

# Comprehensive Annual Financial Report



**City of Highland Village**

**Fiscal Year Ended  
September 30, 2008**

**CITY OF  
HIGHLAND VILLAGE, TEXAS**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
SEPTEMBER 30, 2008**

**Prepared by:**

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

**CITY OF HIGHLAND VILLAGE, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**

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# **INTRODUCTORY SECTION**





FINANCE  
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March 11, 2009

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

The Finance Department of the City of Highland Village is pleased to submit the Comprehensive Annual Financial Report of the City of Highland Village, Texas, for the fiscal year ended September 30, 2008.

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

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

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

Pattillo, Brown & Hill, L.L.P., Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Highland Village financial statements for the year ended September 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

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

## **Profile of the Government**

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

The City's estimated 2008 population is 15,750, a 35% increase over the past 10 years. A reflection of this sustained growth in population is evidenced by a consistent trend in the number of single-family residential permits being issued. The City is currently approximately 94% built out, with approximately 311 single-family residential homes remaining to be built in platted and unplatted parcels. The estimated build out date is approximately 2010. Over the last six years, the City has averaged 116 single-family residential permits annually. The average assessed value for existing single-family dwellings on the 2007 Tax Roll was \$264,625.

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

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

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

## **Local Economy**

While the National economy is mired in a recession, the North Texas economy has thus far been less affected, however displaying distress signals toward the end of 2008. Devaluation in the housing market has plagued many parts of the country, but has not yet been a significant factor in this area, as the area housing market has grown steadily over the past number of years, without the significant appreciation that has contributed to the recent decline in other markets around the country. Increased production of natural gas in the Barnett Shale formation in this area has been a stimulus to the local economy, but is now slowing due to depressed gas prices. The City is experiencing moderate growth as part of the Dallas-Fort Worth Metroplex. The housing market remains relatively steady, with continued growth expected in Denton County. The close proximity of the Dallas-Fort Worth International Airport and both cities of Dallas and Fort Worth enhance increasing residential development. The average value of new construction residential permits was approximately \$267,581. There were 64 single-family permits issued during fiscal year 2006/2007 for a total construction value of \$17,125,201. In addition, there were 5,211 water connections, with 4,942 being the total residential. Since the City's residential tax base

is a significant portion of its annual budget, these increases have the most significant impact on the City's ability to raise revenues to provide the services and conditions for future growth.

There were 47 commercial permits issued during the year for a total value of \$8,827,949. Increased commercial development has certainly enhanced the business and economic outlook for the City. Over the past fourteen years, the City has realized gradual economic development, beginning with the completion in 1995 of the 80,000 square foot Highland Village Town Center shopping complex. Kroger's grocery chain is the anchor commercial development in the Town Center complex. Phase II of this development was completed in October 1997, with both developments maintaining a high occupancy. Valley Ridge Center, a professional office complex on FM 407 was also added in 1997. A new bank, United Community Bank, opened for business in 1998 with a temporary building - a permanent bank building was completed in 1999.

In January 1999, the City Council initiated implementation of an overlay ordinance for nonresidential development. This change was enacted to create a unique look for Highland Village by requiring a residential look to nonresidential uses. This effort was seen as an economic development issue to ensure quality future development. The completion of Village Parkway in 1998 in the western part of the City will provide additional economic stimulus for the City - particularly now that TXDOT is constructing a segment that will extend this roadway to Denton as an extension of FM 2499, providing an alternate route to DFW Airport. And this will in turn, greatly enhance the commercial value of the developments at the FM 407 and FM 2499 intersection with the resulting increase in traffic.

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

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

With limited remaining undeveloped commercial property in Highland Village - primarily located along FM 407 and FM 2499, the City focused on the remaining undeveloped property to ensure compatible, high-quality development. An additional overlay district was developed for this area to apply standards that will assure the highest and best use, with the potential for increased sales tax revenues while continuing to maintain the high quality of life in Highland Village.

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

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

In February, 2008 the site plan for The District at Highland Village was approved for construction. The District is located at the northwest corner of Briarhill Blvd. and FM 407 and is a 15-acre mixed-use development which includes 73 upscale town-homes adjacent to the existing residential neighborhood with retail, office/professional and restaurant uses located along FM 407.

The City is primarily a residential community with a relatively small commercial base. Substantial residential build-out, expected in the near future, will diminish residential growth. Remaining lots associated with the Chapel Springs development (initially 121 lots) in the western portion of the city, will continue to provide sustained residential building activity.

There are shopping areas with major retail department stores, variety stores and chain stores located in the general vicinity of Highland Village. Wholesale firms, distributing automobile parts and supplies, electronics, lumber, meats, plumbing fixtures, petroleum products and boat distributors are also located in the general vicinity. A plentiful supply of skilled labor is available to industry in the Highland Village area. Denton County reflected an unemployment rate of 5.0% as of September 2008.

## **MAJOR INITIATIVES**

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

- The tax rate remained at \$.56963 from the previous year. Due to increased valuation, as well as increased sales tax revenues due to realization of economic development, maintaining this tax rate provided sufficient resources to ensure fund balance requirements and meet increased service delivery objectives.
- In November 2007, voters approved a proposition to make improvements to 948 Highland Village Road, including the construction of a service center facility, modifications to the previous Fire Station to enable it to be utilized for senior programming, and improvements for equipment and material storage.
- The contract was awarded for FM 2499 and construction is scheduled to begin in early FY 2008/09.
- The Unity Park Elevated Storage tank was put online.
- A groundbreaking was held for The District of Highland Village and construction began.
- Construction was completed on the new fire station.

- The City Council approved a new logo for the City and a new website design was unveiled.
- A recycling program was implemented and recycling carts provided to all residents.
- A Veteran's Monument was designed, constructed and dedicated.
- A State of the City video was produced and aired at the joint State of the City luncheon with Lewisville and Flower Mound.
- A new telephone system was developed and implemented including the new Fire Station, also allowing for connectivity to the 948 Highland Village Road location. The City will realize monthly savings of roughly \$900 per month with elimination of the current centranet services at the 948 location.
- In the process of a bond issuance comprising a \$5M GO issue, with accompanying CO's for trails (\$3M) and utility (\$1.5M), the City obtained a rating upgrade from S&P to AA- (previously A+), with Fitch sustaining the previously obtained AA- rating.
- The Fire Department, along with Police, implemented a new Severe Weather Response policy and are now utilizing Meteorogix Weather Sentry services to help command personnel make accurate severe weather decisions regarding Connect CTY and Outdoor Warning sire activations.
- The Fire Department provided CPR and Healthcare Provider training for 172 residents, businesses and employees during the first three quarters of 2008.
- Provided mutual aid to seven different cities with 127 calls.
- In late September 2007 the Shops at Highland Village, a 45-acre upscale lifestyle retail center celebrated its grand opening for approximately 30 shops, restaurants and businesses. The AMC Theatre opened in mid-December 2007 with other businesses and restaurants continuing to open throughout 2008.
- November, 2007 marked the grand opening the Highland Village "community" Wal-Mart store located in the Market place at Highland Village on the northeast corner of FM 407 and FM 2499. The store is truly a one-of-a-kind including the dedication of a 125+ year old pecan tree standing at the store's entrance. Wal-Mart officials worked to redesign the front façade of the store to preserve this piece of Highland Village history.
- In February, 2008 the site plan for The District at Highland Village was approved for construction. The District is located at the northwest corner of Briarhill Blvd. and FM 407 and is a 15-acre mixed-use development which includes 73 upscale town-homes adjacent to the existing residential neighborhood with retail, office/professional and restaurant uses located along FM 407.
- Expanded recreation programming for the annual Easter Egg hunt to include a can drive supported by the volunteer efforts of a local Girl Scout and benefiting CCA; enhanced the Spring Clean Up to include recyclables and paper shredding and worked with over 500

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

- Completed and adopted the 2008 Parks, Recreation and Open Space Master Plan.
- Constructed a new 500k gallon ground storage reservoir at the Highland Shores well lot site.
- Received a Total Coliform Rule Program award from the TCEQ.
- Received an Outstanding Drinking Water System Award from the TCEQ.
- Not only recognized as the Safest City in North Texas for the 7th consecutive year, but as the safest city in Texas with a population over 10,000 for the second time.
- Received the International Association of Chiefs of Police (IACP) Community Policing Award for the department's Value-Based policing program. This is the 2nd time the department has received IACP recognition for one of its programs.
- Received the Texas Police Chief's Association (TPCA), "Innovations in Policing" award. This is the 2nd time the department has received TPCA recognition for one of its programs.
- Implemented the new Marcus High School, School Resource Officer (SRO) and Business Liaison initiative.
- Increased participation in the Neighborhood E-Watch program – with participation currently at 3566 members, 95% of all Highland Village businesses (178 businesses).

### ***Long Term Financial Planning***

Economic Development, specifically retail development, continues to be a primary objective. This will not only provide desired amenities for residents' immediate access, but also an avenue to diversify the City's revenue stream that is highly dependent on property tax. This is especially pertinent as the City nears substantial residential build-out, and accompanying declining growth in assessed valuation. A stated focus of Council is to maintain the current tax rate. This, coupled with declining growth in assessed valuation, provides a challenge to maintain the high level of services provided for in this community. A continued primary focus over the next few years is addressing staffing needs - projected at 140 positions at build-out (currently at 129 full-time employees). Additional revenues to be derived from retail economic development are a critical element to address funding for the needed future staffing.

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

A municipal drainage utility was formed at the end of FY 2006 to fund a storm water quality program and related drainage projects necessitated by Phase II MS 4 Storm Water Regulations – administered by the Texas Commission on Environmental Quality (TCEQ). A rate of \$1.20 per 1,000 square feet of impervious cover was established to fund this program – averaging just under \$5.00 per month for most City residents. Staffing of four positions has been established, as well as procurement of initial equipment – with on-going drainage projects.

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

A number of recreation programs have been initiated. In particular, baseball and soccer associations have experienced consistent participation, and have remained quite successful. An additional primary focus of the City has been the establishment of a comprehensive trail system throughout the City. The initial spine (9.83 miles) of the trail system was initiated with securing a \$1 million TEA-21 grant. This was completed in 2006 with a cost of \$1.7M. Voters approved a ½ cent 4B sales tax in November 2004 – specifically targeted for trail development and a soccer complex. All future development of the trail system is to be funded by the 4B sales tax. A \$3M bond issue in 2008 provided funding for the next section – with another bond issuance anticipated for FY 2009 to further expand the trail system in the City.

## Relevant financial policies

The City's financial policies address accounting and fiscal operations of the City with emphasis on asset management, operating reserves and fund balances. The City has established policies to maintain a fund balance equivalent to 15% of General Fund expenditures. Accordingly, fund balance levels have remained above this level. Ending fund balance was 28% in fiscal year 2004-2005, 26% in 2005-2006, 33% in 2006-2007, and 35% in 2007-2008. The City's financial policies are reviewed annually to comply with internal accounting issues, Federal and State Laws, and the governing body's directives. Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

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

**General Government Functions.** The following schedule presents a summary of actual General Fund, Special Revenue Fund, Debt Service Fund and Capital Projects Fund revenues for the fiscal year ending September 30, 2008. The amount and percentages of increases and decreases in relation to prior year revenues are presented for comparison as follows:

Source	Amount	% of Total	Increase (Decrease) from 2007	% of Increase (Decrease)
Taxes	\$ 11,759,504	82.91%	\$ 1,829,153	1,842.00%
Fines and forfeitures	128,235	0.90%	( 81,935)	( 38.99%)
Licenses, permits and fees	1,303,368	9.19%	( 235,583)	( 15.31%)
Intergovernmental	183,398	1.29%	( 135,764)	( 42.54%)
Charges for services	204,536	1.44%	99,800	95.29%
Investment earnings	345,422	2.44%	( 225,968)	( 39.55%)
Miscellaneous	<u>259,515</u>	<u>1.83%</u>	<u>31,573</u>	13.85%
Total revenues	<u>\$ 14,183,978</u>	<u>100.00%</u>	<u>\$ 1,281,276</u>	9.93%



An increase was experienced in taxes, with a small increase also recorded for miscellaneous. All other categories reflected decreases compared to last year. Taxes increased by \$1,829,153 or 18.42% over 2007. Sales tax comprised the largest portion of this increase - \$891,898, primarily from the opening of a new retail center (The Shops of Highland Village), as well as the opening of a Wal-Mart supercenter. Property taxes increased \$509,223 from 2007, reflecting the 11.3% growth in appraised valuation in the City. And franchise taxes increased \$185,041, this almost entirely reflecting increased electric franchise payments. Current tax collections are at 99% and the City has experienced an excellent tax collection rate for the past ten (10) years. Licenses, permits, and fees decreased \$235,583. This category represents a combination of building permits, inspection fees, park dedication fees, and park entry fees. The majority of this decrease resulted from reduced building permits and companion item – plan review fees, together decreasing \$430,654 from FY 2007. This reduction is largely associated with reduced residential building permits - also a reflection of the bulk of recent commercial retail development in the western part of the City occurring in FY 2007. The permit decline was partially offset by increased collection of park fees and drainage receipts (the Drainage Utility established in FY 2007 – reflecting a partial year collection). The Intergovernmental category had a decrease of \$135,764. This resulted from decreases of received grant reimbursements for both public safety and construction of the Inland Trail project (the grant associated with the initial section of the Inland Trail completed in FY 2008). Investment earnings were decreased primarily due to substantially decreased yields associated with lower rates.

The following schedule presents a summary of General Fund, Special Revenue Funds, Debt Service Fund and Capital Project Fund expenditures for the fiscal year ending September 30, 2008, and the percentage of increases and decreases in relation to prior year amounts.

Expenditures	Amount	% of Total	Increase (Decrease) from 2007	% of Increase (Decrease)
City manager	\$ 366,049	2.44%	\$( 536,554)	( 59.45%)
Finance	1,025,002	6.84%	27,250	2.73%
Human resources	334,663	2.23%	26,525	8.61%
City secretary	279,535	1.87%	2,046	74.00%
Police	2,945,687	19.66%	411,614	16.24%
Fire	1,415,559	9.45%	350,290	32.88%
Community development	494,528	3.30%	( 95,705)	( 16.21%)
Building operations	320,616	2.14%	52,968	19.79%
Streets and drainage	952,526	6.36%	193,573	25.51%
Maintenance	789,861	5.27%	102,895	14.98%
Parks and recreation	1,695,348	11.31%	314,803	22.80%
Debt service	2,212,875	14.77%	467,083	26.75%
Capital outlay	<u>2,153,389</u>	<u>14.37%</u>	<u>( 2,304,028)</u>	<u>( 51.69%)</u>
 Total revenues	 <u>\$ 14,985,638</u>	 <u>100.00%</u>	 <u>\$( 987,240)</u>	 <u>( 6.18%)</u>

Expenditures for the General Fund, Special Revenue Funds, Debt Service Fund, and Capital Project Fund totaled \$14,985,638 – a decrease of \$987,240, or 6.18%, from fiscal year 2007. Fluctuations in levels of expenditures for major functions of the City are shown in the table above. In general, most departments reflected increases from last year – more than offset by a reduction in capital outlay. Debt

Service showed an increase from last year primarily related to a tax note issued in FY 2007. The decrease in Capital Outlay reflected expenditures primarily associated with two major projects: design and construction of the new fire station (associated with the 2006 Bond Issue), and reconstruction of Brazos Blvd. (associated with the 2002 Bond Issue). The Brazos Blvd project essentially exhausted the remaining bond proceeds from the 2002 Issue with \$1.5M of expenditures in FY 2007. Expenditures associated with the fire station construction totaled \$2M in FY 2007, with remaining expenditures of \$1.2M in FY 2008.

Increased expenditures for services are representative of a growing city with demands for a higher level of service. Departments demonstrating significant change from the previous year include the City Manager, Police, Fire, Streets, and Parks. A decrease in the City Manager Department was attributable mainly to expenditures in FY 2007 not repeated in FY 2008 - payment of \$448,000 to the Town of Flower Mound regarding improvements made to the intersection of FM 407 and Chinn Chapel Road, the City participating jointly with Flower Mound. And \$84,000 was expended related to establishing a police storefront at the Marketplace at Highland Village Shopping Center. Expenditures for both the Police and Fire Department increased – primarily related to new positions. The Fire Department added four positions, with the Police department adding an officer position, as well as a part time support position. Additionally, the budget and related expenditures related to the animal care officer position was transferred to the Police Department. Street Department reflected an increase in expenditures in FY 2008 resulting from the first full year of operations for the Drainage Utility. And Parks expenditures increased in FY 2008 because of a change in practice of the Utility Fund charging the City full rates for city water usage (previously wholesale rates), expenditures related to completion of an open space master plan in FY 2008, as well as fence replacement for City right-of-way on Brazos Blvd. Those functions reflecting a decrease in expenditures do not equate to a decrease in services to the citizens of the City.

**General Fund Balance.** Total fund balances in the major operating funds were maintained at adequate levels. The designated and undesignated fund balance of the General Fund totaled \$3,791,510 at September 30, 2008, which represents an increase of \$546,241 (16.8%) over fiscal year 2007. The City closed the fiscal year with a General Fund Balance equal to 34.8% of General Fund operating expenditures.

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

At September 30, 2008, the Debt Service Fund Balance was \$371,198. This reserve is adequate to pay debt service payments on General Obligation and Certificate of Obligations that are due prior to tax collections. As of September 30, 2008, general long-term debt outstanding was \$21,955,254 and self-supporting debt in the Enterprise Fund was \$9,885,140 for a total funded principal debt obligation of \$31,840,394. The total debt obligation with principal and interest is \$42,594,621. During fiscal year 2008, the City retired principal on its general long-term debt in the amount of \$1,303,557 and paid interest on its bonds in the amount of \$585,498. Total debt payments for general purpose were \$1,889,055.

Property taxes collected in the Debt Service Fund for retirement of debt totaled \$1,915,512 in 2007-2008. With interest earnings and other sources, total revenue amounted to \$1,939,314.

With a funding requirement for 2007-2008 of \$1,889,055, the Debt Service Fund balance was effectively increased by \$50,259 to \$371,198.

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

The ratio of net bonded debt to assessed valuation is a useful indicator of the City's debt position to management, our citizens and investors. The net direct bonded debt outstanding as of September 30, 2008 was \$21,584,056. The ratio of net direct bonded debt to assessed value (100% of market value) is 1.46%. Net bonded debt per capita is \$1,370. The total assessed value per capita was \$93,877 at September 30, 2008.

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

**Water and Sewer Fund.** The Water and Sewer Fund is organized as an enterprise fund, based on the premise that it should be self-supporting through equitable fees and charges. Total operating revenues of the fund were \$7,551,247 which is an increase of \$2,088,814, or 38.24% over fiscal year 2007. This increase primarily resulted from significantly increased water sales, resulting from dry weather conditions, also supported by a rate increase enacted in October 2007. This increase was further enhanced in comparison to record rainfall received in 2007. Total operating expenditures less depreciation was \$5,418,275, which is an increase of \$383,623 or 7.6% over fiscal year 2007. This increase was evenly split between operations and wholesale treatment costs. An increase of \$211,000 in operations was principally related to addition of two utility technician positions and initiating contract meter reading services. Wholesale costs reflected a \$173,000 increase primarily resulting from a one-time \$137,640 expenditure of the City for its pro-rata cost of a sewer line built in conjunction with the UTRWD in the western portion of the City. Higher water volume costs due to increased usage, as well as increased water demand charges were partially offset by reduced sewer effluent treatment. (This particular cost increased substantially in FY 2007 because of the abundant rainfall (inflow and infiltration of rainfall into the system resulting in increased wastewater volume).

Monthly transfers from net revenues are being made to accrue for the next principal and interest payment. This Interest and Sinking Balance was \$46,410 at September 30, 2008. A rate analysis was conducted in 2007, resulting in an overall 18% rate increase that was implemented effective with FY 2008. This increase is expected to ensure sufficient revenues for the City to meet working capital needs, as well as debt service related to capital expenditures.

**Cash Management.** Cash temporarily idle during the year was invested in Certificates of Deposit Account Registry Service and the Texas Local Government Investment Pool. The monthly average yield on all City investments for September 2008 was 3.18%. All investment transactions and types were made in accordance with State Laws and Investment Policies as adopted by City Council. The City's demand deposits and certificates of deposits were all fully collateralized and such securities were held by a third party bank for safekeeping. The City's total investment portfolio at September 30, 2008 was \$18,649,793.

Of the City's idle funds,

- \$3,735,519, or 20.0%, was in the Texas State Treasury Investment Pool (Tex-Pool)
- \$5,914,275, or 31.7% was in the Texas Short Term Asset Reserve Program (TexSTAR)
- \$2,000,000, or 10.7% was in BOK CDARS (Certificates of Deposit Account Registry Services, FDIC insured certificates of deposits held in custody by Bank of Oklahoma, NA, a subsidiary of BOK Financial Corporation that matures October 16, 2008)
- \$3,000,000, or 16.1% was in BOK CDARS (Certificates of Deposit Account Registry Services, FDIC insured certificates of deposits held in custody by Bank of Oklahoma, NA, a subsidiary of BOK Financial Corporation that matures April 16, 2009)
- \$1,000,000, or 5.4% was in BoTX CDARS (Certificates of Deposit Account Registry Services, FDIC insured certificates of deposits held in custody by Bank of Texas, NA, a subsidiary of BOK Financial Corporation that matures January 2, 2009)
- \$1,000,000, or 5.4% was in BoTX CDARS (Certificates of Deposit Account Registry Services, FDIC insured certificates of deposits held in custody by Bank of Texas, NA, a subsidiary of BOK Financial Corporation that matures July 2, 2009)
- \$2,000,000, or 10.7% was in FCN CDARS (Certificates of Deposit Account Registry Services, FDIC insured certificates of deposits held in custody by First Community Bank Central Texas, NA that matures March 26, 2009)

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

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

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

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

## **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Highland Village for its comprehensive annual financial report for the fiscal year ended September 30, 2007. This was the seventeenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition, the City also received the GFOA Distinguished Budget Presentation Award for its annual budget document for fiscal year 2007 – the City's third receipt of this award. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document had to be judged proficient as a policy document, a financial plan, an operations guide, and a communications device.

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

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

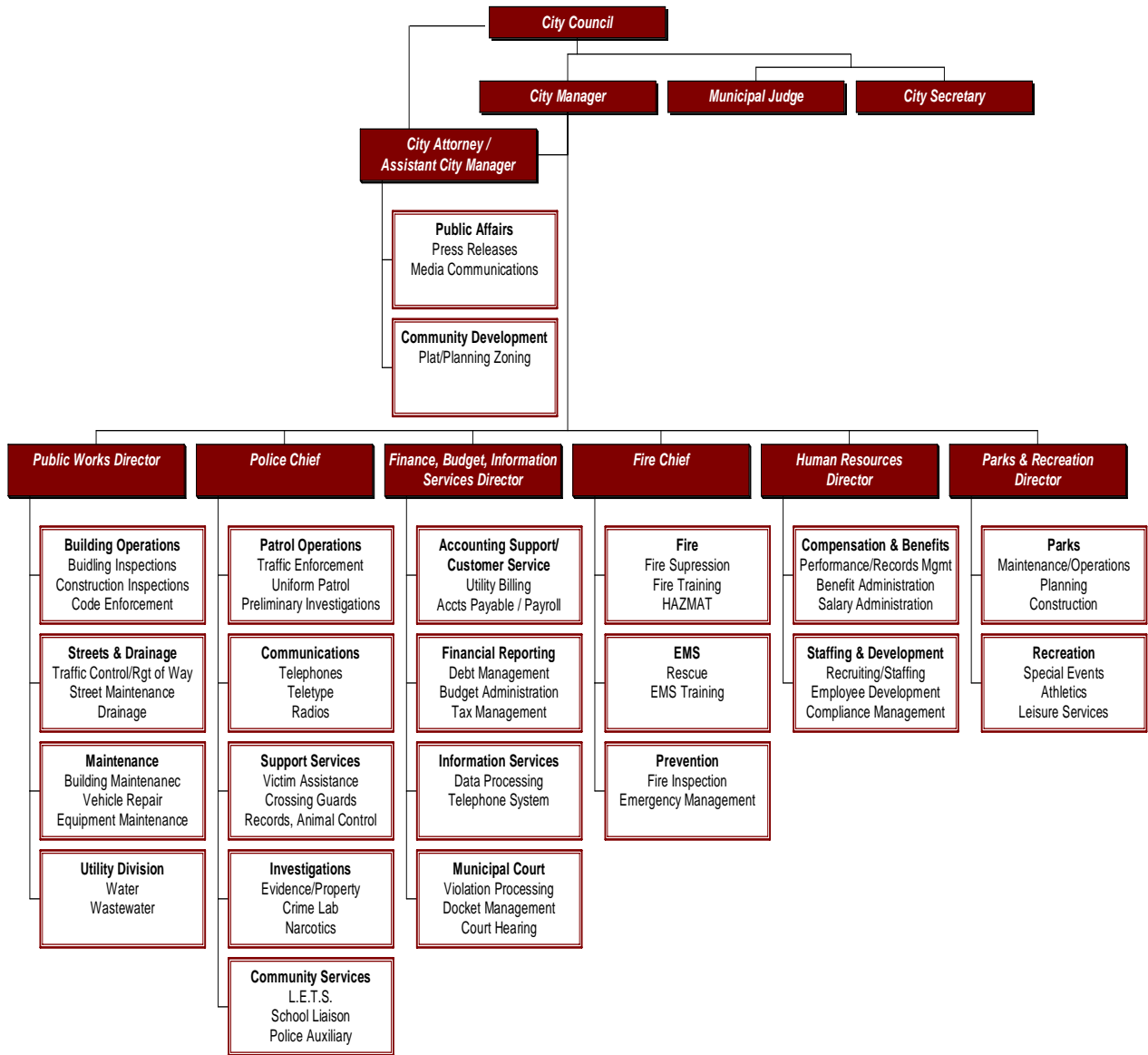
Sincerely,

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

Ken Heerman  
Director of Finance, Budget,  
and Information Services

# City of Highland Village

## Organization Chart FY 2007/2008



**CITY OF HIGHLAND VILLAGE, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**OCTOBER 1, 2007 – SEPTEMBER 30, 2008**

HOME RULE, COUNCIL-MANAGER FORM OF GOVERNMENT

MAYOR AND CITY COUNCIL

		<u>Term Expires</u>
Dianne Costa, Mayor	Place 1	05/2010
Scott McDearmont, Mayor Pro Tem	Place 6	05/2010
Louis E. Robichaux, Iv. Deputy Mayor Pro Tem	Place 4	05/2010
Brian Florenza	Place 3	05/2009
Don Combs	Place 2	05/2010
Austin Adams	Place 5	05/2009
Jon Calvin	Place 7	05/2009

ADMINISTRATIVE

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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
City of Highland Village  
Texas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2007

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



President

Executive Director



# **FINANCIAL SECTION**

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City of Highland Village, Texas, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Highland Village, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the City of Highland Village, Texas, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, of those activities and funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 18 and the budgetary comparison information on page 57 as described in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

March 11, 2009

**MANAGEMENT'S  
DISCUSSION AND ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Highland Village, we offer readers of the City of Highland Village's financial statements this narrative overview and analysis of the financial activities of the City of Highland Village for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

### FINANCIAL HIGHLIGHTS

- The assets of Highland Village exceeded its liabilities at the close of the most recent fiscal year by \$48,754,482. Of this amount, \$5,630,698 may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,918,090. A \$1,084,710 increase in net assets related to governmental activities was coupled by an increase of \$833,380 of net assets in business-type activities.
- As of September 30, 2008, Highland Village's governmental funds reported combined ending fund balances of \$14,117,367, an increase of \$7,597,106 in comparison with the prior year. Approximately 31 percent of this total amount, \$4,339,821, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,693,582, or 34 percent of total General Fund expenditures.
- The City of Highland Village's total debt increased by \$7,566,195 during the current fiscal year. New debt totaling \$9,500,000 was issued in this fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The statement of net assets presents information on all of Highland Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Highland Village is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

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

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

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

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide detailed information about the most significant funds, not the City as a whole. Some funds are required to be established by state law or bond covenants. However, the City Council also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City of Highland Village can be divided into two categories: governmental funds, and proprietary funds.

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

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

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and funds financial statements.

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The City's combined net assets were \$48,754,482 as of September 30, 2008. Analyzing the net assets and net expenses of governmental and business-type activities separately, business-type activities' net assets are \$9,692,397. This analysis focuses on the net assets (Table 1), and the change in net assets (Table 2).

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

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

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 15,873,964	\$ 8,246,204	\$ 6,523,458	\$ 5,920,030	\$ 22,397,422	\$ 14,166,234
Capital assets	<u>47,458,605</u>	<u>47,254,767</u>	<u>13,979,420</u>	<u>13,379,612</u>	<u>61,438,025</u>	<u>60,634,379</u>
Total assets	<u>63,332,569</u>	<u>55,500,971</u>	<u>20,502,878</u>	<u>19,299,642</u>	<u>83,835,447</u>	<u>74,800,613</u>
Long-term liabilities	21,274,310	14,320,461	9,094,390	8,218,520	30,368,700	22,538,981
Other liabilities	<u>2,996,174</u>	<u>3,203,135</u>	<u>1,716,091</u>	<u>2,222,105</u>	<u>4,712,265</u>	<u>5,425,240</u>
Total liabilities	<u>24,270,484</u>	<u>17,523,596</u>	<u>10,810,481</u>	<u>10,440,625</u>	<u>35,080,965</u>	<u>27,964,221</u>
Net assets:						
Invested in capital assets, net of related debt	34,619,733	34,116,670	6,111,699	5,731,085	40,731,432	39,847,755
Restricted	592,305	540,039	1,800,047	2,186,804	2,392,352	2,726,843
Unrestricted	<u>3,850,047</u>	<u>3,320,666</u>	<u>1,780,651</u>	<u>941,128</u>	<u>5,630,698</u>	<u>4,261,794</u>
Total net assets	<u>\$ 39,062,085</u>	<u>\$ 37,977,375</u>	<u>\$ 9,692,397</u>	<u>\$ 8,859,017</u>	<u>\$ 48,754,482</u>	<u>\$ 46,836,392</u>

The following table (Table 2) provides a summary of the City's operations for the year ended September 30, 2008. Governmental activities increased the City's net assets by \$1,084,710, while business-type activities increased the City's net assets by \$833,380, resulting in a net \$1,918,090 increase in total net assets.



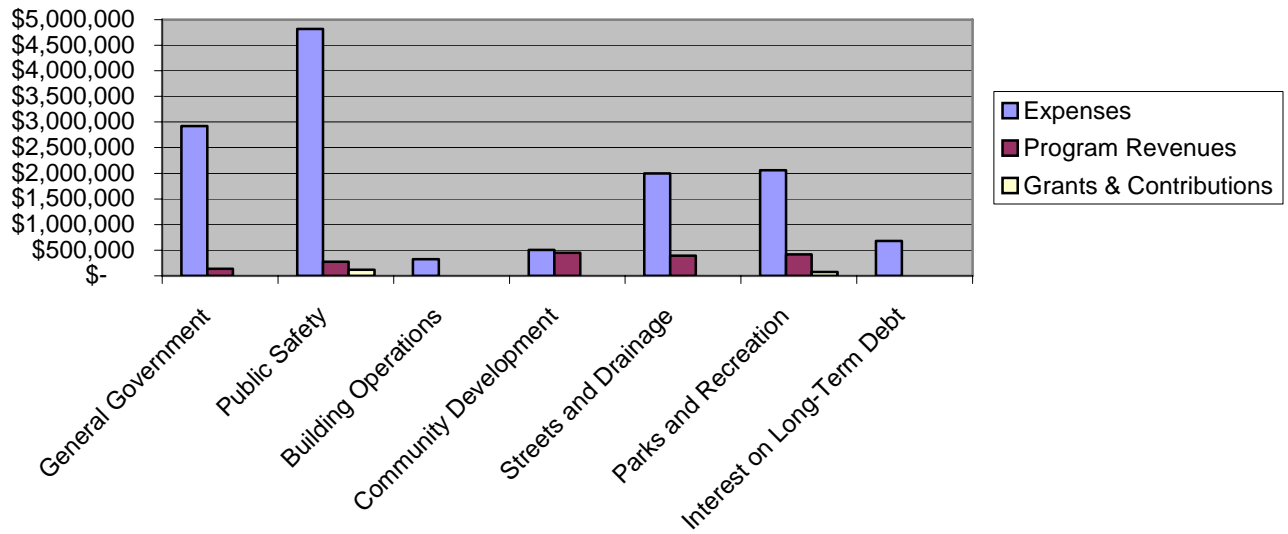
**TABLE 2**

**CITY OF HIGHLAND VILLAGE'S CHANGES IN NET ASSETS**

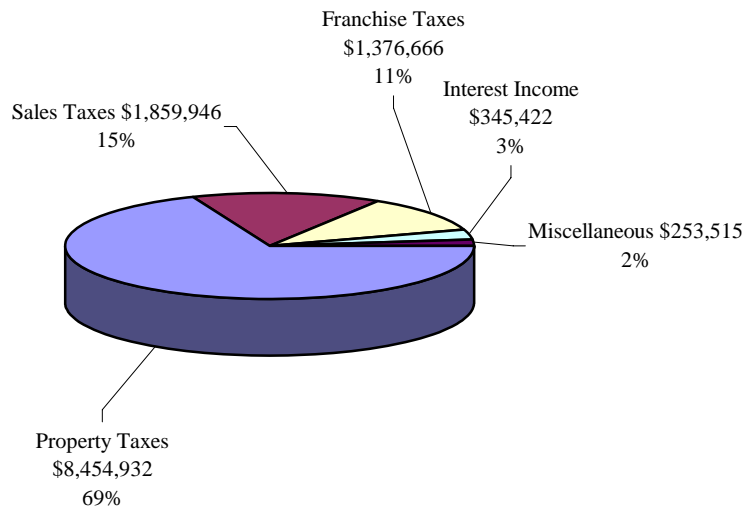
	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 1,672,763	\$ 1,795,379	\$ 7,551,247	\$ 5,462,433	\$ 9,224,010	\$ 7,257,812
Operating grants and contributions	190,771	319,162	-	-	190,771	319,162
Capital grants and contributions	-	-	200,628	884,296	200,628	884,296
General revenues:						
Property taxes	8,454,932	7,775,701	-	-	8,454,932	7,775,701
Sales taxes	1,859,946	940,009	-	-	1,859,946	940,009
Franchise taxes	1,376,666	1,229,270	-	-	1,376,666	1,229,270
Penalties and interest	-	-	-	-	-	-
Interest income	345,422	571,390	144,707	329,371	490,129	900,761
Miscellaneous	253,515	186,586	-	-	253,515	186,586
Total revenues	<u>14,154,015</u>	<u>12,817,497</u>	<u>7,896,582</u>	<u>6,676,100</u>	<u>22,050,597</u>	<u>19,493,597</u>
Expenses:						
General government	2,920,042	3,274,106	-	-	2,920,042	3,274,106
Public safety	4,817,750	3,982,151	-	-	4,817,750	3,982,151
Building operations	326,715	314,570	-	-	326,715	314,570
Community development	503,579	611,356	-	-	503,579	611,356
Community services*	1,998,304	-	-	-	1,998,304	-
Streets and drainage	2,061,027	1,716,177	-	-	2,061,027	1,716,177
Parks and recreation	-	1,660,194	-	-	-	1,660,194
Interest on long-term debt	681,888	617,809	-	-	681,888	617,809
Water and wastewater	-	-	6,823,202	6,433,256	6,823,202	6,433,256
Total expenses	<u>13,309,305</u>	<u>12,176,363</u>	<u>6,823,202</u>	<u>6,433,256</u>	<u>20,132,507</u>	<u>18,609,619</u>
Increases in net assets before transfers	844,710	641,134	1,073,380	242,844	1,918,090	883,978
Transfers	<u>240,000</u>	<u>120,000</u>	<u>( 240,000)</u>	<u>( 120,000)</u>	<u>-</u>	<u>-</u>
Change in net assets	1,084,710	761,134	833,380	122,844	1,918,090	883,978
Net assets, beginning	<u>37,977,375</u>	<u>37,216,241</u>	<u>8,859,017</u>	<u>8,736,173</u>	<u>46,836,392</u>	<u>45,952,414</u>
Net assets, ending	<u>\$ 39,062,085</u>	<u>\$ 37,977,375</u>	<u>\$ 9,692,397</u>	<u>\$ 8,859,017</u>	<u>\$ 48,754,482</u>	<u>\$ 46,836,392</u>

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

### Expenses and Program Revenues - Governmental Activities



### General Revenues by Source - Governmental Activities



Net assets associated with governmental activities increased \$1,084,710 in FY 2008 – this compared to a \$761,134 increase in net assets in FY 2007.

- FY 2008 revenues increased \$1,336,518 from the previous year. In general, increased property and sales tax revenues were partially offset by reduced interest income.
  - Property tax revenue increased \$679,231 resulting from an 11.3% increased valuation, of which about 7.2% is attributed to new growth. A large portion of the new growth is associated with the retail development in the western portion of the City.
  - Sales tax revenue increased \$919,937 (98%) from FY 2007 – this largely associated with the opening of the Shops of Highland Village development and a new Wal-Mart included in the Marketplace at Highland Village development.
  - Investment interest income of \$345,422 was reflective of a \$225,968 decrease from FY 2007, primarily resulting from lower yields.
- FY 2008 expenses increased \$1,132,942 from FY 2007, reflecting inflation and increased service demand. The total expenditure amount of \$13,309,305 however, was less than total revenues – providing an \$844,710 increase before transfers. This compares to a \$640,935 increase in FY 2007.
  - Personnel costs increased \$932,068, which reflected four additional positions, City pay increases, and increased benefits costs, also reflecting the first complete year of the Drainage Utility (funding four positions).
  - Non-personnel related Parks and Recreation expenses increased \$352,799 due to completion of a master plan update, replacement of fencing in City right-of-way, and equipment replacement vehicle purchases.
  - Increases in Public Safety and Street departments were offset by a decrease in General Government expenses – this primarily related to a one-time expenditure in FY 2007 of \$488,388 related to participation with the Town of Flower Mound for improvements to the intersection of FM 407 and Chinn Chapel Road.
- Transfers from the Utility Fund to reimburse the General Fund for support services, returned to the previous years' funding level \$240,000, after being reduced to \$120,000 one time only in FY 2007 – to ensure the Utility Fund maintain an adequate working capital balance, offsetting significantly diminished water sales resulting from record rainfall in 2007.

**Business-type activities:** Business-type activities reflected an \$833,380 increase in the City's net assets – this compared to a \$122,844 increase in net assets in FY 2007. Increased charges for services – specifically, water/sewer sales, revenues in total exceeded expenses and transfers, resulting in the increase in net assets.

- Charges for service increased \$2,088,814 from last year's total of \$5,462,433 due to implementation of an 18% utility rate increase at the start of FY 2008, coupled with dry weather conditions that contrasted with record rainfall received in FY 2007.

- Partially offsetting the increase in water and sewer sales was a \$683,668 decrease in impact fee collections - decreased from last year's collection of \$884,296, as well as reduced interest earnings.
- Expenses increased \$389,946, comprised partially of increased costs for wholesale water/wastewater of \$172,567, mostly reflective of a one-time \$137,640 expenditure in FY 2008 for the City's pro-rata share of cost related to construction of a sewer line built in conjunction with the UTRWD in the western portion of the City. Increased operations costs accounted for the remainder of the increase – primarily related to the addition of two utility technician positions and implementation of contract meter reading services.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

**Governmental funds.** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$14,117,367, an increase of \$7,597,106 in comparison with the prior year. Approximately 31 percent of this total amount, or \$4,339,821, constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period - \$185,755, 2) allow for prepaid items - \$20,612, 3) to pay debt service - \$371,198, 4) notes receivable (from the Highland Village Community Development Corporation for debt issued on its behalf) - \$3,065,653, 5) to pay for capital projects - \$5,779,137, and 6) reserved for park development - \$355,191.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$3,693,582, while total fund balance was \$3,791,510. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 34 percent of total General Fund expenditures, while total fund balance represents 35 percent of that same amount.

The original budget for FY 2008 reflected a \$338,290 drawdown of fund balance, to fund capital equipment purchases – while still providing for sufficient reserve balances. However, favorable variances for both revenues and expenditures in FY 2008 reversed the change in fund balance, instead reflecting an increase of \$546,241. Key factors affecting fund balance are as follows:

- Total General Fund revenues of \$11,304,521 exceeded the FY 2007 revenue total by \$1,161,543 – also exceeding the original FY 08 budgeted amount by \$444,666.
  - Property tax revenue increased \$451,749 from the previous year primarily due to increased valuation. Total taxable value in the City increased 11.3% - largely related to increased retail development.
  - Sales tax revenues of \$1,799,328, an increase of \$891,898 from FY 2007, were largely derived from the opening of the Shops of Highland Village development, coupled with the opening of Wal-Mart in the Marketplace at Highland Village development.

- Franchise tax revenues increased \$185,042 from last year – the increase primarily from the electric franchise, reflecting higher charges due to a significantly warmer summer in 2008.
- Decreases in Licenses, permits and fees partially offset these revenue increases – decreasing \$516,208 from the previous year. Increased numbers of building permits were issued in FY 2007 largely related to the two large retail developments in the western part of the City – now substantially completed.
- Total General Fund expenditures increased in FY 2008 to \$10,902,304, an increase of \$1,045,834 from the previous year. The FY 2008 actual expenditures were \$561,641 below the original budgeted amount.
  - Personnel costs increased \$747,262 from FY 2007, resulting from city pay increases, increased benefit costs, and the addition of five new public safety positions (Fire – 4, Police - 1).
  - Capital Outlay expenditures increased by \$423,505 in FY 2008 funding various vehicles – some carried over from FY 2007.
- Total Other Financing Sources (Uses) reflected a net total of \$144,024. The primary elements of this total include a transfer in from the Utility Fund (reduced to \$120,000 in FY 2007 from the budgeted amount of \$240,000 to offset reduced water sales – however restored to \$240,000 in FY 2008), and a transfer out of \$60,000 to the Corps Leased Parks Fund to provide assistance of funding needed park improvements. The total for FY 2008 reflects a decrease of \$309,084 from FY 2007, the FY 2007 total including \$488,388 transferred from the Capital Projects Fund related to participation with the Town of Flower Mound for improvements to the intersection of FM 407 and Chinn Chapel Road.

The Debt Service Fund has a total fund balance of \$371,198, an increase of \$50,259, all of which is reserved for the payment of debt service. For the past several years, a plan to gradually build this fund balance has been utilized, with a goal of about one-half year debt service.

Capital Projects Fund, with an ending balance of \$8,945,125, increased \$2,097,630 during this fiscal year. This increase resulted primarily from debt issuance in FY 2008 for three projects - \$4.5M relating to a public works service center facility, \$.5M for modifications to the previous fire station for an interim senior center, and \$3M related to trail construction. Total expenditures of \$1,292,238 in FY 2008 related primarily to construction of the new fire station.

Remaining governmental funds reported a combined ending fund balance of \$1,009,534, reflecting an increase of \$153,111.

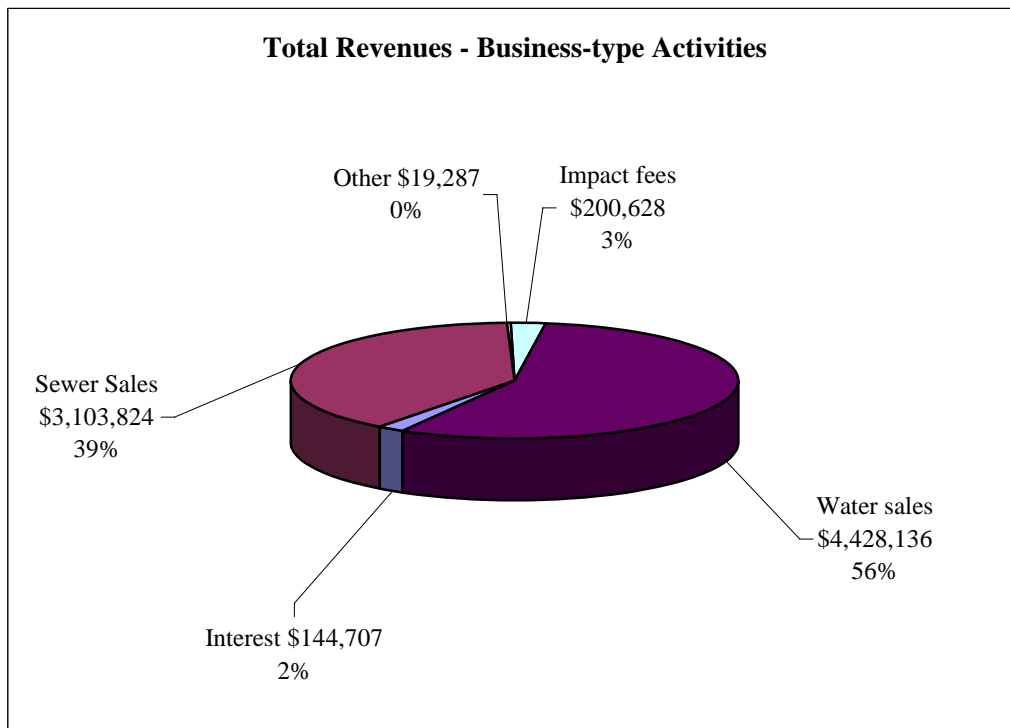
- Revenues for these funds reflected a modest increase of \$71,686 from the previous year. Fees collected in the Corps Leased Parks increased \$80,846 from FY 2007, as last year's fees were depressed due to flooding in the parks. Park Development Fees increased \$75,406 resulting from final plat of Phase I of the District. Drainage fees increased \$127,270 from FY 2007 – primarily due to the Drainage Utility being established mid-year in the previous year. FY 2008 represented a full year collection. These increases were partially offset by a reduction in received grants – receipts totaling \$210,194 less than the previous year.

- A decrease of \$238,746 in combined expenditures, coupled with the small increase in revenues, provided the increase in fund balance. An increase of \$182,560 associated with operations of the drainage utility, were more than offset by a \$446,122 decrease in capital expenditures. Capital purchases for the Drainage Utility were consistent across the two years (\$197,501 in FY 2008 and \$163,399 in FY 2007) primarily funding new capital equipment for the newly established utility. A tax note of \$300,000 issued in FY 2007 provided funding for the drainage capital equipment. The decrease resulted from FY 2007 capital expenditures in the park development fee fund of \$335,067 related to Unity Park improvements purchases, as well as \$149,497 in the public safety fund (capital equipment) that were not duplicated in FY 2008.

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

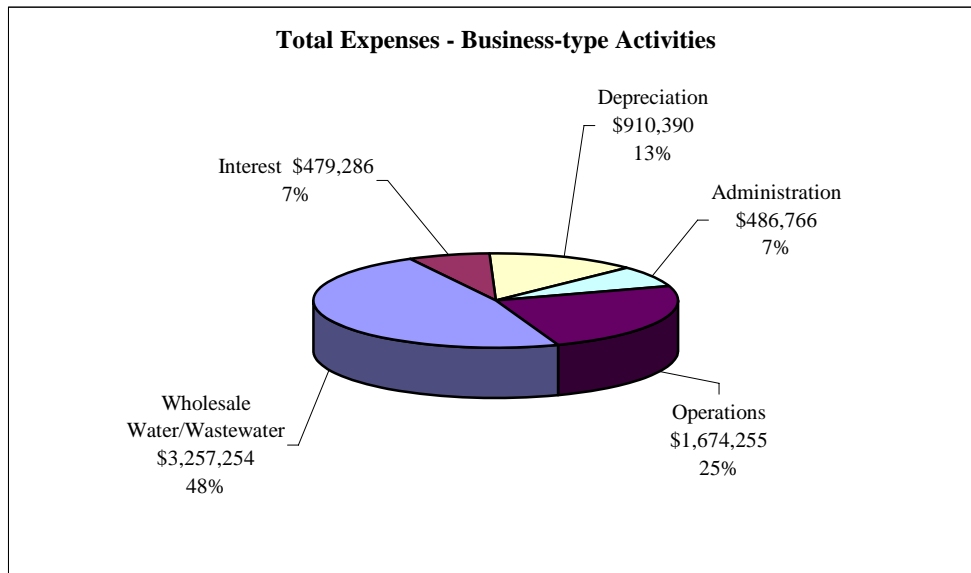
Net assets in the Enterprise Fund totaled \$9,692,397 at the end of the fiscal year 2008, an increase of \$833,380, or 9.4 percent. Included in net assets is \$1,800,047 restricted for capital projects. The remaining net asset balance of \$7,892,350 consists of unrestricted net assets and investments in capital assets, net of related debt.

- Utility operating revenues of \$7,551,247 reflected an increase of \$2,088,814, or 38%, in FY 2008, primarily as a result of a rate increase implemented at the start of the fiscal year, coupled with extremely wet weather conditions in FY 2007 that facilitated decreased water sales.
  - Water sales increased \$1,457,898
  - Sewer sales increased \$659,906



Utility operating expenses of \$6,328,665 increased \$433,371, or 7%.

- Wholesale water costs represented just under one half of the increase - \$172,567. Of this increase, \$137,640 resulted from an expenditure in FY 2008 for the City's pro-rata share of cost related to construction of a sewer line built in conjunction with the UTRWD in the western portion of the City.
- Increased personnel costs accounted for \$104,346 of the increase – related to salary increases and two additional positions added in FY 2008.
- Depreciation expense increased in FY 2008 by \$49,748.



## GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2007-2008, the City Council of the City of Highland Village amended the budget for the General Fund on just one occasion. The majority of these appropriations relate to actions taken to fund unbudgeted items during the fiscal year, including the acceptance of grants during the year.

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

For fiscal year 2007-2008, actual expenditures on a budgetary basis were \$10,902,304. This total was less than the original budgeted expenditures of \$11,463,945 by \$561,641, and \$1,141,641 below the revised budget of \$12,043,945. The supplemental requests approved during the year are summarized following:

- Provision of appropriation for acquisition of parkland (St. James Place) in the amount of \$130,000;
- Additional appropriation for contracted back-scanning for document imaging in the amount of \$20,000;

- Council Chamber / Training Room upgrades of \$40,000 (utilizing proceeds from Comcast Audit settlement as offset);
- Appropriation totaling \$40,000 for web design and annual hosting/licensing, logo design, and for Mayor's state of the city video;
- Additional funding of \$10,000 for services to enable webcast of council meetings;
- Various personnel provisions - including salary adjustment and overtime totaling \$44,000;
- Reallocation of appropriation for capital items encumbered in previous year of \$65,000;
- Increased budget amount for fuel and outside contract equipment repairs of \$60,000;
- \$30,000 related to contract for updating Parks and Open Space Master Plan and park dedication fee ordinance;
- Appropriation for parks capital projects - \$250,000 for landscaping in Brazos Blvd median, \$80,000 for Veterans Monument at City Hall;
- Additional funding related to City water usage of \$50,000.

While the actual expenditures in all departments were under their respective budget, there were two primary factors in the actual expenditures being reduced from the original budget. A street overlay project in the street department was initiated toward the end of the fiscal year, and related expenditures of \$350,000 were not incurred until the following fiscal year. And personnel expenditures in the Police Department were \$171,846 below the original budget amount due to vacancies and delay of hiring new positions.

Actual revenue on a budgetary basis was \$11,304,521 compared to the original budget of \$10,859,855. Despite sales tax revenues being less than anticipated (resulting from the Wal-Mart opening delay), actual revenues exceeded the budget amount by \$444,666. The majority of the favorable variance resulted from three primary factors: sales tax exceeded projections by \$321,809, miscellaneous revenue exceeded the budgeted amount by \$161,515 related to several items, including an arbitrage rebate, capital contributions from the City's electric provider, a FEMA reimbursement, and an equity refund from the City insurance carrier. Partially offsetting these increased were reduced collection of building permit fees – resulting in an unfavorable variance of \$138,119.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The City's investment in capital assets, for its governmental and business-type activities as of September 30, 2008, amount to \$61,438,025 (net of accumulated depreciation). This investment in capital assets includes land, building, park facilities, roads, bridges and water and sewer lines.



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

Description	Amount
Central Fire Station	\$ 3,305,914
Brazos Boulevard	1,604,351
Highland Shores Ground Storage Tank	542,880
Harlington Chapel springs Extension	360,325
Water and Wastewater Improvements	204,708
St. James Place Land Purchase	123,981
Dispatch Reconfiguration	119,256
Drainage Improvements Timbercrest	110,070
2007 Sterling LT9500 Dump Truck	109,475
Shoretel Phone System - Citywide	90,548
2008 Ford F450	60,856
Envirosight rover R 125 Outpost	53,874
Wireless Digital Camera System	49,574
2008 Ford F350	39,478
2008 Ford F250	38,212
FM 407 Water Well Lot Fence	34,750
2008 Ford Expedition	32,764
2008 Ford Crown Victoria	31,924
2008 Ford Crown Victoria	31,924
2008 Ford Crown Victoria	31,680
2008 Ford F450	31,198
2008 Ford F350	26,500
2008 Ford F350	26,500
2008 Ford F250	25,665
2008 Crafcro Super Shot 60G Melter	25,450
2008 Ford Taurus	23,543
2008 Ford F150	21,116

**TABLE 3**

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

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2006	2008	2007
Land	\$ 13,245,673	\$ 13,121,692	\$ 75,713	\$ 75,713	\$ 13,321,386	\$ 13,197,405
Land improvements	3,292,080	3,590,781	33,803	633	3,325,883	3,591,414
Buildings and improvements	6,201,263	3,072,133	-	-	6,201,263	3,072,133
Distribution system	-	-	9,672,712	10,382,513	9,672,712	10,382,513
Equipment and machinery	1,964,039	1,792,311	449,554	357,024	2,413,593	2,149,335
Infrastructure	22,018,910	20,964,715	15,980	17,208	22,034,890	20,981,923
Construction in progress	736,640	4,713,135	3,731,658	837,347	4,468,298	5,550,482
Total capital assets	\$ 47,458,605	\$ 47,254,767	\$ 13,979,420	\$ 11,670,438	\$ 61,438,025	\$ 58,925,205

Additional information on the City's capital assets can be found in Note 3 on pages 44 – 46 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonds outstanding of \$31,840,394. Of this amount, \$21,955,254 is tax-supported debt. The remainder of the City of Highland Village’s debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**TABLE 4**

**CITY OF HIGHLAND VILLAGE’S OUTSTANDING DEBT AT YEAR-END**

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007	2008	2007
General obligations	\$ 17,700,254	\$ 13,703,811	\$ 1,950,140	\$ 2,495,388	\$ 19,650,394	\$ 16,199,199
Combination Tax and Revenue Certificates of Obligation	<u>4,255,000</u>	<u>1,255,000</u>	<u>7,935,000</u>	<u>6,820,000</u>	<u>12,190,000</u>	<u>8,075,000</u>
	<u>\$ 21,955,254</u>	<u>\$ 14,958,811</u>	<u>\$ 9,885,140</u>	<u>\$ 9,315,388</u>	<u>\$ 31,840,394</u>	<u>\$ 24,274,199</u>

The City’s total debt increased by \$7,566,195 during the current fiscal year, as the City issued additional debt of \$9.5M.

The City’s tax supported debt is rated “AA-” by Fitch Ratings and Standards & Poor’s. The Highland Village City Charter provides that general property taxes are limited to \$1.50 per \$100 of assessed valuation for general governmental services – including the payment of principal and interest on legal debt instruments. The current ratio of tax-supported debt to assessed value of all taxable property is 1.48 percent.

Additional information on the City’s outstanding debt can be found in Note 3 on pages 48 – 52 of this report.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The fiscal year 2008-2009 budget incorporates no increase in the property tax rate. It remains at \$.56963 per \$100 valuation.

The FY 2009 operating budget increased by 16.23%, or \$1,860,678 over the FY 2008 budget.

Personnel increases comprise \$319,819 of this increase, reflecting a 5% Merit / CPI general increase, three fire positions – contingent on receipt of a grant, and increased overtime for public safety departments. A decreased budget for medical insurance resulted from better than anticipated bid for health insurance rates in FY 2008, coupled with reduced City cost with change to a 5-tier (vs. 2-tier) rate structure.

Services/Supplies accounted for \$788,143 of the increased budget:

- Professional Services (\$57,105 increase) – The majority of this increase resulted from two supplemental programs. A new Computer Aided Dispatch (CAD) system (CRIMES system from Sam Houston University), requiring \$30,000 annual maintenance. And \$10,000 was allocated for re-codification of City Ordinances.

- Employee Development - \$38,604 increase
  - \$12,652 increase in Outside Meetings – primarily related to increase travel for Council in a year the legislature is in session.
  - Training and Education had a \$17,619 increase – primarily in the Fire Dept.
- Supplies/Equipment - \$36,984 increase
  - Uniforms appropriation increased \$25,645 – primarily related to the Fire Department.
  - During the budget process, fuel costs were substantially rising, prompting an increase for budgeted fuel cost - \$95,518 over FY 2008.
  - Expenditures associated with tire replacement increased \$17,388 in FY 2009.
  - In FY 2008, two budgeted items - \$66,000 for furnishings for the new Fire Station, and \$83,000 for fence replacement in City right-of-way, were not repeated in FY 2009.
- Utilities - \$37,430 increase
  - The majority of this increase reflects increased cost for gas and electric service.
- Other - \$618,020 increase. This category generally contains items that are specific to a department such as street maintenance, animal control, data processing, etc.
  - A new item budgeted for FY 2008 is incentive payments associated with 380 agreements with two new developments in the City – the Shops of Highland Village, and the Marketplace at Highland Village. Separate agreements were established with each development to rebate a percentage of collected sales tax over a period of time. The anticipated amount for FY 2009 is \$656,790.
  - Last year had an increase in the Street Maintenance line item – this being a one-time event of \$140,000 carried over from the previous year to allow for efficiencies for Sellmeyer to be milled and overlaid in FY 07/08 as one complete project. This expenditure is not repeated in FY 2009 - partially offset by an increase in materials cost, resulting in a net reduction of \$89,751.

Capital expenditures totaling \$1,130,216 related to equipment replacement were increased \$752,716 from FY 2008. Purchases of \$389,000 reflected targeted equipment to be replaced in the equipment replacement schedule.

Supplemental funding of \$601,216 was provided for a number of items:

- Economic Development (\$100,000) - potential participation in development projects related to proportionate share of drainage improvements;
- Computer Aided Dispatch (CAD) hardware (\$55,000) - Initial investment (Servers / Data Migration from previous system);

- Electronic ticket writers (\$40,016) – handheld computers for use by sworn Police personnel, Police Auxiliary members (handicapped parking citations) and Animal Care officers;
- Backhoe Jackhammer / Hydraulic Breaker – Street Department (\$102,200);
- Pickup (\$25,000) - Street Superintendent;
- Fire Rescue Tool (\$22,000) - replace 15-year old rescue tool (Jaws of Life);
- Bus Stop Shelter (\$54,000) - DCTA ELAP funds received in FY 2008 to fund construction of bus stop in City;
- Bus (\$120,000) - Bus to be purchased with received DCTA ELAP funds received in FY 2008. Bus used to transport senior program participants to various activities;
- Update Park Signs with new logo (\$20,000);
- Centralized Irrigation System (\$63,000) – Phase I (Municipal Complex and Unity Park).

Anticipated revenue increases of 15.8%, coupled with utilization of surplus funds on hand for capital purchases, will be sufficient to fund the increased expenditures.

The City's financial policies require the City to maintain a fund balance equivalent to 15% of General Fund expenditures. The ending fund balance percentage anticipated for FY 2009 is 20%.

## **REQUESTS FOR INFORMATION**

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

**BASIC  
FINANCIAL STATEMENTS**

**CITY OF HIGHLAND VILLAGE, TEXAS**

**STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2008**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
<b>ASSETS</b>				
Cash and investments	\$ 11,302,788	\$ 966,556	\$ 12,269,344	\$ 3,155,177
Receivables (net of allowances for uncollectibles)				
Taxes	777,199	-	777,199	152,510
Accounts	164,394	1,363,400	1,527,794	400
Intergovernmental	45,392	-	45,392	-
Other	-	6,182	6,182	-
Inventories and prepaid items	20,612	147,523	168,135	-
Notes receivable	3,065,653	-	3,065,653	-
Restricted cash and investments:				
Reserved bond debt service	-	46,502	46,502	-
Capital improvements	-	1,729,374	1,729,374	-
Construction	-	1,800,047	1,800,047	-
Customer deposits	-	254,678	254,678	-
Unamortized debt issue cost	497,926	209,196	707,122	-
Capital assets:				
Nondepreciable capital assets	13,982,313	3,807,371	17,789,684	1,495,188
Depreciable capital assets, net of	<u>33,476,292</u>	<u>10,172,049</u>	<u>43,648,341</u>	<u>60,372</u>
Total capital assets	<u>47,458,605</u>	<u>13,979,420</u>	<u>61,438,025</u>	<u>1,555,560</u>
 Total assets	 <u>63,332,569</u>	 <u>20,502,878</u>	 <u>83,835,447</u>	 <u>4,863,647</u>
<b>LIABILITIES</b>				
Accounts payable	465,605	617,184	1,082,789	211,847
Accrued liabilities	222,501	72,166	294,667	61,309
Unearned revenue	343,708	-	343,708	-
Accrued interest	189,802	60,162	249,964	-
Customer deposits	-	254,678	254,678	-
Current portion of long-term obligations	1,774,558	711,901	2,486,459	212,263
Noncurrent portion of long-term obligations	<u>21,274,310</u>	<u>9,094,390</u>	<u>30,368,700</u>	<u>2,853,390</u>
Total liabilities	<u>24,270,484</u>	<u>10,810,481</u>	<u>35,080,965</u>	<u>3,338,809</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	34,619,733	6,111,699	40,731,432	1,374,750
Restricted for:				
Debt service	237,114	-	237,114	-
Capital projects	355,191	1,800,047	2,155,238	-
Unrestricted	<u>3,850,047</u>	<u>1,780,651</u>	<u>5,630,698</u>	<u>150,088</u>
 Total net assets	 <u>\$ 39,062,085</u>	 <u>\$ 9,692,397</u>	 <u>\$ 48,754,482</u>	 <u>\$ 1,524,838</u>

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

**CITY OF HIGHLAND VILLAGE, TEXAS**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities:				
General government	\$ 2,920,042	\$ 135,323	\$ -	\$ -
Public safety	4,817,750	273,295	117,379	-
Building operations	326,715	-	-	-
Community development	503,579	451,730	-	-
Streets and drainage	1,998,304	393,491	-	-
Parks and recreation	2,061,027	418,924	73,392	-
Interest on long-term debt	681,888	-	-	-
Total governmental activities	<u>13,309,305</u>	<u>1,672,763</u>	<u>190,771</u>	<u>-</u>
Business-type activities:				
Water and wastewater	<u>6,823,202</u>	<u>7,551,247</u>	<u>-</u>	<u>200,628</u>
Total business-type activities	<u>6,823,202</u>	<u>7,551,247</u>	<u>-</u>	<u>200,628</u>
Total primary government	<u>\$ 20,132,507</u>	<u>\$ 9,224,010</u>	<u>\$ 190,771</u>	<u>\$ 200,628</u>
<b>Component unit</b>				
City of Highland Village Economic Development Corporation	<u>\$ 146,720</u>	<u>\$ 4,018</u>	<u>\$ -</u>	<u>\$ -</u>
Total component unit	<u>\$ 146,720</u>	<u>\$ 4,018</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Franchise taxes				
Sales taxes				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Net assets - ending				

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$( 2,784,719)	\$ -	\$( 2,784,719)	\$ -
( 4,427,076)	-	( 4,427,076)	-
( 326,715)	-	( 326,715)	-
( 51,849)	-	( 51,849)	-
( 1,604,813)	-	( 1,604,813)	-
( 1,568,711)	-	( 1,568,711)	-
( 681,888)	-	( 681,888)	-
<u>( 11,445,771)</u>	<u>-</u>	<u>( 11,445,771)</u>	<u>-</u>
<u>-</u>	<u>928,673</u>	<u>928,673</u>	<u>-</u>
<u>-</u>	<u>928,673</u>	<u>928,673</u>	<u>-</u>
<u>( 11,445,771)</u>	<u>928,673</u>	<u>( 10,517,098)</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>( 142,702)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>( 142,702)</u>
6,545,380	-	6,545,380	-
1,909,552	-	1,909,552	-
1,376,666	-	1,376,666	-
1,859,946	-	1,859,946	899,664
345,422	144,707	490,129	59,329
253,515	-	253,515	-
<u>240,000</u>	<u>( 240,000)</u>	<u>-</u>	<u>-</u>
<u>12,530,481</u>	<u>( 95,293)</u>	<u>12,435,188</u>	<u>958,993</u>
1,084,710	833,380	1,918,090	816,291
<u>37,977,375</u>	<u>8,859,017</u>	<u>46,836,392</u>	<u>708,547</u>
<u>\$ 39,062,085</u>	<u>\$ 9,692,397</u>	<u>\$ 48,754,482</u>	<u>\$ 1,524,838</u>



**CITY OF HIGHLAND VILLAGE, TEXAS**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2008**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and investments	\$ 3,995,650	\$ 414,725	\$ 5,902,545	\$ 989,868	\$ 11,302,788
Receivables (net of allowances for uncollectibles):					
Taxes	765,008	12,191	-	-	777,199
Accounts	164,394	-	-	-	164,394
Intergovernmental	-	-	-	45,392	45,392
Prepaid items	20,612	-	-	-	20,612
Notes receivable	-	-	<u>3,065,653</u>	-	<u>3,065,653</u>
Total assets	<u>4,945,664</u>	<u>426,916</u>	<u>8,968,198</u>	<u>1,035,260</u>	<u>15,376,038</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	424,053	-	23,073	18,479	465,605
Accrued liabilities	215,254	43,527	-	7,247	266,028
Deferred revenue	<u>514,847</u>	<u>12,191</u>	-	-	<u>527,038</u>
Total liabilities	<u>1,154,154</u>	<u>55,718</u>	<u>23,073</u>	<u>25,726</u>	<u>1,258,671</u>
Fund balances:					
Reserved for:					
Encumbrances	77,316	-	100,335	8,104	185,755
Prepaid items	20,612	-	-	-	20,612
Debt service	-	371,198	-	-	371,198
Notes receivable	-	-	3,065,653	-	3,065,653
Capital projects	-	-	5,779,137	-	5,779,137
Park development	-	-	-	355,191	355,191
Unreserved, undesignated	3,693,582	-	-	-	3,693,582
Unreserved, reported in non-major:					
Special revenue funds	-	-	-	474,263	474,263
Capital projects fund	-	-	-	171,976	171,976
Total fund balances	<u>3,791,510</u>	<u>371,198</u>	<u>8,945,125</u>	<u>1,009,534</u>	<u>14,117,367</u>
Total liabilities and fund balances	<u>\$ 4,945,664</u>	<u>\$ 426,916</u>	<u>\$ 8,968,198</u>	<u>\$ 1,035,260</u>	<u>\$ 15,376,038</u>

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

**CITY OF HIGHLAND VILLAGE, TEXAS**

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

**SEPTEMBER 30, 2008**

Total fund balance, governmental funds		\$ 14,117,367
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		47,458,605
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Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. The details of this difference is as follows:

Property taxes	\$ 55,754		
Ambulance fees	17,976		
Court fines	<u>109,600</u>		
			183,330

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

Bonds payable	( 21,955,254)		
Deferred amount on refunding	218,308		
Issuance cost	497,926		
Issuance premium	( 237,445)		
Accreted interest	( 94,466)		
Accrued interest payable	( 146,275)		
Capital lease obligation	( 213,066)		
Compensated absences	<u>( 766,945)</u>		
			( 22,697,217)

Net assets of governmental activities in the statement of net assets		\$ <u>39,062,085</u>
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**The accompanying notes are an integral part of these financial statements.**

**CITY OF HIGHLAND VILLAGE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	General	Debt Service	Capital Projects	Other Governmental	Total Governmental Funds
<b>REVENUES</b>					
Taxes	\$ 9,843,992	\$ 1,915,512	\$ -	\$ -	\$ 11,759,504
Fines and forfeitures	126,862	-	-	1,373	128,235
Licenses, permits and fees	597,589	-	-	705,779	1,303,368
Intergovernmental	102,430	-	-	80,968	183,398
Charges for services	204,536	-	-	-	204,536
Investment earnings	175,597	23,802	120,208	25,815	345,422
Miscellaneous	253,515	-	-	6,000	259,515
Total revenues	<u>11,304,521</u>	<u>1,939,314</u>	<u>120,208</u>	<u>819,935</u>	<u>14,183,978</u>
<b>EXPENDITURES</b>					
Current:					
General government:					
City manager	366,049	-	-	-	366,049
Finance	1,023,315	-	-	1,687	1,025,002
Human resources	334,663	-	-	-	334,663
City secretary	279,535	-	-	-	279,535
Maintenance	789,861	-	-	-	789,861
Public safety:					
Police	2,938,869	-	-	6,818	2,945,687
Fire	1,395,764	-	-	19,795	1,415,559
Building operations	320,616	-	-	-	320,616
Community development	494,528	-	-	-	494,528
Streets and drainage	748,294	-	-	204,232	952,526
Parks and recreation	1,425,933	-	-	269,415	1,695,348
Debt service:					
Principal	115,814	1,303,557	-	-	1,419,371
Interest and other charges	11,939	585,498	196,067	-	793,504
Capital outlay	657,124	-	1,292,238	204,027	2,153,389
Total expenditures	<u>10,902,304</u>	<u>1,889,055</u>	<u>1,488,305</u>	<u>705,974</u>	<u>14,985,638</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>402,217</u>	<u>50,259</u>	<u>( 1,368,097)</u>	<u>113,961</u>	<u>( 801,660)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of long-term debt	-	-	8,000,000	-	8,000,000
Premium on debt issuance	-	-	158,766	-	158,766
Transfers in	276,850	-	56,826	76,000	409,676
Transfers out	( 132,826)	-	-	( 36,850)	( 169,676)
Total other financing sources and uses	<u>144,024</u>	<u>-</u>	<u>8,215,592</u>	<u>39,150</u>	<u>8,398,766</u>
<b>NET CHANGE IN FUND BALANCES</b>	546,241	50,259	6,847,495	153,111	7,597,106
<b>FUND BALANCES, BEGINNING</b>	<u>3,245,269</u>	<u>320,939</u>	<u>2,097,630</u>	<u>856,423</u>	<u>6,520,261</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ 3,791,510</u>	<u>\$ 371,198</u>	<u>\$ 8,945,125</u>	<u>\$ 1,009,534</u>	<u>\$ 14,117,367</u>

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

**CITY OF HIGHLAND VILLAGE, TEXAS**

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

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

Net change in fund balances - total governmental funds: \$ 7,597,106

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay (\$2,161,184) exceeded depreciation (\$1,957,211) in the current period. 203,973

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. ( 135)

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

Property taxes	\$( 30,314)	
Ambulance fees	4,086	
Court fines	33,911	
Franchise fees	<u>( 37,646)</u>	
		( 29,963)

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

Payments on bonds	1,003,557	
Payments on capital lease	115,814	
Payment on tax notes	300,000	
Issuance of bonds	( 8,000,000)	
Premium from issuance of bonds	( 158,766)	
Issuance cost from issuance of bonds	<u>196,067</u>	
		( 6,543,328)

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

Compensated absences	( 58,492)	
Accrued interest	( 79,509)	
Accreted interest	32,261	
Bonds issuance cost	( 27,477)	
Amortization of deferred loss of refunding bonds	( 22,689)	
Amortization of premium on bond issuances	<u>12,963</u>	
		( 142,943)

Change in net assets of governmental activities \$ 1,084,710

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

**CITY OF HIGHLAND VILLAGE, TEXAS**

**STATEMENT OF NET ASSETS**

**ENTERPRISE - WATER AND WASTEWATER FUND**

**SEPTEMBER 30, 2008**

(With Comparative Totals as of September 30, 2007)

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 966,556	\$ 548,143
Accounts receivable, net	1,363,400	1,235,894
Other receivables	6,182	6,453
Inventories	141,562	90,424
Prepaid items	5,961	5,155
Restricted cash and investments:		
Reserve bond debt service	46,502	98,471
Capital improvements	1,729,374	1,307,166
Construction	1,800,047	2,186,804
Customer deposits	<u>254,678</u>	<u>251,768</u>
Total current assets	<u>6,314,262</u>	<u>5,730,278</u>
Non-current assets:		
Unamortized debt issue cost	209,196	189,752
Capital assets:		
Nondepreciable capital assets	3,807,371	3,326,806
Depreciable capital assets, net of accumulated depreciation	<u>10,172,049</u>	<u>10,052,806</u>
Total capital assets	<u>13,979,420</u>	<u>13,379,612</u>
Total non-current assets	<u>14,188,616</u>	<u>13,569,364</u>
Total assets	<u>20,502,878</u>	<u>19,299,642</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	617,184	753,386
Accrued expenses	72,166	237,947
Accrued interest	60,162	52,079
Customer deposits	254,678	251,768
Current portion of long-term obligations	<u>711,901</u>	<u>998,863</u>
Total current liabilities	<u>1,716,091</u>	<u>2,294,043</u>
Non-current liabilities:		
Noncurrent portion of long-term obligations	<u>9,094,390</u>	<u>8,146,582</u>
Total non-current liabilities	<u>9,094,390</u>	<u>8,146,582</u>
Total liabilities	<u>10,810,481</u>	<u>10,440,625</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	6,111,699	5,731,085
Restricted for capital projects	1,800,047	2,186,804
Unrestricted	<u>1,780,651</u>	<u>941,128</u>
Total net assets	<u>\$ 9,692,397</u>	<u>\$ 8,859,017</u>

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

**CITY OF HIGHLAND VILLAGE, TEXAS**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**

**ENTERPRISE - WATER AND WASTEWATER FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

(With Comparative Totals For the Year Ended September 30, 2007)

	<u>2008</u>	<u>2007</u>
<b>REVENUES</b>		
Charges for services	\$ 7,468,391	\$ 5,391,362
Penalties, fines and forfeits	<u>82,856</u>	<u>71,071</u>
Total operating revenues	<u>7,551,247</u>	<u>5,462,433</u>
<b>OPERATING EXPENSES</b>		
Administration	486,765	450,339
Maintenance and operations	4,931,510	4,584,313
Depreciation	<u>910,390</u>	<u>860,642</u>
Total operating expenses	<u>6,328,665</u>	<u>5,895,294</u>
<b>OPERATING INCOME (LOSS)</b>	<u>1,222,582</u>	<u>( 432,861)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	144,707	329,371
Interest expense	<u>( 494,537)</u>	<u>( 537,962)</u>
Total non-operating revenues (expenses)	<u>( 349,830)</u>	<u>( 208,591)</u>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	872,752	( 641,452)
<b>CAPITAL CONTRIBUTIONS</b>	200,628	884,296
<b>TRANSFERS OUT</b>	<u>( 240,000)</u>	<u>( 120,000)</u>
<b>CHANGE IN NET ASSETS</b>	833,380	122,844
<b>TOTAL NET ASSETS, BEGINNING</b>	<u>8,859,017</u>	<u>8,736,173</u>
<b>TOTAL NET ASSETS, ENDING</b>	<u>\$ 9,692,397</u>	<u>\$ 8,859,017</u>

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

**CITY OF HIGHLAND VILLAGE, TEXAS**

**STATEMENT OF CASH FLOWS**

**ENTERPRISE - WATER AND WASTEWATER FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

(With Comparative Totals For the Year Ended September 30, 2007)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers and users	\$ 7,426,922	\$ 5,319,010
Cash paid to suppliers for goods and services	( 1,279,995)	( 976,257)
Cash paid to employees for services	( 4,433,715)	( 3,601,397)
Net cash provided by operating activities	<u>1,713,212</u>	<u>741,356</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to other funds	( 240,000)	( 120,000)
Net cash used for noncapital financing activities	<u>( 240,000)</u>	<u>( 120,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions	200,628	884,296
Acquisition of capital assets	( 1,510,198)	( 2,569,816)
Proceeds from issuance of bonds	1,532,826	-
Principal paid on bonds	( 930,248)	( 948,221)
Interest and fiscal charges paid on debt	( 506,122)	( 578,090)
Net cash used for capital and related financing activities	<u>( 1,213,114)</u>	<u>( 3,211,831)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment earnings	<u>144,707</u>	<u>329,371</u>
Net cash provided by investing activities	<u>144,707</u>	<u>329,371</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	404,805	( 2,261,104)
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>4,392,352</u>	<u>6,653,456</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u>\$ 4,797,157</u>	<u>\$ 4,392,352</u>
(Including \$3,830,601 and \$3,844,209 reported as restricted cash and investments)		

(continued)

**CITY OF HIGHLAND VILLAGE, TEXAS**

**STATEMENT OF CASH FLOWS**

**ENTERPRISE - WATER AND WASTEWATER FUND**

**(Continued)**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

(With Comparative Totals For the Year Ended September 30, 2007)

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 1,222,582	\$( 432,861)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	910,390	860,642
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Customer receivable	( 127,506)	( 70,237)
Other receivables	271	354
Inventories	( 51,138)	10,688
Prepaid and other assets	( 806)	( 694)
Increase (decrease) in liabilities:		
Accounts payable	( 136,202)	185,606
Accrued liabilities	( 165,781)	165,740
Customer deposits	2,910	2,115
Compensated absences	<u>58,492</u>	<u>20,003</u>
Net cash provided by operating activities	<u>\$ 1,713,212</u>	<u>\$ 741,356</u>

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



# CITY OF HIGHLAND VILLAGE, TEXAS

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

#### A. Reporting Entity

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

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

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

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

(continued)

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

(continued)

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

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following nonmajor funds:

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

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

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

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

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

(continued)

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

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s Enterprise Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund includes administration, maintenance and operations, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(continued)

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

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

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

### D. **Assets, Liabilities, and Net Assets or Equity**

#### **Cash and Investments**

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

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

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

#### **Receivables and Payables**

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

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

#### **Property Taxes**

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

(continued)

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

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

**Property Taxes (Continued)**

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

**Unbilled Services**

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

**Inventories and Prepaid Items**

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

**Restricted Assets**

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

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

Deposits collected from utility customers are set aside until repayment.

**Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets within an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**(continued)**

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

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

**Capital Assets** (Continued)

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

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

**Accrued Vacation**

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

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

**Long-term Obligations**

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

(continued)

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

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

**Long-term Obligations** (Continued)

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

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

**Reserves**

Reserves on fund balance in the fund financial statements indicate portions of fund equity legally segregated for a specific future use. September 30, 2008, the City's fund balances were reserved for the following purposes:

<u>Fund Balance</u>	<u>Amount</u>	<u>Purpose</u>
Encumbrances	\$ 185,755	Commitments related to unperformed contracts for goods and services
Debt service	371,198	Property tax revenue levied to repay long-term debt
Notes receivable	3,065,653	Amount is not available for current spending; when funds are received, amount will repay long-term debt.
Capital projects/expenditures	5,779,137	Proceeds of bond issue segregated in a separate capital projects fund
Park development	355,191	Proceeds of bond issue and linear park fees segregated in separate special revenue and capital projects fund

**Comparative Data and Reclassifications**

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



## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgets and Budgetary Accounting**

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

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

### **B. Encumbrances**

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

### **C. Excess of Expenditures Over Appropriations**

For the year ended September 30, 2008, expenditures exceed appropriation in Parks and Recreation – personnel of the Corps Leased Parks Fund by \$2,021; and capital outlay in the Drainage Utility Fund by \$7,501. These overruns were funded with greater than anticipated revenues on existing fund balance.

### 3. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

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

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

City funds may be invested in the following:

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

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

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

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### A. Deposits and Investments (Continued)

The City's entire cash deposits in the bank of \$9,544,211 on September 30, 2008, were covered by federal depository insurance or by collateral held by the City's agent in the City's name. The carrying amount of cash balances at September 30, 2008, was \$602,293 at the City's depository and \$9 million as CDARS (Certificate of Deposit Account Registry Service).

Investments held at year-end are as follows:

	<u>Fair Value</u>
TexPool	\$ 3,735,519
TexStar	<u>5,914,275</u>
Total investments	<u>\$ 9,649,794</u>

Cash and investments are reported as restricted assets as required by debt issues and City ordinance. The monies in government investment pools represent investments in TexPool and TexStar, investment pools for state and local governments in Texas. The State Comptroller of Public Accounts exercises oversight responsibilities over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

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

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

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### A. Deposits and Investments (Continued)

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

***Interest Rate Risk.*** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investments are with TexPool and TexStar with maturities of less than one year.

***Credit Risk.*** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. All investment pools' policies require a rating of AA or better from a nationally recognized rating agency.

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

***Custodial Credit Risk.*** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local government entities by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least the bank balances less FDIC insurance at all times.

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### B. Receivables

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

	<u>General</u>	<u>Debt Service</u>	<u>Enterprise</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:					
Taxes	\$ 765,008	\$ 12,191	\$ -	\$ -	\$ 777,199
Accounts	468,901	-	1,124,220	-	1,593,121
Unbilled	-	-	397,829	-	397,829
Intergovernmental	-	-	-	45,392	45,392
Gross receivables	<u>1,233,909</u>	<u>12,191</u>	<u>1,522,049</u>	<u>45,392</u>	<u>2,813,541</u>
Less: allowance for uncollectibles	<u>304,507</u>	<u>-</u>	<u>158,649</u>	<u>-</u>	<u>463,156</u>
Net total receivables	<u>\$ 929,402</u>	<u>\$ 12,191</u>	<u>\$ 1,363,400</u>	<u>\$ 45,392</u>	<u>\$ 2,350,385</u>

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General fund:		
Delinquent property taxes	\$ 43,563	\$ -
Franchise taxes	-	42,160
Court fines	109,600	-
Ambulance	17,976	-
Interlocal agreement	-	37,561
Grant	-	<u>263,987</u>
Total general fund	<u>171,139</u>	<u>343,708</u>
Debt service fund:		
Delinquent property taxes	<u>12,191</u>	<u>-</u>
Total debt service fund	<u>12,191</u>	<u>-</u>
Total governmental funds	<u>\$ 183,330</u>	<u>\$ 343,708</u>

(continued)

3. **DETAILED NOTES ON ALL FUNDS** (Continued)

C. **Interfund Transfers**

The following is a summary of transfers:

<u>Transfers out</u>	<u>Transfers in</u>			
	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Enterprise	\$ 240,000	\$ -	\$ -	\$ 240,000
General	-	56,826	76,000	132,826
Nonmajor fund	<u>36,850</u>	<u>-</u>	<u>-</u>	<u>36,850</u>
	<u>\$ 276,850</u>	<u>\$ 56,826</u>	<u>\$ 76,000</u>	<u>\$ 409,676</u>

Transfer from the Enterprise Fund to the General Fund represents an annual maintenance transfer. The remainder of the transfers is for various projects.

D. **Notes Receivable**

The City issued bonds on behalf of the Highland Village Community Development Corporation to fund various projects. This entity is a component unit of the City. The component unit has agreed to fund the principal and interest payments of the bonds; therefore, a note receivable is reported in the fund financial statements of the City equal to the face amount of the bonds outstanding. In February 2008, the City issued \$4,500,000 in certificates of obligation that included certificates of obligation on behalf of the Highland Village Community Development Corporation in the amount of \$3,065,653. As of September 30, 2008, the balance of the note receivable from the Highland Village Community Development Corporation was \$3,065,653.

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### E. Capital Assets

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

##### Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 13,121,692	\$ 123,981	\$ -	\$ 13,245,673
Construction in progress	4,713,135	1,413,350	5,389,845	736,640
Total assets not being depreciated	<u>17,834,827</u>	<u>1,537,331</u>	<u>5,389,845</u>	<u>13,982,313</u>
Capital assets, being depreciated:				
Land improvements	5,637,142	-	-	5,637,142
Buildings and improvements	5,365,097	3,425,170	-	8,790,267
Equipment	4,314,851	623,852	292,988	4,645,715
Infrastructure	34,997,655	1,964,676	-	36,962,331
Total capital assets being depreciated	<u>50,314,745</u>	<u>6,013,698</u>	<u>292,988</u>	<u>56,035,455</u>
Less accumulated depreciation:				
Land improvements	2,046,361	298,701	-	2,345,062
Buildings and improvements	2,292,964	296,040	-	2,589,004
Equipment	2,522,540	451,989	292,853	2,681,676
Infrastructure	14,032,940	910,481	-	14,943,421
Total accumulated depreciation	<u>20,894,805</u>	<u>1,957,211</u>	<u>292,853</u>	<u>22,559,163</u>
Total capital assets being depreciated, net	<u>29,419,940</u>	<u>4,056,487</u>	<u>135</u>	<u>33,476,292</u>
Governmental activities capital assets, net	<u>\$ 47,254,767</u>	<u>\$ 5,593,818</u>	<u>\$ 5,389,980</u>	<u>\$ 47,458,605</u>

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### E. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 75,713	\$ -	\$ -	\$ 75,713
Construction in progress	3,251,093	1,338,223	857,658	3,731,658
Total assets not being depreciated	<u>3,326,806</u>	<u>1,338,223</u>	<u>857,658</u>	<u>3,807,371</u>
Capital assets, being depreciated:				
Land improvements	30,348	34,750	-	65,098
Buildings and improvements	20,403,529	857,658	-	21,261,187
Equipment	1,130,782	140,846	47,710	1,223,918
Infrastructure	617,553	-	-	617,553
Total capital assets being depreciated	<u>22,182,212</u>	<u>1,033,254</u>	<u>47,710</u>	<u>23,167,756</u>
Less accumulated depreciation:				
Land improvements	29,926	1,369	-	31,295
Buildings and improvements	10,796,851	791,624	-	11,588,475
Equipment	701,671	116,782	44,089	774,364
Infrastructure	600,958	615	-	601,573
Total accumulated depreciation	<u>12,129,406</u>	<u>910,390</u>	<u>44,089</u>	<u>12,995,707</u>
Total capital assets being depreciated, net	<u>10,052,806</u>	<u>122,864</u>	<u>3,621</u>	<u>10,172,049</u>
Business-type activities capital assets, net	<u>\$ 13,379,612</u>	<u>\$ 1,461,087</u>	<u>\$ 861,279</u>	<u>\$ 13,979,420</u>
<b>Component unit:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ 128,255	\$ 1,366,933	\$ -	\$ 1,495,188
Total assets not being depreciated	<u>128,255</u>	<u>1,366,933</u>	<u>-</u>	<u>1,495,188</u>
Capital assets, being depreciated:				
Equipment	39,757	33,740	-	73,497
Total capital assets being depreciated	<u>39,757</u>	<u>33,740</u>	<u>-</u>	<u>73,497</u>
Less accumulated depreciation:				
Equipment	2,207	10,918	-	13,125
Total accumulated depreciation	<u>2,207</u>	<u>10,918</u>	<u>-</u>	<u>13,125</u>
Total capital assets being depreciated, net	<u>37,550</u>	<u>22,822</u>	<u>-</u>	<u>60,372</u>
Component unit capital assets, net	<u>\$ 165,805</u>	<u>\$ 1,389,755</u>	<u>\$ -</u>	<u>\$ 1,555,560</u>

(continued)



**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**E. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government and component unit as follows:

Governmental activities:	
City manager	\$ 11,633
Finance	42,568
Human resources	4,300
City secretary	20,241
Maintenance	41,111
Police	264,078
Fire	168,019
Building operations	4,673
Community development	6,853
Streets and drainage	1,037,054
Parks and recreation	<u>356,681</u>
Total depreciation expense - governmental activities	\$ <u>1,957,211</u>
Business-type activities:	
Water and wastewater	\$ <u>910,390</u>
Total depreciation expense - business-type activities	\$ <u>910,390</u>
Component unit:	
Economic development	\$ <u>10,918</u>
Total depreciation expense - component unit	\$ <u>10,918</u>

(continued)

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Construction Commitments**

The City has active construction projects as of September 30, 2008. At year-end the City's commitments with contractors are as follows:

<u>Projects</u>	<u>Spend to Date</u>	<u>Remaining Commitment</u>
Elevated storage tank - site 4	\$ 2,054,101	\$ 7,464
A/C water lines and Highland Shores Blvd. water line replacement	1,039,256	53,281
Inland Trail	1,299,089	424,464
Practice soccer fields	113,734	4,266
Highland Village Rd. Trail	321	10,737
2499 Pedestrian Trail	48,151	21,247
Copperas Trail	33,893	78,487
2499 utility relocation	584,741	4,755
Wastewater system restoration	20,690	33,111
Veterans Monument	66,315	34,208
Fire storage building	11,450	5,060
Remington Point Erosion Control	54,798	700

**G. Capital Leases**

The City has entered into lease agreements as lessee for equipment. These leases qualify as capital leases and therefore have been recorded at the present value of the future minimum lease payments as of the date of their inception. The equipment's carrying value is \$596,868 as of September 30, 2008.

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

<u>Year Ending September 30,</u>	
2009	\$ 112,400
2010	<u>112,400</u>
Total	224,800
Less interest portion	<u>11,734</u>
Obligations under capital leases	<u>\$ 213,066</u>

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### H. Long-term Debt

##### General Obligation Bonds

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

	Interest Rates	Date Issued	Maturity Date	Amount of Original Issue	Amount Outstanding
Governmental activities:					
General obligation refunding and improvement bonds	4.70 - 5.00	1998	2024	\$ 4,041,084	\$ 370,394
General obligation refunding and improvement bonds	3.00 - 4.70	2002	2022	4,916,833	2,848,460
General obligation refunding bonds	3.00 - 4.15	2003	2017	3,940,000	2,831,400
General obligation refunding and improvement bonds	4.00 - 4.25	2006	2027	6,875,000	6,650,000
General obligation refunding and improvement bonds	3.50 - 4.00	2008	2028	5,000,000	<u>5,000,000</u>
					<u>17,700,254</u>
Business-type activities:					
General obligation refunding bonds	3.00 - 4.70	2002	2022	3,358,167	491,540
General obligation refunding bonds	3.00 - 4.15	2003	2017	2,210,000	<u>1,458,600</u>
					<u>1,950,140</u>
					<u>\$ 19,650,394</u>

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

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 1,096,957	\$ 666,841	\$ 283,043	\$ 99,354
2010	1,242,313	625,708	292,687	90,365
2011	1,156,671	585,078	308,329	81,340
2012	1,195,319	542,309	314,681	69,659
2013	1,146,200	525,573	193,800	29,489
2014 - 2018	5,112,400	1,968,037	557,600	50,950
2019 - 2023	4,155,000	1,029,814	-	-
2024 - 2028	<u>2,700,000</u>	<u>278,626</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 17,804,860</u>	<u>\$ 6,221,986</u>	<u>\$ 1,950,140</u>	<u>\$ 421,157</u>

(continued)

3. **DETAILED NOTES ON ALL FUNDS** (Continued)

H. **Long-term Debt** (Continued)

**Accretion on Premium Capital Appreciation Bonds**

A portion of the bonds sold in the General Obligation Refunding and Improvement Bonds Series 1998 was premium capital appreciation bonds. These obligations have par values of \$145,394 and maturity values of \$250,000. The interest on these obligations will be paid upon maturity in the fiscal years ending September 30, 2009 through 2010. The accreted values of these bonds at September 30, 2008, are approximately \$94,466.

**Combination Tax and Revenue Certificates of Obligation**

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

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Amount Outstanding</u>
Governmental activities:					
Combination tax and revenue certificates of obligation	4.00 - 4.25	2006	2027	\$ 1,725,000	\$ 1,255,000
	3.50 - 4.00	2008	2028	3,000,000	3,000,000
					\$ 4,255,000
Business-type activities:					
Combination tax and limited pledge revenue refunding bonds	4.00	2004	2017	\$ 2,870,000	\$ 2,310,000
Combination tax and revenue certificates of obligation	4.00 - 4.30	2004	2021	4,855,000	4,125,000
Combination tax and revenue certificates of obligation	3.50 - 4.00	2008	2028	1,500,000	1,500,000
					\$ 7,935,000

(continued)

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**H. Long-term Debt (Continued)**

**Combination Tax and Revenue Certificates of Obligation (Continued)**

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

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 250,000	\$ 160,121	\$ 425,000	\$ 322,674
2010	315,000	147,063	470,000	303,580
2011	330,000	135,713	490,000	285,055
2012	335,000	123,913	510,000	265,730
2013	350,000	111,938	535,000	245,630
2014 - 2018	1,955,000	360,833	2,735,000	891,725
2019 - 2023	365,000	114,894	1,925,000	429,510
2024 - 2028	355,000	30,919	845,000	77,180
Total	\$ <u>4,255,000</u>	\$ <u>1,185,394</u>	\$ <u>7,935,000</u>	\$ <u>2,821,084</u>

In previous years, the City has legally defeased general obligation bonds. Accordingly, the liability for these bonds is not included in the City's financial statements. As of September 30, 2008, the following outstanding bonds were legally defeased:

Series	Type	Amount
1993	Combination Tax and Revenue Refunding Bonds	\$ 945,000
1994	Combination Tax and Water and Sewer Revenue (Limited Pledge) Certificates of Obligation	1,340,000
1995	Combination Tax and Revenue Certificates of Obligation	330,000
1997	Combination Tax and Revenue Certificates of Obligation	2,540,000
1996	Waterworks and Sewer Revenue Certificates of Obligation	2,505,000
1996	General Obligation Bonds	1,020,000
1998	General Obligation Refunding and Improvement Bonds	2,710,000
		\$ <u>11,390,000</u>

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### H. Long-term Debt (Continued)

##### Notes Payable

The following summarizes the notes payable as of September 30, 2008:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Highland Village Economic Development Corporation</b>					
Note payable to City	\$ -	\$ 3,065,653	\$ -	\$ 3,065,653	\$ 212,263
Total	\$ -	\$ 3,065,653	\$ -	\$ 3,065,653	\$ 212,263

In February 2008, the City issued certificates of obligation in the amount of \$3,000,000 on behalf of the Highland Village Community Development Corporation to fund various projects. This entity is a component unit of the City. The component unit has agreed to fund the principal and interest payments of the bonds; therefore, a note payable is reported in the government-wide statements of the component unit to the City equal to the face amount of the bonds outstanding plus bond premiums. At September 30, 2008, the balance of the note payable to the City from the Highland Village Community Development Corporation was \$3,065,653. This includes \$3,000,000 in the note balance and \$65,653 of note premium.

#### I. Changes in Long-term Liabilities

Long-term liability activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
General obligations	\$ 13,703,811	\$ 5,000,000	\$ 1,003,557	\$ 17,700,254	\$ 1,046,783
Combination tax and revenue CO	1,255,000	3,000,000	-	4,255,000	45,000
Issuance premium	91,642	158,766	12,963	237,445	16,704
Less deferred amount on refunding	( 240,997)	-	( 22,689)	( 218,308)	( 22,689)
Total bonds payable	14,809,456	8,158,766	993,831	21,974,391	1,085,798
Accreted interest	126,727	13,934	46,195	94,466	47,274
Capital lease obligations	328,880	-	115,814	213,066	104,624
Tax notes	300,000	-	300,000	-	-
Compensated absences	708,453	566,680	508,188	766,945	536,862
Governmental activities long-term liabilities	\$ 16,273,516	\$ 8,739,380	\$ 1,964,028	\$ 23,048,868	\$ 1,774,558

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

(continued)

**3. DETAILED NOTES ON ALL FUNDS (Continued)**

**I. Changes in Long-term Liabilities (Continued)**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 2,495,388	\$ -	\$ 545,248	\$ 1,950,140	\$ 283,043
Combination tax and revenue CO	6,820,000	1,500,000	385,000	7,935,000	425,000
Issuance premium	92,355	32,826	8,863	116,318	9,410
Less deferred amount on refunding	( 342,999)	-	( 64,138)	( 278,861)	( 64,138)
Total bonds payable	9,064,744	1,532,826	874,973	9,722,597	653,315
Compensated absences	80,701	2,993	-	83,694	58,586
Business-type activities long-term liabilities	\$ 9,145,445	\$ 1,535,819	\$ 874,973	\$ 9,806,291	\$ 711,901

**J. Retirement Plan**

**Plan Description**

The City provides pension benefits for all of its fulltime employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 827 administered by TMRS, an agent multiple-employer public employee retirement system. All assumptions for the December 31, 2007, valuations are contained in the 2007 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

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

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### J. Retirement Plan (Continued)

##### Plan Description (Continued)

Members can retire at ages 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.

##### Contributions

The contribution rate for the employees is 6%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfounded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2006, valuation is effective for rates beginning January 2008).

##### Assumptions and Schedule of Actuarial Liabilities and Funding Progress

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization	30 Years - Closed Period
Asset Valuation Method	Amortized Cost
Investment Rate of Return	7%
Projected Salary Increases	Varies by age and service
Includes Inflation at	3.0%
Cost of Living Adjustments	2.1% (3.0% CPI)
Payroll growth assumption	3.0%
Withdrawal rates for Male/Female	Mid/Mid

(continued)



### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### J. Retirement Plan (Continued)

##### Contributions (Continued)

Actuarial Valuation Date	12/31/07	12/31/06	12/31/05
Actuarial Value of Assets	\$ 9,409,958	\$ 8,321,928	\$ 7,259,305
Actuarial Accrued Liabilities	12,269,729	8,951,210	7,577,957
Percentage Funded	76.7%	93.0%	95.8%
Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	2,859,771	629,282	318,652
Annual Covered Payroll	6,150,917	5,427,312	4,880,559
UAAL as a Percentage of Covered Payroll	46.5%	11.6%	6.5%
Net Pension Obligation (NPO) at the Beginning of Period	-	-	-
Annual Pension Cost:			
Annual Required Contribution (ARC)	512,085	430,735	414,345
Interest on NPO	-	-	-
Adjustment to the ARC	-	-	-
	<u>512,085</u>	<u>430,735</u>	<u>414,345</u>
Contributions Made (100%)	512,085	430,735	414,345
Increase in NPO	<u>-</u>	<u>-</u>	<u>-</u>
NPO at the End of Period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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).

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).

(continued)

### **3. DETAILED NOTES ON ALL FUNDS (Continued)**

#### **J. Retirement Plan (Continued)**

##### **Contributions (Continued)**

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 \$1,058,119 and the funded ratio would have been 89.9%.

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.

#### **K. Commitments**

##### **Upper Trinity Regional Water District ("UTRWD")**

The City of Highland Village entered into a contract with the Upper Trinity Regional Water District Lakeview Regional Water Reclamation System (sewer plant), in June 1995, to meet its long-term wastewater treatment needs. The UTRWD has issued a series of bonds to provide for capital funding for the expansion and refurbishment of the Lakeview Sewer Plan and to construct the regional sewer system with all of said bonds to be payable from and secured by annual payments made by participating members. The City, as a participating member, has agreed to pay its proportion share. The City's subscribed capacity in the regional system was 1.8 million gallons per day (MGD). However, the subscribed capacity was reduced to 1.404 MGD, temporarily reapportioning .396 MGD to other participating cities. The City currently subscribes to 1.65 MGD, with plans to increase their subscription capacity to 3.0 MGD upon completion of the next UTRWD plan expansion now expected in FY 2009-2010. The City is committed to pay facility charges, currently \$390,000/MGD for joint facilities and \$248,618 annually for facilities specific to Highland Village. For FY 2009, the charges for joint facilities will increase to \$425,100, while facility charges specific to Highland Village will increase to \$268,507. The volume rate for treatment is \$1.42 per thousand gallons, increasing to \$1.51 in FY 2009.

(continued)

### 3. DETAILED NOTES ON ALL FUNDS (Continued)

#### K. Commitments (Continued)

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

The City had contracted with the UTRWD to take 2 million gallons per day (MGD), paying the UTRWD \$180,000 annually for each of the 2 MGD to pay its proportionate share of debt service on the water system. The City subscribed to an additional 1 MGD in February 1999, to be available in June 2001. The City paid the UTRWD \$45,000 MGD for this additional demand from June 2000 to June 2001. A \$180,000 annual demand charge commenced in June 2001 for the additional subscription. On December 2, 1999, the UTRWD Board approved a credit for one-half of the demand charge for one year for a new subdivision under contract prior to October 1, 1999. This waiver applied to the City 1.0 MGD expansion capacity through May 2002. At that time, the UTRWD volume charge for treated water was at a rate of \$.78 per thousand gallons, with a demand charge of \$190,000/MGD. The City had 1.0 MGD ownership in the water rights of Lake Chapman water, with availability expected in 2003. However, the UTRWD acquired these rights from the City at the City’s request, in October 2002, reimbursing the City for previous expenditures and interest totaling \$226,941. Currently, the volume charge is \$.76/1000 gallons, with an annual demand charge of \$290,000/MGD. For 2009, the volume rate increases to \$.83/1000 gallons, while the demand charge increases to \$308,095/MGD.

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

#### L. Contingent Liabilities

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

#### M. Risk Management

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

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**CITY OF HIGHLAND VILLAGE, TEXAS**

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

**GENERAL FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 9,453,876	\$ 9,653,876	\$ 9,843,992	\$ 190,116
Fines and forfeitures	183,750	183,750	126,862	( 56,888)
Licenses, permits and fees	810,889	810,889	597,589	( 213,300)
Intergovernmental	-	-	102,430	102,430
Charges for services	100,915	100,915	204,536	103,621
Investment earnings	218,425	218,425	175,597	( 42,828)
Miscellaneous	92,000	192,000	253,515	61,515
Total revenues	<u>10,859,855</u>	<u>11,159,855</u>	<u>11,304,521</u>	<u>144,666</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
City manager	492,928	377,928	366,049	11,879
Finance	1,131,917	1,131,917	1,023,315	108,602
Human resources	346,834	349,834	334,663	15,171
City secretary	300,093	323,093	279,535	43,558
Maintenance	785,767	845,767	789,861	55,906
Public safety:				
Police	3,096,408	2,972,408	2,938,869	33,539
Fire	1,394,501	1,421,501	1,395,764	25,737
Building operations	330,254	331,754	320,616	11,138
Community development	460,957	550,957	494,528	56,429
Streets and drainage	1,135,917	1,139,417	748,294	391,123
Parks and recreation	1,482,468	1,568,468	1,425,933	142,535
Debt service:				
Principal	116,462	116,462	115,814	648
Interest and other charges	11,939	11,939	11,939	-
Capital outlay	377,500	902,500	657,124	245,376
Total expenditures	<u>11,463,945</u>	<u>12,043,945</u>	<u>10,902,304</u>	<u>1,141,641</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>( 604,090)</u>	<u>( 884,090)</u>	<u>402,217</u>	<u>1,286,307</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	341,800	344,650	276,850	67,800
Transfers out	<u>( 76,000)</u>	<u>( 142,480)</u>	<u>( 132,826)</u>	<u>( 9,654)</u>
Total other financing sources and uses	<u>265,800</u>	<u>202,170</u>	<u>144,024</u>	<u>58,146</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>( 338,290)</u>	<u>( 681,920)</u>	<u>546,241</u>	<u>( 1,228,161)</u>
<b>FUND BALANCE, BEGINNING</b>	<u>3,245,269</u>	<u>3,245,269</u>	<u>3,245,269</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 2,906,979</u>	<u>\$ 2,563,349</u>	<u>\$ 3,791,510</u>	<u>\$ ( 1,228,161)</u>

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

## **NONMAJOR GOVERNMENTAL FUNDS**

### **SPECIAL REVENUE FUNDS**

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

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

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

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

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

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

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

### **CAPITAL PROJECTS FUND**

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

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

**CITY OF HIGHLAND VILLAGE, TEXAS**

**COMBINING BALANCE SHEET**

**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Special Revenue		
	Corps Leased Parks	Park Development	Public Safety
<b>ASSETS</b>			
Cash and investments	\$ 39,426	\$ 355,191	\$ 34,833
Receivable - intergovernmental	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 39,426</u>	<u>\$ 355,191</u>	<u>\$ 34,833</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 9,801	\$ -	\$ 429
Accrued liabilities	<u>3,230</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>13,031</u>	<u>-</u>	<u>429</u>
 Fund balances:			
Reserved for:			
Encumbrances	-	-	-
Park development	-	355,191	-
Unreserved, undesignated	<u>26,395</u>	<u>-</u>	<u>34,404</u>
Total fund balances	<u>26,395</u>	<u>355,191</u>	<u>34,404</u>
Total liabilities and fund balances	<u>\$ 39,426</u>	<u>\$ 355,191</u>	<u>\$ 34,833</u>



Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
Security Building	Technology	Utility Drainage	Inland Trails	
\$ 16,863	\$ 19,491	\$ 397,480	\$ 126,584	\$ 989,868
<u>-</u>	<u>-</u>	<u>-</u>	<u>45,392</u>	<u>45,392</u>
<u>\$ 16,863</u>	<u>\$ 19,491</u>	<u>\$ 397,480</u>	<u>\$ 171,976</u>	<u>\$ 1,035,260</u>
\$ 4	\$ -	\$ 8,245	\$ -	\$ 18,479
<u>206</u>	<u>-</u>	<u>3,811</u>	<u>-</u>	<u>7,247</u>
<u>210</u>	<u>-</u>	<u>12,056</u>	<u>-</u>	<u>25,726</u>
-	-	8,104	-	8,104
-	-	-	-	355,191
<u>16,653</u>	<u>19,491</u>	<u>377,320</u>	<u>171,976</u>	<u>646,239</u>
<u>16,653</u>	<u>19,491</u>	<u>385,424</u>	<u>171,976</u>	<u>1,009,534</u>
<u>\$ 16,863</u>	<u>\$ 19,491</u>	<u>\$ 397,480</u>	<u>\$ 171,976</u>	<u>\$ 1,035,260</u>

**CITY OF HIGHLAND VILLAGE, TEXAS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**

**NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Special Revenue		
	Corps Leased Parks	Park Development	Public Safety
<b>REVENUES</b>			
Fines and forfeitures	\$ -	\$ -	\$ 1,373
Licenses, permits and fees	225,508	78,319	-
Intergovernmental	-	-	35,576
Investment earnings	-	9,157	-
Miscellaneous	-	-	6,000
Total revenues	225,508	87,476	42,949
<b>EXPENDITURES</b>			
Current:			
General government:			
Finance	-	-	-
Public safety:			
Police	-	-	5,445
Fire	-	-	19,795
Streets and drainage	-	-	-
Parks and recreation	269,415	-	-
Capital outlay	-	-	6,526
Total expenditures	269,415	-	31,766
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	( 43,907)	87,476	11,183
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	60,000	-	-
Transfers out	-	-	( 20,850)
Total other financing sources and uses	60,000	-	( 20,850)
<b>NET CHANGE IN FUND BALANCES</b>	16,093	87,476	( 9,667)
<b>FUND BALANCES, BEGINNING</b>	10,302	267,715	44,071
<b>FUND BALANCES, ENDING</b>	\$ 26,395	\$ 355,191	\$ 34,404

<u>Special Revenue</u>			<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Security Building</u>	<u>Technology</u>	<u>Utility Drainage</u>	<u>Inland Trails</u>	
\$ -	\$ -	\$ -	\$ -	\$ 1,373
3,626	4,835	393,491	-	705,779
-	-	-	45,392	80,968
-	-	12,625	4,033	25,815
-	-	-	-	6,000
<u>3,626</u>	<u>4,835</u>	<u>406,116</u>	<u>49,425</u>	<u>819,935</u>
-	1,687	-	-	1,687
1,373	-	-	-	6,818
-	-	-	-	19,795
-	-	204,232	-	204,232
-	-	-	-	269,415
-	-	197,501	-	204,027
<u>1,373</u>	<u>1,687</u>	<u>401,733</u>	<u>-</u>	<u>705,974</u>
<u>2,253</u>	<u>3,148</u>	<u>4,383</u>	<u>49,425</u>	<u>113,961</u>
-	-	16,000	-	76,000
-	-	( 16,000)	-	( 36,850)
-	-	-	-	39,150
2,253	3,148	4,383	49,425	153,111
<u>14,400</u>	<u>16,343</u>	<u>381,041</u>	<u>122,551</u>	<u>856,423</u>
<u>\$ 16,653</u>	<u>\$ 19,491</u>	<u>\$ 385,424</u>	<u>\$ 171,976</u>	<u>\$ 1,009,534</u>

**CITY OF HIGHLAND VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,926,461	\$ 1,926,461	\$ 1,915,512	\$( 10,949)
Investment earnings	<u>30,000</u>	<u>30,000</u>	<u>23,802</u>	<u>( 6,198)</u>
Total revenues	<u>1,956,461</u>	<u>1,956,461</u>	<u>1,939,314</u>	<u>( 17,147)</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal	1,303,557	1,303,557	1,303,557	-
Interest	<u>598,903</u>	<u>598,903</u>	<u>585,498</u>	<u>13,405</u>
Total expenditures	<u>1,902,460</u>	<u>1,902,460</u>	<u>1,889,055</u>	<u>13,405</u>
<b>NET CHANGE IN FUND BALANCE</b>	54,001	54,001	50,259	( 3,742)
<b>FUND BALANCE, BEGINNING</b>	<u>320,939</u>	<u>320,939</u>	<u>320,939</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 374,940</u>	<u>\$ 374,940</u>	<u>\$ 371,198</u>	<u>\$( 3,742)</u>

**CITY OF HIGHLAND VILLAGE, TEXAS**

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

**CORPS LEASED PARKS FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		(Negative)
<b>REVENUES</b>				
Licenses, permits and fees	\$ 179,300	\$ 179,300	\$ 225,508	\$ 46,208
Total revenues	179,300	179,300	225,508	46,208
<b>EXPENDITURES</b>				
Parks and recreation:				
Personnel	142,673	152,673	150,709	1,964
Services and supplies	94,721	114,721	118,706	( 3,985)
Total expenditures	237,394	267,394	269,415	( 2,021)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	( 58,094)	( 88,094)	( 43,907)	44,187
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	60,000	60,000	60,000	-
Total other financing sources (uses)	60,000	60,000	60,000	-
<b>NET CHANGE IN FUND BALANCE</b>	1,906	( 28,094)	16,093	44,187
<b>FUND BALANCE, BEGINNING</b>	10,302	10,302	10,302	-
<b>FUND BALANCE, ENDING</b>	\$ 12,208	\$( 17,792)	\$ 26,395	\$ 44,187

**CITY OF HIGHLAND VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**PARK DEVELOPMENT FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budget		Actual	Variance With
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Park development fees	\$ 153,692	\$ 153,692	\$ 78,319	\$( 75,373)
Investment earnings	<u>20,594</u>	<u>20,594</u>	<u>9,157</u>	<u>( 11,437)</u>
Total revenues	<u>174,286</u>	<u>174,286</u>	<u>87,476</u>	<u>( 86,810)</u>
<b>EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>174,286</u>	<u>174,286</u>	<u>87,476</u>	<u>( 86,810)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	<u>( 22,099)</u>	<u>( 22,099)</u>	<u>-</u>	<u>22,099</u>
Total other financing sources (uses)	<u>( 22,099)</u>	<u>( 22,099)</u>	<u>-</u>	<u>22,099</u>
<b>NET CHANGE IN FUND BALANCE</b>	152,187	152,187	87,476	( 64,711)
<b>FUND BALANCE, BEGINNING</b>	<u>267,715</u>	<u>267,715</u>	<u>267,715</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 419,902</u>	<u>\$ 419,902</u>	<u>\$ 355,191</u>	<u>\$( 64,711)</u>

**CITY OF HIGHLAND VILLAGE, TEXAS**

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

**PUBLIC SAFETY FUND**

**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Fines and forfeitures	\$ -	\$ -	\$ 1,373	\$ 1,373
Intergovernmental	60,200	60,200	35,576	( 24,624)
Miscellaneous	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>6,000</u>
Total revenues	<u>60,200</u>	<u>60,200</u>	<u>42,949</u>	<u>( 17,251)</u>
<b>EXPENDITURES</b>				
Public safety:				
Police:				
Services and supplies	8,575	8,575	5,445	3,130
Fire:				
Services and supplies	-	19,945	19,795	150
Capital outlay	<u>-</u>	<u>6,526</u>	<u>6,526</u>	<u>-</u>
Total expenditures	<u>8,575</u>	<u>35,046</u>	<u>31,766</u>	<u>3,280</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>51,625</u>	<u>25,154</u>	<u>11,183</u>	<u>( 13,971)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	<u>( 57,800)</u>	<u>( 60,650)</u>	<u>( 20,850)</u>	<u>39,800</u>
Total other financing sources (uses)	<u>( 57,800)</u>	<u>( 60,650)</u>	<u>( 20,850)</u>	<u>39,800</u>
<b>NET CHANGE IN FUND BALANCE</b>	( 6,175)	( 35,496)	( 9,667)	25,829
<b>FUND BALANCE, BEGINNING</b>	<u>44,071</u>	<u>44,071</u>	<u>44,071</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 37,896</u>	<u>\$ 8,575</u>	<u>\$ 34,404</u>	<u>\$ 25,829</u>

**CITY OF HIGHLAND VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**MUNICIPAL COURT SECURITY BUILDING FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Fines and forfeitures	\$ 5,200	\$ 5,200	\$ 3,626	\$( 1,574)
Total revenues	5,200	5,200	3,626	( 1,574)
<b>EXPENDITURES</b>				
Public safety:				
Police:				
Personnel	3,430	3,430	1,373	2,057
Total expenditures	3,430	3,430	1,373	2,057
<b>NET CHANGE IN FUND BALANCE</b>	1,770	1,770	2,253	483
<b>FUND BALANCE, BEGINNING</b>	14,400	14,400	14,400	-
<b>FUND BALANCE, ENDING</b>	\$ 16,170	\$ 16,170	\$ 16,653	\$ 483



**CITY OF HIGHLAND VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**TECHNOLOGY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Fines and forfeitures	\$ 6,800	\$ 6,800	\$ 4,835	\$( 1,965)
Total revenues	<u>6,800</u>	<u>6,800</u>	<u>4,835</u>	<u>( 1,965)</u>
<b>EXPENDITURES</b>				
General government:				
Finance:				
Services and supplies	-	1,700	1,687	13
Total expenditures	<u>-</u>	<u>1,700</u>	<u>1,687</u>	<u>13</u>
<b>NET CHANGE IN FUND BALANCE</b>	6,800	5,100	3,148	( 1,952)
<b>FUND BALANCE, BEGINNING</b>	<u>16,343</u>	<u>16,343</u>	<u>16,343</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 23,143</u>	<u>\$ 21,443</u>	<u>\$ 19,491</u>	<u>\$( 1,952)</u>

**CITY OF HIGHLAND VILLAGE, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**DRAINAGE UTILITY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

	Budget		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Licenses, permits and fees	\$ 384,000	\$ 384,000	\$ 393,491	\$ 9,491
Investment earnings	<u>10,400</u>	<u>10,400</u>	<u>12,625</u>	<u>2,225</u>
Total revenues	<u>394,400</u>	<u>394,400</u>	<u>406,116</u>	<u>11,716</u>
<b>EXPENDITURES</b>				
Street and drainage:				
Personnel	199,355	199,355	161,951	37,404
Services and supplies	109,808	109,808	42,281	67,527
Capital outlay	<u>25,000</u>	<u>190,000</u>	<u>197,501</u>	<u>( 7,501)</u>
Total expenditures	<u>334,163</u>	<u>499,163</u>	<u>401,733</u>	<u>97,430</u>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>				
<b>OVER (UNDER) EXPENDITURES</b>	<u>60,237</u>	<u>( 104,763)</u>	<u>4,383</u>	<u>109,146</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer in	16,000	16,000	16,000	-
Transfer out	<u>( 16,000)</u>	<u>( 16,000)</u>	<u>( 16,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	60,237	( 104,763)	4,383	109,146
<b>FUND BALANCE, BEGINNING</b>	<u>381,041</u>	<u>381,041</u>	<u>381,041</u>	<u>-</u>
<b>FUND BALANCE, ENDING</b>	<u>\$ 441,278</u>	<u>\$ 276,278</u>	<u>\$ 385,424</u>	<u>\$ 109,146</u>

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

**CITY OF HIGHLAND VILLAGE, TEXAS**

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

**SEPTEMBER 30, 2008**

**CAPITAL ASSETS**

Land	\$ 13,245,673
Land improvements	5,637,142
Buildings and improvements	8,790,267
Equipment	4,645,715
Infrastructure	36,962,331
Construction in progress	<u>736,640</u>
 Total capital assets	 \$ <u>70,017,768</u>

**INVESTMENT IN CAPITAL ASSETS**

Investment in general capital assets acquired prior to October 1, 1990	\$ 655,037
General fund	3,500,249
Vehicle replacement fund	670,674
Special revenue funds	3,091,800
Capital projects funds	17,072,742
Donations	<u>45,027,266</u>
 Total investment in capital assets	 \$ <u>70,017,768</u>

**CITY OF HIGHLAND VILLAGE, TEXAS**

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

**SEPTEMBER 30, 2008**

<u>Department</u>	<u>Land</u>	<u>Land Improvements</u>	<u>Building Improvements</u>	<u>Equipment</u>	<u>Infrastructure</u>	<u>Construction in Progress</u>	<u>Total</u>
City Manager	\$ 421,821	\$ -	\$ 141,450	\$ 45,602	\$ -	\$ 20,833	\$ 629,706
Finance	26,652	-	260,126	268,963	-	38,312	594,053
Human resources	8,812	-	86,001	-	-	12,666	107,479
City secretary	41,479	-	404,829	-	-	59,624	505,932
Police	214,495	-	2,212,709	1,161,012	-	308,331	3,896,547
Fire	41,800	-	4,315,324	1,600,644	-	11,450	5,969,218
Community development	8,927	-	87,133	23,823	-	12,833	132,716
Building operations	8,928	-	87,133	41,249	-	12,833	150,143
Streets and drainage	11,087,768	46,716	175,963	561,553	36,962,331	25,916	48,860,247
Maintenance	65,609	-	679,942	273,641	-	94,312	1,113,504
Drainage operations	-	-	-	148,953	-	54,798	203,751
Parks and recreation	<u>1,319,382</u>	<u>5,590,426</u>	<u>339,657</u>	<u>520,275</u>	<u>-</u>	<u>84,732</u>	<u>7,854,472</u>
 Total capital assets	 <u>\$ 13,245,673</u>	 <u>\$ 5,637,142</u>	 <u>\$ 8,790,267</u>	 <u>\$ 4,645,715</u>	 <u>\$ 36,962,331</u>	 <u>\$ 736,640</u>	 <u>\$ 70,017,768</u>

**CITY OF HIGHLAND VILLAGE, TEXAS**

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

**SEPTEMBER 30, 2008**

<u>Department</u>	<u>Balance September 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance September 30, 2008</u>
City manager	\$ 505,723	\$ 123,983	\$ -	\$ 629,706
Finance	503,505	90,548	-	594,053
Human resources	107,479	-	-	107,479
City secretary	505,932	-	-	505,932
Police	3,794,603	322,212	220,268	3,896,547
Fire	4,775,383	1,193,835	-	5,969,218
Community development	132,716	-	-	132,716
Building operations	150,143	-	-	150,143
Streets and drainage	48,789,867	107,540	37,161	48,860,246
Maintenance	1,113,504	-	-	1,113,504
Drainage operations	-	203,751	-	203,751
Parks and recreation	<u>7,770,717</u>	<u>119,315</u>	<u>35,559</u>	<u>7,854,473</u>
 Total capital assets	 <u>\$ 68,149,572</u>	 <u>\$ 2,161,184</u>	 <u>\$ 292,988</u>	 <u>\$ 70,017,768</u>

# STATISTICAL SECTION

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

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Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.	78
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	82
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	87
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	89

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

TABLE 1

## CITY OF HIGHLAND VILLAGE, TEXAS

## NET ASSETS BY COMPONENT

## LAST SIX FISCAL YEARS

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities:						
Invested in capital assets, net of related debt	\$ 32,726,239	\$ 33,396,071	\$ 33,326,678	\$ 34,328,243	\$ 34,116,670	\$ 34,619,733
Restricted:						
Debt service	-	-	-	121,128	272,324	237,114
Capital projects	617,376	597,532	-	585,311	267,715	355,191
Unrestricted	<u>1,566,416</u>	<u>2,357,835</u>	<u>2,614,291</u>	<u>2,181,559</u>	<u>3,320,666</u>	<u>3,850,047</u>
Total governmental activities net assets	<u>\$ 34,910,031</u>	<u>\$ 36,351,438</u>	<u>\$ 35,940,969</u>	<u>\$ 37,216,241</u>	<u>\$ 37,977,375</u>	<u>\$ 39,062,085</u>
Business-type activities:						
Invested in capital assets, net of related debt	\$ 4,533,190	\$ 3,927,416	\$ 900,860	\$ 5,302,838	\$ 5,731,085	\$ 6,111,699
Restricted:						
Debt service	66,548	-	-	-	-	-
Capital projects	2,573,956	1,588,902	3,066,063	1,535,187	2,186,804	1,800,047
Unrestricted	<u>18,226</u>	<u>1,431,982</u>	<u>3,236,656</u>	<u>1,898,148</u>	<u>941,128</u>	<u>1,780,651</u>
Total business-type activities net assets	<u>\$ 7,191,920</u>	<u>\$ 6,948,300</u>	<u>\$ 7,203,579</u>	<u>\$ 8,736,173</u>	<u>\$ 8,859,017</u>	<u>\$ 9,692,397</u>
Primary government:						
Invested in capital assets, net of related debt	\$ 37,259,429	\$ 37,323,487	\$ 34,227,538	\$ 39,631,081	\$ 39,847,755	\$ 40,731,432
Restricted:						
Debt service	66,548	-	-	121,128	272,324	237,114
Capital projects	3,191,332	2,186,434	3,066,063	2,120,498	2,454,519	2,155,238
Unrestricted	<u>1,584,642</u>	<u>3,789,817</u>	<u>5,850,947</u>	<u>4,079,707</u>	<u>4,261,794</u>	<u>5,630,698</u>
Total primary government net assets	<u>\$ 42,101,951</u>	<u>\$ 43,299,738</u>	<u>\$ 43,144,548</u>	<u>\$ 45,952,414</u>	<u>\$ 46,836,392</u>	<u>\$ 48,754,482</u>

## Note:

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



**CITY OF HIGHLAND VILLAGE, TEXAS**  
**CHANGES IN NET ASSETS**  
**LAST SIX FISCAL YEARS**

	Fiscal Year					
	2003.	2004	2005	2006	2007	2008
<b>EXPENSES</b>						
Governmental activities						
General government	\$ 3,024,964	\$ 2,591,201	\$ 2,704,513	\$ 2,889,724	\$ 3,274,106	\$ 2,920,042
Public safety	2,940,954	3,107,650	3,344,204	3,628,593	3,982,151	4,817,750
Building operations	-	-	-	-	314,570	326,715
Community development	-	-	-	-	611,356	503,579
Community services	480,698	504,792	538,430	572,649	-	-
Streets and drainage	1,672,658	1,597,274	1,646,793	1,830,799	1,716,177	1,998,304
Parks and recreation	1,254,471	1,405,342	1,435,302	1,627,417	1,660,194	2,061,027
Interest on long-term debt	635,166	592,077	467,537	510,159	617,809	681,888
Total governmental activities expenses	<u>10,008,911</u>	<u>9,798,336</u>	<u>10,136,779</u>	<u>11,059,341</u>	<u>12,176,363</u>	<u>13,309,305</u>
Business-type activities:						
Water and wastewater	4,930,261	5,350,546	6,003,259	6,137,246	6,433,256	6,823,202
Total business-type activities expenses	<u>4,930,261</u>	<u>5,350,546</u>	<u>6,003,259</u>	<u>6,137,246</u>	<u>6,433,256</u>	<u>6,823,202</u>
Total primary government program expenses	<u>\$ 14,939,172</u>	<u>\$ 15,148,882</u>	<u>\$ 16,140,038</u>	<u>\$ 17,196,587</u>	<u>\$ 18,609,619</u>	<u>\$ 20,132,507</u>
<b>PROGRAM REVENUES</b>						
Governmental activities						
Charges for services:						
General government	\$ 183,681	\$ 216,947	\$ 142,266	\$ 244,955	\$ 188,435	\$ 135,323
Public safety	120,930	115,672	108,373	161,162	108,830	273,295
Community services	758,743	723,764	556,479	746,043	-	-
Community development	-	-	-	-	928,357	451,730
Streets and drainage	-	-	-	-	266,221	393,491
Parks and recreation	349,385	303,582	321,538	588,131	303,536	418,924
Operating grants and contributions	123,804	130,412	-	-	319,162	190,771
Capital grants and contributions	515,556	439,741	199,815	807,528	-	-
Total governmental activities program revenues	<u>2,052,099</u>	<u>1,930,118</u>	<u>1,328,471</u>	<u>2,547,819</u>	<u>2,114,541</u>	<u>1,863,534</u>
Business-type activities:						
Charges for services:						
Water and wastewater	4,277,176	5,067,834	5,704,651	6,943,554	5,462,433	7,551,247
Capital grants and contributions	-	223,045	175,480	665,482	884,296	200,628
Total business-type activities program revenues	<u>4,277,176</u>	<u>5,290,879</u>	<u>5,880,131</u>	<u>7,609,036</u>	<u>6,346,729</u>	<u>7,751,875</u>
Total primary government program revenues	<u>\$ 6,329,275</u>	<u>\$ 7,220,997</u>	<u>\$ 7,208,602</u>	<u>\$ 10,156,855</u>	<u>\$ 8,461,270</u>	<u>\$ 9,615,409</u>

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

CHANGES IN NET ASSETS  
(Continued)  
LAST SIX FISCAL YEARS

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
<b>NET (EXPENSE) REVENUES</b>						
Governmental activities	\$( 7,956,812)	\$( 7,868,218)	\$( 8,808,308)	\$( 8,511,522)	\$( 10,061,822)	\$( 11,445,771)
Business-type activities	( 653,085)	( 59,667)	( 123,128)	1,471,790	( 86,527)	928,673
Total primary government net expense	( 8,609,897)	( 7,927,885)	( 8,931,436)	( 7,039,732)	( 10,148,349)	( 10,517,098)
<b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS</b>						
Governmental activities:						
Taxes						
Property	6,043,566	6,437,289	6,813,476	7,159,890	7,775,701	8,454,932
Franchise	762,175	859,358	1,042,410	1,239,485	1,229,270	1,376,666
Sales	434,578	470,024	493,420	558,944	940,009	1,859,946
Unrestricted investment earnings	92,448	79,388	103,224	297,987	571,390	345,422
Intergovernmental contributions	-	-	( 469,488)	-	-	-
Miscellaneous	109,987	273,566	180,551	290,488	186,586	253,515
Special item	-	950,000	-	-	-	-
Transfers	240,000	240,000	234,246	240,000	120,000	240,000
Total governmental activities	7,682,754	9,309,625	8,397,839	9,786,794	10,822,956	12,530,481
Business-type activities:						
Unrestricted investment earnings	128,593	50,101	143,165	300,804	329,371	144,707
Intergovernmental contributions	-	-	469,488	-	-	-
Miscellaneous	377,768	5,946	-	-	-	-
Transfers	( 240,000)	( 240,000)	( 234,246)	( 240,000)	( 120,000)	( 240,000)
Total business-type activities	266,361	( 183,953)	378,407	60,804	209,371	( 95,293)
Total primary government	7,949,115	9,125,672	8,776,246	9,847,598	11,032,327	12,435,188
<b>CHANGE IN NET ASSETS</b>						
Governmental activities	( 274,058)	1,441,407	( 410,469)	1,275,272	761,134	1,084,710
Business-type activities	( 386,724)	( 243,620)	255,279	1,532,594	122,844	833,380
Total primary government	\$( 660,782)	\$ 1,197,787	\$( 155,190)	\$ 2,807,866	\$ 883,978	\$ 1,918,090

Note:

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

CITY OF HIGHLAND VILLAGE, TEXAS

FUND BALANCES  
GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General fund										
Reserved	\$ 67,821	\$ 124,394	\$ 201,071	\$ 222,728	\$ 78,011	\$ 75,011	\$ 208,610	\$ 38,113	\$ 148,757	\$ 97,928
Unreserved	<u>1,139,013</u>	<u>1,620,880</u>	<u>1,786,614</u>	<u>1,134,664</u>	<u>1,496,007</u>	<u>2,339,291</u>	<u>2,156,267</u>	<u>2,467,540</u>	<u>3,096,512</u>	<u>3,693,582</u>
Total general fund	<u>\$ 1,206,834</u>	<u>\$ 1,745,274</u>	<u>\$ 1,987,685</u>	<u>\$ 1,357,392</u>	<u>\$ 1,574,018</u>	<u>\$ 2,414,302</u>	<u>\$ 2,364,877</u>	<u>\$ 2,505,653</u>	<u>\$ 3,245,269</u>	<u>\$ 3,791,510</u>
All other governmental funds										
Reserved	\$ 2,404,136	\$ 1,310,466	\$ 1,652,447	\$ 1,419,695	\$ 3,789,011	\$ 4,329,694	\$ 3,137,313	\$ 6,616,230	\$ 2,835,395	\$ 9,679,618
Unreserved, reported in:										
Special revenue funds	-	-	-	-	25,240	24,122	25,765	48,543	317,046	474,263
Capital projects funds	<u>30,047</u>	<u>28,429</u>	<u>24,170</u>	<u>32,052</u>	<u>200,000</u>	<u>185,441</u>	<u>326,170</u>	<u>-</u>	<u>122,551</u>	<u>171,976</u>
Total all other governmental funds	<u>\$ 2,434,183</u>	<u>\$ 1,338,895</u>	<u>\$ 1,676,617</u>	<u>\$ 1,451,747</u>	<u>\$ 4,014,251</u>	<u>\$ 4,539,257</u>	<u>\$ 3,489,248</u>	<u>\$ 6,664,773</u>	<u>\$ 3,274,992</u>	<u>\$ 10,325,857</u>

**CITY OF HIGHLAND VILLAGE, TEXAS**

**CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**LAST TEN FISCAL YEARS**

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>REVENUES</b>										
Taxes	\$ 5,158,000	\$ 5,543,041	\$ 6,120,522	\$ 6,418,320	\$ 7,613,792	\$ 8,132,454	\$ 8,357,364	\$ 8,927,579	\$ 9,930,351	\$ 11,759,504
Fines and forfeitures	175,723	184,224	127,694	107,674	163,115	163,328	147,760	181,200	210,170	128,235
Licenses, permits, fees	785,324	1,080,817	984,269	713,381	1,192,700	1,073,383	918,699	1,375,390	1,538,951	1,303,368
Charges for services	43,001	12,580	65,791	48,322	75,370	80,012	77,385	103,245	104,736	204,536
Intergovernmental	124,736	148,286	145,876	67,011	86,758	130,412	200,171	804,341	319,162	183,398
Investment earnings	265,761	177,406	170,532	122,864	92,448	92,378	193,669	332,086	571,390	345,422
Miscellaneous	76,598	253,487	96,155	-	97,529	211,541	95,502	256,389	227,942	259,515
Total revenues	<u>6,629,143</u>	<u>7,399,841</u>	<u>7,710,839</u>	<u>7,477,572</u>	<u>9,321,712</u>	<u>9,883,508</u>	<u>9,990,550</u>	<u>11,980,230</u>	<u>12,902,702</u>	<u>14,183,978</u>
<b>EXPENDITURES</b>										
General government	1,443,622	1,838,086	1,828,526	2,344,455	2,812,222	2,576,727	2,612,080	2,750,713	3,172,948	2,795,110
Public safety	1,787,224	1,944,678	2,216,491	2,556,966	2,775,530	2,851,755	3,082,301	3,239,400	3,599,342	4,361,246
Building operations	-	-	-	-	-	-	-	-	267,648	320,616
Community development	-	-	-	-	-	-	-	-	590,233	494,528
Community service	362,242	381,824	421,744	494,261	474,004	481,196	511,948	547,953	-	-
Streets and drainage	502,311	530,468	816,384	694,225	820,130	809,151	815,279	873,485	758,953	952,526
Parks and recreation	602,745	1,248,833	801,721	1,046,104	1,048,306	1,171,718	1,264,676	1,366,711	1,380,545	1,695,348
Capital outlay	3,841,308	1,050,300	50,803	231,804	440,775	514,070	1,567,046	3,119,733	4,457,417	2,153,389
Debt service	1,137,872	1,202,624	1,157,846	-	-	-	-	-	-	-
Principal	-	-	-	578,881	615,250	892,415	970,884	1,257,728	1,113,243	1,419,371
Interest and other charges	-	-	-	591,039	802,146	485,598	500,016	706,215	632,549	793,504
Total expenditures	<u>9,677,324</u>	<u>8,196,813</u>	<u>7,293,515</u>	<u>8,537,735</u>	<u>9,788,363</u>	<u>9,782,630</u>	<u>11,324,230</u>	<u>13,861,938</u>	<u>15,972,878</u>	<u>14,985,638</u>

(continued)

CITY OF HIGHLAND VILLAGE, TEXAS

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

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>EXCESS OF REVENUES OVER (UNDER)</b>										
<b>EXPENDITURES</b>	<u>\$ ( 3,048,181)</u>	<u>\$ ( 796,972)</u>	<u>\$ 417,324</u>	<u>\$ ( 1,060,163)</u>	<u>\$ ( 466,651)</u>	<u>\$ 100,878</u>	<u>\$ ( 1,333,680)</u>	<u>\$ ( 1,881,708)</u>	<u>\$ ( 3,070,176)</u>	<u>\$ ( 801,660)</u>
<b>OTHER FINANCING SOURCES (USES)</b>										
Issuance of long-term debt	-	-	-	-	8,482,129	-	-	8,130,000	300,000	8,000,000
Proceeds from capital leases	-	115,124	24,590	-	69,399	74,412	-	713,391	-	-
Premium on debt issuance	-	-	-	-	-	-	-	80,321	-	158,766
Payments to escrow account	-	-	-	-	( 5,579,964)	-	-	( 3,965,692)	-	-
Transfers in	1,039,000	447,000	324,457	245,688	722,186	341,608	339,348	384,923	730,108	409,676
Transfers out	( 914,000)	( 322,000)	( 186,238)	( 40,688)	( 482,186)	( 101,608)	( 105,102)	( 144,923)	( 610,108)	( 169,676)
Total other financing sources (uses)	<u>125,000</u>	<u>240,124</u>	<u>162,809</u>	<u>205,000</u>	<u>3,211,564</u>	<u>314,412</u>	<u>234,246</u>	<u>5,198,020</u>	<u>420,000</u>	<u>8,398,766</u>
<b>SPECIAL ITEM</b>										
Litigation settlement	-	-	-	-	-	950,000	-	-	-	-
Total special item	-	-	-	-	-	950,000	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ ( 2,923,181)</u>	<u>\$ ( 556,848)</u>	<u>\$ 580,133</u>	<u>\$ ( 855,163)</u>	<u>\$ 2,744,913</u>	<u>\$ 1,365,290</u>	<u>\$ ( 1,099,434)</u>	<u>\$ 3,316,312</u>	<u>\$ ( 2,650,176)</u>	<u>\$ 7,597,106</u>
<b>DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES</b>	<u>19.5%</u>	<u>16.8%</u>	<u>16.0%</u>	<u>14.1%</u>	<u>15.2%</u>	<u>14.9%</u>	<u>15.1%</u>	<u>18.3%</u>	<u>15.2%</u>	<u>17.3%</u>

TABLE 5

## CITY OF HIGHLAND VILLAGE, TEXAS

## ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

## LAST TEN FISCAL YEARS

Fiscal Year	Estimated Market Value		Personal Property	Less: Tax-exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value
	Residential Property	Commercial Property					
1999	\$ 668,153,298	\$ 64,537,206	\$ 14,788,541	\$ 21,110,807	726,368,238	0.5938	\$ 4,313,175
2000	730,763,743	74,151,354	23,068,058	23,120,831	804,862,324	0.5696	4,584,496
2001	803,363,818	89,094,709	26,077,592	40,849,949	877,686,170	0.5696	4,999,300
2002	893,273,521	100,146,454	32,471,761	43,918,642	981,973,094	0.5696	5,593,319
2003	956,719,363	96,109,405	32,482,820	42,186,059	1,043,125,529	0.5696	5,941,643
2004	1,045,041,076	104,165,418	23,002,619	46,605,948	1,125,603,165	0.5696	6,411,436
2005	1,105,661,932	102,439,022	26,234,611	47,153,693	1,187,181,872	0.5696	6,762,188
2006	1,155,004,979	103,324,968	32,671,282	50,228,446	1,240,772,783	0.5696	7,067,814
2007	1,230,372,823	124,967,535	25,619,835	52,545,296	1,328,414,897	0.5696	7,567,050
2008	1,307,427,681	195,882,733	31,996,149	56,731,754	1,478,574,809	0.5696	8,422,406

Source: Denton County Appraisal District

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

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

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

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

Fiscal Year	City Direct Rates			Overlapping Rates	
	Operating/ General Rate	Debt Service Rate	Total Direct Rate	Lewisville Independent School District	Denton County
1999	\$ 0.4583	\$ 0.1355	\$ 0.5938	\$ 1.61	\$ 0.25
2000	0.4392	0.1304	0.5696	1.57	0.24
2001	0.4475	0.1221	0.5696	1.61	0.23
2002	0.4549	0.1146	0.5695	1.77	0.25
2003	0.4550	0.1146	0.5696	1.77	0.25
2004	0.4460	0.1236	0.5696	1.77	0.25
2005	0.4455	0.1241	0.5696	1.77	0.25
2006	0.4549	0.1147	0.5696	1.64	0.23
2007	0.4488	0.1208	0.5696	1.37	0.24
2008	0.4410	0.1287	0.5696	1.38	0.24

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

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

TABLE 7

## CITY OF HIGHLAND VILLAGE, TEXAS

## PRINCIPAL PROPERTY TAXPAYERS

## CURRENT YEAR AND NINE YEARS AGO

Taxpayer	2008		1999	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value*	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value**
Opus West, LP	\$ 40,986,228	2.772%	\$ -	- %
Shops at Highland Village Dev., LTD	17,863,647	1.208%	-	- %
CenterAmerica Prop, Trust, LP	8,386,037	0.567%	-	- %
Barnett Healthcare Prop., LLC	7,645,000	0.517%	-	- %
Wal-Mart Stores Texas, LP	6,173,358	0.418%	-	- %
Chapel Springs Development, LTD	5,863,766	0.397%	-	- %
Celebrations Management, Inc.	5,370,666	0.363%	-	- %
CoServe Electric Co-op, Inc.	4,957,200	0.335%	-	- %
Tabani Highland, LP P/S	4,231,399	0.286%	-	- %
Maples 40, LLC	3,632,766	0.246%	-	- %
Beal Dev., LTD	-	- %	10,554,766	1.453%
Balfour Village Estates, LP	-	- %	4,561,906	0.628%
CoServe Electric Co-op, Inc.	-	- %	3,599,510	0.496%
BLI Highland Village Land, LTD	-	- %	3,062,811	0.422%
Sharp & Associates, Inc.	-	- %	2,484,987	0.342%
Minyard Food Store #83	-	- %	2,449,070	0.337%
Arian, Jack	-	- %	1,902,690	0.262%
Talisman Oil & Gas Co.	-	- %	1,899,049	0.261%
Pierce Homes	-	- %	1,818,710	0.250%
Pulte Home Corp Tex	-	- %	1,799,905	0.248%
Total	<u>\$ 105,110,067</u>	<u>7.109%</u>	<u>\$ 34,133,404</u>	<u>4.70%</u>

Source: Denton County Appraisal District

Notes:

\* Total taxable value including real and personal property for tax year 2007 (fiscal year 2008) is \$1,478,574,809

\*\* Total taxable value including real and personal property for tax year 1998 (fiscal year 1999) is \$726,368,238



TABLE 8

## CITY OF HIGHLAND VILLAGE, TEXAS

## PROPERTY TAX LEVIES AND COLLECTIONS

## LAST TEN FISCAL YEARS

Fiscal Year Ended	Taxes Levied for the Fiscal Year	Collected With the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1999	\$ 4,411,274	\$ 4,354,984	98.72%	\$ 26,593	\$ 4,381,577	99.33%
2000	4,646,356	4,569,407	98.34%	39,596	4,609,003	99.20%
2001	5,169,414	5,069,479	98.07%	47,614	5,117,093	98.99%
2002	5,724,341	5,578,918	97.46%	94,239	5,673,157	99.11%
2003	6,162,357	5,966,226	96.82%	78,949	6,045,175	98.10%
2004	6,547,821	6,390,952	97.60%	61,520	6,452,472	98.54%
2005	6,761,024	6,707,448	99.21%	57,512	6,764,960	100.06%
2006	7,080,176	7,030,306	99.30%	53,713	7,084,019	100.05%
2007	7,630,985	7,585,059	99.40%	-	7,585,059	99.40%
2008	8,405,006	8,377,388	99.67%	-	8,377,388	99.67%

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

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

**TABLE 9**

**CITY OF HIGHLAND VILLAGE, TEXAS**

**RATIOS OF OUTSTANDING DEBT BY TYPE**

**LAST SIX FISCAL YEARS**

Fiscal Year	Governmental Activities					Business-type Activities				Total Primary Government	Percentage of Personal Income*	Per Capita*
	General Obligation Bonds	Certificates of Obligation	Contributions Tax and Revenue Bonds	Capital Lease Obligations	Tax Note	Combination Tax and Revenue Bonds	General Obligation Bonds	Water and Sewer Revenue Certificates of Obligation	Other Obligations			
2003	\$ 12,195,834	\$ 1,455,000	\$ 430,000	\$ 42,356	\$ -	\$ -	\$ 5,430,250	\$ 3,440,000	\$ -	\$ 22,993,440	5.08%	\$ 1,687
2004	11,633,419	1,375,000	180,000	57,412	-	-	4,837,665	3,270,000	-	21,353,496	4.68%	1,513
2005	11,397,022	1,290,000	-	43,248	-	7,420,000	3,801,611	-	-	23,951,881	5.17%	1,651
2006	14,705,257	-	1,255,000	440,676	-	7,185,000	3,150,547	-	-	26,736,480	5.39%	1,790
2007	13,703,811	-	1,255,000	328,880	300,000	6,820,000	2,495,388	-	-	24,903,079	4.75%	1,628
2008	17,700,254	-	4,255,000	213,066	-	7,935,000	1,950,140	-	-	32,053,460	5.39%	2,035

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

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

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

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

Fiscal Year	General Bonded Debt Outstanding				Total	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Certificate of Obligation Bonds	General Bonded Debt Outstanding	Less Debt Service Resources Available			
1999	\$ 6,139,083	\$ 6,950,000	\$ 13,089,083	\$ 87,782	\$ 13,001,301	1.79%	\$ 1,094
2000	5,947,083	6,635,000	12,582,083	3,556	12,578,527	1.56%	1,033
2001	5,767,084	6,305,000	12,072,084	47,708	12,024,376	1.37%	924
2002	5,584,084	5,950,000	11,534,084	61,389	11,472,695	1.17%	872
2003	17,626,084	1,455,000	19,081,084	76,378	19,004,706	1.82%	1,395
2004	16,471,084	1,375,000	17,846,084	115,028	17,731,056	1.58%	1,257
2005	15,198,633	1,290,000	16,488,633	145,095	16,343,538	1.38%	1,127
2006	14,705,258	1,255,000	15,960,258	200,334	15,759,924	1.27%	1,055
2007	13,703,811	1,255,000	14,958,811	320,939	14,637,872	1.10%	957
2008	17,700,254	4,255,000	21,955,254	371,198	21,584,056	1.46%	1,370

## Notes:

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

See Table 5 for property value data.

See Table 14 for population data.

## CITY OF HIGHLAND VILLAGE, TEXAS

## DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT

AS OF SEPTEMBER 30, 2008

Government Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Direct and Overlapping Debt
Debt repaid with property taxes			
County of Denton	\$ 285,616,004	2.957%	\$ 8,445,665
Lewisville Independent School District	770,399,324	6.547%	<u>50,438,044</u>
Subtotal overlapping debt			58,883,709
City of Highland Village (direct debt)	21,584,056	100.0%	<u>21,584,056</u>
Total direct and overlapping debt			<u>\$ 80,467,765</u>

## Sources:

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

## Notes:

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

**CITY OF HIGHLAND VILLAGE, TEXAS**

**LEGAL DEBT MARGIN INFORMATION**

**LAST TEN FISCAL YEARS**

Legal Debt Margin Calculation for Fiscal Year 2008	
Assessed value	\$ 1,478,574,809
Debt limit (\$1.50 per \$100 of assessed value)	22,178,622
Debt applicable to limit:	
General obligation bonds	1,889,055
Less: Amount set aside for repayment of general obligation debt	( 371,198)
Total net debt applicable to limit	<u>1,517,857</u>
Legal debt margin	<u>\$ 20,660,765</u>

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt limit	\$ 10,895,524	\$ 12,072,935	\$ 13,165,293	\$ 14,729,596	\$ 15,646,883	\$ 16,884,047	\$ 17,803,726	\$ 18,137,384	\$ 19,926,223	\$ 22,178,622
Total net debt applicable to limit	<u>1,050,090</u>	<u>1,144,068</u>	<u>1,075,920</u>	<u>1,066,813</u>	<u>1,160,280</u>	<u>1,262,985</u>	<u>1,325,805</u>	<u>1,380,008</u>	<u>1,234,670</u>	<u>1,517,857</u>
Legal debt margin	<u>\$ 9,845,434</u>	<u>\$ 10,928,867</u>	<u>\$ 12,089,373</u>	<u>\$ 13,662,783</u>	<u>\$ 14,486,603</u>	<u>\$ 15,621,062</u>	<u>\$ 16,477,921</u>	<u>\$ 16,757,376</u>	<u>\$ 18,691,553</u>	<u>\$ 20,660,765</u>
Total net debt applicable to the limit as a percentage of debt limit.	9.64%	9.48%	8.17%	7.24%	7.42%	7.48%	7.45%	7.61%	6.20%	6.84%

Note:

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

## CITY OF HIGHLAND VILLAGE, TEXAS

## PLEDGED REVENUE COVERAGE

## LAST TEN FISCAL YEARS

Fiscal Year	Water and Wastewater System Revenue Bonds						Coverage
	Total Revenues	Less: Operating Expenses	Net Available Revenue	Debt Service		Total	
				Principal	Interest		
1999	\$ 4,301,966	\$ 3,420,636	\$ 881,330	\$ 668,001	\$ 661,755	\$ 1,329,756	0.66
2000	4,935,038	3,200,108	1,734,930	698,000	627,853	1,325,853	1.31
2001	4,368,550	3,513,069	855,481	700,000	608,286	1,308,286	0.65
2002	4,042,998	3,814,913	228,085	739,000	564,423	1,303,423	0.17
2003	4,649,773	3,966,325	683,448	824,750	493,102	1,317,852	0.52
2004	5,346,926	5,120,228	226,698	762,585	400,897	1,163,482	0.19
2005	6,498,538	5,649,136	849,402	566,566	412,950	979,516	0.87
2006	7,909,840	6,377,246	1,532,594	886,064	378,864	1,264,928	1.21
2007	5,791,804	5,154,652	637,152	1,020,159	459,975	1,480,134	0.43
2008	7,695,954	5,658,275	2,037,679	930,248	416,634	1,346,882	1.51

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

## CITY OF HIGHLAND VILLAGE, TEXAS

## DEMOGRAPHIC AND ECONOMIC STATISTICS

## LAST TEN FISCAL YEARS

<u>Calendar Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
1999	11,880	\$ 371,143,080	\$ 31,241	1.6%
2000	12,173	413,541,156	33,972	1.7%
2001	13,014	446,367,186	34,299	2.9%
2002	13,152	446,628,768	33,959	3.9%
2003	13,626	464,769,234	34,109	4.1%
2004	14,109	500,897,718	35,502	3.0%
2005	14,505	537,772,875	37,075	3.8%
2006	14,940	591,011,460	39,559	3.3%
2007	15,300	523,887,300	34,241	4.2%
2008	15,750	595,035,000	37,780	5.0%

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

Note: Population estimates are based on residential sewer connections.

## CITY OF HIGHLAND VILLAGE, TEXAS

## PRINCIPAL EMPLOYERS

## CURRENT AND NINE YEARS AGO

Employer	2008		1999	
	Employees	Percentage of Total City Employment	Employees	Percentage of Total City Employment
Triangle Foodservice Corp	-	- %	392	33.76%
City of Highland Village	164	13.22%	109	9.39%
Lifes A Beach, Inc.	77	6.20%	-	- %
Excite! Gymnastics & Cheer LLC	68	5.48%	-	- %
Salerno Pizza Co.	62	5.00%	81	6.98%
In Glitter We Trust, LLC	43	3.46%	-	- %
Ochiba Companies, Inc.	39	3.14%	-	- %
Marla R Conger MD PA	35	2.82%	29	2.50%
Prime Kids, LLC	35	2.82%	-	- %
Tri Rae Enterprises, LLC	35	2.82%	-	- %
Metrosplash Systems Group, Inc.	29	2.34%	-	- %
IASIS Gymnastics Incorporated	-	- %	45	3.88%
John R. Ross Company, Inc.	-	- %	36	3.10%
R. Drew, Inc.	-	- %	34	2.93%
Kid Country, Inc.	-	- %	33	2.84%
Elizabeth A Taylor & Ken Dykeman	-	- %	26	2.24%
Fitness Works for Women, Inc.	-	- %	24	2.07%
	<u>587</u>	<u>47.30%</u>	<u>809</u>	<u>69.68%</u>

Source: Texas Workforce Commission



**TABLE 16**

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

<u>Function/Program</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General government										
City manager	2	2	2	3	3	3	2	2	2	2
Finance	9	9	9	9	9	9	9	10	10	10
Human resources	2	2	2	3	3	3	3	3	3	3
City secretary	2	2	2	2	2	2	2	2	2	2
Maintenance	4	4	4	4	4	4	4	4	4	4
Public safety										
Police	27	30	32	32	32	32	32	32	35	37
Fire	2	3	3	6	8	9	10	10	11	15
Community services										
Streets and drainage	6	6	6	6	6	6	4	5	5	4
Parks and recreation	11	11	11	11	11	12	15	15	19	19
Water and wastewater	12	12	12	15	15	15	15	15	15	15
Highland Village Economic Development Corporation	11	12	12	14	14	14	14	14	15	17
Highland Village Economic Development Corporation	-	-	-	-	-	-	-	-	1	1
<b>Total</b>	<b>88</b>	<b>93</b>	<b>95</b>	<b>105</b>	<b>107</b>	<b>109</b>	<b>110</b>	<b>112</b>	<b>122</b>	<b>129</b>

Source: Various City departments

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

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

Function/Program	Fiscal Year			
	1999	2000	2001	2002
<b>General government</b>				
Open records requests processed	*	*	*	*
Court cases filed	*	*	*	*
Employee turnover (%)	*	*	*	*
Emp safety lost time injuries	*	*	*	*
<b>Building operations</b>				
Permits issued	*	*	*	*
Inspections performed	*	*	*	*
Animal impounds	*	*	*	*
Animal registrations	*	*	*	*
<b>Police</b>				
Reported offenses	*	*	*	*
Arrests	*	*	*	*
Service	*	*	*	*
Close patrols	*	*	*	*
Traffic citations issued	*	*	*	*
Traffic warnings issued	*	*	*	*
Motor vehicle accidents	*	*	*	*
Animal care calls	*	*	*	*
Animal registrations	*	*	*	*
<b>Fire</b>				
EMS calls	*	*	*	*
Fires calls	*	*	*	*
<b>Streets and Drainage</b>				
Drainage materials (ft.)	*	*	*	*
Asphalt (tons)	*	*	*	*
Concrete(yards)	*	*	*	*
Cold patch (lbs)	*	*	*	*
Crack seal (lbs)	*	*	*	*
Paint (gal)	*	*	*	*
Sod replacement (yards)	*	*	*	*
Saw cuttings	*	*	*	*
Work orders completed	*	*	*	*
Total fuel consumption	*	*	*	*
<b>Parks and recreation</b>				
Acres of turf mowed	*	*	*	*
Bags of trash disposed (55 gal)	*	*	*	*
Recreation program admissions	*	*	*	*
<b>Water</b>				
New connections	134	134	203	17
Field operations work orders completed	*	*	*	*
Peak daily consumption	1,883,480	2,039,188	2,194,896	1,927,251
Maximum daily capacity-water production	7.25 MGD	7.25 MGD	7.25 MGD	7.25 MGD
Number of gallons pumped	730,142,600	715,196,936	801,137,000	716,413,600
Number of gallons sold	728,119,000	540,628,800	745,540,200	616,880,500
<b>Wastewater</b>				
Wastewater work orders completed	*	*	*	*
Wastewater gallons pumped	*	*	*	*

Source: Various City departments

\* Not available

**TABLE 17**

2003	2004	2005	2006	2007	2008
*	204	201	151	132	136
3,267	2486	2026	3113	2,367	1,988
17.90	17.40%	10.00%	10.70%	8.00%	10.00%
2	1	5	2	2	1
1,373	1,236	1,121	1,176	1,658	1,316
8,050	7,174	6,367	5,051	6,639	4,039
219	251	211	200		
*	1,101	1,045	1,082		
452	467	409	371	441	422
270	288	282	292	299	283
4,415	4,239	5,735	6,464	6,972	7,918
5,689	6,675	10,681	11,658	23,919	9,475
2,519	1,870	1,542	2,331	1,785	1,381
2,022	3,259	2,988	2,934	2,393	2,439
167	184	172	159	211	264
*	*	*	*	174	3,104
*	*	*	*	1,049	907
451	471	533	644	513	657
288	332	441	421	437	395
11,370	8,096	6,216	3,976	6,374	5,782
937	1,155	1,445	743	674	656
103	112	81	118	152	188
5,058	4,750	3,875	1,928	2,875	2,200
3,420	8,722	6,150	15,390	4,110	9,190
555	277	71	137	43	176
1,911	1,698	1,372	952	1,473	-
*	4,084	7,561	7,421	3,569	6,535
1,599	1,949	2,058	1,821	2,130	2,286
53,801	50,721	57,753	59,805	58,908	65,119
*	*	3,753	2,963	4,867	6,067
3,137	3,772	3,234	4,867	4,383	5,734
4,139	8,453	11,224	11,160	12,788	14,083
175	169	128	57	105	54
4,822	4,760	6,246	4,179	5,411	5,492
2,319,409	2,319,409	2,446,877	3,258,510	6,375,848	7,393,200
7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD	7.54 MGD
894,051,700	828,486,217	977,401,000	1,264,284,000	858,936,000	1,049,519,800
846,584,300	768,763,700	893,110,040	1,189,356,500	827,602,885	977,399,700
1,356	1,058	1,150	844	967	1,209
421,556,000	449,705,000	484,740,000	384,938,000	538,198,300	427,173,000

**TABLE 18**

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

Function/Program	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>General Government</b>										
City area (in miles)	5.50	5.50	5.50	5.50	6.38	6.38	6.38	6.38	6.38	6.38
<b>Police</b>										
Stations	1	1	1	1	1	1	1	1	1	1
<b>Fire</b>										
Stations	1	1	1	1	1	1	1	1	1	1
<b>Streets and Drainage</b>										
Streets (miles)	68	68	68	68	75.31	75.31	75.485	76.935	76.935	76.935
Traffic signals	1	1	1	1	1	1	1	1	1	1
<b>Parks and recreation</b>										
Acres of parks	275	275	275	275	305	305	311	311	318	338
Trail system (linear miles)	-	-	-	-	-	-	-	-	2.7	2.7
<b>Water</b>										
Number of meters in service	4,161	4,255	4,458	4,541	4,716	4,885	5,013	5,108	5,226	5,276
Water mains (in miles)	79	79	79	79	79	79	81	83	85	93
Fire hydrants	525	525	525	525	620	620	630	630	729	729
<b>Wastewater</b>										
Storm sewers (miles)	50	50	50	50	50	50	50	50	25	25
Sanitary sewers (miles)	75	75	75	75	75	75	77	83	83	90
Sewer connections	4,004	4,167	4,167	4,167	4588	4,588	4,894	4,952	5,054	5,085

Source: Various City departments