u>Amount</u>        | <u>Minimum<br/>Legal<br/>Rating</u> | <u>Rating as<br/>of Year<br/>End</u> |
|------------------------------|----------------------|-------------------------------------|--------------------------------------|
| Government agency securities | \$ 9,099,294         | N/A                                 | AAA                                  |
| LOGIC                        | 633,135              | N/A                                 | AAAm                                 |
| TexasTERM                    | 1,031,108            | N/A                                 | AAAm                                 |
| TexPool                      | <u>28,507,412</u>    | N/A                                 | AAAm                                 |
|                              | <u>\$ 39,270,949</u> |                                     |                                      |

The City's investments in Government agency securities (FHLMC, FHLB and FFCB) are rated AAA by Standard and Poors.

**Concentration of Credit Risk**

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2008 other than external investment pools the City did not have 5% or more of its investment with one issuer.

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

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

**Custodial Credit Risk**

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

As of September 30, 2008 the City deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

**Investment in State Investment Pools**

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

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

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

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

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

**Investment in State Investment Pools – Continued**

The TexasTERM Local Government Investment Pool (“Pool”) was created by Texas local governments to provide Investment programs tailored to the needs of Texas cities, counties, school districts and other public investors.

TexasTERM offers participants two investment portfolio options:

- **TexasTERM** - is a fixed rate, fixed term portfolio option rated AAf by Standards & Poor’s Corporation. Participants may lock in a fixed rate for a term of 60 to 365 days.
- **TexasDAILY** - is a money market portfolio with daily liquidity that is rated AAAM by Standards & Poor’s.

The Pool is directed by an Advisory Board of experienced local government finance directors and treasurers.

The Advisory Board contracts for services with professional service providers who are industry leaders in their field. The fund is managed by PFM Asset Management, LLC.

**NOTE 3. RECEIVABLES**

Government-wide receivables at September 30, 2008, including the applicable allowances for uncollectible accounts, consist of the following:

|                                | General             | Debt<br>Service   | Capital<br>Projects | Non-Major<br>Governmental<br>Funds | Water and<br>Sewer<br>Enterprise | Internal<br>Service | Component<br>Units |
|--------------------------------|---------------------|-------------------|---------------------|------------------------------------|----------------------------------|---------------------|--------------------|
| Receivables                    |                     |                   |                     |                                    |                                  |                     |                    |
| Property taxes                 | \$ 291,795          | \$ 117,608        | \$ -                | \$ -                               | \$ 22,965                        | \$ -                | \$ -               |
| Franchise taxes                | 275,173             | -                 | -                   | -                                  | -                                | -                   | -                  |
| Sales and mixed beverage taxes | 526,639             | -                 | -                   | -                                  | -                                | -                   | 526,638            |
| Trade accounts                 | 301,316             | -                 | -                   | -                                  | 1,614,538                        | -                   | -                  |
| Interest                       | -                   | -                 | -                   | -                                  | 42,079                           | -                   | -                  |
| Miscellaneous                  | 189,949             | -                 | 624,710             | 47,759                             | 124,851                          | -                   | -                  |
|                                | <u>1,584,872</u>    | <u>117,608</u>    | <u>624,710</u>      | <u>47,759</u>                      | <u>1,804,433</u>                 | <u>-</u>            | <u>526,638</u>     |
| Gross receivables              |                     |                   |                     |                                    |                                  |                     |                    |
| Allowance for uncollectibles   | (164,277)           | (13,942)          | -                   | -                                  | (112,704)                        | -                   | -                  |
|                                | <u>\$ 1,420,595</u> | <u>\$ 103,666</u> | <u>\$ 624,710</u>   | <u>\$ 47,759</u>                   | <u>\$ 1,691,729</u>              | <u>\$ -</u>         | <u>\$ 526,638</u>  |
| Net total receivables          |                     |                   |                     |                                    |                                  |                     |                    |

The Water and Sewer Fund accounts receivable include unbilled charges for services rendered through September 30, 2008 in the amount of \$946,769.

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

Capital asset activity for the year ended September 30, 2008, was as follows:

|  | Balance<br>September 30,<br>2007 | Capital<br>Acquisitions | Sales or<br>Other<br>Dispositions | Adjustments/<br>Transfers | Balance<br>September 30,<br>2008 |
|--|----------------------------------|-------------------------|-----------------------------------|---------------------------|----------------------------------|
| <b>Governmental Activities:</b>                    |                                  |                         |                                   |                           |                                  |
| Capital assets not being depreciated               |                                  |                         |                                   |                           |                                  |
| Land & Land Improvements                           | \$ 4,358,020                     | \$ -                    | \$ -                              | \$ -                      | \$ 4,358,020                     |
| Right-of-ways                                      | 24,682,941                       | -                       | -                                 | -                         | 24,682,941                       |
| Construction in Progress                           | 7,300,577                        | 10,544,736              | -                                 | (7,784,868)               | 10,060,445                       |
| <b>Total capital assets not being depreciated</b>  | <b>36,341,538</b>                | <b>10,544,736</b>       | <b>-</b>                          | <b>(7,784,868)</b>        | <b>39,101,406</b>                |
| Capital assets being depreciated                   |                                  |                         |                                   |                           |                                  |
| Buildings  | 8,569,591                        | -                       | -                                 | 3,194,612                 | 11,764,203                       |
| other than buildings                               | 9,759,528                        | -                       | -                                 | 285,712                   | 10,045,240                       |
| Swimming pool                                      | 1,478,645                        | -                       | -                                 | 20,944                    | 1,499,589                        |
| Machinery and equipment                            | 7,951,790                        | -                       | (179,844)                         | 888,572                   | 8,660,518                        |
| Infrastructure                                     | 147,836,542                      | 2,344,694               | -                                 | 3,395,028                 | 153,576,264                      |
| <b>Total capital assets being depreciated</b>      | <b>175,596,096</b>               | <b>2,344,694</b>        | <b>(179,844)</b>                  | <b>7,784,868</b>          | <b>185,545,814</b>               |
| Less: accumulated depreciation for:                |                                  |                         |                                   |                           |                                  |
| Buildings  | (2,236,049)                      | (286,550)               | -                                 | -                         | (2,522,599)                      |
| Improvements                                       |                                  |                         |                                   |                           |                                  |
| other than buildings                               | (2,294,388)                      | (316,663)               | -                                 | -                         | (2,611,051)                      |
| Swimming pool                                      | (409,847)                        | (48,522)                | -                                 | -                         | (458,369)                        |
| Machinery and equipment                            | (4,378,446)                      | (710,475)               | 59,724                            | -                         | (5,029,197)                      |
| Infrastructure                                     | (53,741,225)                     | (3,631,872)             | -                                 | -                         | (57,373,097)                     |
| <b>Total accumulated depreciation</b>              | <b>(63,059,955)</b>              | <b>(4,994,082)</b>      | <b>59,724</b>                     | <b>-</b>                  | <b>(67,994,313)</b>              |
| <b>Total capital assets being depreciated, net</b> | <b>112,536,141</b>               | <b>(2,649,388)</b>      | <b>(120,120)</b>                  | <b>7,784,868</b>          | <b>117,551,501</b>               |
| <b>Governmental activities capital assets, net</b> | <b>\$ 148,877,679</b>            | <b>\$ 7,895,348</b>     | <b>\$ (120,120)</b>               | <b>\$ -</b>               | <b>\$ 156,652,907</b>            |

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

**NOTE 4. CAPITAL ASSETS – CONTINUED**

|  | Balance<br>September 30,<br>2007 | Capital<br>Acquisitions | Sales of<br>Other<br>Dispositions | Adjustments/<br>Transfers | Balance<br>September 30,<br>2008 |
|--|----------------------------------|-------------------------|-----------------------------------|---------------------------|----------------------------------|
| <b>Business-Type Activities:</b>             |                                  |                         |                                   |                           |                                  |
| Capital assets not being depreciated         |                                  |                         |                                   |                           |                                  |
| Land   | \$ 1,749,366                     | \$ -                    | \$ -                              | \$ 1,142,521              | \$ 2,891,887                     |
| Construction in progress                     | 13,908,029                       | 5,877,702               | -                                 | (5,829,331)               | 13,956,400                       |
| Total capital assets not being depreciated   | <u>15,657,395</u>                | <u>5,877,702</u>        | <u>-</u>                          | <u>(4,686,810)</u>        | <u>16,848,287</u>                |
| Capital assets being depreciated:            |                                  |                         |                                   |                           |                                  |
| Building                                     | 446,005                          | -                       | -                                 | 79,557                    | 525,562                          |
| Water System                                 | 31,245,655                       | 530,822                 | -                                 | 2,805,202                 | 34,581,679                       |
| Sanitary System                              | 32,430,462                       | 151,852                 | -                                 | 1,779,505                 | 34,361,819                       |
| Drainage System                              | 1,684,364                        | -                       | -                                 | -                         | 1,684,364                        |
| Machinery and Equipment                      | 1,305,991                        | -                       | -                                 | 22,546                    | 1,328,537                        |
| Organizational Cost                          | 8,191,680                        | -                       | -                                 | -                         | 8,191,680                        |
| Total capital assets being depreciated       | <u>75,304,157</u>                | <u>682,674</u>          | <u>-</u>                          | <u>4,686,810</u>          | <u>80,673,641</u>                |
| Less: Accumulated depreciation for:          |                                  |                         |                                   |                           |                                  |
| Building                                     | (388,329)                        | (13,379)                | -                                 | -                         | (401,708)                        |
| Water System                                 | (6,935,273)                      | (812,868)               | -                                 | -                         | (7,748,141)                      |
| Sanitary System                              | (7,209,449)                      | (824,543)               | -                                 | -                         | (8,033,992)                      |
| Drainage System                              | (1,198,190)                      | (40,601)                | -                                 | -                         | (1,238,791)                      |
| Machinery & Equipment                        | (1,111,077)                      | (57,753)                | -                                 | -                         | (1,168,830)                      |
| Organizational Cost                          | (5,586,399)                      | (198,208)               | -                                 | -                         | (5,784,607)                      |
| Total accumulated depreciation               | <u>(22,428,717)</u>              | <u>(1,947,352)</u>      | <u>-</u>                          | <u>-</u>                  | <u>(24,376,069)</u>              |
| Total capital assets being depreciated, net  | <u>52,875,440</u>                | <u>(1,264,678)</u>      | <u>-</u>                          | <u>4,686,810</u>          | <u>56,297,572</u>                |
| Business-Type activities capital assets, net | <u>\$ 68,532,835</u>             | <u>\$ 4,613,024</u>     | <u>\$ -</u>                       | <u>\$ -</u>               | <u>\$ 73,145,859</u>             |

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

|   |                     |
|---|---------------------|
| General government                                  |                     |
| Public safety                                       | \$ 367,980          |
| Public works  | 472,018             |
| Culture and recreation                              | 3,912,938           |
|   | <u>241,146</u>      |
| Total depreciation expense-Governmental activities  | <u>\$ 4,994,082</u> |
| Business-type activities:                           |                     |
| Water and Sewer                                     | <u>\$ 1,947,352</u> |
| Total depreciation expense-Business-type activities | <u>\$ 1,947,352</u> |

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

**NOTE 5. LONG-TERM DEBT**

At September 30, 2008, bonds payable consisted of the following individual issues:

| <b>Certificate Obligations:</b>  | Governmental         | Business-type        | Component<br>Unit   |
|--|----------------------|----------------------|---------------------|
|  | <u>          </u>    | <u>          </u>    | <u>          </u>   |
| Combination Tax and Revenue Certificates of Obligation, Series 1998, 4.25% to 5.25%, maturing in annual installments of \$140,000 to \$230,000 through 2012            | \$ 860,000           | \$ -                 | \$ -                |
| Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 1999, 5.00% to 7.00%, maturing in installments of \$80,000 to \$135,000 through 2009    | 135,000              | -                    | -                   |
| Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2000, 4.875% to 5.75%, maturing in installments of \$60,000 to \$160,000 through 2010   | 310,000              | -                    | -                   |
| Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2000A, 4.50% to 6.00%, maturing in installments of \$110,000 and \$165,000 through 2009 | 165,000              | -                    | -                   |
| Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2001, 4.35% to 5.75%, maturing in installments of \$205,000 and \$545,000, through 2022 | 5,600,000            | -                    | -                   |
| Combination Tax and Revenue Certificates of Obligation, Series 2002, 3.50% to 5.00%, maturing in installments of \$480,000 to \$935,000 through 2022                   | 7,360,000            | 2,375,000            | -                   |
| Combination Tax and Revenue Certificates of Obligation, Series 2003, 3.00% to 4.10%, maturing in installments of \$170,000 to \$375,000 through 2017                   | 3,415,000            | -                    | -                   |
| Combination Tax and Revenue Certificates of Obligation, Series 2004, 3.60% to 4.81%, maturing in annual installments of \$215,000 to \$380,000 through 2024.           | 4,490,000            | -                    | -                   |
| Combination Tax and Surplus Revenue Certificates of Obligation, Series 2006, 3.5% to 5.00% maturing in installments of \$140,000 to \$1,630,000 through 2026.          | 429,761              | 17,029,760           | 2,850,478           |
| Combination Tax and Surplus Revenue Certificates of Obligation, Series 2007, 3.5% to 5.00% maturing in installments of \$510,000 to \$1,055,000 through 2027.          | 6,805,000            | 7,140,000            | -                   |
| Combination Tax and Surplus Revenue Certificates of Obligation, Series 2008, 3.5% to 5.00% maturing in installments of \$510,000 to \$1,055,000 through 2027.          | 1,700,000            | -                    | -                   |
|  | <u>\$ 31,269,761</u> | <u>\$ 26,544,760</u> | <u>\$ 2,850,478</u> |
| <b>General Obligation:</b>   |                      |                      |                     |
| General Obligation Refunding Bonds, Series 2007, 4.00%, maturing in annual installments of \$550,000 to \$755,000 through 2017   | \$ 5,835,000         | \$ -                 | \$ -                |
| General Obligation Refunding Bonds, Series 2005, 3.00% to 4.125%, maturing in annual installments of \$65,000 to \$1,050,000 through 2021                              | 9,205,000            | -                    | -                   |
|  | <u>\$ 15,040,000</u> | <u>\$ -</u>          | <u>\$ -</u>         |

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

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

|  | Governmental | Business-type |
|--|--------------|---------------|
| <b>Revenue Bonds:</b>  |              |               |
| Water and Sewer System Revenue Bonds, Series 2004, 3.00% to 5.25%, maturing in annual installments of \$865,000 to \$1,550,000 beginning in 2008 through 2024. | \$ -         | \$ 18,290,000 |
| Waterworks and Sewer System Revenue Bonds, Series 2008, 3.35%, maturing in annual installments of \$200,000 to \$385,000 through 2018.                         | -            | 3,155,000     |
|  | \$ -         | \$ 21,445,000 |

The following is a summary of long-term debt transactions, including current portion, of the City for the year ended September 30, 2008:

|                                 | Balance<br>Beginning<br>of Year | Increases    | Decreases      | Refunding      | Balance<br>End<br>of Year | Due<br>Within<br>One Year |
|---------------------------------|---------------------------------|--------------|----------------|----------------|---------------------------|---------------------------|
| <b>Governmental Activities</b>  |                                 |              |                |                |                           |                           |
| Certificate obligations         | \$ 31,899,682                   | \$ 1,700,000 | \$ (2,329,921) | \$ -           | \$ 31,269,761             | \$ 2,421,471              |
| General obligation              | 15,103,742                      | 6,415,000    | (650,000)      | (5,828,742)    | 15,040,000                | 620,000                   |
| Unamortized bond premium        | 296,783                         | 57,792       | (23,322)       | -              | 331,253                   | 19,006                    |
| Deferred loss on refunding      | (437,377)                       | (528,858)    | 168,663        | -              | (797,572)                 | (168,663)                 |
| Compensated absences            | 1,421,503                       | 2,160,053    | (2,051,764)    | -              | 1,529,792                 | 1,528,215                 |
| Accreted interest               | 417,537                         | -            | (417,537)      | -              | -                         | -                         |
|                                 | \$ 48,701,870                   | \$ 9,803,987 | \$ (5,303,881) | \$ (5,828,742) | \$ 47,373,234             | \$ 4,420,029              |
| <b>Business-Type Activities</b> |                                 |              |                |                |                           |                           |
| Certificate obligation          | \$ 26,903,660                   | \$ -         | \$ (358,900)   | \$ -           | \$ 26,544,760             | \$ 437,350                |
| Revenue bonds                   | 22,875,000                      | 3,420,000    | (1,440,000)    | (3,410,000)    | 21,445,000                | 1,445,000                 |
| Unamortized bond premium        | 1,083,571                       | -            | (59,284)       | -              | 1,024,287                 | 59,286                    |
| Compensated absences            | 223,198                         | 275,801      | (263,519)      | -              | 235,480                   | 235,480                   |
| Deferred loss on refunding      | -                               | (90,431)     | 11,304         | -              | (79,127)                  | (22,608)                  |
|                                 | \$ 51,085,429                   | \$ 3,605,370 | \$ (2,110,399) | \$ (3,410,000) | \$ 49,170,400             | \$ 2,154,508              |
| <b>Component Units</b>          |                                 |              |                |                |                           |                           |
| Certificate obligations         | \$ 2,851,657                    | \$ -         | \$ (1,179)     | \$ -           | \$ 2,850,478              | \$ 1,179                  |
| Unamortized bond premium        | 86,391                          | -            | (4,712)        | -              | 81,679                    | 4,712                     |
| Compensated absences            | 39,687                          | 22,606       | (23,341)       | -              | 38,952                    | 19,380                    |
|                                 | \$ 2,977,735                    | \$ 22,606    | \$ (29,232)    | \$ -           | \$ 2,971,109              | \$ 25,271                 |

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

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

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

During 2007, the City issued \$6,415,000 in General Obligation Refunding Bonds to refund portions of the 1998 Certificate Obligations. As a result \$5,828,742 of the Certificate Obligations Series 1998 is considered defeased. The proceeds were used to purchase U.S. Government securities and these securities were placed in an irrevocable escrow account until the refunded bonds are redeemed. The City in effect, increased its aggregate debt service payments by \$586,258 thru 2017 and resulted in an economic gain (difference between present value of the old and new debt service payments) of \$90,541. The transaction resulted in an accounting loss of \$528,858 which is reported in the government-wide statements and will be expensed over the life of the old debt.

During 2008, the City issued \$3,420,000 in Water and Sewer System Refunding Bonds to refund Series 1991, 1995, 1996A, 1996B and 1998 Certificate Obligations. As a result \$3,410,000 of the Certificate Obligations Series 1991, 1995, 1996A, 1996B and 1998 are considered defeased. The proceeds were used to purchase U.S. Government securities and these securities were placed in an irrevocable escrow account until the refunded bonds are redeemed. The City in effect, increased its aggregate debt service payments by \$10,000 through 2018 and resulted in an economic gain (difference between present value of the old and new debt service payments) of \$189,740. The transaction resulted in an accounting loss of \$90,431 which is reported in the government-wide statements and will be expensed over the life of the old debt.

A portion of Series 2006, Combination Tax and Surplus Revenue Certificate Obligation was issued by the City to provide financial assistance to the TCEDC. Payment of the obligation to the City is guaranteed through the project agreement entered into by the City with the TCEDC, and therefore no obligation for the debt has been recorded in the financial statements of the City and are recorded on the financial statements of the TCEDC. At September 30, 2008, the amount outstanding under the debt obligation was \$2,850,478.

**Description to Debt Indentures**

**Certificate Obligation Bonds**

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

**Revenue Bonds**

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

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

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

**Description to Debt Indentures – Continued**

**Bond Compliance**

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions at September 30, 2008.

**Annual Requirements to Retire Debt Obligations**

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2008, are as follows:

**Certificate Obligation Bonds**

Annual debt service requirements to maturity for certificate obligation bonds, including interest of \$13,737,264 for governmental activities, \$13,550,282 for business-type activities and \$1,559,224 for component unit activities are as follows:

| Fiscal Year Ending<br>September 30 | Government Activities    |                      |                      |
|------------------------------------|--------------------------|----------------------|----------------------|
|                                    | Principal                | Interest             | Total                |
| 2009                               | \$ 2,422,809             | \$ 1,418,671         | \$ 3,841,480         |
| 2010                               | 2,164,782                | 1,314,461            | 3,479,243            |
| 2011                               | 2,095,295                | 1,217,224            | 3,312,519            |
| 2012                               | 3,154,519                | 2,360,999            | 5,515,518            |
| 2013                               | 3,282,485                | 1,907,253            | 5,189,738            |
| 2014 – 2018                        | 9,629,967                | 4,084,025            | 13,713,992           |
| 2019 – 2023                        | 8,199,324                | 1,398,531            | 9,597,855            |
| 2024 – 2027                        | 320,580                  | 36,100               | 356,680              |
| Total                              | <u>\$ 31,269,761</u>     | <u>\$ 13,737,264</u> | <u>\$ 45,007,025</u> |
| Fiscal Year Ending<br>September 30 | Business-Type Activities |                      |                      |
|                                    | Principal                | Interest             | Total                |
| 2009                               | 436,012                  | 1,234,273            | \$ 1,670,285         |
| 2010                               | 1,138,654                | 1,217,167            | 2,355,821            |
| 2011                               | 1,178,912                | 1,172,055            | 2,350,967            |
| 2012                               | 2,390,762                | 2,220,988            | 4,611,750            |
| 2013                               | 2,736,344                | 1,793,263            | 4,529,607            |
| 2014 – 2018                        | 7,616,716                | 3,695,262            | 11,311,978           |
| 2019 – 2023                        | 6,965,996                | 1,856,852            | 8,822,848            |
| 2024 – 2027                        | 4,081,364                | 360,422              | 4,441,786            |
| Total                              | <u>\$ 26,544,760</u>     | <u>\$ 13,550,282</u> | <u>\$ 40,095,042</u> |

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

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

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

| Fiscal Year Ending<br>September 30 | Component-Unit Activities |                     |                     |
|------------------------------------|---------------------------|---------------------|---------------------|
|                                    | Principal                 | Interest            | Total               |
| 2009                               | 1,179                     | 130,022             | \$ 131,201          |
| 2010                               | 116,564                   | 129,976             | 246,540             |
| 2011                               | 120,793                   | 125,606             | 246,399             |
| 2012                               | 124,719                   | 119,566             | 244,285             |
| 2013                               | 131,171                   | 113,330             | 244,501             |
| 2014 – 2018                        | 748,317                   | 474,582             | 1,222,899           |
| 2019 – 2023                        | 934,680                   | 287,944             | 1,222,624           |
| 2024 – 2027                        | 673,055                   | 178,198             | 851,253             |
| Total                              | <u>\$ 2,850,478</u>       | <u>\$ 1,559,224</u> | <u>\$ 4,409,702</u> |

**General Obligation Bond**

Annual debt service requirements to maturity for general obligation bonds, including interest of \$3,938,303 are as follows:

| Fiscal Year Ending<br>September 30 | Government Activities |                     |                      |
|------------------------------------|-----------------------|---------------------|----------------------|
|                                    | Principal             | Interest            | Total                |
| 2009                               | \$ 620,000            | \$ 576,769          | \$ 1,196,769         |
| 2010                               | 955,000               | 552,269             | 1,507,269            |
| 2011                               | 1,170,000             | 575,494             | 1,745,494            |
| 2012                               | 1,215,000             | 471,069             | 1,686,069            |
| 2013                               | 1,510,000             | 424,944             | 1,934,944            |
| 2014 – 2018                        | 7,705,000             | 1,204,657           | 8,909,657            |
| 2019 – 2023                        | 1,865,000             | 133,101             | 1,998,101            |
| Total                              | <u>\$ 15,040,000</u>  | <u>\$ 3,938,303</u> | <u>\$ 18,978,303</u> |

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

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

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

**Revenue Bonds**

Revenue bond debt service requirements to maturity, including interest of \$8,591,288 are as follows:

| Fiscal Year Ending<br>September 30 | Business-Type Activities |              |               |
|------------------------------------|--------------------------|--------------|---------------|
|                                    | Principal                | Interest     | Total         |
| 2009                               | \$ 1,445,000             | \$ 949,193   | \$ 2,394,193  |
| 2010                               | 1,190,000                | 859,495      | 2,049,495     |
| 2011                               | 1,245,000                | 821,793      | 2,066,793     |
| 2012                               | 1,255,000                | 780,533      | 2,035,533     |
| 2013                               | 1,300,000                | 734,790      | 2,034,790     |
| 2014 – 2018                        | 6,780,000                | 2,879,295    | 9,659,295     |
| 2019 – 2023                        | 6,680,000                | 1,484,814    | 8,164,814     |
| 2024 – 2027                        | 1,550,000                | 81,375       | 1,631,375     |
| Total                              | \$ 21,445,000            | \$ 8,591,288 | \$ 30,036,288 |

**NOTE 6. INTERFUND RECEIVABLES AND PAYABLES**

**Due to/from other funds**

Due to/from other funds at September 30, 2008 consisted of the following individual fund receivables and payables:

| Fund                                       | Receivable | Payable    |
|--|------------|------------|
| <b><u>General</u></b>                      |            |            |
| Non-major Governmental Funds               | \$ 139,493 | \$ -       |
| <b><u>Non-major Governmental Funds</u></b> |            |            |
| General Fund                               | -          | 139,493    |
|  | \$ 139,493 | \$ 139,493 |

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

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

**NOTE 7. INTERFUND TRANSFERS**

All interfund transfers between the various funds are approved supplements to the operations of those funds. Individual fund operating transfers for fiscal year 2008 were as follows:

| Transfer<br>Fund                   | Transfer<br>In      | Transfer<br>Out     | Purpose<br>of Transfer |
|------------------------------------|---------------------|---------------------|------------------------|
| <b>General:</b>                    |                     |                     |                        |
| Water and Sewer Enterprise         | \$ 1,555,000        | \$ -                | Budgetary              |
| Debt Service                       | -                   | 100,000             | Debt Service           |
| Capital Projects                   | 350,000             | 330,674             | Capital Projects       |
| Non-major governmental             | 190,000             | 405,710             | Budgetary              |
| <b>Debt Service:</b>               |                     |                     |                        |
| General Fund                       | 100,000             | -                   | Debt Service           |
| Water and Sewer Enterprise         | 44,320              | -                   | Debt Service           |
| <b>Capital Projects:</b>           |                     |                     |                        |
| General Fund                       | 330,674             | 350,000             | Capital Projects       |
| Non-major governmental             | 12,396              | 12,711              | Capital Projects       |
| Water and Sewer Enterprise         | 982,359             | 2,299,432           | Capital Projects       |
| <b>Water and Sewer Enterprise:</b> |                     |                     |                        |
| General Fund                       | -                   | 1,555,000           | Budgetary              |
| Capital Projects                   | 2,299,432           | 982,359             | Capital Projects       |
| Debt Service                       | -                   | 44,320              | Debt Service           |
| <br>                               |                     |                     |                        |
| Transfer<br>Fund                   | Transfer<br>In      | Transfer<br>Out     | Purpose<br>of Transfer |
| <b>Non-major Governmental:</b>     |                     |                     |                        |
| General Fund                       | 405,710             | 190,000             | Budgetary              |
| Capital Projects Fund              | 12,711              | 12,396              | Capital Projects       |
| Non-major governmental             | 143,000             | 143,000             | Budgetary              |
|                                    | <u>\$ 6,425,602</u> | <u>\$ 6,425,602</u> |                        |

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

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

**NOTE 8. RETIREMENT PLAN**

**Plan Description**

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

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

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

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

At its December 8, 2007 meeting, the TMRS Board of Trustees adopted actuarial assumptions to be used in the actuarial valuation for the year ended December 31, 2007. A summary of actuarial assumptions and definitions can be found in the December 31, 2007 TMRS Comprehensive Annual Financial Report (CAFR).

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

**NOTE 8. RETIREMENT PLAN – CONTINUED**

**Plan Description – Continued**

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as of the valuation date, but does not project the potential future liability of provisions adopted by a city. Two thirds of the cities participating in TMRS have adopted the updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, the TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually repeating basis. In addition, the Board also adopted a change in the amortization period from a 25-year “open” to a 25-year “closed” period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than 0.5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approx. 12.5% each year) to their full rate (or their required contribution rate).

If the changes in actuarial funding method and assumptions had not been adopted for the 2007 valuation, the city’s unfunded actuarial accrued liability would have been \$7,688,458 and the funded ratio would have been 75.4%.

In addition, TMRS is currently working on its legislative package for 2009. There is a possibility that the investment rate of return (IRR) assumption of 7% would need to be lowered if desired legislation for the 2009 session is unsuccessful. Maintaining a 7% IRR assumption is contingent in part on the continued diversification of the TMRS portfolio, from an almost exclusive bond portfolio to a portfolio that includes equities as well. If state legislation needed to facilitate the continued diversification is not enacted, TMRS may have to revisit the continued diversification of the portfolio and consider reducing the assumed IRR. A reduction in the IRR would result in increased actuarial accrued liabilities, thus causing further increases in city contribution rates, following the December 31, 2009 actuarial valuation.



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

**NOTE 8. RETIREMENT PLAN – CONTINUED**

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

|                                    | 2008         | 2007         | 2006         |
|------------------------------------|--------------|--------------|--------------|
| Annual required contribution (ARC) | \$ 1,633,312 | \$ 1,498,285 | \$ 1,525,218 |
| Actual contribution                | 1,633,312    | 1,498,285    | 1,525,218    |
| Net pension obligation             | \$ -         | \$ -         | \$ -         |

|                               |  |  |  |
|-------------------------------|--|--|--|
| Actuarial cost method         | Projected Unit Credit  | Unit Credit  | Unit Credit  |
| Amortization method           | Level of Percent<br>of Payroll   | Level of Percent<br>of Payroll   | Level of Percent<br>of Payroll   |
| Remaining amortization period | 30 Years – Closed Period   | 25 Years – Open Period   | 25 Years – Open Period   |
| Asset valuation method        | Amortized Cost<br>(to accurately reflect<br>the requirements of<br>GASB Stmt, No. 25,<br>paragraphs 36e and 138) | Amortized Cost<br>(to accurately reflect<br>the requirements of<br>GASB Stmt, No. 25,<br>paragraphs 36e and 138) | Amortized Cost<br>(to accurately reflect<br>the requirements of<br>GASB Stmt, No. 25,<br>paragraphs 36e and 138) |

Actuarial Assumptions:

|                            |                           |       |      |
|----------------------------|---------------------------|-------|------|
| Investment Rate of Return  | 7%                        | 7%    | 7.1% |
| Projected Salary Increases | varies by age and service | None  | None |
| Includes Inflation At      | 3.00%                     | 3.50% | None |
| Cost of Living Adjustments | 2.1% (3.0 %, CPI)         | None  | None |

**NOTE 9. DEFERRED COMPENSATION PLAN**

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

As a result of legislative changes, all amounts of compensation deferred, all property and rights purchased, and all income, property or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries, whereas, prior to these legislative changes, these amounts were solely the property and rights of the City subject only to the claims of the City's general creditors. As a result, at September 30, 2008, the deferred compensation investments in the amount of \$1,689,730 are not reported in the City's financial statements.

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

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

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

At September 30, 2008, certain claims and litigation against the City are pending with respect to matters arising in the normal course of the City's operations. City management is of the opinion that the settlement of these matters will not have a material adverse effect on the City's financial statements.

The court of appeals ruled against the City for payments owed under a contract for wastewater treatment. The City has accrued \$642,000 in accounts payable and accrued liabilities for the payments owed under the contract.

At September 30, 2008, the City had authorized construction contract commitments of approximately \$16,600,000

**NOTE 11. DEFICIT FUND BALANCE**

The following fund had a deficit fund balance at September 30, 2008:

Hidden Cove Park – This is a non-major governmental fund. The deficit is a result of expenditures allocated to a state park which was abandoned by the State of Texas. The City had the opportunity to invest in the park, located on property within the City's jurisdiction. The deficit fund balance will be recovered through future operations and operating transfers from other funds. The current deficit is (\$139,593), or a decrease in the deficit of \$251,999 for the year ended September 30, 2008. The City has designated fund balance in the General Fund in the amount of \$140,000 to cover this deficit fund balance.

**NOTE 12. RISK MANAGEMENT**

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